EASTERN SHORE PUBLIC LIBRARY

(A Component Unit of the County of Accomack, Virginia)

FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2016

EASTERN SHORE PUBLIC LIBRARY

BOARD MEMBERS
2015-2016

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- FINANCIAL SECTION -

Independent Auditors' Report

To the Board of Trustees
Eastern Shore Public Library
Accomac, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, and each major fund of Eastern Shore Public Library (a component unit of the County of Accomack, Virginia) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Eastern Shore Public 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 accounting principles generally accepted in the United States of America; 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; 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 Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 entity'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 entity'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, the discretely presented component unit, and each major fund of Eastern Shore Public Library as of June 30, 2016 and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1 to the financial statements, in 2016, the Library adopted new accounting guidance, GASB Statement Nos. 79 Certain External Investment Pools and Pool Participants, and 82 Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and schedules related to pension funding 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. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Eastern Shore Public Library's basic financial statements. The supporting schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Other Information (continued)

The supporting schedules are the responsibility of management and were derived from and relate 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 supporting schedules are 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 February 22, 2017 on our consideration of Eastern Shore Public 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 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 Eastern Shore Public Library's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
February 22, 2017

- Basic Financial Statements -

Government-wide Financial Statements

GOVERNMENTAL FUND BALANCE SHEET/
STATEMENT OF NET POSITION
AT JUNE 30, 2016

	Primary Government			Component Unit
	Governmental Funds	Adjustments (Note 2)	Statement of Net Position	Eastern Shore Public Library Foundation
ASSETS				
Cash and cash equivalents (Note 3)	$ 134,830	$ -	$ 134,830	$ 103,988
Capital assets (Note 5):				
Nondepreciable:				
Land	-	119,099	119,099	-
Construction in progress	-	40,035	40,035	-
Depreciable, net	-	629,968	629,968	-
Net pension asset	-	3,854	3,854	-
Total assets	$ 134,830	$ 792,956	$ 927,786	$ 103,988
DEFERRED OUTFLOWS OF RESOURCES				
Pension contributions subsequent to measurement date	$ -	$ 14,584	$ 14,584	$ -
Total deferred outflows of resources	$ -	$ 14,584	$ 14,584	$ -
LIABILITIES				
Accounts payable	$ 5,541	$ -	$ 5,541	$ -
Accrued payroll and related liabilities	20,131	-	20,131	-
Compensated absences	-	13,540	13,540	-
Total liabilities	$ 25,672	$ 13,540	$ 39,212	$ -
DEFERRED INFLOWS OF RESOURCES				
Items related to measurement of net pension asset	$ -	$ 32,515	$ 32,515	$ -
Total deferred inflows of resources	$ -	$ 32,515	$ 32,515	$ -
FUND BALANCES/NET POSITION				
Fund balances:				
Nonspendable:				
Corpus of Permanent Fund	$ 71,387	$ (71,387)	$ -	$ -
Restricted:				
Library operations	24,232	(24,232)	-	-
Unassigned	13,539	(13,539)	-	-
Total fund balances	$ 109,158	$ (109,158)	$ -	$ -
Total liabilities and fund balances	$ 134,830			
Net position:				
Investment in capital assets		$ 789,102	$ 789,102	$ -
Restricted - nonspendable corpus		71,387	71,387	3,000
Restricted - library operations		24,232	24,232	-
Restricted - library construction		-	-	100,988
Unrestricted		(14,078)	(14,078)	-
Total net position		$ 870,643	$ 870,643	$ 103,988

The accompanying notes to financial statements are an integral part of this statement.

STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES
FOR YEAR ENDED JUNE 30, 2016

	Primary Government			Component Unit
	Governmental Funds	**Adjustments (Note 2)**	**Statement of Activities**	**Eastern Shore Public Library Foundation**
Revenues:				
Fee revenue:				
Fines, fees, and other	$ 34,175	$ -	$ 34,175	$ -
Local governments:				
Accomack County	357,407	-	357,407	-
Northampton County	124,892	-	124,892	-
Intergovernmental:				
Commonwealth of Virginia - state aid	152,873	-	152,873	-
Donations and gifts	22,351	159,134	181,485	84,710
Revenue from use of money and property	270	-	270	-
Miscellaneous	6,973	32,464	39,437	-
Gain (loss) on disposal of capital assets	-	(332,919)	(332,919)	-
Total revenues	$ 698,941	$ (141,321)	$ 557,620	$ 84,710
Expenditures/expenses:				
Current:				
Cultural - library services:				
Salaries	$ 370,021	$ (16,767)	$ 353,254	$ -
Fringe benefits	42,864	14,163	57,027	-
Payroll taxes	27,487	-	27,487	-
Books and related materials	92,030	-	92,030	-
Insurance	8,492	-	8,492	-
Utilities	20,958	-	20,958	-
Supplies	12,196	-	12,196	1,102
Postage	1,807	-	1,807	68
Computer operations	34,186	-	34,186	-
Equipment maintenance	14,411	-	14,411	-
Building maintenance	17,263	-	17,263	-
Travel	2,619	-	2,619	-
Vehicle maintenance	1,593	-	1,593	-
Professional services	9,062	-	9,062	2,525
Contribution to ESPL	-	-	-	154,134
Miscellaneous	18,073	-	18,073	645
Depreciation	-	32,305	32,305	-
Total expenditures/expenses	$ 673,062	$ 29,701	$ 702,763	$ 158,474
Excess (deficiency) of revenues over (under) expenditures/expenses	$ 25,879	$ (171,022)	$ (145,143)	$ (73,764)
Change in fund balances/net position	$ 25,879	$ (171,022)	$ (145,143)	$ (73,764)
Fund balances/net position, beginning of year	83,279	932,507	1,015,786	177,752
Fund balances/net position, end of year	$ 109,158	$ 761,485	$ 870,643	$ 103,988

The accompanying notes to financial statements are an integral part of this statement.

- Basic Financial Statements -

Fund Financial Statements

BALANCE SHEET - GOVERNMENTAL FUNDS
AT JUNE 30, 2016

	Governmental Funds		
	General	Permanent Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	$ 39,211	$ 95,619	$ 134,830
Total assets	$ 39,211	$ 95,619	$ 134,830
LIABILITIES			
Accounts payable	$ 5,541	$ -	$ 5,541
Accrued payroll and related liabilities	20,131	-	20,131
Total liabilities	$ 25,672	$ -	$ 25,672
FUND BALANCES			
Nonspendable:			
Corpus of Permanent Fund	$ -	$ 71,387	$ 71,387
Restricted:			
Library operations	-	24,232	24,232
Unassigned	13,539	-	13,539
Total fund balances	$ 13,539	$ 95,619	$ 109,158
Total liabilities and fund balances	$ 39,211	$ 95,619	$ 134,830

The accompanying notes to financial statements are an integral part of this statement.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR YEAR ENDED JUNE 30, 2016

	Governmental Funds		
	General	Permanent Fund	Total Governmental Funds
Revenues:			
Fee revenue:			
Fines, fees, and other	$ 34,175	$ -	$ 34,175
Participating localities:			
Accomack County	357,407	-	357,407
Northampton County	124,892	-	124,892
Intergovernmental:			
Commonwealth of Virginia - state aid	152,873	-	152,873
Donations and gifts	22,351	-	22,351
Revenue from use of money and property	719	(449)	270
Miscellaneous	6,973	-	6,973
Total revenues	$ 699,390	$ (449)	$ 698,941
Expenditures:			
Current:			
Cultural - library services:			
Salaries	$ 370,021	$ -	$ 370,021
Fringe benefits	42,864	-	42,864
Payroll taxes	27,487	-	27,487
Books and related materials	92,030	-	92,030
Insurance	8,492	-	8,492
Utilities	20,958	-	20,958
Supplies	12,196	-	12,196
Postage	1,807	-	1,807
Computer operations	34,186	-	34,186
Equipment maintenance	14,411	-	14,411
Building maintenance	17,263	-	17,263
Travel	2,619	-	2,619
Vehicle maintenance	1,593	-	1,593
Professional services	9,062	-	9,062
Miscellaneous	18,073	-	18,073
Total expenditures	$ 673,062	$ -	$ 673,062
Net change in fund balances	$ 26,328	$ (449)	$ 25,879
Fund balances at beginning of year	(12,789)	96,068	83,279
Fund balances at end of year	$ 13,539	$ 95,619	$ 109,158

The accompanying notes to financial statements are an integral part of this statement.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Organization and Purpose:

Eastern Shore Public Library (the Library) is a multi-jurisdictional entity created for the purpose of providing reference and reading material to Eastern Shore residents on a loan basis. The Library Board draws its corporate powers from Code section 42.1 1-37 of the Code of Virginia. The Library Board consists of nine members, of which six are appointed by and serve at the pleasure of the County of Accomack Board of Supervisors, and three are appointed by and serve at the pleasure of the County of Northampton Board of Supervisors. The Library is fiscally dependent upon the County of Accomack for its annual contribution. These factors warrant its inclusion in the County of Accomack's reporting entity as a discretely presented component unit.

The Library has developed affiliated relationships with two additional libraries in Chincoteague and Cape Charles. Although not mandated, the Library provides certain materials, equipment, staff training, and staff support for these facilities.

B. Government-wide and Fund Financial Statements:

The government-wide financial statements report information on all non-fiduciary activities of the Library. Separate financial statements are provided for the governmental funds.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation:

The financial statements of the Library have been prepared in conformity with the specifications promulgated by the accounting principles generally accepted in the United States as specified by the Governmental Accounting Standards Board and the Auditor of Public Accounts (APA) of the Commonwealth of Virginia. The more significant of the Library's accounting policies are described below.

Management's Discussion and Analysis - GASB Statement No. 34 requires the financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A). Management has elected to omit this narrative overview in this year's report.

Discretely Presented Component Unit – The component unit column in the financial statements includes the financial data of the Library's discretely presented component unit. The component unit is reported in a separate column to emphasize that it is legally separate from the Library.

Eastern Shore Public Library Foundation (the Foundation) is organized for the purpose of ensuring the long-term financial stability of Eastern Shore Public Library by securing private financial support and grants for capital needs and endowments. The Foundation has a separate board of directors that is not appointed by the Library. The Library is not financially accountable for the Foundation but is entitled to the economic resources received or held by the Foundation and therefore is presented in the financial statements. A copy of the Foundation's financial statements may be obtained by request from the Library.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES: (continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation: (continued)

Government-wide financial statements - The reporting model includes financial statements prepared using full accrual accounting for all of the Library's activities and the Library's discretely presented component unit. This approach includes not just current assets and liabilities but also capital assets and long-term liabilities (such as buildings and general obligation debt).

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.

Statement of Net Position - The Statement of Net Position is designed to display financial position of the Library and the discretely presented component unit. Governments will report all capital assets, in the government-wide Statement of Net Position and will report depreciation expense-the cost of "using up" capital assets-in the Statement of Activities. The net position of a government will be broken down into three categories - 1) net investment in capital assets; 2) restricted; and 3) unrestricted.

Statement of Activities - The government-wide statement of activities reports expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

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 timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The government-wide statement of activities reflects both the gross and net cost per functional category which are otherwise being supported by general government revenues (certain intergovernmental revenues, fines, permits and charges, etc). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions. The program revenues must be directly associated with the function.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Library. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES: (continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation: (continued)

In the fund financial statements, financial transactions and accounts of the Library are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and /or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

1. Governmental Funds:

Governmental Funds are those through which most governmental functions typically are financed. The Library reports the following major governmental funds.

a. General Fund - The General Fund is the primary operating fund of the Library. This fund is used to account for and report all financial transactions and resources except those required to be accounted for and reported in another fund. Revenues are derived primarily from state and local distributions, donations and gifts, and interest income.

b. Permanent Fund - The Permanent Fund accounts for and reports resources that are restricted such that only earnings may be used for purposes that support the Library's programs. The Permanent Fund accounts for operations of the Eastern Shore Library Endowment Fund. Transfers of income are made periodically to support Library operations.

D. Related Organizations:

Friends of the Eastern Shore Public Library: The Friends of the Eastern Shore Public Library is a 501(c)(3) nonprofit organization which consists of persons from the community interested in supporting the Library's services and facilities. The Friends of the Eastern Shore Public Library has its own board of directors, which is not appointed by the Eastern Shore Public Library. The Eastern Shore Public Library is not financially accountable for the Friends of the Eastern Shore Public Library and is not entitled to the economic resources received or held by the Friends of the Eastern Shore Public Library and therefore is not presented in the financial statements. The Friends of the Eastern Shore Public Library has a fiscal year which ended July 31, 2016. For the year ended June 30, 2016, the Friends of the Eastern Shore Public Library donated $1,899 to the Eastern Shore Public Library.

Friends of the Northampton Free Library: The Friends of the Northampton Free Library is a 501(c)(3) nonprofit organization which consists of persons from the community interested in supporting the Library's services and facilities. The Friends of the Northampton Free Library has its own board of directors, which is not appointed by the Eastern Shore Public Library. The Eastern Shore Public Library is not financially accountable for the Friends of the Northampton Free Library and is not entitled to the economic resources received or held by the Friends of the Northampton Free Library and therefore is not presented in the financial statements. The Friends of the Northampton Free Library has a fiscal year which ended December 31, 2015. For the year ended June 30, 2016, the Friends of the Northampton Free Library donated $5,052 directly to the Eastern Shore Public Library.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES: (continued)

E. Capital Assets:

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the Library as assets with an initial, individual cost of at least $500 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The cost of normal maintenance and repairs that does not add to the value of the asset or materially extend the asset's life is not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the Library are depreciated using the straight line method over the following estimated useful lives:

Buildings	40 years
Improvements	7-40 years
Books	5 years
Equipment	5 years
Vehicles	5 years

F. Cash and Cash Equivalents:

Eastern Shore Public Library considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the government.

State statutes authorize the government to invest in U.S. Treasury notes, Federal Home Loan notes, and repurchase agreements.

Money market investments and external investment pools are measured at amortized cost. All other investments are reported at fair value.

G. Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES: (continued)

H. Compensated Absences:

The Library has a policy which allows for the accumulation and vesting of limited amounts of vacation leave until termination or retirement. The Library has outstanding accrued vacation pay and related benefits totaling $13,540 at June 30, 2016. The following is a summary of changes in compensated absences in 2016:

Beginning Balance	Increase	Decrease	Ending Balance
$ 30,307	$ -	$ 16,767	$ 13,540

I. Net Position:

Net position is the difference between a) assets and deferred outflows of resources and b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation less any outstanding debt related to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

J. Net Position Flow Assumption:

Sometimes the Library will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Library's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

K. Fund Balances:

Under GASB Statement No. 54, fund balances are required to be reported according to the following classifications:

Nonspendable fund balance – Includes amounts that cannot be spent because they are either not in spendable form, or, for legal or contractual reasons, must be kept intact. This classification includes corpus of a permanent fund, inventories, prepaid amounts, assets held for sale, and long-term receivables.

Restricted fund balance – Constraints placed on the use of these resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or other governments; or are imposed by law (through constitutional provisions or enabling legislation).

Committed fund balance – Amounts that can only be used for specific purposes because of a formal action (resolution or ordinance) by the government's highest level of decision-making authority.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES: (continued)

K. Fund Balances: (continued)

Assigned fund balance – Amounts that are constrained by the Library's intent to be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body, another body (such as a Finance Committee), or by an official to whom that authority has been given. With the exception of the General Fund, this is the residual fund balance classification for all governmental funds with positive balances.

Unassigned fund balance – This is the residual classification of the General Fund. Only the General Fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification, as the result of overspending for specific purposes for which amounts had been restricted, committed or assigned.

When fund balance resources are available for specific purpose in more than one classification, it is the Library's policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

L. Budgets and Budgetary Accounting:

A budget is prepared for informational and fiscal planning purposes. The budget is adopted as a planning document and legal control on expenses. The budget is prepared on the same basis of accounting as the actual amounts in the financial statements.

M. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Library has one type of deferred item that qualifies for reporting in this category. Pension contributions made subsequent to the measurement date of the net pension liability will be recognized as a reduction to the net pension liability next fiscal year. For more detailed information on this item, reference the pension note.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Library has one type of deferred item that qualifies for reporting in this category. Items related to the measurement of the net pension liability are reported as deferred inflows of resources on the statement of net position. For more detailed information on this item, reference the pension note.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES: (continued)

N. Pensions:

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 Library's Retirement Plan and the additions to/deductions from the Library's Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

O. Upcoming Pronouncement:

Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans, addresses a practice issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

P. Adoption of Accounting Principles:

Governmental Accounting Standards Board Statement No. 79, *Certain External Investment Pools and Pool Participants*

The Town implemented the provisions of the above Statement during the fiscal year ended June 30, 2016. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it 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. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. There was no material impact on the Town's financial statement as a result of the implementation of Statement No. 79. All required disclosures are located in Note 2.

Governmental Accounting Standards Board Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*

The Town early implemented provisions of the above Statement during the fiscal year ended June 30, 2016. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans,* No. 68, *Accounting and Financial Reporting for Pensions,* and 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.* Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. No restatement was required as a result of this implementation.

NOTE 2 - RECONCILIATION OF FINANCIAL STATEMENTS:

A. Reconciliation between Net Position and Fund Balances:

Fund balances of governmental funds		$ 109,158
Total net position 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 funds. Those assets consist of:		
Land and construction in progress	$ 159,134	
Depreciable capital assets, net of accumulated depreciation	629,968	
Total capital assets		789,102
The net pension asset is not an available resource and, therefore, is not reported in the funds.		3,854
Pension contributions made subsequent to the measurement date will be an increase in the net pension asset in the next fiscal year and therefore, are not reported in the funds.		14,584
Items related to the measurement of the net pension asset, such as the difference between projected and actual earnings on plan investments, are reported as deferred inflows of resources on the statement of net position.		(32,515)
Long-term liabilities applicable to the Commission's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Balances of long-term liabilities affecting net position are as follows:		
Compensated absences	$ (13,540)	
Total long-term liabilities		(13,540)
Total net position of governmental activities		$ 870,643

NOTE 2 - RECONCILIATION OF FINANCIAL STATEMENTS: (continued)

B. Reconciliation between the Change in Net Position and the Change in Fund Balances:

Change in fund balances		$ 25,879
Amounts reported for governmental activities are different because:		
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. This is the amount by which new capital assets exceeded depreciation and losses on disposed assets in the current period.		(206,090)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		
Change in deferred inflows related to the measurement of the net pension asset		32,464
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. The following is a summary of items supporting this adjustment:		
Change in compensated absences	$ 16,767	
Change in net pension asset	(12,415)	
Change in deferred outflows related to pension payments subsequent to the measurement date	(1,748)	2,604
Change in net position		$ (145,143)

NOTE 3 - DEPOSITS AND INVESTMENTS:

Deposits:

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act"), Section 2.2-4400 et. seq. of the Code of Virginia. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Investments:

Statutes authorize the Library to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP).

NOTE 4 - DONOR RESTRICTED ENDOWMENT FUND:

The permanent fund represents endowment funds for which the donor has stipulated that the principal should be maintained intact in perpetuity, with only the income being utilized for the purchase of materials for Eastern Shore Public Library.

NOTE 5 - CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2016 was as follows:

	Balance July 1, 2015	Additions	Disposals	Balance June 30, 2016
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 280,000	$ 119,099	$ 280,000	$ 119,099
Construction in progress	52,919	40,035	52,919	40,035
Total capital assets not being depreciated	$ 332,919	$ 159,134	$ 332,919	$ 159,134
Capital assets being depreciated:				
Buildings	$ 1,253,752	$ -	$ -	$ 1,253,752
Equipment	180,597	-	-	180,597
Books and related materials	2,465,368	-	-	2,465,368
Vehicle	14,868	-	-	14,868
Total capital assets being depreciated	$ 3,914,585	$ -	$ -	$ 3,914,585
Accumulated depreciation:				
Buildings	$ 593,504	$ 31,209	$ -	$ 624,713
Equipment	178,574	1,096	-	179,670
Books and related materials	2,465,366	-	-	2,465,366
Vehicle	14,868	-	-	14,868
Total accumulated depreciation	$ 3,252,312	$ 32,305	$ -	$ 3,284,617
Total capital assets being depreciated, net	$ 662,273	$ (32,305)	$ -	$ 629,968
Governmental activities capital assets, net	$ 995,192	$ 126,829	$ 332,919	$ 789,102

NOTE 6 - PENSION PLAN:

Plan Description

All full-time, salaried permanent employees of the Library are automatically covered by VRS Retirement Plan upon employment. This agent multiple-employer plan is administered by the Virginia Retirement System (the System) 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 their employer 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 System 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 in the table below:

RETIREMENT PLAN PROVISIONS		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
About Plan 1 Plan 1 is a defined benefit plan. 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 Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	**About Plan 2** Plan 2 is a defined benefit plan. 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 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.	**About the Hybrid Retirement Plan** The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most 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. (see "Eligible Members") • 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.

NOTE 6 - PENSION PLAN: (continued)

Plan Description (continued)

<table>
<tr><th colspan="3">RETIREMENT PLAN PROVISIONS (CONTINUED)</th></tr>
<tr><th>PLAN 1</th><th>PLAN 2</th><th>HYBRID RETIREMENT PLAN</th></tr>
<tr><td>About Plan 1 (Cont.)</td><td>About Plan 2 (Cont.)</td><td>About the Hybrid Retirement Plan (Cont.)
• 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.</td></tr>
<tr><td>Eligible Members
Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

Hybrid Opt-In Election
VRS non-hazardous duty covered Plan 1 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.

The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</td><td>Eligible Members
Employees are 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.

Hybrid Opt-In Election
Eligible 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.

The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</td><td>Eligible Members
Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:
• Political subdivision employees*
• Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.

*Non-Eligible Members
Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:
• Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.</td></tr>
</table>

NOTE 6 - PENSION PLAN: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	**Hybrid Opt-In Election (Cont.)** Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	***Non-Eligible Members (Cont.)** Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016. 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.	**Retirement Contributions** Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016.	**Retirement 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.

NOTE 6 - PENSION PLAN: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
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.	**Creditable Service** Same as Plan 1.	**Creditable Service** **Defined Benefit Component:** 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. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. **Defined Contributions Component:** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

NOTE 6 - PENSION PLAN: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
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.	**Vesting** Same as Plan 1.	**Vesting** **Defined Benefit Component:** 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 Contributions 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.

NOTE 6 - PENSION PLAN: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Vesting (Cont.)	**Vesting (Cont.)**	**Vesting (Cont.)** **Defined Contributions Component: (Cont.)** 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. • 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.
Calculating the Benefit 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.	**Calculating the Benefit** See definition under Plan 1.	**Calculating the Benefit** **Defined Benefit Component:** See definition under Plan 1.

NOTE 6 - PENSION PLAN: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Calculating the Benefit (Cont.) 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.	**Calculating the Benefit (Cont.)**	**Calculating the Benefit (Cont.)** **Defined Contribution Component:** 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.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier **VRS:** The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. **Sheriffs and regional jail superintendents:** The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. **Political subdivision hazardous duty employees:** The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.	**Service Retirement Multiplier** **VRS:** Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013. **Sheriffs and regional jail superintendents:** Same as Plan 1. **Political subdivision hazardous duty employees:** Same as Plan 1.	**Service Retirement Multiplier** **Defined Benefit Component:** **VRS:** The 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. **Sheriffs and regional jail superintendents:** Not applicable. **Political subdivision hazardous duty employees:** Not applicable. **Defined Contribution Component:** Not applicable.

NOTE 6 - PENSION PLAN: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Normal Retirement Age **VRS:** Age 65. **Political subdivisions hazardous duty employees:** Age 60.	**Normal Retirement Age** **VRS:** Normal Social Security retirement age. **Political subdivisions hazardous duty employees:** Same as Plan 1.	**Normal Retirement Age** **Defined Benefit Component:** **VRS:** Same as Plan 2. **Political subdivisions hazardous duty employees:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility **VRS:** Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. **Political subdivisions hazardous duty employees:** Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	**Earliest Unreduced Retirement Eligibility** **VRS:** Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. **Political subdivisions hazardous duty employees:** Same as Plan 1.	**Earliest Unreduced Retirement Eligibility** **Defined Benefit Component:** **VRS:** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. **Political subdivisions hazardous duty employees:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Reduced Retirement Eligibility **VRS:** Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.	**Earliest Reduced Retirement Eligibility** **VRS:** Age 60 with at least five years (60 months) of creditable service.	**Earliest Reduced Retirement Eligibility** **Defined Benefit Component:** **VRS:** Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.

NOTE 6 - PENSION PLAN: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Earliest Reduced Retirement Eligibility (Cont.) **Political subdivisions hazardous duty employees:** 50 with at least five years of creditable service.	**Earliest Reduced Retirement Eligibility (Cont.)** **Political subdivisions hazardous duty employees:** Same as Plan 1.	**Earliest Reduced Retirement Eligibility (Cont.)** **Political subdivisions hazardous duty employees:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Cost-of-Living Adjustment (COLA) in Retirement 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%. **Eligibility:** 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.	**Cost-of-Living Adjustment (COLA) in Retirement** 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%. **Eligibility:** Same as Plan 1.	**Cost-of-Living Adjustment (COLA) in Retirement** **Defined Benefit Component:** Same as Plan 2. **Defined Contribution Component:** Not applicable. **Eligibility:** Same as Plan 1 and Plan 2.

NOTE 6 - PENSION PLAN: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Cost-of-Living Adjustment (COLA) in Retirement (Cont.) **Exceptions to COLA Effective Dates:** 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.	**Cost-of-Living Adjustment (COLA) in Retirement (Cont.)** **Exceptions to COLA Effective Dates:** Same as Plan 1.	**Cost-of-Living Adjustment (COLA) in Retirement (Cont.)** **Exceptions to COLA Effective Dates:** Same as Plan 1 and Plan 2.

NOTE 6 - PENSION PLAN: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% 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 non-work-related disability benefits.	**Disability Coverage** Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% 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 non-work related disability benefits.	**Disability Coverage** Employees of political subdivisions (including Plan 1 and Plan2 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 non-work-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.	**Purchase of Prior Service** Same as Plan 1.	**Purchase of Prior Service** **Defined Benefit Component:** Same as 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. • 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. **Defined Contribution Component:** Not applicable.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS website at http://www.varetire.org/Pdf/Publications/2015-annual-report.pdf or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

NOTE 6 - PENSION PLAN: (continued)

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:

	Number
Inactive members or their beneficiaries currently receiving benefits	6
Inactive members:	
Vested inactive members	1
Non-vested inactive members	3
Inactive members active elsewhere in VRS	1
Total inactive members	5
Active members	5
Total covered employees	16

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. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5.00% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% 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's contractually required contribution rate for the year ended June 30, 2016 was 7.62% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

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 $14,584 and $16,332 for the years ended June 30, 2016 and June 30, 2015, respectively.

Net Pension Liability/Asset

The Library's net pension liability/asset was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of 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.

NOTE 6 - PENSION PLAN: (continued)

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Library's Retirement Plan was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal actuarial cost 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	2.5%
Salary increases, including inflation	3.5% – 5.35%
Investment rate of return	7.0%, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates: 14% of deaths are assumed to be service related

Largest 10 – Non-LEOS:
Pre-Retirement:
RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females 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

All Others (Non 10 Largest) – Non-LEOS:
Pre-Retirement:
RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females 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

NOTE 6 - PENSION PLAN: (continued)

Actuarial Assumptions – General Employees (continued)

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

Largest 10 – Non-LEOS:
- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – Non-LEOS:
- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

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NOTE 6 - PENSION PLAN: (continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System 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 System 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 estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
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%	0.23%
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%
Total	100.00%		5.83%
		Inflation	2.50%
		*Expected arithmetic nominal return	8.33%

* 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%.

NOTE 6 - PENSION PLAN: (continued)

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 System 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 Library Retirement 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 are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability/Asset

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/Asset (a) - (b)
Balances at June 30, 2014	$ 1,042,536	$ 1,058,805	$ (16,269)
Changes for the year:			
Service cost	$ 21,689	$ -	$ 21,689
Interest	71,393	-	71,393
Differences between expected and actual experience	(6,111)	-	(6,111)
Contributions - employer	-	16,332	(16,332)
Contributions - employee	-	10,716	(10,716)
Net investment income	-	48,185	(48,185)
Benefit payments, including refunds of employee contributions	(45,275)	(45,275)	-
Administrative expenses	-	(668)	668
Other changes	-	(9)	9
Net changes	$ 41,696	$ 29,281	$ 12,415
Balances at June 30, 2015	$ 1,084,232	$ 1,088,086	$ (3,854)

NOTE 6 - PENSION PLAN: (continued)

Sensitivity of the Net Pension Liability/Asset to Changes in the Discount Rate

The following presents the net pension liability of the Library using the discount rate of 7.00%, as well as what the Library's 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:

	Rate		
	(6.00%)	(7.00%)	(8.00%)
Eastern Shore Public Library Net Pension Liability/Asset	$ 110,555	$ (3,854)	$ (100,816)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2016, the Library recognized pension expense of $(3,717). At June 30, 2016, the Library reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 3,996
Net difference between projected and actual earnings on pension plan investments	-	28,519
Employer contributions subsequent to the measurement date	14,584	-
Total	$ 14,584	$ 32,515

$14,584 reported as deferred outflows of resources related to pensions resulting from the Library's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30	
2017	$ (13,306)
2018	(13,072)
2019	(11,190)
2020	5,053

- Required Supplementary Information -

Note to Required Supplementary Information:
Presented budgets were prepared in accordance with accounting principles generally accepted in the United States of America.

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
FOR YEAR ENDED JUNE 30, 2016

	Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Intergovernmental	$ 152,803	$ 152,803	$ 152,873	$ 70
Participating localities	482,299	482,299	482,299	-
Fines, fees, and other	22,337	22,337	34,175	11,838
Donations and gifts	26,500	26,500	22,351	(4,149)
Revenue from use of money and property	1,799	1,799	719	(1,080)
Miscellaneous	6,800	6,800	6,973	173
Total revenues	$ 692,538	$ 692,538	$ 699,390	$ 6,852
Expenditures:				
Current:				
Cultural - library services	$ 685,291	$ 685,291	$ 673,062	$ 12,229
Total expenditures	$ 685,291	$ 685,291	$ 673,062	$ 12,229
Net change in fund balances	$ 7,247	$ 7,247	$ 26,328	$ 19,081
Fund balance at beginning of year	-	-	(12,789)	(12,789)
Fund balance at end of year	$ 7,247	$ 7,247	$ 13,539	$ 6,292

SCHEDULE OF COMPONENTS OF AND CHANGES IN NET PENSION LIABILITY (ASSET) AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2016

	2015	2014
Total pension liability		
Service cost	$ 21,689	$ 21,617
Interest	71,393	68,249
Differences between expected and actual experience	(6,111)	-
Benefit payments, including refunds of employee contributions	(45,275)	(44,624)
Net change in total pension liability	$ 41,696	$ 45,242
Total pension liability - beginning	1,042,536	997,294
Total pension liability - ending (a)	$ 1,084,232	$ 1,042,536
Plan fiduciary net position		
Contributions - employer	$ 16,332	$ 16,807
Contributions - employee	10,716	10,749
Net investment income	48,185	145,762
Benefit payments, including refunds of employee contributions	(45,275)	(44,624)
Administrative expense	(668)	(792)
Other	(9)	7
Net change in plan fiduciary net position	$ 29,281	$ 127,909
Plan fiduciary net position - beginning	1,058,805	930,896
Plan fiduciary net position - ending (b)	$ 1,088,086	$ 1,058,805
Political subdivision's net pension liability (asset) - ending (a) - (b)	$ (3,854)	$ (16,269)
Plan fiduciary net position as a percentage of the total pension liability (asset)	100.36%	101.56%
Covered payroll	$ 214,330	$ 214,972
Political subdivision's net pension liability as a percentage of covered payroll	-1.80%	-7.57%

This schedule is intended to show information for 10 years. Information prior to the 2014 valuation is not available. However, additional years will be included as they become available.

SCHEDULE OF EMPLOYER CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2016

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2016	$ 14,584	$ 14,584	$ -	$ 191,385	7.62%
2015	16,332	16,332	-	214,330	7.62%
2014	16,510	16,510	-	214,972	7.68%
2013	16,045	16,045	-	208,914	7.68%
2012	8,475	8,475	-	224,200	3.78%
2011	8,382	8,382	-	221,741	3.78%
2010	5,262	5,262	-	223,927	2.35%
2009	5,060	5,060	-	215,337	2.35%
2008	1,140	1,140	-	223,464	0.51%
2007	951	951	-	186,431	0.51%

Information prior to 2015 was obtained from the VRS actuarial valuation performed for that year.

In 2015, Covered Employee Payroll (as defined by GASB 68) included the total payroll for employees covered under the pension plan whether that payroll was subject to pension coverage or not. This definition was modified in GASB Statement No. 82, and now Covered Payroll is the payroll on which contributions to a pension plan are based. The ratios presented use the same measure.

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on liabilities as of the measurement date of June 30, 2015 is not material.

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

Largest 10 – Non-LEOS:
- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – Non-LEOS:
- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

- Other Supplementary Information -

Supporting Schedules

SCHEDULE OF REVENUES - BUDGET AND ACTUAL - GENERAL FUND
FOR YEAR ENDED JUNE 30, 2016

	Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Intergovernmental revenue:				
Commonwealth of Virginia - state aid	$ 152,803	$ 152,803	$ 152,873	$ 70
Participating localities:				
Accomack County	$ 357,407	$ 357,407	$ 357,407	$ -
Northampton County	124,892	124,892	124,892	-
Total participating localities	$ 482,299	$ 482,299	$ 482,299	$ -
Fines, fees, and other	$ 22,337	$ 22,337	$ 34,175	$ 11,838
Donations and gifts:				
Other	$ 26,500	$ 26,500	$ 22,351	$ (4,149)
Revenue from use of money and property:				
Interest	$ 1,799	$ 1,799	$ 719	$ (1,080)
Miscellaneous:				
Miscellaneous	$ 6,800	$ 6,800	$ 6,973	$ 173
Totals	$ 692,538	$ 692,538	$ 699,390	$ 6,852

SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL - GENERAL FUND
FOR YEAR ENDED JUNE 30, 2016

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Cultural - library services:				
Salaries	$ 389,542	$ 389,542	$ 370,021	$ 19,521
Fringe benefits	42,522	42,522	42,864	(342)
Payroll taxes	28,000	28,000	27,487	513
Books and related materials	89,551	89,551	92,030	(2,479)
Insurance	12,696	12,696	8,492	4,204
Utilities	24,400	24,400	20,958	3,442
Supplies	-	-	12,196	(12,196)
Postage	-	-	1,807	(1,807)
Computer operations	30,630	30,630	34,186	(3,556)
Equipment maintenance	17,400	17,400	14,411	2,989
Building maintenance	39,000	39,000	17,263	21,737
Travel	2,350	2,350	2,619	(269)
Vehicle maintenance	3,000	3,000	1,593	1,407
Professional services	-	-	9,062	(9,062)
Miscellaneous	6,200	6,200	18,073	(11,873)
Total cultural - library services	$ 685,291	$ 685,291	$ 673,062	$ 12,229

- 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*

To the Board of Trustees
Eastern Shore Public Library
Accomac, Virginia

We have audited, in accordance with the 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*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the discretely presented component unit, and each major fund of Eastern Shore Public Library (a component unit of the County of Accomack, Virginia) as of and for the year ended June, 30, 2016, and the related notes to the financial statements, which collectively comprise Eastern Shore Public Library's basic financial statements and have issued our report thereon dated February 22, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Eastern Shore Public 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 Eastern Shore Public Library's internal control. Accordingly, we do not express an opinion on the effectiveness of Eastern Shore Public 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 a 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 Eastern Shore Public Library's financial statements are free from 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 audit, 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*.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
February 22, 2017