



**PAMUNKEY REGIONAL LIBRARY**

Annual Financial Report

June 30, 2016

(With Independent Auditors' Reports Thereon)

**PAMUNKEY REGIONAL LIBRARY**

Annual Financial Report

June 30, 2016

**Table of Contents**

	<b>Page(s)</b>
Board of Trustees	1
Independent Auditors' Report	2–3
Management's Discussion and Analysis (Unaudited)	4–10
<b>Basic Financial Statements</b>	
Government-Wide Financial Statements:	
Statement of Net Position	11
Statement of Activities	12
Fund Financial Statements:	
Balance Sheet – General Fund	13
Reconciliation of the Balance Sheet of the General Fund to the Statement of Net Position	14
Statement of Revenues, Expenditures, and Changes in Fund Balance of the General Fund	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the General Fund to the Statement of Activities	16
Notes to Financial Statements	17–38
<b>Schedules of Required Supplementary Information other than Management's Discussion and Analysis</b>	
Budgetary Comparison Schedule – General Fund (Unaudited)	39
Schedule of Changes in the Net Pension Liability and Related Ratios (Unaudited)	40
Schedule of Employer Contributions (Unaudited)	41
Schedule of Funding Progress (Unaudited)	42
<b>Supplemental Information</b>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance of the General Fund	43

**Compliance Section**

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed in Accordance  
with *Government Auditing Standards*

44–45

**PAMUNKEY REGIONAL LIBRARY**

Board of Trustees

June 30, 2016

Joseph O'Connor, Chair	Hanover County
Tom Wulf, Vice Chair	Hanover County
Eileen Ford, Secretary	Goochland County
James Johnson	Hanover County
Gwynn Litchfield	King and Queen County
Audrey Mitchell	King William County
Lisa Newman	Hanover County
Howard Smith	Goochland County
Vacant	King and Queen County
Rebecca Townsend	King William County



KPMG LLP  
Suite 2000  
1021 East Cary Street  
Richmond, VA 23219-4023

## **Independent Auditors' Report**

The Board of Trustees  
Pamunkey Regional Library:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and general fund of the Pamunkey Regional Library (the Library) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions* (Specifications), issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and Specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Library's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the Pamunkey Regional Library as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with U.S. generally accepted accounting principles.



## *Other Matters*

### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 4 through 10, the Budgetary Comparison Schedule – General Fund on page 39, Schedule of Changes in the Net Pension Liability and Related Ratios on page 40, the Schedule of Employer Contributions on page 41, and the Schedule of Funding Progress on page 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Library's basic financial statements. The Supplemental Information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Supplemental Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Information is fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2017 on our consideration of the Library's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Library's internal control over financial reporting and compliance.

**KPMG LLP**

January 17, 2017

**PAMUNKEY REGIONAL LIBRARY**  
Management's Discussion and Analysis (Unaudited)  
June 30, 2016

The Management Discussion and Analysis (MD&A) offers the readers of the Pamunkey Regional Library's financial statements a narrative overview and analysis of the financial activities of the Library for the fiscal year ended June 30, 2016.

**Financial Highlights**

In fiscal year 2016, the Library's state aid award was slightly more than what received in the previous year. The total amount of state aid received was \$434,246 for fiscal year 2016. The Commonwealth has the discretion to increase or decrease state aid based on various factors, including increased support of local libraries.

The Library Board classified the use of the General Fund balance at June 30, 2016 as follows: \$20,000 is committed, \$15,000 is assigned, and the remaining fund balance amount of \$2,836,196 is unassigned.

**Overview of the Financial Statements**

The Management's Discussion and Analysis is intended to serve as an introduction to the Library's basic financial statements. The Library's basic financial statements are comprised of three components:

1) Government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

The Library's financial statements present two kinds of statements, each with a different snapshot of the Library's finances. The focus is on both the Library as a whole (Government-wide) and the fund financial statements (general fund). The Government-wide financial statements provide both short-term and long-term information about the Library's overall financial status. The fund financial statements focus on individual parts of the Library, reporting the Library's operations in more detail than the Government-wide financial statements. Both perspectives (Government-wide and fund) allow the reader to address the relevant questions, broaden the basis of comparison and enhance the Library's accountability.

**Government-wide financial statements:** The Government-wide financial statements, similar to those used by private-sector companies, report information about the Library as a whole. One of the most important questions asked about the Library's finances is "Is the Library as a whole better off or worse off financially as a result of the year's activities?" The Statement of Net Position and the Statement of Activities, which are the Government-wide financial statements, report information about Library finances as a whole and about its activities in a way that helps answer this question. These financial statements include all assets and deferred outflows of resources and liabilities and deferred inflows of resources being prepared using the economic resources measurement focus and the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These financial statements include short-term, spendable resources with capital assets and long-term obligations. In the Statement of Net Position and the Statement of Activities on pages 11 and 12, respectively, of this annual financial report, the Library reports its Library activities, which consist of the following: personnel related expenses, books, periodicals and other related materials, utility expense, rent, depreciation, miscellaneous and interest and donated administrative services and facilities. Primarily, operating contributions either through local government appropriations, state aid or through donations finance most of these Library activities.

**Fund financial statements:** The fund financial statements focus on the Library's most significant fund. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Library, like other state and local governments, uses fund accounting to

**PAMUNKEY REGIONAL LIBRARY**  
Management's Discussion and Analysis (Unaudited)  
June 30, 2016

ensure and demonstrate fiscal accountability. The Library uses governmental fund financial statements to provide more detailed information about the Library's general fund.

**Funds:** The operating fund is used to report all of the Library's basic services. The Library has one operating fund, which is the general fund. This fund's focus is on (1) cash and other financial resources that can be readily converted to cash, and (2) balances left at year-end that are available for spending. Consequently, the operating fund statements provide a near or short-term view of the Library's finances that helps the reader determine whether there are more or less financial resources that can be spent in the near future to finance Library programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided in a reconciliation statement of the operating funds that explains the relationship (or differences) between them. The basic operating fund financial statements can be found on pages 13 through 16 of this annual financial report.

**Notes to the financial statements:** The notes to the financial statements provide additional information that is essential to a full understanding of the financial information provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 17 through 38 of this annual financial report.

**Government-Wide Financial Analysis**

*Net Position*

The following table reflects condensed information on the Library's net position as of June 30, 2016 and 2015:

		June 30	
		2016	2015
Current and other assets	\$	2,803,908	2,443,783
Due from Hanover County		105,744	46,202
Capital assets		24,697	34,110
Total assets	\$	<u>2,934,349</u>	<u>2,524,095</u>
Deferred outflows of resources	\$	99,771	113,256
Current and other liabilities	\$	38,456	39,921
Long term liabilities		203,027	501,052
Total liabilities	\$	<u>241,483</u>	<u>540,973</u>
Deferred inflows of resources	\$	145,840	204,722
Net position:			
Net investment in capital assets	\$	24,697	34,110
Unrestricted for Library operations		<u>2,622,100</u>	<u>1,857,546</u>
Total net position	\$	<u>2,646,797</u>	<u>1,891,656</u>



**PAMUNKEY REGIONAL LIBRARY**  
Management's Discussion and Analysis (Unaudited)  
June 30, 2016

As noted earlier, net position may serve over time as a useful indicator of the Library's financial status. In the case of the Library's net position as of June 30, 2016, total assets and deferred outflow of resources exceeded total liabilities and deferred inflow of resources by \$2,646,797 as compared to \$1,891,656 as of June 30, 2015. As of June 30, 2016 and 2015, 0.93% or \$24,697 and 1.8% or \$34,110, respectively, of the Library's net position reflects its net investment in capital assets (e.g., vehicles, furniture and fixtures, and equipment). The Library uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Of the remaining net position balance as of June 30, 2016 and 2015, \$2,622,100 and \$1,857,546, respectively, are unrestricted.

*Change in Net Position*

For the years ended June 30, 2016 and 2015, the Library's total revenue and expenses for the Library's activities are reflected in the following table:

	<b>Library activities</b>	
	<b>Years ended June 30</b>	
	<b>2016</b>	<b>2015 <sup>(1)</sup></b>
Revenues:		
Fines, penalties and fees	\$ 41,676	41,076
Operating contributions	3,822,978	3,762,007
State aid	434,246	417,367
General revenues:		
Miscellaneous	100,551	107,102
Total revenues	<u>4,399,451</u>	<u>4,327,552</u>
Expenses:		
Personnel related expenses	2,118,056	2,408,983
Books, periodicals and other related materials	540,239	632,679
Donated administrative services and facilities	265,600	239,421
Utility expense	186,885	205,094
Rent	166,518	163,089
Depreciation	9,413	9,413
Other operating expenses	<u>357,599</u>	<u>327,862</u>
Total expenses	<u>3,644,310</u>	<u>3,986,541</u>
Increase in net position	755,141	341,011
Net position, beginning of year,	<u>1,891,656</u>	<u>1,550,645</u>
Net position, end of year	<u>\$ 2,646,797</u>	<u>1,891,656</u>

- (1) The Library implemented GASB Statement Nos. 68 and 71 in fiscal year 2015. See notes 1(i) and 8 of the notes to the financial statements for more information.

**PAMUNKEY REGIONAL LIBRARY**  
Management's Discussion and Analysis (Unaudited)  
June 30, 2016

**Revenues**

For the year ended June 30, 2016, revenues from all sources totaled \$4,399,451 compared with the year ended June 30, 2015 when revenues from all sources were \$4,327,552. Operating contributions are the largest component of revenues. Local government contributions are the largest single source of operating contributions, \$3,822,978 for the year ended June 30, 2016 (approximately 86.8% of the total Library activities revenues) and \$3,762,007 for the year ended June 30, 2015 (approximately 81.4% of the total Library activities revenues). For the years ended June 30, 2016 and 2015, the remaining revenues consist mainly of state aid, (\$434,236 or 9.9%) and (\$417,367 or 9.6%), respectively. Donated administrative services and facilities relating to services provided by the Counties on behalf of the Library for payroll recordkeeping, utility services and Library space is the third largest source of contributions of \$265,600 for the year ended June 30, 2016 (6.0% of the total Library activities revenues) and of \$239,421 for the year ended June 30, 2015 (5.5% of the total Library activities revenues).

**Expenses**

For the year ended June 30, 2016, operating expenses for Library activities totaled \$3,644,310 as compared to \$3,986,541 for the year ended June 30, 2015. Depreciation of capital assets for the year ended June 30, 2016 was \$9,413, which was consistent with the year ended June 30, 2015.

Personnel related expenses, of \$2,118,056 and \$2,408,983 for the years ended June 30, 2016 and 2015, respectively, were the largest expenses of Library services, representing 58.1% for the year ended June 30, 2016 and 60.4% for the year ended June 30, 2015. The decrease in personnel expenses is primarily related to a change in the Library's participation in the Virginia Retirement System. For the year ended June 30, 2016, books, periodicals and other related materials (\$540,239 or 14.8%) was the second largest expense with the third largest expense (\$265,600 or 7.2%) being donated administrative services and facilities. For the year ended June 30, 2015, books, periodicals and other related materials (\$632,679 or 15.7%) was the second largest expense with the third largest expense (\$239,421 or 7.2%) being donated administrative services and facilities.

**Financial Analysis of the Library's General Fund**

*General Fund*

The focus of the Library's General Fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Library's financing requirements. In particular, the fund balance may serve as a useful measure of a Library's resources available for spending at the end of the fiscal year.

- At June 30, 2016, the Library's General Fund reported a fund balance of \$2,871,196 compared with \$2,450,064 at June 30, 2015.
- The assigned fund balance at June 30, 2016 of \$15,000 is assigned for fiscal year 2017 facilities related expenses. The committed fund balance of \$20,000 is committed to fiscal year 2017 anticipated vehicle replacement. The remaining fund balance amount of \$2,836,196 is unassigned.
- The fund balance at June 30, 2015 of \$2,415,064 was unassigned.

# **PAMUNKEY REGIONAL LIBRARY**

## **Management's Discussion and Analysis (Unaudited)**

June 30, 2016

### **General Fund Library Revenues and Expenditures**

The following table presents a summary of revenues of the Library General Fund for the years ended June 30, 2016 and 2015, along with the amount and percentage of increases and decreases in relation to prior year revenues:

	<b>Year ended June 30, 2016</b>	<b>Percent of total</b>	<b>Year ended June 30, 2015</b>	<b>Percent of total</b>	<b>Increase (decrease) from 2015</b>	<b>Percent increase (decrease)</b>
Revenues:						
Fines, penalties and fees	\$ 41,676	0.95 %	\$ 41,076	0.95 %	\$ 600	0.01 %
Operating contributions:						
From local governments	3,557,378	80.86	3,522,586	81.40	34,792	0.01
Donated administrative service	265,600	6.04	239,421	5.53	26,179	0.11
State aid	434,246	9.87	417,367	9.64	16,879	0.04
Miscellaneous	100,551	2.29	107,102	2.47	(6,551)	(0.06)
Total revenues	<u>\$ 4,399,451</u>	<u>100.00 %</u>	<u>\$ 4,327,552</u>	<u>100.00 %</u>	<u>\$ 71,899</u>	<u>0.02 %</u>

Revenues for Library functions were generally even compared to last year. The value of donated services and state aid increased.

The following table presents a summary of expenditures of the General Fund for the years ended June 30, 2016 and 2015, along with the amount and percentage of increases and decreases in relation to prior year expenditures:

	<b>Year ended June 30, 2016</b>	<b>Percent of total</b>	<b>Year ended June 30, 2015</b>	<b>Percent of total</b>	<b>Increase (decrease) from 2015</b>	<b>Percent increase (decrease)</b>
Expenditures:						
Personnel related	\$ 2,461,478	61.87 %	\$ 2,500,251	61.46 %	\$ (38,773)	(0.02)%
Books, periodicals, and other related material	540,239	13.58	632,679	15.55	(92,440)	(0.15)
Donated administrative services and facilities	265,600	6.68	239,421	5.88	26,179	0.11
Utility expense	186,885	4.70	205,094	5.04	(18,209)	(0.09)
Rent	166,518	4.19	163,089	4.01	3,429	0.02
Miscellaneous	357,599	8.99	327,862	8.06	29,737	0.09
Total expenditures	<u>\$ 3,978,319</u>	<u>100.00 %</u>	<u>\$ 4,068,396</u>	<u>100.00 %</u>	<u>\$ (90,077)</u>	<u>(0.02)%</u>

The Library's efforts to maintain spending in preparation for anticipated increases for fiscal year 2016 were less successful than hoped. Personnel spending was lower as was materials spending. Rent increases are specified in the lease agreement.

**PAMUNKEY REGIONAL LIBRARY**  
Management's Discussion and Analysis (Unaudited)  
June 30, 2016

The following table presents a summary of the Library's budgetary highlights for the year ended June 30, 2016, along with the variances as compared to the actual June 30, 2016 revenues and expenditures.

**Year ended June 30, 2016 General Fund Budgetary Highlights**

		<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance positive (negative)</u>
Revenues:					
Fines, penalties and fees	\$	—	—	41,676	41,676
Operating contributions		3,556,086	3,522,586	3,557,378	34,792
State aid		433,737	433,737	434,246	509
Miscellaneous		159,000	159,000	100,551	(58,449)
Donated services		—	—	265,600	265,600
Total	\$	<u>4,148,823</u>	<u>4,115,323</u>	<u>4,399,451</u>	<u>284,128</u>
Expenditures:					
Personnel related	\$	2,846,471	2,846,471	2,461,478	384,993
Books, periodicals and other related materials		567,251	567,251	540,239	27,012
Donated services		—	—	265,600	(265,600)
Utility		171,690	171,690	186,885	(15,195)
Rent		184,714	184,714	166,518	18,196
Miscellaneous		378,697	342,531	357,599	(15,068)
Total	\$	<u>4,148,823</u>	<u>4,112,657</u>	<u>3,978,319</u>	<u>134,338</u>

**PAMUNKEY REGIONAL LIBRARY**  
Management's Discussion and Analysis (Unaudited)  
June 30, 2016

**Capital Assets**

The Library's changes in capital assets, net of accumulated depreciation, for the year ended June 30, 2016 for its Library activities are reflected in the table below:

	<b>Balance June 30, 2015</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2016</b>
Vehicles	\$ 72,293	—	—	72,293
Furniture and fixtures	119,494	—	—	119,494
Equipment	78,983	—	—	78,983
Total capital assets	<u>270,770</u>	<u>—</u>	<u>—</u>	<u>270,770</u>
Less accumulated depreciation for:				
Vehicles	(72,293)	—	—	(72,293)
Furniture and fixtures	(89,482)	(7,274)	—	(96,756)
Equipment	(74,885)	(2,139)	—	(77,024)
Total accumulated depreciation	<u>(236,660)</u>	<u>(9,413)</u>	<u>—</u>	<u>(246,073)</u>
Total capital assets, net	<u>\$ 34,110</u>	<u>(9,413)</u>	<u>—</u>	<u>24,697</u>

Operating fund assets with a cost of \$5,000 or more and an estimated useful life of more than one year are capitalized and depreciated over their useful lives using the straight – line method.

Additional information on the Library's capital assets can be found in note 5 of the notes to the financial statements.

**Economic Factors and Next Year's Budgets**

The Library's four participating counties are experiencing mixed economic stability. Goochland and Hanover are stable and economically healthy. King and Queen and King William are experiencing decreased tax revenues. The Library's long range plan supports budget requests from the four local governments. For fiscal year 2017, the Library is requesting increases in local government contributions to support staff raises. State aid is expected to increase from \$434,246 to \$458,874.

**Requests for Information**

This financial report is designed to provide interested parties with a general overview of the Library's finances. Should you have any questions about this report or need additional information, please contact the Library Director at Pamunkey Regional Library, P. O. Box 119, Hanover, VA 23069.

**PAMUNKEY REGIONAL LIBRARY**

Statement of Net Position

June 30, 2016

Assets:

Cash and cash equivalents	\$ 2,803,908
Due from Hanover County	105,744
Capital assets, net of accumulated depreciation	<u>24,697</u>
Total assets	<u>2,934,349</u>

Deferred outflows of resources:

Pension contributions after measurement date	<u>99,771</u>
Total deferred outflows of resources	<u>99,771</u>

Liabilities:

Accounts payable	38,456
Compensated absences	149,196
Net pension liability	<u>53,831</u>
Total liabilities	<u>241,483</u>

Deferred inflows of resources:

Pension investment experience	<u>145,840</u>
Total deferred inflows of resources	<u>145,840</u>

Net position:

Net investment in capital assets	24,697
Unrestricted for Library operations	<u>2,622,100</u>
Total net position	<u>\$ 2,646,797</u>

See accompanying notes to financial statements.

**PAMUNKEY REGIONAL LIBRARY**

Statement of Activities

Year ended June 30, 2016

Program expenses:	
Personnel related	\$ 2,118,056
Books, periodicals and other related materials	540,239
Donated administrative services and facilities	265,600
Utility expense	186,885
Rent	166,518
Depreciation	9,413
Other operational expenses	357,599
Total program expenses	<u>3,644,310</u>
Program revenues:	
Fines, penalties and fees	41,676
Operating contributions:	
Donated administrative services and facilities	265,600
State aid	434,246
Total program revenues	<u>741,522</u>
Net program loss	<u>(2,902,788)</u>
General revenues:	
Operating contributions from local governments	3,557,378
Miscellaneous	100,551
Total general revenues	<u>3,657,929</u>
Net increase in net position	755,141
Net position, beginning of year	<u>1,891,656</u>
Net position, end of year	<u>\$ 2,646,797</u>

See accompanying notes to financial statements.

**PAMUNKEY REGIONAL LIBRARY**

Balance Sheet – General Fund

June 30, 2016

**Assets**

Cash and cash equivalents	\$ 2,803,908
Due from Hanover County	<u>105,744</u>
Total assets	<u><u>\$ 2,909,652</u></u>

**Liabilities and Fund Balance**

Liabilities:

Accounts payable	\$ <u>38,456</u>
Total liabilities	<u>38,456</u>

Fund balance:

Committed	20,000
Assigned	15,000
Unassigned	<u>2,836,196</u>
Total fund balance	<u>2,871,196</u>
Total liabilities and fund balance	<u><u>\$ 2,909,652</u></u>

See accompanying notes to financial statements.



**PAMUNKEY REGIONAL LIBRARY**

Reconciliation of the Balance Sheet of General Fund to the  
Statement of Net Position

June 30, 2016

Ending fund balance – general fund \$ 2,871,196

Amounts reported for governmental activities in the statement of net position are different  
because:

Capital assets used in governmental activities are not financial resources and  
therefore are not reported in the fund.

Capital assets, being depreciated:

Vehicles	72,293
Furniture and fixtures	119,494
Equipment	<u>78,983</u>

Total capital assets	270,770
----------------------	---------

Less accumulated depreciation	<u>(246,073)</u>
-------------------------------	------------------

	<u>24,697</u>
--	---------------

Long-term obligations are not due and payable in the current period and therefore  
are not reported in the fund:

Compensated absences	(149,196)
----------------------	-----------

GASB Statement No. 68 requires the recognition of net pension liability and deferred  
inflows and outflows related to pensions. These amounts do not use current  
financial resources and are not reported in the funds.

Net pension liability	(53,831)
-----------------------	----------

Pension investment experience	(145,840)
-------------------------------	-----------

Pension contributions after measurement date	<u>99,771</u>
--	---------------

Net position of governmental activities	\$ <u><u>2,646,797</u></u>
---	----------------------------

See accompanying notes to financial statements.

**PAMUNKEY REGIONAL LIBRARY**

Statement of Revenues, Expenditures, and Changes in Fund Balance  
of the General Fund

Year ended June 30, 2016

Revenues:	
Fines, penalties and fees	\$ 41,676
Operating contributions:	
From local governments	3,557,378
Donated administrative services and facilities	265,600
State aid	434,246
Miscellaneous	100,551
Total revenues	<u>4,399,451</u>
Expenditures:	
Personnel related	2,461,478
Books, periodicals and other related materials	540,239
Donated administrative services and facilities	265,600
Utilities	186,885
Rent	166,518
Miscellaneous	357,599
Total expenditures	<u>3,978,319</u>
Net change in fund balance	421,132
Fund balance, beginning of year	<u>2,450,064</u>
Fund balance, end of year	\$ <u><u>2,871,196</u></u>

See accompanying notes to financial statements.

**PAMUNKEY REGIONAL LIBRARY**

Reconciliation of the Statement of Revenues, Expenditures, and  
Changes in Fund Balance of the General Fund to the  
Statement of Activities

Year ended June 30, 2016

Net change in fund balance – total governmental fund	\$	421,132
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:		
Depreciation expense		(9,413)
Under the modified accrual basis of accounting used in governmental funds, expenditures for the following are not recognized until they are presented for payment. In the statement of activities, they are reported as expenses:		
Decrease in obligation for compensated absences		(4,138)
Pension contributions reported as expenditures in the fund statements are reported as deferred outflows of resources on the statement of net position. Pension expenses reported on the statement of activities do not use current financial resources and are not reported in the funds.		
Pension contributions after measurement date		99,771
Pension expense		247,789
Change in net position	\$	<u>755,141</u>

See accompanying notes to financial statements.

## **PAMUNKEY REGIONAL LIBRARY**

### **Notes to Financial Statements**

June 30, 2016

#### **(1) Summary of Significant Accounting Policies**

##### **(a) Reporting Entity**

The Pamunkey Regional Library (the Library) was organized in 1941 to operate as a regional free library system pursuant to the Code of Virginia. The Library provides services to the Counties of Hanover, Goochland, King and Queen, and King William and the towns of Ashland and West Point under the administration and control of the Board of Trustees (the Board). The ten member Board consists of four citizens from the County of Hanover and two citizens from each of the Counties of Goochland, King and Queen, and King William. The Board of Supervisors from each county appoints the Library Board trustees to four-year terms. The Library is not a component unit of Hanover County and is therefore not reported in Hanover's County's Comprehensive Annual Financial Report as a component unit.

##### **(b) Basis of Presentation**

###### **Government-Wide Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities, whether short-term or long-term, of the Library. Governmental activities, which are mainly supported by operating contributions received from various counties, are reported on the government-wide financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers for overdue books, lost books and dog tag fees, and 2) State aid for library operations. Other items not included among program revenues are reported as general revenues.

###### **Fund Financial Statements**

The fund financial statements (balance sheet and statement of revenues, expenditures, and changes in fund balance) of the Library's governmental fund reports the finances of the Library and generally include only short-term information, the most readily available assets and present due liabilities, and just the resources that flow into and out of the Library during the year and shortly thereafter.

Whereas the government-wide financial statements provide an all-encompassing view of all the Library's finances, the fund financial statements provide a narrower look at the Library's current resources as noted above. A reconciliation is provided that explains the reasons that total fund balance in the balance sheet differ from total net position in the government-wide statement of net position. A reconciliation is provided explaining the differences between the net change in fund balance on the statement of revenues, expenditures, and changes in fund balance and the change in net position on the statement of activities. The differences noted on the reconciliations relate to the fact that the fund financial statements primarily report short-term financial information, whereas the government-wide statements report both short and long-term information.

The Library reports the following major governmental fund:

**General Fund** – The General Fund is the general operating fund of the Library. The General Fund is used to account for all of the Library's expendable financial resources and related liabilities.

## **PAMUNKEY REGIONAL LIBRARY**

### **Notes to Financial Statements**

June 30, 2016

#### **(c) *Measurement Focus and Basis of Accounting***

##### **Government-Wide Financial Statements**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

##### **Fund Financial Statements**

The governmental fund is reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis, revenues are recognized in the accounting period when they become susceptible to accrual (i.e., when they are measurable and available) to pay the liabilities of the current period. For this purpose, the Library considers revenue to be available if they are collected within 90 days after the end of the current fiscal period. Fine, penalties, and fees are recorded as revenue when received in cash because they are generally not measurable until actually received. In addition, expenditures are recorded when the related fund liability is incurred, if measurable, except for certain compensated absences, which is recognized when the obligation is expected to be liquidated with expendable available financial resources.

#### **(d) *Estimates***

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and deferred outflow of resources and liabilities and deferred inflow of resources and disclosures of commitments and contingencies at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

#### **(e) *Cash and Cash Equivalents***

Cash and cash equivalents include cash on hand and a demand deposit account. Cash equivalents are stated at cost, which approximates fair value, and have maturities of less than three months at the time of acquisition.

#### **(f) *Capital Assets***

Capital assets, which include vehicles, furniture and fixtures and equipment, are reported in the government-wide financial statements. Capital assets are defined by the Library as assets with an initial, individual cost of more than \$5,000 and an estimated useful life of more than one year. Such assets are recorded at cost where historical records are available and at an estimated historical cost where no historical cost records exist. Based on this definition, the Library expenses the costs of library books acquired. The buildings associated with the various branches of the Library which provide services are not owned by the Library and therefore are not recorded as capital assets by the Library.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

## PAMUNKEY REGIONAL LIBRARY

### Notes to Financial Statements

June 30, 2016

The Library depreciates capital assets using the straight-line method over their estimated useful lives as follows:

<u>Assets</u>	<u>Years</u>
Vehicles	5–10 years
Furniture and fixtures	10 years
Equipment	5–10 years

#### **(g) Net Position and Fund Balance**

Net position in government-wide statements is classified as net investment in capital assets; restricted; and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, laws and regulations of other governments or imposed by law through state statute. At June 30, 2016, there was no portion of net position that was restricted.

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent. The governmental fund types classify fund balances as follows:

*Nonspendable Fund Balance* – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The Library does not have any nonspendable fund balances at June 30, 2016.

*Restricted Fund Balance* – This classification includes amounts that are restricted to specific purposes externally imposed by creditors or imposed by law. The Library does not have any restricted fund balances at June 30, 2016.

*Committed Fund Balance* – This classification includes amounts that can only be used for specific purposes imposed by majority vote resolution of the Library Board. Any changes or removal of specific purpose requires majority action by the governing body. At June 30, 2016, the committed fund balance is \$20,000.

*Assigned Fund Balance* – This classification includes the portion of fund balance that the Library intends to use for specific purposes and assigned by the Library Board. At June 30, 2016, the assigned fund balance is \$15,000.

*Unassigned Fund Balance* – This classification includes the portion of the general fund balance that has not been restricted, committed, or assigned to specific purposes or other funds.

For purposes of fund balance classification expenditures are to be spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance and lastly unassigned fund balance.

#### **(h) Compensated Absences**

Library employees will earn vacation and sick leave in varying amounts on a monthly basis, based upon length of service. Annual carry over limitations apply to vacation hours but not to sick leave.

## **PAMUNKEY REGIONAL LIBRARY**

### **Notes to Financial Statements**

June 30, 2016

Employees are compensated for unused vacation and sick leave upon separation, retirement or death based upon years of service and limited to a maximum dollar amount.

Annual leave begins to accrue during the first month of employment but may not be taken until three months employment has been completed. Employees who terminate prior to completion of three months employment are not entitled to annual leave pay. After the first three months employment, employees are eligible for payment for accrued annual leave upon termination.

Annual leave is accrued at the rate of 1.5 days per month with a maximum accrual of 24 days up to 5 years of service, 1.75 days per month with a maximum accrual of 30 days up to 10 years of service, and 2 days per month with a maximum accrual of 36 days over 10 years of service.

Sick leave is accrued at the rate of 1.25 days for each completed month of employment. There is no limit to the amount of sick leave that may be accrued. At the time of termination, an employee is paid for 25% of any credits exceeding 50 days. Part-time employees who work at least 20 hours each week are entitled to annual and sick leave on a pro rata basis depending on the number of hours worked. Sick leave is accrued under the vesting method which estimates the expected eligibility of all employees to receive termination payments.

#### **(i) Pension Plans**

In fiscal year 2015, the Library implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pension – an Amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The objective of GASB Statement No. 68 is to improve accounting and financial reporting by state and local governments for pensions by establishing standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense. The statement requires the liability of employers for defined benefit pensions to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past period of service, less the amount of the pension plan's fiduciary net position. Accordingly, the Library recorded the impact of the related net pension asset, net pension liability, deferred outflow of resources, deferred inflow of resources, and pension expense. For further information regarding the reporting entity's defined benefit pension plans, refer to note 8 of the accompanying notes to the financial statements.

#### **(j) New Accounting Pronouncements**

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. The objective of this Statement is to address accounting and financial reporting issues related to fair value measurements. It requires a government to use valuation techniques that are appropriate under circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches: market approach, cost approach, or the income approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or group of assets and liabilities. The cost approach reflects the amount that would be required to replace the present service capacity of an asset. The income approach converts future amounts, such as cash flows or income and expenses, to a single current (discounted) amount. The Library has considered the Statement and determined that it does not have any such holdings.

## PAMUNKEY REGIONAL LIBRARY

### Notes to Financial Statements

June 30, 2016

In December, 2015, GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes, and established additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost, and for governments that participate in those pools. The Library's adoption of this statement in fiscal year 2016 did not have a significant impact on the reporting entity's financial statements or disclosures.

#### **(k) Future Accounting Pronouncements**

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this Statement is to improve the usefulness of information about pensions included in financial reports of state and local governments, to establish requirements for defined benefit pensions and the assets accumulated for purposes of providing pensions that are not within the scope of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement also amends certain provisions of Statement No. 67 and Statement No. 68. The Library has not completed the evaluation of the impact that the implementation of this Statement will have on the financial statements and disclosures. The Library will adopt this Statement for the fiscal year ending June 30, 2017.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions included in the financial reports of state and local governments. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*. The Library has not completed the evaluation of the impact that the implementation of this Statement will have on the financial statements and disclosures. The Library will adopt this Statement for the fiscal year ending June 30, 2017.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting for postemployment benefits other than pensions and to improve information provided by state and local governmental employers about financial support for other postemployment benefits (OPEB) that is provided by other entities. This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be



## **PAMUNKEY REGIONAL LIBRARY**

### **Notes to Financial Statements**

June 30, 2016

used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. The Library has not completed the evaluation of the impact that the implementation of this Statement will have on the financial statements and disclosures. The Library will adopt this Statement for the fiscal year ending June 30, 2018.

In December, 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through certain cost-sharing multiple-employer defined benefit pension plans. The Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for a pension plan that is (1) not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer. The Library has not completed the evaluation of the impact that the implementation of this Statement will have on the financial statements. The Library will adopt this Statement for the fiscal year ending June 30, 2017.

In March, 2016, GASB issued Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to previous pension-related statements regarding the presentation of payroll –related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The Library has not completed the evaluation of the impact that the implementation of this Statement will have on the financial statements. The Library will adopt this Statement for the fiscal year ending June 30, 2017.

#### **(2) Stewardship, Compliance and Accountability**

The following procedures are used by the Library in establishing the budgetary data reflected in the financial statements:

1. The Director of the Library prepares the overall proposed annual operating budget, which includes local appropriations from each county.
2. The Board of the Library approves the proposed annual operating budget and authorizes all operating expenditures and appropriates funds through the adoption of the budget.
3. The budget for the general fund is adopted on a basis consistent with GAAP.

## **PAMUNKEY REGIONAL LIBRARY**

### **Notes to Financial Statements**

June 30, 2016

#### **(3) Regional Library Agreement among The Counties of Hanover, Goochland, King and Queen, and King William**

Each County agrees that it will make a yearly appropriation of funds to the Library in at least the amount necessary to permit the Library to meet the minimum requirements for the Commonwealth of Virginia grants-in-aid. Appropriations are made in proportion to the population of each respective county.

#### **(4) Deposits and Cash Equivalents**

##### *Deposits*

At June 30, 2016, the carrying value of the deposits of the Library was \$559,900 and the bank balances were \$662,219. The bank balances were covered by Federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act. Under the Act, banks holding public deposits in excess of the amounts insured by federal depository insurance must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loan institutions are required to collateralize 100% of deposits in excess of federal depository insurance limits. The State Treasury Board has the authority to assess additional collateral from participating financial institutions to cover collateral shortfalls in the event of default and is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loan institutions.

##### *Cash Equivalents*

The Library invests in the State Treasurer's Local Government Investment Pool (LGIP). The LGIP is a diversified portfolio of investments managed by the Commonwealth Department of Treasury. The LGIP is administered for the benefit of local governments and other public entities of the Commonwealth, and participation is voluntary. The LGIP is not SEC registered, but is managed as a "2a-7 like pool". Pursuant to Sec. 2.2-460 through 2.2-4606 of the Code of Virginia, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at their regularly scheduled monthly meetings and the fair value of the position in the LGIP is the same as the value of the pool shares. Standard and Poor's has assigned an 'AAAm' rating to the LGIP. The LGIP has a one day maturity and therefore, no specific identification of interest rate or custodial risk is measured.

The cash and cash equivalents balance at June 30, 2016 was composed of the following amounts:

Cash on hand	\$	285
Carrying amount of deposits		559,900
Investments not subject to categorization:		
Local Government Investment Pool (LGIP)		<u>2,243,723</u>
	\$	<u><u>2,803,908</u></u>

# **PAMUNKEY REGIONAL LIBRARY**

## **Notes to Financial Statements**

June 30, 2016

### **(5) Capital Assets**

Capital assets at June 30, 2016 were composed of the following amounts:

	<b>Balance June 30, 2015</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2016</b>
Vehicles	\$ 72,293	—	—	72,293
Furniture and fixtures	119,494	—	—	119,494
Equipment	78,983	—	—	78,983
Total capital assets	270,770	—	—	270,770
Less accumulated depreciation for:				
Vehicles	(72,293)	—	—	(72,293)
Furniture and fixtures	(89,482)	(7,274)	—	(96,756)
Equipment	(74,885)	(2,139)	—	(77,024)
Total accumulated depreciation	(236,660)	(9,413)	—	(246,073)
Total capital assets, net	\$ 34,110	(9,413)	—	24,697

### **(6) Compensated Absences**

The following is a summary of the compensated absences of the Library for the year ended June 30, 2016:

	<b>Compensated absences</b>
Balance at June 30, 2015	\$ 145,058
Additions	138,600
Deletions	(134,462)
Balance at June 30, 2016	\$ 149,196

### **(7) Donated Administrative Services and Facilities**

In addition to the yearly appropriation of funds described in note 3, Goochland, Hanover and King and Queen Counties and the Town of West Point provide certain branch libraries with free utility services, library space and building improvements. The County of Hanover also provides certain free general government administrative and accounting services relating to payroll record keeping for the Library. The value of such contributions from the County of Hanover amounted to \$217,513 for the year ended June 30, 2016. Counties of King and Queen and Goochland and the town of West Point contributions collectively amounted to \$48,087 for the year ended June 30, 2016.

## PAMUNKEY REGIONAL LIBRARY

### Notes to Financial Statements

June 30, 2016

#### (8) Defined benefit pension plan – Virginia Retirement System

##### (a) *Pension Plan*

**Agent Multiple-Employer Plan** – As of July 1, 2015, the Library employees participate in the Virginia Retirement System (VRS) Political Subdivision Retirement Plan administered by the Virginia Retirement System (VRS) as an individual entity. Prior to July 1, 2015, the Library was a component unit of the County of Hanover's (the County) VRS plan and allocations were necessary to determine the Library's proportionate share of net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the VRS agent multiple-employer and the additions to/deductions from the VRS agent multiple-employer net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Detailed information about the VRS Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2015 Comprehensive Annual Financial Report (CAFR) and GASB 68 Report. A copy of the 2015 VRS CAFR and GASB 68 Report may be downloaded from the VRS website at <http://www.varetire.org/employers/financial-reporting/index.asp>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

##### (b) *VRS Plan Description*

All full-time, salaried permanent employees of the Library are automatically covered by VRS upon employment. This plan is administered by the VRS along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and Library pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The VRS administers three different benefit structures for covered employees – Plan 1, Plan 2, and Hybrid. Each of these benefit structures has a different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out as described below:

##### (i) *VRS Plan 1 and Plan 2*

**Overview:** Plan 1 and Plan 2 are defined benefit plans. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for and in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013. Employees are eligible for and in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013. VRS Plan 1 and Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

## PAMUNKEY REGIONAL LIBRARY

### Notes to Financial Statements

June 30, 2016

**Contributions:** Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.

**Creditable Service:** Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

**Vesting:** Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan.

Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.

**Benefit Calculations:** The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.

An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.

For Plan 1, a member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee. The Plan 1 retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for Nonhazardous duty members is 1.70%.

Under Plan 1, the normal retirement age is 65, with a provision of age 60 for hazardous duty members. The earliest unreduced retirement can occur at age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. The earliest reduced retirement can occur at age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.

For Plan 2, a member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee. The service retirement multiplier factor is the same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. The retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.

Under Plan 2, the normal retirement age is consistent with the normal Social Security retirement age. The earliest unreduced retirement can occur at normal Social Security retirement age with at

## PAMUNKEY REGIONAL LIBRARY

### Notes to Financial Statements

June 30, 2016

least five years (60 months) of creditable service or when their age and service equal 90. The earliest reduced retirement can occur at Age 60 with at least five years (60 months) of creditable service.

***Cost-of-Living Adjustment in Retirement:*** For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.

For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.

Under Plan 1, the Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%. Under Plan 2, the Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.

The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:

- The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
- The member retires on disability.
- The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
- The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
- The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.

***Disability Coverage:*** Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% under Plan 1 and 1.65% under Plan 2 on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for Nonwork-related disability benefits.

***Purchase of Prior Service:*** Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.

## PAMUNKEY REGIONAL LIBRARY

### Notes to Financial Statements

June 30, 2016

#### (ii) *Hybrid Plan*

**Overview:** The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan as noted:

- The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.
- The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.
- In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

Members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window held January 1-April 30, 2014.

**Contributions:** A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

**Creditable Service:** Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit, as well as determining vesting for the employer contribution portion of the plan. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

**Vesting:** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make.

## PAMUNKEY REGIONAL LIBRARY

### Notes to Financial Statements

June 30, 2016

Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service, as follows:

- After two years, a member is 50% vested and may withdraw 50% of employer contributions.
- After three years, a member is 75% vested and may withdraw 75% of employer contributions.
- After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.

Distribution is not required by law until age 70½.

**Benefit Calculations:** The benefit calculations for the Hybrid Plan are as outlined in Plan 1 and 2, except the benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.

The average final compensation is a member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee. It is used in the retirement formula for the defined benefit component of the plan.

The service retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

The normal retirement age is consistent with the normal Social Security retirement age, with a provision that members are eligible to receive distributions upon leaving employment, subject to restrictions. The earliest member unreduced retirement can occur at normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. The Cost-of-Living (COLA) in retirement terms are consistent with the provisions noted for Plan 2.

**Disability Coverage:** Employees of political subdivisions and school divisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.

Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for Nonwork-related disability benefits.

**Purchase of Prior Service:** Considerations are the same as noted under Plan 1, with the following exceptions:

- Hybrid Retirement Plan members are ineligible for ported service.
- The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation.



## PAMUNKEY REGIONAL LIBRARY

### Notes to Financial Statements

June 30, 2016

- Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost.

#### **(c) Employees Covered by Benefit Terms**

As of the June 30, 2014 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Library employees</u>
Inactive members or their beneficiaries currently receiving benefits	9
Inactive members:	
Vested inactive members	2
Nonvested inactive members	2
Inactive members active elsewhere in VRS	<u>3</u>
Total inactive members	7
Active members	<u>24</u>
Total covered employees	<u><u>40</u></u>

#### **(d) Contributions**

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. The Library through the Hanover County Board of Supervisors elected to continue contributing the 5% employee contribution amount for all eligible Plan 1 and Plan 2 employees through June 30, 2012. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. The Library through the Hanover County Board of Supervisors elected to require that employees pay the 5% member contribution effective July 1, 2012 and provided a salary increase equal to the 5% employee-paid member contribution. In addition, the Library is required to contribute the remaining amounts necessary to fund their participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees.

The contractually required contribution rate for the Library in VRS for the fiscal year ended June 30, 2016, was 10.51% of their annual covered employee compensation. This rate was communicated in a letter from VRS in conjunction with the Library segregating from the County as a separate employer for VRS reporting effective July 1, 2015.

## PAMUNKEY REGIONAL LIBRARY

### Notes to Financial Statements

June 30, 2016

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Library were \$99,771 and \$113,256 for the years ended June 30, 2016 and June 30, 2015, respectively.

#### **(e) Net Pension Liability**

At June 30, 2016, the Library reported a net pension liability of \$53,831. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

#### **(f) Actuarial Assumptions**

The total pension liability was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal actuarial cost method, the level percent closed amortization method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015:

Inflation	2.50 %
Salary increases, including inflation	3.5%–5.35%
Payroll growth	3.00 %
Discount rate	7.00 %
Cost-of-living adjustment	2.25%–2.50%
Investment rate of return (net of pension plan investment expense, including inflation)	7.00 %
Mortality rates	14% of deaths are assumed to be service related
Pre-retirement	RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females were set back 2 years
Post-retirement	RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year
Post-disablement	RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

# **PAMUNKEY REGIONAL LIBRARY**

## Notes to Financial Statements

June 30, 2016

Updated morality table  
Decrease in rates of service retirement  
Decrease in rates of disability retirement  
Reduce rates of salary increase by 0.25% per year

### **(g) Long-Term Expected Rate of Return**

The long-term expected rate of return on the pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class as provided by the VRS for use in the last actuarial experience study for the four-year period ending June 30, 2012 are summarized in the following table:

<b>Asset class (strategy)</b>	<b>Target allocation</b>	<b>Arithmetic long-term expected rate of return</b>	<b>Weighted average long-term expected rate of return</b>
U.S equity	19.50 %	6.46 %	1.26 %
Developed non U.S. equity	16.50	6.28	1.04
Emerging market equity	6.00	10.00	0.60
Fixed income	15.00	0.09	0.01
Emerging debt	3.00	3.51	0.11
Rate sensitive credit	4.50	3.51	0.16
Non rate sensitive credit	4.50	5.00	0.26
Convertibles	3.00	4.81	0.14
Public real estate	2.25	6.12	0.14
Private real estate	12.75	7.10	0.91
Private equity	12.00	10.41	1.25
Cash	1.00	(1.50)	(0.02)
	<u>100.00 %</u>		<u>5.86</u>
Inflation			<u>2.50</u>
* Expected arithmetic normal return			<u>8.36 %</u>

- \* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

# **PAMUNKEY REGIONAL LIBRARY**

## **Notes to Financial Statements**

June 30, 2016

### **(h) Discount Rate**

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers and employees are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

### **(i) Changes in the Net Pension Liability**

	<b>Increase (decrease)</b>		
	<b>Total pension liability (a)</b>	<b>Plan fiduciary net position (b)</b>	<b>Net pension liability (a) – (b)</b>
Balances at June 30, 2015	\$ 3,739,709	3,384,639	355,070
Changes for the year:			
Service cost	133,615	—	133,615
Interest	271,337	—	271,337
Differences between expected	(56,250)	—	(56,250)
Contributions – employer	—	113,256	(113,256)
Contributions – employee	—	54,205	(54,205)
Net investment income	—	164,581	(164,581)
Benefit payments, including refunds of employee contribution	(120,639)	(120,639)	—
Administrative expenses	—	(2,167)	2,167
Other changes	163,969	484,035	(320,066)
Net changes	392,032	693,271	(301,239)
Balances at June 30, 2016	\$ 4,131,741	4,077,910	53,831

# **PAMUNKEY REGIONAL LIBRARY**

## **Notes to Financial Statements**

June 30, 2016

### **(j) Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents the net pension liability for the Library using the discount rate of 7.00%, as well as what their net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	<u>1% Decrease</u>	<u>Discount rate</u>	<u>1% Increase</u>
Pamunkey Regional Library net pension liability	\$ 660,680	53,831	(445,987)

### **(k) Pension Expense and Deferred Outflow of Resources and Deferred Inflow of Resources Related to Pensions**

For the year ended June 30, 2016, the Library recognized pension expense of \$247,789. At June 30, 2016, the Library reported a deferred outflow of resources and a deferred inflow of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ —	69,543
Net difference between projected and actual earnings on pension plan investments	—	76,297
Employer contributions subsequent to the measurement date	99,771	—
Total	<u>\$ 99,771</u>	<u>145,840</u>

Deferred outflow of resources related to pensions resulting from the Library's contributions subsequent to the measurement date of \$99,771 will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Deferred inflow of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:	
2017	\$ 51,460
2018	51,460
2019	51,458
2020	(8,538)
Total	<u>\$ 145,840</u>

## **PAMUNKEY REGIONAL LIBRARY**

### **Notes to Financial Statements**

June 30, 2016

#### **(9) Postemployment healthcare plan and Other Postemployment Benefits (OPEB)**

##### **Plan Description**

The Library provides for optional participation by eligible retirees and their eligible spouses and dependents in the medical and prescription drug healthcare benefit program available to employees. The County of Hanover has established the Hanover County, Virginia, Retiree Medical Benefits Plan (Plan), an agent multiple-employer defined benefit healthcare plan, and the Hanover County, Virginia, Retiree Medical Benefits Trust Agreement (Trust), which are administered as one plan for the County of Hanover and its Affiliates (collectively, Employers). The Plan covers eligible retirees of the Library. The Trust provides the funding mechanism for the postemployment healthcare benefits established by the Plan. The Code of Virginia assigns the authority to administer the Plan, and to establish and amend the benefit provisions of the Plan, to the Hanover County Board of Supervisors (Board). The Plan provides for biennial reviews of benefit provisions based on actuarial analysis, but does not require any automatic or ad hoc benefit increases, although the Board may amend or terminate the Plan at any time. The Trust's accumulated assets may legally be used to pay all plan benefits provided to any of the plan's members or beneficiaries. The Trust is considered part of the County of Hanover's financial reporting entity and is included in County of Hanover's financial statements as an Other Postemployment Benefits Trust Fund. The Library is required to make periodic contributions to fund its share of the plan based on periodic actuarial analyses of its future obligations.

The Plan provides that the Employers will provide certain subsidies toward the cost of the health benefit coverage of eligible retirees, spouses and dependents. In order to participate in the Plan, retirees must be enrolled in the health insurance program available to Hanover County employees at date of separation. In addition, participants must meet the Virginia Retirement System (VRS) retirement age and service retirement requirements, and, if hired after September 30, 2007, must have five years of service with an Employer, or retire pursuant to the disability requirements of Social Security or the VRS. The amount of monthly subsidy provided by the Plan is based on years of service and, as of June 30, 2015, ranged from \$100 per month for employees with 10 but less than 15 years of service to \$200 per month for 20 or more years of service. The subsidy for a retiree's spouse and dependents are equal to that of the retiree, with a limit of three subsidies per retiree. Effective for those who retire July 1, 2015 or later, there shall not be a subsidy for their spouse or dependents. The only available subsidy will be for the employee themselves. Retirees hired prior to October 1, 2007 have no years of service requirement, but must meet all other requirements for participation. In addition, retirees hired prior to October 1, 2007, who have at least ten years of service with an Employer and whose age and years of service equal at least 60 (grandfathered employees) will receive an initial subsidy of \$251 per month. For employees retiring after September 30, 2008, subsidies will end with Medicare eligibility. Any Plan participants currently in the Plan over age 65 must be enrolled in Medicare as primary insurer effective July 1, 2015. Additionally, any grandfathered retirees who are not yet age 65 must enroll in Medicare as primary insurer once they have met the Medicare eligibility requirements.

Retirees under the Plan may select from the health care plans offered to active employees and pay the health insurance premium rate established annually based on biennial actuarial analysis of the claims cost of the retiree group, net of the applicable subsidy established by the Plan.

Depending upon the health care plan selected, the net retiree premium amounts range from \$317 to \$911 per month, and for those electing retiree and family coverage, from \$898 to \$2,732 per month. Costs of administering the Plan will be borne by the Trust or by the Employers.

# **PAMUNKEY REGIONAL LIBRARY**

## Notes to Financial Statements

June 30, 2016

The Library's OPEB cost (expense) under the Plan is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of the GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the Library's annual OPEB cost, the amount of contributions to the Plan, changes in the Library's net OPEB asset, the Library's annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB asset for fiscal year 2015.

ARC, for the fiscal year ended June 30, 2016	\$ 1,000
Annual OPEB cost	1,000
Employer contributions:	
Cash contribution to OPEB trust	—
Subsidies paid under Plan on behalf of retirees	(1,000)
Total employer contributions	(1,000)
Decrease in the net OPEB asset, for the year ended June 30, 2015	—
Net OPEB (asset), beginning of year	—
Net OPEB (asset), end of year	\$ —
Fiscal year ended June 30:	
Annual OPEB cost	\$ 1,000
Percentage of annual OPEB cost contributed by employer:	
Cash contributions to OPEB Trust	100.0 %
Subsidies paid under Plan on behalf of retirees	100.0
Total percentage contributed	100.0 %

## PAMUNKEY REGIONAL LIBRARY

### Notes to Financial Statements

June 30, 2016

The funded status of the Plan as June 30, 2015, the date of the most recent actuarial valuation, was as follows:

<b>Actuarial valuation date</b>	<b>Actuarial value of assets (a)</b>	<b>Actuarial accrued Liability (AAL) – entry age (b)</b>	<b>Unfunded AAL (UAAL) (funding excess) (b-a)</b>	<b>Funded ratio (a/b)</b>
July 1, 2015	\$ 28,000	19,000	(9,000)	147.4 %

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The July 1, 2015 actuarial valuation used the Entry Age Normal actuarial funding method calculated on a closed basis with an amortization period of 22 years as of July 1, 2015. The actuarial assumptions include a 7.0% discount rate of return based on advice from the Trust's investment advisors and annual payroll increase assumption of 2.5%.

#### (10) Lease Commitments

Certain Library premises are leased under various operating leases that expire through 2018. The leased premises include the Atlee Square, Upper King William, and the Montpelier branches. Total rent expense for the year ended June 30, 2016 was \$166,518.



**PAMUNKEY REGIONAL LIBRARY**

Notes to Financial Statements

June 30, 2016

As of June 30, 2016, future minimum lease payments due under operating leases with initial or remaining no cancelable lease terms in excess of one year are as follows:

	<b>Future minimum lease payments</b>
Year ending June 30:	
2017	\$ 156,649
2018	<u>29,800</u>
Total	<u><u>\$ 186,449</u></u>

**REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**PAMUNKEY REGIONAL LIBRARY**

Schedules of Required Supplementary Information (unaudited)  
Budgetary Comparison Schedule – General Fund

Year ended June 30, 2016

	<b>Budgeted amounts</b>			<b>Variance with final positive (negative)</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	
Revenues:				
Fines, penalties and fees	\$ —	\$ —	41,676	41,676
Operating contributions:				
From local governments	3,556,086	3,522,586	3,557,378	34,792
Donated administrative services and facilities	—	—	265,600	265,600
State aid	433,737	433,737	434,246	509
Miscellaneous	159,000	159,000	100,551	(58,449)
Total revenues	<u>4,148,823</u>	<u>4,115,323</u>	<u>4,399,451</u>	<u>284,128</u>
Expenditures:				
Library services:				
Personnel related	2,846,471	2,846,471	2,461,478	384,993
Books, periodicals and other related materials	567,251	567,251	540,239	27,012
Donated administrative services and facilities	—	—	265,600	(265,600)
Utility	171,690	171,690	186,885	(15,195)
Rent	184,714	184,714	166,518	18,196
Miscellaneous	378,697	342,531	357,599	(15,068)
Total expenditures	<u>4,148,823</u>	<u>4,112,657</u>	<u>3,978,319</u>	<u>134,338</u>
Net change in fund balance	—	2,666	421,132	418,466
Fund balance – beginning	—	—	2,450,064	2,450,064
Fund balance – ending	<u>\$ —</u>	<u>\$ 2,666</u>	<u>2,871,196</u>	<u>2,868,530</u>

Budget appropriates and expenditures:

For the year ended June 30, 2016, the Library's revenues exceeded expenditures by \$284,128 and budgeted expenditures as amended exceeded actual expenditures by \$134,338.

The excess of expenditures over budget for 2016 is due to donated services not budgeted of \$265,600 for the year ended June 30, 2016.

See accompanying independent auditors' report.

**PAMUNKEY REGIONAL LIBRARY**

Schedules of Required Supplementary Information (Unaudited)

June 30, 2016

**Virginia Retirement System  
Schedule of Changes in the Net Pension Liability and Related Ratios**

	<b>2016 *</b>	<b>2015 **</b>
Total pension liability:		
Service cost	\$ 133,615	124,981
Interest	271,337	239,812
Differences between expected and actual experience	(56,250)	—
Benefit Payments, including refunds of employee contributions	(120,639)	(101,928)
Other changes	163,969	—
Net change in total pension liability	392,032	262,865
Total pension liability – beginning	3,739,709	3,476,844
Total pension liability – ending (a)	4,131,741	3,739,709
Plan fiduciary net position:		
Contributions – employer	113,256	115,441
Contributions – employee	54,205	49,626
Net investment income	164,581	457,979
Benefit Payments, including refunds of employee contributions	(120,639)	(101,928)
Administrative expense	(2,167)	(2,392)
Other	484,035	24
Net change in plan fiduciary net position	693,271	518,750
Plan fiduciary net position – beginning	3,384,639	2,865,889
Plan fiduciary net position – ending (b)	4,077,910	3,384,639
Net pension liability (asset) ending (a) – (b)	\$ 53,831	355,070
Plan fiduciary net position as a percentage of the total Pension liability	98.70 %	90.51 %
Covered-employee payroll	1,048,018	1,092,211
Net pension liability as a percentage of covered-employee payroll	5.14 %	32.51 %

*Schedule is intended to show information for 10 years. Since 2015 is the first year for presentation, no other data is available. However, additional years will be included as they become available.*

\* The amounts presented have a measurement date of the previous fiscal year end.

\*\* For the fiscal year ended June 30, 2015, the Library VRS Plan was considered a cost-sharing employer in the Hanover County Plan. During the year, the Library's proportionate share of net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense were allocated based on plan contributions, approximately 1.79% for the year ended June 30, 2014.

See accompanying independent auditors' report.

**PAMUNKEY REGIONAL LIBRARY**

Schedules of Required Supplementary Information (Unaudited)

Schedule of Funding Progress

<b>Date</b>	<b>Contractually required contribution (1)</b>	<b>Contributions in relation to contractually required contribution (2)</b>	<b>Contribution Deficiency (Excess) (3)</b>	<b>Employer's covered employee payroll (4)</b>	<b>Contributions as a% of covered employee payroll (5)</b>
2016*	99,771	99,771	—	978,129	10.20 %
2015*	113,256	113,256	—	1,048,018	10.81

\* Schedule is intended to show information for 10 years. Since 2015 is the first year for presentation, no other data is available. However, additional years will be included as they become available.

See accompanying independent auditors' report.

**PAMUNKEY REGIONAL LIBRARY**

Schedules of Required Supplementary Information (Unaudited)

Schedule of Funding Progress

Other postemployment benefits:

<b>Actuarial valuation date</b>	<b>Actuarial value of assets (a)</b>	<b>Actuarial accrued liability (AAL) entry age (b)</b>	<b>Unfunded AAL (UAAL) (funding excess) (b-a)</b>	<b>Funded ratio (a/b)</b>	<b>Covered payroll (c)</b>	<b>UAAL (funding excess) as a percentage of covered payroll ((b-a)/c)</b>
7/1/2015	\$ 28,000	19,000	(9,000)	147.4 %	1,151,212	(0.8)%
7/1/2014	27,000	29,000	2,000	93.1	1,202,845	0.2
7/1/2013	12,000	26,000	14,000	46.2	1,258,532	1.1

See accompanying independent auditors' report.

## **SUPPLEMENTAL INFORMATION**

**PAMUNKEY REGIONAL LIBRARY**

Schedule of Revenues, Expenditures, and Changes in Fund Balance  
of the General Fund

Year ended June 30, 2016

Revenues:

County of Hanover	\$ 2,605,150
County of Goochland	403,100
County of King William	400,000
County of King and Queen	149,128
State Aid grants	434,246
Fines, penalties and fees	41,676
Other revenue	69,778
Donated administrative services and facilities	265,600
Expenditure refund	23,526
Interest income	7,247

Total revenues	<u>4,399,451</u>
----------------	------------------

Expenditures:

Professional staff salaries	564,965
Other staff salaries	1,391,442
Personnel related expense	505,071
Books and periodicals	540,239
Donated administrative services and facilities	265,600
Utilities	133,255
Telephone	53,630
Rent	166,518
Supplies	84,655
Library equipment	63,926
Equipment rental and repair	40,361
Professional fees	119,601
Insurance	13,727
Bookmobile and van expenses	13,365
Continuing education	16,930
Other	5,034

Total expenditures	<u>3,978,319</u>
--------------------	------------------

Revenues over expenditures	421,132
----------------------------	---------

Fund balance, beginning of year	<u>2,450,064</u>
---------------------------------	------------------

Fund balance, end of year	<u><u>\$ 2,871,196</u></u>
---------------------------	----------------------------

See accompanying independent auditors' report.



## **COMPLIANCE SECTION**



KPMG LLP  
Suite 2000  
1021 East Cary Street  
Richmond, VA 23219-4023

**Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

The Board of Trustees  
Pamunkey Regional Library:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commission* (Specifications), issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities and the general fund of the Pamunkey Regional Library (the Library) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements, and have issued our report thereon dated January 17, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Library's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or the Specifications.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Library's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Library's internal control and compliance. According, this communication is not suitable for any other purpose.

KPMG LLP

January 17, 2017