

Financial Statements of

**KINGSTON-FRONTENAC
PUBLIC LIBRARY BOARD**

Year ended December 31, 2013

KINGSTON-FRONTENAC PUBLIC LIBRARY BOARD

Financial Statements

Year ended December 31, 2013

	Page
Independent Auditors' Report	1
Statement of Financial Position	3
Statement of Operations and Municipal Equity	4
Statement of Changes in Net Financial Assets	5
Statement of Cash Flows	6
Notes to Financial Statements	7



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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, 2013, 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, 2013, 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

April 23, 2014

Kingston, Canada

KINGSTON-FRONTENAC PUBLIC LIBRARY BOARD

Statement of Financial Position

December 31, 2013, with comparative information for 2012

	2013	2012
Financial assets:		
Cash on hand	\$ 850	\$ 850
Reserve fund cash and term deposits	1,728,040	1,322,328
Accounts receivable	10,185	975
Due from the Corporation of the City of Kingston (note 3)	135,100	348,693
Due from County of Frontenac	33,082	77,598
Total assets	1,907,257	1,750,444
Financial liabilities:		
Accrued liabilities	10,610	15,695
Accrued vacation pay	34,409	43,204
Accrued payroll	18,285	27,924
Deferred revenue	97,911	1,650
Employee future benefit obligations (note 9)	257,382	249,120
	418,597	337,593
Total net financial assets	1,488,660	1,412,851
Non-financial assets:		
Tangible capital assets - net (note 7)	3,421,443	3,325,878
Prepaid expenses	96,377	56,983
	3,517,820	3,382,861
Commitments (note 5 and note 8)		
Contingency		
Total municipal equity (note 10)	\$ 5,006,480	\$ 4,795,712

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, 2013, with comparative information for 2012

	Budget 2013 (note 6)	Actual 2013	Actual 2012
Revenue:			
Municipal operating contribution - City of Kingston	\$ 5,744,757	\$ 5,744,734	\$ 5,594,650
Municipal operating contribution - County of Frontenac	734,796	734,796	722,978
Municipal capital contribution - City of Kingston	–	567,637	409,030
Municipal capital contribution - County of Frontenac	–	33,082	10,054
Province of Ontario grant	297,138	333,238	297,138
Project grant funding	30,000	43,574	50,686
Non-resident fees	7,670	8,918	7,659
Rentals, fines and damages recovered	180,965	159,053	170,666
Investment income	3,000	24,908	21,104
Donations	5,000	3,797	5,610
Other	–	10,080	9,770
Sundry	53,000	70,240	52,079
Total revenue	7,056,326	7,734,057	-7,351,424
Expenses:			
Operating:			
Salaries and wages	4,035,531	4,094,955	3,837,404
Fringe benefits	1,122,116	1,164,025	1,072,016
Books and reference materials	799,234	830,871	718,210
Amounts recognized as tangible capital assets	(625,330)	(699,230)	(643,187)
Equipment rental and other supplies	198,819	225,918	198,734
Repairs and replacements	416,426	464,754	504,022
Utilities, telephone, fax and internet	307,950	292,171	279,947
Education and training	55,200	49,322	52,256
Sundry	101,050	81,614	82,982
Professional fees	20,000	2,976	36,295
Parking expenditures	–	6,720	6,720
Occupancy costs	251,754	251,754	132,506
Amortization expense	–	757,439	731,843
Total expenses	6,682,750	7,523,289	7,009,748
Annual surplus	373,576	210,768	341,676
Municipal equity, beginning of year		4,795,712	4,454,036
Municipal equity, end of year	\$	\$ 5,006,480	\$ 4,795,712

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, 2013, with comparative information for 2012

	2013	2012
Annual surplus	\$ 210,768	\$ 341,676
Amortization of tangible capital assets	757,439	731,843
Acquisition of tangible capital assets	(854,455)	(811,283)
Loss on tangible capital assets	1,451	—
Use (acquisition) of prepaid expenses	(39,394)	79,779
Change in net financial assets	75,809	342,015
Net financial assets, beginning of year	1,412,851	1,070,836
Net financial assets, end of year	\$ 1,488,660	\$ 1,412,851

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

KINGSTON-FRONTENAC PUBLIC LIBRARY BOARD

Statement of Cash Flows

Year ended December 31, 2013, with comparative information 2012

	2013	2012
Operating transactions:		
Annual surplus	\$ 210,768	\$ 341,676
Net change in non-cash working capital items:		
Decrease (increase) in accounts receivable	(9,210)	18,180
Decrease (increase) in inventories of supplies	(39,394)	79,779
Decrease (increase) in due from County of Frontenac	44,516	(77,598)
Decrease in due from the Corporation of the City of Kingston	213,593	110,215
Decrease in accrued liabilities	(5,085)	(23,257)
Decrease in accrued payroll	(9,639)	(9,897)
Increase (decrease) in deferred revenue	96,261	(29,114)
	291,042	68,308
Items not involving cash:		
Amortization of tangible capital assets	757,439	731,843
Change in accrued vacation pay	(8,795)	13,366
Change in employee future benefit obligations	8,262	8,394
Loss on tangible capital assets	1,451	—
	758,357	753,603
Net change in cash from operating transactions	1,260,167	1,163,587
Capital transactions:		
Purchase of tangible capital assets	(854,455)	(811,283)
Increase in cash and term deposits	405,712	352,304
Cash and term deposits, beginning of year	1,323,178	970,874
Cash and term deposits, end of year	\$ 1,728,890	\$ 1,323,178

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, 2013

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, sources of financing 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 Board 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, 2013

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

One half of the annual amortization is charged in the year of acquisition and in the year of disposal. 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, 2013

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. These estimates are reviewed annually and as adjustments become necessary, they are recognized in the financial statements in the period in which they become known.

2. Provincial grants:

Certain provincial grants are subject to annual final reviews and approvals by the Ministry. Any adjustments resulting from the review will be reflected in the year of Ministry 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, 2013, 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 \$135,100 (2012 - \$348,693).

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 74 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 amount contributed to OMERS for 2013 was \$302,123 (2012 - \$263,352) for current service and is included as an expenditure on the "Statement of Operations and Municipal Equity".

KINGSTON-FRONTENAC PUBLIC LIBRARY BOARD

Notes to Financial Statements (continued)

Year ended December 31, 2013

5. Commitments:

- (a) The Library Board has a long-term contract with Infor (Canada) Ltd. for computer service and support at an annual cost of approximately \$62,000.
- (b) The Library Board has a long-term contract with MK Sorting Systems Inc. for extended warranty and maintenance program at an annual cost of approximately \$34,000.

6. Budget figures:

Budget figures reflected on the Statement of Operations and Municipal Equity are based on the 2013 operating budget as approved by the Board of Directors on December 18, 2012.

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.

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

	Budget Amount
Total operating budget revenues	\$ 7,056,326
Total operating budget expenses	6,673,859
Add:	
Transfer to reserve funds	8,891
Net operating budget expenses	6,682,750
Annual operating deficit before capital investment	\$ 373,576

KINGSTON-FRONTENAC PUBLIC LIBRARY BOARD

Notes to Financial Statements (continued)

Year ended December 31, 2013

7. Tangible capital assets:

CONSOLIDATED SCHEDULE OF TANGIBLE CAPITAL ASSETS - BY MAJOR ASSET CLASS
Year ended December 31, 2013, with comparative figures for 2012

	GENERAL ASSETS					TOTALS	
	Vehicles	Equipment	Computer Equipment	Books and Materials	Furniture and Fixtures	2013	2012
Cost							
Balance, beginning of year	\$ 75,040	\$ 339,350	\$ 207,176	\$ 4,671,970	\$ 1,204,168	\$ 6,497,704	\$ 6,284,695
Add: Additions	22,468	20,043	59,828	732,134	19,984	854,457	811,282
Less: Disposals	(23,209)	-	-	(601,827)	-	(625,036)	(598,270)
Balance, end of year	74,299	359,393	267,004	4,802,277	1,224,152	6,727,125	6,497,707
Accumulated Amortization							
Balance, beginning of year	41,764	85,212	105,190	2,283,166	656,497	3,171,829	3,038,257
Add: Amortization	5,427	17,996	42,381	659,207	32,428	757,439	731,842
Less: Accumulated amortization on disposals	(21,759)	-	-	(601,827)	-	(623,586)	(598,270)
Balance, end of year	25,432	103,208	147,571	2,340,546	688,925	3,305,682	3,171,829
Net Book Value of Tangible Capital Assets	\$ 48,867	\$ 256,185	\$ 119,433	\$ 2,461,731	\$ 535,227	\$ 3,421,443	\$ 3,325,878

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 (2012 - \$Nil).

(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 City buildings. These assets are not recorded as tangible capital assets and are not amortized.

8. Obligations under operating leases:

The Board is committed to operating leases for office equipment expiring at various dates. Future lease payments as of December 31, 2013 are due as follows:

2014	11,203
2015	7,883
2016	3,956
2017	2,029

KINGSTON-FRONTENAC PUBLIC LIBRARY BOARD

Notes to Financial Statements (continued)

Year ended December 31, 2013

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, 2010 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, 2013, the Library Board's accrued benefit obligation relating to post-retirement and post-employment benefit plans is \$257,382 (2012 - \$249,120).

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	4.8% per annum
Inflation rate	2.0% per annum
Salary escalation	3.0% per annum
Dental benefits escalation	4.0% per annum
Health benefits escalation	7.0% per annum in 2011 decreasing to 4.0% over 9 years

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

	2013	2012
Accrued benefit liability, January 1	\$ 249,120	\$ 240,726
Expense recognized for the period	15,690	14,533
Benefits paid for the period	(2,379)	(1,090)
Amortization of actuarial losses	(5,049)	(5,049)
Accrued benefit liability, December 31	\$ 257,382	\$ 249,120

KINGSTON-FRONTENAC PUBLIC LIBRARY BOARD

Notes to Financial Statements (continued)

Year ended December 31, 2013

9. Employee future benefits (continued):

The accrued benefit liability at December 31, 2013 includes the following components:

	2013	2012
Accrued benefit obligation	\$ 163,995	\$ 150,684
Unamortized actuarial gain	93,387	98,436
Accrued benefit liability	\$ 257,382	\$ 249,120

10. Schedule of municipal equity:

	2013	2012
Operating surplus (deficit):		
Kingston Frontenac Public Library Board	\$ (78,168)	\$ 220,241
Reserve and reserve funds:		
Reserves	21,091	17,731
Reserve funds	1,728,040	1,322,328
Total reserves and reserve funds	1,749,131	1,340,059
Investment in tangible capital assets:		
Tangible capital assets - net	3,421,443	3,325,878
Unexpended capital receipts	205,865	201,858
Total investment in tangible capital assets	3,627,308	3,527,736
Unfunded liabilities:		
Employee future benefit obligations plus accrued vacation pay	(291,791)	(292,324)
Municipal equity	\$ 5,006,480	\$ 4,795,712