

Audited Basic Financial Statements

Rochester Hills Public Library

*Year Ended December 31, 2024
with Report of Independent Auditors*

Rochester Hills Public Library
Audited Basic Financial Statements
Year Ended December 31, 2024

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Report of Independent Auditors

The Board of Trustees
Rochester Hills Public Library
Rochester, Michigan

Opinions

We have audited the accompanying financial statements of the governmental activities and the major fund of the Rochester Hills Public Library (Library) as of and for the year ended December 31, 2024, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements as listed in the table of contents.

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, 2024, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Library, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Library's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Library's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Library's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedule, as identified in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 Group Pavlik PLC

Bloomfield Hills, Michigan
April 2, 2025

Rochester Hills Public Library

Management's Discussion and Analysis

December 31, 2024

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, 2024 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

December 31, 2024

Financial Highlights

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

Condensed Statements of Net Position

	December 31	
	2024	2023
Assets:		
Cash and investments	\$ 4,374,934	\$ 3,617,903
Taxes receivable and other assets	4,636,725	2,831,318
Capital assets	10,801,623	10,245,023
Total assets	19,813,282	16,694,244
Liabilities:		
Accounts payable and accrued liabilities	109,725	82,534
Unearned revenue	564,532	528,831
Accumulated employee benefits	202,310	185,768
Subscription-based IT arrangements	407,260	57,142
Total liabilities	1,283,827	854,275
Deferred inflow of resources:		
Property taxes levied for a subsequent period	5,267,500	3,248,470
Net position:		
Invested in capital assets	10,394,363	10,187,881
Restricted	2,371	11,767
Unrestricted	2,865,221	2,391,851
Total net position	\$ 13,261,955	\$ 12,591,499

Taxes receivable and deferred inflow of resources relate to the 2024 tax levy, which will be recorded as revenue during 2025.

Unearned revenue relates to service contract revenue received but not earned as of December 31, 2024.

Total net position increased by approximately \$670,000 during the year ended December 31, 2024, or approximately 5%.

Rochester Hills Public Library

Management's Discussion and Analysis

December 31, 2024

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	
	2024	2023
Revenues:		
Property taxes and service contracts	\$ 4,889,424	\$ 4,586,236
Other revenues	1,000,904	919,616
Total revenues	5,890,328	5,505,852
Expenses:		
Personnel, professional, and contractual services	3,143,429	3,010,955
Other expenses	682,011	740,225
Depreciation of capital assets	1,393,734	1,222,084
Interest	698	2,583
Total expenses	5,219,872	4,975,847
Change in net position	670,456	530,005
Net position:		
Net position at beginning of year	12,591,499	12,061,494
Net position at end of year	\$ 13,261,955	\$ 12,591,499

The Library's total revenue increased by approximately \$385,000 during the current year, or approximately 7%. Property taxes and service contract revenues increased primarily as a result of higher property tax valuations. Other revenues increased primarily due to increases in investment income stemming from favorable market conditions in 2024. Total expenses increased by approximately \$244,000 during the current year, or approximately 5%. The increase related primarily to personnel expenses and depreciation. As a result of revenues exceeding expenses, a positive change in net position of approximately \$670,000 was recognized during the year.

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.

Rochester Hills Public Library

Management's Discussion and Analysis

December 31, 2024

Fund Financial Statements (continued)

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

Budgetary Highlights

Property taxes and service contracts, combined, came in over budget (a favorable variance) by approximately \$27,000. Total revenue from all sources exceeded the budget (a favorable variance) by approximately \$257,000.

Total expenditures and other financing sources/uses were under budget (a favorable variance) by approximately \$223,000, related to various categories of expenditures. Therefore, the change in fund balance was favorable compared to the amount budgeted by approximately \$481,000. The original budget was not amended during the year.

Capital Asset and Debt Administration

During 2024, the Library accumulated additions to capital assets in the amount of approximately \$1,950,000 primarily for Library materials, equipment, and subscription-based information technology arrangements. 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 2025 will increase compared to the 2024 fiscal year. Considering that property taxes and service contracts make up approximately 83% of the Library's revenue, this continues to impact the Library.

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, 2024

	General Fund Modified Accrual Basis	Adjustments	Statement of Net Position
Assets:			
Cash and cash equivalents	\$ 3,682,335	\$ -	\$ 3,682,335
Investments	692,599	-	692,599
Prepaid expenses	56,796	-	56,796
Taxes receivable	4,579,929	-	4,579,929
Capital assets – net of accumulated depreciation	-	10,801,623	10,801,623
Total assets	<u>9,011,659</u>	<u>10,801,623</u>	<u>19,813,282</u>
Liabilities:			
Accounts payable	45,728	-	45,728
Unearned revenue	564,532	-	564,532
Accrued liabilities	63,997	-	63,997
Accumulated employee benefits – due within one year	-	121,513	121,513
Subscription-based IT arrangements liability, due within one year	-	99,203	99,203
Accumulated employee benefits – due in more than one year	-	80,797	80,797
Subscription-based IT arrangements liability, due after one year	-	308,057	308,057
Total liabilities	<u>674,257</u>	<u>609,570</u>	<u>1,283,827</u>
Deferred inflows of resources:			
Property taxes levied for a subsequent period	<u>5,267,500</u>	-	<u>5,267,500</u>
Fund balances and net position:			
Fund balances:			
Nonspendable	56,796	(56,796)	-
Restricted for donor-restricted purposes	2,371	(2,371)	-
Assigned fund balance - roof replacement	675,000	(675,000)	-
Unassigned	2,335,735	(2,335,735)	-
Total fund balances	<u>3,069,902</u>	<u>(3,069,902)</u>	<u>-</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 9,011,659</u>		
Net position:			
Invested in capital assets, net of related debt		10,394,363	10,394,363
Restricted for donor-restricted purposes		2,371	2,371
Unrestricted		2,865,221	2,865,221
Total net position		<u>\$ 13,261,955</u>	<u>\$ 13,261,955</u>

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, 2024

	General Fund Modified Accrual Basis	Adjustments	Statement of Activities
Revenues:			
Property taxes	\$ 3,275,463	\$ -	\$ 3,275,463
Service contracts	1,613,961	-	1,613,961
Intergovernmental revenue – county	155,365	-	155,365
State aid	152,725	-	152,725
Penal fines	150,279	-	150,279
Fines and fees	64,379	-	64,379
Investment income	183,369	-	183,369
Gifts	242,047	-	242,047
Grants	21,993	-	21,993
Miscellaneous	30,747	-	30,747
Total revenues	<u>5,890,328</u>	<u>-</u>	<u>5,890,328</u>
Expenditures:			
General government:			
Personnel	3,065,273	16,542	3,081,815
Library materials	781,699	(781,699)	-
Facilities and equipment	1,266,534	(819,215)	447,319
Capital outlay – subscription-based IT arrangement	495,792	(495,792)	-
Professional and contractual services	61,614	-	61,614
Library programs	54,718	-	54,718
Other operating expenditures	179,974	-	179,974
Depreciation and loss on disposal of capital assets	-	1,393,734	1,393,734
Debt service:			
Interest - subscription-based IT arrangement	-	698	698
Total expenditures	<u>5,905,604</u>	<u>(685,732)</u>	<u>5,219,872</u>
Excess (deficiency) of revenues over expenditures/change in net position	<u>(15,276)</u>	<u>685,732</u>	<u>670,456</u>
Other financing sources (uses):			
Subscription-based IT arrangement	495,792	(495,792)	-
Total other financing sources (uses)	<u>495,792</u>	<u>(495,792)</u>	<u>-</u>
Change in fund balance/change in net position	480,516	189,940	670,456
Fund balance/net position at beginning of year	2,589,386	10,002,113	12,591,499
Fund balance/net position at end of year	<u>\$ 3,069,902</u>	<u>\$ 10,192,053</u>	<u>\$ 13,261,955</u>

See accompanying notes to the basic financial statements.

Rochester Hills Public Library

Notes to the Basic Financial Statements

December 31, 2024

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 nonpartisan, elected 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, 2024

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, service contracts, state distributions, grants, gifts, fines and fees, and other intergovernmental revenues.

Rochester Hills Public Library

Notes to the Basic Financial Statements

December 31, 2024

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 2023 ad valorem tax is levied and collectible on December 1, 2023 and is recognized as revenue in the year ended December 31, 2024 when the proceeds of the levy are budgeted and available for the financing of operations. The Library's 2024 ad valorem tax is levied and collectible on December 1, 2024, but will not be recognized as revenue until 2025.

The 2023 taxable valuation of the City of Rochester Hills totaled \$4.421 billion, on which ad valorem taxes levied consisted of 0.7353 mills for operating purposes. This resulted in approximately \$3.2 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 .6815 mills in 2024 for the City of Rochester and .5700 mills in 2024 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.

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.

Rochester Hills Public Library

Notes to the Basic Financial Statements

December 31, 2024

1. Summary of Significant Accounting Policies (continued)

Investments (continued)

The calculation of realized gains is independent of the calculation of the net change 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.

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

Deferred Outflows of Resources

In addition to assets, the statement of net position and governmental fund balance sheet 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.

Rochester Hills Public Library

Notes to the Basic Financial Statements

December 31, 2024

1. Summary of Significant Accounting Policies (continued)

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.

Subscription-Based IT Arrangements

The Library utilizes subscription-based IT arrangements (SBITAs) for various licenses and remote hosting arrangements. Right-to-use assets and liabilities are recorded based on the present value of expected payments over the term of the respective licenses or hosting arrangements. The expected payments are discounted using the interest rate charged in the contract, if available, or are otherwise discounted using the Library's incremental borrowing rate. Variable payments are excluded from the valuations unless they are fixed in substance. Right-to-use assets are amortized over the shorter of the contract term or the underlying useful life of the asset.

Rochester Hills Public Library

Notes to the Basic Financial Statements

December 31, 2024

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. The Library has assigned \$675,000 to be used for future replacement of the Library's roof.

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, 2024

1. Summary of Significant Accounting Policies (continued)

Adoption of New Accounting Standard

The Library adopted GASB Statement No. 101, *Compensated Absences* effective for the fiscal year ended December 31, 2024. The statement establishes new requirements for calculating and reporting the Library's accrued, and unpaid employee vacation and sick days. Adoption of this standard did not have a material effect on the Library.

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, 2024

2. Deposits and Investments (continued)

Custodial Credit Risk of Bank Deposits (continued)

As of December 31, 2024, the Library had three depository accounts at two financial institutions. The custodial credit risk related to these depository accounts as of December 31, 2024, is summarized in the following table:

<u>Depository Account</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 500,000
Uninsured and uncollateralized	3,347,671
Total	<u>\$ 3,847,671</u>

3. Investments

As of December 31, 2024, 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 equivalents	\$ 3,575,626	\$ 3,575,626	\$ -	\$ -	\$ -
Investments:					
Fixed income mutual funds	16,007	16,007	-	-	-
U.S. Treasury bills	676,592	676,592	-	-	-
Total investments	4,268,225	<u>\$ 4,268,225</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Less investments reported as cash and cash equivalents on the statement of net position	<u>3,575,626</u>				
Total investments	<u>\$ 692,599</u>				

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, 2024

3. Investments (continued)

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.

As of December 31, 2024, 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.

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.

Rochester Hills Public Library

Notes to the Basic Financial Statements

December 31, 2024

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, 2024:

	Balance at December 31, 2024	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	\$ 16,007	\$ 16,007	\$ -	\$ -
U.S. Treasury bills	676,592	676,592	-	-
Total investments by fair value level	692,599	692,599	-	-
Total investments measured at fair value	<u>\$ 692,599</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, 2024

5. Capital Assets

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

	Balance 1/1/2024	Additions	Disposals	Balance 12/31/2024
Capital assets not being depreciated:				
Land	\$ 3,000,000	\$ -	\$ -	\$ 3,000,000
Capital assets being depreciated:				
Building and improvements	14,218,553	250,806	-	14,469,359
Furniture and fixtures	459,497	411,993	(135,696)	735,794
Library equipment	874,692	10,044	(53,965)	830,771
Bookmobile	122,008	-	-	122,008
Library materials	6,308,104	781,699	(470,994)	6,618,809
SBITAs	124,067	495,792	(106,879)	512,980
Total capital assets being depreciated	22,106,921	1,950,334	(767,534)	23,289,721
Accumulated depreciation	(14,861,898)	(1,326,948)	700,748	(15,488,098)
Capital assets being depreciated, net	7,245,023	623,386	(66,786)	7,801,623
Total capital assets, net	\$ 10,245,023	\$ 623,386	\$ (66,786)	\$ 10,801,623

Depreciation expense was \$1,326,948 for the year ended December 31, 2024.

6. Long-term Liabilities

The following is a summary of governmental long-term obligations of the Library for the year ended December 31, 2024:

	Compensated Absences	SBITAs	Total
Balance – January 1, 2024	\$ 185,768	\$ 57,142	\$ 242,910
Additions	16,542	495,792	512,334
Retirements	-	(145,674)	(145,674)
Balance – December 31, 2024	202,310	407,260	609,570
Less: current portion	(121,513)	(99,203)	(220,716)
Total due after one year	\$ 80,797	\$ 308,057	\$ 388,854

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, 2024

6. Long-term Liabilities (continued)

The Library has SBITAs that are used for various software licenses and remote hosting arrangements, which meet the capitalization criteria specified by U.S. generally accepted accounting principles. Therefore, the SBITAs have been recorded at the present value of the future minimum payments as of the inception date using the Library's incremental borrowing rate. The asset cost, accumulated amortization, and payable under the SBITAs totaled approximately \$513,000, \$85,000, and \$407,000, respectively, as of December 31, 2024.

Payments on the SBITAs for the years succeeding December 31, 2024 are summarized as follows:

2025	\$ 99,203
2026	98,805
2027	101,769
2028	111,569
Total minimum payments	411,346
Less amount representing interest	(4,086)
Present value as of December 31, 2024	<u>\$ 407,260</u>

Debt service interest expense associated with the subscription-based IT arrangement for the year ended December 31, 2024 totaled \$698.

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, 2024	\$ 381,421
Contributions	1,450
Fees charged	(10,290)
Investment earnings	46,289
Balance – December 31, 2024	<u>\$ 418,870</u>

Rochester Hills Public Library

Notes to the Basic Financial Statements

December 31, 2024

7. Assets Held at Community Foundation (continued)

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, 2024, the amount available to the Library approximated \$247,000.

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, 2024 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 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.

Rochester Hills Public Library

Notes to the Basic Financial Statements

December 31, 2024

8. Stewardship, Compliance, and Accountability (continued)

Excess Expenditures over Appropriations in Budgetary Funds (continued)

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, 2024, the Library incurred expenditures in excess of the amounts appropriated for facilities and equipment, resulting in an unfavorable variance approximating \$128,000; and capital outlay – subscriptions, resulting in an unfavorable variance of \$496,000 as a result of recognizing a subscription-based information technology arrangement.

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, 2024, the Library had unspent designations in the amount of \$2,371.

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 DC MERS defined contribution (DC) plan. 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 DC plan, the Library contributes 6% of annual compensation, which resulted in total contributions of \$117,988 in 2024. Employees are fully vested in the DC plan after three years of service. There were 68 members participating in the DC plan as of December 31, 2024.

Rochester Hills Public Library

Notes to the Basic Financial Statements

December 31, 2024

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 is the reconciliation of fund balance to net position:

Total Fund Balance – Modified Accrual Basis	\$ 3,069,902
Amounts reported in the statement of net position are different because:	
Capital assets are not financial resources and are not reported in the fund	10,801,623
Compensated absences are included as a liability	(202,310)
Long-term SBITA liabilities are not due and payable in the current period and are not reported in the fund	(407,260)
Net Position – Governmental Activities – Full Accrual Basis	<u>\$ 13,261,955</u>

Rochester Hills Public Library

Notes to the Basic Financial Statements

December 31, 2024

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

The following is the reconciliation of the net change in fund balance to the net change in net position:

Net Change in Fund Balance – Modified Accrual Basis	\$ 480,516
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Amounts reported in the statement of activities are different because:

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

Capital and subscription outlay	1,950,334
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Depreciation and loss on disposal of capital assets	(1,393,734)
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Change in accrual for accumulated employee benefits reported in the statement of activities, but not in the fund statements	(16,542)
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New SBITAs are reported as an other financing source in the fund statements, but not in the statement of activities, where they are recognized as long-term liabilities	(495,792)
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Payments on SBITAs are reported as an expenditure in the fund statements but not in the statement of activities, where it reduces long-term liabilities	146,372
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Change in accrued interest is reported in the statement of activities but not in the governmental funds	(698)
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Change in Net Position – Governmental Activities – Full Accrual Basis	<u>\$ 670,456</u>
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Required Supplementary Information

Rochester Hills Public Library

Budgetary Comparison Schedule

Year Ended December 31, 2024

	General Fund			
	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Property taxes	\$ 3,248,470	\$ 3,248,470	\$ 3,275,463	\$ 26,993
Service contracts:				
City of Rochester	575,500	575,500	592,521	17,021
Oakland Township	1,038,000	1,038,000	1,021,440	(16,560)
Total service contracts	1,613,500	1,613,500	1,613,961	461
Intergovernmental revenue – county	155,365	155,365	155,365	-
State aid	151,100	151,100	152,725	1,625
Fines and fees:				
Penal fines	148,800	148,800	150,279	1,479
Fines and fees	37,000	37,000	64,379	27,379
Total fines and fees	185,800	185,800	214,658	28,858
Investment income	25,000	25,000	183,369	158,369
Gifts:				
Designated gifts – general	10,000	10,000	4,395	(5,605)
Designated gifts – friends	190,000	190,000	190,000	-
Undesignated gifts – general	35,000	35,000	47,652	12,652
Total gifts	235,000	235,000	242,047	7,047
Grants	-	-	21,993	21,993
Miscellaneous	18,765	18,765	30,747	11,982
Total revenues	\$ 5,633,000	\$ 5,633,000	\$ 5,890,328	\$ 257,328

Rochester Hills Public Library

Budgetary Comparison Schedule (continued)

Year Ended December 31, 2024

	General Fund			
	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Personnel:				
Salaries and wages	\$ 2,613,100	\$ 2,613,100	\$ 2,482,214	\$ 130,886
Employee benefits	619,000	619,000	583,059	35,941
Total personnel	3,232,100	\$ 3,232,100	3,065,273	166,827
Library materials:				
Books	322,000	322,000	280,764	41,236
Print subscription and electronic materials	441,600	441,600	441,675	(75)
Audiovisual	96,400	96,400	59,260	37,140
Total library materials	860,000	860,000	781,699	78,301
Facilities and equipment:				
Equipment and capital improvements	559,900	559,900	672,844	(112,944)
Equipment maintenance	107,000	107,000	127,650	(20,650)
Facilities maintenance	235,900	235,900	224,135	11,765
Bookmobile	17,100	17,100	12,187	4,913
Voice and data services	26,000	26,000	18,110	7,890
Utilities	173,000	173,000	187,858	(14,858)
Insurance	20,000	20,000	23,750	(3,750)
Total facilities and equipment	1,138,900	1,138,900	1,266,534	(127,634)
Capital outlay – subscription-based IT arrangement	-	-	495,792	(495,792)
Professional and contractual services	71,500	71,500	61,614	9,886
Library programs	60,000	60,000	54,718	5,282
Other operating expenditures:				
Oakland Talking Book Service	3,625	3,625	3,709	(84)
Promotion and printing	63,300	63,300	57,627	5,673
Staff development	38,800	38,800	37,797	1,003
Supplies	31,900	31,900	30,148	1,752
Postage	22,000	22,000	37,083	(15,083)
Mileage	3,625	3,625	2,850	775
Gift and grant expenditures	3,625	3,625	7,412	(3,787)
Miscellaneous	3,625	3,625	3,348	277
Contingency	100,000	100,000	-	100,000
Total other operating expenditures	270,500	270,500	179,974	90,526
Total expenditures	5,633,000	5,633,000	5,905,604	(272,604)
Excess (deficiency) of revenues over expenditures/change in net position	-	-	(15,276)	(15,276)
Other financing sources (uses):				
Subscription-based IT arrangement	-	-	495,792	495,792
Total other financing sources (uses)	-	-	495,792	495,792
Change in fund balance/change in net position	-	-	480,516	480,516
Fund balance at beginning of year	2,589,386	2,589,386	2,589,386	-
Fund balance at end of year	\$ 2,589,386	\$ 2,589,386	\$ 3,069,902	\$ 480,516