

Financial Statements of

**THE HAMILTON PUBLIC LIBRARY
BOARD**

Year ended December 31, 2016

THE HAMILTON PUBLIC LIBRARY BOARD

Financial Statements

December 31, 2016, with comparative figures for 2015

	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	7-15
Schedule of Tangible Capital Assets	16



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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.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and extends to the right, ending under the 'P'.

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
Financial assets		
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>
Liabilities		
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
Non-financial assets		
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.

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

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.

(e) 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):

(e) 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.

(f) 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

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% ⁽¹⁾	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)	-
	<u>\$ 72,273</u>	<u>\$ 386</u>

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
\$ 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
\$ 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
	<hr/>
	\$ 7,076,429

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

Schedule of Tangible Capital Assets

Year ended December 31, 2016

December 31, 2016					
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
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