

Audited Basic Financial Statements

Rochester Hills Public Library

*Year Ended December 31, 2020
with Report of Independent Auditors*

Rochester Hills Public Library
Audited Basic Financial Statements
Year Ended December 31, 2020

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Report of Independent Auditors

The Board of Trustees
Rochester Hills Public Library
Rochester, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of Rochester Hills Public Library (Library) as of and for the year ended December 31, 2020, 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

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.

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. 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 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 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 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 the major fund of Rochester Hills Public Library as of December 31, 2020 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.

Other Matter

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 on pages 3 through 6 and pages 26 through 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Andrews Hooper Pavlik PLC

Auburn Hills, Michigan
March 22, 2021

Rochester Hills Public Library

Management's Discussion and Analysis

December 31, 2020

Our discussion and analysis of the Rochester Hills Public Library's (Library) financial performance provides an overview of the Library's financial activities for the year ended December 31, 2020 and should be read in conjunction with the Library's basic financial statements.

Reporting Entity

Rochester Hills Public Library was formed under Public Act 164 of 1877. The Library functions as a separate financial reporting entity from the City of Rochester Hills and is governed by a six-member Board of Trustees. The Library provides various services to the residents of Rochester, Rochester Hills, and Oakland Township.

Using this Annual Report

The annual report consists of financial statements presenting both a fund-based view and a government-wide view of the Library.

The general fund columns present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. The general fund modified accrual basis financial statements provide detailed information about the Library's current financial resources. This information is important as it shows the stewardship of the Library's annual property tax, service contract, and other revenue.

The government-wide columns provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. This longer-term view uses the accrual basis of accounting so that it can measure the true cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing Library services. The Library's full accrual basis financial statements present information about the Library's total economic resources, including long-lived assets and long-term obligations. This information is important as it recognizes the long-term ramifications of decisions made by the Library on an ongoing basis.

Rochester Hills Public Library

Management's Discussion and Analysis

Financial Highlights

The following table shows the current year's net position compared to the prior year.

Condensed Statements of Net Position

	December 31	
	2020	2019
Assets:		
Cash and investments	\$ 2,870,876	\$ 2,156,852
Taxes receivable and other assets	1,751,601	1,689,204
Capital assets	10,342,183	10,767,291
Total assets	<u>14,964,660</u>	<u>14,613,347</u>
Liabilities:		
Accounts payable and accrued liabilities	62,739	165,571
Unearned revenue	466,862	447,791
Accumulated employee benefits	178,488	158,242
Total liabilities	<u>708,089</u>	<u>771,604</u>
Deferred inflow of resources:		
Property taxes levied for a subsequent period	<u>2,833,500</u>	<u>2,749,400</u>
Net position:		
Invested in capital assets	10,342,183	10,767,291
Restricted	8,204	7,375
Unrestricted	1,072,684	317,677
Total net position	<u>\$ 11,423,071</u>	<u>\$ 11,092,343</u>

Taxes receivable relates to the 2020 tax levy, which will be recorded as revenue during 2021.

Unearned revenue relates to service contract revenue received but not earned as of December 31, 2020.

Total net position increased by approximately \$331,000 during the year ended December 31, 2020, or approximately 3.0%, primarily as a result of increased cash and investment holdings, which arose on account of revenues exceeding expenditures. There was also a reduction in accrued liabilities due to the timing of payroll disbursements at the end of the year. In addition, depreciation on capital assets continued to exceed additions to capital assets during the year.

Rochester Hills Public Library

Management's Discussion and Analysis

Financial Highlights (continued)

The following table shows the current year's changes in net position compared to the prior year.

Condensed Statements of Activities

	December 31	
	2020	2019
Revenues:		
Property taxes and service contracts	\$ 4,138,075	\$ 3,982,015
Other revenues	896,289	847,623
Total revenues	<u>5,034,364</u>	<u>4,829,638</u>
Expenses:		
Personnel, professional, and contractual services	2,960,091	3,222,718
Other expenses	580,402	651,320
Depreciation	1,163,143	1,208,157
Total expenses	<u>4,703,636</u>	<u>5,082,195</u>
Change in net position	330,728	(252,557)
Net position:		
Net position at beginning of year	11,092,343	11,344,900
Net position at end of year	<u>\$ 11,423,071</u>	<u>\$ 11,092,343</u>

The Library's total revenue increased by approximately \$205,000 during the current year, or approximately 4.2% primarily as a result of increased property tax revenue and service contract revenue caused by higher property tax valuations. In addition, the Library received grant revenue of approximately \$167,000, primarily from COVID-19 grants. The grant revenue offset other revenue category decreases primarily attributable to effects of the COVID-19 pandemic. Total expenses decreased by approximately \$379,000 during the current year, or approximately 7.4%. The decrease stemmed from the effects of the COVID-19 pandemic. The Library saw reductions in staffing and hours worked during the fiscal year, as well as reductions in other expenses due to COVID-19 restrictions imposed by the State of Michigan.

Fund Financial Statements

The Library has one fund, the general fund, which accounts for all of the day-to-day operations and any capital and maintenance activities.

Operations of the general fund are financed by revenue from local property taxes, service contracts, fines and fees, state aid, and other resources.

The most significant expenditures of the general fund are personnel and related expenditures, library materials and programs, and capital outlay and maintenance expenditures.

Rochester Hills Public Library

Management's Discussion and Analysis

Budgetary Highlights

Property taxes and service contracts, combined, came in over the amended budget (a favorable variance) by approximately \$3,000. Total revenue from all sources was over the amended budget (a favorable variance) by approximately \$59,000.

Total expenditures were under the final budget (a favorable variance) by approximately \$242,000, related to various categories of expenditures. Therefore, the change in fund balance was favorable compared to the amended amount budgeted by approximately \$301,000. The original budget was amended during the year.

Capital Asset and Debt Administration

During 2020, the Library accumulated additions to capital assets in the amount of approximately \$738,000 primarily for collection materials, restroom upgrades, and tile restoration. It is the Library's intent to fund maintenance and capital activities without issuing debt.

Economic Factors and Next Year's Budget

The tax base of southeastern Michigan generally is experiencing growth. It is estimated that property tax revenue for 2021 will increase compared to the 2020 fiscal year. Considering that property taxes and service contracts make up approximately 82% of the Library's revenue, this continues to impact the Library.

The COVID-19 pandemic began in March 2020 in the United States. The virus continued to spread throughout the state, as well as the world in the remainder of the 2020 year and it is still prevalent in 2021. The pandemic has caused and will likely continue to cause reductions to in-person services offered at the Library location. The reduction of in-person services affects certain revenue streams and expenditures.

The Library continues to monitor and control expenditures, as well as seek out additional revenue sources (grants and other), if appropriate. The Library will continue to monitor and evaluate its financial position and make adjustments to operations and the budget as needed.

Contacting the Library's Management

This financial report is intended to provide our citizens, taxpayers, patrons, and donors with a general overview of the Library's finances and to show the Library's accountability for the public's resources. If there are questions about this report or additional information is needed, please contact the Library Director at 500 Olde Town Road, Rochester, Michigan 48307, or visit the Library's website at www.rhpl.org.

Rochester Hills Public Library

Governmental Fund Balance Sheet/Statement of Net Position

December 31, 2020

	General Fund Modified Accrual Basis	Adjustments	Statement of Net Position
Assets:			
Cash and cash equivalents	\$ 1,492,340	\$ -	\$ 1,492,340
Investments – current	1,378,536	-	1,378,536
Prepaid expenses	43,698	-	43,698
Taxes receivable	1,707,903	-	1,707,903
Capital assets – net of accumulated depreciation	-	10,342,183	10,342,183
Total assets	\$ 4,622,477	10,342,183	14,964,660
Liabilities:			
Accounts payable	\$ 31,712	-	31,712
Unearned revenue	466,862	-	466,862
Accrued liabilities	31,027	-	31,027
Accumulated employee benefits – due within one year	-	113,619	113,619
Accumulated employee benefits – due in more than one year	-	64,869	64,869
Total liabilities	529,601	178,488	708,089
Deferred inflows of resources:			
Property taxes levied for a subsequent period	2,833,500	-	2,833,500
Fund balances and net position:			
Fund balances:			
Nonspendable	43,698	(43,698)	-
Restricted for donor-restricted purposes	8,204	(8,204)	-
Unassigned	1,207,474	(1,207,474)	-
Total fund balances	1,259,376	(1,259,376)	-
Total liabilities, deferred inflows of resources, and fund balances	\$ 4,622,477		
Net position:			
Invested in capital assets, net of related debt		10,342,183	10,342,183
Restricted for donor-restricted purposes		8,204	8,204
Unrestricted		1,072,684	1,072,684
Total net position		\$ 11,423,071	\$ 11,423,071

See accompanying notes to the basic financial statements.

Rochester Hills Public Library

Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities

Year Ended December 31, 2020

	General Fund Modified Accrual Basis	Adjustments	Statement of Activities
Revenues:			
Property taxes	\$ 2,792,749	\$ -	\$ 2,792,749
Service contracts	1,345,326	-	1,345,326
Intergovernmental revenue – county	147,583	-	147,583
State aid	121,520	-	121,520
Penal fines	173,056	-	173,056
Fines and fees	38,386	-	38,386
Investment income	29,827	-	29,827
Gifts	219,161	-	219,161
Grants	166,550	-	166,550
Miscellaneous	206	-	206
Total revenues	<u>5,034,364</u>	<u>-</u>	<u>5,034,364</u>
Expenditures:			
Personnel	2,885,937	20,246	2,906,183
Library materials	688,894	(688,894)	-
Facilities and equipment	505,401	(49,141)	456,260
Professional and contractual services	53,908	-	53,908
Library programs	12,720	-	12,720
Other operating expenditures	111,422	-	111,422
Depreciation and loss on disposal of capital assets	-	1,163,143	1,163,143
Total expenditures	<u>4,258,282</u>	<u>445,354</u>	<u>4,703,636</u>
Change in fund balance/change in net position	776,082	(445,354)	330,728
Fund balance/net position at beginning of year	483,294	10,609,049	11,092,343
Fund balance/net position at end of year	<u>\$ 1,259,376</u>	<u>\$ 10,163,695</u>	<u>\$ 11,423,071</u>

See accompanying notes to the basic financial statements.

Rochester Hills Public Library

Notes to the Basic Financial Statements

December 31, 2020

1. Summary of Significant Accounting Policies

Introduction

Rochester Hills Public Library (Library) complies with accounting principles generally accepted in the United States of America as applicable to governmental units.

The significant accounting policies utilized by the Library are described below.

Financial Reporting Entity

Rochester Hills Public Library was formed under Public Act 164 of 1877. The Library functions as a separate financial operating entity from the City of Rochester Hills and is governed by a six-member Board of Trustees. The Library provides various services to the residents of Rochester, Rochester Hills, and Oakland Township.

In evaluating how to define the Library for financial reporting purposes, management has considered all potential component units. The decision to include or not include a potential component unit in the reporting entity was made by applying the criteria set forth in the accounting principles generally accepted in the United States of America, currently GASB Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*.

Based upon the application of the criteria, the government-wide financial statements of the Library contain all the funds controlled by the Library's Board of Trustees (Library Board) as no other entity meets the criteria to be considered a blended component unit or a discretely presented component unit of the Library.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the basic financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The Library's basic financial statements include both government-wide (reporting the Library as a whole) and fund financial statements (reporting the Library's General Fund).

Rochester Hills Public Library

Notes to the Basic Financial Statements

December 31, 2020

1. Summary of Significant Accounting Policies (continued)

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. Property taxes are recognized as revenue in the year in which they are levied. 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. The Library's net position is reported in three components: invested in capital assets; restricted for donor-restricted purposes; and unrestricted net position.

Fund Financial Statements

Governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. With this focus, operating statements present increases and decreases in net current assets and fund balance as a measure of the available spendable resources. Governmental funds are used to account for all or most of the Library's general activities, including the collection and disbursement of earmarked resources.

Governmental funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are both "measurable and available"). Revenue is considered available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. Property taxes, interest, and service contracts are susceptible to accrual. Other revenues become measurable and available when cash is received by the Library and are recognized as revenue at that time. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Expenditures are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to accumulated employee benefits, and claims and judgments, are recorded only when payment is due.

The Library reports the following major governmental fund:

General Fund

This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the Library. Revenues are derived primarily from property taxes, state distributions, grants, gifts, fines and fees, and other intergovernmental revenues.

Rochester Hills Public Library

Notes to the Basic Financial Statements

December 31, 2020

1. Summary of Significant Accounting Policies (continued)

Property Tax Revenue

Property taxes are levied on December 1 on the taxable valuation of property of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Library's 2019 ad valorem tax is levied and collectible on December 1, 2019 and is recognized as revenue in the year ended December 31, 2020 when the proceeds of the levy are budgeted and available for the financing of operations. The Library's 2020 ad valorem tax is levied and collectible on December 1, 2020, but will not be recognized as revenue until 2021.

The 2019 taxable valuation of the City of Rochester Hills totaled \$3.633 billion, on which ad valorem taxes levied consisted of 0.7545 mills for operating purposes. This resulted in approximately \$2.7 million for operations.

Service Contract Revenue

The Library also services the City of Rochester and Oakland Township under separate operating agreements. The fee for this service is produced by each municipality levying one mill, annually adjusted down to .6958 mills in 2020 for the City of Rochester and .5924 mills in 2020 for Oakland Township for the Headlee Amendment reduction factor.

Assets, Liabilities, and Equity

Cash and Cash Equivalents

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits, and all highly liquid investments purchased with a maturity of three months or less from the date of acquisition.

Investments

Investments are carried at fair value with changes in the fair value reported as investment income. Fair value of investments is determined based on quoted market prices as of the reporting date.

Rochester Hills Public Library

Notes to the Basic Financial Statements

December 31, 2020

1. Summary of Significant Accounting Policies (continued)

Investments (continued)

Dividend and interest income is recognized when earned. Realized gains and losses are derived using the specific identification method for determining the costs of securities sold. Investment income reported in the statement of activities includes both realized and unrealized gains and losses. The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year.

Short-term investments represent investments that are available to fund current operations. Long-term investments are intended to satisfy obligations in excess of one year.

Fair Value Measurements

The Library has applied GASB Statement No. 72, *Fair Value Measurement and Application*, which provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

Capital Assets

Capital assets are defined by the Library as assets with an initial cost of more than \$2,500 and an estimated useful life in excess of two years. Such assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated property and equipment are valued at their estimated fair value on the date donated. 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 estimated useful lives:

Buildings and improvements	5-40 years
Furniture and fixtures	5-8 years
Library equipment	3-10 years
Bookmobile	10 years
Library materials	4 years

Rochester Hills Public Library

Notes to the Basic Financial Statements

December 31, 2020

1. Summary of Significant Accounting Policies (continued)

Deferred Outflows 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 therefore 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.

Unearned Revenue

Governmental funds defer the recognition of revenue in connection with resources that have been received but not yet earned. At the end of the fiscal year, all unearned revenue of the Library related entirely to service contract revenue.

Accumulated Employee Benefits

It is the Library's policy to permit employees to accumulate a limited amount of earned but unused vacation and sick pay benefits. Employees are paid their accumulated vacation and sick pay upon termination of employment. Accruals for these liabilities are recorded as earned by employees and reported in the government-wide financial statements.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position and governmental fund balance sheet 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 and therefore will not be recognized as an inflow of resources (revenue) until that time. The Library has an item that qualifies for reporting in this category. The governmental fund reports unavailable revenues, which arise only under a modified accrual basis of accounting, from property taxes levied for a subsequent period. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. In addition, deferred inflows of resources are reported in the government-wide financial statements for property taxes levied during the year that were intended to finance future periods.

Income Taxes

The Library is a governmental sub-unit organization and as such is not subject to federal income tax.

Rochester Hills Public Library

Notes to the Basic Financial Statements

December 31, 2020

1. Summary of Significant Accounting Policies (continued)

Fund Equity

In the fund financial statements, fund balance is presented in five possible categories:

Nonspendable – amounts which cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact.

Restricted – amounts constrained to specific purposes by their providers (such as creditors, grantors, and higher levels of government), through constitutional provisions, or by enabling legislations.

Committed – amounts which are subject to limitations the Library imposes upon itself through official actions made by the Library Board, and that remain binding unless removed in the same manner.

Assigned – amounts neither restricted nor committed for which the Library has a stated intended use as established by the Library Board or an official to which the Library Board has delegated the authority to assign amounts for specific purposes.

Unassigned – amounts that are available for any purpose.

The Library would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

Use of Estimates

The process of preparing basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the basic financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Rochester Hills Public Library

Notes to the Basic Financial Statements

December 31, 2020

2. Deposits and Investments

State statutes authorize the Library to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury, certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation (FDIC), Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively. Financial institutions eligible for deposit of public funds must maintain a principal office or branch office within the State of Michigan.

The Library's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Cash deposits and cash equivalents (certificates of deposit with maturities less than 90 days) are carried at cost. Cash deposits and certificates of deposit of the Library are in the name of the Library at various banks.

Custodial credit risk is the risk that, in the event of a bank failure, the Library's deposits may not be returned. The Library does not have a deposit policy for custodial credit risk; however, the Library believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits at all times. As a result, the Library evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

As of December 31, 2020, the Library had three depository accounts with a book balance of \$1,490,420 at two financial institutions. The custodial credit risk related to these depository accounts as of December 31, 2020 is summarized in the following table:

<u>Depository Account</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 500,000
Uninsured and uncollateralized	1,191,683
Total	<u>\$ 1,691,683</u>

Rochester Hills Public Library

Notes to the Basic Financial Statements

December 31, 2020

3. Investments

As of December 31, 2020, the Library had the following investments and maturities:

Fair Market Value	Investment Maturities (in years)			
	Less than 1	1 - 5	6 - 10	More than 10
Deposits:				
Cash balances	\$ 1,325,382	\$ 1,325,382	\$ -	\$ -
Investments:				
Fixed income mutual funds	553,759	553,759	-	-
U.S. Treasury bills	824,777	824,777	-	-
Total investments	2,703,918	\$ 2,703,918	\$ -	\$ -
Less investments reported as cash and cash equivalents on the statement of net position				
Total investments	1,325,382			
	\$ 1,378,536			
As reported on the statement of net position:				
Current investments	\$ 1,378,536			
Noncurrent investments	-			
Total investments	\$ 1,378,536			

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Library's investment policy does not specifically address interest rate risk. The Library's policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market.

Rochester Hills Public Library

Notes to the Basic Financial Statements

December 31, 2020

3. Investments (continued)

Credit Risk

Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The Library's investments are limited by those authorized under Public Act 20 of 1943 (as amended) for custodial credit risk. The Library also has the following investment policies further limiting its investment choices:

- All financial institutions used as a depository by the Library must have its principal office or branch in Michigan.

As of December 31, 2020, the mutual funds and treasury bills were unrated. The Library evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Library does not have a deposit policy for custodial credit risk of investments. The Library's investments in mutual funds and treasury bills are not exposed to custodial credit risk. The Library evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The Library's policy minimizes concentration of credit risk by requiring diversification of the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. To limit its exposure to concentration of credit risk, the Library's investment policy limits its investment choices. Investments in mutual funds, treasury bills, external investment pools, and other pooled investments are excluded from concentration of credit risk disclosures.

Rochester Hills Public Library

Notes to the Basic Financial Statements

December 31, 2020

3. Investments (continued)

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. State law and the Library's policy prohibit investment in foreign currency.

4. Fair Value Measurements

The Library categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Library's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The Library has the following recurring fair value measurements as of December 31, 2020:

	Balance at December 31, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Fixed income mutual funds	\$ 553,759	\$ 553,759	\$ -	\$ -
U.S. Treasury bills	824,777	824,777	-	-
Total investments by fair value level	<u>1,378,536</u>	<u>1,378,536</u>	-	-
Total investments measured at fair value	<u>\$ 1,378,536</u>			

Investments classified in Level 1 are valued using prices quoted in active markets for those securities.

Rochester Hills Public Library

Notes to the Basic Financial Statements

December 31, 2020

5. Capital Assets

A summary of capital asset activity of the Library is as follows:

	Balance 1/1/2020	Additions	Disposals	Balance 12/31/2020
Capital assets not being depreciated:				
Land	\$ 3,000,000	\$ -	\$ -	\$ 3,000,000
Capital assets being depreciated:				
Building and improvements	13,452,392	17,279	(5,613)	13,464,058
Furniture and fixtures	454,396	25,899	(61,892)	418,403
Library equipment	1,002,777	5,963	(133,553)	875,187
Bookmobile	37,800	-	-	37,800
Library materials	5,750,557	688,894	(751,708)	5,687,743
Total	20,697,922	738,035	(952,766)	20,483,191
Accumulated depreciation	(12,930,631)	(1,163,020)	952,643	(13,141,008)
Capital assets being depreciated, net	7,767,291	(424,985)	(123)	7,342,183
Total capital assets, net	\$ 10,767,291	\$ (424,985)	\$ (123)	\$ 10,342,183

Depreciation expense was \$1,163,020 for the year ended December 31, 2020.

On August 15, 1990, the Library and the Rochester Downtown Development Authority (Authority) came to an agreement by which the Authority consented to give the Library \$2,500,000 for the purpose of helping the Library to acquire the land on which the Library is located. Under this agreement, if at any point in the thirty years following the date of the agreement this land should be sold, then the Library will give back to the Authority, its pro rata share of the appraised value of the land only. The Authority's share of the appraised value has been established as 83.3%. At the current time, the Library has no intention of selling its present facility.

6. Long-term Liabilities

Long-term liabilities obligation can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Accumulated employee benefits	\$ 158,242	\$ 20,246	\$ -	\$ 178,488	\$ 113,619

The accumulated employee benefits represent the estimated liability to be paid to employees under the Library's sick and vacation pay policy. Under the Library's policy, employees earn sick and vacation time based on length of service with the Library.

Rochester Hills Public Library

Notes to the Basic Financial Statements

December 31, 2020

7. Assets Held at Community Foundation

There is one endowment fund administered by the Community Foundation of Greater Rochester (CFGR) for the benefit of the Library. The CFGR is a public charity that is funded through donations by a large number of contributors. Although the Library does not control the assets held at the CFGR, by agreement, the purpose of the endowment fund is to provide support and furtherance of specific programs and activities of Rochester Hills Public Library. Accordingly, the Library has not recorded these assets in its financial statements. Revenue is recorded when distributions are received from the CFGR.

A summary of changes in assets held at the CFGR is as follows:

Balance – January 1, 2020	\$ 324,498
Contributions	1,335
Distributions	-
Fees charged	(8,189)
Investment earnings	44,882
Balance – December 31, 2020	<u>\$ 362,526</u>

The Library cannot withdraw the principal of the contributions, but is entitled to withdraw accumulated investment earnings such as interest, dividends, and cumulative net investment gains and losses. As of December 31, 2020, the amount available to the Library approximated \$159,000.

8. Stewardship, Compliance, and Accountability

Budgetary Information

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual appropriated budget is adopted for the General Fund. This budget is developed by the Library Director and approved by the Library Board as are any amendments to the budget. All appropriations lapse at fiscal year end. The Library does not maintain a formalized encumbrance accounting system. The amount of encumbrances outstanding as of December 31, 2020 has not been calculated.

Rochester Hills Public Library

Notes to the Basic Financial Statements

December 31, 2020

8. Stewardship, Compliance, and Accountability (continued)

Budgetary Information (continued)

The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to May 1, Library Managers submit budgetary requests for the next fiscal year. The Library Director obtains income information from the City of Rochester Hills and verifies this information with the City Treasurer's office.
2. The Library Director presents a draft budget to the Library Board's Finance Committee in June.
3. The proposed budget is presented to the full Library Board for discussion in July.
4. A public hearing is advertised at least 10 days in advance, which is held in August. The Library Board legally adopts the budget at the total revenue and expenditure level in August by passing a budget resolution. The Library Director is authorized to transfer budgeted amounts within budgetary activities. However, any revisions that alter the total expenditures of any budgetary activity must be approved by the Library Board.
5. The Library Director forwards a copy of the budget resolution to the City of Rochester Hills.

Excess Expenditures over Appropriations in Budgetary Funds

P.A. 621 of 1978, Section 18(1) as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the supplementary information, the Library's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a fund, functional, and line-item basis.

For the year ended December 31, 2020, the Library did not incur expenditures in excess of the amounts appropriated for the general fund.

Rochester Hills Public Library

Notes to the Basic Financial Statements

December 31, 2020

9. Designated and Undesignated Donations

The Library receives donations from grantors and the general public that are both designated and undesignated. The undesignated donations are recorded as General Fund revenue as received and expended by the Library as needed. Designated donations are recorded as General Fund revenue as received and spent in a manner consistent with the donors' restrictions. Due to timing differences, it is not always possible to spend these designated donations in the same year they were received. As of December 31, 2020, the Library had unspent designations in the amount of \$8,204.

10. 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; injuries to employees; and natural disasters.

The Library carries commercial insurance for risks to cover these losses. The Library also continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

11. Retirement Plans

Defined Contribution Plan

The Library participates in the MERS defined contribution (DC) program. The Library's Board of Trustees has authority over the plan provisions and contribution requirements. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. All salaried employees are eligible to participate in the plan after six months of employment. As established by the plan, the Library contributes 6% of annual compensation, which resulted in total contributions of \$154,942 in 2020. Employees are fully vested in the plan after three years of service. There were 48 members participating in the DC plan as of December 31, 2020. There were \$615 of forfeitures during the year.

Rochester Hills Public Library

Notes to the Basic Financial Statements

December 31, 2020

11. Retirement Plans (continued)

Deferred Compensation Plan

The Library has a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Library employees, permits them to defer a portion of their salary for future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. There are no employer contributions required by the plan. The assets of the plan are insulated from the unit of government's general creditors. The Library's plan administrator, MERS, created the trust and placed the assets of the plan within the trust. As a result, the plan assets are not reported in the Library's financial statements.

12. Reconciliation of Fund Financial Statements to Government-wide Financial Statements

Total fund balance and the net change in fund balance of the Library's governmental fund differs from net position and changes in net position of the governmental activities reported in the statement of net position and statement of activities. This difference primarily results from the long-term economic focus of the statement of net position and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures, and changes in fund balance. The following are reconciliations of fund balance to net position and the net change in fund balance to the net change in net position:

Total Fund Balance – Modified Accrual Basis	\$ 1,259,376
Amounts reported in the statement of net position are different because:	
Capital assets are not financial resources and are not reported in the fund	10,342,183
Compensated absences are included as a liability	<u>(178,488)</u>
Net Position – Governmental Activities – Full Accrual Basis	<u>\$ 11,423,071</u>

Rochester Hills Public Library

Notes to the Basic Financial Statements

December 31, 2020

12. Reconciliation of Fund Financial Statements to Government-wide Financial Statements (continued)

Net Change in Fund Balance – Modified Accrual Basis \$ 776,082

Amounts reported in the statement of activities are different because:

Capital outlays are reported as expenditures in the statement of revenue, expenditures, and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay 738,035

Depreciation and loss on disposal of capital assets (1,163,143)

Change in accrual for accumulated employee benefits reported in the statement of activities, but not in the fund statements (20,246)

Change in Net Position – Governmental Activities – Full Accrual Basis \$ 330,728

13. Tax Abatements

The Library is subject to tax abatements granted by the City of Rochester Hills through the Payment in Lieu of Taxes (PILOT) and Industrial Facilities Tax (IFT) exemption programs.

Under the Payment in Lieu of Taxes program, eligible senior citizen or disabled living facilities with at least 8 or more residential units may apply for property tax exemption under Michigan Compiled Laws Section 211.7d. Under this program, the State of Michigan reimburses the local municipality for a portion of the abated taxes under the PILOT program. Applications are filed, reviewed and approved by the City of Rochester Hills, but are also subject to review at the State level by the Department of Treasury, Office of Accounting Services.

Under the Industrial Facilities Tax exemption program, eligible manufacturers can apply for an Industrial Facilities Exemption (IFE) certificate under Public Act 198 of 1974 to enable renovation and expansion of aging facilities, assist in the building of new facilities, and to promote the establishment of high tech facilities. An IFE certificate entitles the facility to exemption from ad valorem real and/or personal property taxes for a term of 1-12 years as determined by the local unit of government, in this case the City of Rochester Hills. Applications are filed, reviewed and approved by the local unit of government, but are also subject to review at the State level by the Property Services Division and the Michigan Economic Development Corporation. The State Tax Commission is ultimately responsible for final approval and issuance of certificates.

Rochester Hills Public Library

Notes to the Basic Financial Statements

December 31, 2020

13. Tax Abatements (continued)

Information relevant to these abatements for the year ended December 31, 2020 is as follows:

Tax Abatement Program	Amount Abated
Payment in Lieu of Taxes	\$ 3,407
Industrial Facilities Tax	4,512

Under the PILOT program, the City of Rochester Hills received \$890 in lieu of property taxes from the State of Michigan.

14. COVID-19

The outbreak of a novel coronavirus (COVID-19), which the World Health Organization declared in March 2020 to be a pandemic, continues to spread throughout the United States of America and the globe. The pandemic has had an economic impact on the United States and the international community, temporarily closing, limiting capacity, or limiting services provided by business entities across the State of Michigan, including libraries. The Michigan Department of Health and Human Services (MDHHS) continues to issue Epidemic Orders, which among other stipulations, effectively prohibit or restrict in-person work activities for various industries and businesses due to the prevalence of COVID-19 in the State. As a result of these orders, the Library has had periods where the building was closed to all employees and patrons, periods where the building was closed to the public with limited employee presence to offer essential and drive-thru services, and periods where it operated under limited capacity since the start of the pandemic.

Future Impact

The extent of the ultimate impact of the pandemic on the Fund will depend on certain developments, including level of spread of the virus, duration of the outbreak, and MDHHS Epidemic Orders, all of which cannot be reasonably predicted at this time.

Required Supplementary Information

Rochester Hills Public Library

Budgetary Comparison Schedule

Year Ended December 31, 2020

	General Fund			
	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Property taxes	\$ 2,749,400	\$ 2,790,000	\$ 2,792,749	\$ 2,749
Service contracts:				
City of Rochester	487,600	497,000	497,407	407
Oakland Township	841,300	845,000	847,919	2,919
Total service contracts	1,328,900	1,342,000	1,345,326	3,326
Intergovernmental revenue – county	147,600	147,600	147,583	(17)
State aid	120,400	120,400	121,520	1,120
Fines and fees:				
Penal fines	136,400	173,000	173,056	56
Fines and fees	92,000	35,000	38,386	3,386
Total fines and fees	228,400	208,000	211,442	3,442
Investment income	12,000	12,000	29,827	17,827
Gifts:				
Designated gifts – general	160,000	13,500	7,549	(5,951)
Undesignated gifts – friends	-	160,000	170,000	10,000
Undesignated gifts – general	40,000	22,000	41,612	19,612
Total gifts	200,000	195,500	219,161	23,661
Grants	-	160,000	166,550	6,550
Miscellaneous	10,000	-	206	206
Total revenues	\$ 4,796,700	\$ 4,975,500	\$ 5,034,364	\$ 58,864

Rochester Hills Public Library

Budgetary Comparison Schedule (continued)

Year Ended December 31, 2020

	General Fund			Variance Favorable (Unfavorable)
	Original Budget	Final Amended Budget	Actual	
Expenditures:				
Personnel:				
Salaries and wages	\$ 2,603,200	\$ 2,350,000	\$ 2,309,243	\$ 40,757
Employee benefits	615,400	587,000	576,694	10,306
Total personnel	3,218,600	2,937,000	2,885,937	51,063
Library materials:				
Books	358,000	215,000	221,565	(6,565)
Print subscription and electronic materials	279,300	373,300	388,889	(15,589)
Audiovisual	142,900	100,000	78,440	21,560
Total library materials	780,200	688,300	688,894	(594)
Facilities and equipment:				
Equipment and capital improvements	6,000	29,000	27,003	1,997
Equipment maintenance	88,900	100,000	97,471	2,529
Facilities maintenance	114,100	180,000	165,169	14,831
Bookmobile	25,000	30,000	25,976	4,024
Voice and data services	25,500	30,000	27,793	2,207
Utilities	135,800	145,500	143,844	1,656
Insurance	18,000	18,200	18,145	55
Total facilities and equipment	413,300	532,700	505,401	27,299
Professional and contractual services	74,400	55,000	53,908	1,092
Library programs	52,500	15,000	12,720	2,280
Other operating expenditures:				
Oakland Talking Book Service	-	500	746	(246)
Promotion and printing	33,300	37,000	38,412	(1,412)
Staff development	31,600	18,000	17,851	149
Supplies	43,000	25,000	21,615	3,385
Postage	24,000	24,000	19,186	4,814
Mileage	5,000	700	644	56
Gift and grant expenditures	-	50,000	10,669	39,331
Miscellaneous	120,800	3,500	2,299	1,201
Contingency	-	113,300	-	113,300
Total other operating expenditures	257,700	272,000	111,422	160,578
Total expenditures	4,796,700	4,500,000	4,258,282	241,718
Change in fund balance	-	475,500	776,082	300,582
Fund balance at beginning of year	483,294	483,294	483,294	-
Fund balance at end of year	\$ 483,294	\$ 958,794	\$ 1,259,376	\$ 300,582