

KENT COUNTY PUBLIC LIBRARY

**Financial Statements Together with
Reports of Independent Public Accountants**

For the Year Ended June 30, 2020



S B & COMPANY, LLC
KNOWLEDGE • QUALITY • CLIENT SERVICE

JUNE 30, 2020

CONTENTS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Position and Governmental Funds Balance Sheet	9
Reconciliation of the Governmental Fund Balance to the Statement of Net Position	10
Statement of Activities and Governmental Funds	
Statement of Revenue, Expenditures, and Change in Fund Balance	11
Reconciliation of the Statement of Revenue, Expenditures, and Change in Fund Balance - Governmental Fund to the Statement of Activities	12
Notes to the Financial Statements	13
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Revenues - Budget and Actual - General Fund	26
Schedule of Expenditures - Budget and Actual - General Fund	27
Schedule of Proportionate Share of the Net Pension Liability	28
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	29



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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Trustees of
Kent County Public Library
Chestertown, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Kent County Public Library (the Library), a component unit of Kent County, Maryland, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Library's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Kent County Public Library, as of June 30, 2020, and the respective changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Schedule of Revenues – Budget and Actual – General Fund, the Schedule of Expenditures – Budget and Actual – General Fund, and the Schedule of Proportionate Share of the Net Pension Liability be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated October 26, 2020, on our consideration of the Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Library's internal control over financial reporting and compliance.

Owings Mills, Maryland
October 26, 2020

KENT COUNTY PUBLIC LIBRARY

Management's Discussion and Analysis For the Year Ended June 30, 2020

As management of the Kent County Public Library (the Library), we offer readers of the Library's financial statements this narrative overview and analysis of the financial activities of the Library for the fiscal year ended June 30, 2020. We encourage readers to consider the information presented here in conjunction with the financial statements and notes to the financial statements that immediately follow this discussion.

Financial Highlights

- The assets and deferred outflows of resources of the Library exceeded its liabilities at the close of fiscal year 2020 by \$545,019 (*net position*). Of this amount, \$328,486 represents unrestricted net position, which may be used to meet the Library's ongoing obligations to citizens and creditors.
- The Library's total net position decreased by (\$1,890).
- As of the close of fiscal year 2020, the Library's governmental fund (general fund) reported combined ending fund balances of \$359,878; an increase of \$14,916 in comparison with the prior year. Approximately 47% of this amount (\$168,503) is available for spending at the Library's discretion (*unassigned fund balance*).
- At the end of fiscal year 2020, the unrestricted fund balance (the total of the *committed*, *assigned*, and *unassigned* components of *fund balance*) for the general fund was \$344,245, or approximately 35% of total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis provided here is intended to serve as an introduction to the Library's basic financial statements. The basic financial statements consist of two primary financial statements: The Statement of Net Position concurrently presented with the Governmental Funds Balance Sheet and the Statement of Activities concurrently presented with the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances.

Government-wide Financial Statements

The *government-wide financial statements* include the *statement of net position* and the *statement of activities* and are designed to provide readers with a broad overview of the Library's finances, in a manner similar to a private-sector business.

The *statement of net position* presents financial information on all of the Library's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Library is improving or deteriorating.

KENT COUNTY PUBLIC LIBRARY

Management's Discussion and Analysis For the Year Ended June 30, 2020

Government-wide Financial Statements (continued)

The *statement of activities* presents information showing how the Library's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (i.e.: earned but unused vacation time).

Fund Financial Statements

The *fund financial statements* include the *governmental balance sheet* and the *governmental fund statement of revenues, expenditures and changes in fund balance* and are designed to focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in assessing the Library's near-term financing requirements. The Library only maintains one governmental fund, the general fund.

The Library adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Notes to the Financial Statements

The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 13-24 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information*. The general fund schedule of revenues, expenditures, and changes in fund balance – budget and actual are presented in this section.

Required supplementary information can be found on pages 26-28 of this report.

KENT COUNTY PUBLIC LIBRARY

Management's Discussion and Analysis For the Year Ended June 30, 2020

Kent County Public Library's Net Position

	<u>2020</u>	<u>2019</u>	<u>Increase/ (Decrease)</u>
Current and other assets	\$ 465,756	\$ 401,244	\$ 64,512
Capital assets, net	<u>200,900</u>	<u>214,897</u>	<u>(13,997)</u>
Total Assets	<u>666,656</u>	<u>616,141</u>	<u>50,515</u>
Liabilities	<u>121,637</u>	<u>69,232</u>	<u>52,405</u>
Net Position:			
Net invested in capital assets	200,900	214,897	(13,997)
Restricted	15,633	21,691	(6,058)
Unrestricted	<u>328,486</u>	<u>310,321</u>	<u>18,165</u>
Total Net Position	<u>\$ 545,019</u>	<u>\$ 546,909</u>	<u>\$ (1,890)</u>

Kent County Public Library's Changes in Net Position

	<u>2020</u>	<u>2019</u>	<u>Increase/ (Decrease)</u>
Revenues:			
County, State, and Local appropriations	\$ 875,339	\$ 847,847	\$ 27,492
State and other grants	82,092	95,681	(13,589)
Fees	8,458	14,073	(5,615)
Restricted donations	33,674	29,771	3,903
Unrestricted donations	4,176	6,738	(2,562)
Miscellaneous revenue	<u>3,019</u>	<u>2,454</u>	<u>565</u>
Total Revenues	<u>1,006,758</u>	<u>996,564</u>	<u>10,194</u>
Expenses:			
Salaries and related costs	725,889	695,573	30,316
Operating expenditures	150,993	188,061	(37,068)
Capital Outlay	70,036	-	70,036
Depreciation and amortization	<u>61,730</u>	<u>63,953</u>	<u>(2,223)</u>
Total Expenses	<u>1,008,648</u>	<u>947,587</u>	<u>61,061</u>
Change in Net Position	<u>\$ (1,890)</u>	<u>\$ 48,977</u>	<u>\$ (50,867)</u>

The Library's revenues increased by \$10,194. This was due to an increase in other County funding of \$23,330. There was a decrease in State funding of (\$9,427) due to COVID-19 whereby the full amount of the State's ESRL Grants to Libraries annual award of \$75,000 was not fully expended and was allowed to be carried over into FY2021. There was also a decrease in fees of (\$5,615) due to the closure of the Library in March, also due to COVID-19. The Library's overall expenses increased by \$61,061 primarily due to the FY2020 Library renovations of \$70,036.

KENT COUNTY PUBLIC LIBRARY

Management's Discussion and Analysis For the Year Ended June 30, 2020

Budgetary Highlights

The Library's budget is prepared on the modified accrual basis of accounting. The Library's original budget of \$916,676 was amended to \$1,171,919. The most significant changes were the addition of \$130,000 to the Library's capital outlay and \$82,363 for the State on-behalf payment for retirements along with increases of \$24,425 to the Library's programming expenses, \$10,088 for staff development and travel and \$5,080 for supplies.

Capital Assets

At the end of 2020, the Library had invested \$859,604 in a broad range of capital assets including equipment, books and media, and Library improvements. This year's major additions included Library and audio-visual materials of \$47,733.

Currently Known Facts, Decisions, or Conditions

Thanks to the diligent work of the Board of Trustees, oversight from the Board Finance Committee, and the invaluable assistance of the County Finance Department, FY2020 was fiscally stable.

The Library Director and the Board of Trustees Finance Committee regularly monitored expenditures in order to establish a realistic operating budget to maintain and enhance modern library service in Kent County at all locations (Chestertown, North County, and Rock Hall).

In 2015, the trustees, with the approval of the County Commissioners, re-negotiated the terms for the lease of the North County facility located in Galena. Significant savings were realized in the five years of this agreement. This agreement ended on June 30, 2020. In light of the uncertainty brought about by the COVID-19 pandemic, the Board of Trustees and the landlord George Haggerty agreed to extend the current lease for six months ending on December 31, 2020. Further negotiations will take place in fall 2020.

To alleviate County costs and labor for Library ground maintenance, the Board of Trustees again budgeted for continued grounds maintenance for the Chestertown Branch in FY2020.

KCPL received a \$40,171 refund from LGIT (Local Government Insurance Trust) for FY 2019. The Board of Trustees allocated \$15,000 of that amount to revenues for FY 2021 and transferred \$25,000 to capital funds to be used to cover additional costs associated with the FY2020 renovation project.

Background: KCPL had applied for a FY2019 grant from the State to be matched by funds from the Country totaling \$180,000 to complete the 2020 renovation to the adult and reference areas in Chestertown. Unfortunately, KCPL did not receive the grant. The KCPL Foundation generously agreed to provide \$90,000 and the KCPL Board (with guidance from the County Finance Department) determined that sufficient funds were available from its reserves in the amount of \$90,000 to provide funds for the renovation. The Friends of the Kent County Library also contributed \$10,000 for the renovations. The total cost of the project is \$215,000. The renovation will be completed in August 2020. In addition, the Friends also donated an additional \$5,000 for new hallway entrance flooring.

KENT COUNTY PUBLIC LIBRARY

Management's Discussion and Analysis For the Year Ended June 30, 2020

An HR Audit, funded by ESRL was performed in September 2019 with a final report issued on October 15, 2019. At that time the HR auditor recommended that KCPL hire an outside entity to perform an assessment of, and internal audit on, past FLSA compensatory time practices at KCPL. KCPL did so and the assessment was completed in April 2020. Actions were taken to address the necessary compensation for excess hours worked. The KCPL Staff Handbook was revised on June 29, 2020 to reflect the recommendations from the HR Audit and assure FLSA compliance.

COVID – 19 implications: On March 16, 2020 KCPL closed its doors to the public and directed the staff to telework from home. Staff who were not equipped to work from home were supplied with laptops and hotspots as needed. Staff returned on a staggered basis to the building in early June.

KCPL continued to work with the IT Department to bring high speed Internet to the Galena and Rock Hall locations. Due to the pandemic, this project was delayed, but will be completed in early August 2020.

On the advice of the County, and as noted in last year's audit report, the Board of Trustees addressed the issue of collateralization of bank balances in the Library's checking account to ensure FDIC coverage by creating a savings bank account at People's Bank to ensure that no library bank account balance exceeds \$250,000.

The long range plan, funded by a grant from the Maryland State Library was revised and reviewed and approved in November 2019. This plan will be implemented with the support of KCPL's educated, skilled workers who possess high levels of technical competency and the ability to perform multiple tasks. Retention of this staff and any necessary replacements with similarly highly qualified librarians is vital to the continuation of consistent and competent customer service and training that, in turn, benefits all Kent County citizens.

With financial and technology assistance from ESRL, KCPL was able to purchase 13 Desktop computers and 11 laptops for under \$17,000. Because we purchased through ESRL, we received a significant discount with savings upwards of \$10,000 off what the price would normally be. ESRL also assisted in upgrading 17 existing computers. Again, thanks to the generous financial and technical support from the Eastern Shore Regional Library, KCPL continues to incur little or no increase in fees for the Polaris ILS (Integrated Library System) that allows the eight libraries on the Eastern Shore to seamlessly share library materials.

The Kent County community and the Town of Galena continued their generous support of the Library. The Friends of the Kent County Public Library donated \$15,000 to be used for books, audio-visual items and staff training. Chestertown Library, Inc., the Women's Literary Club, donated \$2,245.85 for books. For the fifth year, KCPL was the recipient of \$6,500 PNC *Grow Up Great* Grant to support the Summer Reading Program. As costs continue to rise, the library will continue to need support from sources such as those mentioned above in order to provide high quality, modern library services in our community.

KENT COUNTY PUBLIC LIBRARY

Management's Discussion and Analysis For the Year Ended June 30, 2020

Rock Hall had been open 6 hours and North County is open 4 hours on Saturday. The Board of Trustees voted to eliminate Saturday hours at both locations effective April 4, 2020. Chief reasons cited were staff safety and lack of visitors. It was determined that staff time and library resources could be better spent if those hours were used for outreach and additional programming at those locations. In conjunction with this change, Rock Hall's hours were adjusted for more hours each day.

KCPL's business hours were adjusted during the pandemic. When KCPL returns to regular hours, hours will continue to include four holidays: Martin Luther King Jr. Day, Presidents Day, Columbus Day and Veterans Day. Extended hours will make library services accessible to families and children who may not be able to use the library at other times and to allow for expanded programming for children, adults, and families.

Contacting the Library's Financial Management

The Library's financial statements are designed to provide users with a general overview of the Library's finances and to demonstrate the Library's accountability for the money it receives. If you have any questions about this report or need additional information, contact Jacqueline Adams, Executive Director, Kent County Public Library, 408 High Street, Chestertown, Maryland 21620.

KENT COUNTY PUBLIC LIBRARY

Statement of Net Position and Governmental Funds Balance Sheet As of June 30, 2020

	<u>General Fund</u>	<u>Adjustments</u>	<u>Governmental Activities</u>
ASSETS			
Cash and cash equivalents	\$ 367,692	\$ -	\$ 367,692
Receivables	82,431	-	82,431
Prepays	15,633	-	15,633
Capital assets, net of accumulated depreciation			
Machinery, equipment and vehicles	-	71	71
Improvements	-	6,351	6,351
Library collections	-	194,478	194,478
Total Assets	<u>465,756</u>	<u>200,900</u>	<u>666,656</u>
LIABILITIES			
Accounts payable and other accrued liabilities	65,810	15,759	81,569
Intergovernmental payable	533	-	533
Due to Kent County	4,990	-	4,990
Unearned revenue	34,545	-	34,545
Total Liabilities	<u>105,878</u>	<u>15,759</u>	<u>121,637</u>
FUND BALANCES / NET POSITION			
Fund Balances			
Nonspendable - prepaids	15,633	(15,633)	-
Committed	160,742	(160,742)	-
Assigned	15,000	(15,000)	-
Unassigned	168,503	(168,503)	-
Total Fund Balances	<u>359,878</u>	<u>(359,878)</u>	<u>-</u>
Net Position			
Net investment in capital assets	-	200,900	200,900
Restricted	-	15,633	15,633
Unrestricted	-	328,486	328,486
Total Net Position	<u>-</u>	<u>\$ 545,019</u>	<u>\$ 545,019</u>
Total Liabilities and Fund Balance	<u>\$ 465,756</u>		

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

KENT COUNTY PUBLIC LIBRARY

Reconciliation of the Governmental Fund Balance to the Statement of Net Position As of June 30, 2020

Total fund balances - governmental funds		\$ 359,878
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets and library collections used in governmental activities are not financial resources, and therefore, are not reported in the funds:		
Depreciable capital assets:		
Machinery, equipment and vehicles	\$ 149,280	
Improvements	33,614	
Library collections	<u>676,709</u>	
Total capital assets:	859,603	
Less accumulated depreciation and amortization	<u>(658,703)</u>	<u>200,900</u>
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:		
Compensated absences	<u>(15,759)</u>	<u>(15,759)</u>
Net Position of Governmental Activities		<u>\$ 545,019</u>

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

KENT COUNTY PUBLIC LIBRARY

Statement of Activities and Governmental Funds Statement of Revenue, Expenditures, and Change in Fund Balance For the Year Ended June 30, 2020

	<u>General Fund</u>	<u>Adjustments</u>	<u>Governmental Activities</u>
Revenues			
Appropriations:			
State of Maryland	\$ 187,313	\$ -	\$ 187,313
Kent County	685,526	-	685,526
Municipalities	2,500	-	2,500
State and other grants	82,092	-	82,092
Fees	8,458	-	8,458
Donations:			
Restricted	33,674	-	33,674
Unrestricted	4,176	-	4,176
Miscellaneous revenue	3,019	-	3,019
Total Revenues	<u>1,006,758</u>	<u>-</u>	<u>1,006,758</u>
Expenses			
Salaries and related costs	723,080	2,809	725,889
Operating expenditures	150,993	-	150,993
Library materials	47,733	(47,733)	-
Capital Outlay	70,036	-	70,036
Depreciation and amortization	-	61,730	61,730
Total Expenses	<u>991,842</u>	<u>16,806</u>	<u>1,008,648</u>
Net change in fund balance/net position	14,916	(16,806)	(1,890)
Fund balance/net position, beginning of year	<u>344,962</u>	<u>201,947</u>	<u>546,909</u>
Fund balance/net position, End of Year	<u>\$ 359,878</u>	<u>\$ 185,141</u>	<u>\$ 545,019</u>

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

KENT COUNTY PUBLIC LIBRARY

**Reconciliation of the Statement of Revenue, Expenditures, and Change in Fund Balance –
Governmental Fund to the Statement of Activities
For the Year Ended June 30, 2020**

Net change in fund balances - total governmental funds \$ 14,916

Amounts reported for governmental activities in the statements of activities
are different because:

Governmental funds report capital outlays and the acquisition of
library materials as expenditures. However, in the statement of
activities, the cost of these assets is allocated over their estimated
useful lives and reported as depreciation expense or amortization

Capital outlay and library collection	\$ 47,733	
Depreciation and amortization expense	<u>(61,730)</u>	<u>(13,997)</u>

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 the governmental funds.

Accrued compensated absences	<u>(2,809)</u>	<u>(2,809)</u>
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Change in Net Position of Governmental Activities		<u>\$ (1,890)</u>
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The accompanying notes are an integral part of this financial statement.

KENT COUNTY PUBLIC LIBRARY

Notes to the Financial Statements For the Year Ended June 30, 2020

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

Kent County Public Library (the “Library”) was formed in 1961 by state legislation as a state and local government agency. The Library is governed by a seven member board of trustees appointed by the Kent County Commissioners. Services provided include offering Library materials of various types for use by the general public.

B. Basis of presentation – government-wide financial statements

The government-wide financial statements include the Statement of Net Position and the Statement of Activities which present information about the Library as a whole. All of the activities of the Library are classified as governmental.

C. Basis of presentation – fund financial statements

The fund financial statements include a Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The Library has one fund and maintains all of its activity in that one general fund.

D. Measurement focus and basis of accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

KENT COUNTY PUBLIC LIBRARY

Notes to the Financial Statements For the Year Ended June 30, 2020

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Measurement focus and basis of accounting (continued)

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Fees and donations are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the Library.

E. Budgetary information

1. Budgetary basis of accounting

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the Library's general fund. The Library's director may make transfers of appropriations within line items up to \$1,000 per month and the Library's treasurer may make transfers of appropriations within line items up to \$5,000 per month with the exception of personnel expenditures. Transfers of appropriations in excess of \$5,000 require the approval of the Library's board of trustees. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level. Appropriations lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods or services (i.e., purchase orders, contracts, and commitments). Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control.

KENT COUNTY PUBLIC LIBRARY

Notes to the Financial Statements For the Year Ended June 30, 2020

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Budgetary information (continued)

1. *Budgetary basis of accounting (continued)*

While all appropriations and encumbrances lapse at year end, valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget pursuant to state regulations.

F. Assets, liabilities, deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. *Cash and cash equivalents*

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. The Library is required to follow Local Government §17-101 of the Annotated Code of Maryland, which requires that deposits with financial institutions be fully collateralized. Full collateralization is necessary to minimize the risk of loss of a deposit in the event of the default of a financial institution. In addition, this section of the law requires that collateral be of the types specified in the State Finance and Procurement Article, Section 6-202 of the Code.

2. *Prepaid items*

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

3. *Capital assets*

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the Library as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The Library does not own the library building as other assets contributed to it from the County.

KENT COUNTY PUBLIC LIBRARY

Notes to the Financial Statements For the Year Ended June 30, 2020

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Assets, liabilities, deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

3. *Capital assets (continued)*

Depreciation on all assets is provided on the straight-line basis over the following useful lives.

<u>Asset Class</u>	<u>Lives</u>
Building and Improvements	7-39 years
Furniture, fixtures, and equipment	5 -7 years

4. *Library collection*

The Library collection which includes books, periodicals and audio visual materials are reported in the applicable governmental activities column in the government-wide financial statements. These assets are recorded at historical cost or estimated historical cost. They are amortized over seven years. Fully amortized assets are removed from original cost and accumulated amortization after they have been carried for ten years.

5. *Deferred outflows/inflows of resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Library has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Library has no items that qualify for reporting in this category.

KENT COUNTY PUBLIC LIBRARY

Notes to the Financial Statements For the Year Ended June 30, 2020

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Assets, liabilities, deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

6. Net position flow assumption

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

7. Fund balance flow assumptions

Sometimes the Library will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered balance. Unassigned fund balance is applied last.

8. Fund balance policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes.

Nonspendable – Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact. The Library reported \$15,633, relating to prepaid expenditures in this category.

Restricted – Amounts that can only be spent for specific purposes because of enabling legislation, constitutional provisions or externally imposed conditions by grantors, creditors or contributors. The Library did not report any restricted fund balances.

KENT COUNTY PUBLIC LIBRARY

Notes to the Financial Statements For the Year Ended June 30, 2020

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Assets, liabilities, deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

8. Fund balance policies (continued)

Committed – Amounts that can be used only for specific purposes are determined by formal action (adoption or amendment) by the Library Board of Trustees who are the highest level of decision making authority. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation. The Library reported \$160,742 of committed fund balance comprised of \$136,840 in Operating Reserves and \$23,902 for Health Care costs.

Assigned – Amounts in the assigned fund balance classification are intended to be used by the Library for specific purposes but do not meet the criteria to be classified as committed. The Library Board of Trustees may assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment. The Library reported \$15,000 of assigned fund balance to be utilized for the FY2021 Budget.

Unassigned – Amounts that are not included in other fund balance classifications. The Library reported \$168,503 of unassigned fund balance.

G. Revenues and expenditures/expenses

1. Program revenues

Amounts reported as *program revenues* include 1) charges to Library patrons who purchase, use, or directly benefit from goods, services, or privileges provided by the Library and 2) grants and contributions that are restricted to meeting the operational or capital requirements of the Library.

2. Compensated absences

Vacation

The Library's policy permits employees to accumulate earned but unused vacation benefits, which are eligible for payment upon separation from service. The liability for such leave is reported as incurred in the government-wide financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements.

KENT COUNTY PUBLIC LIBRARY

Notes to the Financial Statements For the Year Ended June 30, 2020

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Revenues and expenditures/expenses (continued)

2. *Compensated absences (continued)*

Vacation (continued)

The liability for compensated absences includes salary-related benefits, where applicable. The total liability for compensated absences as of June 30, 2020 was \$15,759.

Sick Leave

Accumulated sick leave lapses when employees leave the employ of the Library and, upon separation from service, no monetary obligation exists.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide 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 government-wide statement of net position. Reconciling items include the following:

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

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Detail of these reconciling transactions can be found on page 10.

B. Explanation of Certain Differences Between the Governmental Fund Statement Of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances - total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. Reconciling items include the following:

KENT COUNTY PUBLIC LIBRARY

Notes to the Financial Statements For the Year Ended June 30, 2020

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (continued)

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities (continued)

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation/amortization expense.

The net effect of various miscellaneous transactions involving capital assets (i.e., sales and donations) is to increase net position.

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.

Detail of these reconciling transactions can be found on page 12.

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Cash Deposits with Financial Institutions and Investments

Custodial credit risk-deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Library's deposits may not be returned to it. The Library maintains two bank accounts at PNC Bank. As of June 30, 2020, the carrying amount of the Library's deposits was \$367,692, the bank balance in the checking account was \$222,408 and the bank balance in the money market account was \$199,705, all of which is insured by the Federal Deposit Insurance Corporation.

B. Receivables

The Library had the following receivables at June 30, 2020:

<u>Receivable From</u>	<u>Amount</u>
Kent County	\$ 57,127
Eastern Shore Regional Library Grant	21,905
Maryland State Department of Education Grant	2,452
Foundation for the Kent County Public Library	947
Total	<u>\$ 82,431</u>

The Library does not have any allowance for doubtful accounts related to the above receivables. The Library expects to receive all of the receivables listed above within one year.

KENT COUNTY PUBLIC LIBRARY

Notes to the Financial Statements For the Year Ended June 30, 2020

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

C. Capital Assets

Capital asset activity for the year ended June 30, 2020 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Computers & equipment	\$ 90,804	\$ -	\$ -	\$ 90,804
Furniture & fixtures	58,476	-	-	58,476
Library improvements	33,614	-	-	33,614
Less: accumulated depreciation	175,701	771	-	176,472
Net Capital Assets	<u>\$ 7,193</u>	<u>\$ (771)</u>	<u>\$ -</u>	<u>\$ 6,422</u>

D. Library Collection

Library collections and related accumulated amortization activity for the year ended June 30, 2020 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets	\$ 727,596	\$ 47,733	\$ (98,619)	\$ 676,710
Less: accumulated depreciation	519,892	60,959	(98,619)	482,232
Net Library Collection	<u>\$ 207,704</u>	<u>\$ (13,226)</u>	<u>\$ -</u>	<u>\$ 194,478</u>

E. Accrued liabilities

Accrued liabilities reported by the Library at June 30, 2020 were as follows:

<u>Accrued Liability</u>	<u>Amount</u>
Payroll	\$ 34,474
Unemployment Obligation	5,000
Total Accrued Liabilities	<u>\$ 39,474</u>

KENT COUNTY PUBLIC LIBRARY

Notes to the Financial Statements For the Year Ended June 30, 2020

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

F. Pension obligation

Plan Description. All full-time personnel employed in a Library position participate in the Teachers' Retirement System or the Teachers' Pension System of the State of Maryland. All other eligible permanent employees excluded above are enrolled in the Maryland State Employees' Retirement System or the Employees' Pension System.

These systems are part of the Maryland State Retirement and Pension System (the State System), and are cost-sharing multiple-employer public employee retirement systems. The State System provides pension, death and disability benefits to plan members and beneficiaries.

The retirement plans are administered by the State Retirement Agency (the Agency). Responsibility for the administration and operation of the State System is vested in a seven-member Board of Trustees. The State System was established by the State Personnel and Pensions Article of the Annotated Code of Maryland. The Agency issues a publicly available financial report that includes basic financial statements and required supplementary information for the State System. The report may be obtained by writing to the State Retirement and Pension System of Maryland, 120 East Baltimore Street, Baltimore, Maryland 21202, or by calling 410-625-5555.

Funding Policy. The State Personnel and Pensions Article requires active members to contribute to the State System at a percentage of their covered salary depending upon the retirement option selected. The State funds substantially all the employer's annual contributions. The Library has no contingent liability for funding deficits in the system should such occur.

Information included in the MSRPS financial statements. Actuarial assumptions, long-term expected rate of return on pension plan investments, discount rate, and pension plan fiduciary net position available at www.sra.state.md.us/Agency/Downloads/CAFR/.

The Library provides pension contributions for normal cost and accrued actuarial liability. For the year ended June 30, 2020, the Library's total payroll and payroll for covered employees was \$500,917. No contributions were made by the Library for the year ended June 30, 2020. For fiscal year 2020, the State contributed \$82,363 to the State Retirement and Pension System on behalf of the Library. The State's contribution amount has been shown as State revenue and pension expenditure. The State's contribution amounted to approximately 16% of covered payroll.

KENT COUNTY PUBLIC LIBRARY

Notes to the Financial Statements For the Year Ended June 30, 2020

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

G. Risk management

The Library is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Library is covered under Kent County's commercial insurance, with the exception of unemployment insurance.

For property, general, excess and environmental liability coverage, the County is a member of the Maryland Local Government Insurance Trust (LGIT). This trust is a public entity risk pool, which is owned and directed by the local governments that subscribe to its coverage's and operates under the terms of a Trust Agreement.

The Library is fully insured for worker's compensation through the Injured Worker's Insurance Fund of Maryland. No insurance settlement has exceeded the coverage to date. The Library maintains a \$5,000 reserve against potential future unemployment claims.

H. Lease obligations – operating leases

The Library leases building space for its North County branch and five Xerox copiers. Total costs for the leases were \$27,823 for the year ended June 30, 2020. The future minimum lease payments for these leases are as follows:

Year Ending June 30,	North County Branch	Xerox Copier	Total
2021	\$ 10,500	\$ 6,823	\$ 17,323
2022	-	6,823	6,823
2023	-	956	956
2024	-	46	46
2025	-	-	-
Total	<u>\$ 10,500</u>	<u>\$ 14,648</u>	<u>\$ 25,148</u>

In addition, the Library must reimburse the lessor of the North County branch 42% of the annual real estate taxes, trash collection, maintenance, and snow removal. Said reimbursement is to be billed and payable annually on June 1st. For the year ended 2020, this amount was \$4,352.

I. Short term debt

During 2020, the Library renewed a \$25,000 line of credit agreement with PNC Bank for operating needs. The agreement is for a period of one year and is subject to renewal. There has been no activity on the credit line during the year and the balance remains at \$0.

KENT COUNTY PUBLIC LIBRARY

Notes to the Financial Statements For the Year Ended June 30, 2020

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

J. Contingencies

The Library receives a substantial amount of its support from the local and state government. A significant reduction in the level of support, if this were to occur, may have an effect on the Library's programs and activities.

The Library is the recipient of various State and other grants. The Library may be under obligation to repay these grant funds if upon final review by the respective granting agencies, the funds expended did not meet the established program objectives. Management is not aware of any repayment requests affecting these financial statements to be applied. It is the Library's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund

REQUIRED SUPPLEMENTARY INFORMATION

KENT COUNTY PUBLIC LIBRARY

**Schedule of Revenues - Budget and Actual - General Fund
For the Year Ended June 30, 2020**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Appropriations:				
State of Maryland	\$ 104,950	\$ 187,313	\$ 187,313	\$ -
Kent County	685,526	685,526	685,526	-
Municipalities	2,500	2,500	2,500	-
State and other grants	75,000	98,179	82,092	(16,087)
Fees	11,800	11,800	8,458	(3,342)
Donations - restricted	15,000	49,701	33,674	(16,027)
Donations - unrestricted	4,900	4,900	4,176	(724)
Miscellaneous revenue	2,000	2,000	3,019	1,019
Total Revenues	<u>\$ 901,676</u>	<u>\$ 1,041,919</u>	<u>\$ 1,006,758</u>	<u>\$ (35,161)</u>

KENT COUNTY PUBLIC LIBRARY

Schedule of Expenditures - Budget and Actual - General Fund For the Year Ended June 30, 2020

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
EXPENDITURES				
Salaries and related costs				
Gross salaries	\$ 546,164	\$ 543,114	\$ 524,072	\$ 19,042
Payroll taxes	34,474	37,308	37,308	-
Health insurance	140,560	137,726	79,337	58,389
State on-behalf payments for retirements	-	82,363	82,363	-
Total salaries and related costs	<u>721,198</u>	<u>800,511</u>	<u>723,080</u>	<u>77,431</u>
Operating expenditures				
Legal services	200	3,300	3,300	-
Accounting services	12,895	12,895	12,843	52
Copiers	12,000	12,046	10,455	1,591
Software maintenance	5,559	3,704	3,655	49
Library programing	5,000	29,425	17,421	12,004
Building repairs and security	4,878	6,801	6,692	109
Utilities	35,300	35,300	29,054	6,246
Telecommunications	3,000	3,753	3,753	-
Staff development and travel	14,150	24,238	13,380	10,858
Postage	3,000	2,260	1,933	327
Supplies	9,000	14,080	13,483	597
Equipment	5,000	5,721	1,544	4,177
Insurance	4,950	6,050	5,792	258
Rent	26,000	26,000	25,352	648
Capital Outlay	-	130,000	70,036	59,964
Miscellaneous	3,946	3,769	2,336	1,433
Total operating expenditures	<u>144,878</u>	<u>319,342</u>	<u>221,029</u>	<u>98,313</u>
Library materials				
Books	32,746	33,377	31,359	2,018
Periodicals	7,854	7,854	7,309	545
Audio/visual	10,000	10,835	9,065	1,770
Total library materials	<u>50,600</u>	<u>52,066</u>	<u>47,733</u>	<u>4,333</u>
Total expenditures	<u>916,676</u>	<u>1,171,919</u>	<u>991,842</u>	<u>180,077</u>
Excess of revenues over expenditures	(15,000)	(130,000)	14,916	144,916
Fund balance - beginning	<u>195,136</u>	<u>180,136</u>	<u>344,962</u>	<u>164,826</u>
Fund Balance - Ending	<u>\$ 180,136</u>	<u>\$ 50,136</u>	<u>\$ 359,878</u>	<u>\$ 309,742</u>

KENT COUNTY PUBLIC LIBRARY

Schedule of Proportionate Share of Net Pension Liability For the Year Ended June 30, 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Library's Proportion of the MSRPS Net Pension Liability	0%	0%	0%	0%	0%
Library's proportionate share of the MSRPS Net Pension Liability	\$ -	\$ -	\$ -	\$ -	\$ -
State's Proportionate Share of the MSRPS Net Pension Liability Associated with the Library	<u>\$ 809,296</u>	<u>\$ 837,601</u>	<u>\$ 831,890</u>	<u>\$ 913,685</u>	<u>\$ 727,167</u>
Library's covered-employee payroll	\$ 500,917	\$ 513,688	\$ 479,076	\$ 478,353	\$ 467,832
Fund's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-employee Payroll	0%	0%	0%	0%	0%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.34%	71.18%	69.38%	65.79%	68.78%



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

To the Board of Trustees of
Kent County Public Library
Chestertown, Maryland

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 Kent County Public Library (the Library) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements, and have issued our report thereon dated October 26, 2020.

Internal Control over Financial Reporting

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

A deficiency in internal controls 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 controls, 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 controls that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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



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Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal controls and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal controls 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 controls and compliance. Accordingly, this communication is not suitable for any other purpose.

Owings Mills, Maryland
October 26, 2020