

HOWARD COUNTY LIBRARY SYSTEM

**Financial Statements and Supplementary Information
For the Year Ended June 30, 2025
With Independent Auditor's Report**



MITCHELL TITUS
ACHIEVING EXCELLENCE TOGETHER

HOWARD COUNTY LIBRARY SYSTEM
 Financial Statements and Supplementary Information
 For the Year Ended June 30, 2025

TABLE OF CONTENTS

	<u>Page(s)</u>
INDEPENDENT AUDITOR’S REPORT	1–3
REQUIRED SUPPLEMENTARY INFORMATION – MANAGEMENT’S DISCUSSION AND ANALYSIS	4–14
FINANCIAL STATEMENTS	
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	15
Statement of Activities	16
FUND FINANCIAL STATEMENTS	
Balance Sheet – Governmental Funds	17
Reconciliation of Governmental Funds – Balance Sheet to the Statement of Net Position	18
Statement of Revenue, Expenditures and Changes in Fund Balances – Governmental Funds	19
Reconciliation of the Governmental Funds Statement of Revenue, Expenditures and Changes in Fund Balances to the Statement of Activities	20
Notes to Financial Statements	21–46
REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MANAGEMENT’S DISCUSSION AND ANALYSIS	
Schedule of Revenue, Expenditures and Encumbrances and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)	47
Note to Schedule of Revenue, Expenditures and Encumbrances and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)	48
Schedule of Required Pension-Related Supplementary Information	49
Notes to Required Pension-Related Supplementary Information	50
Schedule of Required OPEB-Related Supplementary Information	51–53
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	54–55



INDEPENDENT AUDITOR'S REPORT

To the Board of Library Trustees
Howard County Library System

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities and general fund of Howard County Library System (HCLS), an allied agency and component unit of Howard County, Maryland, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Howard County Library System's basic financial statements as listed in the index.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities and general fund of HCLS, as of June 30, 2025, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of HCLS and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

HCLS's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

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In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about HCLS's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 HCLS's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about HCLS's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 to 14, budgetary comparison information on pages 47 and 48 the required pension-related information on pages 49 and 50 and the required OPEB-related information on pages 51 to 53 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) 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 GAAS, 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 an assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2025, on our consideration of HCLS'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 solely 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 effectiveness of HCLS's 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 HCLS's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads 'Mitchell Titus, LLP'.

September 30, 2025

MANAGEMENT'S DISCUSSION AND ANALYSIS

**HOWARD COUNTY LIBRARY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS**
For the Year Ended June 30, 2025

Management's discussion and analysis of Howard County Library System's (HCLS) financial performance provides an overall review of HCLS's financial activities for the fiscal year ended June 30, 2025. Readers should also review the financial statements and the notes to enhance their understanding of HCLS's financial performance.

INFORMATION ABOUT THIS REPORT

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand HCLS's operations and funding.

REPORTING HCLS AS A WHOLE – STATEMENT OF NET POSITION (P. 15) AND THE STATEMENT OF ACTIVITIES (P. 16)

The statement of net position reports HCLS's net position and the changes therein. The statement of activities reports HCLS's expenses and revenues. These statements include all assets and liabilities using the accrual basis of accounting, which considers all of the current year's revenue and expenses regardless of when cash is received or paid.

These two statements report HCLS's net position and changes therein. This change in net position is important because it tells the reader that, for HCLS as a whole, the financial position of HCLS has improved or diminished.

In the statement of activities, HCLS reports its FY25 financial activities related to its overall curriculum. Governmental activities are the activities where all components of HCLS's curriculum are reported.

BALANCE SHEET – GOVERNMENTAL FUNDS (P. 17–18) AND STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS (P. 19–20)

The Balance Sheet – Governmental Funds and Statement of Revenue, Expenditures and Changes in Fund Balances – Governmental Funds provide information about HCLS's financial health and ongoing operations, including funding sources and the fund balance remaining for future investment. The governmental fund statements provide a detailed short-term view of HCLS's curriculum.

HCLS's activities are reported in a government fund. This fund is reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statement provides a detailed short-term view of HCLS's general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance HCLS's overall educational program. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is reconciled in the financial statement on pages 18 and 20.

HOWARD COUNTY LIBRARY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*
For the Year Ended June 30, 2025

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2025 are as follows:

Beginning with FY18 HCLS recorded a liability for the present value of future obligations for Other Post-Employment Benefits (OPEB) – health care benefits for retirees – in accordance with Governmental Accounting Standards Board (GASB) Statement No. 75. As of June 30, 2025, the liability of \$9,644,120 on HCLS's statement of net position represents its pro-rata share of the OPEB liability for Howard County government (see Note 11).

In total, net capital assets were \$2,525,425, a net increase of \$57,667, which was a result of new capital asset purchases being greater than depreciation.

Curriculum specific revenues in the form of operating grants and contributions, HCLS generated revenue and investment earnings amounted to \$32,043,067, representing a 6% increase compared to FY24.

HCLS's expenses totaled \$29,077,943, representing a 0.05% increase compared to FY24 caused primarily by an increase in salary expenses and a decrease in curriculum expenses. The net position (deficit) of \$(10,680,044) decreased by \$2,965,124 from June 30, 2024.

**HOWARD COUNTY LIBRARY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**
For the Year Ended June 30, 2025

FINANCIAL HIGHLIGHTS (continued)

Table 1 provides a summary of HCLS's net position as of June 30, 2025, compared to 2024:

**Table 1
Net Position**

	<u>2025</u>	<u>2024</u>
ASSETS		
Cash and investments, including restricted cash and investments	\$ 8,321,249	\$ 6,910,458
Accounts and grants receivable	151,819	108,973
Prepaid expenses	641,030	741,906
Capital assets, net	<u>2,525,425</u>	<u>2,467,758</u>
Total assets	<u>11,639,523</u>	<u>10,229,095</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows from OPEB	<u>3,576,910</u>	<u>4,652,839</u>
Total assets and deferred outflows of resources	<u>\$ 15,216,433</u>	<u>\$ 14,881,934</u>
LIABILITIES		
Compensated absences - noncurrent	\$ 1,348,617	\$ 1,272,876
Accounts payable and accrued expenses - current	2,033,538	1,487,202
OPEB liability - noncurrent	9,644,120	12,161,587
Unearned revenue - current	<u>451,640</u>	<u>423,087</u>
Total liabilities	<u>13,477,915</u>	<u>15,344,752</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows from OPEB	<u>12,418,562</u>	<u>13,182,350</u>
Total liabilities and deferred inflows of resources	<u>\$ 25,896,477</u>	<u>\$ 28,527,102</u>
NET POSITION		
Net investment in capital assets	\$ 2,525,425	\$ 2,467,758
Restricted	268,230	258,620
Unrestricted	<u>(13,473,699)</u>	<u>(16,371,546)</u>
Total net position	<u>\$ (10,680,044)</u>	<u>\$ (13,645,168)</u>

**HOWARD COUNTY LIBRARY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**
For the Year Ended June 30, 2025

FINANCIAL HIGHLIGHTS (continued)

**Table 2
Statements of Activities and Changes in Net Position**

	<u>2025</u>	<u>2024</u>
REVENUE		
<i>Curriculum revenue</i>		
Charges for ancillary services	\$ 779,982	\$ 725,430
Operating grants and contributions	31,172,236	29,489,511
Investment earnings	90,849	101,649
Total revenue	<u>32,043,067</u>	<u>30,316,590</u>
EXPENSES		
<i>Curriculum expenses</i>		
<i>Educational</i>		
Salaries and benefits	23,394,587	23,017,542
Contracts	1,569,187	1,689,907
Curriculum	3,770,064	4,058,064
Professional development	110,952	105,079
Furniture and equipment	233,153	192,932
Total expenses	<u>29,077,943</u>	<u>29,063,524</u>
Increase (decrease) in net position	2,965,124	1,253,066
Net position, beginning	<u>(13,645,168)</u>	<u>(14,898,234)</u>
Net position, end	<u>\$ (10,680,044)</u>	<u>\$ (13,645,168)</u>

OPERATIONAL HIGHLIGHTS

HCLS receives its funding from the following sources: Howard County Government, the Maryland State Department of Education, HCLS-generated revenue, investment earnings, as well as operating grants and gifts. During FY25, the County appropriated \$26,480,000 in operating funds, representing 83% of HCLS's operating budget. The remaining 17% in operating funds was from state per capita formula funding of \$1,259,121, together with \$779,982 in HCLS-generated funds, \$776,331 in grants and gifts, investment earnings of \$90,849 and benefits paid directly by the state of \$2,656,784. Overall, revenue increased by \$1,726,477 (6%) compared to FY24.

**HOWARD COUNTY LIBRARY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**
For the Year Ended June 30, 2025

OPERATIONAL HIGHLIGHTS (continued)

Elkridge Branch Expansion Teen Internship

At HCLS, our commitment to community-led libraries is embedded throughout our new strategic plan, which centers co-creating spaces and resources tailored to the assets and needs of our community members. We are so excited that HCLS is one of only a handful of organizations in the U.S. to receive a national Robert Wood Johnson Foundation Grant to support a groundbreaking compassion-centered co-governance project with teens and staff at the Elkridge branch that began in March 2025.

The Robert Wood Johnson Foundation (the Foundation) is dedicated to creating spaces which prioritize health equity for all members of the community. They convene diverse groups to pave the way to a future where health is no longer a privilege, but a right. They understand, as does HCLS, that to get to an equitably resourced community, we must work to dismantle structural barriers to health. The Foundation does this through funding, convening, advocacy, and evidence-building, working side-by-side with communities, practitioners, and institutions.

What this means for HCLS is that, with the support of \$65,000 in funding from the Foundation, we embarked on an 18-month initiative to co-create a 9,000 sq. ft. teen space within the Elkridge Branch, in the existing 50+ Center space, which will be the first dedicated public facility for teens in the community. This project prioritizes meaningful youth engagement, inviting teens aged 13-19 to shape the space where they feel most comfortable learning and socializing. The space will be designed by and for our teens, moving beyond traditional library models to reflect the aspirations and needs of our young people.

Teen Internship Opportunity!

We're looking for motivated teens in grades 7 - 11 for a year-long commitment to co-design the expansion the Elkridge Branch of Howard County Library System.

- Co-lead all phases of engagement, conceptual design, and design development for the new teen space.
- Collaborate with other teens, library staff, and community members to ensure the space reflects the needs and vision of young adults in Elkridge.
- Gain hands-on experience in design thinking, leadership, and community-driven projects.

- Leadership experience in a real-world design project.
- Build valuable skills in collaboration, communication, and project management.
- Earn Student Service Learning Hours.
- Earn a personalized Recommendation Letter.

Apply now help create a space where YOU and your peers can thrive!

From April 2025-October 2026, the talented Elkridge Teen Instructors, Head of Teen Curriculum, and Elkridge Leadership Team work with Public Services, Support Services and Diversity Equity Inclusion and Belonging staff to create the inaugural Elkridge Youth Leadership Team. Participating students join a cohort of peers to attend workshops on decision-making models, communication skills, belonging, community-building, architectural design, construction, and librarianship. While they build their leadership skills, the young people actively drive the planning process

for the design and implementation of the expanded Elkridge Teen Space.

Rather than relying on just the small teen advisory cohort for ideas, the Youth Leadership Team will host a series of interactive workshops throughout the planning and design process, ensuring broad input from young people across the Elkridge community. The role of HCLS staff is not to direct the teens' process but to listen to, learn from, and lead with the young people to design the space that reflects what our young people identify as their priorities for learning, growth and connection.

**HOWARD COUNTY LIBRARY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**
For the Year Ended June 30, 2025

OPERATIONAL HIGHLIGHTS (continued)

Elkridge Branch Expansion Teen Internship (continued)

This initiative represents a transformative step for HCLS, moving beyond surveys and listening sessions by demonstrating our unwavering commitment to co-governance, equity, and the well-being of young people. We anticipate that it will become a model for our library spaces in Howard County and beyond.

Over 140 teens are actively participating in this initiative. Speaking on their motivation for engaging in the project, one participant shared the following, *“As a person from a low-income family in a comfortable neighborhood, I frequented the library ever since I could remember. The library was a place... to borrow books, connect with friends, and attend club meetings... it's become a second home...”*

Makerspace Feasibility Report

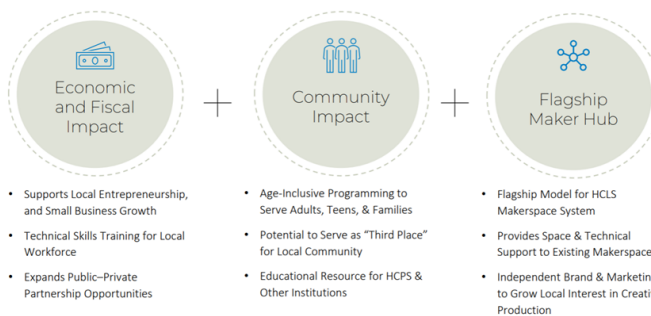
Last fiscal year, HCLS began exploring the potential of creating a new makerspace within its library system. Grant funding from TEDCO (Maryland Technology Development Corporation) enabled HCLS to engage Jon Stover & Associates (JS&A) as part of a phased approach to understand the feasibility of a new makerspace, recommending positioning for the prospective space, and guiding implementation. JS&A concluded their work in May 2025, providing a report reflecting the second and third phases of the process and articulating the pathway for makerspace development.

The study found that HCLS has the unique opportunity to serve the needs of students, entrepreneurs, and the greater community by expanding its facilities to include a Branded Flagship Makerspace within the library system. This addition would fulfill HCLS's strategic initiatives and offer social learning pathways and expanded access to innovation, equipment, and shared resources.

Specifically, the proposed HCLS makerspace will help catalyze entrepreneurship, support existing small businesses, and strengthen technical skills of the local workforce.

The facility is expected to help catalyze the creation of new maker-oriented businesses—providing the equipment, technical support, and collaboration needed for individuals to evolve their hobby into a business. Additionally, Existing maker-oriented businesses will be able to use equipment they may not be able to afford on their own to both develop technical skills to enhance product quality and produce items more efficiently. The report further noted the makerspace as a workforce development tool in providing space for workers to enhance technical skills and noting that companies may also sponsor employees to attend makerspace trainings to gain proficiency with certain equipment or product development.

The proposed HCLS makerspace, if well executed, can serve as a distinct community and economic asset, while serving as the flagship model for the local makerspace system.



**HOWARD COUNTY LIBRARY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**
For the Year Ended June 30, 2025

OPERATIONAL HIGHLIGHTS (continued)

Makerspace Feasibility Report (continued)

HCLS's future Branded Flagship Makerspace will serve as a distinct type of civic asset, providing a space where people can learn, create, and connect with each other. The makerspace will be a Third Place, be flexible to user aspirations and preferences, offer classes and events for adults, teens, families, and businesses, and be an educational resource for Howard County Public Schools, home school families, and Fort Meade.

Central Branch Equity Resource Center and Collection

Over the spring, HCLS's Central Branch Equity Resource Center and Collection (ERCC) received a refresh that brought renewed energy to the space and its offerings. The ERCC now boasts a new layout, furniture, signage, and sound-dampening wall panels—creating an inviting environment for events, conversations, and community connection.

The ERCC hosted *Mary Cardwell Dawson: Building the Stage*, a traveling exhibit from the Denyce Graves Foundation's *Hidden Voices* series. Mary Cardwell Dawson (1894–1962) was a pioneering opera singer, music educator, and founder of the National Negro Opera Company. At a time when systemic racism excluded Black artists from mainstream stages, Dawson carved space for their excellence. She trained musicians, founded ensembles, and staged full operas—European and African American alike—all while advocating for equity in the arts. Her efforts culminated in her company becoming the first African American group to present an opera by a Black composer at the Metropolitan Opera. Dawson's legacy is a reminder that access to artistic expression is central to justice.

In addition to launching Required Reading: Texts for Change, a new quarterly virtual book club, the ERCC debuted The Gathering, a monthly evening salon series inspired by 1920s Harlem and 1860s Paris. This series welcomes community members and those working toward equity in big and small ways to connect and recharge through joy, creativity, and conversation. Each session centers a theme co-hosted by local community members—think poetry, live music, storytelling, and more. No two nights are the same, and at a time when community building feels paramount, each is an invitation to come together for purpose, community, and delight.

Throughout the year, the ERCC continues to offer author talks, film discussions, trainings, and workshops—at the Center and throughout the county.

East Columbia Branch Revitalization

HCLS undertook a revitalization of the East Columbia branch, which opened in June 2025. The East Columbia branch already meets a wide variety of needs in our region, including creating safe and engaging spaces for young people after school hours, serving as the second busiest passport center on the East Coast, and being a trusted source for information, access to resources, and community building.

HOWARD COUNTY LIBRARY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*
For the Year Ended June 30, 2025

OPERATIONAL HIGHLIGHTS *(continued)*

East Columbia Branch Revitalization *(continued)*

With the generous support of County Executive Dr. Calvin Ball, the East Columbia branch expanded into the space that previously served as the East Columbia 50+ Center, allowing for a reimagining of all the library's spaces. The expansion includes:

- Transforming the repurposed 50+ Center into a dedicated Teen space after school hours, creating a sense of shared ownership with the young people who find belonging at the East Columbia branch. With locations for crafts, tutoring and test preparation, board and video gaming, HiTech STEAM education, community-building activities, and food distribution, the expanded Teen space affords our youth multiple structured opportunities for connection, learning, and fun.
- Consolidating all passport processes in a single location, allowing community members to seamlessly complete the passport application process in a timely manner. The new location of the Passport Center clearly delineates the differentiated resources offered by East Columbia as both a library branch and passport center, allowing community members access to all areas of the branch, even during peak passport processing hours. The addition of an individualized pager system for each customer opens opportunities for individuals and families to engage with library resources, such as the adjacent Children's collection, while awaiting their passport appointment.
- Initiating a brand-new Makerspace, joining HCLS's branches at Glenwood, Elkridge, and Savage in offering hands-on learning activities for all community members, young and old alike. The East Columbia Makerspace will be stocked with a Glowforge laser engraver, Cricut machines, sewing machines, and large format poster printer for educational and entrepreneurial use.
- Opening The Haven, a café-like space in the center of the library, for reading, work, and individual creative activities, such as board games and puzzles. With floor to ceiling windows, The Haven will be a beautiful, bright, and enclosed room within the branch where community members can find a quiet and restful spot to make their own.
- Generating additional meeting rooms and study rooms that are available for community members to reserve and creating a dedicated Children's classroom to provide more opportunities for programming and play for our youngest community members.

HCLS and the East Columbia staff members anticipate the branch's revitalization with great enthusiasm and look forward to welcoming everyone to the library to engage in the exciting new spaces. The East Columbia expansion is an exemplar of HCLS's commitment to being our community's place to learn, grow and connect!

**HOWARD COUNTY LIBRARY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**
For the Year Ended June 30, 2025

BUDGETING HIGHLIGHT

The annual budget process starts anew each September and is outlined in the *Howard County Library System Board of Trustees Policies* (“*Board Policies*”).

At the September HCLS Board meeting, the President & CEO presents to the Board initial forthcoming budget projections as well as a five-year curriculum focus. The Board discusses at that time any adjustments to the projections. The Board reviews the budget proposal in November and approves it in January, at which time the final proposed budget is submitted to the County Executive. Adjustments to the County Executive’s requests are made between February and April when the County Executive forwards his final budget to the County Council.

The County Council approves the budget in May. Completing the budget process, the HCLS Board of Trustees approves the County Council's approved budget at its June meeting. Incorporating input from HCLS's Leadership Team, the President & CEO and the COOs, the HCLS team prepares the budget based on balancing anticipated revenues from County, State and HCLS sources with projected expenses related to all three pillars of HCLS’s educational mission (see next page). Budget areas include Instruction, Customer Service, Curriculum, Contracts, and Equipment.

HCLS may expend funds from one fiscal year into the next under the following conditions: On or before December 31, previous fiscal year funds not expended are divided into open commitments or transferred to a liability account.

During the course of FY25, HCLS amended its budget as provided for in Board Policies. Grant funds were added as they were awarded during the year, and funds were transferred to the Curriculum category.

CAPITAL ASSETS

At the end of FY25, HCLS’s net capital assets totaled \$2,525,425 invested in books, furniture, and equipment.

Table 3 shows FY25 balances compared to FY24:

**Table 3
FY25 and FY24 Balance Comparison**

	<u>2025</u>	<u>2024</u>
Furniture and equipment	\$ 604,415	\$ 687,068
Curriculum	1,921,010	1,780,690
Total capital assets, net of accumulated depreciation of \$3,515,736 and \$3,078,334 respectively	<u>\$ 2,525,425</u>	<u>\$ 2,467,758</u>

HOWARD COUNTY LIBRARY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*
 For the Year Ended June 30, 2025

CAPITAL ASSETS *(continued)*

Overall, capital assets increased by \$57,667 from FY24 to FY25. New purchases of capital assets exceeded depreciation expenses for the year. In addition, HCLS continues to increase its purchases of electronic format curriculum, which are not considered capital assets and are expensed in the current year.

LONG-TERM OBLIGATIONS

HCLS long-term obligations consist only of accrued compensated absences and other post-employment benefits liabilities. During 2018, HCLS implemented GASB No. 75, which requires HCLS to record the entire balance of underfunded post-employment benefits as a liability.

	<u>2025</u>	<u>2024</u>
Compensated absences	\$ 1,348,617	\$ 1,272,876
Net OPEB obligation	<u>9,644,120</u>	<u>12,161,587</u>
Total long-term debt	<u>\$ 10,992,737</u>	<u>\$ 13,434,463</u>

HCLS's net OPEB obligation decreased by \$2,517,467, which related to the changes in interest rates and other actuarial assumptions and expectations used.

HCLS's CURRICULUM

The community's place to learn, grow and connect, HCLS delivers high-quality public education to create an empowered community where all people reach their potential. Our curriculum is developed using a community-led approach grounded in asset-based community development with an equity focus, and spans three priority areas:

- **Early Learning** – Every child enters school ready to learn. Libraries, a child's first public learning space, are essential to success in school.
- **Engage and Empower** – Teens feel a sense of agency and belonging. We believe everyone has gifts to offer and people should have the power to shape what impacts them.
- **Celebrate and Connect** – All people feel welcome and empowered in HCLS spaces and represented in HCLS resources. We believe we are better together.

HCLS continues to enjoy widespread community support as an award-winning educational institution where all people thrive. With curriculum demands outpacing increases in funding for additional staff and resources, HCLS continues to explore ways to reimagine operations and efficiently deliver on its strategic priorities. Examples include Battle of the Books, Project Literacy, Spelling Bee, and the Bauder Book Talk.

**HOWARD COUNTY LIBRARY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**
For the Year Ended June 30, 2025

HCLS's CURRICULUM (continued)



Battle of the Books again set a record with over 350 teams participating, with representation from all Howard County Public School System schools, and several private schools and home school associations. Over 230 community members volunteered for this 5th Grade rite of passage held at Merriweather Post Pavilion.

We take pride in the fact that HCLS is a statewide leader in teaching high quality, adult basic education

through our Project Literacy initiative. This critical component of our curriculum breaks language barriers and provides success in the job market. Project Literacy has touched the lives of more than 12,500 students since it began in 1987. Students have received their external high school diploma, achieved U.S. citizenship, improved their English skills, and worked on skills to enter the workforce.



In FY25, we celebrated and acknowledged the remarkable achievements of students who overcame barriers to attain U.S. Citizenship, and students who earned an External High School Diploma through HCLS' Project Literacy.

In February, 550 community members joined HCLS in celebrating 85 years of exemplary public education at the sold-out Evening in the Stacks: 85th Birthday Bash fundraiser. This year's event, sponsored by the Friends and Foundation of Howard County Library System, raised over \$110,000 to support early learning initiatives at HCLS.

CONTACTING HCLS's FINANCIAL MANAGEMENT

If you have questions about this report or need additional financial information, please contact:

Tonya Aikens
President & CEO
Howard County Library System
9411 Frederick Road
Ellicott City, Maryland 21043
(410) 313-7772
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BASIC FINANCIAL STATEMENTS

HOWARD COUNTY LIBRARY SYSTEM

Statement of Net Position

As of June 30, 2025

ASSETS

Cash and cash equivalents	\$ 6,181,872
Investments	1,871,147
Restricted cash	60,939
Restricted investments	207,291
Grants receivable	151,819
Prepaid expenses	641,030
Capital assets, net of accumulated depreciation of \$3,515,736	<u>2,525,425</u>
Total assets	11,639,523

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows from OPEB	<u>3,576,910</u>
Total assets and deferred outflows of resources	<u>\$ 15,216,433</u>

LIABILITIES

Accounts payable	\$ 359,699
Accrued expenses	873,708
Accrued wages and benefits payable	800,131
Unearned revenue	451,640

NON-CURRENT LIABILITIES

Due in more than one year

Compensated absences	1,348,617
OPEB liability	<u>9,644,120</u>
Total liabilities	13,477,915

DEFERRED INFLOWS OF RESOURCES

Deferred inflows from OPEB	<u>12,418,562</u>
Total liabilities and deferred inflows of resources	<u>25,896,477</u>

NET POSITION

Net investment in capital assets	2,525,425
Restricted for deferred support	268,230
Unrestricted	<u>(13,473,699)</u>
Total net position	<u>(10,680,044)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 15,216,433</u>

The accompanying notes are an integral part of these financial statements.

HOWARD COUNTY LIBRARY SYSTEM
Statement of Activities
For the Year Ended June 30, 2025

	Expenses	Program Revenue		Net Revenue and Changes in Net Position
		Charges for Sales and Services	Operating Grants and Contributions	Total Governmental Activities
FUNCTIONS/PROGRAMS				
HCLS Curriculum Education	\$ 29,077,943	\$ 779,982	\$ 31,172,236	\$ 2,874,275
	<u>\$ 29,077,943</u>	<u>\$ 779,982</u>	<u>\$ 31,172,236</u>	2,874,275
GENERAL REVENUE				
Investment earnings				<u>90,849</u>
Change in net position				2,965,124
Net position, beginning				<u>(13,645,168)</u>
Net position, end				<u>\$ (10,680,044)</u>

The accompanying notes are an integral part of these financial statements.

HOWARD COUNTY LIBRARY SYSTEM
 Balance Sheet
 Governmental Funds
 For the Year Ended June 30, 2025

	General Fund
	<u> </u>
ASSETS	
Cash and cash equivalents	\$ 6,181,872
Investments	1,871,147
Restricted cash	60,939
Restricted investments	207,291
Grants receivable	151,819
Prepaid expenses	641,030
	<u> </u>
Total assets	<u><u>\$ 9,114,098</u></u>
LIABILITIES AND FUND BALANCES	
<i>Liabilities</i>	
Accounts payable and accrued expenses	\$ 2,033,538
Unearned revenue	451,640
	<u> </u>
Total liabilities	<u>2,485,178</u>
<i>Fund balances</i>	
Nonspendable	641,030
Restricted	268,230
Committed	-
Assigned	1,569,301
Unassigned	4,150,359
	<u> </u>
Total fund balances	<u>6,628,920</u>
	<u> </u>
Total liabilities and fund balances	<u><u>\$ 9,114,098</u></u>

The accompanying notes are an integral part of these financial statements.

HOWARD COUNTY LIBRARY SYSTEM
 Reconciliation of Governmental Funds
 Balance Sheet to the Statement of Net Position
 For the Year Ended June 30, 2025

Total fund balances - governmental funds	\$ 6,628,920
<i>Amounts reported for governmental activities in the statement of net position are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	2,525,425
Long-term OPEB liabilities are not due and payable in the current period and deferred outflows and inflows of resources related to OPEBs are applicable to future periods and, therefore, neither are reported in the funds.	(18,485,772)
Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds	<u>(1,348,617)</u>
Total net position - governmental activities	<u>\$ (10,680,044)</u>

The accompanying notes are an integral part of these financial statements.

HOWARD COUNTY LIBRARY SYSTEM
Statement of Revenue, Expenditures and Changes
in Fund Balances – Governmental Funds
For the Year Ended June 30, 2025

	General Fund
	<hr/>
REVENUE	
Howard County appropriation	\$ 26,480,000
Maryland State Department of Education appropriation	1,259,121
Federal, state and private grants, and gifts	776,331
Other HCLS-generated sales and fees	779,982
Investment earnings	90,849
Fringe benefits paid directly by State of Maryland	2,656,784
	<hr/>
Total revenue	32,043,067
	<hr/>
EXPENDITURES	
Salaries, wages and fringe benefits (including \$2,656,784 for fringe benefits paid directly by State of Maryland)	25,524,172
Contracts	1,569,187
Curriculum	3,788,759
Professional development	110,952
Furniture and equipment	272,125
	<hr/>
Total expenditures	31,265,195
	<hr/>
Excess of revenue over expenditures	777,872
	<hr/>
Fund balances, at June 30, 2024	5,851,048
	<hr/>
Fund balances, at June 30, 2025	\$ 6,628,920
	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

HOWARD COUNTY LIBRARY SYSTEM

Reconciliation of the Governmental Funds Statement of
Revenue, Expenditures and Changes in Fund Balances
to the Statement of Activities
For the Year Ended June 30, 2025

Net change in fund balances - governmental funds \$ 777,872

*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. This is the amount by which capital outlays exceeded
depreciation in the current period. 57,667

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. 2,129,585

Change in net position of governmental activities \$ 2,965,124

The accompanying notes are an integral part of these financial statements.

HOWARD COUNTY LIBRARY SYSTEM

Notes to Financial Statements
For the Year Ended June 30, 2025

NOTE 1 ORGANIZATION

Reporting Entity

Howard County Library System (HCLS or the Library) was established in 1940 as a state and local government allied agency by state legislation. HCLS is governed by a seven-member Board of Trustees. New trustees are nominated by the HCLS Board of Trustees, appointed by the Howard County Executive, and confirmed by the Howard County Council. Its purpose is to deliver high quality public education to the entire Howard County community. HCLS is an allied agency and component unit of the Howard County Government. Its financial statements are included in Howard County's (the County) annual comprehensive financial report because of the significance of its financial relationship with the County in that the County approves budgetary requests and provides a significant amount of funding.

Government-Wide and Fund 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 of HCLS. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately on the government-wide financial statements. Business-type activities, which rely to a significant extent on fees and charges for support, would be reported separately from the government activities, but HCLS does not have any business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Investment earnings and other items not properly included among program revenue are reported instead as general revenue.

Separate financial statements are provided for the governmental funds.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

HOWARD COUNTY LIBRARY SYSTEM
Notes to Financial Statements
For the Year Ended June 30, 2025

NOTE 1 ORGANIZATION *(continued)*

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as measurable and available. Revenue is considered to be available when collectible within the current period or soon enough thereafter to pay liabilities of the current period. 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, pensions, other post-employment benefit obligations, and claims and judgments, are recorded only when payment is due.

The General Fund is HCLS's only fund. It accounts for all financial resources of HCLS.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Net Position and Fund Balances

The difference between fund assets and liabilities is "net position" on the government-wide and "fund balance" on governmental fund statements. Net position is classified as "net investment in capital assets," legally "restricted" for a specific purpose or "unrestricted" and available for appropriation for general purposes.

HCLS reports its fund balances in classifications that comprise a hierarchy based primarily on the extent to which the HCLS is bound to honor constraints on the specific purpose for which amounts in the fund balance category can be spent. Descriptions of these classifications are included in Note 8.

Unearned Revenue

Unearned revenue includes bequests restricted to purchase certain curriculum materials. These donations of \$207,291 are invested in the Maryland Local Government Investment Pool (MLGIP) as a gift account. The bequests are recorded as unearned revenue until the specified expenses are incurred, at which time revenue will be recognized. Also included is an unexpended individual donation that is restricted to the purchase of curriculum materials in the amount of \$60,939, which is invested in a money market fund. Both account restrictions are imposed by the individual donors who provided the money.

Unearned revenue also includes funds received from donors for which the corresponding expenses have not been incurred. The gifts are recorded as unearned revenue until the specified expenses are incurred, at which time the revenue will be recognized. The amount of unearned revenue from gifts at June 30, 2025, was \$183,410.

HOWARD COUNTY LIBRARY SYSTEM

Notes to Financial Statements

For the Year Ended June 30, 2025

NOTE 2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

Pooled Cash and Investments

HCLS follows Governmental Accounting Standards Board (GASB) Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*," which requires marketable securities to be carried at fair value.

HCLS also follows GASB Statement 79, *Certain External Investment Pools and Pool Participants*, which requires disclosure of specific criteria regarding external investment pools. HCLS has an Investment Pool account with the MLGIP.

MLGIP was created under Maryland State Law and is regulated by the Maryland State Treasurer's Office. The MLGIP may invest in any instrument in which the State Treasurer may invest. Permissible instruments are established by Sections 6-222 and 6-223 of the State Finance and Procurement Article. No direct investment may have a maturity date of more than 13 months after its acquisition. Securities of the MLGIP are valued daily on an amortized cost basis, which approximates market value, and are held to maturity under normal circumstances.

The fair value of the position in the MLGIP is the same as the value of the MLGIP net assets (shares). The MLGIP is a Rule 2a-7 like external investment pool, which issues a publicly available financial report that includes financial statements and required supplemental information for the MLGIP. This report can be obtained in writing: Maryland Local Government Investment Pool; c/o PNC Institutional Investments Group; One East Pratt Street; Baltimore, Maryland 21202; by calling 1-800-492-5160; or the website, www.mlgip.com.

HCLS has an independent third party as a custodian for investment securities, with securities held in HCLS's name. In order to mitigate risk, HCLS continually monitors the financial condition of the third-party custodian.

U.S. Treasury Bills of HCLS are recorded at fair value, whereas MLGIP investments are recorded at amortized cost, which approximates fair value.

Capital Assets

Capital assets, which include equipment and books, are reported in the government-wide financial statements. Capital assets are defined by HCLS as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost. Donated capital assets are recorded at their estimated acquisition value at the date of the donation.

HOWARD COUNTY LIBRARY SYSTEM
 Notes to Financial Statements
 For the Year Ended June 30, 2025

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Capital Assets *(continued)*

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Equipment and books are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Office equipment	3 - 5
Computer equipment	3 - 5
Books	3 - 5

Compensated Absences

It is HCLS’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since HCLS does not have a policy to pay any amounts when employees separate from service. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Cash and Cash Equivalents

HCLS considers all highly liquid investments that are readily convertible to known amounts of cash or are so near maturity that they present insignificant risk of changes in value because of changes in interest rates. The Library maintains money market accounts that it considers cash equivalents under this definition.

Deferred Inflows and Outflows of Resources

A deferred outflow of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources ("expenditure") until the future period. The Library recognizes deferred outflows for changes of assumptions, net difference between projected and actual earnings on OPEB plan investments and differences between expected and actual experience, changes in proportion and contributions made subsequent to the measurement date related to OPEB.

HOWARD COUNTY LIBRARY SYSTEM
Notes to Financial Statements
For the Year Ended June 30, 2025

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Deferred Inflows and Outflows of Resources *(continued)*

A deferred inflow of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources ("revenue") until the future period. The Library recognizes deferred inflows for the net difference between projected and actual investment earnings on OPEB plan investments, changes of assumptions, differences between expected and actual experience and changes in proportion, related to OPEB.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund. Encumbrances outstanding at year end are reported as assignment of fund balances since they do not constitute expenditures or liabilities; see Note 8 for further details. Encumbrances lapse at the end of the fiscal year.

New Accounting Standards

In June 2022, the GASB issued GASB Statement No. 101, *Compensated Absences* (GASB 101), which updates the recognition and measurement guidance for compensated absences by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. HCLS adopted GASB 101, effective July 1, 2024, and it did not have a significant impact on the financial statements. Compensated absences are a reconciling item between the Fund and the Government-Wide financial statement presentations.

In December 2023, the GASB issued GASB Statement No. 102, *Certain Risk Disclosures* (GASB 102), to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. HCLS adopted GASB 102, effective July 1, 2024, and it did not have a significant impact on the financial statements.

NOTE 3 FAIR VALUE MEASUREMENTS

Fair Value

HCLS has adopted GASB Statement No. 72, *Fair Value Measurement and Application*. This statement establishes a hierarchy of inputs to valuation techniques used to measure fair value:

HOWARD COUNTY LIBRARY SYSTEM
 Notes to Financial Statements
 For the Year Ended June 30, 2025

NOTE 3 FAIR VALUE MEASUREMENTS (continued)

Level 1: Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;

Level 2: Valuations based on quoted prices for similar assets or liabilities in active markets or identical assets or liabilities in less active markets, such as dealer or broker markets; and

Level 3: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models, and similar techniques not based on market, exchange, dealer, or broker-traded transactions.

HCLS has the following investments and maturities as of June 30, 2025:

Investment Type	Investment Maturities (Years)			
	Fair Value/ Amortized Cost	Less than 1	1-5	5+
<i>Pooled investments</i>				
MLGIP - Mutual funds	\$ 940,235	\$ 940,235	\$ -	\$ -
<i>Non-pooled investments</i>				
Money market funds	1,138,203	1,138,203	-	-
Total investments	\$ 2,078,438	\$ 2,078,438	\$ -	\$ -

HCLS has investments in securities that are measured at fair value and amortized cost on a recurring basis in the financial statements. The Authority uses a three-level hierarchy for determining fair value and a financial asset or liability classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. The fair value of the Treasury Bills was determined using Level 1 inputs (quoted market prices in active markets) as of June 30, 2025. MLGIP investments are recorded at amortized cost, which approximates fair value. The fund's investments have a weighted-average maturity of no more than 60 days. The following table presents the financial assets that HCLS measured at amortized cost and fair value:

Investments by fair value level	Fair Value/ Amortized Costs	Level 1	Level 2	Level 3
	Money market funds	\$ 1,138,203	\$ 1,138,203	\$ -
<i>Investments carried at amortized cost</i>				
MLGIP - Mutual funds	940,235	940,235	-	-
Total investments	\$ 2,078,438	\$ 2,078,438	\$ -	\$ -

HOWARD COUNTY LIBRARY SYSTEM
 Notes to Financial Statements
 For the Year Ended June 30, 2025

NOTE 4 CASH AND CASH EQUIVALENTS AND INVESTMENTS

The carrying amount of total deposits and investments was \$8,321,249 and the bank balance was \$9,450,727 at June 30, 2025. Custodial credit risk is the risk that, in the event of a bank or counterparty failure, the government's deposits or investments may not be returned to it. As of June 30, 2025, HCLS's bank balance was not exposed to any custodial risk since all deposits were either covered by the Federal Deposit Insurance Corporation (FDIC), the Securities Investor Protection Corporation (SIPC) or fully collateralized with the collateral held by a third party in HCLS's name.

The Annotated Code of Maryland authorizes HCLS to invest in:

- a) insured, interest-bearing accounts in financial institutions;
- b) any obligation for which the United States has pledged its faith and credit for the payment of the principal and interest;
- c) any obligation that a federal agency issues in accordance with an act of Congress;
- d) a repurchase agreement that any of these obligations secure; or
- e) the MLGIP.

	<u>Bank Balance</u>	<u>Carrying Amount</u>
<i>Deposits</i>		
Insured - Federal Deposit Insurance Corporation	\$ 260,967	\$ 246,424
Uninsured - collateral held by bank in HCLS's name	7,111,322	5,988,836
Petty cash	-	7,551
Total deposits	<u>7,372,289</u>	<u>6,242,811</u>
<i>Investments</i>		
Maryland Local Government Investment Pool	732,944	732,944
M&T - Money market funds	1,138,203	1,138,203
Maryland Local Government Investment Pool - Gift Fund	<u>207,291</u>	<u>207,291</u>
Total investments	<u>2,078,438</u>	<u>2,078,438</u>
Total cash and investments	<u>\$ 9,450,727</u>	<u>\$ 8,321,249</u>

HOWARD COUNTY LIBRARY SYSTEM
 Notes to Financial Statements
 For the Year Ended June 30, 2025

NOTE 4 CASH AND CASH EQUIVALENTS AND INVESTMENTS (continued)

Credit Risk - The MLGIP is duly chartered, administered and subject to regulatory oversight by the State of Maryland. This pool is managed in a "Rule 2(2)-7 like" manner and has a Standard & Poor's rating of 'AAA'.

Interest Rate Risk - HCLS limits its interest rate risk by investing primarily in securities with maturity dates under one year.

NOTE 5 RECONCILIATION OF BASIC AND FUND FINANCIAL STATEMENTS

Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Basic Statement of Net Position

The governmental fund balance sheet includes a reconciliation between fund balance - total governmental funds and net position - governmental activities as reported in the basic statement of net position. One element of that reconciliation explains that "capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds." The details of this difference are as follows:

Capital assets, net of accumulated depreciation of \$3,515,736	\$ 2,525,425
	<hr/>
Net adjustment to increase fund balance - total governmental funds to arrive at net position - governmental activities	\$ 2,525,425
	<hr/>

Another element of that reconciliation explains that "the net OPEB obligations relates to funding for future retiree health benefit payments, which are not considered current." The details of this difference are as follows:

<i>OPEB obligations not considered current</i>	
OPEB liability	\$ (9,644,120)
OPEB related deferred outflow of resources	3,576,910
OPEB related deferred inflow of resources	<hr/> (12,418,562)
Net adjustment to reduce fund balance - total governmental funds to arrive at net position - governmental activities	\$ (18,485,772)
	<hr/>

HOWARD COUNTY LIBRARY SYSTEM
 Notes to Financial Statements
 For the Year Ended June 30, 2025

NOTE 5 RECONCILIATION OF BASIC AND FUND FINANCIAL STATEMENTS
(continued)

Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Basic Statement of Net Position *(continued)*

Another element of that reconciliation explains that "long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds." The details of this difference are as follows:

Compensated absences	\$ (1,348,617)
Net adjustment to reduce fund balance - total governmental funds to arrive at net position - governmental activities	\$ (1,348,617)

Explanation of Certain Differences Between the Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balances and the Basic Statement of Activities

The governmental fund statement of revenue, expenditures and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the basic statement of activities. One element of that reconciliation explains that "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. The details of this difference are as follows:

Capital outlay, including books	\$ 1,110,928
Accumulated depreciation adjustment	38,972
Depreciation expense	<u>(1,092,233)</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	\$ 57,667

Another element of that reconciliation states that "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 details of this difference are as follows:

Compensated absences	\$ (75,741)
OPEB obligation	<u>2,205,326</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	\$ 2,129,585

HOWARD COUNTY LIBRARY SYSTEM
Notes to Financial Statements
For the Year Ended June 30, 2025

NOTE 6 LONG-TERM OBLIGATIONS

The following is an analysis of the changes in the long-term obligations of the Library:

	<u>Balance July 1, 2024</u>	<u>Net Change</u>	<u>Balance June 30, 2025</u>
Net OPEB obligation	\$ 12,161,587	\$ (2,517,467)	\$ 9,644,120
Compensated absences	1,272,876	75,741	1,348,617
Total	\$ 13,434,463	\$ (2,441,726)	\$ 10,992,737

Compensated Absences

All eligible employees are granted vacation benefits in varying amounts to specified maximums depending on the years of service with the Library. Sick leave accrues for full-time, permanent employees and salaried, part-time employees until termination or retirement. Generally, after one year of service, employees are entitled to accrued vacation leave upon termination.

NOTE 7 CAPITAL ASSETS

Primary Governmental Activities

Capital asset activities for the fiscal year ended June 30, 2025, were as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
GOVERNMENTAL ACTIVITIES				
<i>Capital assets, being depreciated</i>				
Furniture and equipment	\$ 2,351,888	\$ 105,066	\$ -	\$ 2,456,954
Books	3,194,204	1,005,862	(615,859)	3,584,207
Total capital assets being depreciated	5,546,092	1,110,928	(615,859)	6,041,161
<i>Less: Accumulated depreciation for</i>				
Furniture and equipment	1,664,820	226,691	(38,972)	1,852,539
Books	1,413,514	865,542	(615,859)	1,663,197
Total accumulated depreciation	3,078,334	1,092,233	(654,831)	3,515,736
Total capital assets being depreciated, net	2,467,758	18,695	38,972	2,525,425
Governmental activities capital assets, net	\$ 2,467,758	\$ 18,695	38,972	\$ 2,525,425

Depreciation expense of \$1,092,233 was charged to HCLS's function of Curriculum Education on the statement of activities.

HOWARD COUNTY LIBRARY SYSTEM

Notes to Financial Statements
For the Year Ended June 30, 2025

NOTE 8 FUND BALANCES

In accordance with governmental accounting standards, HCLS classifies its fund balances as follows:

Nonspendable: This component includes amounts that cannot be spent either because it is not in spendable form or because of legal or contractual requirements. As of June 30, 2025, \$641,030 was non-spendable due to prepaid expenses not in spendable form.

Restricted: This component consists of amounts that have constraints placed on them either externally by third parties (grantors, contributors, creditors, or laws or regulations of other governmental entities) or by law through constitutional provisions or enabling legislation. As of June 30, 2025, \$268,230 was restricted for gifts.

Committed: This component consists of amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of HCLS's highest level of decision making. These actions would be through by-laws or board resolution passed by the Board of Trustees. These committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action it employed previously to commit those amounts. As of June 30, 2025, no amount was committed.

Assigned: This component consists of amounts that are constrained by HCLS's intent to be used for specific purposes but are neither restricted nor committed. The authority for assigning is expressed by the President and Chief Executive Officer. As of June 30, 2025, \$1,569,301 was assigned for curriculum.

Unassigned: This classification represents amounts that have not been restricted, committed or assigned to specific purposes. As of June 30, 2025, \$4,150,359 was unassigned.

NOTE 9 DEFERRED COMPENSATION PLAN

HCLS has made deferred compensation plans available to all its employees. The plans were established in accordance with Internal Revenue Code Section 457. A deferred compensation plan offers employees an opportunity to defer a portion of their salary, along with the related federal and state income tax, until future years. The deferred compensation funds are not available to employees until termination, retirement, death or unforeseeable emergency.

HCLS participates in plans sponsored by the National Association of Counties (NACO), which has selected the Public Employees Benefit Services Corporation (PEBSCO) to be the plan administrator and Variable Life Insurance Company (VALIC). The assets of both plans were transferred to custodial accounts and HCLS no longer reports those assets and liabilities in the Agency Funds of HCLS.

HOWARD COUNTY LIBRARY SYSTEM

Notes to Financial Statements

For the Year Ended June 30, 2025

NOTE 10 RETIREMENT AND PENSION PLANS

HCLS participates in the Maryland Teachers' Retirement System (TRS) and the Maryland Teachers' Pension System (TPS), collectively the "Teachers Retirement and Pension Systems." Both plans are administered by the Maryland State Retirement and Pension System (the System), which is a cost-sharing multiple-employer public employee retirement system. Coverage is available to all regular full- and part-time salaried employees to the exclusion of any temporary on-call employees.

The System was established in accordance with the State Personnel and Pensions Article of the Annotated Code of Maryland. Responsibility for the administration and operation of the System is vested in a 15-member Board of Trustees (Trustees). The Trustees also have the authority to establish and amend the respective benefit provisions. The System provides retirement and disability benefits, annual cost-of-living adjustments (COLA), and death benefits to System members and beneficiaries.

Members become fully vested under TRS after completing five or 10 years of creditable service depending on the date of hire, provided the member lives to the age of 60 and does not withdraw his or her accumulated contributions. Under TPS, members are fully vested after five years, provided the member lives to age 62. Under both plans, a member terminating employment before reaching retirement age or before completing five years of creditable service is refunded his or her accumulated contributions plus earned interest.

Both plans are contributory plans. Contribution obligations are determined by the State Personnel and Pensions Article. Under TPS, employee contributions are 7% of their salary and wages to the system. Under TRS, members are required to contribute 7% of their salary and wages to the system. Employee contributions for the year ended June 30, 2025 were \$1,123,896 under TRS and \$0 under TPS.

The State of Maryland (the nonemployer contributing entity) pays the employer's share of contributions for employees participating in TRS and TPS, except for those employees eligible under TPS who are working on federal grant programs. During the fiscal year ended June 30, 2025, the State paid \$2,656,784 in retirement costs for employees of HCLS participating in the Teachers' Retirement and Pension Systems. The State of Maryland is also responsible for any unfunded pension benefit obligation; therefore, any pension liability, deferred outflow of resources, deferred inflow of resources and related financial reporting disclosures in relation to these employees are included in the State of Maryland Annual Comprehensive Financial Report.

HOWARD COUNTY LIBRARY SYSTEM

Notes to Financial Statements
For the Year Ended June 30, 2025

NOTE 10 RETIREMENT AND PENSION PLANS (continued)

Summary

HCLS previously adopted GASB No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68). HCLS participates in the System and qualifies as a Participating Governmental Unit (PGU). The State Retirement Agency (the Agency) is the Plan administrator and fiduciary. GASB 68 requires that a PGU recognize its proportionate share of the System's net pension liability (i.e., unfunded pension liability) and pension expense.

However, HCLS has no expense for pension costs; nor is it responsible for the net pension obligation because its employees participate in the TRS and TPS, and the State of Maryland is responsible for the related pension obligations.

HCLS employees participate in the System and contributed 7% of their compensation during fiscal 2025 as stipulated by the System.

Basis of Presentation and Basis of Accounting

Employers participating in the System's cost-sharing multiple-employer defined benefit plans are required to report pension information in their financial statements, in accordance with GASB No. 68. The System has provided a Schedule of Employer Allocations and Schedule of Pension Amounts by Employer (pension allocation schedules) which provide employers with the required information for financial reporting. The System's financial statements are prepared on the accrual basis of accounting and are prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) that apply to governmental accounting for fiduciary funds.

Actual employer contributions billed to participating government units for the year ended June 30, 2024, are used as the basis for determining each employer's proportionate share of the collective pension amounts reported in the Schedule of Employer Allocations. The contributions were not adjusted because the State of Maryland contributed 100% of the actuarial determined contributions for the year ended June 30, 2024.

The components of the collective net pension liability for the System as of June 30, 2024, are shown in the following table:

Total pension liability	\$ 94,214,144,000
Plan fiduciary net position	<u>67,909,708,000</u>
Net pension liability	<u><u>\$ 26,304,436,000</u></u>
 Plan fiduciary net position as a percentage of the total pension liability	 <u><u>72.08%</u></u>

HOWARD COUNTY LIBRARY SYSTEM
 Notes to Financial Statements
 For the Year Ended June 30, 2025

NOTE 10 RETIREMENT AND PENSION PLANS (continued)

Basis of Presentation and Basis of Accounting (continued)

The proportionate share of the net pension liability associated with the Library is as follows:

Library's proportionate share of the net pension liability	\$ -
State of Maryland's proportionate share of the net pension liability associated with the Library	26,690,895
	<u>\$ 26,690,895</u>

Actuarial Assumptions

Valuation Date	June 30, 2023, rolled forward to June 30, 2024
Actuarial Cost Method	Entry Age Normal
<i>Actuarial Assumptions:</i>	
Investment Rate of Return	6.8%
Inflation	2.5% general, 3% wage
Projected Salary Increases	3% to 22.5%
Discount Rate	6.8%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2024 valuation pursuant to the 2024 experience study for the period July 1, 2018 to June 30, 2023.
Mortality	Various versions of the Pub-2010 Mortality Tables with projected generational mortality improvements based on the MP-2021 fully generational mortality Improvements scale for males and females.

Investments

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan 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. Best estimates of geometric real rates of return were adopted by the System's Board after considering input from the investment consultant(s) and actuary(s). For each major asset class that is included in the System's target asset allocation, these best estimates are summarized in the following table:

HOWARD COUNTY LIBRARY SYSTEM
 Notes to Financial Statements
 For the Year Ended June 30, 2025

NOTE 10 RETIREMENT AND PENSION PLANS *(continued)*

Investments *(continued)*

<u>Asset Class</u>	<u>Target Allocations</u>	<u>Long-Term Expected Real Rate of Return</u>
Public equity	34%	6.00%
Private equity	16%	8.50%
Rate sensitive	20%	2.40%
Credit opportunity	9%	5.40%
Real assets	15%	5.50%
Absolute return	6%	3.90%
	<u>100%</u>	

The above was the System's Board of Trustees adopted asset allocation policy and best estimate of geometric real rates of return for each major asset class as of the measurement date of June 30, 2024.

Discount Rate

A single discount rate of 6.8% was used to measure the total pension liability. The single discount rate was based on the expected rate of return on pension plan investments of 6.8%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension 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.

Sensitivity of the Net Pension Liability

Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the System's collective net pension liability and HCLS's proportionate share of the System's collective net pension liability (expressed in thousands), calculated using a single discount rate of 6.8%, a single discount rate that is 1-percentage point lower (*i.e.*, 5.8%) and a single discount rate that is 1-percentage point higher (*i.e.*, 7.8%).

HOWARD COUNTY LIBRARY SYSTEM

Notes to Financial Statements
 For the Year Ended June 30, 2025

NOTE 10 RETIREMENT AND PENSION PLANS (continued)

Sensitivity of the Net Pension Liability (continued)

	1% Decrease (5.8%)	Current Discount Rate (6.8%)	1% Increase (7.8%)
The System's Collective Net Pension Liability	\$ 38,229,418	\$ 26,304,436	\$ 16,364,123
The Library's Proportionate Share of the Net Pension Liability for the Teachers' Retirement and Pension Systems	-	-	-

Pension Plan Description Organization

The Agency is the administrator of the System. The System was established by the State Personnel and Pensions Article of the Annotated Code of Maryland to provide retirement allowances and other benefits to State employees, teachers, police, judges, legislators, and employees of participating governmental units. Responsibility for the System's administration and operation is vested in a 15-member Board of Trustees. The System is made up of two cost-sharing employer pools: the "State Pool" and the "Municipal Pool." The "State Pool" consists of the State agencies, boards of education, community colleges, and libraries. The "Municipal Pool" consists of the participating governmental units that elected to join the System. Neither pool shares in each other's actuarial liabilities, thus participating governmental units that elect to join the System (the Municipal Pool) share in the liabilities of the Municipal Pool only. The State of Maryland is the statutory guarantor for the payment of all pensions, annuities, retirement allowances, refunds, reserves, and other benefits of the System. The Agency is legally authorized to use all assets accumulated for the payment of benefits to pay such obligations to any plan member or beneficiary as defined by the terms of the plan. Consequently, the System is accounted for as a single plan as defined in GASB Statement No. 67, *Financial Reporting for Pension Plans- An Amendment of GASB Statement No. 25*. Additionally, the System is fiscally dependent on the State by virtue of the legislative and executive controls exercised with respect to its operations, policies, and administrative budget. Accordingly, the System is included in the State's reporting entity and disclosed in its financial statements as a pension trust fund. The System is comprised of the Teachers' Retirement and Pension Systems, Employees' Retirement and Pension Systems, State Police Retirement System, Judges' Retirement System, and the Law Enforcement Officers' Pension System. HCLS's employees participate in the Teachers' Retirement and Pension Systems.

HOWARD COUNTY LIBRARY SYSTEM

Notes to Financial Statements
For the Year Ended June 30, 2025

NOTE 10 RETIREMENT AND PENSION PLANS *(continued)*

Covered Members

The Teachers' Retirement System was established on August 1, 1927, to provide retirement allowances and other benefits to teachers of the State. Effective January 1, 1980, the Teachers' Retirement System was closed to new members and the Teachers' Pension System was established. As a result, teachers hired after December 31, 1979, became members of the Teachers' Pension System as a condition of employment. On or after January 1, 2005, an individual who is a member of the Teachers' Retirement System may not transfer membership to the Teachers' Pension System.

Summary of Significant Plan Provisions

All plan benefits are specified by the State Personnel and Pensions Article of the Annotated Code of Maryland. For all individuals who are members of the System on or before June 30, 2011, pension allowances are computed using both the highest three consecutive years' Average Final Compensation (AFC) and the actual number of years of accumulated creditable service. For any individual who becomes a member of one of the pension systems on or after July 1, 2011, pension allowances are computed using both the highest five consecutive years' AFC and the actual number of years of accumulated creditable service. Various retirement options are available under each system, which ultimately determines how a retiree's benefit allowance will be computed. Some of these options require actuarial reductions based on the retiree's and/or designated beneficiary's attained age and similar actuarial factors. Beginning July 1, 2011, the member contribution rate was increased for members of the Teachers' Pension System to 7% from 5%. In addition, the benefit attributable to service on or after July 1, 2011 in many of the pension systems now will be subject to different COLA that is based on the increase in the Consumer Price Index and capped at 2.5%, or 1.0% based on whether the market value investment return for the preceding calendar year was higher or lower than the investment return assumption used in the valuation. A brief summary of the retirement eligibility requirements of and the benefits available under the various systems in effect during fiscal year 2024 are as follows:

HOWARD COUNTY LIBRARY SYSTEM

Notes to Financial Statements

For the Year Ended June 30, 2025

NOTE 10 RETIREMENT AND PENSION PLANS *(continued)*

Summary of Significant Plan Provisions *(continued)*

Service Retirement Allowances

A member of the Teachers' Retirement System is generally eligible for full retirement benefits upon the earlier of attaining age 60 or accumulating 30 years of creditable service regardless of age. The annual retirement allowance equals $1/55$ (1.81%) of the member's AFC multiplied by the number of years of accumulated creditable service. An individual who is a member of the Teachers' Pension System on or before June 30, 2011, is eligible for full retirement benefits upon the earlier of attaining age 62, with specified years of eligibility service, or accumulating 30 years of eligibility service regardless of age. An individual who becomes a member of the Teachers' Pension System on or after July 1, 2011, is eligible for full retirement benefits if the member's combined age and eligibility service equals at least 90 years or if the member is at least age 65 and has accrued at least 10 years of eligibility service. For most individuals who retired from the Teachers' Pension System on or before June 30, 2006, the annual pension allowance equals 1.2% of the member's AFC, multiplied by the number of years of creditable service accumulated prior to July 1, 1998, plus 1.4% of the member's AFC, multiplied by the number of years of creditable service accumulated subsequent to June 30, 1998. With certain exceptions, for individuals who are members of the Teachers' Pension System on or after July 1, 2006, the annual pension allowance equals 1.2% of the member's AFC, multiplied by the number of years of creditable service accumulated prior to July 1, 1998, plus 1.8% of the member's AFC, multiplied by the number of years of creditable service accumulated subsequent to June 30, 1998. Beginning July 1, 2011, any new member of the Teachers' Pension System shall earn an annual pension allowance equal to 1.50% of the member's AFC multiplied by the number of years of creditable service accumulated as a member of the Teachers' Pension System.

Vested Allowances

Any individual who is a member of the State Retirement and Pension System on or before June 30, 2011 (other than a judge or a legislator), and who terminates employment before attaining retirement age but after accumulating five years of eligibility service is eligible for a vested retirement allowance. Any individual who joins the State Retirement and Pension System on or after July 1, 2011 (other than a judge or a legislator), and who terminates employment before attaining retirement age but after accumulating 10 years of eligibility service is eligible for a vested retirement allowance. A member, who terminates employment prior to attaining retirement age and before vesting, receives a refund of all member contributions and interest.

HOWARD COUNTY LIBRARY SYSTEM

Notes to Financial Statements

For the Year Ended June 30, 2025

NOTE 10 RETIREMENT AND PENSION PLANS *(continued)*

Summary of Significant Plan Provisions *(continued)*

Early Service Retirement

A member of the Teachers' Retirement System may retire with reduced benefits after completing 25 years of eligibility service. Benefits are reduced by 0.5% per month for each month remaining until the retiree either attains age 60 or would have accumulated 30 years of creditable service, whichever is less. The maximum reduction for a Teachers' Retirement System member is 30%. An individual who is a member of the Teachers' Pension System on or before June 30, 2011, may retire with reduced benefits upon attaining age 55 with at least 15 years of eligibility service. Benefits are reduced by 0.5% per month for each month remaining until the retiree attains age 62. The maximum reduction for these members of the Teachers' Pension System is 42%. An individual who becomes a member of the Teachers' Pension System on or after July 1, 2011, may retire with reduced benefits upon attaining age 60 with at least 15 years of eligibility service. Benefits are reduced by 0.5% per month for each month remaining until the retiree attains age 65. The maximum reduction for these members of the Teachers' Pension System is 30%.

Disability and Death Benefits

Generally, a member covered under retirement plan provisions who is permanently disabled after five years of service receives a service allowance based on a minimum percentage (usually 25%) of the member's AFC. A member covered under pension plan provisions who is permanently disabled after accumulating five years of eligibility service receives a service allowance computed as if service had continued with no change in salary until the retiree attained age 62. A member (other than a member of the Maryland General Assembly or a judge, both of which are ineligible for accidental disability benefits) who is permanently and totally disabled as the result of an accident occurring in the line of duty receives 2/3 (66.7%) of the member's AFC plus an annuity based on all member contributions and interest. Death benefits are equal to a member's annual salary as of the date of death plus all member contributions and interest.

The Pension Plan Fiduciary

Plan Information as well as the Annual Comprehensive Financial Report of the Maryland State Retirement and Pension System for the year ended June 30, 2024 is available from:

State Retirement & Pension System of Maryland
120 East Baltimore Street
Baltimore, Maryland 21202

HOWARD COUNTY LIBRARY SYSTEM

Notes to Financial Statements

For the Year Ended June 30, 2025

NOTE 10 RETIREMENT AND PENSION PLANS *(continued)*

The Pension Plan Fiduciary *(continued)*

www.sra.state.md.us

- General Interest
- Related Links
- Downloads
- Annual Comprehensive Financial Reports

NOTE 11 OTHER POST-EMPLOYMENT BENEFITS

Plan Description

HCLS participates in the County's Other Postemployment Benefit (OPEB) Trust Fund (the Plan). The Plan is a Cost-Sharing Multiple Employer Defined Benefit Healthcare Plan. Per Section 1.406B of Howard County Bill No. 14-2008, the County established an irrevocable trust for administering the plan assets and paying healthcare costs on behalf of the participants. The Plan includes the County (consisting of the County government, Howard Soil Conservation District, and Howard County Economic Development Authority), and its component units (Howard County Community College, Howard County Public School system, HCLS, and Housing County Housing Commission). The Plan is administered and overseen by a Board of Trustees comprised of the Chief Administrative Officer, the Director of Finance, and Budget Administrator.

Eligibility and Benefits

Employees, former employees, and beneficiaries of HCLS who are receiving pensions are currently eligible for benefits under this Plan. To receive benefits under the Plan, the retiree must have 15 years of service for retirements after July 1, 2009. Also, immediately preceding retirement, the retiree must have been enrolled in a medical insurance plan offered to active employees.

There is a grandfathered group. Employees who satisfy either of the following conditions will be eligible for OPEB benefits under this Plan.

- 10 or more years of service as of July 1, 2009
- Employees hired between July 1, 1999 and June 30, 2009, and were age 50 or older at the time of hire and have at least 10 years of service at retirement.

Other retirees who do not meet the eligibility criteria are permitted to participate in the retirees' health insurance program by paying the full premium at the group rate.

HOWARD COUNTY LIBRARY SYSTEM
 Notes to Financial Statements
 For the Year Ended June 30, 2025

NOTE 11 OTHER POST-EMPLOYMENT BENEFITS *(continued)*

Eligibility and Benefits *(continued)*

HCLS pays a percentage of a retiree’s health insurance premiums based on certain criteria.

Contributions

Contribution requirements of the plan members and the participating employers are established and may be amended by the Plan's Board of Trustees. During the fiscal year ended June 30, 2025, contributions to the OPEB plan by retirees who do not meet the Plan’s eligibility requirements were \$199,675. Eligible employees are not required to contribute to the OPEB plan.

Employer contributions of \$465,742 for HCLS were made to the Plan for the fiscal year ended June 30, 2025.

Net OPEB Liability

HCLS’s net OPEB liability was measured as of June 30, 2024, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2024, rolled forward to June 30, 2024.

Actuarial Assumptions

The collective total OPEB liability for June 30, 2024 was determined using the following significant actuarial assumptions:

Actuarial cost method	Individual entry age normal as a level percentage of payroll.
Interest assumption	Discount rate of 4.8% as of 6/30/24.
Investment rate of return	7.25% as of measurement period ending June 30, 2024.
Municipal bond rate	4.21% as of 6/30/24 based on the S&P Municipal Bond 20-year High-Grade Rate Index.
Actuarial value of assets	Market value.
Long-term expected real rate of return, based on geometric means	4.85% for equity investments (based on 45% target allocation) and 2.46% for fixed-income investments (based on 23% target allocation), 6.21% for alternative investments (based on 26% target allocation), 4.33% for real assets (based on 6% target allocation), 2.65% inflation rate, for a total of 7.65%.

HOWARD COUNTY LIBRARY SYSTEM
 Notes to Financial Statements
 For the Year Ended June 30, 2025

NOTE 11 OTHER POST-EMPLOYMENT BENEFITS *(continued)*

Actuarial Assumptions *(continued)*

Mortality	SOA RPH-2014 adjusted to 2006 Total Dataset Headcount-Weighted Mortality.
Healthcare cost trend rate	6.6% decreasing to an ultimate rate of 4.09% in 2075, based upon October 2023 Society of Actuaries (SOA) Getzen Long-Term Trend Healthcare Cost Trend Model.

The total OPEB liability is measured based on assumptions pertaining to the interest rates, inflation rates, health costs, and employee demographic behavior in future years. The assumptions used were based on the results of an actuarial experience study conducted in 2022. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates the larger the impact on future financial statements.

The long-term expected rate of return on plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan 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 weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Discount Rate

The discount rate used to measure the total OPEB liability was 4.6% at the beginning of the current measurement period and 4.8% at the end. In measuring the total liability and determining the discount rate, the actuary projected cash flows by assuming that the County will continue to make the current contribution levels increasing 3% per year. These contributions were first allocated to the normal cost for future hires as required by GASB. The benefit payment stream for the Plan is discounted based on an index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher for years when the projected benefit payouts are expected to be funded. The present value of payments through 2046 was determined using the expected rate of return on assets of 7.25% and using the bond rate of 4.21% for benefit payments after 2046. The equivalent single rate is 4.8%.

HOWARD COUNTY LIBRARY SYSTEM

Notes to Financial Statements
 For the Year Ended June 30, 2025

NOTE 11 OTHER POST-EMPLOYMENT BENEFITS (continued)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the HCLS, as well as what HCLS’s net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.8%) or 1-percentage-point higher (5.8%) than the current discount rate:

	1% Decrease 3.80%	Discount Rate 4.80%	1% Increase 5.80%
Net OPEB liability	\$ 11,891,867	\$ 9,644,120	\$ 7,858,343

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability of HCLS, as well as what HCLS’s net OPEB liability would be if it were calculated using the healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Healthcare Cost Trend	1% Increase
Net OPEB liability	\$ 7,804,534	\$ 9,644,120	\$ 12,043,581

HOWARD COUNTY LIBRARY SYSTEM
 Notes to Financial Statements
 For the Year Ended June 30, 2025

NOTE 11 OTHER POST-EMPLOYMENT BENEFITS (continued)

OPEB Expense and Deferred Outflows and Inflows of Resources Related to OPEB

For the year ended June 30, 2025, HCLS recognized a credit to OPEB expense of \$2,205,326. At June 30, 2025, HCLS reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 564,345	\$ 2,132,490
Changes of assumptions	2,320,980	4,707,711
Net difference between projected and actual earnings on OPEB plan investments	-	15,148
Employer contribution subsequent to measurement date	465,742	-
Change in proportion	225,843	5,563,213
Total	\$ 3,576,910	\$ 12,418,562

The deferred outflows of resources of \$465,742 relating to contributions subsequent to the measurement date of June 30, 2024, will be recognized as a reduction of the HCLS's net OPEB liability during the fiscal year ending June 30, 2026. The deferred outflows and inflows of resources due to changes of assumptions, differences between expected and actual experience, change in proportion, and differences between projected and actual earnings on OPEB investments represent the unamortized portions of the Plan's original amounts. The deferred inflows and outflows related to non-investment activity are being amortized over the remaining service life ranging from 9 to 10 years. The net difference in investment earnings is being amortized over a closed 5-year period. These unamortized amounts will be ratably recognized in OPEB expense over these services' lives and closed 5-year period.

HOWARD COUNTY LIBRARY SYSTEM
 Notes to Financial Statements
 For the Year Ended June 30, 2025

NOTE 11 OTHER POST-EMPLOYMENT BENEFITS *(continued)*

Amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized as an increase (decrease) in OPEB expense as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Amounts</u>
2026	\$ (1,443,107)
2027	(1,378,977)
2028	(1,328,278)
2029	(1,407,318)
2030	(1,470,817)
Thereafter	<u>(2,278,897)</u>
Total	\$ (9,307,394)

NOTE 12 COMMITMENTS AND CONTINGENCIES

HCLS receives various federal and state grants that are subject to review and audit by the respective agencies. Such audits could result in a request for reimbursement by the respective agency for expenditures disallowed under the terms and conditions of the appropriate agency. In the opinion of HCLS management, such disallowances, if any, would not be significant.

HCLS receives substantially all of its support from county and state appropriations. A significant reduction in the level of this support, if this were to occur, could have an adverse effect on the HCLS's programs and activities.

NOTE 13 RISK MANAGEMENT

HCLS is exposed to various risks of losses related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. HCLS participates in the Risk Management Program of Howard County, Maryland. HCLS makes payments to the two internal service funds of the Risk Management Program based on a combination of actuarial estimates and historical cost information. In return, HCLS receives full coverage for employee benefits and long-term disability claims, automotive physical damage claims, general liability claims, property damage claims, workers' compensation claims, pollution and environmental claims.

HOWARD COUNTY LIBRARY SYSTEM

Notes to Financial Statements

For the Year Ended June 30, 2025

NOTE 14 SUBSEQUENT EVENTS

Events that occur after the fund balance sheet and statement of net position date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the fund balance sheet and statement of net position date are recognized in the accompanying financial statements. Subsequent events that provide evidence about conditions that existed after the fund balance sheet and statement of net position date require disclosure in the accompanying notes. Management evaluated the activity of HCLS through September 30, 2025 (the date the financial statements were available to be issued), and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

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

HOWARD COUNTY LIBRARY SYSTEM
Schedule of Revenue, Expenditures and Encumbrances
and Changes in Fund Balance - Budget and Actual
(Non-GAAP Budgetary Basis)
Year Ended June 30, 2025

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
REVENUE				
Howard County appropriation	\$ 26,480,000	\$ 26,480,000	\$ 26,480,000	\$ -
Maryland State Department of Education appropriation	1,259,121	1,259,121	1,259,121	-
Federal, state and private grants, and gifts	-	-	776,331	776,331
Use of fund balance	200,000	200,000	-	(200,000)
Other HCLS-generated sales and fees	730,000	730,000	779,982	49,982
Investment earnings	70,000	70,000	90,849	20,849
Total revenue	<u>\$ 28,739,121</u>	<u>\$ 28,739,121</u>	<u>\$ 29,386,283</u>	<u>\$ 647,162</u>
EXPENDITURES AND ENCUMBRANCES				
Salaries, wages and fringe benefits	\$ 23,530,703	\$ 22,769,227	\$ 22,867,388	\$ (98,161)
Contracts	1,353,819	1,469,529	1,569,187	(99,658)
Curriculum	3,585,475	3,955,443	3,996,767	(41,324)
Professional development	82,500	86,521	110,952	(24,431)
Furniture and equipment	186,624	458,401	272,125	186,276
Total expenditures and encumbrances	<u>\$ 28,739,121</u>	<u>\$ 28,739,121</u>	<u>\$ 28,816,419</u>	<u>\$ (77,298)</u>
Excess (deficiency) of revenue over expenditures and encumbrances		<u>\$ -</u>	<u>\$ 569,864</u>	<u>\$ 569,864</u>

See Note to Schedule of Revenue, Expenditures and Encumbrances and
Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis).

HOWARD COUNTY LIBRARY SYSTEM

Note to Schedule of Revenue, Expenditures and Encumbrances
and Changes in Fund Balance - Budget and Actual
(Non-GAAP Budgetary Basis)
For the Year Ended June 30, 2025

NOTE 1 RECONCILIATION OF BUDGETARY DATA

HCLS's President & CEO submits an annual budget to the County Executive in accordance with Resolution No. 68. Once approved by the County Council, the HCLS Board of Trustees with approval from the office of the County Executive may amend the legally adopted budget when unexpected modifications are required in estimated revenue and appropriations.

The schedule of revenue, expenditures and encumbrances and changes in fund balance - budget and actual is prepared on a basis consistent with the budget. The budget is prepared using encumbrance accounting where encumbrances are treated as expenditures of the current period. The statement of revenue, expenditures and changes in fund balance is prepared on a basis consistent with U.S. GAAP where encumbrances are treated as a reservation of fund balance.

A reconciliation of revenue and expenditures from budgetary basis to U.S. GAAP basis is as follows:

REVENUE

Budgetary basis	\$	29,386,283
Fringe benefits paid directly by State of Maryland		<u>2,656,784</u>
GAAP basis	\$	<u>32,043,067</u>

EXPENDITURES

Budgetary basis	\$	28,816,419
Add: Prior-year encumbrances expended this year		1,361,293
Current-year encumbrances		(1,569,301)
Fringe benefits paid directly by State of Maryland		<u>2,656,784</u>
GAAP basis	\$	<u>31,265,195</u>

HOWARD COUNTY LIBRARY SYSTEM
Schedule of Required Pension Related Supplementary Information
For the Year Ended June 30, 2025

Schedule of HCLS's Proportionate Share of the Net Pension Liability for the Teachers' Retirement and Pension Systems:

	2025	2024	2023	2022	2021	2020	2019	2018	2017
HCLS's proportion (%) of collective net pension liability	0%	0%	0%	0%	0%	0%	0%	0%	0%
HCLS's proportionate share (\$) of collective net pension liability	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Portion of the State of Maryland's total proportionate share (\$) of collective net pension liability that is associated with the Library	\$ 26,690,895	\$ 20,587,124	\$ 18,623,077	\$ 14,267,143	\$ 22,451,478	\$ 22,033,190	\$ 21,598,380	\$ 21,497,520	\$ 25,116,649
Sum of the Library's and portion of the State of Maryland's total proportionate share (\$) of collective net pension liability that is associated with the Library.	\$ 26,690,895	\$ 20,587,124	\$ 18,623,077	\$ 14,267,143	\$ 22,451,478	\$ 22,033,190	\$ 21,598,380	\$ 21,497,520	\$ 25,116,649
HCLS's covered payroll (\$) ¹	\$ 16,206,864	\$ 14,512,157	\$ 13,476,495	\$ 11,853,435	\$ 13,294,581	\$ 12,984,901	\$ 12,365,901	\$ 12,031,711	\$ 11,875,828
HCLS's proportionate share of collective net pension liability as a percentage of its covered payroll	0%	0%	0%	0%	0%	0%	0%	0%	0%
Pension plan's fiduciary net position as a percentage of total pension liability	72.08%	73.81%	76.27%	81.84%	70.72%	72.34%	71.18%	69.38%	65.79%

(1) In accordance with GASB No. 82, amounts shown represent the payroll on which contributions to the pension plan are based.

This schedule should be presented to show information for 10 years. However, until a full 10-year trend is compiled, HCLS will present information for those years for which information is available.

HOWARD COUNTY LIBRARY SYSTEM
Notes to Schedule of Required Pension Related
Supplementary Information
For the Year Ended June 30, 2025

NOTE 1 CHANGES IN BENEFIT TERMS

There were no benefit changes during the year.

NOTE 2 CHANGES IN ASSUMPTIONS

	<u>Changes from Fiscal Year 2018 to 2019</u>	<u>Changes from Fiscal Year 2019 to 2020</u>	<u>Changes from Fiscal Year 2020 to 2021</u>	<u>Changes from Fiscal Year 2021 to 2022</u>	<u>Changes from Fiscal Year 2022 to 2023</u>	<u>Changes from Fiscal Year 2023 to 2024</u>
Inflation - general	2.60% to 2.65%	2.65% to 2.60%	2.60% to 2.25%	No change	No change	No change
Inflation - wages	3.10% to 3.15%	3.15% to 3.10%	3.10% to 2.75%	No change	No change	No change
Discount rate	7.45% to 7.40%	No change	7.40% to 6.80%	No change	No change	No change
Investment rate of return	7.45% to 7.40%	No change	7.40% to 6.80%	No change	No change	No change

HOWARD COUNTY LIBRARY SYSTEM
Schedule of Required OPEB Related Supplementary Information
For the Year Ended June 30, 2025

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
CHANGES IN EMPLOYER'S PROPORTIONATE NET OPEB LIABILITY AND RELATED RATIOS								
<i>Total OPEB liability</i>								
Service cost	\$ 443,406	\$ 565,353	\$ 1,230,227	\$ 1,309,604	\$ 1,000,146	\$ 866,166	\$ 792,700	\$ 896,402
Interest	549,336	647,340	560,299	721,106	748,747	738,845	678,894	564,510
Experience losses	561,438	(245,525)	(3,403,500)	(70,737)	210,649	(46,665)	(936,486)	-
Changes in assumptions	(694,900)	(19,846)	(7,273,308)	2,355,884	2,775,914	1,550,755	1,119,052	(2,244,614)
Benefit payments	(269,293)	(264,974)	(995,379)	(362,972)	(361,036)	(327,674)	(325,825)	(320,771)
Change in proportion	(3,300,975)	-	(5,427,167)	-	(299,063)	-	725,950	-
Net change in total OPEB liability	(2,710,988)	682,348	(15,308,828)	3,952,885	4,075,357	2,781,427	2,054,285	(1,104,473)
Beginning total OPEB liability	14,934,314	14,251,966	29,560,794	25,607,909	21,532,552	18,751,125	16,696,840	17,801,313
Ending total OPEB liability	12,223,326	14,934,314	14,251,966	29,560,794	25,607,909	21,532,552	18,751,125	16,696,840
PLAN FIDUCIARY NET POSITION								
Employer contributions	385,944	446,819	382,995	520,426	545,636	552,686	556,225	501,272
Net investment income	303,014	180,014	201,350	707,738	139,008	133,705	132,480	136,783
Benefit payments	(269,293)	(264,974)	(995,379)	(362,972)	(361,035)	(327,675)	(325,825)	(320,771)
Administrative expense	(322)	(538)	(466)	(217)	(966)	(1,529)	(801)	(41)
Change in proportion	(612,864)	-	(554,774)	-	(30,846)	-	62,569	-
Net change in fiduciary net position	(193,521)	361,321	(966,274)	864,975	291,797	357,187	424,648	317,243
Beginning fiduciary net position	2,772,727	2,411,406	3,377,680	2,512,705	2,220,908	1,863,721	1,439,073	1,121,830
Ending fiduciary net position	2,579,206	2,772,727	2,411,406	3,377,680	2,512,705	2,220,908	1,863,721	1,439,073
Library's net OPEB liability - ending	\$ 9,644,120	\$ 12,161,587	\$ 11,840,560	\$ 26,183,114	\$ 23,095,204	\$ 19,311,644	\$ 16,887,404	\$ 15,257,767
Plan fiduciary net position as a percentage of the total OPEB liability	21.10%	18.57%	16.92%	11.43%	9.81%	10.31%	9.94%	8.62%
Covered-employee payroll	\$ 16,206,864	\$ 14,512,157	\$ 13,476,495	\$ 11,853,435	\$ 13,294,581	\$ 12,984,901	\$ 12,365,901	\$ 12,031,711
Library's net OPEB liability as a percentage of covered-employee payroll	59.51%	83.80%	87.86%	220.89%	173.72%	148.72%	136.56%	126.81%
Expected average remaining service years of all participants	9	9	10	10	10	10	10	10

This schedule should be presented to show information for 10 years. However, until a full 10-year trend is compiled, HCLS will present information for those years for which information is available.

HOWARD COUNTY LIBRARY SYSTEM

Notes to Schedule of Required OPEB Related Supplementary Information
For the Year Ended June 30, 2025

NOTE 1 FACTORS AFFECTING TRENDS

The major factors affecting trends reported include changes in actuarial assumptions, changes in the employer's proportionate share of the net OPEB liability and changes in investment values included in the Plan's fiduciary net position.

NOTE 2 BENEFIT CHANGES

None.

NOTE 3 CHANGES IN ASSUMPTIONS

The discount rate was changed as follows:

6/30/2017 - 3.20%
6/30/2018 - 3.94%
6/30/2019 - 3.98%
6/30/2020 - 3.56%
6/30/2021 - 2.84%
6/30/2022 - 2.41%
6/30/2023 - 4.40%
6/30/2024 - 4.60%
6/30/2025 - 4.80%

HOWARD COUNTY LIBRARY SYSTEM

Schedule of Required OPEB Related Supplementary Information *(continued)*

For the Year Ended June 30, 2025

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Employer's proportion of net OPEB liability	0.88%	1.13%	1.13%	1.42%	1.42%	1.44%	1.44%	1.38%
Employer's proportionate share of net OPEB liability	\$ 9,644,120	\$ 12,161,587	\$ 11,840,560	\$ 26,183,114	\$ 23,095,204	\$ 19,311,644	\$ 16,887,404	\$ 15,257,767
Covered-employee payroll	<u>\$ 16,206,864</u>	<u>\$ 14,512,157</u>	<u>\$ 13,476,495</u>	<u>\$ 11,853,435</u>	<u>\$ 13,294,581</u>	<u>\$ 12,984,901</u>	<u>\$ 12,365,901</u>	<u>\$ 12,031,711</u>
Employer's proportionate share of net OPEB liability as a percentage of covered payroll	<u>59.51%</u>	<u>83.80%</u>	<u>87.86%</u>	<u>220.89%</u>	<u>173.72%</u>	<u>148.72%</u>	<u>136.56%</u>	<u>126.81%</u>
Plan fiduciary net position as a percentage of total OPEB liability	<u>21.10%</u>	<u>18.57%</u>	<u>16.92%</u>	<u>11.43%</u>	<u>9.81%</u>	<u>10.31%</u>	<u>9.94%</u>	<u>8.62%</u>

This schedule should be presented to show information for 10 years. However, until a full 10-year trend is compiled, HCLS will present information for those years for which information is available.



**INDEPENDENT AUDITOR'S 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 Library Trustees
Howard County Library System

We have audited, 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, the financial statements of the governmental activities and general fund of Howard County Library System (HCLS), an allied agency and component unit of Howard County, Maryland, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise HCLS's basic financial statements, and have issued our report thereon dated September 30, 2025.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered HCLS's internal control over financial reporting ("internal control") as a basis for designing 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 HCLS's internal control. Accordingly, we do not express an opinion on the effectiveness of HCLS'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 or significant deficiencies may exist that were not identified.

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether HCLS'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 financial statements. 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.

Mitchell Titus, LLP

September 30, 2025



115
116