

Financial Statements of

**THE LONDON PUBLIC LIBRARY
BOARD**

Year Ended December 31, 2018



KPMG LLP
140 Fullarton Street Suite 1400
London ON N6A 5P2
Canada
Tel 519 672-4800
Fax 519 672-5684

INDEPENDENT AUDITORS' REPORT

To The London Public Library Board

Opinion

We have audited the financial statements of The London Public Library Board (the Board), which comprise:

- the statement of financial position as at December 31, 2018
- the statement of operations for the year then ended
- the statement of change in net financial assets for the year then ended
- 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 Board as at December 31, 2018, and its results of operations, its change in financial assets 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 Board in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other 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 Board'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 Board or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Board'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 Board'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 Board'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 Board 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

April 25, 2019

THE LONDON PUBLIC LIBRARY BOARD

Statement of Financial Position

December 31, 2018, with comparative information for 2017

	2018	2017
Financial assets:		
Cash	\$ 982,374	\$ 1,740,166
Accounts receivable		
The Corporation of the City of London	488,377	2,924,888
London Public Library Board Trust Funds	557,303	-
Other	173,977	151,105
	<u>2,202,031</u>	<u>4,816,159</u>
Financial liabilities:		
Accounts payable and accrued liabilities	1,693,114	1,601,528
Deferred revenue	73,176	155,729
Payable to The Corporation of the City of London	19,334	20,273
Payable to London Public Library Board Trust Funds	-	40,379
Accrued interest on long-term debt	52,203	-
Long-term debt (note 2)	1,917,507	-
Employee future benefits and other liabilities (note 3)	2,531,018	2,700,600
	<u>6,286,352</u>	<u>4,518,509</u>
Net financial assets (debt)	(4,084,321)	297,650
Non-financial assets:		
Tangible capital assets (note 7)	27,537,184	23,396,144
Prepaid expenses	300,784	149,159
	<u>27,837,968</u>	<u>23,545,303</u>
Commitments (note 5)		
Accumulated surplus (note 8)	<u>\$ 23,753,647</u>	<u>\$ 23,842,953</u>

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

THE LONDON PUBLIC LIBRARY BOARD

Statement of Operations

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

	Budget 2018	2018	2017
	(note 9)		
Revenue:			
User charges			
Fines	\$ 243,712	\$ 243,031	\$ 286,720
Fee, rental, sundry	492,967	525,815	481,202
Grants			
Federal	-	98,494	76,210
Ontario	598,829	598,829	653,910
The Corporation of the City of London			
Current	20,263,640	20,263,640	19,835,207
Capital	1,246,441	1,246,441	1,078,873
Other	-	12,471	14,449
Investment income	19,000	53,905	19,811
Contribution from reserves	36,301	-	-
Contribution from Trust Funds (note 4)	-	704,103	864,278
Total revenues	22,900,890	23,746,729	23,310,660
Expenses:			
Personnel	14,921,115	14,664,123	14,185,659
Amortization of tangible capital assets	-	3,501,969	3,279,580
Facility services	1,863,059	1,916,858	1,750,359
Utilities	975,000	883,716	930,293
Collections and lending services	2,311,200	905,930	900,781
Purchased services	599,584	662,935	616,552
Major repairs and maintenance (capital)	1,246,441	405,067	531,272
Technology	669,362	257,164	506,520
Trust fund expenditures (note 4)	-	322,934	445,336
Administrative	105,509	139,414	101,924
Contribution to self-insurance reserve	87,680	87,680	75,384
Program services	50,940	69,030	70,504
Equipment	65,000	13,276	9,292
General	6,000	5,939	6,855
Total expenses	22,900,890	23,836,035	23,410,311
Gain on disposal of tangible capital assets	-	-	1,070,702
Annual surplus (deficit)	-	(89,306)	971,051
Accumulated surplus, beginning of year	23,842,953	23,842,953	22,871,902
Accumulated surplus, end of year	\$ 23,842,953	\$ 23,753,647	\$ 23,842,953

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

THE LONDON PUBLIC LIBRARY BOARD

Statement of Change in Net Financial Debt

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

	Budget 2018	2018	2017
	(note 9)		
Annual surplus (deficit)	- \$	(89,306) \$	971,051
Acquisition of tangible capital assets	(1,246,441)	(7,643,009)	(2,533,583)
Amortization of tangible capital assets	-	3,501,969	3,279,580
Proceeds on disposal of tangible capital assets	-	-	2,638,980
Gain on disposal of tangible capital assets	-	-	(1,070,702)
	(1,246,441)	(4,230,346)	3,285,326
Change in prepaid expenses	-	(151,625)	152,490
Increase (decrease) in net financial assets (debt)	(1,246,441)	(4,381,971)	3,437,816
Net financial assets (debt), beginning of year	297,650	297,650	(3,140,166)
Net financial assets (debt), end of year	\$ (948,791)	\$ (4,084,321)	\$ 297,650

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

THE LONDON PUBLIC 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 (deficit)	\$ (89,306)	\$ 971,051
Items not involving cash:		
Amortization of tangible capital assets	3,501,969	3,279,580
Change in employee future benefits and other liabilities	(169,582)	(490,796)
Gain on disposal of tangible capital assets	-	(1,070,702)
Change in non-cash assets and liabilities:		
Receivable from The City of London	2,436,511	(2,235,080)
Receivable from London Public Library Board Trust Funds	(557,303)	(78,932)
Accounts receivable	(22,872)	167,100
Accounts payable and accrued liabilities	91,586	(249,573)
Payable to The City of London	(939)	13,642
Payable to London Public Library Board Trust Funds	(40,379)	40,379
Deferred revenue	(82,553)	70,016
Accrued interest on long-term debt	52,203	-
Prepaid expenses	(151,625)	152,490
	4,967,710	569,175
Capital activities:		
Proceeds on disposal of tangible capital assets	-	2,638,980
Cash used to acquire tangible capital assets	(7,643,009)	(2,533,583)
	(7,643,009)	105,397
Financing Activities:		
Long-term debt issued	1,917,507	-
	1,917,507	-
Increase (decrease) in cash	(757,792)	674,572
Cash, beginning of year	1,740,166	1,065,594
Cash, end of year	\$ 982,374	\$ 1,740,166

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

THE LONDON PUBLIC LIBRARY BOARD

Notes to Financial Statements

Year ended December 31, 2018

1. Significant accounting policies:

The financial statements of The London Public Library Board (the "Board"), a registered charity and a local board of the Corporation of the City of London (the "City"), are prepared in accordance with Canadian generally accepted accounting principles for governments as recommended by the Public Sector Accounting Board ("PSAB") of the Chartered Professional Accountants Canada. Significant accounting policies adopted by the Board are as follows:

(a) Basis of accounting:

The Board follows the accrual method of accounting for revenues and expenses. Revenues are normally recognized in the year in which they are earned and measurable. Expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and/or the creation of a legal obligation to pay.

(b) Municipal funding:

The City provides funding to the Board for both operating and capital expenditures such as refurbishment, replacement and major repairs and maintenance to the Library buildings. Government transfer payments from the City of London are recognized in the financial statements in the year in which the payment is authorized and the events giving rise to the transfer occur, performance criteria are met, and a reasonable estimate of the amount 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) Deferred revenue:

Deferred revenues represent grants and other designated funding which has been received but for which the service has yet to be performed. These amounts will be recognized as revenues in the fiscal year in which the services are performed.

(d) Investment income:

Investment income is reported as revenue in the period earned.

(e) Employee future benefits:

The Board provides certain employee benefits which will require funding in future periods. These benefits include life insurance, extended health and dental benefits for early retirees.

The costs of life insurance, extended health and dental benefits are actuarially determined using management's best estimate of salary escalation, insurance and health care cost trends, long term inflation rates and discount rates.

THE LONDON PUBLIC LIBRARY BOARD

Notes to Financial Statements (continued)

Year ended December 31, 2018

1. Significant accounting policies (continued):

(f) Pension contributions:

The Board has a pension agreement with the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer defined contribution benefit plan. The Board's costs are the contributions due to the plan in the period.

(g) 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 assets. 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
Buildings	15 - 60 years
Leasehold improvements	40 years
Shelving	40 years
Furniture and equipment	7 years
Collections	7 years
Computers	3 years

Annual amortization is 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.

(ii) Works of art and cultural and historic assets:

Works of art and cultural and historic assets are not recorded as assets in these financial statements.

(iii) Leased tangible capital assets:

Leases which transfer substantially all the benefits and risks incidental to ownership of property are accounted for as leased tangible capital assets. All other leases are accounted for as operating leases and the related payments are charged to expenses as incurred.

THE LONDON PUBLIC LIBRARY BOARD

Notes to Financial Statements (continued)

Year ended December 31, 2018

1. Significant accounting policies (continued):

(h) Budget data:

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

(i) 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 revenue and expenses during the period. Significant estimates include assumptions used in estimating provisions for accrued liabilities and in preparing actuarial valuations for 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 those estimates.

(j) Contaminated sites:

Contaminated sites are defined as the result of contamination being introduced in air, soil, water or sediment of a chemical, organic, or radioactive material or live organism that exceeds an environmental standard. This Standard relates to sites that are not in productive use and sites in productive use where an unexpected event resulted in contamination.

(k) Adoption of new accounting policies:

(i) Related party disclosures:

The Board adopted Public Sector Accounting Board 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.

THE LONDON PUBLIC LIBRARY BOARD

Notes to Financial Statements (continued)

Year ended December 31, 2018

1. Significant accounting policies (continued):

(ii) Inter-entity transactions:

The Board adopted Public Sector Accounting Board Standards 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.

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. Long-term debt:

a) Long-term debt is as follows:

	2018	2017
Long-term debt issued by The Corporation of the City of London at an interest rate of 3.258%, with a maturity date of March 2028.	\$ 1,917,507	\$ -
	\$ 1,917,507	\$ -

b) Total charges which are included in the statement of operations as follows:

	2018	2017
Interest on long-term debt	\$ 52,203	\$ -
	\$ 52,203	\$ -

THE LONDON PUBLIC LIBRARY BOARD

Notes to Financial Statements (continued)

Year ended December 31, 2018

3. Employee future benefits and other liabilities:

Employee future benefits and other liabilities are comprised of the following:

	2018	2017
Liability for vested sick leave benefits	\$ 114,202	\$ 144,549
Vacation pay liability	357,816	491,051
Employee future benefits obligation	2,059,000	2,065,000
	<u>\$ 2,531,018</u>	<u>\$ 2,700,600</u>

(a) Liability for vested sick leave benefits:

Under the sick leave benefit plan, employees hired prior to May 1, 1985 can accumulate unused sick leave and may become entitled to a cash payment when they leave the employment of the Board.

The liability of these accumulated days, to the extent that they have vested and could be taken in cash by an employee upon ceasing employment with the Board as at December 31, 2018, amounts to \$114,202 (2017 - \$144,549). This amount is fully funded by a reserve held by The City of London in the amount of \$131,912 (2017 - \$157,727).

(b) Retiree benefits:

The Board provides certain post-employment and post-retirement employee benefits which will require funding in future periods.

The Board pays certain life insurance benefits on behalf of the retired employees as well as extended health and dental benefits for early retirees to age sixty-five. 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, 2018.

THE LONDON PUBLIC LIBRARY BOARD

Notes to Financial Statements (continued)

Year ended December 31, 2018

3. Employee future benefits and other liabilities (continued):

(b) Retiree benefits (continued):

Detailed information about retiree benefits is as follows:

	2018	2017
Accrued employee future benefit obligation:		
Balance, beginning of year	\$ 1,435,000	\$ 1,392,000
Current period benefit cost	73,000	71,000
Interest	48,000	46,000
Benefits paid	(85,000)	(74,000)
Actuarial (gain) loss	(37,000)	-
Balance, end of year	1,434,000	1,435,000
Unamortized actuarial gain	625,000	630,000
Employee future benefits obligation	\$ 2,059,000	\$ 2,065,000

Post-employment and post-retirement benefit expenses included in total expenditures consist of the following:

	2018	2017
Current year benefit cost	\$ 73,000	\$ 71,000
Interest on accrued benefit obligation	48,000	46,000
Amortization of net actuarial gain	42,000	42,000
Total payments made during the year	\$ 163,000	\$ 159,000

Significant assumptions used in the actuarial valuation are as follows:

Discount rate	3.25%
Rate of compensation increase	2.00%
Healthcare cost increases	4.00%

The actuarial gain is amortized over the expected average remaining service life of the related employee group of thirteen years.

THE LONDON PUBLIC LIBRARY BOARD

Notes to Financial Statements (continued)

Year ended December 31, 2018

4. Trust funds:

Trust funds administered by the Board amounting to \$3,858,821 (2017 - \$3,379,747) have not been included in the statement of financial position nor have their operations been included in the statement of operations. They are reported separately on The London Public Library Board Trust Fund Financial Statements ("Trust Funds").

During the year, the Trust Funds transferred \$704,103 (2017 - \$864,278) to the Board for capital and operating expenses. This amount and the related expenditures have been included in the statement of operations.

5. Commitments:

The Board is committed under operating leases for the rental of premises and equipment. The minimum annual payments under these leases are as follows:

2019	\$	614,399
2020		290,539
2021		209,933
	\$	1,114,871

6. Pension agreement:

The Board has a pension agreement with OMERS, which is a multi-employer plan, on behalf of its full and part-time staff. The plan is a contributory defined benefit plan which specifies the amount of retirement benefit to be received by the employees based on the length of service and rates of pay. The amount contributed to OMERS for 2018 is \$1,018,122 (2017 - \$1,018,213) for current service and is included as an expenditure in the statement of operations.

THE LONDON PUBLIC LIBRARY BOARD

Notes to Financial Statements (continued)

Year ended December 31, 2018

7. Tangible capital assets:

Cost	Balance at December 31, 2017	Additions	Disposals	Balance at December 31, 2018
Land	\$ 3,904,165	\$ -	\$ -	\$ 3,904,165
Buildings	38,104,745	768,483	-	38,873,228
Leasehold improvements	349,083	4,576,813	-	4,925,896
Collections	9,621,399	1,325,936	1,570,375	9,376,960
Shelving	1,342,850	10,150	5,087	1,347,913
Computers	740,521	587,452	168,257	1,159,716
Furniture and equipment	848,746	374,175	78,492	1,144,429
Total	\$ 54,911,509	\$ 7,643,009	\$ 1,822,211	\$ 60,732,307

Accumulated amortization	Balance at December 31, 2017	Additions	Disposals	Balance at December 31, 2018
Land	\$ -	\$ -	\$ -	\$ -
Buildings	25,024,113	1,436,397	-	26,460,510
Leasehold improvements	317,940	74,197	-	392,137
Collections	4,936,546	1,469,195	1,570,375	4,835,366
Shelving	721,791	33,571	5,087	750,275
Computers	248,895	348,989	168,257	429,627
Furniture and equipment	266,080	139,620	78,492	327,208
Total	\$ 31,515,365	\$ 3,501,969	\$ 1,822,211	\$ 33,195,123

	Net book value December 31, 2017	Net book value December 31, 2018
Land	\$ 3,904,165	\$ 3,904,165
Buildings	13,080,632	12,412,718
Leasehold improvements	31,143	4,533,759
Collections	4,684,853	4,541,594
Shelving	621,059	597,637
Computers	491,626	730,089
Furniture and equipment	582,666	817,222
Total	\$ 23,396,144	\$ 27,537,184

THE LONDON PUBLIC LIBRARY BOARD

Notes to Financial Statements (continued)

Year ended December 31, 2018

8. Accumulated surplus:

Accumulated surplus consists of surplus and reserve funds as follows:

	2018	2017
Surplus:		
Invested in tangible capital assets	\$ 27,537,184	\$ 23,396,144
Unfunded:		
Employee benefits, accrued sick and vacation	(472,018)	(635,600)
Employee benefits, future benefit liability	(2,059,000)	(2,065,000)
Net long-term debt	(1,917,507)	-
Total surplus	23,088,659	20,695,544
Reserves set aside by the Board:		
Stabilization fund	422,608	297,982
Collections encumbrance fund	110,469	52,720
Total reserves	533,076	350,702
Reserve held by the City on behalf of the Board:		
Sick leave reserve	131,912	157,727
Facilities reserve	-	2,638,980
	\$ 23,753,647	\$ 23,842,953

9. Budget data:

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

	Budget amount
Revenues:	
Operating budget	\$ 21,654,449
Expenses:	
Operating budget	21,654,449
Annual surplus, as per approved budget	\$ -
Capital funding from The City of London	\$ 1,246,441
Major repairs and maintenance	(1,246,441)
Annual surplus, revised	\$ -

10. Comparative information

Certain comparative information has been reclassified to conform with the financial presentation adopted in the current year.