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INDEPENDENT AUDITORS' REPORT

To the Members of the Essex County Library Board, Members of Council and Ratepayers of the Corporation of the County of Essex

We have audited the accompanying financial statements of Essex County Library Board, which comprise the statement of financial position as at December 31, 2017 and the statements of operations and accumulated surplus, change 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 an 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 controls 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 Essex County Library Board as at December 31, 2017, and the results of its operations, changes in net financial assets and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Professional Accountants, Licensed Public Accountants

Approval date
Windsor, Canada

ESSEX COUNTY LIBRARY BOARD

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2017, WITH COMPARATIVE INFORMATION FOR 2016

| | 2017 | 2016 |
|------------------------------------------|----------------------|----------------------|
| | <u>\$</u> | <u>\$</u> |
| Financial Assets | | |
| Cash | 2,316,486 | 2,676,146 |
| Accounts receivable | 50,285 | 197,110 |
| Total Financial Assets | 2,366,771 | 2,873,256 |
| Liabilities | | |
| Accounts payable and accrued liabilities | 926,836 | 1,604,263 |
| Employee benefits payable (Note 2) | 504,335 | 573,524 |
| Total Liabilities | 1,431,171 | 2,177,787 |
| Net Financial Assets | 935,600 | 695,469 |
| Non-Financial Assets | | |
| Tangible capital assets (Note 3) | 2,356,330 | 2,353,466 |
| Prepaid expenses | 93,963 | 149,417 |
| Total Non-Financial Assets | 2,450,293 | 2,502,883 |
| Accumulated Surplus (Note 4) | 3,385,893 | 3,198,352 |

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

ESSEX COUNTY LIBRARY BOARD

STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS

FOR THE YEAR ENDED DECEMBER 31, 2017, WITH COMPARATIVE INFORMATION FOR 2016

| | 2017 \$ | Budget \$ | 2016 \$ |
|-----------------------------------------------|------------------|------------------|------------------|
| Revenue | | | |
| Requisition on participating municipalities | 4,829,090 | 4,829,090 | 4,039,090 |
| Province of Ontario grants | 324,582 | 273,620 | 133,295 |
| Federal grants | 1,539 | - | 10,412 |
| Fees, fines, book sales and other | 84,161 | 84,000 | 117,549 |
| Total Revenue | 5,239,372 | 5,186,710 | 4,300,346 |
| Expenses | | | |
| Advertising | 13,433 | 37,000 | 34,514 |
| Amortization of tangible capital assets | 591,433 | 585,338 | 637,758 |
| Books, films and records | 305,321 | 301,280 | 280,853 |
| Board members' expenses | 13,498 | 16,100 | 15,828 |
| Capital | 142,286 | 110,000 | 115,261 |
| Computerization | 97,934 | 115,000 | 97,619 |
| Copier rental and maintenance | 21,406 | 16,550 | 15,325 |
| Data transmission | 141,873 | 143,600 | 140,192 |
| Employee benefits | 625,949 | 716,900 | 460,788 |
| Insurance | 14,458 | 15,700 | 15,241 |
| Maintenance | 35,432 | 35,500 | 33,276 |
| Miscellaneous | 2,609 | 4,000 | 2,336 |
| Mileage | 8,829 | 8,000 | 5,436 |
| Memberships | 1,150 | 650 | 725 |
| Office | 58,227 | 80,400 | 37,651 |
| Periodicals and newspapers | 48,949 | 50,500 | 36,239 |
| Professional services | 187,930 | 176,970 | 143,042 |
| Salaries and wages | | | |
| Library | 2,523,709 | 2,723,100 | 1,756,693 |
| Maintenance | 51,811 | 61,200 | 31,788 |
| Staff training | 17,781 | 30,000 | 19,498 |
| Telephone | 5,804 | 5,000 | 4,528 |
| Utilities | 142,009 | 140,000 | 139,113 |
| Total Expenses | 5,051,831 | 5,372,788 | 4,023,704 |
| Annual Surplus (Deficit) | 187,541 | (186,078) | 276,642 |
| Accumulated Surplus, beginning of year | 3,198,352 | 3,198,352 | 2,921,710 |
| Accumulated Surplus, end of year | 3,385,893 | 3,012,274 | 3,198,352 |

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

ESSEX COUNTY LIBRARY BOARD

STATEMENT OF CHANGE IN NET FINANCIAL ASSETS FOR THE YEAR ENDED DECEMBER 31, 2017, WITH COMPARATIVE INFORMATION FOR 2016

| | 2017 | BUDGET | 2016 |
|-------------------------------------------------|-----------------------------|-----------------------------|-----------------------------|
| | \$ | \$ | \$ |
| | <u> </u> | <u> </u> | <u> </u> |
| Annual Surplus (Deficit) | 187,541 | (186,078) | 276,642 |
| Acquisition of Tangible Capital Assets | (594,297) | (503,000) | (461,138) |
| Amortization of Tangible Capital Assets | 591,433 | 585,338 | 637,758 |
| | <u>184,677</u> | <u>(103,740)</u> | <u>453,262</u> |
| Acquisition and consumption of prepaid expenses | 55,454 | - | (25,417) |
| | <u>240,131</u> | <u>(103,740)</u> | <u>427,845</u> |
| Change in Net Financial Assets (Debt) | 240,131 | (103,740) | 427,845 |
| Net Financial Assets, beginning of year | <u>695,469</u> | <u>695,469</u> | <u>267,624</u> |
| Net Financial Assets, end of year | <u><u>935,600</u></u> | <u><u>591,729</u></u> | <u><u>695,469</u></u> |

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

ESSEX COUNTY LIBRARY BOARD

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2017, WITH COMPARATIVE INFORMATION FOR 2016

| | <u>2017</u> | <u>2016</u> |
|-----------------------------------------------------|------------------|------------------|
| | \$ | \$ |
| Cash provided by (used in): | | |
| Operating Activities | | |
| Annual Surplus | 187,541 | 276,642 |
| Items not involving cash: | | |
| Amortization of tangible capital assets | 591,433 | 637,758 |
| Employee benefits payable | (69,189) | 46,264 |
| Change in non-cash assets and liabilities | | |
| Accounts receivable | 146,825 | (145,630) |
| Prepaid expense | 55,454 | (25,417) |
| Accounts payable and accrued liabilities | (677,427) | 903,991 |
| Net change in cash from operating activities | <u>234,637</u> | <u>1,693,608</u> |
| Capital Activities | | |
| Cash used to acquire tangible capital assets | (594,297) | (461,138) |
| Net change in cash from capital activities | <u>(594,297)</u> | <u>(461,138)</u> |
| Net change in cash | <u>(359,660)</u> | <u>1,232,470</u> |
| Cash, beginning of year | <u>2,676,146</u> | <u>1,443,676</u> |
| Cash, end of year | <u>2,316,486</u> | <u>2,676,146</u> |

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

**ESSEX COUNTY LIBRARY BOARD
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2017**

1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Essex County Library Board (the "Board") are prepared in accordance with accounting policies prescribed by the Canadian public sector accounting standards of the Chartered Professional Accountants Canada.

(a) Accrual Basis of Accounting

The accrual basis of accounting recognizes revenue as it becomes available and is measurable. Expenses are recognized as they are incurred and are measurable as a result of the receipt of goods or services and the creation of a legal obligation to pay.

(b) 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.

(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 the 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 | Useful Life - Years |
|----------------------------|----------------------------|
| Library resource materials | 7 |
| Vehicles | 5 - 8 |
| Machinery and equipment | 5 - 20 |
| Computer systems | 3 |
| Furniture and fixtures | 15 |

(ii) Amortization

Tangible capital assets shall be recorded at historical cost which includes all amounts that are directly attributable to the acquisition, construction, development or betterment of the asset. Where historical cost is not available, the Board shall use deflated replacement values. The cost of the tangible capital assets will be amortized on a straight-line basis over the above noted useful lives. The only exception, per the above, is for Land which is considered to have an infinite life. One half of the annual amortization shall be charged in the year of acquisition and in the year of disposal. Assets under construction are not amortized until the asset is available for productive use. Gains and/or losses on the disposal of an asset shall be recorded on the statement of operations and accumulated surplus as "Gain/Loss on disposal of tangible capital assets."

(iii) Contributions of Tangible Capital Assets

Tangible capital assets received as contributions are to be recorded at their fair market value at the date of receipt and are also to be recorded as revenue.

**ESSEX COUNTY LIBRARY BOARD
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2017**

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Non-financial assets (continued):

(iv) Leased Assets

Leases shall be classified as either operating or capital leases. Lease agreements which substantially transfer all the risks and rewards of ownership to the Board shall be accounted for as a capital lease and will be capitalized. All other leases shall be considered operating leases and the related payments shall be charged to operating expense as incurred.

(c) Employee future benefit obligations

The Board has adopted the accrued method of accounting for employee future benefits as required by the Canadian public sector accounting standards. The cost of future benefits earned by employees is actuarially determined using the projected benefit method prorated on service and assumptions of mortality and termination rates, retirement age and expected inflation rate.

Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation. The accumulated actuarial gain (loss) of the accrued benefit obligation is amortized over the average remaining service period of active employees, which is 13 years.

(d) Use of estimates

The preparation of the 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 dates of the financial statements and the reported amounts of revenues and expenditures during the reporting periods. Significant items subject to such estimates and assumptions include the valuation of accounts receivable and the valuation of employee future benefits.

2. EMPLOYEE BENEFITS AND OTHER LIABILITIES

The employee benefit and other liabilities, reported on the statement of financial position, are made up of the following:

| | 2017 | 2016 |
|--------------------------|-------------------|-------------------|
| Accumulated sick leave | 24,300 | 70,064 |
| Post retirement benefits | 272,512 | 253,893 |
| Vacation pay | 184,835 | 228,615 |
| WSIB | 22,688 | 20,952 |
| Total | \$ 504,335 | \$ 573,524 |

**ESSEX COUNTY LIBRARY BOARD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

2. EMPLOYEE BENEFITS AND OTHER LIABILITIES (continued)

Information about the Board's future obligation with respect to post retirement benefits and WSIB is as follows:

| | 2017 | 2016 |
|----------------------------------------|------------|------------|
| Accrued benefit obligations: | | |
| Balance, beginning of the year | \$ 274,845 | \$ 261,434 |
| Current service cost | 12,142 | 12,344 |
| Interest | 13,805 | 13,957 |
| Amortization of actuarial loss (gains) | 9,670 | 8,188 |
| WSIB future benefits adjustment | 5 | 5 |
| Expected benefit payments | (15,267) | (21,083) |
| Balance, end of the year | 295,200 | 274,845 |
| Unamortized net actuarial loss | 40,637 | 29,562 |
| Obligation for benefits | \$ 335,837 | \$ 304,407 |

Accumulated sick leave

Under the Board's sick leave benefit plan, the unused sick leave of eligible employees will accumulate and these employees may become entitled to a cash payment when they leave the employ of the Board.

At December 31, 2017, the accumulated sick leave liability, to the extent that it has been vested and could be received in cash by an eligible employee upon termination of employment with the Board amounts to \$24,300 (2016 - \$70,064). This liability is currently 100% funded at \$24,300 (2016 - \$70,064).

Retiree benefits

The Board pays certain extended health and dental benefits for early retirees to age 65. The Board recognizes these post-retirement costs in the period in which the employees rendered the services. The most recent actuarial valuation was performed as at December 31, 2016. The accrued benefit liability and the expense for the 12 months ended December 31, 2017, were determined by extrapolation of the December 31, 2016 actuarial valuation based on the following significant actuarial assumptions:

| | 2017 | 2016 |
|------------------------|-------|-------|
| Discount rate | 4.25% | 4.75% |
| Medical costs | | |
| Initial | 5.70% | 5.70% |
| Ultimate | 4.00% | 4.00% |
| Year of ultimate level | 2020 | 2020 |
| Dental | 4.00% | 4.00% |

**ESSEX COUNTY LIBRARY BOARD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

3. TANGIBLE CAPITAL ASSETS

| Cost | Balance at December 31, 2016 | Additions | Disposals | Balance at December 31, 2017 |
|---------------------------|------------------------------------|-------------------|-------------------|------------------------------------|
| Library materials | \$ 4,497,116 | \$ 463,606 | \$ 873,320 | \$ 4,087,402 |
| Machinery and equipment | 77,259 | 122,450 | - | 199,709 |
| Motor vehicles | 100,953 | - | 53,145 | 47,808 |
| Furniture and fixtures | 1,034,834 | 8,241 | - | 1,043,075 |
| Computer systems | 72,778 | - | - | 72,778 |
| Assets under construction | - | - | - | - |
| Total | \$ 5,782,940 | \$ 594,297 | \$ 926,465 | \$ 5,450,772 |

| Accumulated amortization | Balance at December 31, 2016 | Disposals | Amortization expense | Balance at December 31, 2017 |
|-----------------------------|------------------------------------|-------------------|-------------------------|------------------------------------|
| Library materials | \$ 2,791,245 | \$ 873,320 | \$ 505,790 | \$ 2,423,715 |
| Machinery and equipment | 77,040 | - | 9,269 | 86,309 |
| Motor vehicles | 65,099 | 53,145 | 7,968 | 19,922 |
| Furniture and fixtures | 436,991 | - | 57,781 | 494,772 |
| Computer systems | 59,099 | - | 10,625 | 69,724 |
| Assets under construction | - | - | - | - |
| Total | \$ 3,429,474 | \$ 926,465 | \$ 591,433 | \$ 3,094,442 |

| | Net book value December 31, 2016 | Net book value December 31, 2017 |
|---------------------------|-------------------------------------|-------------------------------------|
| Library materials | \$ 1,705,871 | \$ 1,663,687 |
| Machinery and equipment | 219 | 113,400 |
| Motor vehicles | 35,854 | 27,886 |
| Furniture and fixtures | 597,843 | 548,303 |
| Computer systems | 13,679 | 3,054 |
| Assets under construction | - | - |
| Total | \$ 2,353,466 | \$ 2,356,330 |

**ESSEX COUNTY LIBRARY BOARD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

3. TANGIBLE CAPITAL ASSETS (continued)

| Cost | Balance at December 31, 2015 | Additions | Disposals | Balance at December 31, 2016 |
|---------------------------|------------------------------------|-------------------|-------------------|------------------------------------|
| Library materials | \$ 4,859,303 | \$ 440,786 | \$ 802,973 | \$ 4,497,116 |
| Machinery and equipment | 77,259 | - | - | 77,259 |
| Motor vehicles | 100,953 | - | - | 100,953 |
| Furniture and fixtures | 1,014,482 | 20,352 | - | 1,034,834 |
| Computer systems | 72,778 | - | - | 72,778 |
| Assets under construction | - | - | - | - |
| Total | \$ 6,124,775 | \$ 461,138 | \$ 802,973 | \$ 5,782,940 |

| Accumulated amortization | Balance at December 31, 2015 | Disposals | Amortization expense | Balance at December 31, 2016 |
|-----------------------------|------------------------------------|-------------------|-------------------------|------------------------------------|
| Library materials | \$ 3,045,637 | \$ 802,973 | \$ 548,581 | \$ 2,791,245 |
| Machinery and equipment | 71,414 | - | 5,626 | 77,040 |
| Motor vehicles | 57,131 | - | 7,968 | 65,099 |
| Furniture and fixtures | 376,551 | - | 60,440 | 436,991 |
| Computer systems | 43,956 | - | 15,143 | 59,099 |
| Assets under construction | - | - | - | - |
| Total | \$ 3,594,689 | \$ 802,973 | \$ 637,758 | \$ 3,429,474 |

| | Net book value December 31, 2015 | Net book value December 31, 2016 |
|---------------------------|-------------------------------------|-------------------------------------|
| Library materials | \$ 1,813,666 | \$ 1,705,871 |
| Machinery and equipment | 5,845 | 219 |
| Motor vehicles | 43,822 | 35,854 |
| Furniture and fixtures | 637,931 | 597,843 |
| Computer systems | 28,822 | 13,679 |
| Assets under construction | - | - |
| Total | \$ 2,530,086 | \$ 2,353,466 |

**ESSEX COUNTY LIBRARY BOARD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

4. ACCUMULATED SURPLUS

Accumulated surplus consist of individual fund surplus and reserve funds as itemized follows:

| | 2017 | 2016 |
|-------------------------------------|---------------------|---------------------|
| Surplus: | | |
| Invested in tangible capital assets | \$ 2,356,330 | \$ 2,353,466 |
| Unfunded | | |
| Employee benefits | (480,038) | (503,460) |
| Total surplus | 1,876,292 | 1,850,006 |
| Reserves | | |
| Capital expenses | 779,101 | 650,215 |
| Contingencies | 499,096 | 499,096 |
| Enhanced services | 38,171 | 38,171 |
| Vehicles | 74,060 | 51,479 |
| W.S.I.B. | 119,173 | 109,385 |
| Total reserves | 1,509,601 | 1,348,346 |
| | \$ 3,385,893 | \$ 3,198,352 |

5. BUDGET DATA

The budget data presented in these financial statements is based upon the 2017 Budget approved by the Board on January 14, 2017. Amortization was not contemplated on development of the budget and, as such, has been estimated based on 2016 tangible capital asset data and budgeted capital expenses. The chart below reconciles the approved budget to the budget figures reported in these financial statements.

| | Budget Amount |
|----------------------------|---------------|
| Revenues: | |
| Operating budget | \$ 4,787,450 |
| Capital budget | 503,000 |
| Less: | |
| Transfers from other funds | (103,740) |
| Total Revenue | 5,186,710 |
| Expenses: | |
| Operating budget | 5,372,788 |
| Capital budget | 503,000 |
| Less: | |
| Capital expenses | (503,000) |
| Total Expenses | 5,372,788 |
| Annual Surplus (Deficit) | \$ (186,078) |