

**KENT COUNTY PUBLIC LIBRARY**

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

**For the Year Ended June 30, 2014**



**SB & COMPANY, LLC**  
EXPERIENCE • QUALITY • CLIENT SERVICE

**JUNE 30, 2014**

**CONTENTS**

<b>REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS</b>	1
<b>MANAGEMENT’S DISCUSSION AND ANALYSIS</b>	3
<b>FINANCIAL STATEMENTS</b>	
<b>Government-wide Financial Statements</b>	
Statement of Net Position and Governmental Funds Balance Sheet	8
Reconciliation of the Governmental Fund Balance to the Statement of Net Position	9
Statement of Activities and Governmental Funds	
Statement of Revenue, Expenditures, and Change in Fund Balance	10
Reconciliation of the Statement of Revenue, Expenditures, and Change in Fund Balance - Governmental Fund to the Statement of Activities	11
Notes to the Financial Statements	12
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Supplemental Schedule of Revenues - Budget and Actual - General Fund	24
Supplemental Schedule of Expenditures - Budget and Actual - General Fund	25
<b>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</b>	26



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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, 2014, 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. 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.



### ***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, 2014, 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 and budgetary comparison information, 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 also issued our report dated October 8, 2014, 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, 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 control over financial reporting or 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 audits.

Hunt Valley, Maryland  
October 8, 2014

## **KENT COUNTY PUBLIC LIBRARY**

### **Management's Discussion and Analysis For the Year Ended June 30, 2014**

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, 2014. 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 2014 by \$363,903 (*net position*). Of this amount, \$113,369 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 \$23,746.
- As of the close of fiscal year 2014, the Library's governmental fund (general fund) reported combined ending fund balances of \$113,369; a decrease of \$14,371 in comparison with the prior year. Approximately 96% of this amount (\$108,428) is available for spending at the Library's discretion (*unassigned fund balance*).
- At the end of fiscal year 2014, the unrestricted fund balance (the total of the *committed*, *assigned*, and *unassigned* components of *fund balance*) for the general fund was \$108,428, or approximately 12.8% 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, 2014**

#### **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 12-22 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 24-25 of this report.

## KENT COUNTY PUBLIC LIBRARY

### Management's Discussion and Analysis For the Year Ended June 30, 2014

#### Kent County Public Library's Net Position

	<u>2014</u>	<u>2013</u>	<u>Increase/ (Decrease)</u>
Current and other assets	\$ 174,348	\$ 192,514	\$ (18,166)
Capital assets, net	<u>250,534</u>	<u>259,909</u>	<u>(9,375)</u>
Total Assets	<u>424,882</u>	<u>452,423</u>	<u>(27,541)</u>
Liabilities	<u>60,979</u>	<u>64,774</u>	<u>(3,795)</u>
Net Position:			
Net invested in capital assets	250,534	259,909	(9,375)
Unrestricted	<u>113,369</u>	<u>127,740</u>	<u>(14,371)</u>
Total Net Position	<u>\$ 363,903</u>	<u>\$ 387,649</u>	<u>\$ (23,746)</u>

#### Kent County Public Library's Changes in Net Position

	<u>2014</u>	<u>2013</u>	<u>Increase/ (Decrease)</u>
Revenues:			
County, State, and Local appropriations	\$ 643,921	\$ 634,202	\$ 9,719
State and other grants	139,061	118,048	21,013
Fees	23,296	25,662	(2,366)
Restricted donations	15,598	39,958	(24,360)
Unrestricted donations	5,286	20,625	(15,339)
Miscellaneous revenue	<u>3,663</u>	<u>4,422</u>	<u>(759)</u>
Total Revenues	<u>830,825</u>	<u>842,917</u>	<u>(12,092)</u>
Expenses:			
Salaries and related costs	627,861	587,528	40,333
Operating expenditures	148,628	174,909	(26,281)
Depreciation and amortization	<u>78,082</u>	<u>87,141</u>	<u>(9,059)</u>
Total Expenses	<u>854,571</u>	<u>849,578</u>	<u>4,993</u>
Change in Net Position	<u>\$ (23,746)</u>	<u>\$ (6,661)</u>	<u>\$ (17,085)</u>

The Library's revenues decreased by \$12,092. This was attributable to a drop in donations of \$39,699 which was partially offset by an increase of \$21,013 in State funding for employees retirement. The Library's expenses increased by \$4,993. Salaries and related costs increased \$40,333 primarily due to an increase in retirement costs (\$21,010) and health insurance (\$13,329). Operating expenditures decreased \$26,281 primarily in equipment (\$17,074) and supplies (\$7,882).

## **KENT COUNTY PUBLIC LIBRARY**

### **Management's Discussion and Analysis For the Year Ended June 30, 2014**

#### **Budgetary Highlights**

The Library's budget is prepared on the modified accrual basis of accounting. The Library's original budget of \$774,939 was amended to \$854,595. The most significant changes were the addition of \$64,061 for the State on-behalf payment for retirements and an increase of \$9,623 to the Library's programming expenses.

#### **Capital Assets**

At the end of 2014, the Library had invested \$1,068,479 in a broad range of capital assets including equipment, books and media, and Library improvements. This amount represents a net increase of \$11,359 over last year's amount. This year's major additions included Library and audio-visual materials of \$68,707.

#### **Currently Known Facts, Decisions, or Conditions**

Thanks to the diligent work of the Board of Trustees and their Finance Committee, along with the invaluable assistance of the County Finance Department, fiscal year 2014 for the Kent County Public Library remained fiscally stable.

The Library, with oversight from the Board of Trustees Finance Committee, regularly monitors expenditures. This allows the Library Board 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).

Trustee membership remained constant and their engagement remained high.

The community in the form of the municipalities, the Friends, the Foundation and the general community continued their support.

The targeted goals for the first year of the Strategic Long Range Plan, created in fiscal year 2013 to guide the Library for the next three years, were successfully implemented. A new organizational and salary structure for Library personnel continued to allow staff talents to flourish and to make modest strides to reflect appropriate compensation for the staff for their exceptional efforts.

Thanks to a generous grant from the Foundation for the Kent County Public Library, the Board of Trustees of the Kent County Public Library was able to unanimously approve the hiring of Globus Design Associates, a firm that specializes in Library renovations, to design an updated interior for the main Library in Chestertown

Rising costs and constrained government funding mean that the Library will continue to need contributions from the general public, the Foundation of the Kent County Public Library and the Friends of the Library in order to maintain modern Library services in our community.

## **KENT COUNTY PUBLIC LIBRARY**

### **Management's Discussion and Analysis For the Year Ended June 30, 2014**

#### **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 Jackie Adams, Library 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, 2014**

	<u>General Fund</u>	<u>Adjustments</u>	<u>Governmental Activities</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 154,562	\$ -	\$ 154,562
Receivables	14,845	-	14,845
Prepays	4,941	-	4,941
Capital assets, net net of accumulated depreciation			
Machinery, equipment and vehicles	-	71	71
Improvements	-	10,981	10,981
Library collections	-	239,482	239,482
<b>Total Assets</b>	<u>174,348</u>	<u>250,534</u>	<u>424,882</u>
<b>LIABILITIES</b>			
Accounts payable and other accrued liabilities	56,093	-	56,093
Due to Kent County	4,886	-	4,886
<b>Total Liabilities</b>	<u>60,979</u>	<u>-</u>	<u>60,979</u>
<b>FUND BALANCES / NET POSITION</b>			
<b>Fund Balances</b>			
Nonspendable - prepaids	4,941	(4,941)	-
Unassigned	108,428	(108,428)	-
<b>Total Fund Balances</b>	<u>113,369</u>	<u>(113,369)</u>	<u>-</u>
<b>Net Position</b>			
Net investment in capital assets	-	250,534	250,534
Unrestricted	-	113,369	113,369
<b>Total Net Position</b>	<u>\$ -</u>	<u>\$ 363,903</u>	<u>\$ 363,903</u>
 <b>Total Liabilities and Net Position</b>	 <u>\$ 174,348</u>	 <u>\$ 250,534</u>	 <u>\$ 424,882</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, 2014**

Total fund balances - governmental funds		\$ 113,369
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	33,614	
Improvements	149,280	
Library collections	885,585	
Total capital assets:	<u>1,068,479</u>	
Less accumulated depreciation and amortization	<u>(817,945)</u>	
		<u>250,534</u>
Net Position of Governmental Activities		<u><u>\$ 363,903</u></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, 2014**

	<u>General Fund</u>	<u>Adjustments</u>	<u>Governmental Activities</u>
<b>Revenues</b>			
Appropriations:			
State of Maryland	\$ 82,403	\$ -	\$ 82,403
Kent County	554,018	-	554,018
Municipalities	7,500	-	7,500
State and other grants	139,061	-	139,061
Fees	23,296	-	23,296
Donations:			
Restricted	15,598	-	15,598
Unrestricted	5,286	-	5,286
Miscellaneous revenue	3,663	-	3,663
<b>Total Revenues</b>	<u>830,825</u>	<u>-</u>	<u>830,825</u>
<b>Expenses</b>			
Salaries and related costs	627,861	-	627,861
Operating expenditures	148,628	-	148,628
Library materials	68,707	(68,707)	-
Depreciation and amortization	-	78,082	78,082
<b>Total Expenses</b>	<u>845,196</u>	<u>9,375</u>	<u>854,571</u>
Net change in fund balance	(14,371)	(9,375)	(23,746)
Fund balance, beginning of year	<u>127,740</u>	<u>259,909</u>	<u>387,649</u>
<b>Fund Balance, End of Year</b>	<u>\$ 113,369</u>	<u>\$ 250,534</u>	<u>\$ 363,903</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, 2014**

Net change in fund balances - total governmental funds		\$ (14,371)
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 expense.		
Capital outlay and library collection	68,707	
Depreciation and amortization expense	<u>(78,082)</u>	<u>(9,375)</u>
Change in Net Position of Governmental Activities		<u><u>\$ (23,746)</u></u>

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

# KENT COUNTY PUBLIC LIBRARY

## Notes to the Financial Statements June 30, 2014

### 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

June 30, 2014

### I. 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 June 30, 2014

### 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 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.

##### 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 June 30, 2014

### 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 June 30, 2014

### 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 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 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 \$4,941 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 June 30, 2014

### 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 did not report any committed fund balances.

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 did not report any assigned fund balances.

Unassigned – Amounts that are not included in other fund balance classifications. The Library reported \$108,428 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 June 30, 2014

### 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, 2014 was \$7,633.

###### 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.

Detail of these reconciling transactions can be found on page 9.

#### 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:

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.

# KENT COUNTY PUBLIC LIBRARY

## Notes to the Financial Statements June 30, 2014

### **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)*

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

Detail of these reconciling transactions can be found on page 11.

### **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. None of the Library's deposits are exposed to custodial credit risk. The Library maintains one bank account at PNC Bank. As of June 30, 2014, the carrying amount of the Library's deposits was \$154,562 and the bank balance was \$155,058, all of which was insured by the Federal Deposit Insurance Corporation.

#### **B. Receivables**

The Library had the following receivables at June 30, 2014:

<u>Receivable From</u>	<u>Amount</u>
Eastern Shore Regional Library Grant	\$ 12,871
Friends of the Library	1,974
<b>Total</b>	<b><u>\$ 14,845</u></b>

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  
June 30, 2014**

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

**C. Capital Assets**

Capital asset activity for the year ended June 30, 2014 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	171,022	820	-	171,842
Net Capital Assets	<u>\$ 11,872</u>	<u>\$ (820)</u>	<u>\$ -</u>	<u>\$ 11,052</u>

**D. Library Collection**

Library collections and related accumulated amortization activity for the year ended June 30, 2014 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets	\$ 874,226	\$ 68,707	\$ (57,348)	\$ 885,585
Less: accumulated depreciation	626,189	77,262	(57,348)	646,103
Net Library Collection	<u>\$ 248,037</u>	<u>\$ (8,555)</u>	<u>\$ -</u>	<u>\$ 239,482</u>

**E. Accrued liabilities**

Accrued liabilities reported by the Library at June 30, 2014 were as follows:

<u>Accrued Liability</u>	<u>Amount</u>
Payroll	\$ 20,650
Unemployment Obligation	5,000
Compensated Absences	7,633
<b>Total Accrued Liabilities</b>	<u><u>\$ 33,283</u></u>

**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.

# KENT COUNTY PUBLIC LIBRARY

## Notes to the Financial Statements June 30, 2014

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

#### F. Pension obligation (continued)

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.

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:

<b>For the Year Ended</b>	<b>Annual Pension Cost</b>	<b>% of APC Contributed</b>	<b>Net Pension Obligation</b>
2012	\$ 59,740	100%	\$ -
2013	43,051	100%	-
2014	64,061	100%	-

#### 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.

# KENT COUNTY PUBLIC LIBRARY

## Notes to the Financial Statements June 30, 2014

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

#### G. Risk management (continued)

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 Galena branch and five Xerox copiers. Total costs for the leases were \$32,920 for the year ended June 30 2014. The future minimum lease payments for these leases are as follows:

<b>Year Ending</b>				
<b>June 30,</b>	<b>Galena Branch</b>	<b>Xerox Copier</b>	<b>Total</b>	
2015	\$ 23,012	\$ 9,086	\$ 32,098	
2016	17,516	9,086	26,602	
2017	-	9,086	9,086	
2018	-	7,596	7,596	
<b>Total</b>	<b>\$ 40,528</b>	<b>\$ 34,854</b>	<b>\$ 75,382</b>	

In addition, the Library must reimburse the lessor of the Galena branch 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 the year ended 2014, this amount was \$3,822.

#### I. Short term debt

During 2014, 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.

#### 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.

**REQUIRED SUPPLEMENTARY INFORMATION**

**Kent County, Maryland**

**Supplemental Schedule of Revenues - Budget and Actual - General Fund  
For the Year Ended June 30, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Appropriations:				
State of Maryland	\$ 82,403	\$ 82,403	\$ 82,403	\$ -
Kent County	554,018	554,018	554,018	-
Municipalities	7,500	7,500	7,500	-
State and other grants	75,000	139,061	139,061	-
Fees	24,000	24,000	23,296	(704)
Donations - restricted	-	15,595	15,598	3
Donations - unrestricted	20,000	20,000	5,286	(14,714)
Miscellaneous revenue	-	-	3,663	3,663
Total Revenues	<u>\$ 762,921</u>	<u>\$ 842,577</u>	<u>\$ 830,825</u>	<u>\$ (11,752)</u>

**Kent County, Maryland**

**Supplemental Schedule of Expenditures - Budget and Actual - General Fund  
For the Year Ended June 30, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>EXPENDITURES</b>				
Salaries and related costs				
Gross salaries	\$ 446,270	\$ 446,270	\$ 440,477	\$ 5,793
Payroll taxes	32,131	32,131	31,362	769
Health insurance	111,374	111,374	91,961	19,413
State on-behalf payments for retirements	-	64,061	64,061	-
Total salaries and related costs	<u>589,775</u>	<u>653,836</u>	<u>627,861</u>	<u>25,975</u>
Operating expenditures:				
Legal services	1,000	1,000	-	1,000
Accounting services	8,730	8,730	8,776	(46)
Copiers	16,000	16,000	13,698	2,302
Software maintenance	1,500	4,000	4,118	(118)
Library programing	5,000	14,623	14,195	428
Building repairs and security	4,300	5,500	4,866	634
Utilities	32,984	32,984	33,695	(711)
Telecommunications	6,000	3,600	3,811	(211)
Staff development and travel	7,550	8,150	11,900	(3,750)
Postage	3,000	3,000	2,643	357
Supplies	7,000	7,000	9,709	(2,709)
Equipment	5,000	6,160	8,281	(2,121)
Insurance	5,500	4,000	3,607	393
Rent	28,560	28,560	26,361	2,199
Miscellaneous	2,240	2,240	2,968	(728)
Total operating expenditures	<u>134,364</u>	<u>145,547</u>	<u>148,628</u>	<u>(3,081)</u>
Library materials:				
Books	38,480	38,080	47,119	(9,039)
Periodicals	4,320	4,320	6,008	(1,688)
Audio/visual	8,000	8,000	10,900	(2,900)
Targeted Materials	-	4,812	4,680	132
Total library materials	<u>50,800</u>	<u>55,212</u>	<u>68,707</u>	<u>(13,495)</u>
Total expenditures	<u>\$ 774,939</u>	<u>\$ 854,595</u>	<u>\$ 845,196</u>	<u>\$ 9,399</u>
Excess of revenues over expenditures	(12,018)	(12,018)	(14,371)	(2,353)
Fund balance - beginning	<u>127,740</u>	<u>127,740</u>	<u>127,740</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 115,722</u>	<u>\$ 115,722</u>	<u>\$ 113,369</u>	<u>\$ (2,353)</u>



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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, 2014, 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 8, 2014.

***Internal Control over Financial Reporting***

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

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

Our consideration of internal control 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 control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hunt Valley, Maryland  
October 8, 2014

*SB & Company, LLC*