

Financial Statements of

**THE HAMILTON PUBLIC LIBRARY  
BOARD**

Year ended December 31, 2017

# THE HAMILTON PUBLIC LIBRARY BOARD

## Financial Statements

December 31, 2017, with comparative information for 2016

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KPMG LLP  
Commerce Place  
21 King Street West, Suite 700  
Hamilton Ontario L8P 4W7  
Canada  
Telephone (905) 523-8200  
Fax (905) 523-2222

## **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, 2017, 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, 2017, 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 ends under the 'P'.

Chartered Professional Accountants, Licensed Public Accountants

Hamilton, Canada

May 16, 2018

# THE HAMILTON PUBLIC LIBRARY BOARD

## Statement of Financial Position

December 31, 2017, with comparative information for 2016

	2017	2016
<b>Financial assets</b>		
Cash	\$ 363,657	\$ 348,557
Accounts receivable	106,907	102,268
Investments held with the Hamilton Community Foundation (note 3)	2,643,978	2,498,356
Due from City of Hamilton (note 4)	7,800,119	7,117,583
	<u>10,914,661</u>	<u>10,066,764</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	369,494	417,587
Liability for future benefits (note 5)	2,478,900	2,402,100
Deferred revenue (note 6)	1,053,782	1,004,827
	<u>3,902,176</u>	<u>3,824,514</u>
Net financial assets	7,012,485	6,242,250
<b>Non-financial assets</b>		
Prepaid expenses	340,794	386,812
Tangible capital assets (Schedule)	11,682,107	11,652,695
	<u>12,022,901</u>	<u>12,039,507</u>
Commitments (note 9)		
Accumulated surplus (note 10)	<u>\$19,035,386</u>	<u>\$18,281,757</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, 2017, with comparative information for 2016

	Budget 2017	Actual 2017	Actual 2016
	(note 11)		
Revenue:			
Municipal contribution	\$ 29,526,180	\$ 29,526,180	\$ 28,952,830
Province of Ontario grants	949,450	949,451	949,451
Fines	385,670	334,417	359,256
Photocopier revenue	110,100	138,159	127,740
Donations	-	20,198	6,973
Other grant revenue	260,000	396,787	332,660
Other – rentals, sales and recoveries	100,850	107,488	108,104
Interest	-	291,793	291,168
Contributions from Municipal reserves	281,490	281,639	296,837
	31,613,740	32,046,112	31,425,019
Expenditures:			
Employee related expenses	21,146,820	20,198,096	20,198,793
Contractual	1,769,170	2,125,655	1,999,640
Building and grounds	1,645,140	1,515,910	1,531,372
Materials and supplies	966,230	1,060,921	1,012,089
Financial	385,220	367,105	348,686
Capital financing (note 7)	468,780	337,267	341,593
Vehicle expenses	37,480	60,715	67,412
Other	-	38,486	45,472
Consulting	-	10,043	9,418
Amortization	-	3,389,617	3,463,152
Change in employee benefits	-	76,800	77,400
Reserves/recoveries	2,018,930	1,765,403	1,769,896
	28,437,770	30,946,018	30,864,923
Annual surplus before reserve transfers	3,175,970	1,100,094	560,096
Contributions to reserves of Municipality (note 12)	-	107,186	2,019,931
Contribution to Municipal reserves	7,280	139,279	83,865
Contribution to Municipal capital fund	-	100,000	10,000
Annual surplus (deficit)	3,168,690	753,629	(1,553,700)
Accumulated surplus, beginning of year	18,281,757	18,281,757	19,835,457
Accumulated surplus, end of year	\$ 21,450,447	\$ 19,035,386	\$ 18,281,757

See accompanying notes to financial statements.

# THE HAMILTON PUBLIC LIBRARY BOARD

## Statement of Changes in Net Financial Assets

Year ended December 31, 2017, with comparative information for 2016

	2017	2016
Annual surplus (deficit)	\$ 753,629	\$(1,553,700)
Purchase of tangible capital assets	(3,419,029)	(3,090,800)
Amortization of tangible capital assets	3,389,617	3,463,152
	724,217	(1,181,348)
Net decrease in prepaid expenses	46,018	28,924
Change in net financial assets	770,235	(1,152,424)
Net financial assets, beginning of year	6,242,250	7,394,674
Net financial assets, end of year	\$ 7,012,485	\$ 6,242,450

See accompanying notes to financial statements.

# THE HAMILTON PUBLIC LIBRARY BOARD

## Statement of Cash Flows

Year ended December 31, 2017, with comparative information for 2016

	2017	2016
Cash provided by (used in):		
Operating activities:		
Annual surplus (deficit)	\$ 753,629	\$(1,553,700)
Items not involving cash:		
Amortization	3,389,617	3,463,152
Increase in liability for future benefits	76,800	77,400
Change in non-cash assets and other liabilities:		
Accounts receivable	(4,639)	1,015,182
Prepaid expenses	46,018	28,924
Accounts payable and accrued liabilities	(48,093)	133,917
Deferred revenue	48,955	98,614
	4,262,287	3,263,489
Capital activities:		
Purchase of tangible capital assets	(3,419,029)	(3,090,800)
Financing activities:		
Due from City of Hamilton	(682,536)	(688,892)
Investing activities:		
Change in investments	(145,622)	519,667
Net change in cash	15,100	3,464
Cash, beginning of year	348,557	345,093
Cash, end of year	\$ 363,657	\$ 348,557

See accompanying notes to financial statements.



# THE HAMILTON PUBLIC LIBRARY BOARD

Notes to Financial Statements

Year ended December 31, 2017

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The financial statements of the Hamilton Public Library Board (the “Board” or “Library”) 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:

The Library follows the accrual method of accounting for revenues and expenses. Revenues are recognized in the year in which they are earned and measurable. 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) 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 as revenue in the financial statements when the transfer is authorized, any eligibility criteria are met and a reasonable estimate of the amount can be made except, when and to the extent that, stipulations by the transferor give rise to an obligation that meet the definition of a liability. Government transfers that meet the definition of a liability are recognized as revenue as the liability is extinguished.

### (c) 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, 2017

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## 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
Computer 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, 2017

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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) Investments held with the Hamilton Community Foundation:

Investments held with the Hamilton Community Foundation are stated at cost. When the investments incur a loss in value that is other than temporary, the investments are written down to their fair value and the loss is recognized in the statement of operations.

(i) 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. Correction of an immaterial prior period error:

In 2017, management of the Library became aware that investments held with the Hamilton Community Foundation ("HCF") were incorrectly treated as trust funds and had been excluded from previous years' financial statements. The impact of the correction has been recorded retrospectively and the cumulative effect up to December 31, 2015 has been recorded as an increase to accumulated surplus of \$2,798,513 as at that date. As a result, the comparative information for the year ended December 31, 2016 has been restated. The cumulative impact of the correction up to December 31, 2016 is an increase to cash of \$319,758, increase to investments held with the HCF of \$2,498,356, increase of deferred revenue of \$932,555 and an decrease in due to trust funds of \$370,664. Investment income of \$153,182 has been recognized in the statement of operations as at December 31, 2016 along with a transfer to the City of Hamilton in the amount of \$650,000 and miscellaneous expenditures of \$45,471.

### 3. Investments held with the Hamilton Community Foundation:

Investments of \$2,643,978 (2016 - \$2,498,356) are carried at cost. The investments have a market value of \$3,097,479 at the end of the year. The market value represents the realizable value of the investments if they were to be sold at December 31, 2017.

# THE HAMILTON PUBLIC LIBRARY BOARD

## Notes to Financial Statements

Year ended December 31, 2017

### 4. Due from City of Hamilton:

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

### 5. 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, 2017.

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.

Accrued benefit obligation:

	2017	2016
Vested sick leave liability	\$ 30,900	\$ 26,200
Retirement benefits	3,156,300	2,912,700
	3,187,200	2,938,900
Net unamortized actuarial loss	(708,300)	(536,800)
Accrued liability	\$ 2,478,900	\$ 2,402,100

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

	2017	2016
Liability for employee future benefits and other obligations		
balance at beginning of the year	\$ 2,402,100	\$ 2,324,700
Benefit expenditure	91,200	125,000
Interest expenditure	125,000	117,800
Amortization of actuarial loss	103,100	88,600
Benefit payments	(242,500)	(254,000)
Liability for employee future benefits and other obligations		
balance at end of the year	\$ 2,478,900	\$ 2,402,100

Actuarial losses of \$274,600 arose during the year. 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 HAMILTON PUBLIC LIBRARY BOARD

## Notes to Financial Statements

Year ended December 31, 2017

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

The assumptions are determined at the time of the actuarial valuations and are reviewed annually.

	Discount rate	Return on assets	Inflation rate	Salary increases	Dental increases	Life expectancy (years)
Vested sick leave	3.50%	NA	2%	3.0%	NA	15.0
Retirement benefits – health and dental	3.75%	NA	2%	3.0%	4.0% <sup>(1)</sup>	15.0

Note (1) – Medical costs are assumed to increase at a rate of 8.2% in 2017 (2016 – 5.67%), decreasing 0.2% per annum to 4.0% in 2038.

#### (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 prior to May 1, 1982, 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, 2017 is \$30,900 (2016 - \$26,200).

#### (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, 2017 is \$ 3,156,300 (2016 - \$2,912,700).

### 6. 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:

Balances	2017	2016
Government grants	\$ 81,787	\$ 72,273
M. Waldon Thompson estate	22,165	21,752
Permanent fund	882,977	844,725
F. Waldon Library bequest	66,853	66,077
	<u>\$ 1,053,782</u>	<u>\$ 1,004,827</u>

# THE HAMILTON PUBLIC LIBRARY BOARD

Notes to Financial Statements

Year ended December 31, 2017

## 6. Deferred revenue (continued):

Continuity	2017	2016
Balance, beginning of year	\$ 1,004,827	\$ 906,214
Add:		
Transfers in - grants	81,787	72,273
Transfers in – deferred donations	53,359	39,994
Less:		
Amounts recognized in revenue - grants	(72,273)	(386)
Amounts recognized in revenue – donations	(13,918)	(13,268)
	\$ 1,053,782	\$ 1,004,827

## 7. Long term debt held by the City of Hamilton:

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	2017	2016
12-094	Westdale Branch	2.13%	2017	\$ -	\$ 17,079
12-094	Barton Branch	2.13%	2017	-	39,024
06-120	South Mtn Complex	4.728%	2023	1,349,371	1,559,582
				\$ 1,349,371	\$ 1,615,685

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

2018	\$ 220,268
2019	230,805
2020	241,847
2021	253,416
2022	265,539
2023 and thereafter	137,496
	\$ 1,349,371

# THE HAMILTON PUBLIC LIBRARY BOARD

Notes to Financial Statements

Year ended December 31, 2017

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## 7. Long term debt (continued):

(c) The Board was charged \$337,267 (2016 - \$341,593) for long term debt charges during the year as follows:

	2017	2016
Principal	\$ 266,314	\$ 259,700
Interest	70,953	81,893
	<u>\$ 337,267</u>	<u>\$ 341,593</u>

## 8. Pension agreements:

The Hamilton Public Library makes contributions to OMERS, which is a multi-employer plan, on behalf of 236 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, 2017 reported a funding deficit of \$5.4 billion (2016 - \$5.7 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 2017 calendar year at rates ranging from 9.0% to 14.6% depending on the level of earnings. As a result, \$1,265,472 was contributed to OMERS (2016 - \$1,146,181) for current service.

## 9. Commitments:

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

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2018	\$ 749,617
2019	689,229
2020	521,221
2021	110,167
2022	112,370
2023 and thereafter	4,157,047
	<u>\$ 6,339,651</u>

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# THE HAMILTON PUBLIC LIBRARY BOARD

## Notes to Financial Statements

Year ended December 31, 2017

### 10. Accumulated surplus:

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

	2017	2016
Reserves and reserve funds	\$ 9,832,179	\$ 9,031,162
Unfunded liability for future benefits	(2,478,900)	(2,402,100)
Tangible capital assets	11,682,107	11,652,695
Balance, end of year	\$ 19,035,386	\$ 18,281,757

Reserves and reserve funds:

	2017	2016
Library general development	\$ 1,279,883	\$ 1,703,334
Library major capital projects	2,020,044	1,332,165
Accessibility health and safety	890,990	871,289
Library collections	1,016,570	909,793
Redevelopment, training and restructuring	513,932	528,038
Summer reading	596,707	532,936
Computer reserve	482,514	301,812
Mobile equipment	562,187	500,188
Youth programming	80,868	91,151
Special gift fund	2,271,234	2,164,338
Ketha McLaren fund	48,472	45,434
Waterdown Library fundraising	47,503	46,451
Donations	21,275	4,233
	\$ 9,832,179	\$ 9,031,162



# THE HAMILTON PUBLIC LIBRARY BOARD

Notes to Financial Statements

Year ended December 31, 2017

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## 11. Budget data

The budgets originally approved by the Board for 2017 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:

	2017
Revenues:	
Operating budget	\$ 31,613,740
Capital budget	-
Total revenue	31,613,740
Expenses:	
Operating budget	28,445,050
Capital budget	3,168,690
Less:	
Capital expenses	(3,168,690)
Total expenses	28,445,050
Annual surplus	3,168,690

## 12. Contribution from Reserves to the Municipality:

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

Notes to Financial Statements

Year ended December 31, 2017

## Schedule of Tangible Capital Assets

### December 31, 2017

Cost	Computer hardware	Computer software	Collections	Furniture and equipment	Total
Beginning of year	\$ 294,898	\$ 316,333	\$ 20,979,490	\$ 2,506,995	\$ 24,097,716
Add: Additions during the year	125,551	8,183	3,015,455	269,840	3,419,029
Less: disposals during the year	(13,197)	(45,912)	(3,570,077)	(170,963)	(3,800,149)
End of year	\$ 407,252	\$ 278,604	\$ 20,424,868	\$ 2,605,872	\$ 23,716,596
Accumulated Amortization	Computer hardware	Computer software	Collections	Furniture and equipment	Total
Beginning of year	\$ 89,934	\$ 158,479	\$ 11,042,218	\$ 1,154,390	\$ 12,445,021
Add: amortization during the year	117,025	59,494	2,957,454	255,644	3,389,617
Less: amortization on disposals	(13,197)	(45,912)	(3,570,077)	(170,963)	(3,800,149)
End of year	\$ 193,762	\$ 172,061	\$ 10,429,595	\$ 1,239,071	\$ 12,034,489
Net book value	\$ 213,490	\$ 106,543	\$ 9,995,273	\$ 1,366,801	\$ 11,682,107

### 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