

Financial Report

Port Colborne Public Library

December 31, 2017

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Independent auditor's report

Grant Thornton LLP
Suite B
222 Catharine Street, PO Box 336
Port Colborne, ON
L3K 5W1

T +1 905 834 3651
F +1 905 834 5095
E PortColborne@ca.gt.com
www.GrantThornton.ca

To the Members of the Board, Members of Council, Inhabitants and Taxpayers
of the Corporation of the City of Port Colborne

We have audited the accompanying financial statements of the **Port Colborne Public Library**, which comprise the statement of financial position as at December 31, 2017 and the statements of operations, changes in net financial assets and cash flows for the year then ended, and 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.

Auditor's 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 the auditor's 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, the auditors 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 qualified audit opinion.

Basis for qualified opinion

The Port Colborne Public Library derives revenue from donations and cash sales, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the Port Colborne Public Library. Therefore, we were not able to determine whether any adjustments might be necessary to donations and other revenue and annual surplus (deficit) for the years ended December 31, 2017 and 2016, net financial assets as at December 31, 2017 and 2016, and accumulated surplus as at January 1, 2017 and 2016 and December 31, 2017 and 2016. Our audit opinion on the financial statements for the year ended December 31, 2017 was modified accordingly because of the possible effects of this limitation in scope.

Qualified opinion

In our opinion, except for the effects of the matter described in the *Basis for qualified opinion* paragraph, the financial statements present fairly, in all material respects, the financial position of the Port Colborne Public Library as at December 31, 2017, and the results of its operations, changes in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.



Port Colborne, Canada
August 28, 2018

Chartered Professional Accountants
Licensed Public Accountants

Port Colborne Public Library

Statement of Financial Position

As at December 31

2017

2016

Financial assets

Cash (Note 3)	\$ 200	\$ 200
Receivables	8,828	21,421
Due from City of Port Colborne	<u>250,813</u>	<u>214,057</u>
	<u>259,841</u>	<u>235,678</u>

Liabilities

Payables and accruals	8,367	8,354
Deferred revenue	1,000	-
Capital lease obligation (Note 4)	1,226	2,402
Employee benefit obligations (Notes 5 and 11)	<u>191,500</u>	<u>196,900</u>
	<u>202,093</u>	<u>207,656</u>

Net financial assets

	<u>57,748</u>	<u>28,022</u>
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Non-financial assets

Tangible capital assets (Page 14)	<u>427,467</u>	<u>441,635</u>
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Accumulated surplus (Note 6)

	<u>\$ 485,215</u>	<u>\$ 469,657</u>
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On behalf of the Board

See accompanying notes and schedule to the financial statements.

Port Colborne Public Library

Statement of Operations

For the Year Ended December 31, 2017

	Budget 2017	Actual 2017	Actual 2016
Revenue			
Municipal contribution	\$ 702,088	\$ 702,088	\$ 686,690
Government transfers (Note 8)	38,328	43,637	42,943
Other (Note 9)	25,750	22,831	24,606
Program fees	2,000	2,368	1,968
Donations	-	8,122	28,275
Interest	-	5,672	4,837
	<u>768,166</u>	<u>784,718</u>	<u>789,319</u>
Expenses			
Administration	19,920	15,718	13,759
Amortization and write-downs of tangible capital assets	68,025	68,025	69,034
DVDs and periodicals	11,750	12,092	11,704
Electronic resources and maintenance	31,250	28,078	34,947
Insurance	1,098	1,098	2,189
Interest on capital lease	-	80	131
Non-print materials	2,700	2,943	2,821
Programming	4,500	5,178	3,942
Repairs and maintenance	51,450	49,052	47,358
Salaries, wages and benefits (Note 10)	529,398	555,105	511,099
Utilities	36,400	31,791	35,656
	<u>756,491</u>	<u>769,160</u>	<u>732,640</u>
Annual surplus	11,675	15,558	56,679
Accumulated surplus (Note 6)			
Beginning of year	<u>469,657</u>	<u>469,657</u>	<u>412,978</u>
End of year	<u>\$ 481,332</u>	<u>\$ 485,215</u>	<u>\$ 469,657</u>

See accompanying notes and schedule to the financial statements.

Port Colborne Public Library

Statement of Changes in Net Financial Assets

For the Year Ended December 31, 2017

	Budget 2017	Actual 2017	Actual 2016
Annual surplus	\$ 11,675	\$ 15,558	\$ 56,679
Amortization of tangible capital assets	68,025	68,025	69,034
Acquisition of tangible capital assets	<u>(79,700)</u>	<u>(53,857)</u>	<u>(162,689)</u>
	<u>(11,675)</u>	<u>14,168</u>	<u>(93,655)</u>
Increase (decrease) in net financial assets	-	29,726	(36,976)
Net financial assets			
Beginning of year	<u>28,022</u>	<u>28,022</u>	<u>64,998</u>
End of year	<u>\$ 28,022</u>	<u>\$ 57,748</u>	<u>\$ 28,022</u>

See accompanying notes and schedule to the financial statements.

Port Colborne Public Library

Statement of Cash Flows

For the Year Ended December 31

2017

2016

Increase (decrease) in cash and cash equivalents

Operating		
Annual surplus	\$ 15,558	\$ 56,679
Non-cash item		
Amortization	68,025	69,034
Decrease in receivables	12,593	28,398
(Increase) decrease in due from City of Port Colborne	(36,756)	12,801
Increase in payables and accruals	13	1,603
Increase in deferred revenue	1,000	-
Decrease in employee benefit obligations	<u>(5,400)</u>	<u>(4,700)</u>
	<u>55,033</u>	<u>163,815</u>
Capital		
Acquisition of tangible capital assets	<u>(53,857)</u>	<u>(162,689)</u>
Financing		
Decrease in capital lease obligation	<u>(1,176)</u>	<u>(1,126)</u>
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents		
Beginning of year	<u>200</u>	<u>200</u>
End of year	<u>\$ 200</u>	<u>\$ 200</u>

See accompanying notes and schedule to the financial statements.

Port Colborne Public Library

Notes to the Financial Statements

For the Year Ended December 31, 2017

1. Purpose of the Library Board

The Port Colborne Public Library (“the Library”) provides library services to residents of the City of Port Colborne and residents of other municipalities who have contracted with the Library for services.

2. Summary of significant accounting policies

The financial statements are the responsibility of and prepared by management in accordance with Canadian public sector accounting standards. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

The significant accounting policies used are as follows:

(a) Reporting entity

The financial statements reflect the financial assets, liabilities, non-financial assets, revenues, expenses and changes in accumulated surplus of the Library.

(b) Basis of accounting

Sources of revenue and expenses are reported on the accrual basis of accounting. The accrual basis of accounting records revenues in the period they are earned and measurable and expenses in the period the goods and services are acquired and a liability is incurred.

(c) Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks and guaranteed investment certificates.

(d) Tangible capital assets

Tangible capital assets are recorded at cost. Cost includes all directly attributable expenses in the acquisition, construction, development and/or betterment of the asset required to install the asset at the location and in the condition necessary for its intended use. Contributed tangible capital assets are capitalized at their estimated fair value upon acquisition. The Library does not capitalize interest as part of the costs of its capital assets.

Port Colborne Public Library

Notes to the Financial Statements

For the Year Ended December 31, 2017

2. Summary of significant accounting policies (continued)

(d) Tangible capital assets (continued)

Amortization is calculated on a straight-line basis to write-off the net cost of each asset over its estimated useful life for all classes. Residual values of assets are assumed to be zero with any net gain or loss arising from the disposal of assets recognized in the statement of operations as other revenue.

Amortization expense is calculated over the assets estimated useful lives as follows:

<u>Classification</u>	<u>Useful Lives</u>
Computers and office equipment	5-10 years
Library collection	7 years
Furniture and fixtures	7 years
Leasehold improvements	20-50 years

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

(e) Leases

Leases are classified as capital or operating leases. Leases which transfer substantially all of the benefits and risks incidental to ownership of property are accounted for as capital leases. All other leases are accounted for as operating leases and the related lease payments are charged to expenses as incurred.

(f) Deferred revenue

Deferred revenue is comprised of the unspent portion of grants and donations received.

(g) Revenue recognition

Government transfers, which include municipal contributions and provincial and federal grants, are recognized in the year in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria or stipulations have been met and reasonable estimates of the amounts can be made.

User fees and other revenues are recognized when the services are performed or goods are delivered and there is reasonable assurance of collection.

(h) Reserves for future expenses

Certain amounts, as approved by the Board, are set aside in reserves for future operating and capital expenditures.

Port Colborne Public Library

Notes to the Financial Statements

For the Year Ended December 31, 2017

2. Summary of significant accounting policies (continued)

(i) Employee future benefits

The Port Colborne Public Library pays certain benefits on behalf of its retired employees. These retirement costs are recognized in the period in which the employees rendered their services to the Library. The actuarial determination of the accrued benefit obligations for pension benefits earned by employees uses the projected benefit method prorated on service (which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors).

(j) Use of estimates

The preparation of financial statements in accordance with Canadian 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 and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Cash	<u>2017</u>	<u>2016</u>
Cash on hand	\$ 200	\$ 200
Cash held in banks	<u>-</u>	<u>-</u>
	<u>\$ 200</u>	<u>\$ 200</u>

4. Capital lease obligation	<u>2017</u>	<u>2016</u>
Brock Office Automation 4.35% capital lease, due in 2018, payable in blended monthly payments of \$ 103 principal and interest. As security, the Library has pledged specific equipment	<u>\$ 1,226</u>	<u>\$ 2,402</u>

Principal repayment for the next year is as follows:

2018	\$ 1,226
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Port Colborne Public Library

Notes to the Financial Statements

For the Year Ended December 31, 2017

5. Employee benefit obligations	<u>2017</u>	<u>2016</u>
Retirement benefits	<u>\$ 191,500</u>	<u>\$ 196,900</u>

The Library pays certain retirement benefits on behalf of its retired employees. The Library recognizes these retirement costs in the period in which the employees rendered the services. The plan is substantially unfunded and requires no contributions from employees.

The accrued benefit obligation at December 31, 2017 of \$ 176,500 (2016 - \$ 180,000) was determined by an actuarial valuation using a discount rate of 3.40%.

The Library's obligation under the retirement benefits provision of employment agreements will be funded out of current revenue. During the year, benefit payments of \$ 16,100 (2016 - \$ 15,300) were paid to retirees.

Actuarial valuations for accounting purposes are performed every three years using the projected benefit method, pro-rated on service. Under this method, the projected post-employment benefits are deemed to be earned on a pro-rata basis over the employee's years of service.

The most recent actuarial valuation for the post-employment benefits was prepared as at December 31, 2015.

The main actuarial assumptions employed for the valuations above are as follows:

(i) Interest (discount) rate

The obligations as at December 31, 2017 of the present value of future liabilities were determined using a discount rate of 3.40%.

(ii) Medical costs

Drug costs were assumed to be 7.825% in 2017 and decrease 0.175% per year until 2036 when the rate will be 4.50% and continue thereafter.

Vision costs were assumed to be 2.25% in 2017 and decrease 0.25% per year until 2026 when the rate will be 0% and continue thereafter.

Other health costs were assumed to be 4.50% in 2017 and continue thereafter.

(iii) Dental costs

Dental costs were assumed to be 5.81% in 2017 and decrease 0.1875% per year until 2024 when the rate will be 4.50% and continue thereafter.

Port Colborne Public Library

Notes to the Financial Statements

For the Year Ended December 31, 2017

5. Employee benefit obligations (continued)	<u>2017</u>	<u>2016</u>
Accrued benefit obligation		
Balance, beginning of year	\$ 196,900	\$ 201,600
Benefit payments	(16,100)	(15,300)
Current service cost	6,500	6,300
Interest cost	6,100	6,200
Amortization of actuarial gain	<u>(1,900)</u>	<u>(1,900)</u>
Balance, end of year	<u>\$ 191,500</u>	<u>\$ 196,900</u>
Funded status		
Deficit	\$ 176,500	\$ 180,000
Unamortized actuarial gain	<u>15,000</u>	<u>16,900</u>
Balance, end of year	<u>\$ 191,500</u>	<u>\$ 196,900</u>
The net benefit expense for the employee benefit plan is as follows:		
Current year benefit cost	\$ 6,500	\$ 6,300
Interest cost	6,100	6,200
Amortization of actuarial gain	<u>(1,900)</u>	<u>(1,900)</u>
Net benefit expense	<u>\$ 10,700</u>	<u>\$ 10,600</u>
<hr/>		
6. Accumulated surplus	<u>2017</u>	<u>2016</u>
Consists of:		
Operating surplus	\$ 1,306	\$ 1,425
Tangible capital assets (Page 14)	427,467	441,635
Reserves and reserve funds (Note 7)	249,168	225,899
Unfunded:		
Capital lease obligation	(1,226)	(2,402)
Employee benefit obligation	<u>(191,500)</u>	<u>(196,900)</u>
	<u>\$ 485,215</u>	<u>\$ 469,657</u>
<hr/>		
7. Reserves and reserve funds	<u>2017</u>	<u>2016</u>
Workplace safety and insurance board	\$ 13,759	\$ 12,282
Capital	162,395	126,115
Donor plaques	30,214	28,789
Lions reserve	11,475	11,199
Bequests	30,762	25,198
Budget stabilization	<u>563</u>	<u>22,316</u>
	<u>\$ 249,168</u>	<u>\$ 225,899</u>

Port Colborne Public Library

Notes to the Financial Statements

For the Year Ended December 31, 2017

8. Government transfers	Budget 2017	Actual 2017	Actual 2016
Province of Ontario			
Conditional grant	\$ 38,328	\$ 41,328	\$ 40,828
SOLS connectivity	-	2,309	2,115
	<u>\$ 38,328</u>	<u>\$ 43,637</u>	<u>\$ 42,943</u>
<hr/>			
9. Other revenue	Budget 2017	Actual 2017	Actual 2016
Fines	\$ 12,000	\$ 9,384	\$ 10,890
Other	50	31	120
Photocopier	450	552	555
Print server revenue	1,750	2,238	2,059
Room rentals	300	615	235
Sale of books	7,500	7,643	7,160
Sign rentals	3,500	2,180	3,410
Vending machine	200	188	177
	<u>\$ 25,750</u>	<u>\$ 22,831</u>	<u>\$ 24,606</u>
<hr/>			
10. Salaries, wages and benefits	Budget 2017	Actual 2017	Actual 2016
Salaries and wages	\$ 395,067	\$ 410,803	\$ 390,465
Benefits	134,331	149,702	125,334
Change in future employee benefit obligation	-	(5,400)	(4,700)
	<u>\$ 529,398</u>	<u>\$ 555,105</u>	<u>\$ 511,099</u>

Port Colborne Public Library

Notes to the Financial Statements

For the Year Ended December 31, 2017

11. Pension agreements

The Library makes contributions to the Ontario Municipal Employees Retirement System ("OMERS"), which is a multi-employer plan, on behalf of the members of its staff. The plan is a defined benefit plan that specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. Employees and employers contribute jointly to the plan.

Since OMERS is a multi-employer pension plan, the Library does not recognize any share of the pension plan surplus of \$ 600 million (2016 - \$ 2.3 billion deficit) based on the fair market value of the Plan's assets, as this is a joint responsibility of all Ontario municipal entities and their employees. Contributions were made in the 2017 calendar year at rates ranging from 9.0% to 15.8% depending on the member's designated retirement age and level of earnings. Employer contributions for current and past service are included as an expense in the statement of operations. Employer contributions to OMERS for 2017 current and past service was \$ 37,317 (2016 - \$ 35,875) and were matched by employee contributions in a similar amount.

12. Budget

The budget was not prepared on a basis consistent with that used to report actual results in accordance with Canadian public sector accounting standards. The budget was prepared on a modified accrual basis while Canadian public sector accounting standards require a full accrual basis. As a result, the budget figures presented in the statement of operations and statement of changes in net financial assets represent the budget adopted with the following adjustments:

Budgeted annual surplus (deficit)	\$ -
Add: acquisition of tangible capital assets	79,700
Less: amortization of tangible capital assets	<u>(68,025)</u>
Budgeted surplus per statement of operations	<u>\$ 11,675</u>

Port Colborne Public Library

Schedule of Tangible Capital Assets

As at December 31, 2017

	Computers and Office Equipment	Library Collection	Furniture and Fixtures	Leasehold Improvements	Work in Process	2017	2016
Cost							
Balance, beginning of year	\$ 106,197	\$ 274,862	\$ 31,361	\$ 358,394	\$ -	\$ 770,814	\$ 692,529
Add: additions during the year	10,984	42,873	-	-	-	53,857	162,689
Less: disposals during the year	(4,095)	(36,410)	(10,399)	-	-	(50,904)	(84,404)
Less: write-downs	-	-	-	-	-	-	-
Balance, end of year	<u>113,086</u>	<u>281,325</u>	<u>20,962</u>	<u>358,394</u>	<u>-</u>	<u>773,767</u>	<u>770,814</u>
Accumulated amortization							
Balance, beginning of year	78,086	136,239	29,675	85,179	-	329,179	344,549
Add: amortization during the year	11,945	39,726	1,371	14,983	-	68,025	69,034
Less: amortization on disposals	(4,095)	(36,410)	(10,399)	-	-	(50,904)	(84,404)
Balance, end of year	<u>85,936</u>	<u>139,555</u>	<u>20,647</u>	<u>100,162</u>	<u>-</u>	<u>346,300</u>	<u>329,179</u>
Net book value of tangible capital assets	<u>\$ 27,150</u>	<u>\$ 141,770</u>	<u>\$ 315</u>	<u>\$ 258,232</u>	<u>\$ -</u>	<u>\$ 427,467</u>	<u>\$ 441,635</u>

The net book value of equipment under capital leases is \$ 1,539 (2016 - \$ 2,565)