

KENT COUNTY PUBLIC LIBRARY

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

For the Year Ended June 30, 2015



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

JUNE 30, 2015

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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, 2015, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Kent County Public Library, as of June 30, 2015, 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.

Hunt Valley, Maryland
October 21, 2015

SB & Company, LLC

KENT COUNTY PUBLIC LIBRARY

Management's Discussion and Analysis For the Year Ended June 30, 2015

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, 2015. 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 of the Library exceeded its liabilities at the close of fiscal year 2015 by \$364,850 (*net position*). Of this amount, \$121,848 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 increased by \$947.
- As of the close of fiscal year 2015, the Library's governmental fund (general fund) reported combined ending fund balances of \$133,315; an increase of \$19,946 in comparison with the prior year. Approximately 94% of this amount (\$125,143) is available for spending at the Library's discretion (*unassigned fund balance*).
- At the end of fiscal year 2015, the unrestricted fund balance (the total of the *committed*, *assigned*, and *unassigned* components of *fund balance*) for the general fund was \$125,143, or approximately 14% 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, 2015

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 fund 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 12-25 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 27-28 of this report.

KENT COUNTY PUBLIC LIBRARY

Management's Discussion and Analysis For the Year Ended June 30, 2015

Kent County Public Library's Net Position

	<u>2015</u>	<u>2014</u>	<u>Increase/ (Decrease)</u>
Current and other assets	\$ 191,427	\$ 174,348	\$ 17,079
Capital assets, net	<u>243,002</u>	<u>250,534</u>	<u>(7,532)</u>
Total Assets	<u>434,429</u>	<u>424,882</u>	<u>9,547</u>
Liabilities	<u>69,579</u>	<u>60,979</u>	<u>8,600</u>
Net Position:			
Net invested in capital assets	243,002	250,534	(7,532)
Unrestricted	<u>121,848</u>	<u>113,369</u>	<u>8,479</u>
Total Net Position	<u>\$ 364,850</u>	<u>\$ 363,903</u>	<u>\$ 947</u>

Kent County Public Library's Changes in Net Position

	<u>2015</u>	<u>2014</u>	<u>Increase/ (Decrease)</u>
Revenues:			
County, State, and Local appropriations	\$ 684,268	\$ 643,921	\$ 40,347
State and other grants	156,744	139,061	17,683
Fees	23,759	23,296	463
Restricted donations	30,887	15,598	15,289
Unrestricted donations	7,043	5,286	1,757
Miscellaneous revenue	3,067	3,663	(596)
Total Revenues	<u>905,768</u>	<u>830,825</u>	<u>74,943</u>
Expenses:			
Salaries and related costs	675,568	627,861	47,707
Operating expenditures	155,142	148,628	6,514
Depreciation and amortization	74,111	78,082	(3,971)
Total Expenses	<u>904,821</u>	<u>854,571</u>	<u>50,250</u>
Change in Net Position	<u>\$ 947</u>	<u>\$ (23,746)</u>	<u>\$ 24,693</u>

The Library's revenues increased by \$74,943. This was attributable to an increase of \$42,009 in county funding, increased donations of \$17,046, and an increase of \$9,690 in State funding for employees retirement along with a new state grant in the amount of \$7,993. The Library's expenses increased by \$50,250. Salaries and related costs increased \$47,707 primarily due to an increase in salaries (\$16,391), retirement costs (\$9,690) and health insurance (\$16,107). Operating expenditures increased \$6,514 primarily in library programming (\$5,035).

KENT COUNTY PUBLIC LIBRARY

Management's Discussion and Analysis For the Year Ended June 30, 2015

Budgetary Highlights

The Library's budget is prepared on the modified accrual basis of accounting. The Library's original budget of \$793,268 was amended to \$905,509. The most significant changes were the addition of \$73,751 for the State on-behalf payment for retirements and an increase of \$16,275 to library materials and \$12,901 to the Library's programming expenses.

Capital Assets

At the end of 2015, the Library had invested \$1,067,466 in a broad range of capital assets including equipment, books and media, and Library improvements. This amount represents a net decrease of \$1,013 from last year's amount. This year's major additions included Library and audio-visual materials of \$66,579.

Currently Known Facts, Decisions, or Conditions

Thanks to the diligent work of the Board of Trustees, oversight from the Board Finance Committee, and the invaluable assistance of the County Finance Department, fiscal year 2015 was fiscally stable.

The Library Director and the Board of Trustees Finance Committee regularly monitored expenditures in order to establish a realistic operating budget to maintain and enhance modern library service in Kent County at all locations (Chestertown, North County, and Rock Hall). Proactively, the trustees, with the approval of the County Commissioners, re-negotiated the terms for the lease of the North County facility. Therefore, significant savings will be realized over the next five fiscal years.

The Kent County community at large, the municipalities, the Friends of the Kent County Public Library, and the Foundation for the Kent County Public Library Inc. continued their generous support in FY2015. KCPL was also the recipient of funds from a PNC Grow Up Great Grant and proceeds from the Emmanuel Church Christmas Bazaar.

As costs continue to rise, the library will still need support from sources such as those mentioned above in order to provide high quality, modern library services in our community.

KCPL was awarded \$93,000 as part of Maryland's County Public Library Capital Projects Grants Program to renovate restrooms and replace the circulation desk in the Chestertown Branch to conform to ADA requirements. Kent County Government will fund \$47,000 of this grant. The grant has been extended into FY 2016 when restrooms will be redesigned and ADA compliant fixtures installed and an updated and ADA compliant circulation desk will be purchased and installed.

The targeted goals for the third year of the Strategic Long Range Plan were successfully implemented thanks to KCPL's educated, skilled workers who possess high levels of technical

KENT COUNTY PUBLIC LIBRARY

Management's Discussion and Analysis For the Year Ended June 30, 2015

Currently Known Facts, Decisions, or Conditions (continued)

competency and the ability to perform multiple tasks. Retention of this staff is vital to the continuation of consistent and competent customer service and training for all citizens of Kent County.

Economic Factors

The Library has received several new revenue sources (MSDE-Library Services and Technology grant), increased grants and restricted donations from the Friends of the Library, PNC Bank, Emmanuel Church and the Library Foundation, and an increased allocation from Kent County. On the expenditure side, increases are expected in health insurance premiums, as well as other employee benefit costs.

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, 2015**

	<u>General Fund</u>	<u>Adjustments</u>	<u>Governmental Activities</u>
ASSETS			
Cash and cash equivalents	\$ 140,155	\$ -	\$ 140,155
Receivables	43,100	-	43,100
Prepays	8,172	-	8,172
Capital assets, net of accumulated depreciation			
Machinery, equipment and vehicles	-	72	72
Improvements	-	10,209	10,209
Library collections	-	232,721	232,721
Total Assets	<u>191,427</u>	<u>243,002</u>	<u>434,429</u>
LIABILITIES			
Accounts payable and other accrued liabilities	41,685	11,467	53,152
Intergovernmental Payable	871	-	871
Due to Kent County	13,229	-	13,229
Unearned Revenue	2,327	-	2,327
Total Liabilities	<u>58,112</u>	<u>11,467</u>	<u>69,579</u>
FUND BALANCES / NET POSITION			
Fund Balances			
Nonspendable - prepaids	8,172	(8,172)	-
Unassigned	125,143	(125,143)	-
Total Fund Balances	<u>133,315</u>	<u>(133,315)</u>	<u>-</u>
Net Position			
Net investment in capital assets	-	243,002	243,002
Unrestricted	-	121,848	121,848
Total Net Position	<u>\$ -</u>	<u>\$ 364,850</u>	<u>\$ 364,850</u>
Total Liabilities and Net Position	<u>\$ 191,427</u>	<u>\$ 243,002</u>	<u>\$ 434,429</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, 2015**

Total fund balances - governmental fund \$ 133,315

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

884,572

Total capital assets:

1,067,466

Less accumulated depreciation and amortization

(824,464)

243,002

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

Compensated absences

(11,467)

(11,467)

Net Position of Governmental Activities

\$ 364,850

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, 2015**

	<u>General Fund</u>	<u>Adjustments</u>	<u>Governmental Activities</u>
Revenues			
Appropriations:			
State of Maryland	\$ 80,741	\$ -	\$ 80,741
Kent County	596,027	-	596,027
Municipalities	7,500	-	7,500
State and other grants	156,744	-	156,744
Fees	23,759	-	23,759
Donations:			
Restricted	30,887	-	30,887
Unrestricted	7,043	-	7,043
Miscellaneous revenue	3,067	-	3,067
Total Revenues	<u>905,768</u>	<u>-</u>	<u>905,768</u>
Expenses			
Salaries and related costs	664,101	11,467	675,568
Operating expenditures	155,142	-	155,142
Library materials	66,579	(66,579)	-
Depreciation and amortization	-	74,111	74,111
Total Expenses	<u>885,822</u>	<u>18,999</u>	<u>904,821</u>
Net change in fund balance	19,946	(18,999)	947
Fund balance, beginning of year	<u>113,369</u>	<u>250,534</u>	<u>363,903</u>
Fund balance, end of year	<u>\$ 133,315</u>	<u>\$ 231,535</u>	<u>\$ 364,850</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, 2015**

Net change in fund balances - total governmental funds \$ 19,946

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	66,579	
Depreciation and amortization expense	<u>(74,111)</u>	<u>(7,532)</u>

Some expenses reported in the statement of activities do not require the use
of current financial resources and therefore, are not reported as expenditures
in the governmental funds.

Accrued compensated absences	<u>(11,467)</u>	<u>(11,467)</u>
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Change in Net Position of Governmental Activities		<u><u>\$ 947</u></u>
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The accompanying notes are an integral part of this financial statement.

KENT COUNTY PUBLIC LIBRARY

Notes to the Financial Statements June 30, 2015

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 Change 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, 2015

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, 2015

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, 2015

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, 2015

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 \$8,172 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, 2015

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 \$125,143 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, 2015

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, 2015 was \$11,467.

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 reconciliation between *fund balance - total governmental funds* and *net position - governmental activities* as reported in the government-wide statement of net position. Reconciling items include the following:

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

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

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

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

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

KENT COUNTY PUBLIC LIBRARY

Notes to the Financial Statements June 30, 2015

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

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

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

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

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Detail of these reconciling transactions can be found on page 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, 2015, the carrying amount of the Library's deposits was \$140,155 and the bank balance was \$140,277, all of which was insured by the Federal Deposit Insurance Corporation.

B. Receivables

The Library had the following receivables as of June 30, 2015:

<u>Receivable From</u>	<u>Amount</u>
Eastern Shore Regional Library Grant	\$ 32,897
MSDE/LSTA Grant	7,993
Library Foundation/Emmanuel Church	993
PNC Grant	818
Friends of the Library	18
Miscellaneous	381
Total	<u>\$ 43,100</u>

KENT COUNTY PUBLIC LIBRARY

**Notes to the Financial Statements
June 30, 2015**

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

B. Receivables (continued)

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.

C. Capital Assets

Capital asset activity for the year ended June 30, 2015 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	<u>171,842</u>	<u>771</u>	<u>-</u>	<u>172,613</u>
Net Capital Assets	<u>\$ 11,052</u>	<u>\$ (771)</u>	<u>\$ -</u>	<u>\$ 10,281</u>

D. Library Collection

Library collections and related accumulated amortization activity for the year ended June 30, 2015 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets	\$ 885,585	\$ 66,579	\$ (67,592)	\$ 884,572
Less: accumulated depreciation	<u>646,103</u>	<u>73,340</u>	<u>(67,592)</u>	<u>651,851</u>
Net Library Collection	<u>\$ 239,482</u>	<u>\$ (6,761)</u>	<u>\$ -</u>	<u>\$ 232,721</u>

E. Accrued liabilities

Accrued liabilities reported by the Library at June 30, 2015 were as follows:

<u>Accrued Liability</u>	<u>Amount</u>
Payroll	\$ 23,149
Unemployment Obligation	5,000
Total Accrued Liabilities	<u>\$ 28,149</u>

KENT COUNTY PUBLIC LIBRARY

Notes to the Financial Statements June 30, 2015

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

F. Pension obligation

Pensions. Certain employees of the Library are members of the Maryland State Retirement and Pension System. Employees are members of the Teachers Pension System of the State of Maryland (TPS). TPS is part of the State of Maryland Retirement and Pension System which is considered a single multiple employer cost sharing plan.

General Information about the Pension Plan

Plan description. The Library employees are provided with pensions through the Teachers Pension System of the State of Maryland (TPS)—a cost-sharing multiple-employer defined benefit pension plan administered by the Maryland State Retirement and Pension System (MSRPS). The State Personnel and Pensions Article of the Annotated Code of Maryland (the Article) grants the authority to establish and amend the benefit terms of TPS to the MSRPS Board of Trustees. MSRPS issues a publicly available financial report that can be obtained at www.sra.state.md.us/Agency/Downloads/CAFR/.

Benefits provided. A member of either the Teachers' Retirement System is generally eligible for full retirement benefits upon the earlier of attaining age 60 or accumulating 30 years of creditable service regardless of age. The annual retirement allowance equals 1/55 (1.81%) of the member's AFC multiplied by the number of years of accumulated creditable service.

An individual who is a member of the Teachers' Pension System on or before June 30, 2011, is eligible for full retirement benefits upon the earlier of attaining age 62, with specified years of eligibility service, or accumulating 30 years of eligibility service regardless of age. An individual who becomes a member of either the Teachers' or Employees' Pension System on or after July 1, 2011, is eligible for full retirement benefits if the member's combined age and eligibility service equals at least 90 years or if the member is at least age 65 and has accrued at least 10 years of eligibility service.

For most individuals who retired from the Teachers' Pension System on or before June 30, 2006, the annual pension allowance equals 1.2% of the member's AFC, multiplied by the number of years of creditable service accumulated prior to July 1, 1998, plus 1.4% of the member's AFC, multiplied by the number of years of creditable service accumulated subsequent to June 30, 1998. With certain exceptions, for individuals who are members of the Teachers' Pension System on or after July 1, 2006, the annual pension allowance equals 1.2% of the member's AFC, multiplied by the number of years of creditable service accumulated prior to July 1, 1998, plus 1.8% of the member's AFC, multiplied by the number of years of creditable service accumulated subsequent to June 30, 1998. Beginning July 1, 2011, any new member of the Teachers' or Employees' Pension System shall earn an annual pension allowance equal to 1.5% of the member's AFC multiplied by the number of years of creditable service accumulated as a member of the Teachers' Pension System.

KENT COUNTY PUBLIC LIBRARY

Notes to the Financial Statements June 30, 2015

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

F. Pension obligation (continued)

General Information about the Pension Plan (continued)

Exceptions to these benefit formulas apply to members of the Employees' Pension System, who are employed by a participating governmental unit that does not provide the 1998 or 2006 enhanced pension benefits or the 2011 reformed pension benefits. The pension allowance for these members equals 0.8% of the member's AFC up to the social security integration level (SSIL), plus 1.5% of the member's AFC in excess of the SSIL, multiplied by the number of years of accumulated creditable service. For the purpose of computing pension allowances, the SSIL is the average of the social security wage bases for the past 35 calendar years ending with the year the retiree separated from service.

Early Service Retirement

A member of the Teachers' Retirement System may retire with reduced benefits after completing 25 years of eligibility service. Benefits are reduced by 0.5% per month for each month remaining until the retiree either attains age 60 or would have accumulated 30 years of creditable service, whichever is less. The maximum reduction for a Teachers' Retirement System member is 30%.

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

Disability and Death Benefits

Generally, a member covered under retirement plan provisions who is permanently disabled after 5 years of service receives a service allowance based on a minimum percentage (usually 25%) of the member's AFC. A member covered under pension plan provisions who is permanently disabled after accumulating 5 years of eligibility service receives a service allowance computed as if service had continued with no change in salary until the retiree attained age 62. Death benefits are equal to a member's annual salary as of the date of death plus all member contributions and interest.

KENT COUNTY PUBLIC LIBRARY

Notes to the Financial Statements June 30, 2015

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

F. Pension obligation (continued)

General Information about the Pension Plan (continued)

Contributions. (TPS) The Article sets contribution requirements of the active employees and the participating governmental units are established and may be amended by the MSRPS Board. Employees are required to contribute 7% of their annual pay. The State of Maryland is responsible for all contributions to the Plan on behalf of the Library is responsible for the net pension liability of TPS. As such, the State of Maryland is responsible for 100% of the net pension liability related to TPS and qualifies for as a special funding situation. The State of Maryland's contribution on behalf of the Library for the year ended June 30, 2015 was \$73,751. The State's contractually required contribution rate on behalf of the Library for TPS for the year ended June 30, 2015, was \$73,751, which is actuarially determined as an amount that is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

As of June 30, 2015, the State of Maryland's proportionate share of the TPS net pension liability associated with the Library is approximately \$488,000. The TPS net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. State of Maryland's proportionate share of the TPS net pension liability associated with the Library was based on a projection of the State's long-term share of contributions to the pension plan relative to the projected contributions of all participating government units, actuarially determined.

Information included in the MSRPS financial statements

Actuarial assumptions, long-term expected rate of return on pension plan investments, discount rate, and pension plan fiduciary net position are available at www.sra.state.md.us/Agency/Downloads/CAFR/.

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.

KENT COUNTY PUBLIC LIBRARY

Notes to the Financial Statements June 30, 2015

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

G. Risk management (continued)

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

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

H. Lease obligations – operating leases

The Library leases building space for its Galena branch and five Xerox copiers. Total costs for the leases were \$31,886 for the year ended June 30 2015. The future minimum lease payments for these leases are as follows:

Year Ending				
June 30,	Galena Branch	Xerox Copiers	Total	
2016	\$ 17,516	\$ 9,086	\$ 26,602	
2017	-	9,086	9,086	
2018	-	7,596	7,596	
Total	\$ 17,516	\$ 25,768	\$ 43,284	

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 2015, this amount was \$4,038.

I. Short term debt

During 2015, 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.

KENT COUNTY PUBLIC LIBRARY

**Notes to the Financial Statements
June 30, 2015**

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

J. Contingencies (continued)

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, 2015**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Appropriations:				
State of Maryland	\$ 80,741	\$ 80,741	\$ 80,741	\$ -
Kent County	596,027	596,027	596,027	-
Municipalities	7,500	7,500	7,500	-
State and other grants	75,000	156,239	156,744	505
Fees	24,000	24,000	23,759	(241)
Donations - restricted	-	31,002	30,887	(115)
Donations - unrestricted	10,000	10,000	7,043	(2,957)
Miscellaneous revenue	-	-	3,067	3,067
Total Revenues	<u>\$ 793,268</u>	<u>\$ 905,509</u>	<u>\$ 905,768</u>	<u>\$ 259</u>

Kent County, Maryland

**Supplemental Schedule of Expenditures - Budget and Actual - General Fund
For the Year Ended June 30, 2015**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
EXPENDITURES				
Salaries and related costs				
Gross salaries	\$ 458,435	\$ 458,435	\$ 449,968	\$ 8,467
Payroll taxes	33,028	33,028	32,314	714
Health insurance	111,785	111,785	108,068	3,717
State on-behalf payments for retirements	-	73,751	73,751	-
Total salaries and related costs	<u>603,248</u>	<u>676,999</u>	<u>664,101</u>	<u>12,898</u>
Operating expenditures				
Legal services	1,000	153	-	153
Accounting services	11,498	11,498	11,540	(42)
Copiers	16,000	15,362	13,602	1,760
Software maintenance	4,000	5,130	4,747	383
Library programing	5,000	17,901	19,230	(1,329)
Building repairs and security	5,600	4,953	3,579	1,374
Utilities	33,950	34,597	35,542	(945)
Telecommunications	3,600	3,723	3,723	-
Staff development and travel	8,200	14,570	15,141	(571)
Postage	3,000	2,617	2,352	265
Supplies	7,000	6,538	5,681	857
Equipment	5,000	5,102	5,102	-
Insurance	6,000	5,748	5,187	561
Rent	27,000	30,800	26,838	3,962
Miscellaneous	2,372	2,743	2,878	(135)
Total operating expenditures	<u>139,220</u>	<u>161,435</u>	<u>155,142</u>	<u>6,293</u>
Library materials				
Books	38,480	50,283	50,577	(294)
Periodicals	4,320	5,629	5,567	62
Audio/visual	8,000	9,751	9,933	(182)
Targeted Materials	-	1,412	502	910
Total library materials	<u>50,800</u>	<u>67,075</u>	<u>66,579</u>	<u>496</u>
Total expenditures	<u>\$ 793,268</u>	<u>\$ 905,509</u>	<u>\$ 885,822</u>	<u>\$ 19,687</u>
Excess of revenues over expenditures	-	-	19,946	19,946
Fund balance - beginning	<u>113,369</u>	<u>113,369</u>	<u>113,369</u>	<u>-</u>
Fund Balance - ending	<u>\$ 113,369</u>	<u>\$ 113,369</u>	<u>\$ 133,315</u>	<u>\$ 19,946</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, 2015, 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 21, 2015.

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 21, 2015

SB & Company, LLC