

Financial Statements of

**THE HAMILTON PUBLIC LIBRARY
BOARD**

Year ended December 31, 2014

THE HAMILTON PUBLIC LIBRARY BOARD

Financial Statements

December 31, 2014, with comparative figures for 2013

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INDEPENDENT AUDITORS' REPORT

To the Board Members, Members of Council, Inhabitants and Ratepayers of the Corporation of the City of Hamilton

We have audited the accompanying financial statements of The Hamilton Public Library Board, which comprise the statement of financial position as at December 31, 2014, and the statements of operations, changes in net financial assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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, we consider 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of 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 in our audit is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Hamilton Public Library Board as at December 31, 2014, and its results of operations, changes in net assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slanted style. Below the signature is a long, horizontal, slightly curved line that underlines the text.

Chartered Professional Accountants, Licensed Public Accountants

Hamilton, Canada
May 20, 2015

THE HAMILTON PUBLIC LIBRARY BOARD

Statement of Financial Position

December 31, 2014, with comparative figures for 2013

	2014	2013
Financial assets		
Cash	\$ 30,280	\$ 30,631
Accounts receivable	63,427	74,355
Due from City of Hamilton (note 2)	9,154,043	8,653,462
	\$ 9,247,750	\$ 8,758,448
Liabilities		
Accounts payable and accrued liabilities	\$ 638,626	\$ 635,667
Due to trust funds	367,691	367,461
Liability for future benefits (note 3)	2,240,100	2,168,505
	3,246,417	3,171,633
Net financial assets	6,001,333	5,586,815
Non-financial assets		
Prepaid expenses	407,611	98,966
Tangible capital assets (net) (Schedule)	12,535,866	12,741,239
	12,943,477	12,840,205
Commitments (note 6)		
Accumulated surplus (note 8)	\$18,944,810	\$18,427,020

See accompanying notes to financial statements.

On behalf of the Board:

Director

Director

THE HAMILTON PUBLIC LIBRARY BOARD

Statement of Operations

Year ended December 31, 2014, with comparative figures for 2013

	Budget 2014	Actual 2014	Actual 2013
	(note 9)		
Revenue:			
Municipal contribution	\$ 28,145,940	\$ 28,145,940	\$ 28,103,080
Province of Ontario grants	949,450	949,451	949,451
Fines	476,070	436,371	512,806
Photocopier revenue	68,370	96,358	81,869
Donations	-	20,255	18,710
Other grant revenue	216,870	254,619	344,832
Other – rentals, sales and recoveries	116,220	134,896	88,288
Interest	-	188,046	199,534
Contributions from Municipal reserves	281,490	282,006	293,444
	30,254,410	30,507,942	30,592,014
Expenditures:			
Employee related expenses	20,288,590	19,795,230	19,134,401
Contractual	2,000,250	1,701,872	1,343,286
Building and grounds	1,575,200	1,493,242	1,431,178
Materials and supplies	3,932,870	738,924	624,452
Financial	397,770	472,718	532,760
Capital financing (note 4)	344,990	344,056	345,295
Vehicle expenses	67,490	44,367	43,697
Consulting	-	6,635	33,401
Cost allocations	-	-	2,131
Amortization	-	3,598,672	3,563,649
Change in employee benefits	-	71,595	2,072
Reserves/recoveries	1,640,850	1,716,443	1,696,397
Contribution to Municipal reserves	6,400	6,398	6,058
	30,254,410	29,990,152	28,758,777
Net revenue	-	517,790	1,833,237
Contributions to reserves of Municipality (note 10)	-	-	2,371,184
Annual surplus (deficit)	-	517,790	(537,947)
Accumulated surplus, beginning of year	18,427,020	18,427,020	18,964,967
Accumulated surplus, end of year	\$ 18,427,020	\$ 18,944,810	\$ 18,427,020

See accompanying notes to financial statements.

THE HAMILTON PUBLIC LIBRARY BOARD

Statement of Changes in Net Financial Assets

Year ended December 31, 2014, with comparative figures for 2013

	2014	2013
Annual surplus (deficit)	\$ 517,790	\$ (537,947)
Purchase of tangible capital assets	(3,393,299)	(3,515,478)
Amortization of tangible capital assets	3,598,672	3,563,649
	205,373	48,171
Net (increase) decrease in prepaid expenses	(308,645)	14,565
Change in net financial assets	414,518	(475,211)
Net financial assets, beginning of year	5,586,815	6,062,026
Net financial assets, end of year	\$ 6,001,333	\$ 5,586,815

See accompanying notes to financial statements.

THE HAMILTON PUBLIC LIBRARY BOARD

Statement of Cash Flows

Year ended December 31, 2014, with comparative figures for 2013

	2014	2013
Cash provided by (used in):		
Operating activities:		
Annual surplus (deficit)	\$ 517,790	\$ (537,947)
Items not involving cash:		
Amortization	3,598,672	3,563,649
Increase in future benefits	71,595	2,072
Change in non-cash assets and other liabilities:		
Accounts receivable	10,928	(24,628)
Due from City of Hamilton	(500,581)	692,149
Prepaid expenses	(308,645)	14,565
Accounts payable and accrued liabilities	2,959	(189,470)
Due to trust funds	230	792
	3,392,948	3,521,182
Capital activities:		
Purchase of tangible capital assets	(3,393,299)	(3,515,478)
Net change in cash	(351)	5,704
Cash, beginning of year	30,631	24,927
Cash, end of year	\$ 30,280	\$ 30,631

See accompanying notes to financial statements.

THE HAMILTON PUBLIC LIBRARY BOARD

Notes to Financial Statements

Year ended December 31, 2014

The financial statements of the Hamilton Public Library Board (the Board) are prepared by management in accordance with Canadian public sector accounting standards.

The budget established for capital investment in tangible capital assets are on a project-oriented basis, the costs of which may be incurred over a number of years and therefore may not be comparable with the current year's actual expenditures. The Board does not budget actively within reserves or reserve funds, with the exception being those transactions which affect either operations or capital investments. Budget figures do not include amounts for tangible capital assets amortization.

1. Significant account policies:

(a) Basis of accounting:

Revenue are recorded on the accrual basis of accounting which recognizes revenues as they become available and measurable, with the exception of fines and other desk receipts which are reported on the cash basis of accounting. Expenditures are reported on the accrual basis of accounting which recognizes expenditures as they are incurred and measurable as a result of a receipt of goods or services and the creation of a legal obligation to pay.

(b) Tangible capital assets:

(i) Determination of costs

Tangible capital assets are recorded at cost which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. Contributed or donated tangible capital assets are recorded at their fair value at the date of receipt.

(ii) Amortization

Amortization is recorded to reflect the cost, net of anticipated salvage value, associated with the use of the asset in providing library services over the estimated useful life of the asset. Amortization expense is calculated on a straight-line basis over the assets' estimated useful lives as follows:

Asset	Number of years
Collections (asset pool)	7 years
Furniture, equipment and shelving	10 years
Computer hardware	3 years
Software	5 years

THE HAMILTON PUBLIC LIBRARY BOARD

Notes to Financial Statements (continued)

Year ended December 31, 2014

1. Significant account policies (continued):

(b) Tangible capital assets (continued):

(ii) Amortization (continued)

One half of the annual amortization is charged in the year of acquisition and in the year of disposal. Assets under construction are not amortized until the asset is available for productive use.

Library land and buildings are owned and controlled by the City of Hamilton and are therefore not reflected in these financial statements.

(c) Trust funds:

Trust funds and their related operations administered by the Board are not included in these financial statements, but are reported separately.

(d) Municipal contributions:

Municipal contributions received relate to library operations. Municipal contributions paid relate to surplus repayment and future reserves. Contributions are recognized in the financial statements as revenues in the period in which events giving rise to the contribution occur, providing the contributions are authorized, any eligibility criteria have been met, and reasonable estimates of the amounts can be made.

(e) Employee future benefits:

The Library provides certain employee benefits which will require funding in future periods. The cost of self-insured retirement and other employee future benefits that vest or accumulate over the periods of service provided by employees, such as retirement health and dental benefits for retirees, is actuarially determined using the project benefit method prorated on service. Under this method, the benefit costs are recognized over the expected average service life of the employee group. Any actuarial gains and losses related to the past service of employees are amortized over the expected average remaining service life of the employee group.

The costs of multi-employer defined contribution pension plan benefits, such as the Ontario Municipal Employees Retirement System (OMERS) pensions, are the employer's contributions due to the plan in the period.

(f) Non-financial assets:

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

THE HAMILTON PUBLIC LIBRARY BOARD

Notes to Financial Statements (continued)

Year ended December 31, 2014

1. Significant account policies (continued):

(g) Government transfers:

Government transfers received are from federal and provincial governments. Transfers are recognized in the period in which the events giving rise to the transfers occur, providing the transfers are authorized, eligibility criteria are met, and reasonable estimates of the amounts can be made.

(h) Use of estimates:

The preparation of financial statements in accordance with public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

2. Due from City of Hamilton:

The balance due from the City of Hamilton is non-interest bearing and has no set terms of repayment.

3. Liability for future benefits:

In accordance with Canadian public sector accounting standards, the Board is required to report obligations for retirement benefits earned over the employment period of its employees.

Employees who have retired either under the OMERS early retirement provisions or otherwise are eligible to receive drug, extended health services and dental benefits for the lifetime of the retiree. Effective January 1, 2002 new retirees only receive benefits until age sixty-five.

The Board recognizes the post-employment benefits costs as they are earned during the year. The Board's obligation under the post-employment provisions of employment agreements will be funded out of current revenue.

THE HAMILTON PUBLIC LIBRARY BOARD

Notes to Financial Statements (continued)

Year ended December 31, 2014

3. Liability for future benefits (continued):

Accrued benefit obligation:

	2014	2013
Vested sick leave liability	\$ 43,500	\$ 90,784
Retirement benefits	2,910,600	2,521,051
	<u>2,954,100</u>	<u>2,611,835</u>
Net unamortized actuarial loss	(714,000)	(443,330)
Accrued liability	<u>\$ 2,240,100</u>	<u>\$ 2,168,505</u>

The continuity of employee future benefits and other obligations is summarized as follows:

	2014	2013
Liability for employee future benefits and other obligations balance at beginning of the year	\$ 2,168,505	\$ 2,166,433
Benefit expenditure	89,900	66,076
Interest expenditure	127,300	116,326
Amortization of actuarial loss	80,995	64,737
Benefit payments	(226,600)	(245,067)
Liability for employee future benefits and other obligations balance at end of the year	<u>\$ 2,240,100</u>	<u>\$ 2,168,505</u>

Actuarial valuations are performed on post-employment and retirement benefits to provide estimates of the accrued benefit obligations. These estimates are based on a number of assumptions about future events including interest rates, inflation rates, salary and wage increases, medical and dental cost increases and mortality. The assumptions are determined at the time of the actuarial valuations and are reviewed annually. Consequently, different assumptions may be used as follows:

	Discount rate	Return on assets	Inflation rate	Salary increases	Dental increases	Life expectancy (years)
Vested sick leave	4.0%	NA	2%	3.5%	NA	12
Retirement benefits – health and dental	4.0%	NA	2%	3.5%	3.87% (1)	12

Note (1) – Medical costs are assumed to increase at a rate of 5.92% in 2014 (2013 - 5.5%) and reduce annually until 2030.

THE HAMILTON PUBLIC LIBRARY BOARD

Notes to Financial Statements (continued)

Year ended December 31, 2014

3. Liability for future benefits (continued):

(a) Liability for vested sick leave:

Effective May 1, 1982, the Income Protection Plan was adopted and sick leave credits earned under the Sick Leave Benefit Plan were frozen. Under the Sick Leave Benefit Plan unused sick leave would accumulate and employees were entitled to cash payment upon termination of services after ten continuous years. Entitlement to cash payment continues to apply to those employees who accumulated days, to the extent that they have vested and could be taken in cash by an employee on termination. The estimated accrued benefit obligation at December 31, 2014 is \$43,500 (2013 - \$90,784).

(b) Liability for retirement benefits:

The Board provides certain health, dental and life insurance benefits between the time an employee retires under OMERS or the normal retirement age and up to the age of 65 years. The estimated accrued benefit obligation at December 31, 2014 is \$2,910,600 (2013 - \$2,521,051).

4. Long term debt:

The City charges the Board principal and interest for long term debt, as well as sinking fund charges, related to Library facilities and other capital. These charges are funded by the City through its annual contributions. The debt is not disclosed on the statement of financial position as the City of Hamilton is legally responsible for the repayment of the debt.

(a) The net long term debt to which these charges are related is as follows:

Debenture number	Purpose	Interest rates	Maturity date	2014	2013
12-094	Westdale Branch	2.13%	2017	\$ 51,236	\$ 68,314
12-094	Barton Branch	2.13%	2017	117,071	156,095
01-162	Central Library	4.65% to 6.75%	2016	5,785	8,415
06-120	South Mtn Complex	4.728%	2023	1,951,652	2,314,367
				\$ 2,125,744	\$ 2,547,191

(b) Principal charges in each of the next five years are as follows:

2015	\$ 250,359
2016	259,700
2017	266,314
2018	220,268
2019	230,805
2020 and thereafter	898,298
\$ 2,125,744	

THE HAMILTON PUBLIC LIBRARY BOARD

Notes to Financial Statements (continued)

Year ended December 31, 2014

4. Long term debt (continued):

(c) The Board was charged \$344,056 (2013 - \$345,295) for long term debt charges during the year as follows:

	2014	2013
Principal	\$ 241,447	\$ 232,944
Interest	102,609	112,351
	<u>\$ 344,056</u>	<u>\$ 345,295</u>

5. Pension agreements:

The Hamilton Public Library makes contributions to OMERS, which is a multi-employer plan, on behalf of 223 members of its staff. The plan is a defined benefit plan, which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay.

The latest actuarial valuation as at December 31, 2014 reported a funding deficit of \$7.1 billion in 2014. In response, OMERS increased contributions for both employees and employers by 0.9%, made benefit reductions to plan members who leave their employment prior to retirement, and implemented a revised investment strategy. OMERS expects these contributions and policy changes to return the plan to a fully funded position by 2025. Contributions were made in the 2014 calendar year at rates ranging from 9.0% to 15.9% depending on the level of earnings. As a result, \$1,256,888 was contributed to OMERS (2013 - \$1,259,227) for current service.

6. Commitments:

Minimum future lease payments for various premises and equipment are as follows:

2015	\$ 509,400
2016	530,300
2017	504,800
2018	504,800
2019	478,467
2020 and thereafter	346,800
	<u>\$2,874,567</u>

7. Trust funds:

Trust funds administered by the Board amounting to \$3,490,806 (2013 - \$3,283,754) have not been included in the statement of financial position nor have these operations been included in the statement of operations.

THE HAMILTON PUBLIC LIBRARY BOARD

Notes to Financial Statements (continued)

Year ended December 31, 2014

8. Accumulated surplus:

Consists of:

	2014	2013
Reserves and reserve funds	\$ 8,649,044	\$ 7,854,286
Amounts to be recovered in the future	(2,240,100)	(2,168,505)
Tangible capital assets	12,535,866	12,741,239
Balance, end of year	\$ 18,944,810	\$ 18,427,020

Reserves and reserve funds:

	2014	2013
Library major capital projects	\$ 2,718,926	\$ 2,646,563
Library general development	2,002,807	1,812,184
Computer reserve	1,049,678	724,296
Library collections	764,723	800,255
Accessibility health and safety	654,101	638,806
Redevelopment, training and restructuring	506,072	494,239
Summer reading	440,406	394,617
Mobile equipment	393,155	226,936
Youth programming	119,176	116,390
	\$ 8,649,044	\$ 7,854,286

9. Budget figures:

The budgets originally approved by the Board for 2014 are reflected on the statement of operations and do not include amounts related to public sector accounting standards reporting requirements.

- The budget reflects anticipated expenditures for collection purchases, whereas actual results have been adjusted to move capital-related collection items to tangible capital assets. An amount for amortization expense has not been included in the budget, but is reflected in actual results.
- Amounts included in the original council approved capital budget which are not recognized as tangible capital assets are included in statement of operations under the appropriate functional expense category.

THE HAMILTON PUBLIC LIBRARY BOARD

Notes to Financial Statements (continued)

Year ended December 31, 2014

10. Contribution from Reserves to the Municipality:

The contribution from reserves to the Municipality does not include any transfers to the operating budget.

Net transfer to Municipality	\$ -
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Historically, there has been no budgeted amount for transfers to the Municipality. This is due to the fact that impending projects are not necessarily known or approved at the time of the budget preparation.

THE HAMILTON PUBLIC LIBRARY BOARD

Schedule of Tangible Capital Assets

Year ended December 31, 2014

December 31, 2014

Cost	Computer hardware	Computer software	Collections	Furniture and equipment	Total
Beginning of year	\$ 441,307	\$ 257,151	\$ 22,362,448	\$ 2,247,349	\$ 25,308,255
Add: Additions during the year	13,197	4,568	3,016,937	358,597	3,393,299
Less: disposals during the year	(227,974)	-	(2,941,956)	(143,546)	(3,313,476)
End of year	\$ 226,530	\$ 261,719	\$ 22,437,429	\$ 2,462,400	\$ 25,388,078
Accumulated Amortization	Computer hardware	Computer software	Collections	Furniture and equipment	Total
Beginning of year	\$ 251,626	\$ 74,485	\$ 11,335,900	\$ 905,005	\$ 12,567,016
Add: amortization during the year	111,306	51,887	3,199,991	235,488	3,598,672
Less: amortization on disposals	(227,974)	-	(2,941,956)	(143,546)	(3,313,476)
End of year	\$ 134,958	\$ 126,372	\$ 11,593,935	\$ 996,947	\$ 12,852,212
Net book value	\$ 91,572	\$ 135,347	\$ 10,843,494	\$ 1,465,453	\$ 12,535,866

December 31, 2013

Cost	Computer hardware	Computer software	Collections	Furniture and Equipment	Total
Beginning of year	\$ 306,251	\$ 144,897	\$ 22,201,840	\$ 2,066,399	\$ 24,719,387
Add: additions during the year	135,056	112,254	2,898,311	369,857	3,515,478
Less: disposals during the year	-	-	(2,737,703)	(188,907)	(2,926,610)
End of year	\$ 441,307	\$ 257,151	\$ 22,362,448	\$ 2,247,349	\$ 25,308,255
Accumulated Amortization	Computer hardware	Computer software	Collections	Furniture and equipment	Total
Beginning of year	\$ 127,033	\$ 34,280	\$ 10,890,440	\$ 878,224	\$ 11,929,977
Add: amortization during the year	124,593	40,205	3,183,163	215,688	3,563,649
Less: amortization on disposals	-	-	(2,737,703)	(188,907)	(2,926,610)
End of year	\$ 251,626	\$ 74,485	\$ 11,335,900	\$ 905,005	\$ 12,567,016
Net book value	\$ 189,681	\$ 182,666	\$ 11,026,548	\$ 1,342,344	\$ 12,741,239