

Financial Report

Port Colborne Public Library

December 31, 2018

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Independent auditor's report

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

Qualified Opinion

We have audited the financial statements of the **Port Colborne Public Library** ("the Entity"), which comprise the statement of financial position as at December 31, 2018, and the statements of operations, changes in net debt and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Port Colborne Public Library as at December 31, 2018, and its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Qualified Opinion

The Entity derives revenue from donations and cash sales, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, 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 for the years ended December 31, 2018 and 2017, net (debt) financial assets as at December 31, 2018 and 2017, and accumulated surplus as at January 1 and December 31 for both the 2018 and 2017 years. 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.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statement

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for public sector organizations, 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Grant Thornton LLP

Port Colborne, Canada
August 28, 2019

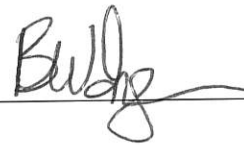
Chartered Professional Accountants
Licensed Public Accountants

Port Colborne Public Library Statement of Financial Position

As at December 31, 2018

	<u>2018</u>	<u>2017</u>
Financial assets		
Cash and cash equivalents (Note 3)	\$ 38,530	\$ 200
Receivables	28,898	8,828
Due from City of Port Colborne	<u>110,159</u>	<u>250,813</u>
	<u>177,587</u>	<u>259,841</u>
Liabilities		
Payables and accruals	38,794	8,367
Deferred revenue	-	1,000
Employee benefit obligations (Note 4)	184,700	191,500
Capital lease obligation (Note 5)	<u>7,156</u>	<u>1,226</u>
	<u>230,650</u>	<u>202,093</u>
Net (debt) financial assets	<u>(53,063)</u>	<u>57,748</u>
Non-financial assets		
Tangible capital assets (Pages 17 and 18)	<u>560,933</u>	<u>427,467</u>
Accumulated surplus (Note 6)	<u>\$ 507,870</u>	<u>\$ 485,215</u>

Approved by

See accompanying notes to the financial statements

Port Colborne Public Library Statement of Operations

For the Year Ended December 31, 2018

	Budget 2018 (Note 14)	Actual 2018	Actual 2017
Revenues			
Municipal contribution	\$ 734,837	\$ 734,834	\$ 702,088
Development charges (Note 9)	8,110	8,110	-
Government transfers (Note 10)	41,328	46,266	43,637
Other (Note 11)	24,650	29,656	38,993
	<u>808,925</u>	<u>818,866</u>	<u>784,718</u>
Expenses			
Administration	20,493	26,449	15,718
Amortization	72,703	72,703	68,025
Electronic resources, periodicals and newspapers	45,250	42,340	43,113
Insurance	1,120	1,120	1,098
Interest on capital lease	-	158	80
Programming	4,500	7,744	5,178
Repairs and maintenance	53,050	55,386	49,052
Salaries, wages and benefits (Notes 12 and 13)	554,812	558,544	555,105
Utilities	36,950	31,767	31,791
	<u>788,878</u>	<u>796,211</u>	<u>769,160</u>
Annual surplus	20,047	22,655	15,558
Accumulated surplus (Note 6)			
Beginning of year	<u>485,215</u>	<u>485,215</u>	<u>469,657</u>
End of year	<u>\$ 505,262</u>	<u>\$ 507,870</u>	<u>\$ 485,215</u>

See accompanying notes to the financial statements.

Port Colborne Public Library Statement of Changes in Net Debt

For the Year Ended December 31, 2018

	Budget <u>2018</u> (Note 14)	Actual <u>2018</u>	Actual <u>2017</u>
Annual surplus	\$ 20,047	\$ 22,655	\$ 15,558
Amortization of tangible capital assets	72,703	72,703	68,025
Acquisition of tangible capital assets	(92,750)	(206,753)	(53,857)
Loss on disposal of tangible capital assets	-	584	-
(Decrease) increase in net financial assets	-	(110,811)	29,726
Net (debt) financial assets			
Beginning of year	<u>57,748</u>	<u>57,748</u>	<u>28,022</u>
End of year	\$ <u>57,748</u>	\$ <u>(53,063)</u>	\$ <u>57,748</u>

See accompanying notes to the financial statements.

Port Colborne Public Library

Statement of Cash Flows

For the Year Ended December 31, 2018

	<u>2018</u>	<u>2017</u>
Increase (decrease) in cash and cash equivalents		
Operating activities		
Annual surplus	\$ 22,655	\$ 15,558
Non-cash items:		
Amortization of tangible capital assets	72,703	68,025
Loss on disposal of tangible capital assets	584	-
Changes in:		
Receivables	(20,070)	12,593
Due from City of Port Colborne	140,654	(36,756)
Payables and accruals	30,427	13
Deferred revenue	(1,000)	1,000
Employee benefit obligations	(6,800)	(5,400)
	<u>239,153</u>	<u>55,033</u>
Capital activities		
Acquisition of tangible capital assets	<u>(206,753)</u>	<u>(53,857)</u>
Financing activities		
Proceeds from long term debt issuance	9,000	-
Repayment of long term debt	<u>(3,070)</u>	<u>(1,176)</u>
	<u>5,930</u>	<u>(1,176)</u>
Net increase in cash and cash equivalents	38,330	-
Cash and cash equivalents		
Beginning of year	<u>200</u>	<u>200</u>
End of year	<u>\$ 38,530</u>	<u>\$ 200</u>

See accompanying notes to the financial statements.

Port Colborne Public Library

Notes to the Financial Statements

For the Year Ended December 31, 2018

1. Purpose of the Library Board

The Port Colborne Public Library Board ("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. Significant accounting policies

Management responsibility

The financial statements of the Library are the responsibility of and prepared by management in accordance with Canadian public sector accounting standards. The preparation of the 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 temporary investments include cash on hand, balances with banks and guaranteed investment certificates that mature within three months.

(d) Portfolio investments

Portfolio investments are valued at the lower of cost and market value. Interest income is reported as revenue in the period earned.

Port Colborne Public Library

Notes to the Financial Statements

For the Year Ended December 31, 2018

2. Significant accounting policies (continued)

(e) 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.

Leases are classified as capital or operating leases. Leases that transfer substantially all benefits incidental to ownership 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.

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 except land. Land is considered to have an infinite life without amortization. Residual values of assets are assumed to be zero with any net gain or loss arising from the disposal of assets recognized in the Consolidated Statement of Operations.

Amortization is based on the following classifications and useful lives:

<u>Classification</u>	<u>Useful Life</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.

(f) Deferred revenue

Resources restricted by agreement with an external party are recognized as revenue in the entity's financial statements in the period in which the resources are used for the purpose or purposes specified. An externally restricted inflow received before this criterion has been met is recorded as a liability until the resources are used for the purpose or purposes specified.

Port Colborne Public Library

Notes to the Financial Statements

For the Year Ended December 31, 2018

2. Significant accounting policies (continued)

(g) Employee future benefits

The 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).

(h) Revenue recognition

i) User charges

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

ii) Government transfers

Government transfers received are recognized in the financial statements as revenue when the transfers are authorized and all eligibility criteria have been met except when there is a stipulation that gives rise to an obligation that meets the definition of a liability. In that case, the transfer is recorded as a liability and recognized as revenue as the stipulations are met.

Government transfers to individuals and other entities are recognized as an expense when the transfers are authorized and all eligibility criteria have been met.

iii) Other

Other revenue is recorded when it is earned and collection is reasonably assured.

(i) Reserves for future expenses

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

(j) Use of estimates

The preparation of the 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. Areas in which management make estimates are with regards to an allowance for doubtful accounts.

Port Colborne Public Library

Notes to the Financial Statements

For the Year Ended December 31, 2018

3. Cash and cash equivalents	<u>2018</u>	<u>2017</u>
Cash on hand	\$ 200	\$ 200
Bank balances	<u>38,330</u>	<u>-</u>
	<u>\$ 38,530</u>	<u>\$ 200</u>

4. Employee benefit obligations	<u>2018</u>	<u>2017</u>
Post-employment benefits	<u>\$ 184,700</u>	<u>\$ 191,500</u>

The 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 plan is substantially unfunded and requires no contributions from employees.

The accrued benefit obligation at December 31, 2018 of \$ 184,700 (2017 - \$ 191,500) was determined by actuarial valuation using a discount rate of 3.4% (2017 - 3.4%). The Library's obligation will be funded out of current revenue. During the year, benefit payments of \$ 17,500 (2017 - \$ 16,100) 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 was prepared at December 31, 2015. The main actuarial assumptions employed for the valuation are as follows:

Interest (discount) rate - the obligations as at December 31, 2018 of the present value of future liabilities were determined using a discount rate of 3.4%.

Dental costs - dental costs were assumed to be 5.63% per annum for 2018 grading down 0.19% per year until 2024 when the rate will be 4.50% and continue thereafter.

Healthcare costs - extended healthcare costs were assumed to be 5.86% per annum for 2018 grading down 0.13% per year until 2036 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, 2018

4. Employee benefit obligations (continued)	<u>2018</u>	<u>2017</u>
Accrued benefit obligation		
Beginning of year	\$ 191,500	\$ 196,900
Current service cost	6,700	6,500
Interest cost	5,900	6,100
Benefits paid	(17,500)	(16,100)
Amortization of actuarial gain	<u>(1,900)</u>	<u>(1,900)</u>
	<u>\$ 184,700</u>	<u>\$ 191,500</u>
Funded status		
Deficit	\$ 171,600	\$ 176,500
Unamortized actuarial gain	<u>13,100</u>	<u>15,000</u>
	<u>\$ 184,700</u>	<u>\$ 191,500</u>

The net benefit expense for the employee benefit plan is as follows:

Current service cost	\$ 6,700	\$ 6,500
Interest cost	5,900	6,100
Amortization of actuarial gain	<u>(1,900)</u>	<u>(1,900)</u>
	<u>\$ 10,700</u>	<u>\$ 10,700</u>

Port Colborne Public Library

Notes to the Financial Statements

For the Year Ended December 31, 2018

5. Long term debt	<u>2018</u>	<u>2017</u>
(a) The Library has assumed responsibility for the payment of principal and interest charges on certain leases issued by Sharp Direct. At the end of the year, the outstanding principal amount of this lease is	\$ 7,156	\$ -
The Library has assumed responsibility for the payment of principal and interest charges on certain leases issued by Brock Office Automation. This lease ended in 2018	-	1,226
	<u>\$ 7,156</u>	<u>\$ 1,226</u>

- (b) The net long term debt reported on the Statement of Financial Position is made up of the following:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>2018</u>	<u>2017</u>
Photocopier	1.58%	2023	\$ 7,156	\$ -
Photocopier	4.35%	2018	-	1,226
			<u>\$ 7,156</u>	<u>\$ 1,226</u>

- (c) Principal repayments in the next five years are due as follows:

2019	\$ 1,608
2020	1,634
2021	1,660
2022	1,686
2023	568

- (d) Total charges for interest, which are reported on the Statement of Operations amounts to \$ 158 (2017 - \$ 80).

6. Accumulated surplus	<u>2018</u>	<u>2017</u>
Operating surplus	\$ 35,440	\$ 1,306
Investment in tangible capital assets	560,933	427,467
Reserves and reserves funds (Note 7)	103,353	249,168
Unfunded liabilities (Note 8)	<u>(191,856)</u>	<u>(192,726)</u>
	<u>\$ 507,870</u>	<u>\$ 485,215</u>

Port Colborne Public Library

Notes to the Financial Statements

For the Year Ended December 31, 2018

7. Reserves and reserve funds	<u>2018</u>	<u>2017</u>
Reserves set aside by the Board for specific purposes:		
Workplace safety and insurance board	\$ 15,298	\$ 13,759
Capital	85,477	162,395
Donor plaques	2,578	30,214
Lions reserve	-	11,475
Bequests	-	30,762
Budget stabilization	-	563
	<u>\$ 103,353</u>	<u>\$ 249,168</u>

8. Unfunded liabilities	<u>2018</u>	<u>2017</u>
Employee benefit obligation	\$ 184,700	\$ 191,500
Capital lease obligation	7,156	1,226
	<u>\$ 191,856</u>	<u>\$ 192,726</u>

9. Development charges

Development charges are fees collected by the City of Port Colborne from developers at the time a building permit is issued to help pay for municipal services, including Library services, required to meet the needs of community growth. Development charges allocated for Library purposes are collected, administered, and held by the City of Port Colborne are as follows:

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 9,070	\$ 8,852
Add: interest income	8	218
Less: amounts recognized during the year	<u>(8,110)</u>	<u>-</u>
Balance, end of year	<u>\$ 968</u>	<u>\$ 9,070</u>

10. Government transfers	<u>Budget 2018</u>	<u>Actual 2018</u>	<u>Actual 2017</u>
Operating			
Province of Ontario			
Unconditional	\$ 38,328	\$ 38,328	\$ 41,328
SOLS - Capacity Building grant	3,000	7,938	2,309
	<u>\$ 41,328</u>	<u>\$ 46,266</u>	<u>\$ 43,637</u>

Port Colborne Public Library

Notes to the Financial Statements

For the Year Ended December 31, 2018

11. Other revenue	Budget <u>2018</u>	Actual <u>2018</u>	Actual <u>2017</u>
Operating			
Donations	\$ -	\$ 1,500	\$ 8,122
Fines and fees	10,500	8,315	9,384
Interest	-	770	5,672
Miscellaneous	50	3,396	31
Photocopier	450	845	552
Printing	2,000	2,257	2,238
Programming	2,000	2,662	2,368
Room rentals	500	625	615
Sale of books	7,500	8,842	7,643
Sign rentals	1,500	950	2,180
Vending machine	150	78	188
	<u>24,650</u>	<u>30,240</u>	<u>38,993</u>
Capital			
Loss on disposal of tangible capital assets	-	(584)	-
	<u>\$ 24,650</u>	<u>\$ 29,656</u>	<u>\$ 38,993</u>

12. Salaries, wages and benefits	Budget <u>2018</u>	Actual <u>2018</u>	Actual <u>2017</u>
Salaries and wages	\$ 414,597	\$ 423,434	\$ 410,803
Benefits	<u>140,215</u>	<u>135,110</u>	<u>144,302</u>
	<u>\$ 554,812</u>	<u>\$ 558,544</u>	<u>\$ 555,105</u>

Port Colborne Public Library

Notes to the Financial Statements

For the Year Ended December 31, 2018

13. 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 Municipality does not recognize any share of the pension plan deficit of \$ 2.8 billion (2017 - \$ 600 million surplus) 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 2018 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 2018 current and past service was \$ 37,747 (2017 - \$ 37,317) and were matched by employee contributions in a similar amount.

14. Budget

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 Debt represent the budget adopted by the Board with the following adjustments:

Budgeted annual surplus	\$ -
Add:	
Acquisition of tangible capital assets	92,750
Less:	
Amortization of tangible capital assets	<u>(72,703)</u>
Budgeted surplus per Statement of Operations	<u>\$ 20,047</u>

Port Colborne Public Library
Schedule of Tangible Capital Assets
For the Year Ended December 31, 2018

	Computers and Office Equipment	Furniture and Fixtures	Library Collection	Leasehold Improvements	2018
Cost					
Beginning of year	\$ 113,086	\$ 20,962	\$ 281,325	\$ 358,394	\$ 773,767
Additions	20,127	93,559	36,486	56,581	206,753
Disposals	(12,608)	(4,409)	(43,677)	-	(60,694)
End of year	120,605	110,112	274,134	414,975	919,826
Accumulated amortization					
Beginning of year	85,936	20,647	139,555	100,162	346,300
Amortization	12,837	3,085	39,676	17,105	72,703
Amortization on disposals	(12,024)	(4,409)	(43,677)	-	(60,110)
End of year	86,749	19,323	135,554	117,267	358,893
Net book value	\$ 33,856	\$ 90,789	\$ 138,580	\$ 297,708	\$ 560,933

The net book value of equipment under capital leases is \$ 7,200.

Port Colborne Public Library
Schedule of Tangible Capital Assets
For the Year Ended December 31, 2017

	Computers and Office Equipment	Furniture and Fixtures	Library Collection	Leasehold Improvements	2017
Cost					
Beginning of year	\$ 106,197	\$ 31,361	\$ 274,662	\$ 358,394	\$ 770,814
Additions	10,984	-	42,873	-	53,857
Disposals	(4,095)	(10,399)	(36,410)	-	(50,904)
End of year	<u>113,086</u>	<u>20,962</u>	<u>281,325</u>	<u>358,394</u>	<u>773,767</u>
Accumulated amortization					
Beginning of year	78,086	29,675	136,239	85,179	329,179
Amortization	11,945	1,371	39,726	14,983	68,025
Amortization on disposals	(4,095)	(10,399)	(36,410)	-	(50,904)
End of year	<u>85,936</u>	<u>20,647</u>	<u>139,555</u>	<u>100,162</u>	<u>346,300</u>
Net book value	\$ 27,150	\$ 315	\$ 141,770	\$ 258,232	\$ 427,467

The net book value of equipment under capital leases is \$ 1,539.