

Financial Statements

MIDDLESEX COUNTY LIBRARY BOARD

And Independent Auditors' Report thereon

Year ended December 31, 2018



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INDEPENDENT AUDITORS' REPORT

To the Members of Middlesex County Library Board

Opinion

We have audited the financial statements of Middlesex County Library Board (the Entity), which comprise:

- the statement of financial position as at December 31, 2018
- the statement of operations and deficit for the year then ended
- the statement of changes in net financial assets (debt)
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the “financial statements”).

In our opinion, the accompanying financial statements, present fairly, in all material respects, the financial position of the Entity as at December 31, 2018, and its results of operations, its changes in net financial assets (debt) and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the “***Auditors’ Responsibilities for the Audit of the Financial Statements***” section of our auditors’ 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 opinion.



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

Management is responsible for the preparation and fair presentation of the 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.

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.

Auditors' 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 auditors' 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 the 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 auditors' 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 auditors' 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.
- 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

London, Canada

July 16, 2019

MIDDLESEX COUNTY LIBRARY BOARD

Statement of Financial Position
December 31, 2018, with comparative information for 2017

	2018	2017
Financial assets:		
Cash	\$ 7,293	\$ 161,167
Accounts receivable	1,832	4,108
Receivable from the County of Middlesex	1,408,264	612,758
	1,417,389	778,033
Financial liabilities:		
Accounts payable	165,514	137,975
Deferred revenue	382	25,329
Employee future benefits (note 4)	133,545	101,801
Total liabilities	299,441	265,105
Net financial assets	1,117,948	512,928
Non-financial assets:		
Tangible capital assets (note 6)	2,290,830	2,213,874
Prepaid expenses	13,182	46,770
	2,304,012	2,260,644
Commitments (note 5)		
Accumulated surplus (note 3)	\$ 3,421,960	\$ 2,773,572

See accompanying notes to financial statements.

MIDDLESEX COUNTY LIBRARY BOARD

Statement of Operations

Year ended December 31, 2018, with comparative information for 2017

	Budget 2018	2018	2017
Revenues:			
Grants:			
Government of Canada	\$ 11,163	\$ 3,360	\$ 4,788
Province of Ontario	290,740	993,262	340,342
County of Middlesex, contribution	4,038,264	4,038,264	4,038,264
	4,340,167	5,034,886	4,383,394
User charges:			
Fines, fees, rentals and donations	104,773	120,709	186,493
Loss on disposal of tangible capital assets	-	(373)	-
	4,444,940	5,155,222	4,569,887
Expenditures:			
Salaries	2,327,713	2,204,898	2,117,077
Rent	630,800	617,389	597,151
Amortization	518,814	517,450	496,614
Employee benefits	479,099	479,941	410,266
Development and automation	154,000	197,586	103,273
Books	96,000	159,499	135,372
Healthy Kids Community Challenge (note 8)	148,698	129,529	185,386
Non - print materials	137,200	106,392	119,664
Postage	40,000	47,032	42,375
Utilities and maintenance	34,675	26,510	35,170
Insurance	19,700	19,845	18,785
Legal services	5,000	763	-
	4,591,699	4,506,834	4,261,133
Annual surplus (deficit):	(146,759)	648,388	308,754
Accumulated surplus, beginning of year	2,773,572	2,773,572	2,464,818
Accumulated surplus, end of year	\$ 2,626,813	\$ 3,421,960	\$ 2,773,572

See accompanying notes to financial statements.

MIDDLESEX COUNTY LIBRARY BOARD

Statement of Changes in Net Financial Assets (Debt)
 Year ended December 31, 2018, with comparative information for 2017

	Budget 2018	2018	2017
Annual surplus (deficit)	\$ (146,759)	\$ 648,388	\$ 308,754
Acquisition of tangible capital assets	(457,018)	(594,779)	(451,727)
Amortization of tangible capital assets	518,814	517,450	496,614
Loss on disposal of tangible capital assets	-	373	-
Prepaid expenses	-	33,588	50,946
Change in net financial assets (debt)	(84,963)	605,020	404,587
Net financial assets, beginning of year	512,928	512,928	108,341
Net financial assets, end of year	\$ 427,965	\$ 1,117,948	\$ 512,928

See accompanying notes to financial statements.

MIDDLESEX COUNTY LIBRARY BOARD

Statement of Cash Flows

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ 648,388	\$ 308,754
Items not involving cash:		
Amortization	517,450	496,614
Loss on disposal of tangible capital assets	373	-
Changes in non-cash operating working capital:		
Accounts receivable	2,276	1,941
Receivable from the County of Middlesex	(795,506)	(395,082)
Prepaid expenses	33,588	50,946
Accounts payable	27,539	176
Employee future benefits	31,744	(1,293)
	465,852	462,056
Investing activities:		
Acquisition of tangible capital assets	(594,779)	(451,727)
Financing activities:		
Deferred revenue	(24,947)	(5,966)
Increase (decrease) in cash	(153,874)	4,363
Cash, beginning of year	161,167	156,804
Cash, end of year	\$ 7,293	\$ 161,167

See accompanying notes to financial statements.

MIDDLESEX COUNTY LIBRARY BOARD

Notes to Financial Statements

Year ended December 31, 2018

1. Significant accounting policies:

The financial statements of the Middlesex County Library Board (the "Board") are prepared by management in accordance with generally accepted accounting principles for organizations operating in the local government sector as recommended by the Public Sector Accounting Board ("PSAB") of the Chartered Professional Accountants of Canada. Significant aspects of the accounting policies adopted by the Board are as follows:

(a) Basis of accounting:

Sources of financing and expenditures are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenues as they become available and measurable; expenditures are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.

(b) Government transfers:

Government transfers are recognized in the financial statements in the period in which 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. Funding that is stipulated to be used for specific purposes is only recognized as revenue in the fiscal year that the related expenses are incurred or services performed. If funding is received for which the related expenses have not yet been incurred or services performed, these amounts are recorded as a liability at year end.

(c) Employee future benefits:

The Board has adopted the following policies for future benefits provided to both active and retired employees:

(i) Post-employment benefits:

The cost of termination benefits and compensated absences are recognized when the event that obligates the Board occurs; costs include projected future income payments, health care continuation costs and fees paid to independent administrators of these plans, calculated on a present value basis.

The costs of other employee benefits are determined using the projected benefits method pro-rated on service and management's best estimate of retirement ages of employees and expected health costs

Employee future benefit costs are discounted using the Board's cost of long-term borrowing. The costs of workplace safety and insurance obligations are actuarially determined and are expensed.

MIDDLESEX COUNTY LIBRARY BOARD

Notes to Financial Statements (continued)

Year ended December 31, 2018

1. Significant accounting policies (continued):

(c) Employee future benefits (continued):

(ii) Pension benefits:

The Board provides a pension plan for its employees through the Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi- employer pension plan which operates as the Ontario Municipal Employees Retirement Fund, and provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards. The fund is a contributory defined benefit pension plan. As this is a multi-employer plan, no liability is recorded on the Board's books.

The employer's contributions to a multi-employer, defined benefit plan are expensed as the obligations arise.

(d) Use of estimates:

The preparation of financial statements 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 period. Significant estimates include assumptions used in estimating provisions for accrued liabilities, and in performing actuarial valuations of employee future benefits.

In addition, the Board's implementation of the Public Sector Accounting Handbook PS3150 has required management to make estimates of historical cost and useful lives of tangible capital assets.

Actual results could differ from these estimates.

(e) Non-financial assets:

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations. The change in non-financial assets during the year, together with the excess of revenues over expenses, provides the change in net financial assets for the year.

MIDDLESEX COUNTY LIBRARY BOARD

Notes to Financial Statements (continued)

Year ended December 31, 2018

1. Significant accounting policies (continued):

(e) Non-financial assets (continued):

(i) Tangible capital assets:

Tangible capital assets are recorded at cost which includes amounts that are directly attributable to acquisition, construction, development or betterment of an asset. The cost, less residual value, of the tangible capital assets, excluding land are amortized on a straight line basis over their estimated useful lives as follows:

Asset	Rate
Machine and equipment	3 – 5 years
Collections	5 – 15 years

(f) Budget figures:

Budget figures have been provided for comparison purposes. Given differences between the funding model and generally accepted accounting principles for local governments established by PSAB, certain budgeted amounts have been reclassified to reflect the presentation adopted under PSAB.

(g) Adoption of new accounting standards:

(i) Related party disclosures:

The Board adopted PSAB Standard PS 2200 Related Party Transactions effective for fiscal periods beginning on or after April 1, 2017. The standard defines related party and provides disclosure requirements. Disclosure is only required when the transactions or events between related parties occur at a value different from what would have been recorded if they were not related and the transactions could have a material financial impact on the financial statements. The standard also requires disclosure of related party transactions that have occurred where no amounts have been recognized. The Board adopted this standard on a prospective basis and there were no adjustments as a result of the adoption of this standard.

(ii) Inter-entity transactions:

The Board adopted PSAB Standard PS 3420 Inter-entity Transactions effective for fiscal periods beginning on or after April 1, 2017. The standard specifies how to account for transactions between public sector entities within the government reporting entity.

MIDDLESEX COUNTY LIBRARY BOARD

Notes to Financial Statements (continued)

Year ended December 31, 2018

1. Significant accounting policies (continued):

(g) Adoption of new accounting standards (continued):

(ii) Inter-entity transactions (continued):

Transactions undertaken on similar terms and conditions to those adopted if the entities were dealing at arm's length are recorded at the exchange amount. Transfers of an asset or liability at nominal or no consideration is recorded by the provider at the carrying amount and the recipient has the choice of using either the carrying amount or fair value. Cost allocations are reported using the exchange amount and revenues and expenses are reported on a gross basis. Unallocated costs for the provision of goods or services may be recorded by the recipient at the carrying amount or fair value unless otherwise dictated by policy, accountability structure or budget practice. All other transactions are measured at the carrying amount. The Board adopted this standard on a prospective basis and there were no adjustments as a result of the adoption of this standard.

2. Trust funds:

Trust funds and their related operations administered by the Board amounting to \$30,778 (2017 - \$30,778) are not consolidated, but are reported separately on the trust fund statement of continuity. They have not been included in the statements of financial position or operations.

3. Accumulated surplus:

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

	2018	2017
Murray Elliott reserve fund	\$ 67,592	\$ 87,806
Strathroy Library reserve fund	66,448	65,821
	134,040	153,627
Surplus:		
Invested in tangible capital assets (note 6)	2,290,830	2,213,874
General revenue fund	331,596	217,566
Capital fund	801,600	291,319
Unfunded		
Future benefit cost liability	(133,545)	(101,801)
Vacation payable	(2,561)	(1,013)
Total surplus	3,287,920	2,619,945
Accumulated surplus	\$ 3,421,960	\$ 2,773,572

MIDDLESEX COUNTY LIBRARY BOARD

Notes to Financial Statements (continued)

Year ended December 31, 2018

4. Employee future benefits:

(a) Pension plan:

During 2018, the Board contributed \$153,822 (2017 - \$146,505) to OMERS on behalf of its employees for current service. Contributions are included as an expenditure on the Statement of Operations.

(b) Health, dental and life insurance:

The Board provides certain employee future benefits such as health, dental and life insurance that will require funding in future periods.

The Board pays certain health care benefits on behalf of the retired employees. The Board recognizes these post-retirement costs in the period in which the employees rendered the services. The most recent actuarial valuation was undertaken as at December 31, 2015, and it provided projected expense and liability disclosure information for the fiscal periods 2016, 2017 and 2018.

The benefit obligation continuity is as follows:

	2018	2017
Accrued benefit obligation, January 1	\$ 120,277	\$ 126,676
Current period benefit cost	33,826	1,024
Post-employment benefit interest expenditure	6,084	4,787
Benefits paid	(11,717)	(10,051)
Actuarial loss (gain) and amortization of losses	3,794	(2,159)
Accrued benefit obligation, December 31	152,264	120,277
Unamortized actuarial loss	(18,719)	(18,476)
Liability for benefits	\$ 133,545	\$ 101,801

Post retirement and sick leave benefits expenses are as follows:

Current period benefit cost	\$ 33,826	\$ 1,024
Amortization of actuarial losses	3,551	2,946
Post-employment benefit interest expenditure	6,084	4,787
	\$ 43,461	\$ 8,757

MIDDLESEX COUNTY LIBRARY BOARD

Notes to Financial Statements (continued)

Year ended December 31, 2018

4. Employee future benefits (continued):

(b) Health, dental and life insurance (continued):

The significant assumptions used in the actuarial valuation are as follows:

	2018	2017
Discount rate	3.4%	3.4%
Rate of compensation increase	3.0%	3.0%
Dental & other EHC cost increases	4.0%	4.0%
EHC cost increases	5.63% for 2018 then reducing by 0.09% per year until 2036 when the ultimate rate of 4.0% is reached	5.72% for 2017 then reducing by 0.09% per year until 2036 when the ultimate rate of 4.0% is reached

5. Commitments:

The Board has entered into commitments for rent and leases expiring at various dates prior to 2036. The future minimum annual payments are estimated to be as follows:

2019	\$ 164,245
2020	167,530
2021	170,880
2022	174,298
2023	177,784
Thereafter	2,313,985
	<u>\$ 3,168,722</u>

MIDDLESEX COUNTY LIBRARY BOARD

Notes to Financial Statements (continued)

Year ended December 31, 2018

6. Tangible capital assets:

			2018	2017
	Collections	Machine and equipment	Total	Total
Cost:				
Balance, beginning of year	\$ 3,449,800	\$ 682,365	\$ 4,132,165	\$ 4,054,948
Additions during the year	493,014	101,765	594,779	451,727
Disposals during the year	(318,360)	(65,479)	(383,839)	(374,510)
Total	3,624,454	718,651	4,343,105	4,132,165
Accumulated amortization:				
Balance, beginning of year	1,558,786	359,505	1,918,291	1,796,187
Amortization during the year	391,298	126,152	517,450	496,614
Disposals during the year	(318,360)	(65,106)	(383,466)	(374,510)
Total	1,631,724	420,551	2,052,275	1,918,291
Net book value	\$ 1,992,730	\$ 298,100	\$ 2,290,830	\$ 2,213,874

7. Financial instruments:

The carrying value of cash, accounts receivable, receivable from the County of Middlesex and accounts payable approximate their fair value due to the relatively short periods to maturity of these instruments. Unless otherwise noted, it is management's opinion that the Board is not exposed to significant interest rate, currency or credit risks arising from these financial instruments.

8. Healthy Kids Community Challenge:

Ontario's Healthy Kids Community Challenge (HKCC) is a three-year project issued by the Ministry of Health and Long-Term Care. The HKCC program is designed to improve the health of children aged 12 and under. Various community partners work together to implement community-based programs and activities that focus on physical activity and healthy eating.

During 2018, the Board received new funding of \$131,248 (2017 - \$175,000). Total Operating expenditures were \$129,529 (2017 - \$185,386).