

KENT COUNTY PUBLIC LIBRARY

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

For the Year Ended June 30, 2018



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

JUNE 30, 2018

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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, 2018, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Library's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States 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, 2018, and the respective changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated October 9, 2018, 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* in considering the Library's internal control over financial reporting and compliance.

Hunt Valley, Maryland
October 9, 2018

SB & Company, LLC

KENT COUNTY PUBLIC LIBRARY

Management's Discussion and Analysis For the Year Ended June 30, 2018

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, 2018. We encourage readers to consider the information presented here in conjunction with the financial statements and notes to the financial statements that immediately follow this discussion.

Financial Highlights

- The assets and deferred outflows of resources of the Library exceeded its liabilities at the close of fiscal year 2018 by \$497,932 (*net position*). Of this amount, \$250,228 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 \$51,820.
- As of the close of fiscal year 2018, the Library's governmental fund (general fund) reported combined ending fund balances of \$287,122; an increase of \$61,986 in comparison with the prior year. Approximately 63% of this amount (\$180,561) is available for spending at the Library's discretion (*unassigned fund balance*).
- At the end of fiscal year 2018, the unrestricted fund balance (the total of the *committed*, *assigned*, and *unassigned* components of *fund balance*) for the general fund was \$264,488, or approximately 23% 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, 2018

Government-wide Financial Statements (continued)

The *statement of activities* presents information showing how the Library's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (i.e.: earned but unused vacation time).

Fund Financial Statements

The *fund financial statements* include the *governmental balance sheet* and the *governmental fund statement of revenues, expenditures and changes in fund balance* and are designed to focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in assessing the Library's near-term financing requirements. The Library only maintains one governmental fund, the general fund.

The Library adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Notes to the Financial Statements

The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 12-23 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 25-26 of this report.

KENT COUNTY PUBLIC LIBRARY

Management's Discussion and Analysis For the Year Ended June 30, 2018

Kent County Public Library's Net Position

	<u>2018</u>	<u>2017</u>	<u>Increase/ (Decrease)</u>
Current and other assets	\$ 338,642	\$ 293,353	\$ 45,289
Capital assets, net	<u>225,070</u>	<u>230,838</u>	<u>(5,768)</u>
Total Assets	<u>563,712</u>	<u>524,191</u>	<u>39,521</u>
Liabilities	<u>65,780</u>	<u>78,079</u>	<u>(12,299)</u>
Net Position:			
Net invested in capital assets	225,070	230,838	(5,768)
Restricted	22,634	17,821	4,813
Unrestricted	<u>250,228</u>	<u>197,453</u>	<u>52,775</u>
Total Net Position	<u>\$ 497,932</u>	<u>\$ 446,112</u>	<u>\$ 51,820</u>

Kent County Public Library's Changes in Net Position

	<u>2018</u>	<u>2017</u>	<u>Increase/ (Decrease)</u>
Revenues:			
County, State, and Local appropriations	\$ 783,314	\$ 719,692	\$ 63,622
State and other grants	365,950	162,302	203,648
Fees	14,483	21,117	(6,634)
Restricted donations	32,779	33,629	(850)
Unrestricted donations	10,824	7,690	3,134
Miscellaneous revenue	<u>2,296</u>	<u>3,615</u>	<u>(1,319)</u>
Total Revenues	<u>1,209,646</u>	<u>948,045</u>	<u>261,601</u>
Expenses:			
Salaries and related costs	680,142	693,996	(13,854)
Operating expenditures	172,976	156,889	16,087
Capital Outlay	241,365	-	241,365
Depreciation and amortization	<u>63,343</u>	<u>64,157</u>	<u>(814)</u>
Total Expenses	<u>1,157,826</u>	<u>915,042</u>	<u>242,784</u>
Change in Net Position	<u>\$ 51,820</u>	<u>\$ 33,003</u>	<u>\$ 18,817</u>

The Library's revenues increased by \$261,601. This was attributable to a State grant of \$192,000 and a \$38,000 match from the County for library renovations, an increase of \$16,291 in other County funding, an increase in other State program grants of \$10,345, and an increase in State funding of \$9,331. The Library's overall expenses increased by \$242,784 primarily due to Library renovations of \$241,365.

KENT COUNTY PUBLIC LIBRARY

Management's Discussion and Analysis For the Year Ended June 30, 2018

Budgetary Highlights

The Library's budget is prepared on the modified accrual basis of accounting. The Library's original budget of \$875,214 was amended to \$1,221,944. The most significant changes were the addition of \$241,365 for Library renovations, \$79,605 for the State on-behalf payment for retirements, and increases of \$10,645 to the Library's supply expenses, \$9,832 for staff development and travel expenses, \$8,881 to the Library's materials expenses and \$6,763 to the Library's programming expenses. Salaries were decreased \$11,365.

Capital Assets

At the end of 2018, the Library had invested \$959,260 in a broad range of capital assets including equipment, books and media, and Library improvements. This year's major additions included Library and audio-visual materials of \$57,575.

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, FY2018 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).

In 2015, the trustees, with the approval of the County Commissioners, re-negotiated the terms for the lease of the North County facility. Significant savings were realized in year three of this agreement. To alleviate County costs and labor, the Board of Trustees budgeted for continued grounds maintenance in FY2018.

Also in FY2015, the Board of Trustees followed the County's example and contracted with LGIT to provide health care benefits. As a result of that decision, KCPL received a \$48,494 refund from LGIT for FY 2017. The Board of Trustees has allocated \$15,000 to revenues for FY 2019 and placed the remaining \$33,494 into a benefits reserve account earmarked for healthcare expenditures.

The Kent County community-at-large and the municipalities continued their generous support. The Friends of the Kent County Public Library donated \$15,000 to be used for books, audio-visual items and staff training. Chestertown Library, Inc. donated \$3,666 for books. For the fourth year, KCPL was the recipient of a \$6,500 PNC *Grow Up Great* Grant.

The Board of County Commissioners has been very supportive of the multi-phase "Project 2020" to renovate the 1978 Chestertown facility to provide 21st century library service. The Friends of the Kent County Library and the Foundation for the Kent County Library have both contributed substantial financial support for this project.

Phase I: County Commissioners awarded \$47,000 in matching funds with an additional \$25,500 to renovate public and staff restrooms and to replace the circulation desk for ADA compliance. Phase I was completed in January 2016.

KENT COUNTY PUBLIC LIBRARY

Management's Discussion and Analysis For the Year Ended June 30, 2018

Phase II: County Commissioners awarded \$145,000 in matching funds to replace the obsolete HVAC system and renovate the children's area to create spaces for teens and early learners. However, after the Kent County Government funded a feasibility study, it was determined that the HVAC upgrade would be more costly than originally anticipated. As a result, the Kent County Commissioners have more than doubled their contribution to replace the existing HVAC system. The HVAC replacement was completed in December 2017 and the renovation of the children's area was completed in May 2018.

Phase III: County Commissioners awarded \$48,000 in matching funds for electrical system upgrades to be done in conjunction with the new HVAC system and for the construction of a glass-enclosed multi-use space for smaller groups. Phase III was completed in June 2018.

As costs continue to rise, the library will continue to need support from sources such as those mentioned above in order to provide high quality, modern library services in our community. The targeted goals of the Strategic Long Range Plan were successfully implemented thanks to KCPL's educated, skilled workers who possess high levels of technical 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 that, in turn, benefits all Kent County citizens.

Thanks to generous financial and technical support from the Eastern Shore Regional Library, KCPL successfully installed and implemented a new ILS (Integrated Library System) that allows the eight libraries on the Eastern Shore to seamlessly share library materials.

KCPL's business hours included four holidays: Martin Luther King, Jr. Day, Presidents Day, Columbus Day and Veterans Day. KCPL Chestertown Branch has continued extended hours until 8 p.m. on Wednesday nights and the hours at the Rock Hall Branch were changed so that the library is now open until 6pm on Wednesday. Both of these changes were made with the full support of the staff and with little or no impact on the budget allocation for wages. These extended hours make library services accessible to families and children who may not be able to use the library at other times and have allowed for expanded programming for children, adults, and families.

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, 2018

	<u>General Fund</u>	<u>Adjustments</u>	<u>Governmental Activities</u>
ASSETS			
Cash and cash equivalents	\$ 259,776	\$ -	\$ 259,776
Receivables	56,232	-	56,232
Prepays	22,634	-	22,634
Capital assets, net of accumulated depreciation			
Machinery, equipment and vehicles	-	71	71
Improvements	-	7,894	7,894
Library collections	-	217,105	217,105
Total Assets	<u>338,642</u>	<u>225,070</u>	<u>563,712</u>
LIABILITIES			
Accounts payable and other accrued liabilities	44,361	14,260	58,621
Intergovernmental Payable	571	-	571
Due to Kent County	4,214	-	4,214
Unearned Revenue	2,374	-	2,374
Total Liabilities	<u>51,520</u>	<u>14,260</u>	<u>65,780</u>
FUND BALANCES / NET POSITION			
Fund Balances			
Nonspendable - prepaids	22,634	(22,634)	-
Committed	68,927	(68,927)	-
Assigned	15,000	(15,000)	-
Unassigned	180,561	(180,561)	-
Total Fund Balances	<u>287,122</u>	<u>(287,122)</u>	<u>-</u>
Net Position			
Net investment in capital assets	-	225,070	225,070
Restricted	-	22,634	22,634
Unrestricted	-	250,228	250,228
Total Net Position	<u>\$ -</u>	<u>\$ 497,932</u>	<u>\$ 497,932</u>
Total Liabilities and Net Position	<u>\$ 338,642</u>	<u>\$ 225,070</u>	<u>\$ 563,712</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, 2018**

Total fund balances - governmental funds		\$ 287,122
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	\$ 149,280	
Improvements	33,614	
Library collections	<u>776,366</u>	
Total capital assets:	959,260	
Less accumulated depreciation and amortization	<u>(734,190)</u>	<u>225,070</u>
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	<u>(14,260)</u>	<u>(14,260)</u>
Net Position of Governmental Activities		<u>\$ 497,932</u>

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

KENT COUNTY PUBLIC LIBRARY

Statement of Activities and Governmental Funds Statement of Revenue, Expenditures, and Change in Fund Balance For the Year Ended June 30, 2018

	<u>General Fund</u>	<u>Adjustments</u>	<u>Governmental Activities</u>
Revenues			
Appropriations:			
State of Maryland	\$ 95,425	\$ -	\$ 95,425
Kent County	680,389	-	680,389
Municipalities	7,500	-	7,500
State and other grants	365,950	-	365,950
Fees	14,483	-	14,483
Donations:			
Restricted	32,779	-	32,779
Unrestricted	10,824	-	10,824
Miscellaneous revenue	2,296	-	2,296
Total Revenues	<u>1,209,646</u>	<u>-</u>	<u>1,209,646</u>
Expenses			
Salaries and related costs	675,744	4,398	680,142
Operating expenditures	172,976	-	172,976
Library materials	57,575	(57,575)	-
Capital Outlay	241,365	-	241,365
Depreciation and amortization	-	63,343	63,343
Total Expenses	<u>1,147,660</u>	<u>10,166</u>	<u>1,157,826</u>
Net change in fund balance/net position	61,986	(10,166)	51,820
Fund balance/net position, beginning of year	<u>225,136</u>	<u>220,976</u>	<u>446,112</u>
Fund balance/net position, End of Year	<u>\$ 287,122</u>	<u>\$ 210,810</u>	<u>\$ 497,932</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, 2018**

Net change in fund balances - total governmental funds \$ 61,986

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

Capital outlay and library collection	\$ 57,575	
Depreciation and amortization expense	<u>(63,343)</u>	<u>(5,768)</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>(4,398)</u>	<u>(4,398)</u>
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Change in Net Position of Governmental Activities \$ 51,820

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

KENT COUNTY PUBLIC LIBRARY

Notes to the Financial Statements For the Year Ended June 30, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

Kent County Public Library (the “Library”) was formed in 1961 by state legislation as a state and local government agency. The Library is governed by a seven member board of trustees appointed by the Kent County Commissioners. Services provided include offering Library materials of various types for use by the general public.

B. Basis of presentation – government-wide financial statements

The government-wide financial statements include the Statement of Net Position and the Statement of Activities which present information about the Library as a whole. All of the activities of the Library are classified as governmental.

C. Basis of presentation – fund financial statements

The fund financial statements include a Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The Library has one fund and maintains all of its activity in that one general fund.

D. Measurement focus and basis of accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement* focus and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

KENT COUNTY PUBLIC LIBRARY

Notes to the Financial Statements For the Year Ended June 30, 2018

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 For the Year Ended June 30, 2018

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 is required to follow Local Government §17-101 of the Annotated Code of Maryland, which requires that deposits with financial institutions 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 For the Year Ended June 30, 2018

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 For the Year Ended June 30, 2018

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 \$22,634 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 For the Year Ended June 30, 2018

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 reported \$68,927 of committed fund balance.

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 reported \$15,000 of assigned fund balance.

Unassigned – Amounts that are not included in other fund balance classifications. The Library reported \$180,561 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 For the Year Ended June 30, 2018

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, 2018 was \$14,260.

Sick Leave

Accumulated sick leave lapses when employees leave the Library and, upon separation from service, no monetary obligation exists.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. **Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Position**

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

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

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 Changes in Fund Balances and the Government-Wide Statement of Activities**

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

KENT COUNTY PUBLIC LIBRARY

Notes to the Financial Statements For the Year Ended June 30, 2018

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. The Library maintains one bank account at PNC Bank. As of June 30, 2018, the carrying amount of the Library's deposits was \$259,776 and the bank balance was \$374,168, \$250,000 of which was insured by the Federal Deposit Insurance Corporation (FDIC). As of October 9, 2018, the date that these financial statements were available for issue, all of the Library's deposits were insured by the FDIC.

B. Receivables

The Library had the following receivables at June 30, 2018:

<u>Receivable From</u>	<u>Amount</u>
Kent County	\$ 38,000
Eastern Shore Regional Library Grant	12,990
Maryland State Department of Education Grant	3,603
Foundation for the Kent County Public Library	1,241
Miscellaneous	398
Total	<u>\$ 56,232</u>

The Library does not have any allowance for doubtful accounts related to the above receivables. The Library expects to receive all of the receivables listed above within one year.

KENT COUNTY PUBLIC LIBRARY

Notes to the Financial Statements For the Year Ended June 30, 2018

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

C. Capital Assets

Capital asset activity for the year ended June 30, 2018 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	173,385	772	-	174,157
Net Capital Assets	<u>\$ 9,509</u>	<u>\$ (772)</u>	<u>\$ -</u>	<u>\$ 8,737</u>

D. Library Collection

Library collections and related accumulated amortization activity for the year ended June 30, 2018 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets	\$ 806,432	\$ 57,575	\$ (87,641)	\$ 776,366
Less: accumulated depreciation	584,331	62,571	(87,641)	559,261
Net Library Collection	<u>\$ 222,101</u>	<u>\$ (4,996)</u>	<u>\$ -</u>	<u>\$ 217,105</u>

E. Accrued liabilities

Accrued liabilities reported by the Library at June 30, 2018 were as follows:

<u>Accrued Liability</u>	<u>Amount</u>
Payroll	\$ 30,353
Unemployment Obligation	5,000
Total Accrued Liabilities	<u>\$ 35,353</u>

KENT COUNTY PUBLIC LIBRARY

Notes to the Financial Statements For the Year Ended June 30, 2018

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

F. Pension obligation

Plan Description. All full-time personnel employed in a Library position participate in the Teachers' Retirement System or the Teachers' Pension System of the State of Maryland. All other eligible permanent employees excluded above are enrolled in the Maryland State Employees' Retirement System or the Employees' Pension System.

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>
2016	\$ 75,440	100%	-
2017	78,302	100%	-
2018	79,605	100%	-

G. Risk management

The Library is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Library is covered under Kent County's commercial insurance, with the exception of unemployment insurance.

KENT COUNTY PUBLIC LIBRARY

Notes to the Financial Statements For the Year Ended June 30, 2018

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 North County branch and five Xerox copiers. Total costs for the leases were \$26,623 for the year ended June 30, 2018. The future minimum lease payments for these leases are as follows:

Year Ending June 30,	North County Branch	Xerox Copier	Total
2019	20,400	6,808	27,208
2020	21,000	6,823	27,823
2021	-	6,823	6,823
2022	-	6,823	6,823
2023	-	956	956
2024	-	46	46
Total	<u>\$ 41,400</u>	<u>\$ 28,279</u>	<u>\$ 69,679</u>

In addition, the Library must reimburse the lessor of the North County branch 42% of the annual real estate taxes, trash collection, maintenance, and snow removal. Said reimbursement is to be billed and payable annually on June 1st. For the year ended 2018, this amount was \$4,910.

I. Short term debt

During 2018, 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.

KENT COUNTY PUBLIC LIBRARY

Notes to the Financial Statements For the Year Ended June 30, 2018

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

J. Contingencies

The Library receives a substantial amount of its support from the local and state government. A significant reduction in the level of support, if this were to occur, may have an effect on the Library's programs and activities.

The Library is the recipient of various State and other grants. The Library may be under obligation to repay these grant funds if upon final review by the respective granting agencies, the funds expended did not meet the established program objectives. Management is not aware of any repayment requests affecting these financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

KENT COUNTY PUBLIC LIBRARY

**Supplemental Schedule of Revenues - Budget and Actual - General Fund
For the Year Ended June 30, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Appropriations:				
State of Maryland	\$ 95,425	\$ 95,425	\$ 95,425	\$ -
Kent County	642,389	680,389	680,389	-
Municipalities	7,500	7,500	7,500	-
State and other grants	75,000	365,951	365,950	(1)
Fees	18,500	18,500	14,483	(4,017)
Donations - restricted	15,000	32,779	32,779	-
Donations - unrestricted	4,500	4,400	10,824	6,424
Miscellaneous revenue	2,000	2,000	2,296	296
Total Revenues	\$ 860,314	\$ 1,206,944	\$ 1,209,646	\$ 2,702

KENT COUNTY PUBLIC LIBRARY

Supplemental Schedule of Expenditures - Budget and Actual - General Fund For the Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
EXPENDITURES				
Salaries and related costs				
Gross salaries	\$ 507,275	\$ 495,910	\$ 487,369	\$ 8,541
Payroll taxes	38,807	38,807	34,100	4,707
Health insurance*	127,244	127,244	74,670	52,574
State on-behalf payments for retirements	-	79,605	79,605	-
Total salaries and related costs	<u>673,326</u>	<u>741,566</u>	<u>675,744</u>	<u>65,822</u>
Operating expenditures				
Legal services	1,000	479	-	479
Accounting services	12,311	12,311	12,119	192
Copiers	15,354	13,718	11,718	2,000
Software maintenance	5,000	1,825	1,825	-
Library programing	7,000	13,763	13,763	-
Building repairs and security	13,765	13,208	12,659	549
Utilities	34,950	37,586	35,684	1,902
Telecommunications	3,000	3,050	3,050	-
Staff development and travel	12,000	21,832	21,271	561
Postage	3,000	2,735	2,064	671
Supplies	7,000	17,645	17,644	1
Equipment	5,000	6,999	6,999	-
Insurance	5,852	5,852	5,499	353
Rent	24,800	26,462	24,710	1,752
Capital Outlay	-	241,365	241,365	-
Miscellaneous	3,160	3,971	3,971	-
Total operating expenditures	<u>153,192</u>	<u>422,801</u>	<u>414,341</u>	<u>8,460</u>
Library materials				
Books	33,196	37,592	37,590	2
Periodicals	5,500	7,677	7,677	-
Audio/visual	10,000	12,308	12,308	-
Total library materials	<u>48,696</u>	<u>57,577</u>	<u>57,575</u>	<u>2</u>
Total expenditures	<u>\$ 875,214</u>	<u>\$ 1,221,944</u>	<u>\$ 1,147,660</u>	<u>\$ 74,284</u>
Excess of revenues over expenditures	(15,000)	(15,000)	61,986	76,986
Fund balance - beginning	<u>225,136</u>	<u>225,136</u>	<u>225,136</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 210,136</u>	<u>\$ 210,136</u>	<u>\$ 287,122</u>	<u>\$ 76,986</u>

*The Library was under budget due to a surplus payment received from LGIT during FY2017 for the prior year.



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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, 2018, 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 9, 2018.

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 9, 2018