

Financial Statements of

**THE HAMILTON PUBLIC LIBRARY
BOARD**

Year ended December 31, 2015

THE HAMILTON PUBLIC LIBRARY BOARD

Financial Statements

December 31, 2015, with comparative figures for 2014

	Page
The Hamilton Public Library Board	
Independent Auditors' Report.....	1
Statement of Financial Position.....	3
Statement of Operations and Accumulated Surplus	4
Statement of Changes in Net Financial Assets.....	5
Statement of Cash Flows	6
Notes to Financial Statements	7-14
Schedule of Tangible Capital Assets	15



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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, 2015, and the statements of operations and accumulated surplus, 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, 2015, 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

Chartered Professional Accountants, Licensed Public Accountants

May 18, 2016

Hamilton, Canada

THE HAMILTON PUBLIC LIBRARY BOARD

Statement of Financial Position

December 31, 2015, with comparative information for 2014

	2015	2014
Financial assets		
Cash	\$ 28,525	\$ 30,280
Accounts receivable	1,117,450	63,427
Due from City of Hamilton (note 2)	6,428,691	9,154,043
	\$ 7,574,666	\$ 9,247,750
Liabilities		
Accounts payable and accrued liabilities	\$ 283,670	\$ 638,626
Due to trust funds	369,749	367,691
Liability for future benefits (note 3)	2,324,700	2,240,100
Deferred revenue	386	-
	2,978,505	3,246,417
Net financial assets	4,596,161	6,001,333
Non-financial assets		
Prepaid expenses	415,736	407,611
Tangible capital assets (Schedule)	12,025,047	12,535,866
	12,440,783	12,943,477
Commitments (note 6)		
Accumulated surplus (note 8)	\$17,036,944	\$18,944,810

See accompanying notes to financial statements.

On behalf of the Board:

Director

Director

THE HAMILTON PUBLIC LIBRARY BOARD

Statement of Operations and Accumulated Surplus

Year ended December 31, 2015, with comparative information for 2014

	Budget 2015	Actual 2015	Actual 2014
	(note 9)		
Revenue:			
Municipal contribution	\$ 28,576,020	\$ 28,576,020	\$ 28,145,940
Province of Ontario grants	949,450	949,451	949,451
Fines	476,070	398,692	436,371
Photocopier revenue	89,370	109,889	96,358
Donations	-	1,833	20,255
Other grant revenue	232,880	419,961	254,619
Other – rentals, sales and recoveries	101,000	81,485	134,896
Interest	-	186,937	188,046
Contributions from Municipal reserves	281,490	281,493	282,006
	30,706,280	31,005,761	30,507,942
Expenditures:			
Employee related expenses	20,657,320	19,957,830	19,795,230
Contractual	1,980,260	1,716,353	1,701,872
Building and grounds	1,576,100	1,510,552	1,493,242
Materials and supplies	3,697,430	864,781	738,924
Financial	408,120	372,117	472,718
Capital financing (note 4)	343,760	342,825	344,056
Vehicle expenses	67,950	50,598	44,367
Consulting	-	14,783	6,635
Amortization	-	3,548,204	3,598,672
Change in employee benefits	-	84,600	71,595
Reserves/recoveries	1,975,340	1,766,086	1,716,443
Contribution to Municipal reserves	-	6,398	6,398
	30,706,280	30,235,127	29,990,152
Annual surplus before reserve transfers	-	770,634	517,790
Contributions to reserves of Municipality (note 10)	-	2,678,500	-
Annual (deficit) surplus	-	(1,907,866)	517,790
Accumulated surplus, beginning of year	18,944,810	18,944,810	18,427,020
Accumulated surplus, end of year	\$ 18,944,810	\$ 17,036,944	\$ 18,944,810

See accompanying notes to financial statements.

THE HAMILTON PUBLIC LIBRARY BOARD

Statement of Changes in Net Financial Assets

Year ended December 31, 2015, with comparative information for 2014

	2015	2014
Annual surplus	\$ 770,634	\$ 517,790
Purchase of tangible capital assets	(3,037,385)	(3,393,299)
Amortization of tangible capital assets	3,548,204	3,598,672
Contributions to reserves of Municipality	(2,678,500)	
	(2,167,681)	205,373
Net (increase) decrease in prepaid expenses	(8,125)	(308,645)
Change in net financial assets	(1,405,172)	414,518
Net financial assets, beginning of year	6,001,333	5,586,815
Net financial assets, end of year	\$ 4,596,161	\$ 6,001,333

See accompanying notes to financial statements.

THE HAMILTON PUBLIC LIBRARY BOARD

Statement of Cash Flows

Year ended December 31, 2015, with comparative information for 2014

	2015	2014
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ 770,634	\$ 517,790
Contributions to reserves of Municipality	(2,678,500)	-
Items not involving cash:		
Amortization	3,548,204	3,598,672
Increase in future benefits	84,600	71,595
Change in non-cash assets and other liabilities:		
Accounts receivable	(1,054,023)	10,928
Due from City of Hamilton	2,725,352	(500,581)
Prepaid expenses	(8,125)	(308,645)
Accounts payable and accrued liabilities	(354,956)	2,959
Deferred revenue	386	-
Due to trust funds	2,058	230
	3,035,630	3,392,948
Capital activities:		
Purchase of tangible capital assets	(3,037,385)	(3,393,299)
Net change in cash	(1,755)	(351)
Cash, beginning of year	30,280	30,631
Cash, end of year	\$ 28,525	\$ 30,280

See accompanying notes to financial statements.

THE HAMILTON PUBLIC LIBRARY BOARD

Notes to Financial Statements

Year ended December 31, 2015

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:

Significant accounting policies adopted by the Board are as follows:

(a) Basis of accounting:

Revenues 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 recognized 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) Trust funds:

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

(c) Government transfers:

Government transfers received are from federal and provincial governments and the City of Hamilton. Government transfers paid relate to surplus repayment and future reserves. 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.

(d) 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.

THE HAMILTON PUBLIC LIBRARY BOARD

Notes to Financial Statements

Year ended December 31, 2015

1. Significant account policies (continued):

(d) Tangible capital assets (continued):

(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

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.

(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. These contributions are recognized in the period in which the contributions are earned.

(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

Year ended December 31, 2015

1. Significant account policies (continued):

(g) Deferred revenue:

Deferred revenue represents funds collected for which related services have yet to be performed. These amounts will be recognized as revenue in the fiscal year in which the related services are performed.

(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

Year ended December 31, 2015

3. Liability for future benefits (continued):

Accrued benefit obligation:

	2015	2014
Vested sick leave liability	\$ 37,800	\$ 43,500
Retirement benefits	2,912,300	2,910,600
	2,950,100	2,954,100
Net unamortized actuarial loss	(625,400)	(714,000)
Accrued liability	\$ 2,324,700	\$ 2,240,100

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

	2015	2014
Liability for employee future benefits and other obligations		
balance at beginning of the year	\$ 2,240,100	\$ 2,168,505
Benefit expenditure	120,700	89,900
Interest expenditure	118,000	127,300
Amortization of actuarial loss	88,600	80,995
Benefit payments	(242,700)	(226,600)
Liability for employee future benefits and other obligations		
balance at end of the year	\$ 2,324,700	\$ 2,240,100

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	11.8
Retirement benefits – health and dental	4.0%	NA	2%	3.5%	3.87% ⁽¹⁾	14.3

Note (1) – Medical costs are assumed to increase at a rate of 5.80% in 2015 (2014 - 5.92%) and reduce annually until 2030.

THE HAMILTON PUBLIC LIBRARY BOARD

Notes to Financial Statements

Year ended December 31, 2015

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, 2015 is \$37,800 (2014 - \$43,500).

(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, 2015 is \$2,912,300 (2014 - \$2,910,600).

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	2015	2014
12-094	Westdale Branch	2.13%	2017	\$ 34,157	\$ 51,236
12-094	Barton Branch	2.13%	2017	78,048	117,071
01-162	Central Library	4.65% to 6.75%	2016	2,984	5,785
06-120	South Mtn Complex	4.728%	2023	1,760,196	1,951,652
				<u>\$ 1,875,385</u>	<u>\$ 2,125,744</u>

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

2016	\$ 259,700
2017	266,314
2018	220,268
2019	230,805
2020 and thereafter	898,298
<u>\$ 1,875,385</u>	

THE HAMILTON PUBLIC LIBRARY BOARD

Notes to Financial Statements

Year ended December 31, 2015

4. Long term debt (continued):

(c) The Board was charged \$342,825 (2014 - \$344,056) for long term debt charges during the year as follows:

	2015	2014
Principal	\$ 250,359	\$ 241,447
Interest	92,466	102,609
	<u>\$ 342,825</u>	<u>\$ 344,056</u>

5. Pension agreements:

The Hamilton Public Library makes contributions to OMERS, which is a multi-employer plan, on behalf of 282 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, 2015 reported a funding deficit of \$7.0 billion (2014 - \$7.1 billion). OMERS expects the contributions and policy changes made in response to the deficit to return the plan to a fully funded position by 2025. Contributions were made in the 2015 calendar year at rates ranging from 9.0% to 15.9% depending on the level of earnings. As a result, \$1,110,530 was contributed to OMERS (2014 - \$1,256,888) for current service.

6. Commitments:

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

2016	\$ 530,900
2017	504,800
2018	504,800
2019	478,467
2020 and thereafter	346,800
	<u>\$ 2,365,767</u>

7. Trust funds:

Trust funds administered by the Board amounting to \$3,704,341 (2014 - \$3,490,806) 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

Year ended December 31, 2015

8. Accumulated surplus:

Accumulated surplus consists of individual fund surplus and reserve and reserve funds as follows:

	2015	2014
Reserves and reserve funds	\$ 7,336,597	\$ 8,649,044
Unfunded employee future benefit liability	(2,324,700)	(2,240,100)
Tangible capital assets	12,025,047	12,535,866
Balance, end of year	\$ 17,036,944	\$ 18,944,810

Reserves and reserve funds:

	2015	2014
Library general development	\$ 2,341,522	\$ 2,002,807
Library major capital projects	1,255,873	2,718,926
Accessibility health and safety	867,304	654,101
Library collections	825,206	764,723
Redevelopment, training and restructuring	517,637	506,072
Summer reading	486,813	440,406
Computer reserve	473,665	1,049,678
Mobile equipment	446,677	393,155
Youth programming	121,900	119,176
	\$ 7,336,597	\$ 8,649,044

9. Budget figures:

The budgets originally approved by the Board for 2015 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

Year ended December 31, 2015

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	\$ 2,678,500
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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, 2015

December 31, 2015

Cost	Computer hardware	Computer software	Collections	Furniture and equipment	Total
Beginning of year	\$ 226,530	\$ 261,719	\$ 22,437,429	\$ 2,462,400	\$ 25,388,078
Add: Additions during the year	95,958	104,719	2,749,809	86,899	3,037,385
Less: disposals during the year	(78,277)	-	(3,328,166)	(153,785)	(3,560,228)
End of year	\$ 244,211	\$ 366,438	\$ 21,859,072	\$ 2,395,514	\$ 24,865,235
Accumulated Amortization	Computer hardware	Computer software	Collections	Furniture and equipment	Total
Beginning of year	\$ 134,958	\$ 126,372	\$ 11,593,935	\$ 996,947	\$ 12,852,212
Add: amortization during the year	78,457	62,815	3,164,036	242,896	3,548,204
Less: amortization on disposals	(78,277)	-	(3,328,166)	(153,785)	(3,560,228)
End of year	\$ 135,138	\$ 189,187	\$ 11,429,805	\$ 1,086,058	\$ 12,840,188
Net book value	\$ 109,073	\$ 177,251	\$ 10,429,267	\$ 1,309,456	\$ 12,025,047

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