

KENT COUNTY PUBLIC LIBRARY

FINANCIAL REPORT

JUNE 30, 2013

TABLE OF CONTENTS

	<u>Page</u>
FINANCIAL SECTION	
INDEPENDENT AUDITORS' REPORT	3 - 4
MANAGEMENT'S DISCUSSION AND ANALYSIS	5 - 8
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	9
Statement of Activities	10
Balance Sheet – Governmental Funds	11
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	12
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances Of Governmental Funds to the Statement of Activities	14
NOTES TO FINANCIAL STATEMENTS	15 - 22
REQUIRED SUPPLEMENTARY INFORMATION	
Budget and Actual – General Fund	24
OTHER SUPPLEMENTARY INFORMATION	
Schedule of Revenues – Budget and Actual General Fund	26
Schedule of Expenditures – Budget and Actual General Fund	27
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	28 - 29



Accounting Strategies Group, LLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, and each 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, 2013, and the related notes to 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

Management is responsible for the preparation and fair representation 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditors' 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 estimates made by management, as well as evaluating the overall financial statement presentation.

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

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 each major fund information of the Library, as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Centreville Office

118 N. Commerce Street • Centreville, Maryland 21617
410.758.4050 • fax 410.758.4429

Preston Office

145 Main Street • PO Box 369 • Preston, Maryland 21655
410.673.1384 • fax 410.673.1385

www.accountingstrategiesgroup.com

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, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statement 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 with management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Kent County Public Library's basic financial statements. The other supplementary information, as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information, a listed in the table of contents, is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, certain additional procedures, including comparing and reconciling such information directly to the statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information, as listed in the table of contents is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2013 on our consideration of the Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting Strategies Group, LLC

Centreville, Maryland
October 4, 2013

KENT COUNTY PUBLIC LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

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, 2013. Readers are encouraged to consider the information presented here in conjunction with the financial statements and notes to the financial statements that immediately follow this discussion.

USING THIS ANNUAL REPORT

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

Government-Wide Financial Statements

The Statement of Net Position 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 position and changes in them. The change in net position – 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 position are an indicator of whether its financial health is improving or deteriorating.

Governmental Funds Financial Statements

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

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

KENT COUNTY PUBLIC LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

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 Position

	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 192,514	\$ 161,275
Capital assets, net	259,909	276,348
Total Assets	<u>452,423</u>	<u>437,623</u>
 Total Liabilities	 <u>64,774</u>	 <u>43,313</u>
 Net Position		
Invested in capital assets, net of related debt	259,909	276,170
Unrestricted	127,740	118,140
Total Net Position	<u>\$ 387,649</u>	<u>\$ 394,310</u>

Table 2 – Changes in Net Position

	<u>2013</u>	<u>2012</u>
County, State, and Local appropriations	\$ 709,199	\$ 727,394
State and other grants	43,051	59,740
Fees	25,662	32,486
Restricted donations	39,958	-
Unrestricted donations	20,625	29,741
Miscellaneous revenue	4,422	-
Total Revenues	<u>842,917</u>	<u>849,361</u>
Expenses	849,578	816,407
Increase (decrease) in net position	<u>\$ (6,661)</u>	<u>\$ 32,954</u>

KENT COUNTY PUBLIC LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

THE LIBRARY AS A WHOLE

The Library's total net position decreased by \$6,661 from \$394,310 at June 30, 2012 to \$387,649 at June 30, 2013.

Revenues decreased from \$849,361 in 2012 to \$842,917 in 2013. This change is primarily attributable to decreases in funding from the Eastern Shore Regional Library and retirement contributions from the State.

Expenses increased from \$816,407 for the year ended June 30, 2012 to \$849,578 for the year ended June 30, 2013. Spending increased primarily in the following areas: books, computer equipment, supplies and programming.

THE LIBRARY'S GOVERNMENTAL FUNDS

The fund balance increased by \$9,600 from \$118,140 in 2012 to \$127,740 for 2013.

BUDGETARY HIGHLIGHTS

Total revenues in the general fund, were \$6,706 higher than the final budgeted total of \$836,211. This was primarily due to miscellaneous revenues and fees.

Expenditures in general fund were \$2,894 lower than the final budgeted total of \$836,211. The largest favorable variance occurred in salaries and related costs.

The Library's budget is prepared on the modified accrual basis of accounting. The Library's original budget of \$753,802 was amended to \$836,211. The most significant changes were the addition of \$39,958 in restricted donation revenue which was spent on programming, computer equipment, books, and fixed assets and \$43,051 of State on behalf payments for retirement.

CAPITAL ASSETS

At the end of 2013, the Library had invested \$1,057,120 in a broad range of capital assets including equipment, books and media, and library improvements. This amount represents a net increase of \$23,600 over last year's amount.

This year's major additions included library and audio-visual materials of \$70,704.

KENT COUNTY PUBLIC LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

Thanks to the diligent work of the Board of Trustees and their Finance Committee, along with the invaluable assistance of the County Finance Department, Fiscal Year 2013 was characterized by fiscal stability for the Library.

The Library, with oversight from the Board of Trustees Finance Committee, regularly monitors actual expenditures using a robust forecasting model to project expenditures throughout the year and into the future. These measures assist the Library Board in establishing a realistic operating budget to maintain and enhance modern library service in Kent County at all locations (Chestertown, North County, and Rock Hall).

Trustee membership remained constant and their engagement remained high. Two new members of the Board of Trustees were appointed to replace two members who terms were expired.

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

The Director and a dedicated committee, with the guidance of a professional planner, completed a Strategic Long Range Plan to guide the Library for the next three years. A new organizational and salary structure for Library personnel was successfully implemented. The new structure allows staff talents to flourish and made modest strides to reflect appropriate compensation for the staff for their exceptional efforts.

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 Jackie Adams, Library Director, Kent County Public Library, 408 High Street, Chestertown, Maryland 21620.

**KENT COUNTY PUBLIC LIBRARY
STATEMENT OF NET POSITION
JUNE 30, 2013**

	Governmental Activities
ASSETS	
Cash	\$ 159,900
Accounts receivable, other	9,662
Prepaid expenses	22,952
Capital assets	182,894
Less accumulated depreciation	(171,022)
Library collections	874,226
Less accumulated amortization	(626,189)
Total assets	452,423
LIABILITIES	
Accounts payable	32,897
Accrued payroll	18,511
Accrued compensated absences - due or payable within one year	8,366
Unemployment Obligation	5,000
Total liabilities	64,774
NET POSITION	
Invested in capital assets and library collections, net of related debt	259,909
Unrestricted	127,740
Total net position	\$ 387,649

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, 2013**

	<u>Governmental Activities</u>
EXPENSES	
Library Services	
Salaries and related costs	\$ 587,528
Operating expenses	174,909
Depreciation and amortization	87,141
Total expenses	<u>849,578</u>
PROGRAM REVENUE	
Charges for services	25,662
Operating grants and contributions	43,051
Total program revenue	<u>68,713</u>
Net program expense	<u>780,865</u>
GENERAL REVENUE	
State, County and local appropriations	709,199
Donations - restricted	39,958
Donations - unrestricted	20,625
Miscellaneous revenue	4,422
Total general revenue	<u>774,204</u>
Change in net position	(6,661)
Net position, beginning of year	<u>394,310</u>
Net position, end of year	<u><u>\$ 387,649</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, 2013**

	<u>Major Fund</u>
	<u>General Fund</u>
ASSETS	
Cash	\$ 159,900
Accounts receivable, other	9,662
Prepaid	22,952
Total assets	\$ 192,514
LIABILITIES AND FUND BALANCES	
Liabilities	
Accounts payable	\$ 32,897
Accrued payroll	18,511
Unemployment Obligation	5,000
Accrued compensated absences	8,366
Total liabilities	64,774
Fund balances	
Nonspendable	
Prepays	22,952
Unassigned	104,788
Total fund balances	127,740
Total liabilities and fund balances	\$ 192,514

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

**KENT COUNTY PUBLIC LIBRARY
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013**

Total fund balances - governmental funds \$127,740

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.

These assets consist of:

Library collections	\$ 874,226	
Capital assets	182,894	
Accumulated amortization	(626,189)	
Accumulated depreciation	<u>(171,022)</u>	
Net capital assets		<u>259,909</u>

Net position of governmental activities \$387,649

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

KENT COUNTY PUBLIC LIBRARY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	General Fund
REVENUES	
Appropriations - State of Maryland	\$ 84,702
Appropriations - Kent County	542,000
Appropriations - Municipalities	7,500
State and other grants	118,048
Fees	25,662
Donations - restricted	39,958
Donations - unrestricted	20,625
Miscellaneous Revenue	4,422
Total revenues	842,917
EXPENDITURES	
Current	
Salaries and related costs	587,528
Operating expenditures	174,884
Library materials	70,704
Debt service	201
Total expenditures	833,317
Net change in fund balance	9,600
Fund balance, beginning of year	118,140
Fund balance, end of year	\$ 127,740

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 BALANCE
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

Net change in fund balances - total governmental funds \$ 9,600

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	\$ 70,704	
Depreciation expense	(4,232)	
Amortization expense	<u>(82,910)</u>	
Excess of depreciation and amortization expense over library material acquisitions		(16,438)

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

177

Change in net position of governmental activities

\$ (6,661)

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

**KENT COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

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 is governed by a board of trustees 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 position 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 position 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
FOR THE YEAR ENDED JUNE 30, 2013**

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 Financial Statement

Government-wide net position is 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
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE B - SUMMARY OF ACCOUNTING POLICIES (continued)

Governmental Fund Balances

In the governmental fund financial statements, fundbalances 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.

**KENT COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE B - SUMMARY OF ACCOUNTING POLICIES (continued)

Capital Assets

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. 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

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 governmentowned 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, 2013 was \$8,366.

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

**KENT COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE C – CASH (continued)

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, 2013, the carrying amount of the Library's deposits was \$159,900 and the bank balance was \$164,970, all of which was insured by the Federal Deposit Insurance Corporation.

NOTE D - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital assets	\$ 182,894	\$ -	\$ -	\$ 182,894
Less accumulated depreciation	<u>(166,790)</u>	<u>(4,232)</u>	<u>-</u>	<u>(171,022)</u>
Net capital assets	<u>\$ 16,104</u>	<u>\$ (4,232)</u>	<u>\$ -</u>	<u>\$ 11,872</u>

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

NOTE E - LIBRARY COLLECTION

Library collections and related accumulated amortization activity for the year ended June 30, 2013 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital assets	\$ 850,625	\$ 70,704	\$ (47,103)	\$ 874,226
Less accumulated depreciation	<u>(590,382)</u>	<u>(82,910)</u>	<u>47,103</u>	<u>(626,189)</u>
Net library collection	<u>\$ 260,243</u>	<u>\$ (12,206)</u>	<u>\$ -</u>	<u>\$ 248,037</u>

See Independent Auditors' Report

**KENT COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

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.

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:

<u>For the Year Ended</u>	<u>Annual Pension Cost</u>	<u>% of APC Contributed</u>	<u>Net Pension Obligation</u>
2011	\$63,174	100%	\$ -
2012	59,740	100%	-
2013	43,051	100%	-

See Independent Auditors' Report

**KENT COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

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 \$22,119 for the year ended 2013. The terms of the lease provide for a monthly rental of \$1,871 through March 1, 2014. 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:

<u>For the Year Ended</u>	<u>Rent</u>
2014	\$22,560
2015	23,012
2016	17,516
2017 and thereafter	<u> -</u>
Total	<u>\$63,088</u>

In addition, the Library must reimburse the lessor approximately 42% of the annual real estate taxes, trash collection, maintenance and snow removal. Said reimbursement is to be billed and payable annually on March 1. For the year ended June 30, 2013, this amount was \$3,765.

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>
May 2013	60 months	2-W7835PT	\$579
December 2012	60 months	2-Colorqube	146
May 2013	60 months	1-6600DN Phasers	<u>31</u>
Total			<u>\$756</u>

Annual payments under these leases are as follows:

<u>Year</u>	<u>Rent</u>
2014	\$ 9,086
2015	9,086
2016	9,086
2017	9,086
2018	<u>7,596</u>
Total	<u>\$43,940</u>

See Independent Auditors' Report

**KENT COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

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%. The equipment became the property of the Library on July 30, 2012 when all terms of the lease agreement was 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, 2013:

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

NOTE I - LINE OF CREDIT

During 2013, 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, 2013, an accrual of \$5,000 was recorded for future potential obligations. During the year ended June 30, 2013, 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.

REQUIRED SUPPLEMENTARY INFORMATION

**KENT COUNTY PUBLIC LIBRARY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2013**

	Original Budget	Final Budget	Actual Balances	Variance Favorable (Unfavorable)
REVENUES				
Appropriations - State of Maryland	\$ 84,702	\$ 84,702	\$ 84,702	\$ -
Appropriations - Kent County	542,000	542,000	542,000	-
Appropriations - Municipalities	8,100	7,500	7,500	-
State and other grants	75,000	118,051	118,048	(3)
Fees	24,000	24,000	25,662	1,662
Donations - restricted	-	39,958	39,958	-
Donations - unrestricted	20,000	20,000	20,625	625
Miscellaneous revenue	-	-	4,422	4,422
Total revenues	<u>753,802</u>	<u>836,211</u>	<u>842,917</u>	<u>6,706</u>
EXPENDITURES				
Current				
Salaries and related costs	561,496	604,547	587,528	17,019
Operating expenditures	136,806	166,871	174,884	(8,013)
Library materials	55,500	64,793	70,704	(5,911)
Debt service - capital lease payment	-	-	201	(201)
Total expenditures	<u>753,802</u>	<u>836,211</u>	<u>833,317</u>	<u>2,894</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,600</u>	<u>\$ 9,600</u>

OTHER SUPPLEMENTARY INFORMATION

**KENT COUNTY PUBLIC LIBRARY
SCHEDULE OF REVENUES-BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2013**

	Original Budget	Final Amended Budget	Actual Revenue	Variance Favorable (Unfavorable)
General fund				
Appropriations				
State of Maryland	\$ 84,702	\$ 84,702	\$ 84,702	\$ -
Kent County	542,000	542,000	542,000	-
Municipalities	8,100	7,500	7,500	-
Total appropriations	<u>634,802</u>	<u>634,202</u>	<u>634,202</u>	<u>-</u>
State and other grants				
ESRL grant	75,000	75,000	74,997	(3)
Retirement contributions - State of Maryland	-	43,051	43,051	-
Total State and other grants	<u>75,000</u>	<u>118,051</u>	<u>118,048</u>	<u>(3)</u>
Fees	<u>24,000</u>	<u>24,000</u>	<u>25,662</u>	<u>1,662</u>
Donations				
Restricted	-	39,958	39,958	-
Unrestricted	20,000	20,000	20,625	625
Total donations	<u>20,000</u>	<u>59,958</u>	<u>60,583</u>	<u>625</u>
Miscellaneous revenue	<u>-</u>	<u>-</u>	<u>4,422</u>	<u>4,422</u>
Total revenues	<u>\$ 753,802</u>	<u>\$ 836,211</u>	<u>\$ 842,917</u>	<u>\$ 6,706</u>

**KENT COUNTY PUBLIC LIBRARY
SCHEDULE OF EXPENDITURES-BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDD JUNE 30, 2013**

	Original Budget	Final Amended Budget	Actual Expenditures	Variance Favorable (Unfavorable)
Salaries and related costs				
Gross salaries	\$ 444,302	\$444,302	\$434,938	\$ 9,364
Payroll taxes	31,990	31,990	30,907	1,083
Health insurance	81,604	81,604	78,632	2,972
Unemployment	3,600	3,600	-	3,600
State on-behalf payments for retirements	-	43,051	43,051	-
Total salaries and related costs	<u>561,496</u>	<u>604,547</u>	<u>587,528</u>	<u>17,019</u>
Operating expenditures				
Legal services	1,000	1,000	-	1,000
Accounting services	8,730	8,730	8,773	(43)
Copiers	18,000	18,000	16,182	1,818
Consultants	-	-	6,502	(6,502)
Software maintenance	1,500	1,500	704	796
Library programming	5,000	14,798	14,052	746
Building repairs and security	4,300	4,954	6,000	(1,046)
Utilities	32,986	32,986	33,130	(144)
Telecommunications	6,000	6,000	3,682	2,318
Staff development and travel	7,000	7,000	7,496	(496)
Postage	3,000	3,000	2,432	568
Supplies	7,000	17,496	17,591	(95)
Equipment	6,000	15,717	25,355	(9,638)
Insurance	5,500	5,500	3,684	1,816
Rent	28,000	27,400	25,884	1,516
Miscellaneous	2,790	2,790	3,417	(627)
Total operating expenditures	<u>136,806</u>	<u>166,871</u>	<u>174,884</u>	<u>(8,013)</u>
Library materials				
Books	43,500	52,793	53,852	(1,059)
Periodicals	4,000	4,000	5,935	(1,935)
Audio/visual	8,000	8,000	10,917	(2,917)
Total library materials	<u>55,500</u>	<u>64,793</u>	<u>70,704</u>	<u>(5,911)</u>
Debt service				
Capital lease payments	-	-	201	(201)
Total library materials	<u>-</u>	<u>-</u>	<u>201</u>	<u>(201)</u>
Total expenditures	<u>\$ 753,802</u>	<u>\$ 836,211</u>	<u>\$ 833,317</u>	<u>\$ 2,894</u>



Accounting Strategies Group, LLC

Certified Public Accountants

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial statements contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Kent County Public Library (the Library) a component of Kent County, Maryland as of and for the year ended June 30, 2013, 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 4, 2013.

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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or 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, as defined above. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Centreville Office
118 N. Commerce Street • Centreville, Maryland 21617
410.758.4050 • fax 410.758.4429

Preston Office
145 Main Street • PO Box 369 • Preston, Maryland 21655
410.673.1384 • fax 410.673.1385

www.accountingstrategiesgroup.com

We noted certain other matters that we reported to management of the Library in a separate letter dated October 4, 2013.

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.

Accounting Strategies Group, LLC

Centreville, Maryland
October 4, 2013