

Audited Basic Financial Statements

Rochester Hills Public Library

*Year Ended December 31, 2013
with Report of Independent Auditors*

Rochester Hills Public Library
Audited Basic Financial Statements
Year Ended December 31, 2013

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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, 2013, 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund of Rochester Hills Public Library as of December 31, 2013 and the respective changes in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

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 on pages 3 through 6 and pages 22 through 23 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
February 28, 2014

Rochester Hills Public Library

Management's Discussion and Analysis

December 31, 2013

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, 2013 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 (continued)

Financial Highlights

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

Condensed Statements of Net Position

	December 31	
	2013	2012
Assets:		
Cash and investments	\$ 4,409,833	\$ 4,896,216
Taxes receivable and other assets	1,562,061	1,530,091
Capital assets	10,459,867	10,250,210
Total assets	16,431,761	16,676,517
Liabilities:		
Accounts payable and accrued liabilities	100,308	122,383
Unearned revenue	401,995	390,225
Accumulated employee benefits	183,857	165,542
Total liabilities	686,160	678,150
Deferred inflow of resources:		
Property taxes levied for a subsequent period	2,327,900	2,290,300
Net position:		
Invested in capital assets	10,459,867	10,250,210
Restricted	7,097	1,456
Unrestricted	2,950,737	3,456,401
Total net position	\$ 13,417,701	\$ 13,708,067

Taxes receivable relates to the 2013 tax levy, which will be recorded as revenue during 2014.

Unearned revenue primarily relates to state aid and service contract revenue received but not earned at December 31, 2013.

Total net position decreased by approximately \$290,000 during the year ended December 31, 2013, or approximately 2%, primarily as a result of increased personnel costs.

Rochester Hills Public Library

Management's Discussion and Analysis (continued)

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	
	2013	2012
Revenues:		
Property taxes and service contracts	\$ 3,351,759	\$ 3,358,495
Other revenues	970,286	952,970
Total revenues	<u>4,322,045</u>	<u>4,311,465</u>
Expenses:		
Personnel, professional, and contractual services	2,908,819	2,742,115
Other expenses	674,511	722,175
Depreciation	1,029,081	1,046,925
Total expenses	<u>4,612,411</u>	<u>4,511,215</u>
Change in net position	(290,366)	(199,750)
Net position:		
Net position at beginning of year	13,708,067	13,907,817
Net position at end of year	<u>\$ 13,417,701</u>	<u>\$ 13,708,067</u>

The Library's total revenue increased by approximately \$11,000 during the current year, or less than 1%. Total expenses increased by approximately \$101,000 during the year, primarily as a result of increases in personnel costs.

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 maintenance expenditures.

Rochester Hills Public Library

Management's Discussion and Analysis (continued)

Budgetary Highlights

Property taxes and service contracts, combined, came in over the amended budget (a favorable variance) by approximately \$6,000. Total revenue from all sources was over the amended budget by approximately \$1,500.

Total expenditures were over the amended budget (an unfavorable variance) by approximately \$8,600, primarily related to budget overages in personnel expenditures. Therefore, the change in fund balance was unfavorable compared to the amended amount budgeted by approximately \$7,100.

The budget was amended during the year.

Capital Asset and Debt Administration

During 2013, the Library accumulated additions to capital assets in the amount of approximately \$1,239,000 for collection materials, replacement of building-wide flooring and upholstery, and other projects. Over the past several years, the Library has been accumulating resources for various future capital improvements. It is the Library's intent to fund maintenance and certain capital activities without issuing debt.

Economic Factors and Next Year's Budget

The tax base of southeastern Michigan generally remains flat. It is estimated that property tax revenue for 2014 will remain flat with the 2013 fiscal year. Considering that property taxes and service contracts make up approximately 78% of the Library's revenue, this continues to impact the Library. While the Library continues to monitor and control expenses, the Library has budgeted to use some of its fund balance in the upcoming year, primarily to fund planned renovations to the existing building and parking lot. 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, 2013

	General Fund Modified Accrual Basis	Adjustments	Statement of Net Position
Assets:			
Cash and cash equivalents	\$ 1,756,664	\$ -	\$ 1,756,664
Investments – current	1,461,202	-	1,461,202
Investments – noncurrent	1,191,967	-	1,191,967
Other assets	35,315	-	35,315
Taxes receivable	1,526,085	-	1,526,085
Accounts receivable	661	-	661
Capital assets – net of accumulated depreciation	-	10,459,867	10,459,867
Total assets	\$ 5,971,894	10,459,867	16,431,761
Liabilities:			
Accounts payable	\$ 38,730	-	38,730
Unearned revenue	401,995	-	401,995
Accrued liabilities	61,578	-	61,578
Accumulated employee benefits – due within one year	-	105,478	105,478
Accumulated employee benefits – due in more than one year	-	78,379	78,379
Total liabilities	502,303	183,857	686,160
Deferred inflows of resources:			
Property taxes levied for a subsequent period	2,327,900	-	2,327,900
Fund balances and net position:			
Fund balances:			
Restricted for donor-restricted purposes	7,097	(7,097)	-
Assigned - Note 11	2,570,000	(2,570,000)	-
Unassigned	564,594	(564,594)	-
Total fund balances	3,141,691	(3,141,691)	-
Total liabilities, deferred inflows of resources, and fund balances	\$ 5,971,894		
Net position:			
Invested in capital assets, net of related debt		10,459,867	10,459,867
Restricted for donor-restricted purposes		7,097	7,097
Unrestricted		2,950,737	2,950,737
Total net position		\$ 13,417,701	\$ 13,417,701

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, 2013

	General Fund Modified Accrual Basis	Adjustments	Statement of Activities
Revenues:			
Property taxes	\$ 2,297,640	\$ -	\$ 2,297,640
Service contracts	1,054,119	-	1,054,119
Intergovernmental revenue – county	120,000	-	120,000
State aid	92,098	-	92,098
Penal fines	133,450	-	133,450
Fines and fees	208,295	-	208,295
Investment income (loss)	(1,201)	-	(1,201)
Grants	8,800	-	8,800
Gifts	385,804	-	385,804
Miscellaneous	23,040	-	23,040
Total revenues	<u>4,322,045</u>	<u>-</u>	<u>4,322,045</u>
Expenditures:			
Personnel	2,836,178	18,315	2,854,493
Library materials	648,530	(648,530)	-
Facilities and equipment	1,031,253	(590,208)	441,045
Professional and contractual services	54,326	-	54,326
Library programs	43,002	-	43,002
Other operating expenditures	190,464	-	190,464
Depreciation and loss on disposal of capital assets	-	1,029,081	1,029,081
Total expenditures	<u>4,803,753</u>	<u>(191,342)</u>	<u>4,612,411</u>
Change in fund balance/change in net position	(481,708)	191,342	(290,366)
Fund balance/net position at beginning of year	3,623,399	10,084,668	13,708,067
Fund balance/net position at end of year	<u>\$ 3,141,691</u>	<u>\$ 10,276,010</u>	<u>\$ 13,417,701</u>

See accompanying notes to the basic financial statements.

Rochester Hills Public Library

Notes to the Basic Financial Statements

December 31, 2013

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, 2013

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, 2013

1. Summary of Significant Accounting Policies (continued)

Property Tax Revenue

Property taxes are levied on each 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 2012 ad valorem tax is levied and collectible on December 1, 2012 and is recognized as revenue in the year ended December 31, 2013 when the proceeds of the levy are budgeted and available for the financing of operations. The Library's 2013 ad valorem tax is levied and collectible on December 1, 2013, but will not be recognized as revenue until 2014. As of December 31, 2013 the collections relating to the 2013 levy are recorded as unearned revenue.

The 2012 taxable valuation of the City of Rochester Hills totaled \$3.014 billion, on which ad valorem taxes levied consisted of 0.7823 mills for operating purposes. This resulted in approximately \$2.3 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 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, based on quoted market prices.

Rochester Hills Public Library

Notes to the Basic Financial Statements

December 31, 2013

1. Summary of Significant Accounting Policies (continued)

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

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 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.

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 State aid and 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.

Rochester Hills Public Library

Notes to the Basic Financial Statements

December 31, 2013

1. Summary of Significant Accounting Policies (continued)

Deferred Inflows of Resources

In addition to liabilities, the statement of net position and governmental funds 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 so 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 funds report 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.

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.

Rochester Hills Public Library

Notes to the Basic Financial Statements

December 31, 2013

1. Summary of Significant Accounting Policies (continued)

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.

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.

Rochester Hills Public Library

Notes to the Basic Financial Statements

December 31, 2013

2. Deposits and Investments (continued)

Custodial Credit Risk of Bank Deposits (continued)

At December 31, 2013, the Library had three depository accounts with a book balance of \$453,743 at one financial institution. The custodial credit risk related to these depository accounts at December 31, 2013 is summarized in the following table:

<u>Depository Account</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 250,000
Uninsured and uncollateralized	214,871
Total	<u>\$ 464,871</u>

3. Investments

At December 31, 2013 the Library had the following investments and maturities:

	<u>Fair Market Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Less than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More than 10</u>
Deposits:					
Cash balances	\$ 642,671	\$ 642,671	\$ -	\$ -	\$ -
Money market account	658,630	658,630	-	-	-
Certificates of deposit	1,371,791	179,824	1,112,804	79,163	-
Investments:					
Government mutual funds	1,281,378	1,281,378	-	-	-
Total investments	<u>3,954,470</u>	<u>\$ 2,762,503</u>	<u>\$ 1,112,804</u>	<u>\$ 79,163</u>	<u>\$ -</u>

Less investments reported as cash and cash equivalents on the statement of net position	<u>1,301,301</u>
Total investments	<u>\$ 2,653,169</u>

As reported on the statement of net position:	
Current investments	\$ 1,461,202
Noncurrent investments	1,191,967
Total investments	<u>\$ 2,653,169</u>

Rochester Hills Public Library

Notes to the Basic Financial Statements

December 31, 2013

3. Investments (continued)

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.

Credit Risk

Credit risk is the risk that an issuer of 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.
- Corporate bonds shall not exceed 20% of the total portfolio investment. In addition, corporate bonds are required to have the highest rating.
- The brokerage firm is only allowed to invest up to 95% of the amount covered by deposit insurance, per institution.

At December 31, 2013, the mutual funds were unrated. Certificates of deposit are not rated; however, 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 are not exposed to custodial credit risk. The Library's certificates of deposit are not rated; however, 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; and the brokerage firm is only allowed to invest up to 95% of the amount covered by deposit insurance, per institution.

Rochester Hills Public Library

Notes to the Basic Financial Statements

December 31, 2013

3. Investments (continued)

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; no more than 20% of the total investment portfolio is allowed to be invested in corporate bonds. Investments in mutual funds, external investment pools, and other pooled investments are excluded from concentration of credit risk disclosures.

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. Capital Assets

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

	Balance 1/1/2013	Additions	Disposals	Balance 12/31/2013
Capital assets not being depreciated:				
Land	\$ 3,000,000	\$ -	\$ -	\$ 3,000,000
Construction in progress	-	44,287	-	44,287
Capital assets being depreciated:				
Building and improvements	10,526,047	411,600	(3,244)	10,934,403
Furniture and fixtures	251,686	85,146	(895)	335,937
Library equipment	866,958	49,175	(75,738)	840,395
Bookmobile	229,147	-	-	229,147
Library materials	5,996,300	648,530	(480,857)	6,163,973
Total	17,870,138	1,194,451	(560,734)	18,503,855
Accumulated depreciation	(10,619,928)	(1,024,350)	556,003	(11,088,275)
Capital assets being depreciated, net	7,250,210	170,101	(4,731)	7,415,580
Total capital assets, net	<u>\$ 10,250,210</u>	<u>\$ 214,388</u>	<u>\$ (4,731)</u>	<u>\$ 10,459,867</u>

Depreciation expense was \$1,024,350 for the year ended December 31, 2013.

Rochester Hills Public Library

Notes to the Basic Financial Statements

December 31, 2013

4. Capital Assets (continued)

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.

5. Long-term Debt

Long-term debt obligation can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Accumulated employee benefits	\$ 165,542	\$ 18,315	\$ -	\$ 183,857	\$ 105,478

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 time of service with the Library.

6. 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, 2013	\$ 202,178
Contributions	850
Distributions	-
Fees charged	(3,055)
Investment earnings	24,208
Balance – December 31, 2013	\$ 224,181

Rochester Hills Public Library

Notes to the Basic Financial Statements

December 31, 2013

7. 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 at December 31, 2013 has not been calculated.

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 before the hearing, 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.

Total expenditures exceeded budgeted expenditures by \$7,108 for the year ended December 31, 2013.

Rochester Hills Public Library

Notes to the Basic Financial Statements

December 31, 2013

8. 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, 2013 the Library had unspent designations in the amount of \$7,097.

9. 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 the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

10. Defined Contribution Retirement Plan

The Library provides pension benefits through a money purchase plan, created in accordance with IRC Section 401(a), to all of its salaried employees who have worked in excess of six months. As established by the plan, the Library contributes 6% of gross earnings, which resulted in contributions of \$101,973 in 2013. Participants may also make voluntary contributions limited to 100% of their annual compensation or \$44,000.

11. Assigned Fund Balance

The Library Board has the authority to assign a portion of the unrestricted fund balance for specified purposes. The following is a summary of those assignments that the Library Board has adopted in 2013:

Purpose	Amount
Major facility expenses	\$ 1,500,000
Automation system	300,000
Automated Checkin System	400,000
Patron self-checkout equipment	100,000
Self-insurance funds	70,000
Updating office technology	200,000
	<u>\$ 2,570,000</u>

Rochester Hills Public Library

Notes to the Basic Financial Statements

December 31, 2013

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	\$ 3,141,691
Amounts reported in the statement of net position are different because:	
Capital assets are not financial resources and are not reported in the fund	10,459,867
Compensated absences are included as a liability	(183,857)
Net Position – Governmental Activities – Full Accrual Basis	<u>\$ 13,417,701</u>
Net Change in Fund Balance – Modified Accrual Basis	\$ (481,708)
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	1,238,738
Depreciation and loss on disposal of capital assets	(1,029,081)
Increase in accrual for accumulated employee benefits reported as an expenditure in the statement of activities, but not in the fund statements	(18,315)
Change in Net Position – Governmental Activities – Full Accrual Basis	<u>\$ (290,366)</u>

Required Supplementary Information

Rochester Hills Public Library

Budgetary Comparison Schedule

Year Ended December 31, 2013

	General Fund			
	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Property taxes	\$ 2,290,300	\$ 2,297,460	\$ 2,297,640	\$ 180
Service contracts:				
City of Rochester	418,500	418,500	423,747	5,247
Oakland Township	629,600	629,600	630,372	772
Total service contracts	1,048,100	1,048,100	1,054,119	6,019
Intergovernmental revenue – county	120,000	120,000	120,000	-
State aid	44,100	92,098	92,098	-
Fines and fees:				
Penal fines	117,300	133,450	133,450	-
Fines and fees	220,000	208,927	208,295	(632)
Total fines and fees	337,300	342,377	341,745	(632)
Investment income (loss)	80,000	-	(1,201)	(1,201)
Grants	-	8,800	8,800	-
Gifts:				
Designated gifts – General	-	6,795	9,570	2,775
Undesignated gifts – Friends	125,000	125,000	125,000	-
Undesignated gifts – General	40,000	257,870	251,234	(6,636)
Total gifts	165,000	389,665	385,804	(3,861)
Miscellaneous	16,000	22,000	23,040	1,040
Total revenues	4,100,800	4,320,500	4,322,045	1,545

Rochester Hills Public Library

Budgetary Comparison Schedule (continued)

Year Ended December 31, 2013

	General Fund			
	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Expenditures:				
Personnel:				
Salaries and wages	\$ 2,305,900	\$ 2,305,900	\$ 2,341,457	\$ (35,557)
Employee benefits	474,700	500,900	494,721	6,179
Total personnel	2,780,600	2,806,800	2,836,178	(29,378)
Library materials:				
Books	313,700	327,500	324,682	2,818
Print subscription and electronic materials	150,100	159,000	157,948	1,052
Audiovisual	170,000	168,200	165,900	2,300
Total library materials	633,800	654,700	648,530	6,170
Facilities and equipment:				
Equipment and capital improvements	20,000	577,947	598,605	(20,658)
Equipment maintenance	88,000	86,827	86,827	-
Facilities maintenance	93,900	93,900	97,630	(3,730)
Bookmobile	35,000	35,000	22,749	12,251
Voice and data services	39,000	44,600	43,220	1,380
Utilities	135,100	168,800	167,799	1,001
Insurance	16,000	16,000	14,423	1,577
Total facilities and equipment	427,000	1,023,074	1,031,253	(8,179)
Professional and contractual services	64,600	57,900	54,326	3,574
Library programs	48,900	48,900	43,002	5,898
Other operating expenditures:				
Oakland Talking Book Service	-	10,000	10,729	(729)
Promotion and printing	35,000	38,900	36,733	2,167
Staff development	11,900	30,400	31,458	(1,058)
Supplies	63,900	45,226	36,329	8,897
Postage	23,000	25,000	23,768	1,232
Mileage	6,500	6,500	5,232	1,268
Property tax refunds	-	12,200	10,204	1,996
Gift and grant expenditures	-	16,500	16,717	(217)
Miscellaneous	5,600	19,000	19,294	(294)
Total other operating expenditures	145,900	203,726	190,464	13,262
Total expenditures	4,100,800	4,795,100	4,803,753	(8,653)
Change in fund balance	-	(474,600)	(481,708)	(7,108)
Fund balance at beginning of year	3,623,399	3,623,399	3,623,399	-
Fund balance at end of year	\$ 3,623,399	\$ 3,148,799	\$ 3,141,691	\$ (7,108)