

KENT COUNTY PUBLIC LIBRARY

FINANCIAL REPORT

JUNE 30, 2012



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Accounting Strategies Group, LLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Kent County Public Library
Chestertown, Maryland

We have audited the accompanying financial statements of the governmental activities and the major fund information of Kent County Public Library, (the Library) as of and for the year ended June 30, 2012, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund information of the Library, as of June 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 14, 2012 on our consideration of the Library's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 through 8 and 24 through 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Library's basic financial statements. The supplementary information on pages 26 through 28 is presented for purposes of additional analysis and is not a required part of the financial statements. These schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Accounting Strategies Group, LLC

Centreville, Maryland
September 14, 2012



Accounting Strategies Group, LLC

Certified Public Accountants

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

To the Board of Trustees
Kent County Public Library

In planning and performing our audit of the financial statements of the governmental activities of Kent County Public Library as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered Kent County Public Library's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Kent County Public Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Kent County Public Library's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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. We consider the following deficiencies in Kent County Public Library's internal control to be significant deficiencies:

Significant deficiencies noted in current year:

The Library employees maintain time records on an excel spreadsheet that are transferred by the Assistant Director to a payroll processing company. Neither the transmittal report to the company, nor the payroll reports from the company are printed and thereby have no documented review by an independent party at the Library. Further there is not documented review of employees payroll rate changes after they are made.

We understand the Library now has in place procedures to resolve the deficiencies noted above.

We noted certain other matters that we reported to management of the Library in a separate letter dated September 14, 2012.

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The Library's written response to the significant deficiencies identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, the Board of Trustees, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Accounting Strategies Group, LLC

Centreville, Maryland
September 14, 2012

KENT COUNTY PUBLIC LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

The Management's Discussion and Analysis (MD&A) offers readers of the Kent County Public Library's financial statements a narrative overview and analysis of the Library's financial activities for the fiscal year ended June 30, 2012. Readers are encouraged to consider the information presented here in conjunction with the financial statements and notes to the financial statements that immediately follow this discussion.

FINANCIAL HIGHLIGHTS

THE LIBRARY AS A WHOLE

- The Library's total net assets increased by \$32,954 from \$361,356 at June 30, 2011 to \$394,310 at June 30, 2012.
- Revenues decreased from \$873,698 in 2011 to \$849,361 in 2012. This change is primarily attributable to decreased donations.
- Expenses increased from \$785,999 for the year ended June 30, 2011 to \$816,407 for the year ended June 30, 2012. Salary and benefits increased because the Director position was filled. This position was vacant for most of the previous year. Also, Library material purchases increased due to additional funding provided by the Eastern Shore Regional Library.

THE LIBRARY'S GOVERNMENTAL FUNDS

- The fund balance increased by \$64,638 from \$53,502 in 2011 to \$118,140 for 2012.

USING THIS ANNUAL REPORT

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

Government-Wide Financial Statements

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

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

**KENT COUNTY PUBLIC LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

USING THIS ANNUAL REPORT – (CONTINUED)

Governmental Funds Financial Statements

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

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

CONDENSED COMPARATIVE FINANCIAL INFORMATION

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

Table 1 – Net Assets

	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 161,275	\$ 95,181
Capital assets, net	276,348	309,958
	<u>437,623</u>	<u>405,139</u>
 Total Liabilities	 <u>43,313</u>	 <u>43,783</u>
 Net Assets		
Invested in capital assets, net of related debt	276,170	307,854
Unrestricted, undesignated	118,140	53,502
	<u>\$ 394,310</u>	<u>\$ 361,356</u>

Table 2 – Changes in Net Assets

	<u>2012</u>	<u>2011</u>
County, State, and Local appropriations	\$ 727,394	\$ 646,564
State and other grants	59,740	118,257
Fees	32,486	32,745
Donations	29,741	76,132
Total Revenues	<u>849,361</u>	<u>873,698</u>
Expenses	<u>816,407</u>	<u>785,999</u>
Change in net assets	<u>\$ 32,954</u>	<u>\$ 87,699</u>

**KENT COUNTY PUBLIC LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

BUDGETARY HIGHLIGHTS

- Total revenues in the general fund, were \$2,493 lower than the final budgeted total of \$851,854. This was primarily due to a lower volume of donations than anticipated.
- Expenditures in general fund were \$47,839 lower than the final budgeted total of \$832,562. The largest favorable variances occurred in salaries and benefits and utilities.
- The Library's budget is prepared on the modified accrual basis of accounting. The Library's original budget of \$755,370 was amended to \$832,562. The most significant changes were the addition of State on behalf of retirement payments (\$59,740) and computer equipment (\$17,969).

CAPITAL ASSETS

- At the end of 2012, the Library had invested \$1,033,520 in a broad range of capital assets including equipment, books and media, and library improvements. This amount represents a net increase of \$61,933 over last year's amount.
- This year's major additions included library and audio-visual materials of \$61,933.
- The debt portion servicing the assets amounts to \$178.

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

Thanks to the continuing support of our patrons, the diligent work of the Board of Trustees and their Finance Committee, along with the invaluable assistance of the County Finance Department, Fiscal Year 2012 was a year of growth, expansion, creativity for the Kent County Public Library. We were pleased that for a second year in a row, we were able to report an increase in our Fund Balances

FY 2012 was characterized by a return to fiscal equilibrium. The Library was able to monitor actual expenditures and create a robust forecasting model to project expenditures throughout the year and into the future. These measures reflected a much needed movement toward establishing a realistic operating budget to maintain and enhance modern library service in Kent County at all locations (Chestertown, North County, and Rock Hall).

The financial position of the library continued to improve and there has been the opportunity to continue the cushion for the library for future tough times. Final budget results reflect a combined loss of a staff position and only a modest increase in material purchases. As we move forward it is our hope that we can increase our material purchases to a level commensurate with the size of our community and consistent with media acquisition levels in our recent past.

Trustee membership remained constant and their engagement remained high.

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

JUNE 30, 2012

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS – (CONTINUED)

The community in the form of the municipalities, the Friends, the Foundation and the general community continued their support. The library was fortunate to be the recipient of the remainder of a generous bequest which basically met the donation needs of the library. The celebration of the Library's 50th Anniversary, supported strongly by the Friends of the Library, created many exciting moments in the library's year.

Without impacting the budget, the Library in partnership with Kent County Parks and Recreation Department, established a KCPL Worton Computer Facility located at the Kent County Community Center.

Dynamic leadership by the new Director is moving our library forward. There was also a focus on improving the organizational structure for library personnel to allow their talents to flourish and to formulate a modest attempt to compensate the staff for their exceptional efforts in the past and into the future.

Approximately 80% of the FY2012 Library revenues came from government sources with the remainder coming from private sources. Rising costs and constrained government funding mean that the library will need increased 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 for our community.

CONTACTING THE LIBRARY'S FINANCIAL MANAGEMENT

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

KENT COUNTY PUBLIC LIBRARY
STATEMENT OF NET ASSETS
JUNE 30, 2012

	<u>Governmental Activities</u>
ASSETS	
Cash	\$ 138,782
Accounts receivable, other	14,167
Prepaid expenses	8,326
Capital assets	182,895
Less accumulated depreciation	(166,790)
Library collections	850,625
Less accumulated amortization	(590,382)
Total assets	<u>437,623</u>
LIABILITIES	
Accounts payable	15,071
Accrued payroll	17,481
Accrued compensated absences - due or payable within one year	5,583
Unemployment Obligation	5,000
Capital lease	
Due within one year	178
Due in more than one year	-
Total liabilities	<u>43,313</u>
NET ASSETS	
Invested in capital assets and library collections, net of related debt	276,170
Unrestricted	118,140
Total net assets	<u><u>\$ 394,310</u></u>

See Independent Auditors' Report.
Notes to financial statements are an integral part of this statement.

KENT COUNTY PUBLIC LIBRARY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Governmental Activities</u>
EXPENSES	
Library Services	
Salaries and related costs	\$ 571,022
Operating expenses	149,842
Depreciation and amortization	<u>95,543</u>
Total expenses	<u>816,407</u>
 PROGRAM REVENUE	
Charges for services	32,486
Operating grants and contributions	<u>59,740</u>
Total program revenue	<u>92,226</u>
 Net program expense	 <u>724,181</u>
 GENERAL REVENUE	
State, County and local appropriations	727,394
Unrestricted donations	<u>29,741</u>
Total general revenue	<u>757,135</u>
 Change in net assets	 32,954
 Net assets, beginning of year	 <u>361,356</u>
 Net assets, end of year	 <u><u>\$ 394,310</u></u>

See Independent Auditors' Report.
Notes to financial statements are an integral part of this statement.

KENT COUNTY PUBLIC LIBRARY
BALANCE SHEET
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Major Fund
	General Fund
ASSETS	
Cash	\$138,782
Accounts receivable, other	14,167
Prepaid	8,326
Total assets	\$161,275
LIABILITIES AND FUND BALANCES	
Liabilities	
Accounts payable	\$ 15,071
Accrued payroll	17,481
Unemployment Obligation	5,000
Accrued compensated absences	5,583
Total liabilities	43,135
Fund balances	
Nonspendable	
Prepays	8,326
Unassigned	109,814
Total fund balances	118,140
Total liabilities and fund balances	\$161,275

See Independent Auditors' Report.
Notes to financial statements are an integral part of this statement.

KENT COUNTY PUBLIC LIBRARY
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2012

Total fund balances - governmental funds \$118,140

Amounts reported for governmental activities in the statement of net assets
 are different because:

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

These assets consist of:

Library collections	\$ 850,625	
Capital assets	182,895	
Accumulated amortization	(590,382)	
Accumulated depreciation	<u>(166,790)</u>	
Net capital assets		276,348

Long-term liabilities are not due and payable in the current period
 and therefore are not reported as liabilities in the governmental funds.

Long-term liabilities at year-end consisted of:

Capital lease		<u>(178)</u>
---------------	--	--------------

Net assets of governmental activities \$ 394,310

KENT COUNTY PUBLIC LIBRARY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	General Fund
REVENUES	
Appropriations - State of Maryland	\$ 91,101
Appropriations - Kent County	542,000
Appropriations - Municipalities	7,500
State and other grants	146,533
Fees	32,486
Donations	29,741
Total revenues	849,361
EXPENDITURES	
Current	
Salaries and related costs	571,022
Operating expenditures	149,599
Library materials	61,933
Federal, State and other grants	
Debt service	2,169
Total expenditures	784,723
Net change in fund balance	64,638
Fund balance, beginning of year	53,502
Fund balance, end of year	\$ 118,140

See Independent Auditors' Report.
Notes to financial statements are an integral part of this statement.

KENT COUNTY PUBLIC LIBRARY
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN
 FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2012

Net change in fund balances - total governmental funds \$ 64,638

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

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

Acquisition of library materials	\$ 61,933	
Depreciation expense	(7,894)	
Amortization expense	<u>(87,649)</u>	
Excess of depreciation and amortization expense over library material acquisitions	-	(33,610)

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

1,926

Change in net assets of governmental activities

\$ 32,954

See Independent Auditors' Report.
 Notes are an integral part of this financial statement.

**KENT COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE A - ORGANIZATION

Kent County Public Library (the "Library") was formed in 1961 by state legislation as a state and local government agency. The Library's board of trustees are appointed by the Kent County Commissioners. Services provided include offering library materials of various types for use by the general public.

NOTE B - SUMMARY OF ACCOUNTING POLICIES

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

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

Reporting Entity

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting.

Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

KENT COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE B - SUMMARY OF ACCOUNTING POLICIES - (continued)

The statement of activities demonstrates the degree to which the direct expense of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes (1) charges to library patrons who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meet the operational or capital requirements of a particular function or segment.

Fund Financial Statements

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

The Library reports the following major governmental fund:

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

Government-wide Net Assets

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

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

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

KENT COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE B - SUMMARY OF ACCOUNTING POLICIES - (continued)

Governmental Fund Balances

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

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

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

Budget

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

Capital Assets

Capital assets are defined by the Library as assets with an initial cost of more than \$5000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following useful lives.

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

**KENT COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE B - SUMMARY OF ACCOUNTING POLICIES - (continued)

Library Collections

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

Contributed Facilities

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

Accrued Compensated Absences

The Library accrues a liability for certain compensated absences that employees have earned but have not yet been paid. The Library estimates the portion to be used within the current fiscal year, and this portion is treated as a current liability in the General Fund balance sheet. Expenditures in the statement of revenues and expenditures for such items are the amounts accrued during the year that normally would be liquidated with expendable available financial resources. All accrued compensated absences are recorded in the government-wide financial statement. The total liability of compensated absences as of June 30, 2012 was \$5,583.

NOTE C - CASH

The Library follows Article 95, Section 22 of the Annotated Code of Maryland, which requires that deposits with financial institutions by local boards of education and public libraries be fully collateralized. Full collateralization is necessary to minimize the risk of loss of a deposit in the event of the default of a financial institution. In addition, this section of the law requires that collateral be of the types specified in the State Finance and Procurement Article, Section 6-202 of the Code. As of June 30, 2011, the carrying amount of the Library's deposits was \$138,782 and the bank balance was \$147,360, all of which was insured by the Federal Deposit Insurance Corporation.

NOTE D - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital assets	\$182,895	\$ -	\$ -	\$ 182,895
Less accumulated depreciation	<u>158,896</u>	<u>7,894</u>	<u>-</u>	<u>166,790</u>
Net capital assets	<u>\$ 23,999</u>	<u>\$ (7,894)</u>	<u>\$ -</u>	<u>\$ 16,105</u>

**KENT COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE D - CAPITAL ASSETS - (continued)

The site for the Library was acquired by Kent County and the construction of the building was paid for by Kent County at a cost of \$600,341. In addition to the Library land and building, original equipment costing \$34,244 was purchased for the Library by Kent County.

NOTE E - LIBRARY COLLECTION

Library collections and related accumulated amortization activity for the year ended June 30, 2012 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital assets	\$788,692	\$ 61,933	\$ -	\$850,625
Less accumulated depreciation	<u>502,733</u>	<u>87,649</u>	<u>-</u>	<u>590,382</u>
Net library collection	<u>\$285,959</u>	<u>\$ (25,716)</u>	<u>\$ -</u>	<u>\$ 260,243</u>

NOTE F - PENSION PLAN

General Plan Policies

All full-time personnel employed in a Library position participate in the Teachers' Retirement System or the Teachers' Pension System of the State of Maryland. All other eligible permanent employees excluded above are enrolled in the Maryland State Employees' Retirement System or the Employees' Pension System. These systems are part of the Maryland State Retirement and Pension System (the State System), and are cost-sharing multiple-employer public employee retirement systems. The State System provides pension, death and disability benefits to plan members and beneficiaries.

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.

**KENT COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE F - PENSION PLAN - (continued)

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:

For the Year Ended <u>June 30</u>	<u>Annual Pension Cost</u>	<u>% of APC Contributed</u>	<u>Net Pension Obligation</u>
2010	\$ 58,213	100%	\$ -
2011	63,174	100%	-
2012	59,740	100%	-

NOTE G - OPERATING LEASE

The Kent County Commissioners entered into a lease on behalf of the Library for space to be used exclusively as a branch of the Library in Galena, Maryland. Under the agreement with the Kent County Commissioners, the Library is responsible for all rental payment and operating expenses. The lease is a ten-year operating lease which began April 15, 2006, and for which rent expense was \$21,684 for the year ended 2012. The terms of the lease provide for a monthly rental of \$1,834 through March 1, 2013. Said rent is adjusted annually on March 1, based upon the Consumer Price Index (CPI), but not less than 2%, or more than 5%. Annual minimum rental payments due under this lease, exclusive of operating expenses, are as follows:

For the Year Ended <u>June 30</u>	<u>Rent</u>
2013	\$22,118
2014	22,560
2015	23,012
2016	17,516
2017	-
Total	<u>\$85,206</u>

**KENT COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE G - OPERATING LEASE - (continued)

In addition, the Library must reimburse the lessor approximately 42% of the annual real estate taxes, trash collection, maintenance and snow removal. Said reimbursement is to be billed and payable annually on March 1. For the year ended June 30, 2012, this amount was \$3,938.

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

<u>Date Entered</u>	<u>Term</u>	<u>Equipment</u>	<u>Monthly Payments</u>
February 2010	60 months	2-WC72332P	\$774
March 2008	60 months	2-MFP Phasers	165
August 2008	60 months	1-6360DN Phasers	<u>59</u>
Total			<u>\$998</u>

Annual payments under these leases are as follows:

<u>Year</u>	<u>Rent</u>
2013	\$11,324
2014	9,348
2015	5,418
2016	-
2017	<u>-</u>
Total	<u>\$26,090</u>

NOTE H - CAPITAL LEASE

The Library entered into a three year capital lease with CIT Technologies in July of 2009 for computer equipment, at a stated interest rate of 19.46%, which will become the property of the Library when all terms of the lease agreements are met. The assets and liabilities under the capital lease are recorded at the lower of the present value of the minimum lease payments or the fair value of the assets. Following is a summary of property held under capital lease at June 30, 2012:

Total cost of property held under capital lease	\$4,900
Less accumulated depreciation	<u>4,764</u>
Net property held under capital lease	<u>\$ 136</u>

**KENT COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE H - CAPITAL LEASE – (continued)

Debt service requirements at June 30, 2012 are as follows:

	Principal	Interest
Year ending June 30, 2013	<u>\$ 178</u>	<u>\$ 3</u>

NOTE I - LINE OF CREDIT

During 2012, 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.

NOTE J - RISK MANAGEMENT

The Library is exposed to risks of loss in areas of property, liability, workers' compensation, unemployment insurance, employee health, dental, and life insurance. The Library is covered under Kent County's commercial insurance policies except for unemployment insurance. For the year ended June 30, 2012, an accrual of \$5,000 was recorded for future potential obligations. During the year ended June 30, 2012, there was no significant reduction in insurance coverage. Kent County's workers' compensation policy premium is adjusted retroactively based on the actual wages paid and the policy rate during the policy period.

NOTE K - 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.

SUPPLEMENTARY INFORMATION



KENT COUNTY PUBLIC LIBRARY
 REQUIRED SUPPLEMENTARY INFORMATION
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2012

	Original Budget	Final Budget	Actual Balances	Variance Favorable (Unfavorable)
REVENUES				
Appropriations - State of Maryland	\$ 91,101	\$ 91,101	\$ 91,101	\$ -
Appropriations - Kent County	542,000	542,000	542,000	-
Appropriations - Municipalities	8,000	8,100	7,500	(600)
State and other grants	75,000	146,533	146,533	-
Fees	24,000	24,000	32,486	8,486
Donations	40,120	40,120	29,741	(10,379)
Total revenues	<u>780,221</u>	<u>851,854</u>	<u>849,361</u>	<u>(2,493)</u>
EXPENDITURES				
Current				
Salaries and related costs	546,400	607,589	571,022	36,567
Operating expenditures	156,301	165,284	149,599	15,685
Library materials	50,500	57,520	61,933	(4,413)
Debt service - capital lease payment	2,169	2,169	2,169	-
Total expenditures	<u>755,370</u>	<u>832,562</u>	<u>784,723</u>	<u>47,839</u>
Net change in fund balance	<u>\$ 24,851</u>	<u>\$ 19,292</u>	<u>\$ 64,638</u>	<u>\$ 45,346</u>

KENT COUNTY PUBLIC LIBRARY
 SCHEDULE OF REVENUES-BUDGET AND ACTUAL
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2012

	Original Budget	Final Amended Budget	Actual Revenue	Variance Favorable (Unfavorable)
General fund				
Appropriations				
State of Maryland	\$ 91,101	\$ 91,101	\$ 91,101	\$ -
Kent County	542,000	542,000	542,000	-
Municipalities	8,000	8,100	7,500	(600)
Total appropriations	<u>641,101</u>	<u>641,201</u>	<u>640,601</u>	<u>(600)</u>
State and other grants				
ESRL grant	75,000	86,793	86,793	-
Retirement contributions - State of Maryland	-	59,740	59,740	-
Total State and other grants	<u>75,000</u>	<u>146,533</u>	<u>146,533</u>	<u>-</u>
Fees	24,000	24,000	32,486	8,486
Donations	<u>40,120</u>	<u>40,120</u>	<u>29,741</u>	<u>(10,379)</u>
Total revenues	<u>\$ 780,221</u>	<u>\$ 851,854</u>	<u>\$ 849,361</u>	<u>\$ (2,493)</u>

KENT COUNTY PUBLIC LIBRARY
SCHEDULE OF EXPENDITURES-BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

	Original Budget	Final Amended Budget	Actual Expenditures	Variance Favorable (Unfavorable)
Salaries and related costs				
Gross salaries	\$ 430,000	\$ 430,000	\$ 408,351	\$ 21,649
Payroll taxes	30,600	30,600	29,065	1,535
Health insurance	80,800	77,249	63,866	13,383
Director Relocation	5,000	5,000	5,000	-
Unemployment	-	5,000	5,000	-
State on-behalf payments for retirements	-	59,740	59,740	-
Total salaries and related costs	<u>546,400</u>	<u>607,589</u>	<u>571,022</u>	<u>36,567</u>
Operating expenditures				
Legal services	5,000	1,000	459	541
Accounting services	14,730	14,730	14,766	(36)
Copiers	18,000	18,000	17,040	960
Computer services	8,831	2,903	2,503	400
Software maintenance	4,000	4,000	4,050	(50)
Library programing	5,000	7,510	5,935	1,575
Building repairs and security	3,500	4,230	3,246	984
Utilities	40,000	36,298	29,184	7,114
Telecommunications	5,000	5,000	5,422	(422)
Staff development and travel	7,000	7,000	7,019	(19)
Postage	3,000	3,000	2,256	744
Supplies	7,500	7,500	5,965	1,535
Equipment	-	17,969	18,873	(904)
Insurance	6,000	6,000	3,625	2,375
Rent	26,500	26,500	25,622	878
Miscellaneous	2,240	3,644	3,634	10
Total operating expenditures	<u>156,301</u>	<u>165,284</u>	<u>149,599</u>	<u>15,685</u>
Library materials				
Books	40,000	41,968	45,268	(3,300)
Periodicals	3,000	5,397	5,061	336
Audio/visual	7,500	10,155	11,604	(1,449)
Total library materials	<u>50,500</u>	<u>57,520</u>	<u>61,933</u>	<u>(4,413)</u>
Debt service				
Capital lease payments	2,169	2,169	2,169	-
Total library materials	<u>2,169</u>	<u>2,169</u>	<u>2,169</u>	<u>-</u>
Total expenditures	<u>\$ 755,370</u>	<u>\$ 832,562</u>	<u>\$ 784,723</u>	<u>\$ 47,839</u>

