

Financial Statements of

**KINGSTON FRONTENAC
PUBLIC LIBRARY BOARD**

Year ended December 31, 2017

KINGSTON FRONTENAC PUBLIC LIBRARY BOARD

Financial Statements

Year ended December 31, 2017

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INDEPENDENT AUDITORS' REPORT

To the Members of the Kingston Frontenac Public Library Board, Members of The City of Kingston Council, Members of the County of Frontenac Council, and to the Inhabitants and Ratepayers of the Corporation of the City of Kingston and the Townships of Frontenac County

We have audited the accompanying financial statements of Kingston Frontenac Public Library Board, which comprise the statement of financial position as at December 31, 2017, the statements of operations and municipal equity, 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 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 Kingston Frontenac Public Library Board as at December 31, 2017, and its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Kingston, Canada

April 25, 2018

KINGSTON FRONTENAC PUBLIC LIBRARY BOARD

Statement of Financial Position

December 31, 2017, with comparative information for 2016

	2017	2016
Financial assets:		
Cash on hand	\$ 1,025	\$ 905
Reserve fund cash and term deposits	1,669,433	2,312,770
Accounts receivable	2,987	30,722
Due from the Corporation of the City of Kingston (note 3)	526,364	241,749
Due from County of Frontenac	9,617	108,874
Total assets	2,209,426	2,695,020
Financial liabilities:		
Accrued liabilities	6,822	16,883
Accrued vacation pay	40,652	42,536
Accrued payroll	16,431	260,093
Deferred revenue	153,574	92,664
Employee future benefit obligations (note 9)	603,234	542,134
	820,713	954,310
Total net financial assets	1,388,713	1,740,710
Non-financial assets:		
Tangible capital assets (note 7)	3,297,461	3,393,362
Prepaid expenses	143,354	153,938
	3,440,815	3,547,300
Commitments (note 5 and note 8)		
Total municipal equity (note 10)	\$ 4,829,528	\$ 5,288,010

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

KINGSTON FRONTENAC PUBLIC LIBRARY BOARD

Statement of Operations and Municipal Equity

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

	Budget 2017 (note 6)	Actual 2017	Actual 2016
Revenue:			
Municipal operating contribution - City of Kingston	\$ 6,193,237	\$ 6,251,644	\$ 6,127,987
Municipal operating contribution - County of Frontenac	807,618	807,618	785,588
Province of Ontario grant	297,138	297,138	297,138
Project grant funding	30,000	28,519	51,423
Non-resident fees	8,910	6,827	8,289
Rentals, fines and damages recovered	143,495	123,270	152,539
Investment income	3,500	38,797	27,077
Donations	6,500	51,722	9,425
Other	—	—	11,160
Sundry	55,500	52,367	49,458
Total revenue	7,545,898	7,657,902	7,520,084
Expenses:			
Operating:			
Salaries and wages	4,326,367	4,047,135	4,350,924
Fringe benefits	1,344,134	1,347,857	1,442,409
Books and reference materials	850,121	897,809	843,325
Amounts recognized as tangible capital assets	(606,930)	(670,354)	(659,391)
Equipment rental and other supplies	223,763	216,276	180,165
Repairs and replacements	415,021	478,066	396,700
Utilities, telephone, fax and internet	267,759	258,196	355,758
Education and training	34,000	26,801	27,075
Sundry	61,234	57,642	89,033
Professional fees	23,500	12,798	2,277
Parking expenditures	—	—	10,890
Occupancy costs	249,916	249,916	254,732
Amortization expense	—	821,889	824,304
Total expenses	7,188,885	7,744,031	8,118,201
Excess of expenses over revenues	357,013	(86,129)	(598,117)
Municipal capital contributions - City of Kingston		1,401,318	1,128,743
Municipal capital expense - City of Kingston		(1,776,246)	(881,798)
Municipal capital contribution - County of Frontenac		2,575	31,371
Annual deficit		(458,482)	(319,801)
Municipal equity, beginning of year		5,288,010	5,607,811
Municipal equity, end of year		\$ 4,829,528	\$ 5,288,010

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

KINGSTON FRONTENAC PUBLIC LIBRARY BOARD

Statement of Changes in Net Financial Assets

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

	2017	2016
Annual deficit	\$ (458,482)	\$ (319,801)
Amortization of tangible capital assets	821,889	824,304
Acquisition of tangible capital assets	(725,988)	(898,216)
Acquisition of prepaid expenses	10,584	(27,522)
Change in net financial assets	(351,997)	(421,235)
Net financial assets, beginning of year	1,740,710	2,161,945
Net financial assets, end of year	\$ 1,388,713	\$ 1,740,710

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

KINGSTON FRONTENAC PUBLIC LIBRARY BOARD

Statement of Cash Flows

Year ended December 31, 2017, with comparative information 2016

	2017	2016
Operating transactions:		
Annual deficit	\$ (458,482)	\$ (319,801)
Net change in non-cash working capital items:		
Decrease (increase) in accounts receivable	27,735	(24,077)
Decrease (increase) in prepaid expenses	10,584	(27,522)
Decrease (increase) in due from County of Frontenac	99,257	(108,874)
Decrease (increase) in due from the Corporation of the City of Kingston	(284,615)	83,275
Increase (decrease) in accrued liabilities	(10,061)	9,041
Increase (decrease) in accrued payroll	(243,662)	232,296
Increase (decrease) in deferred revenue	60,910	(1,697)
	(339,852)	162,442
Items not involving cash:		
Amortization of tangible capital assets	821,889	824,304
Increase (decrease) in accrued vacation pay	(1,884)	6,978
Change in employee future benefit obligations	61,100	132,331
	881,105	963,613
Net change in cash from operating transactions	82,771	806,254
Capital transactions:		
Purchase of tangible capital assets	(725,988)	(898,216)
Decrease in cash and term deposits	(643,217)	(91,962)
Cash and term deposits, beginning of year	2,313,675	2,405,637
Cash and term deposits, end of year	\$ 1,670,458	\$ 2,313,675

The Library Board considers cash and term deposits to be highly liquid investments with original maturities of three months or less.

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

KINGSTON FRONTENAC PUBLIC LIBRARY BOARD

Notes to Financial Statements

Year ended December 31, 2017

1. Significant accounting policies:

The financial statements of the Kingston Frontenac Public Library Board (the "Library Board") are the representation of management prepared in accordance with Canadian public sector accounting standards ("PSAB"). Significant aspects of the accounting policies adopted by the Board are as follows:

(a) Reporting entity:

These statements reflect the assets, liabilities, revenue and expenses of the Library Board.

(b) Basis of accounting:

Revenue and expenses are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenue in the period in which transactions or events occurred that gave rise to the revenues; expenses are recognized in the period the goods and services are acquired and/or there is a legal obligation to pay.

(c) Deferred revenue:

Deferred revenue represents certain grants and donations which have been collected but for which the related services have yet to be performed. These amounts are recognized as revenue in the fiscal year the services are performed or related expenses incurred.

(d) Employee future benefit obligations:

The Library Board accrues for certain employee benefits which will require funding in future periods. These benefits include life insurance, extended health and dental benefits for early retirees and benefits under the Workplace Safety and Insurance Act.

The costs of these benefits earned by employees are actuarially determined using management's best estimate of salary escalation, retirement ages of employees, expected health care costs, and long-term inflation rates and discount rates.

For self-insured retirement and other employee future benefits that vest or accumulate over the periods of service provided by employees, such as compensated absences and health, dental and life insurance benefits for retirees, the cost is actuarially determined using the projected benefits 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, which can arise from changes in actuarial assumptions, are amortized over the expected average remaining service life of the employee group.

For those self-insured benefit obligations that arise from specific events that occur from time to time, such as obligations for workers' compensation and life insurance and health care benefits for those on disability leave, the cost is recognized immediately in the period the events occur. Any actuarial gains and losses that are related to these benefits are amortized over a period linked to the specific benefit plan.

KINGSTON FRONTENAC PUBLIC LIBRARY BOARD

Notes to Financial Statements (continued)

Year ended December 31, 2017

1. Significant accounting policies (continued):

(e) Tangible capital assets:

- i. Tangible capital assets are recorded at cost, which includes all amounts that are directly attributable to acquisition, development or betterment of the asset. The Library Board does not capitalize interest costs associated with the acquisition or construction of a tangible capital asset.
- ii. Tangible capital assets received as contributions are recorded at their fair value at the date of receipt or transfer with an offsetting amount recorded as revenue.
- iii. The cost, less residual value, of the tangible capital assets is amortized on a straight-line basis over estimated useful lives as follows:

Asset	Useful Life - Years
Vehicles	5 to 20
Equipment	5 to 20
Computer equipment	5 to 10
Books and materials	7
Furniture and fixtures	20 to 40

Assets under construction or development are classified as capital works in progress and are not amortized until the asset is available for productive use.

- iv. When tangible capital assets are disposed of, either by way of a sale, destruction or loss, or abandonment of the asset, the asset's net book value, historical cost less accumulated amortization, is written off. Any resulting gain or loss, equal to the proceeds on disposal less the asset's net book value, is reported on the statement of operations in the year of disposal. Transfers of assets to third parties are recorded as an expense equal to the net book value of the asset as of the date of transfer.
- v. When conditions indicate that the tangible capital asset no longer contributes to the Library Board's ability to provide services or the value or the future economic benefits associated with the tangible capital asset are less than its book value, and the decline is expected to be permanent, the cost and accumulated amortization of the asset are reduced to reflect the revised estimate of the value of the asset's remaining service potential. The resulting net adjustment is reported as an expense on the statement of operations.
- vi. The Library Board has a capitalization threshold of \$10,000. Individual tangible capital assets of lesser value are expensed, unless they are pooled because, collectively, they have significant value, or for operational reasons.

KINGSTON FRONTENAC PUBLIC LIBRARY BOARD

Notes to Financial Statements (continued)

Year ended December 31, 2017

1. Significant accounting policies (continued):

(f) Government transfers:

Government transfers are recognized in the financial statements in the period in which the events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met and reasonable estimates of the amounts can be made.

(g) Use of estimates:

The preparation of financial statements in conformity 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 revenue and expenses during the period. Actual results could differ from those estimates.

2. Provincial grants:

Certain provincial grants are subject to annual final reviews and approvals by the Ontario Ministry of Tourism, Culture and Sport. Any adjustments resulting from the review will be reflected in the year of Ontario Ministry of Tourism, Culture and Sport approval as an adjustment to provincial grant revenue on the "Statement of Operations and Municipal Equity".

3. Due from/to the Corporation of the City of Kingston:

During the year, the Library Board is provided with financial, payroll and legal services from the Corporation of the City of Kingston. As at December 31, 2017, the Library Board had an amount due from the Corporation of the City of Kingston representing the net balance of cash receipts, yearend payroll accruals and disbursements processed on behalf of the Library Board in the amount of \$526,364 (2016 - \$241,749).

4. Pension agreements:

The Library Board makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS) which is a multi-employer plan, on behalf of 67 (2016 - 64) members of its staff. The plan is a contributory 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 amount contributed to OMERS for 2017 was \$320,397 (2016 - \$299,459) for current service and is included as an expense on the "Statement of Operations and Municipal Equity".

KINGSTON FRONTENAC PUBLIC LIBRARY BOARD

Notes to Financial Statements (continued)

Year ended December 31, 2017

5. Commitments:

- (a) The Library Board entered into a long term contract in September 2014 with HDR Architecture Associates Inc. at a total cost of approximately \$644,800. As at December 31, 2017, the total costs remaining are \$96,720 with the long term contract expiring upon completion in 2018.
- (b) The Library Board has a long term contract with Commissionaires at an annual cost of approximately \$40,000, signed January 2018. The contract expires in December 2019.
- (c) The Library Board entered into a long term contract in October 2016 with Hi-Tone Express Inc. at a total cost of approximately \$155,500. As at December 31, 2017, the total costs remaining are \$25,914. The contract expires in April 2018. The lease agreement has been extended 3 months at an additional cost of \$26,370 and will expire July 2018.
- (d) The Library Board entered into a long term contract in September 2016 with KCC Holdings at a total cost of approximately \$49,900. As at December 31, 2017, the total costs remaining are \$8,324. The contract expires in April 2018. The lease agreement has been extended 3 months at an additional cost of \$8,471 and will now expire July 2018.

6. Budget figures:

Budget figures reflected on the Statement of Operations and Municipal Equity are based on the 2017 operating budget as approved by the Board of Directors on October 26, 2016.

Capital budgets are established for capital investment in tangible capital assets as well as for non-tangible capital expenditures that are included as expenses on the Statement of Operations and Municipal Equity. These budgets are established on a project-oriented basis, the costs of which may be carried out over one or more years and, therefore, may not be comparable with a current year's actual expenditure amounts. Therefore, it is not practical to include annualized budget information with respect to non-tangible capital expenditures on the Statement of Operations and Municipal Equity.

Budget figures have been reclassified for the purposes of these financial statements to comply with PSAB reporting requirements. Amortization was not contemplated on development of the budget and, as such, has not been included in the budget figures reflected on the financial statements.

KINGSTON FRONTENAC PUBLIC LIBRARY BOARD

Notes to Financial Statements (continued)

Year ended December 31, 2017

6. Budget figures (continued):

The chart below reconciles the approved operating budget to the budget figures reported in these financial statements.

	Budget Amount
Approved operating budget revenue	\$ 7,545,898
Approved operating budget expenses	7,545,898
Capitalization of assets	(606,930)
Occupancy costs for city owned buildings	249,917
Net operating budget expenses	7,188,885
Annual operating surplus before capital investment	\$ 357,013

7. Tangible capital assets:

	GENERAL ASSETS					TOTALS	
	Vehicles	Equipment	Computer Equipment	Books and Materials	Furniture and Fixtures		
Cost							
Balance, beginning of year	\$ 47,443	\$ 436,899	\$ 536,657	\$ 5,963,612	\$ 1,251,654	\$ 8,236,265	\$ 7,450,321
Add: Additions	\$ 30,000	\$ -	\$ -	\$ 670,358	\$ 25,630	\$ 725,988	\$ 898,216
Less: Disposals	\$ -	\$ -	\$ -	\$ (792,035)	\$ -	\$ (792,035)	\$ (112,272)
Reclassification of assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Balance, end of year	\$ 77,443	\$ 436,899	\$ 536,657	\$ 5,841,935	\$ 1,277,284	\$ 8,170,218	\$ 8,236,265
Accumulated Amortization							
Balance, beginning of year	\$ 14,913	\$ 165,855	\$ 305,409	\$ 3,562,141	\$ 794,585	\$ 4,842,903	\$ 4,130,871
Add: Amortization	\$ 5,412	\$ 26,373	\$ 62,387	\$ 691,147	\$ 36,570	\$ 821,889	\$ 824,304
Less: Accumulated amortization on disposals	\$ -	\$ -	\$ -	\$ (792,035)	\$ -	\$ (792,035)	\$ (112,272)
Balance, end of year	\$ 20,325	\$ 192,228	\$ 367,796	\$ 3,461,253	\$ 831,155	\$ 4,872,757	\$ 4,842,903
Net Book Value of Tangible Capital Assets	\$ 57,118	\$ 244,671	\$ 168,861	\$ 2,380,682	\$ 446,129	\$ 3,297,461	\$ 3,393,362

The above table provides additional information on the tangible capital assets and accumulated amortization of the Library Board by major asset class and by business segment. The following information relates to other valuation and reporting aspects of the Library Board's tangible capital assets.

(a) Write-down of tangible capital assets:

The write-down of tangible capital assets during the year was \$Nil (2016 - \$Nil).

KINGSTON FRONTENAC PUBLIC LIBRARY BOARD

Notes to Financial Statements (continued)

Year ended December 31, 2017

7. Tangible capital assets (continued):

(b) Works of art and historical treasures:

The definition of tangible capital assets specifically excludes museum and gallery collections and other works of art. The Library Board owns a number of paintings, other pieces of artwork and museum artifacts that are displayed in various Corporation of the City of Kingston buildings. These assets are not recorded as tangible capital assets and are not amortized.

8. Obligations under operating leases:

The Library Board is committed to operating leases for office equipment expiring at various dates. Future lease payments as of December 31, 2017 are due as follows:

2018	\$	4,194
2019		2,892
2020		1,884
2021		471

9. Employee future benefits:

Extended health care, dental and life insurance:

The Library Board pays certain life insurance benefits on behalf of retired employees as well as extended health and dental benefits for early retirees to age 65. The Library Board recognizes these post-employment and post-retirement costs in the period in which the employees rendered the services. An independent actuarial study of the post-retirement and post-employment benefits was undertaken at December 31, 2016 in order to determine the estimated accrued benefit liability to be reported in these financial statements.

Actuarial gains and losses are amortized on a straight-line basis over the expected average remaining service life of the related employee groups, which is estimated to be between 11 and 13 years.

At December 31, 2017, the Library Board's accrued benefit obligation relating to post-retirement and post-employment benefit plans is \$603,234 (2016 - \$542,134).

KINGSTON FRONTENAC PUBLIC LIBRARY BOARD

Notes to Financial Statements (continued)

Year ended December 31, 2017

9. Employee future benefits (continued):

The significant actuarial assumptions adopted in estimating the Library Board's accrued benefit obligation for extended health, dental and life insurance are as follows:

Discount rate	4.0% per annum
Inflation rate	2.0% per annum
Salary escalation	2.5% per annum for first 3 years, Increasing to 3.0% thereafter
Dental benefits escalation	4.0% per annum
Health benefits escalation	5.6% per annum in 2017 decreasing to 4.0% over 6 years

Information with respect to the Library Board's post-retirement and post-employment obligations is as follows:

	2017	2016
Accrued benefit liability, January 1	\$ 542,134	\$ 409,803
Expense recognized for the period	80,828	131,743
Benefits paid for the period	(57,878)	(40,165)
Amortization of actuarial losses	38,150	40,753
Accrued benefit liability, December 31	\$ 603,234	\$ 542,134

The accrued benefit liability at December 31, 2017 includes the following components:

	2017	2016
Accrued benefit obligation	\$ 824,621	\$ 801,671
Unamortized actuarial loss	(221,387)	(259,537)
Accrued benefit liability	\$ 603,234	\$ 542,134

KINGSTON FRONTENAC PUBLIC LIBRARY BOARD

Notes to Financial Statements (continued)

Year ended December 31, 2017

10. Schedule of municipal equity:

	2017	2016
Operating surplus (deficit):		
Kingston Frontenac Public Library Board	\$ 310,047	\$ (58,432)
Reserve and reserve funds:		
Reserves	24,607	24,607
Reserve funds	1,669,433	2,312,770
Total reserves and reserve funds	1,694,040	2,337,377
Investment in tangible capital assets:		
Tangible capital assets - net	3,297,461	3,393,362
Unexpended capital receipts	171,865	200,373
Total investment in tangible capital assets	3,469,326	3,593,735
Unfunded liabilities:		
Employee future benefit obligations plus accrued vacation pay	(643,885)	(584,670)
Municipal equity	\$ 4,829,528	\$ 5,288,010

11. Comparative information:

Certain 2016 comparative information has been reclassified to conform to the financial statement presentation adopted for the current year.