

**Mission Statement**

*Freedom to Discover*

**Strategic Priorities**

*A Community Beacon      Relevant and Responsive  
A Creative and Changing Organization*

**HAMILTON PUBLIC LIBRARY BOARD**

**Audit Committee Meeting**

**Tuesday, May 9, 2017**

**Central Library, Admin Committee Room**

4:00 p.m. Meeting

**AGENDA**

1. Acceptance of the Agenda
2. Minutes from previous meeting approved at February 2017 Library Board meeting
3. Audit Findings Report Attachment #3
4. Draft Financial Statements Hamilton Public Library Board December 31, 2016 Attachment #4
5. Independent Auditor's Report Attachment #5
6. Hamilton Public Library Board Trust Funds Attachment #6
10. Auditor and Audit Committee meet without Staff
11. Adjournment

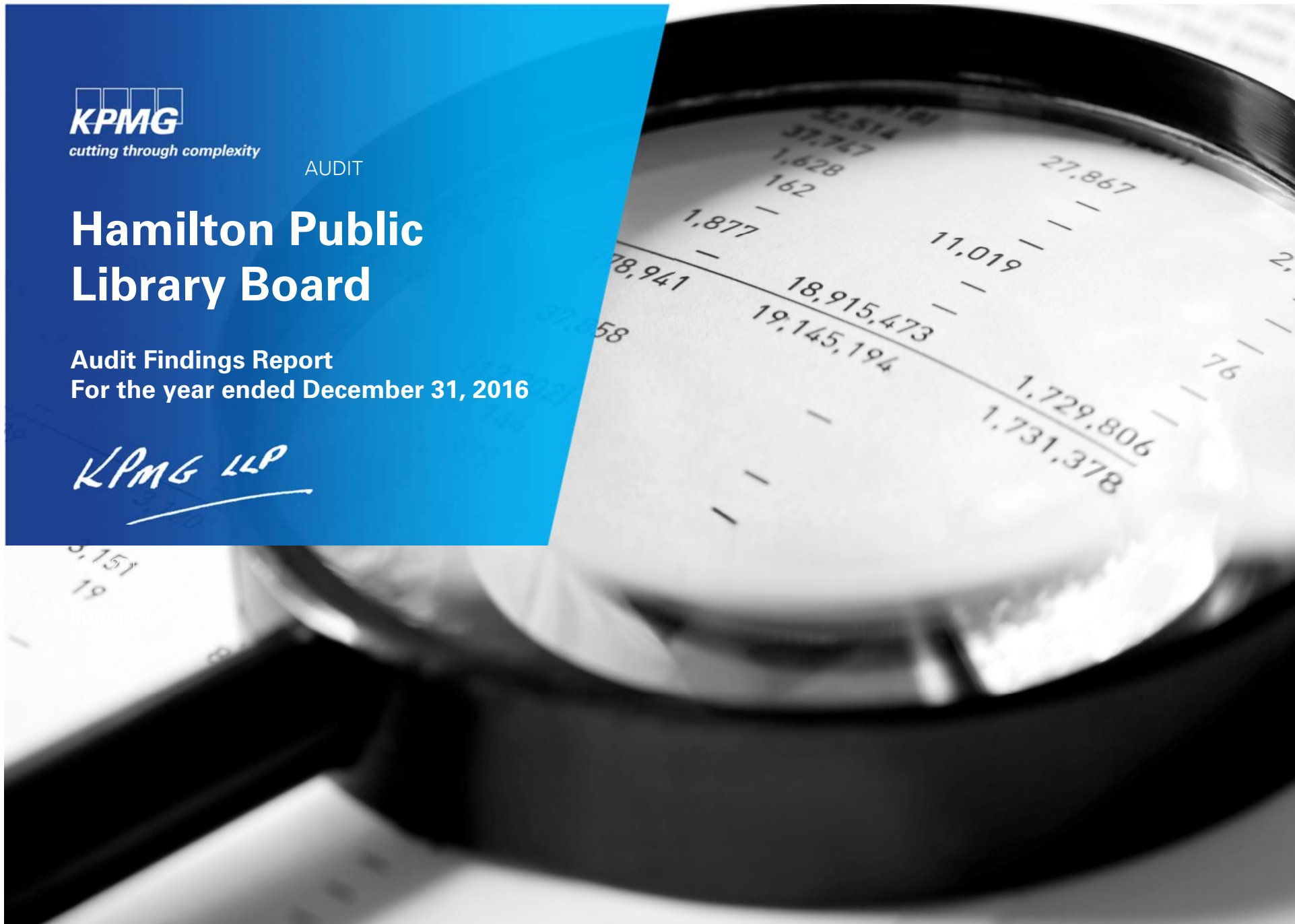


AUDIT

# Hamilton Public Library Board

Audit Findings Report  
For the year ended December 31, 2016

*KPMG LLP*



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At KPMG, we are **passionate** about earning your **trust**. We take deep **personal accountability**, individually and as a team, to deliver **exceptional service and value** in all our dealings with you.

At the end of the day, we measure our success from the **only perspective that matters – yours.**

# Executive summary

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## Purpose of this report\*

The purpose of this Audit Findings Report is to assist you, as a member of the Audit Committee, in your review of the results of our audit of the financial statements of the Hamilton Public Library Board as at and for the year ended December 31, 2016.

This Audit Findings Report builds on the Audit Plan we presented to the Audit Committee in January, 2016.

## Changes from the Audit Plan

There have been no significant changes regarding our audit from the Audit Planning Report previously presented to you.

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## Audit risks and results

We discussed with you at the start of the audit **other areas of audit focus**. We have no significant matters to report to the audit committee in respect of them.

*See page 5*

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## Adjustments and differences

We did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements.

*See page 7*

\* This Audit Findings Report should not be used for any other purpose or by anyone other than the audit committee. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Findings Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

# Executive summary (Continued)

## Finalizing the audit

As of the date of this report, we have completed the audit of the financial statements, with the exception of certain remaining procedures, which include amongst others:

- receipt of signed management representation letter
- completing our discussions with the audit committee;
- obtaining evidence of the Board's approval of the financial statements.

We will update the audit committee, and not solely the Chair (as required by professional standards), on significant matters, *if any*, arising from the completion of the audit, including the completion of the above procedures. Our auditors' report will be dated upon the completion of any remaining procedures.

## Control and other observations

We did not identify any control deficiencies that we determined to be significant deficiencies in ICFR.

## Independence

We are independent with respect to the Library (and its related entities), within the meaning of the relevant rules and interpretations prescribed by the relevant professional bodies in Canada.

## Significant accounting policies and practices

There have been no newly implemented or changes in accounting policies for the 2016 year end.

# Audit risks and results

We identified other areas of focus for our audit in our discussion with you in the Audit Plan.

Significant findings from the audit regarding other areas of focus are as follows:

## Other areas of focus

## Our significant findings from the audit

### Liability for Future Benefits

The Library is required to report obligations for retirement benefits earned over the employment period of its employees.

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

Management relies on the actuarial services of Dixon Actuarial Services to provide the liability for future benefits.

We obtained external confirmation from management's expert and evaluated the expert for competence and independence.

We reviewed the actuarial valuations performed on post-employment and retirement benefits to assess the estimates set up for the accrued benefit obligation.

No significant differences were found as a result of our audit work.

### Trust Funds

We have noticed among several municipal entities that items previously accounted for as Trust Funds are not Trust Funds in accordance with the definition under Public Sector Accounting Standards, but rather internal restrictions for funds received, or external restrictions for which could be accounted for as deferred revenue.

One of the key determining factors is whether the entity has authority to change the conditions set out for the purpose of the funds or property initially received.

Our preliminary findings indicate that some of the items currently held in the Library Trusts may not meet the definition of a trust and should in fact be recognized in the financial statements of the Library.

A detailed analysis is required with a history of each fund and its purpose documented such that a determination can be made as to whether these funds should be accounted for within the Library's statements or remain as a Trust Fund.

# Financial statement presentation and disclosure

The presentation and disclosure of the financial statements are, in all material respects, in accordance with the Library's relevant financial reporting framework. Misstatements, including omissions, if any, related to disclosure or presentation items are in the management representation letter included in the Appendices.

We also highlight the following:

**Form, arrangement, and content of the financial statements**

The financial statements are, in all material respects, in accordance with the applicable financial accounting framework. The disclosures in the notes to the financial statements are adequate.

**Application of accounting pronouncements issued but not yet effective**

There are no concerns at this time regarding future implementation

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# Adjustments and differences

Adjustments and differences identified during the audit have been categorized as Corrected “adjustments” or Uncorrected “differences.” These include disclosure adjustments and differences.

Professional standards require that we request of management and the audit committee that all identified adjustments or differences be corrected. We have already made this request of management.

## Corrected adjustments

We did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements.

## Uncorrected differences

We did not identify differences that remain uncorrected.



# Appendices

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**Appendix 1: Required communications**

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**Appendix 2: Audit Quality and Risk Management**

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**Appendix 3: Background and professional standards**

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**Appendix 4: Current developments**

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# Appendix 1: Required communications

In accordance with professional standards, there are a number of communications that are required during the course of and upon completion of our audit. These include:

- **Auditors' report** – the conclusion of our audit is set out in our draft auditors' report
- **Management representation letter** – In accordance with professional standards, copies of the management representation letter are provided to the Audit Committee. The management representation letter is attached.
- **Independence letter** – In accordance with professional standards, we have confirmed our independence.

# Appendix 2: Audit Quality and Risk Management

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards.

Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarises the six key elements of our quality control systems.

Visit <http://www.kpmg.com/Ca/en/services/Audit/Pages/Audit-Quality-Resources.aspx> for more information.

- Other controls include:
  - Before the firm issues its audit report, the Engagement Quality Control Reviewer reviews the appropriateness of key elements of publicly listed client audits.
  - Technical department and specialist resources provide real-time support to audit teams in the field.
- We conduct regular reviews of engagements and partners. Review teams are independent and the work of every audit partner is reviewed at least once every three years.
- We have policies and guidance to ensure that work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm's standards of quality.
- All KPMG partners and staff are required to act with integrity and objectivity and comply with applicable laws, regulations and professional standards at all times.



- We do not offer services that would impair our independence.
- The processes we employ to help retain and develop people include:
  - Assignment based on skills and experience;
  - Rotation of partners;
  - Performance evaluation;
  - Development and training; and
  - Appropriate supervision and coaching.
- We have policies and procedures for deciding whether to accept or continue a client relationship or to perform a specific engagement for that client.
- Existing audit relationships are reviewed annually and evaluated to identify instances where we should discontinue our professional association with the client.

# Appendix 3: Background and professional standards

## Internal control over financial reporting

As your auditors, we are required to obtain an understanding of internal control over financial reporting (ICFR) relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on internal control. Accordingly, we do not express an opinion on the effectiveness of internal control.

Our understanding of ICFR was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies and therefore, there can be no assurance that all significant deficiencies and other control deficiencies have been identified. Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors.

The control deficiencies communicated to you are limited to those control deficiencies that we identified during the audit.

## Documents containing or referring to the audited financial statements

We are required by our professional standards to read only documents containing or referring to audited financial statements and our related auditors' report that are available through to the date of our auditors' report. The objective of reading these documents through to the date of our auditors' report is to identify material inconsistencies, if any, between the audited financial statements and the other information. We also have certain responsibilities, if on reading the other information for the purpose of identifying material inconsistencies, we become aware of an apparent material misstatement of fact.

We are also required by our professional standards when the financial statements are translated into another language to consider whether each version, available through to the date of our auditors' report, contains the same information and carries the same meaning.

# Appendix 4: Current developments

Current developments, created by KPMG Public Sector and Not-for-profit Practice, summarizes regulatory and governance matters impacting Government Organizations. We provide this information to help you understand upcoming changes and challenges they may face in the industry. We attach this summary to every audit plan and findings report (if significant changes occur).

A new accounting standard that addresses the reporting of legal obligations associated with the retirement of long-lived tangible capital assets currently in productive use is under development by PSAB. An Exposure Draft that addresses the accounting and reporting of retirement obligations associated with tangible capital assets controlled by a public sector entity was issued in March 2017. PSAB has had regular updates on this project. Implementation of this standard will require a review of the legal obligations associated with the retirement of long-lived tangible capital assets. This standard is effective for years beginning on or after April 1, 2021.

The following is a summary of the current developments that are relevant to the Library.

Standard	Summary and implications
<ul style="list-style-type: none"> <li>– PS 3380 – Contractual Rights</li> </ul>	<p>This standard is a disclosure standard which defines contractual rights to future assets and revenue and sets out the required disclosures.</p> <p>Information about a public sector entity's contractual rights should be disclosed in notes or schedules to the financial statements and should include descriptions about their nature and extent and the timing. The standard also indicates that the exercise of professional judgment would be required when determining contractual rights that would be disclosed. Factors to consider include, but are not limited to:</p> <ul style="list-style-type: none"> <li>(a) contractual rights to revenue that are abnormal in relation to the financial position or usual business operations; and</li> <li>(b) contractual rights that will govern the level of certain type of revenue for a considerable period into the future.</li> </ul> <p>Examples of a contractual right include contractual rights to receive payments under a shared cost agreement or contractual rights to receive lease payments.</p> <p>This standard is effective for fiscal periods beginning on or after April 1, 2017 (the Library's December 31, 2018 year end).</p> <p>Implications: Additional disclosures may be required if contractual rights to assets or revenue exist.</p>

<p>– PS 3210, Assets</p>	<p>– This Standard provides a definition of assets and further expands that definition as it relates to control. Assets are defined as follows:</p> <ul style="list-style-type: none"> <li>– They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.</li> <li>– The public sector entity can control the economic resources and access to the future economic benefits.</li> <li>– The transaction or event giving rise to the public sector entity's control has already occurred.</li> </ul> <p>– The standard also includes some disclosure requirements related to economic resources that are not recorded as assets to provide the user with better information about the types of resources available to the public sector entity.</p> <p>– This standard is effective for fiscal periods beginning on or after April 1, 2017 (the Library's December 31, 2018 year end).</p> <p>– Implications: Assets such as accrued receivables will have to be reviewed to determine if they meet this definition.</p>
<p>– PS 3320, Contingent Assets</p>	<p>This standard defines contingent assets. They have two basic characteristics:</p> <ul style="list-style-type: none"> <li>– An existing condition or situation that is unresolved at the financial statement date.</li> <li>– An expected future event that will resolve the uncertainty as to whether an asset exists.</li> </ul> <p>The standard also has specific disclosure requirements for contingent assets when the occurrence of the confirming event is likely. This standard is effective for fiscal periods beginning on or after April 1, 2017 (the Library's December 31, 2018 year end). Contingent assets include grants receivable where the conditions are met but funding is conditional upon approval of an application for funding.</p> <p>Implications: Additional disclosures may be required if contingent assets exist.</p>
<p>PS 2200 Related Party Disclosures</p>	<p>This standard relates to related party disclosures and defines related parties. Related parties could be either an entity or an individual. Related parties exist when one party has the ability to control or has shared control over another party. Individuals that are key management personnel or close family members may also be related parties.</p> <p>Disclosure is only required when the transactions or events between related parties occur at a value different from what would have been recorded if they were not related and the transactions could have a material financial impact on the financial statements. Material financial impact would be based on an assessment of the terms and conditions underlying the transaction, the financial materiality of the transaction, the relevance of the information and the need for the information to enable the users to understand the financial statements and make comparisons.</p> <p>This standard also specifies the information required to be disclosed including the type of transactions, amounts classified by financial statement category, the basis of measurement, and the amounts of any outstanding items, any contractual obligations and any contingent liabilities. The standard also requires disclosure of related party transactions that have occurred where no amounts has been recognized.</p> <p>This standard is effective for fiscal periods beginning on or after April 1, 2017 (the Library's December 31, 2018 year end).</p> <p>Implications: Related parties will have to be identified. Additional disclosures may be required with respect to transactions with related parties.</p>

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PS 3420 Inter-entity Transactions	<p>This standard relates to the measurement of transactions between public sector entities that comprise the government's reporting entity.</p> <p>Transactions are recorded at carrying amounts with the exception of the following:</p> <ul style="list-style-type: none"><li>– In the normal course of business – use exchange amount</li><li>– Fair value consideration – use exchange amount</li><li>– No or nominal amount – provider to use carrying amount; recipient choice of either carrying amount or value fair.</li><li>– Cost allocation – use exchange amount</li></ul> <p>This standard is effective for fiscal periods beginning on or after April 1, 2018 (the Library's December 31, 2019 year end).</p> <p>Implications: The Library will have to identify these transactions and determine if they have been measured at the carrying amount if required.</p>
Financial Instruments	<p>A standard has been issued, establishing a standard on accounting for and reporting all types of financial instruments including derivatives. The effective date of this standard has recently been deferred and it is now effective for fiscal periods beginning on or after April 1, 2019 (the Library's December 31, 2020 year-end).</p> <p>Implications: This standard will require the Library to identify any contracts that have embedded derivatives and recognize these on the statement of financial position at fair value. Portfolio investments in equity instruments are required to be recorded at fair value. Changes in fair value will be reported in a new financial statement – statement of re-measurement gains and losses. This standard sets out a number of disclosures in the financial statements designed to give the user an understanding of the significance of financial instruments to the Library. These disclosures include classes of financial instruments and qualitative and quantitative risk disclosures describing the nature and extent of risk by type. The risks to be considered include credit, currency, interest rate, liquidity, and market risk.</p>

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Financial Statements of

**THE HAMILTON PUBLIC LIBRARY  
BOARD**

Year ended December 31, 2016

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# THE HAMILTON PUBLIC LIBRARY BOARD

## Financial Statements

December 31, 2016, with comparative figures for 2015

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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, 2016, 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, 2016, and its results of operations, changes in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Professional Accountants, Licensed Public Accountants

May 17, 2017  
Hamilton, Canada

# THE HAMILTON PUBLIC LIBRARY BOARD

## Statement of Financial Position

December 31, 2016, with comparative information for 2015

	2016	2015
<b>Financial assets</b>		
Cash	\$ 28,800	\$ 28,525
Accounts receivable	102,268	1,117,450
Due from City of Hamilton (note 2)	7,117,583	6,428,691
	<u>7,248,651</u>	<u>7,574,666</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	417,587	283,670
Due to trust funds	370,664	369,749
Liability for future benefits (note 3)	2,402,100	2,324,700
Deferred revenue (note 4)	72,273	386
	<u>3,262,624</u>	<u>2,978,505</u>
Net financial assets	3,986,027	4,596,161
<b>Non-financial assets</b>		
Prepaid expenses	386,812	415,736
Tangible capital assets (Schedule)	11,652,695	12,025,047
	<u>12,039,507</u>	<u>12,440,783</u>
Commitments (note 7)		
Accumulated surplus (note 9)	<u>\$16,025,534</u>	<u>\$17,036,944</u>

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, 2016, with comparative information for 2015

	Budget 2016	Actual 2016	Actual 2015
	(note 10)		
Revenue:			
Municipal contribution	\$ 28,952,830	\$ 28,952,830	\$ 28,576,020
Province of Ontario grants	949,450	949,451	949,451
Fines	397,670	359,256	422,246
Photocopier revenue	100,100	127,740	109,889
Donations	-	6,973	1,833
Other grant revenue	237,890	332,660	419,962
Other – rentals, sales and recoveries	104,500	108,104	57,930
Interest	-	137,987	186,937
Contributions from Municipal reserves	281,490	296,837	281,493
	31,023,930	31,271,838	31,005,761
Expenditures:			
Employee related expenses	20,741,810	20,198,793	19,957,830
Contractual	1,970,800	1,999,640	1,727,818
Building and grounds	1,605,910	1,531,372	1,510,552
Materials and supplies	1,187,110	1,012,089	864,781
Financial	398,120	348,686	372,117
Capital financing (note 5)	418,440	341,593	342,825
Vehicle expenses	36,090	67,412	50,598
Consulting	-	9,418	14,783
Amortization	-	3,463,152	3,548,204
Change in employee benefits	-	77,400	84,600
Reserves/recoveries	2,026,070	1,769,896	1,754,621
Contribution to Municipal reserves	7,010	83,865	6,398
Contribution to Municipal capital fund	-	10,000	-
	28,391,360	30,913,316	30,235,127
Annual surplus before reserve transfers	2,632,570	358,522	770,634
Contributions to reserves of Municipality (note 11)	-	1,369,932	2,678,500
Annual deficit	2,632,570	(1,011,410)	(1,907,866)
Accumulated surplus, beginning of year	17,036,944	17,036,944	18,944,810
Accumulated surplus, end of year	\$ 19,669,514	\$ 16,025,534	\$ 17,036,944

See accompanying notes to financial statements.

# THE HAMILTON PUBLIC LIBRARY BOARD

## Statement of Changes in Net Financial Assets

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Annual deficit	\$(1,011,410)	\$(1,907,866)
Purchase of tangible capital assets	(3,090,800)	(3,037,385)
Amortization of tangible capital assets	3,463,152	3,548,204
	(639,058)	(1,397,047)
Net decrease (increase) in prepaid expenses	28,924	(8,125)
Change in net financial assets	(610,134)	(1,405,172)
Net financial assets, beginning of year	4,596,161	6,001,333
Net financial assets, end of year	\$ 3,986,027	\$ 4,596,161

See accompanying notes to financial statements.

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# THE HAMILTON PUBLIC LIBRARY BOARD

## Statement of Cash Flows

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$(1,011,410)	\$(1,907,866)
Items not involving cash:		
Amortization	3,463,152	3,548,204
Increase in future benefits	77,400	84,600
Change in non-cash assets and other liabilities:		
Accounts receivable	1,015,182	(1,054,023)
Prepaid expenses	28,924	(8,125)
Accounts payable and accrued liabilities	133,917	(354,956)
Deferred revenue	71,887	386
Due to trust funds	915	2,058
	3,779,967	310,278
Capital activities:		
Purchase of tangible capital assets	(3,090,800)	(3,037,385)
Financing activities:		
Due from City of Hamilton	(688,892)	2,725,352
Net change in cash	275	(1,755)
Cash, beginning of year	28,525	30,280
Cash, end of year	\$ 28,800	\$ 28,525

See accompanying notes to financial statements.



# THE HAMILTON PUBLIC LIBRARY BOARD

## Notes to Financial Statements

Year ended December 31, 2016

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

### 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. 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 to the City of Hamilton. Government 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. Government transfers that meet the definition of a liability are recognized as revenue as the liability is extinguished.

(d) Other income:

Other income is reported as revenue in the period earned.

(d) 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.

(i) Tangible capital assets

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, 2016

## 1. Significant account policies (continued):

### (d) Non-financial 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 and equipment	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.

# THE HAMILTON PUBLIC LIBRARY BOARD

## Notes to Financial Statements

Year ended December 31, 2016

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### 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. Significant estimates include assumptions used in performing actuarial valuations of liability for future benefits. 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. Retirement benefits have been determined by an actuarial valuation completed December 31, 2014, with projections up to December 31, 2016.

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, 2016

### 3. Liability for future benefits (continued):

Accrued benefit obligation:

	2016	2015
Vested sick leave liability	\$ 26,200	\$ 37,800
Retirement benefits	2,912,700	2,912,300
	2,938,900	2,950,100
Net unamortized actuarial loss	(536,800)	(625,400)
Accrued liability	\$ 2,402,100	\$ 2,324,700

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

	2016	2015
Liability for employee future benefits and other obligations		
balance at beginning of the year	\$ 2,324,700	\$ 2,240,100
Benefit expenditure	125,000	120,700
Interest expenditure	117,800	118,000
Amortization of actuarial loss	88,600	88,600
Benefit payments	(254,000)	(242,700)
Liability for employee future benefits and other obligations		
balance at end of the year	\$ 2,402,100	\$ 2,324,700

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% <sup>(1)</sup>	14.3

Note (1) – Medical costs are assumed to increase at a rate of 5.67% in 2016 (2015 - 5.80%) and reduce annually until 2030.

# THE HAMILTON PUBLIC LIBRARY BOARD

Notes to Financial Statements

Year ended December 31, 2016

### 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, 2016 is \$26,200 (2015 - \$37,800).

(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, 2016 is \$ 2,912,700 (2015 - \$2,912,300).

### 4. Deferred revenue:

Deferred revenue consists of grants and funds received in advance which are expected to be earned in the next fiscal year. Continuity of deferred revenue is as follows:

	2016	2015
Balance, beginning of year	386	-
Add: transfers in	\$ 72,273	\$ 386
Less: amounts recognized in revenue	(386)	-
	\$ 72,273	\$ 386

# THE HAMILTON PUBLIC LIBRARY BOARD

## Notes to Financial Statements

Year ended December 31, 2016

### 5. 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	2016	2015
01-162	Central Library	4.65% to 6.75%	2016	-	2,984
12-094	Westdale Branch	2.13%	2017	\$ 17,079	\$ 34,157
12-094	Barton Branch	2.13%	2017	39,024	78,048
06-120	South Mtn Complex	4.728%	2023	1,559,582	1,760,196
				\$ 1,615,685	\$ 1,875,385

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

2017	\$ 266,314
2018	220,268
2019	230,805
2020	241,847
2021	281,493
2022 and thereafter	374,958
<hr/>	
	\$ 1,615,685

(c) The Board was charged \$341,593 (2015 - \$342,825) for long term debt charges during the year as follows:

	2016	2015
Principal	\$ 259,700	\$ 250,359
Interest	81,893	92,466
<hr/>		
	\$ 341,593	\$ 342,825

# THE HAMILTON PUBLIC LIBRARY BOARD

## Notes to Financial Statements

Year ended December 31, 2016

### 6. 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, 2016 reported a funding deficit of \$5.7 billion (2015 - \$7.0 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 2016 calendar year at rates ranging from 9.0% to 14.6% depending on the level of earnings. As a result, \$1,146,181 was contributed to OMERS (2015 - \$1,110,530) for current service.

### 7. Commitments:

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

2017	\$ 778,105
2018	753,942
2019	693,811
2020	526,118
2021 and thereafter	4,324,453
	\$ 7,706,429

### 8. Trust funds:

Trust funds administered by the Board amounting to \$3,188,778 (2015 - \$3,704,341) 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, 2016

## 9. Accumulated surplus:

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

	2016	2015
Reserves and reserve funds	\$ 6,774,939	\$ 7,336,597
Unfunded employee future benefit liability	(2,402,100)	(2,324,700)
Tangible capital assets	11,652,695	12,025,047
Balance, end of year	\$ 16,025,534	\$ 17,036,944
Reserves and reserve funds:		
	2016	2015
Library general development	\$ 1,703,334	\$ 2,341,522
Library major capital projects	1,332,165	1,255,873
Accessibility health and safety	871,289	867,304
Library collections	909,793	825,206
Redevelopment, training and restructuring	528,038	517,637
Summer reading	532,936	486,813
Computer reserve	301,812	473,665
Mobile equipment	500,188	446,677
Youth programming	91,151	121,900
Donations	4,233	-
	\$ 6,774,939	\$ 7,336,597



# THE HAMILTON PUBLIC LIBRARY BOARD

Notes to Financial Statements

Year ended December 31, 2016

## 10. Budget data

The budgets originally approved by the Board for 2016 are reflected on the statement of operations and do not include amounts related to public sector accounting standards reporting requirements.

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

	2016
Revenues	
Operating budget	\$ 31,023,930
Capital budget	-
Total Revenue	31,023,930
Expenses:	
Operating budget	28,391,360
Capital budget	2,632,570
Less:	
Capital expenses	(2,632,570)
Total Expenses	28,391,360
Annual surplus	2,632,570

## 11. 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	\$ 1,369,932
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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.

## 12. Comparative information:

Certain comparative information has been reclassified to conform to the presentation adopted for the current year. There is no impact to accumulated surplus as a result of this reclassification.

# THE HAMILTON PUBLIC LIBRARY BOARD

## Schedule of Tangible Capital Assets

Year ended December 31, 2016

<b>December 31, 2016</b>					
Cost	Computer hardware	Computer software	Collections	Furniture and equipment	Total
Beginning of year	\$ 244,211	\$ 366,438	\$ 21,859,072	\$ 2,395,514	\$ 24,865,235
Add: Additions during the year	185,743	48,880	2,567,902	288,275	3,090,800
Less: disposals during the year	(135,056)	(98,985)	(3,447,484)	(176,794)	(3,858,319)
End of year	\$ 294,898	\$ 316,333	\$ 20,979,490	\$ 2,506,995	\$ 24,097,716
Accumulated Amortization	Computer hardware	Computer software	Collections	Furniture and equipment	Total
Beginning of year	\$ 135,138	\$ 189,187	\$ 11,429,805	\$ 1,086,058	\$ 12,840,188
Add: amortization during the year	89,852	68,277	3,059,897	245,126	3,463,152
Less: amortization on disposals	(135,056)	(98,985)	(3,447,484)	(176,794)	(3,858,319)
End of year	\$ 89,934	\$ 158,479	\$ 11,042,218	\$ 1,154,390	\$ 12,445,021
Net book value	\$ 204,964	\$ 157,854	\$ 9,937,272	\$ 1,352,605	\$ 11,652,695
<b>December 31, 2015</b>					
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



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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the trust funds of The Hamilton Public Library Board, which comprise the statement of financial position as at December 31, 2016, the statements of operations and 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 the 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 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 statement of financial position of the trust funds of The Hamilton Public Library Board as at December 31, 2016, and its results of operations and changes in its net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Professional Accountants, Licensed Public Accountants

May 17, 2017  
Hamilton, Canada

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# THE HAMILTON PUBLIC LIBRARY BOARD TRUST FUNDS

Trust Funds Statement of Financial Position

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
<b>Financial assets:</b>		
Cash	\$ 319,758	\$ 316,609
Investment in Hamilton Community Foundation	2,498,356	3,017,983
Due from Hamilton Public Library Board (note 2)	370,664	369,749
<b>Total assets</b>	<b>3,188,778</b>	<b>3,704,341</b>
<b>Accumulated surplus and net financial assets</b>	<b>\$ 3,188,778</b>	<b>\$ 3,704,341</b>

On behalf of the Board:

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

# THE HAMILTON PUBLIC LIBRARY BOARD TRUST FUNDS

Trust Funds Statement of Operations and Changes in Net Financial Assets

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Revenue:		
Investment income	\$ 179,909	\$ 258,027
Expenses:		
Transfers to Hamilton Public Library	650,000	-
Other	45,472	44,492
Annual (deficit) surplus	(515,563)	213,535
Accumulated surplus, beginning of year	3,704,341	3,490,806
Accumulated surplus, end of year	\$ 3,188,778	\$ 3,704,341

See accompanying notes to financial statements.

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# THE HAMILTON PUBLIC LIBRARY BOARD TRUST FUNDS

Trust Funds Statement of Cash Flows

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Operating Activities:		
Annual (deficit) surplus	\$ (515,563)	\$ 213,535
Change in non-cash assets:		
Investment in Hamilton Community Foundation	519,627	(209,003)
Due from Hamilton Public Library Board	(915)	(1,017)
Net change in cash from operating activities	3,149	3,515
Cash, beginning of year	316,609	313,094
Cash, end of year	\$ 319,758	\$ 316,609

The accompanying notes are an integral part of these financial statements.

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# THE HAMILTON PUBLIC LIBRARY BOARD TRUST FUNDS

Notes to Trust Funds Financial Statements

Year ended December 31, 2016

The financial statements of the trust funds of The Hamilton Public Library Board are the representation of management prepared in accordance with Canadian public sector accounting standards. The trust funds have been established to provide for specific collections and programming offered by the Hamilton Public Library.

## 1. Significant accounting policies:

Significant accounting policies adopted by the Library Board for the trust funds are as follows:

### (a) Basis of accounting:

The trust funds follow the accrual method of accounting for revenues and expenses. Revenues are normally recognized in the year in which they are earned and measurable. Expenses are recognized as they are incurred and measurable as result of receipt of goods and services and/or the creation of a legal obligation to pay.

### (b) Investments:

Investments consist of bonds and debentures and are recorded at amortized cost. Discounts and premiums arising on the purchase of these investments are amortized over the term of the investments. When there has been a loss in value that is other than a temporary decline in value, the respective investment is written down to recognize the loss.

### (c) Investment income:

Investment income is reported as revenue in the period earned.

## 2. Due from Hamilton Public Library Board:

The amount due from The Hamilton Public Library Board has no fixed terms of repayment and is non-interest bearing.

## 3. Accumulated surplus:

Accumulated surplus consists of:

	2016	2015
M. Walden Thompson Estate	\$ 21,753	\$ 21,398
Special Gift Fund Central	2,164,338	2,709,647
Permanent Endowment Fund	844,725	818,982
Keetha McLaren Memorial Fund	45,434	43,329
F. Walden Library Bequest	66,077	65,448
Waterdown Library Fundraising	46,451	45,537
	<b>\$ 3,188,778</b>	<b>\$ 3,704,341</b>



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