

Shortgrass Library System
Financial Statements
December 31, 2015

Management's Responsibility

To the Stakeholders of Shortgrass Library System:

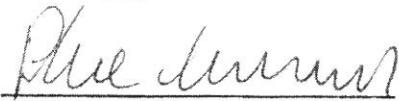
Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian accounting standards for not-for-profit organizations. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Trustees is composed entirely of Directors who are neither management nor employees of the Organization. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Board is also responsible for recommending the appointment of the Organization's external auditors.

MNP LLP is appointed by the Trustees to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Board and management to discuss their audit findings.

March 23, 2016



Chief Executive Officer

Independent Auditors' Report

To the Stakeholders of Shortgrass Library System:

We have audited the accompanying financial statements of Shortgrass Library System, which comprise the statement of financial position as at December 31, 2015, and the statements of operations, changes in net assets and cash flows including related schedules, for the year then ended, and 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 accounting standards for not-for-profit organizations, 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 the auditors' 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, the auditor considers 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 qualified audit opinion.

Basis for Qualified Opinion

Note 2 describes the Organization's accounting policy with respect to capital assets and leasing arrangements and indicates that the Organization has not adopted the policy of capitalization and amortization as recommended under Canadian accounting standards for not-for-profit organizations. Management feels informational requirements of the users of the financial statements are more closely met by the current policy of expensing the cost of capital assets fully in the year of acquisition. The amount of adjustment necessary under Canadian accounting standards for not-for-profit organizations is not readily determinable at this time.

Qualified Opinion

In our qualified opinion, except for the effects of failing to capitalize and amortize assets as described in the Basis for Qualified Opinion Paragraph, the financial statements present fairly, in all material respects, the financial position of Shortgrass Library System as at December 31, 2015 and the results of its operations, changes in net assets and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Medicine Hat, Alberta

March 23, 2016

MNP LLP


Chartered Professional Accountants

Shortgrass Library System
Statement of Financial Position

As at December 31, 2015

| | 2015 | 2014 |
|---|------------------|-----------|
| Assets | | |
| Current | | |
| Cash (Note 3) | 466,678 | 208,925 |
| Marketable Securities (Note 4) | - | 716,524 |
| Accounts receivable | 37,365 | 42,193 |
| Goods and Service Tax receivable | 42,854 | 32,920 |
| Prepaid expenses and deposits | 73,175 | 97,353 |
| | 620,072 | 1,097,915 |
| Restricted cash and investments (Note 5) | 717,382 | 324,078 |
| | 1,337,454 | 1,421,993 |
| Liabilities | | |
| Current | | |
| Accounts payable and accruals | 64,398 | 93,596 |
| Deferred revenue (Note 6) | 84,991 | 102,361 |
| | 149,389 | 195,957 |
| Commitments (Note 7) | | |
| Net Assets | | |
| Internally restricted capital | 625,007 | 221,829 |
| Internally restricted contingency | 92,375 | 102,249 |
| Unrestricted | 470,683 | 901,958 |
| | 1,188,065 | 1,226,036 |
| | 1,337,454 | 1,421,993 |

Approved on behalf of the Board


Director


Director

The accompanying notes are an integral part of these financial statements

Shortgrass Library System Statement of Operations

For the year ended December 31, 2015

| | 2015 | 2014 |
|---|-----------|-----------|
| Revenue | | |
| Contracts | 98,225 | 109,578 |
| Grants | 63,220 | 45,656 |
| Investment income | 5,870 | 10,126 |
| Member library boards materials <i>(Note 9)</i> | 486,799 | 458,875 |
| Member municipalities operational | 506,553 | 496,215 |
| Miscellaneous | 71,551 | 57,059 |
| Provincial grants | 544,439 | 527,106 |
| Reimbursements | 4,438 | 1,170 |
| | 1,781,095 | 1,705,785 |
| Expenses | | |
| Advertising | 18,721 | 22,990 |
| Building and capital <i>(Note 10)</i> | 179,410 | 100,231 |
| Contracts | 40,260 | 37,674 |
| Grants | 111,458 | 93,592 |
| Library materials | 424,927 | 324,831 |
| Meetings and consultations | 27,306 | 26,670 |
| Memberships | - | 6,287 |
| Miscellaneous | 39,404 | 30,057 |
| | 841,486 | 642,332 |
| Administrative Expenses (Schedule 1) | 239,713 | 231,069 |
| Tech & Public Services Expenses (Schedule 2) | 622,171 | 611,498 |
| Delivery & Communication Expenses (Schedule 3) | 115,696 | 122,945 |
| | 1,819,066 | 1,607,844 |
| Total expenses | | |
| | 1,819,066 | 1,607,844 |
| Excess (deficiency) of revenue over expenses | (37,971) | 97,941 |

Shortgrass Library System
Statement of Changes in Net Assets
For the year ended December 31, 2015

| | <i>Internally restricted capital</i> | <i>Internally restricted contingency</i> | <i>Unrestricted</i> | <i>2015</i> | <i>2014</i> |
|---|--|--|---------------------|------------------|------------------|
| Net assets, beginning of year | 221,829 | 102,249 | 901,958 | 1,226,036 | 1,128,095 |
| Excess (deficiency) of revenue over expenses | - | - | (37,971) | (37,971) | 97,941 |
| Transfer of investment income <i>(Note 8)</i> | 3,178 | 533 | (3,711) | - | - |
| Transfer of funds <i>(Note 8)</i> | 400,000 | (10,407) | (389,593) | - | - |
| Net assets, end of year | 625,007 | 92,375 | 470,683 | 1,188,065 | 1,226,036 |

Shortgrass Library System
Statement of Cash Flows
For the year ended December 31, 2015

| | <i>2015</i> | <i>2014</i> |
|---|-------------|-------------|
| Cash provided by (used for) the following activities | | |
| Operating | | |
| Cash received from customers and funders | 1,758,619 | 1,714,703 |
| Cash paid to suppliers | (1,034,246) | (852,815) |
| Cash paid to employees | (789,839) | (802,837) |
| Cash transferred to restricted cash | (114,530) | - |
| | (179,996) | 59,051 |
| Investing | | |
| Purchase of marketable securities | (3,319,185) | (3,432,217) |
| Disposal of marketable securities | 3,756,934 | 3,386,210 |
| | 437,749 | (46,007) |
| Increase in cash resources | 257,753 | 13,044 |
| Cash resources, beginning of year | 208,925 | 195,881 |
| Cash resources, end of year | 466,678 | 208,925 |

1. **Incorporation and nature of the organization**

Shortgrass Library System (the "Organization") is a non-profit, charitable Organization that was incorporated on March 1, 1988. The Organization provides centralized purchasing, cataloguing and distribution services of various library media to its members from its location in Medicine Hat, Alberta. The Organization also provides contract services to third parties.

The Organization is registered as a charitable organization under the Income Tax Act (the "Act") and as such is exempt from income taxes and is able to issue donation receipts for income tax purposes. In order to maintain its status as a registered charity under the Act, the Organization must meet certain requirements within the Act. In the opinion of management these requirements have been met.

2. **Significant accounting policies**

The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations, except as explained below:

Capital assets and leasing arrangements

Capital assets are expensed on acquisition and proceeds of disposal are reported as revenue in the year of disposal. Capital assets held include land, building, furniture, equipment, artwork, computers and software, library automation system, and vehicles. During the year, building improvements and computer equipment were purchased for a total cost of \$166,351 (in 2014 vehicles and other equipment were purchased for a total cost of \$55,789). During the year a vehicle was disposed of for total proceeds of \$2,700 (in 2014 equipment and a vehicle for \$3,325). These amounts are included in the statement of operations and related schedules under various capital or hardware purchases accounts and miscellaneous revenue.

As capital assets are not subject to capitalization, lease arrangements are not evaluated to determine if they are capital in nature. All lease arrangements are expensed as payments become due.

In addition the Organization has applied the following significant accounting policies that are in accordance with Canadian accounting standards for not-for-profit organizations:

Cash and cash equivalents

Cash and cash equivalents include balances with banks and short-term investments with original maturities of three months or less. Cash subject to restrictions that prevent its use for current purposes is included in restricted cash.

Marketable securities

Marketable securities consist of Guaranteed Investment Certificates with an original maturity term of greater than three months and are stated at market value. As of December 31, 2015 and December 31, 2014, the market value of these investments approximates cost.

Restricted cash and investments

Restricted cash consists of balances with banks and guaranteed investment certificates and are recorded at amortized cost. Cash is restricted for future capital asset expenditures and contingencies.

Revenue recognition

The Organization follows the deferral method of revenue recognition. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions and investment income are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Internally restricted funds

The Organization has internally restricted capital and contingency funds as approved by the Board of Trustees. The Capital Fund is for the purchase of capital items in excess of \$1,000 if necessary. The Contingency Fund is for unexpected expenses that result in over-expenditures in the operating fund.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations 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 reporting period. Accounts receivable are stated after evaluation as to their collectibility and an appropriate allowance for doubtful accounts is provided where considered necessary. These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in earnings in the periods in which they become known.

Contributed materials and services

Contributed materials and services are recognized in the financial statements when their fair value can be reasonably determined and they are used in the normal course of the Organization's operations and would otherwise have been purchased.

Pension expense

The Shortgrass Library System participates in the Local Authorities Pension Plan (LAPP), which is one of the plans covered by the Alberta Public Sector Pension Plans Act. The LAPP serves about 220,000 people and over 420 employers. The LAPP is financed by employer and employee contributions and by investment earnings of the LAPP Fund.

Contributions for current service are recorded as expenditures in the year in which they become due.

The Organization is required to make current service contributions to the LAPP of 11.39% (11.39% in 2014) of pensionable earnings up to the year's maximum pensionable earnings under the Canadian Pension Plan and 15.84% (15.84% in 2014) on pensionable earnings above this amount. Employees of the Organization are required to make current service contributions of 10.39% (10.39% in 2014) of pensionable salary up to the year's maximum pensionable salary and 14.84% (14.84% in 2014) on pensionable salary above this amount.

Total current service contributions by the Organization to the Local Authorities Pension Plan in 2015 were \$71,374 (2014 - \$59,201). Total current service contributions by the employees of the Organization to the Local Authorities Pension Plan in 2015 were \$61,004 (2014 - \$54,268).

Financial instruments

The Organization recognizes its financial instruments when the Organization becomes party to the contractual provisions of the financial instrument. All financial instruments are initially recorded at their fair value, including financial assets and liabilities originated and issued in a related party transaction with management. Financial assets and liabilities originated and issued in all other related party transactions are initially measured at their carrying or exchange amount in accordance with CPA 3840 *Related Party Transactions*.

At initial recognition, the Organization may irrevocably elect to subsequently measure any financial instrument at fair value. The Organization has not made such an election during the year.

Financial asset impairment:

The Organization assesses impairment of all of its financial assets measured at cost or amortized cost. The Organization groups assets for impairment testing when available information is not sufficient to permit identification of each individually impaired financial asset in the group. Management considers whether there has been a breach in contract, such as a default or delinquency in interest or principal payments, in determining whether objective evidence of impairment exists. When there is an indication of impairment, the Organization determines whether it has resulted in a significant adverse change in the expected timing or amount of future cash flows during the year. If so, the Organization reduces the carrying amount of any impaired financial assets to the highest of: the present value of cash flows expected to be generated by holding the assets; the amount that could be realized by selling the assets; and the amount expected to be realized by exercising any rights to collateral held against those assets. Any impairment, which is not considered temporary, is included in current year excess of revenues over expenses.

The Organization reverses impairment losses on financial assets when there is a decrease in impairment and the decrease can be objectively related to an event occurring after the impairment loss was recognized. The amount of the reversal is recognized in the excess of revenues over expenses in the year the reversal occurs.

Shortgrass Library System
Notes to the Financial Statements
For the year ended December 31, 2015

3. **Cash**

| | 2015 | 2014 |
|--|-----------|---------|
| Cash in bank | 580,908 | 208,625 |
| Petty cash | 300 | 300 |
| Less reclassification to restricted cash | (114,530) | - |
| | 466,678 | 208,925 |

4. **Marketable securities**

| | 2015 | 2014 |
|--|-----------|-----------|
| Total Guaranteed Investment Certificates | 116,369 | 821,171 |
| Less reclassification to restricted cash | (116,369) | (104,647) |
| | - | 716,524 |

The Organization holds various marketable securities with values from \$1,596 to \$61,472 (\$19,582 to \$99,707 in 2014) and interest rates from 0.40% to 0.65% (1.10% to 1.20% in 2014) maturing from January 13, 2016 to April 7, 2016 (March 1, 2015 to May 2, 2015 in 2014).

5. **Restricted cash and investments**

| | 2015 | 2014 |
|--|---------|---------|
| Cash in bank | 6 | 8 |
| Total Guaranteed Investment Certificates | 486,477 | 219,423 |
| Add reclassification from marketable securities and cash | 230,899 | 104,647 |
| | 717,382 | 324,078 |

The Organization holds marketable securities with values from \$10,909 to \$229,738 (\$3,054 to \$69,971 in 2014) and interest rates of 0.55% to 0.70% (1.10% in 2014) maturing from January 8, 2016 to March 30, 2016 (February 21, 2015 to March 13, 2015 in 2014) that have been restricted to fund the internally restricted assets.

6. **Deferred revenue**

| | 2015 | 2014 |
|---|--------|---------|
| Grant revenue | 3,288 | 12,276 |
| Contract revenue | 15,560 | 15,677 |
| Member library board materials (Note 9) | 66,143 | 74,408 |
| | 84,991 | 102,361 |

Shortgrass Library System
Notes to the Financial Statements
For the year ended December 31, 2015

7. Commitments

The Organization owns the integrated library system in partnership with Chinook Arch Regional Library System. The Organization has committed to share the annual maintenance costs of the system. The upgrade and maintenance costs for the upcoming year that the Organization will be obligated to pay will be approximately \$21,479. These costs will be paid out of the Organizations operating funds. These costs are then charged back to the school districts and municipalities that the Organization administers the program for. To terminate participating in the contract, the Organization must deliver written notice and explanation on or before December 31 of any year to become effective December 31 of the year immediately following.

The Organization has entered into a lease in the current year with Enmax for solar panels. The lease term is for 15 years with the following estimated annual payments over the next five years.

| | |
|--------|---------|
| Year 1 | \$5,649 |
| Year 2 | \$5,749 |
| Year 3 | \$5,852 |
| Year 4 | \$5,956 |
| Year 5 | \$6,062 |

8. Fund transfers

Funds were transferred to internally restricted net assets from unrestricted net assets to account for interest earned on marketable securities held to fund the internally restricted funds. The Board of Trustees also approved transfers of nil (\$11,000 in 2014) from unrestricted net assets to the internally restricted contingency fund. There were funds used from internally restricted contingency fund of \$10,407 (\$5,862 in 2014). There were \$500,000 in transfers from unrestricted net assets to the internally restricted capital fund as of December 31, 2015 (nil in 2014). There were \$100,000 of funds used from the internally restricted capital fund (\$16,223 in 2014).

9. Member library board materials

| | 2015 | 2014 |
|--|----------|----------|
| Annual member library boards materials revenue | 479,675 | 470,371 |
| Prior year unspent amount | 74,408 | 63,469 |
| Current year unspent amount | (66,143) | (74,408) |
| Prior year overspent amount | (2,274) | (2,831) |
| Current year overspent amount | 1,133 | 2,274 |
| | 486,799 | 458,875 |

Shortgrass Library System
Notes to the Financial Statements
For the year ended December 31, 2015

10. Building and capital

| | 2015 | 2014 |
|---------------------------------------|---------|---------|
| Capital | - | 24,535 |
| Insurance | 3,821 | 6,216 |
| Repairs, maintenance and improvements | 155,174 | 42,100 |
| Utilities | 20,415 | 27,380 |
| | 179,410 | 100,231 |

11. Financial instruments

The Organization, as part of its operations, carries a number of financial instruments. It is management's opinion that the Organization is not exposed to significant interest, currency, credit, liquidity or other price risks arising from these financial instruments except as otherwise disclosed.

Credit concentration

As at December 31, 2015, two customers and funders accounted for 59% (2014 - one customer and funder for 64%) of the accounts receivable. The Organization believes that there is no unusual exposure associated with the collection of these receivables. The Organization performs regular credit assessments of its customers and provides allowances for potentially uncollectible accounts receivable.

Fair value of financial instruments

The carrying amount of cash, restricted cash, marketable securities, accounts receivable, accounts payable and accruals approximates their fair value due to the short-term maturities of these items.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the Organization manages exposure through its normal operating and financing activities.

Risk management policy

The Organization, as part of operations, has established avoidance of debt as risk management objectives. In seeking to meet this objective, the Organization follows a risk management policy approved by its Board of Trustees.

Credit available

The Organization is liable for corporate credit cards issued with a combined authorized credit limit of \$77,000 (\$40,000 in 2014). The amount charged against this limit at December 31, 2015 is \$609 (\$6,607 in 2014). The credit cards bear interest at 19.99% (19.99% in 2014) and are unsecured.

Shortgrass Library System
Schedule 1 - Administrative Expenses
For the year ended December 31, 2015

| | 2015 | 2014 |
|---------------------------------------|---------------|---------------|
| Administrative Expenses | | |
| Advertising | 55 | 3,039 |
| Computer software purchase and repair | - | 50 |
| Conferences and workshops | 21,883 | 22,996 |
| Dues and memberships | 9,371 | 3,161 |
| Interest and bank charges | 376 | 569 |
| Professional fees | 21,713 | 21,407 |
| Repairs and maintenance | - | 15 |
| Salary, wages and benefits | 181,966 | 177,466 |
| Stationary supplies and photocopying | 4,349 | 2,366 |
| | <hr/> 239,713 | <hr/> 231,069 |

Shortgrass Library System
Schedule 2 - Tech & Public Services Expenses
For the year ended December 31, 2015

| | 2015 | 2014 |
|--|----------------|----------------|
| Tech & Public Services Expenses | | |
| Cataloguing tools and software | 24,320 | 9,350 |
| Computer hardware | 7,362 | 1,306 |
| Repairs and maintenance | 21,657 | 3,507 |
| Salaries and benefits | 543,676 | 571,483 |
| Stationary supplies and photocopying | 3,876 | 2,590 |
| Supplies - processing | 5,667 | 4,060 |
| Technology software and support | 15,613 | 19,202 |
| | 622,171 | 611,498 |

Shortgrass Library System
Schedule 3 - Delivery & Communication Expenses
For the year ended December 31, 2015

| | 2015 | 2014 |
|--|---------|---------|
| Delivery & Communication Expenses | | |
| Integrated library system | 30,179 | 40,206 |
| Postage | 1,751 | 845 |
| Salaries and benefits | 56,739 | 52,434 |
| Telephone, fax and internet | 9,832 | 8,163 |
| Vehicle | 17,195 | 21,297 |
| | <hr/> | <hr/> |
| | 115,696 | 122,945 |
