

KENT COUNTY PUBLIC LIBRARY

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2011

KENT COUNTY PUBLIC LIBRARY

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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
Kent County Public Library

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### MEMBERS OF:

AMERICAN INSTITUTE OF  
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MARYLAND ASSOCIATION OF  
CERTIFIED PUBLIC ACCOUNTANTS

DELAWARE SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS

PKF INTERNATIONAL

We have audited the accompanying financial statements of the governmental activities and the major fund information of Kent County Public Library (the "Library") as of and for the year ended June 30, 2011, which collectively comprise the Library's basic financial statements, as listed in the Table of Contents. These financial statements are the responsibility of the Library's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 information of Kent County Public Library as of June 30, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 30, 2011, on our consideration of the Library's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 8, and the budgetary comparison schedule on page 24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Library's basic financial statements. The supplementary information on pages 25 through 26 is presented for purposes of additional analysis and is not a required part of the financial statements. These schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*PKS + Company, P.A.*

CERTIFIED PUBLIC ACCOUNTANTS

September 30, 2011

*GOVERNMENT AUDITING STANDARDS* REPORT



**PKS** & Company, P.A.  
Pigg, Krahl & Stern

**Certified Public Accountants  
& Advisors to Business**

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

To the Board of Trustees  
Kent County Public Library

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PKF INTERNATIONAL

We have audited the financial statements of the governmental activities and the major fund information of the Kent County Public Library (the "Library") as of and for the year ended June 30, 2011, which collectively comprise the Library's basic financial statements and have issued our report thereon dated September 30, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Library's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Library's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our 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*.

This report is intended solely for the information and use of the Board of Trustees, management, others within the entity, and federal and state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than those specified parties.

*PKS & Company, P.A.*

CERTIFIED PUBLIC ACCOUNTANTS

September 30, 2011

**KENT COUNTY PUBLIC LIBRARY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2011**

The Management's Discussion and Analysis (MD&A) offers readers of the Kent County Public Library's financial statements a narrative overview and analysis of the Library's financial activities for the fiscal year ended June 30, 2011. Readers are encouraged to consider the information presented here in conjunction with the financial statements and notes to the financial statements that immediately follow this discussion.

**USING THIS ANNUAL REPORT**

The annual report consists of four parts – Management's Discussion and Analysis (this section), the basic financial statements, required supplementary information, and other supplementary information. The basic financial statements include information that presents two different views of the Library:

Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities provide information about the activities of the Library as a whole and present a longer view of the Library's finances. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the Library's net assets and changes in them. The change in net assets – the difference between assets and liabilities – is one way of measuring the Library's financial health, or financial position. Increases or decreases in the Library's net assets are an indicator of whether its financial health is improving or deteriorating.

Governmental Funds Financial Statements

The Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances provide information on the Library's current financial resources. Fund financial statements report the Library's operations in more detail than the government-wide financial statements by providing information about the Library's most significant funds. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can be readily converted to cash. The differences between the Library's activities reported in the government-wide financial statements and the fund financial statements are shown in two reconciliations.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The notes are followed by a section of required supplementary information that includes a comparison to budgetary amounts.



**KENT COUNTY PUBLIC LIBRARY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2011**

**CONDENSED COMPARATIVE FINANCIAL INFORMATION**

The tables below compare key financial information in a condensed format between the current year and the prior year.

Table 1  
Net Assets

	2011	2010
Current and other assets	\$ 95,181	\$ 25,067
Capital assets, net	309,958	375,621
	405,139	400,688
 Total liabilities	 43,783	 127,031
 Net assets		
Invested in capital assets, net of related debt	307,854	370,946
Unrestricted-undesignated	53,502	(97,289)
	\$ 361,356	\$ 273,657

Table 2  
Changes in Net Assets

	2011	2010
County, State and local appropriations	\$ 646,564	\$ 670,181
Federal, State and other grants	118,257	170,852
Other revenue	108,877	162,164
Total revenues	873,698	1,003,197
Expenses	785,999	930,769
 Change in net assets	 \$ 87,699	 \$ 72,428

**KENT COUNTY PUBLIC LIBRARY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2011**

**THE LIBRARY AS A WHOLE**

The Library's total net assets increased by \$87,699 from \$273,657 at June 30, 2010 to \$361,356 at June 30, 2011.

Revenues decreased from \$1,003,197 in 2010 to \$873,698 in 2011. This change is the result of a decrease in the amount of the funding received from the Eastern Shore Regional Library, the State of Maryland and donations.

Expenses decreased from \$930,769 for the year ended June 30, 2010 to \$785,999 for the year ended June 30, 2011. This change is the result of decreased expenditures related to the decreased funding from the State and Eastern Shore Regional Library, as well as cost control measures implemented during the year.

**THE LIBRARY'S GOVERNMENTAL FUNDS**

The fund balance increased by \$150,791 from a deficit of \$97,289 in 2010 to a surplus of \$53,502 for 2011.

**BUDGETARY HIGHLIGHTS**

Total revenues in general fund, were \$14,391 higher than the final budgeted total of \$859,308. This was primarily due to a higher volume of fees than anticipated.

Expenditures in general fund were \$63,208 lower than the final budgeted total of \$786,116. The largest favorable variances occurred in salaries and benefits due to vacancies and utilities.

The Library's budget is prepared on the modified accrual basis of accounting. The Library's original budget of \$707,258 was amended to \$786,116. The most significant changes were the addition of State on behalf of retirement payments (\$63,174) and unemployment costs (\$10,660).

**CAPITAL ASSETS**

At the end of 2011, the Library had invested \$971,587 in a broad range of capital assets including equipment, books and media, and library improvements. This amount represents a net increase of \$3,149 over last year's amount.

This year's major additions included library and audio-visual materials of \$40,855.

The debt portion servicing the assets amounts to \$2,104.

**KENT COUNTY PUBLIC LIBRARY  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2011**

**CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS**

Fiscal 2011 was a year of dramatic change for the Kent County Public Library.

With the exception of one Trustee, all of the Trustees that were in place at the end of fiscal year 2010 resigned and were succeeded by six new members appointed in late 2010.

Before the "New" Board took office, the "Old" Board enacted a number of policies which had a significant impact on the finances of the Library for FY 2011. The "Old" Board revised the FY 2011 Budget and reduced authorized spending in a number of areas. The County Office of Finance was engaged to provide accounting support to the Library. Costs were lowered by the following factors and interventions: 1.) the resignation of the former Director of the Library, a position that was not filled until August 2011, 2.) fewer purchases of new books and other media, 3.) reduced training and staff development costs, and 4.) a reduction in Library and staff hours. The Board of Trustees is grateful to Acting Director Christina Roseberry, who successfully guided the Library through a very difficult time where the work place was changing almost daily. Christina's experience, knowledge, and management skills served the Library during this time of need in an exemplary fashion.

The "Old" Board initiated several dynamic outreach programs spearheaded by the "Love the Library" campaign. Support from the following organizations and municipalities helped keep the Library running: 1.) The Friends of the Library, 2.) the Chestertown Library Inc., 3.) the Kent County Library Foundation, 4.) the Towns of Chestertown, and Galena, and 5.) funding flexibility by the Eastern Shore Regional Library.

The combination of lower expenses, and enhanced support from the community allowed the Library to report a significant turnaround in its finances in FY 2011. These actions allowed us to repay all of our Line of Credit debt, to repay all of the money the County advanced us, and to become current with all vendors. Also, a small cushion was created for an expected difficult fiscal situation as our primary funding institutions experience their own financial challenges.

Additionally, in fiscal 2011 we resolved an issue with the County concerning an alleged debt for capital improvements that were made in 2009. As a result of discussions with the County, it was agreed that all required payments had been fulfilled.

Our budget for FY 2012 reflects the hiring of an excellent full time Director of the Library, effective August 15, 2011. The new Director, Jacqueline Adams, with MLS and MBA Degrees, not only brings excellent skills in library science, but also expertise in business management. We expect to fill all vacant positions during FY 2012, eliminate furlough days, substantially increase the purchase of new books and other media, resume staff development, return to a more normal work environment, and end the year with a small surplus.

**KENT COUNTY PUBLIC LIBRARY  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2011**

**CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS (continued)**

Approximately 80% of the FY 2012 budgeted revenues of the Library come from government sources, with the remainder coming from private sources. We expect costs to continue to rise over the next several years, but we also expect government funding to be very constrained. All levels of government will be dealing with lower tax revenues and declines in other funding sources. Less money from government means that we have to increase contributions from the general public if we want to keep library services at an acceptable level. Therefore, we need to count on increased support from the Foundation of the Kent County Public Library and the Friends of the Library to achieve our goals.

**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 the Library Director, Kent County Public Library, 408 High Street, Chestertown, Maryland 21620.

KENT COUNTY PUBLIC LIBRARY

STATEMENT OF NET ASSETS

JUNE 30, 2011

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash	\$ 65,858
Accounts receivable, other	17,433
Prepaid expenses	11,890
Capital assets	182,895
Less accumulated depreciation	(158,896)
Library collections	788,692
Less accumulated amortization	(502,733)
Total assets	<u>405,139</u>
<b>LIABILITIES</b>	
Accounts payable	19,953
Accrued payroll	18,069
Long-term liabilities	
Due within one year	
Compensated absences	3,657
Capital leases payable	1,926
Due in more than one year	
Capital leases payable	178
Total liabilities	<u>43,783</u>
<b>NET ASSETS</b>	
Invested in capital assets and library collections, net of related debt	307,854
Unrestricted	<u>53,502</u>
Total net assets	<u>\$ 361,356</u>

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

KENT COUNTY PUBLIC LIBRARY

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2011

	<u>Governmental Activities</u>
EXPENSES	
Library Services	
Salaries and related costs	\$ 531,172
Operating expenditures	143,408
Depreciation and amortization	111,419
Total expenses	<u>785,999</u>
PROGRAM REVENUE	
Charges for services	32,745
Operating grants and contributions	118,257
Total program revenue	<u>151,002</u>
Net program expense	<u>634,997</u>
GENERAL REVENUE	
State, County and local appropriations	646,564
Unrestricted donations	76,132
Total general revenue	<u>722,696</u>
Change in net assets	87,699
Net assets, beginning of year	<u>273,657</u>
Net assets, end of year	<u><u>\$ 361,356</u></u>

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

KENT COUNTY PUBLIC LIBRARY

BALANCE SHEET  
GOVERNMENTAL FUNDS

JUNE 30, 2011

	<u>Major Fund</u>
	<u>General Fund</u>
<b>ASSETS</b>	
Cash	\$ 65,858
Accounts receivable, other	17,433
Prepaid expenses	<u>11,890</u>
Total assets	<u><u>\$ 95,181</u></u>
<b>LIABILITIES AND FUND BALANCES</b>	
Liabilities	
Accounts payable	\$ 19,953
Accrued payroll	18,069
Accrued compensated absences	<u>3,657</u>
Total liabilities	<u>41,679</u>
Fund balances	
Unassigned	<u>53,502</u>
Total fund balances	<u>53,502</u>
Total liabilities and fund balances	<u><u>\$ 95,181</u></u>

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

KENT COUNTY PUBLIC LIBRARY

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS

YEAR ENDED JUNE 30, 2011

Total fund balances - governmental funds		\$ 53,502
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets and library collections used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Library collections	\$ 788,692	
Capital assets	182,895	
Accumulated amortization	(502,733)	
Accumulated depreciation	(158,896)	
Net capital assets	<u>309,958</u>	309,958
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consisted of:		
Capital lease		<u>(2,104)</u>
Net assets of governmental activities		<u>\$ 361,356</u>

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



STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCES  
GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2011

	General Fund
REVENUES	
Appropriations - State of Maryland	\$ 95,804
Appropriations - Kent County	541,266
Appropriations - Municipalities	9,494
Federal, State and other grants	118,257
Other	108,878
Total revenues	873,699
EXPENDITURES	
Current	
Salaries and related costs	531,172
Operating expenditures	143,129
Library materials	40,873
Debt service	7,734
Total expenditures	722,908
Net change in fund balance	150,791
Fund balance (deficit), beginning of year	(97,289)
 Fund balance, end of year	 \$ 53,502

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

KENT COUNTY PUBLIC LIBRARY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGE IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES

JUNE 30, 2011

Net change in fund balances - total governmental funds \$ 150,791

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

Capital outlays and the acquisition of library materials are reported  
as expenditures in governmental funds. However, in the statement of  
activities, the cost of capital assets and the cost of library materials  
is allocated over their estimated useful lives as depreciation expense  
or amortization expense. In the current period, these amounts are:

Acquisition of library materials	\$	40,853	
Acquisition of library equipment		4,901	
Depreciation expense		(21,417)	
Amortization expense		(90,001)	
		(90,001)	
Excess of depreciation and amortization expense over library material acquisitions			(65,664)

Governmental funds report repayment of debt as an expenditure. In  
contrast, the Statement of Activities treats such payments as a  
reduction in long-term liabilities

2,572

Change in net assets of governmental activities

\$ 87,699

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

KENT COUNTY PUBLIC LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

ORGANIZATION

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.

SUMMARY OF ACCOUNTING POLICIES

The Library receives substantial support from Kent County, Maryland and the Maryland State Department of Education. The Library's accounting policies conform to generally accepted accounting principles applicable to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing government accounting and financial reporting standards.

The following is a summary of the Library's significant accounting policies.

Reporting Entity

The Kent County Public Library is governed by a seven-member Board of Trustees (the "Board"). The Board has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Based upon criteria set forth by the Governmental Accounting Standards Board, the Library has no component units.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Library's financial statements include both government-wide (reporting the Library as a whole) and fund financial statements (reporting the Library's major and non-major funds).

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) 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 related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations.

KENT COUNTY PUBLIC LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

SUMMARY OF ACCOUNTING POLICIES (continued)

The statement of activities demonstrates the degree to which the direct expense of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes (1) charges to library patrons 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 meet the operational or capital requirements of a particular function or segment.

Fund Financial Statements

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 it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenue to be available if it is collected within 60 days of the end of the fiscal year. Grants and entitlement revenues are recognized when compliance with matching requirements are met. A receivable is established when the related expenditures exceed revenue receipts. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The Library reports the following major governmental fund:

General Fund: The General Fund is used to account for the general operations of the Library. All financial resources, except those required to be accounted for in another fund, are accounted for in the General Fund.

During 2011, the Library discontinued the use of the special revenue fund. State and Federal grants will be reported in the general fund.

Government-wide Net Assets

Government-wide net assets are divided into two major categories:

- Invested in capital assets, net of related debt – consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- Unrestricted – all other net assets are reported in this category.

When an expense is incurred that can be paid using either restricted or nonrestricted assets, the Library's policy is to first apply the expense toward unrestricted resources.

KENT COUNTY PUBLIC LIBRARY  
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Governmental Fund Balances

In the governmental fund financial statements, fund balances are classified as follows:

- *Nonspendable fund balance*—amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.
- *Restricted fund balance*—amounts that can be spent only for specific purposes because of the Library by-laws, state or federal laws, or externally imposed conditions by grantors or creditors.
- *Committed fund balance*—amounts that can be spent only for specific purposes determined by a formal action of the Board of Trustees ordinance or resolution.
- *Assigned fund balance*—amounts that are designated by the Board of Trustees for a particular purpose but are not spendable until a budget ordinance is passed or there is a majority vote approval by the Board of Trustees.
- *Unassigned fund balance*—all amounts not included in other spendable classifications.

In governmental funds, the Library's policy is to first apply the expenditure toward restricted fund balance and then to other, less restrictive classifications (committed and then assigned fund balances) before using unassigned fund balances.

Budget

An annual budget is adopted for the General Fund. The original budget and subsequent transfers are approved by the Library's Board of Trustees. Appropriations are for one year and lapse at year end. The modified accrual basis of accounting is followed for budgetary purposes.

Capital Assets

Capital assets are defined by the Library as assets with an initial cost of more than \$1,000 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. Depreciation on all assets is provided on the straight-line basis over the following useful lives.

KENT COUNTY PUBLIC LIBRARY  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2011

Capital Assets (continued)

Asset Class	Estimated Useful Lives
Building and improvements	7 - 39 years
Furniture, fixtures, and equipment	5 - 7 years

Library Collections

Library collections acquired over the past ten years are recorded at historical cost. They are amortized over seven years. Fully amortized books are removed from original cost and accumulated amortization after they have been carried for ten years.

Contributed Facilities

The Library occupies, without charge, certain premises located in government-owned buildings.

Accrued Compensated Absences

The Library accrues a liability for certain compensated absences that employees have earned but have not yet been paid. The Library estimates the portion to be used within the current fiscal year, and this portion is treated as a current liability in the General Fund balance sheet. Expenditures in the statement of revenues and expenditures for such items are the amounts accrued during the year that normally would be liquidated with expendable available financial resources. All accrued compensated absences are recorded in the government-wide financial statement. The total liability of compensated absences as of June 30, 2011 was \$3,657.

CASH

The Library follows Article 95, Section 22 of the Annotated Code of Maryland, which requires that deposits with financial institutions by local boards of education and public libraries 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. As of June 30, 2011, the carrying amount of the Library's deposits was \$65,858 and the bank balance was \$71,686, all of which was insured by the Federal Deposit Insurance Corporation.

KENT COUNTY PUBLIC LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets	\$ 177,994	\$ 4,901	\$	\$ 182,895
Less accumulated depreciation	137,479	21,417		158,896
Net capital assets	<u>\$ 40,515</u>	<u>\$ (16,516)</u>	<u>\$</u>	<u>\$ 23,999</u>

The site for the Library was acquired by Kent County and the construction of the building was paid for by Kent County at a cost of \$600,341. In addition to the Library land and building, original equipment costing \$34,244 was purchased for the Library by Kent County. During the year ended June 30, 1995, Kent County paid \$10,859 for part of the cost of a new roof for the Library. During the year ended June 30, 1999, Kent County paid \$1,448 for one half of the cost of an upgrade for the Library's fire detection system.

The Library also has capital assets that are used in its day to day operations that were originally purchased by Eastern Shore Regional Library and Friends of the Library. The total cost of the capital assets purchased by these organizations as of June 30, 2011 was \$30,851 and \$12,706, respectively. It is the policy of the Library not to include such assets in capital assets.

LIBRARY COLLECTION

Library collections and related accumulated amortization activity for the year ended June 30, 2011 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Cost	\$ 790,443	\$ 40,880	\$ 42,631	\$ 788,692
Less accumulated amortization	455,338	90,026	42,631	502,733
Net library collection	<u>\$ 335,105</u>	<u>\$ (49,146)</u>	<u>\$</u>	<u>\$ 285,959</u>

PENSION PLAN

General Plan Policies

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.

KENT COUNTY PUBLIC LIBRARY  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2011

General Plan Policies (continued)

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.

On-behalf payments made by the State of Maryland that represent contributions to a pension plan for which the employer government is not legally responsible were as follows:

	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
6/30/2009	\$ 45,435	100%	0
6/30/2010	\$ 58,213	100%	0
6/30/2011	\$ 63,174	100%	0

OPERATING LEASES

The Kent County Commissioners entered into a lease on behalf of the Library for space to be used exclusively as a branch of the Library in Galena, Maryland. Under the agreement with the Kent County Commissioners, the Library is responsible for all rental payment and operating expenses. The lease is a ten-year operating lease which began April 15, 2006, and for which rent expense was \$21,576 for the June 30, 2011 year end. The terms of the lease provide for a monthly rental of \$1,798 through April 1, 2012. Said rent is adjusted annually on March 1, based upon the Consumer Price Index (CPI), but not less than 2%, or more than 5%. Annual minimum rental payments due under this lease, exclusive of operating expenses, are as follows:



KENT COUNTY PUBLIC LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

OPERATING LEASES (continued)

<u>YEAR</u>	<u>RENT</u>
2012	\$ 21,576
2013	22,008
2014	22,448
2015-2016	<u>29,708</u>
Total	<u>\$ 95,740</u>

In addition, the Library must reimburse the lessor approximately 42% of the annual real estate taxes, trash collection, maintenance and snow removal. Said reimbursement is to be billed and payable annually on March 1. For fiscal year 2011, this amount was \$3,850.

In September 2008 the Library entered into a lease with CIT Technologies for computer equipment. This is a three-year operating lease with monthly payments of \$191. Annual payments under this lease are as follows:

<u>YEAR</u>	<u>RENT</u>
2012	<u>\$ 572</u>
Total	<u>\$ 572</u>

The Library currently has the following operating leases with Xerox for copier equipment:

<u>Date Entered</u>	<u>Term</u>	<u>Equipment</u>	<u>Monthly Payments</u>
February 2010	60 months	2-WC7232P Printers	\$ 774
March 2008	60 months	2-MFP Phasers	165
August 2008	60 months	1-6360DN Phasers	<u>59</u>
Total			<u>\$ 998</u>

KENT COUNTY PUBLIC LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

OPERATING LEASES (continued)

Annual payments under these leases are as follows:

<u>YEAR</u>	<u>RENT</u>
2012	\$ 11,986
2013	11,324
2014	9,348
2015	<u>5,418</u>
Total	<u>\$ 38,076</u>

CAPITAL LEASE

The Library entered into a three year capital lease with CIT Technologies in July 2009 for computer equipment, at a stated interest rate of 19.46%, which will become the property of the Library when all terms of the lease agreement are met. The assets and liabilities under the capital lease are recorded at the lower of the present value of the minimum lease payments or the fair value of the assets. Following is a summary of property held under capital lease at June 30, 2011:

Total cost of property held under capital lease	\$ 4,900
Less accumulated depreciation	<u>(3,131)</u>
Net property held under capital lease	<u>\$ 1,769</u>

Debt service requirements at June 30, 2011 are as follows:

	<u>Principal</u>	<u>Interest</u>
Year ending June 30, 2012	\$ 1,926	\$ 244
Year ending June 30, 2013	<u>178</u>	<u>3</u>
	<u>\$ 2,104</u>	<u>\$ 247</u>

Interest expense for the year ended June 30, 2011 was \$888.

KENT COUNTY PUBLIC LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

LINE OF CREDIT

In April 2011, 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. The interest rate is 4.25%. As of June 30, 2011, the Library had no outstanding balance on the line of credit.

Balance, beginning of year	\$ 25,000
Decreases	<u>(25,000)</u>
Balance, end of year	<u><u>\$</u></u>

RISK MANAGEMENT

The Library is exposed to risks of loss in areas of property, liability, workers' compensation, unemployment insurance, employee health, dental, and life insurance. The Library is covered under Kent County's commercial insurance policies except for unemployment insurance. In prior years, the Library has made contributions to an unemployment fund escrow account. During the year ended June 30, 2011, there was no significant reduction in insurance coverage. Kent County's workers' compensation policy premium is adjusted retroactively based on the actual wages paid and the policy rate during the policy period.

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 may be the recipient of various Federal and 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.

REQUIRED SUPPLEMENTARY INFORMATION

KENT COUNTY PUBLIC LIBRARY

REQUIRED SUPPLEMENTARY INFORMATION  
 BUDGETARY COMPARISON SCHEDULE  
 GENERAL FUND

YEAR ENDED JUNE 30, 2011

	Original Budget	Final Budget	Actual Balances	Variance Favorable (Unfavorable)
<b>REVENUES</b>				
Appropriations - State of Maryland	\$ 95,804	\$ 95,804	\$ 95,804	\$
Appropriations - Kent County	541,266	541,266	541,266	
Appropriations - Municipalities	7,500	9,493	9,494	1
Federal, State and other grants	75,000	118,257	118,257	
Other	41,600	94,488	108,878	14,390
Total revenues	<u>761,170</u>	<u>859,308</u>	<u>873,699</u>	<u>14,391</u>
<b>EXPENDITURES</b>				
Current				
Salaries and related costs	492,499	575,821	531,172	44,649
Operating expenditures	149,709	159,380	143,129	16,251
Library materials	56,400	42,265	40,873	1,392
Debt service	8,650	8,650	7,734	916
Total expenditures	<u>707,258</u>	<u>786,116</u>	<u>722,908</u>	<u>63,208</u>
Net change in fund balance	<u>\$ 53,912</u>	<u>\$ 73,192</u>	<u>\$ 150,791</u>	<u>\$ 77,599</u>

SUPPLEMENTARY INFORMATION

KENT COUNTY PUBLIC LIBRARY

SCHEDULE OF REVENUES—BUDGET AND ACTUAL  
GENERAL FUND

YEAR ENDED JUNE 30, 2011

	Original Budget	Final Amended Budget	Actual Revenue	Variance Favorable (Unfavorable)
General fund				
Appropriations				
State of Maryland	\$ 95,804	\$ 95,804	\$ 95,804	\$
Kent County	541,266	541,266	541,266	
Municipalities	7,500	9,493	9,494	1
Total appropriations	<u>644,570</u>	<u>646,563</u>	<u>646,564</u>	<u>1</u>
Federal, State and other grants				
ESRL grant	75,000	55,083	55,083	
Retirement contributions - State of Maryland		63,174	63,174	
Total Federal, State and other grants	<u>75,000</u>	<u>118,257</u>	<u>118,257</u>	
Other				
Fees	21,600	21,600	32,745	11,145
Donations	20,000	72,888	76,133	3,245
Total other	<u>41,600</u>	<u>94,488</u>	<u>108,878</u>	<u>14,390</u>
Total revenues	<u>\$ 761,170</u>	<u>\$ 859,308</u>	<u>\$ 873,699</u>	<u>\$ 14,391</u>

KENT COUNTY PUBLIC LIBRARY

SCHEDULE OF EXPENDITURES—BUDGET AND ACTUAL  
GENERAL FUND

YEAR ENDED JUNE 30, 2011

	Original Budget	Final Amended Budget	Actual Expenditures	Variance Favorable (Unfavorable)
<b>Salaries and related costs</b>				
Gross salaries	\$ 384,955	\$ 389,295	\$ 351,803	\$ 37,492
Payroll taxes	29,449	30,597	27,269	3,328
Health insurance	78,095	82,095	69,360	12,735
Unemployment		10,660	19,566	(8,906)
State on-behalf payments for retirements		63,174	63,174	
<b>Total salaries and related costs</b>	<u>492,499</u>	<u>575,821</u>	<u>531,172</u>	<u>44,649</u>
<b>Operating expenditures</b>				
Legal services	6,000	10,000	9,845	155
Accounting services	16,000	17,250	17,164	86
Copiers	16,500	18,762	18,761	1
Computer services	3,450	3,188	3,189	(1)
Software maintenance	4,000	3,450	3,450	
Library programing	5,000	4,400	4,400	
Buildiding repairs and security	2,250	2,250	1,214	1,036
Utilities	40,760	37,965	29,792	8,173
Telecommunications	6,800	6,693	5,992	701
Staff development and travel	2,000	4,851	4,531	320
Postage	3,000	3,000	2,618	382
Supplies	10,000	10,549	7,032	3,517
Insurance	5,066	7,066	5,758	1,308
Rent	26,163	26,163	25,426	737
Miscellaneous	2,720	3,793	3,957	(164)
<b>Total operating expenditures</b>	<u>149,709</u>	<u>159,380</u>	<u>143,129</u>	<u>16,251</u>
<b>Library materials</b>				
Books	44,900	33,625	32,233	1,392
Periodicals	4,000	3,262	3,262	
Audio/visual	7,500	5,378	5,378	
<b>Total library materials</b>	<u>56,400</u>	<u>42,265</u>	<u>40,873</u>	<u>1,392</u>
<b>Debt service</b>				
Credit line interest	1,500	1,500	584	916
Capital lease payments	7,150	7,150	7,150	
<b>Total debt service</b>	<u>8,650</u>	<u>8,650</u>	<u>7,734</u>	<u>916</u>
<b>Total expenditures</b>	<u>\$ 707,258</u>	<u>\$ 786,116</u>	<u>\$ 722,908</u>	<u>\$ 63,208</u>