

**Shortgrass Library System**  
**Financial Statements**  
*December 31, 2016*

## Management's Responsibility

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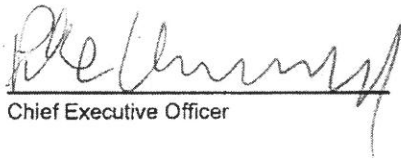
To the Stakeholders of Shortgrass Library System:

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.



Chief Executive Officer

## Independent Auditors' Report

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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, 2016, 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, 2016 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

April 19, 2017

*MNP LLP*


Chartered Professional Accountants


**Shortgrass Library System**  
**Statement of Financial Position**

*As at December 31, 2016*

	2016	2015
<b>Assets</b>		
<b>Current</b>		
Cash (Note 3)	584,066	466,678
Accounts receivable	28,692	37,365
Goods and Service Tax receivable	36,985	42,854
Prepaid expenses and deposits	69,137	73,175
	718,880	620,072
Restricted cash and investments (Note 5)	626,472	717,382
	1,345,352	1,337,454
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accruals	84,302	64,398
Deferred revenue (Note 6)	82,702	84,991
	167,004	149,389
<b>Commitments (Note 7)</b>		
<b>Net Assets</b>		
Internally restricted capital	533,798	625,007
Internally restricted contingency	92,673	92,375
Unrestricted	551,877	470,683
	1,178,348	1,188,065
	1,345,352	1,337,454

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, 2016*

	<b>2016</b>	<b>2015</b>
<b>Revenue</b>		
Contracts	105,349	98,225
Grants	25,494	63,220
Investment income	3,199	5,870
Materials operational levy	105,725	103,378
Member municipalities operational	530,741	506,553
Miscellaneous	73,963	71,551
Provincial grants	555,460	544,439
Reimbursements	4,922	4,438
	<b>1,404,853</b>	1,397,674
<b>Library Materials Revenue (Schedule 4)</b>	<b>403,024</b>	383,421
	<b>1,807,877</b>	1,781,095
<b>Expenses</b>		
Advertising	23,701	18,721
Building and capital <i>(Note 10)</i>	169,331	179,410
Contracts	21,731	40,260
Grants	64,919	111,458
Library materials	1,655	1,096
Meetings and consultations	47,420	27,306
Miscellaneous	67,591	39,404
	<b>396,348</b>	417,655
<b>Administrative Expenses (Schedule 1)</b>	<b>259,021</b>	239,713
<b>Tech &amp; Public Services Expenses (Schedule 2)</b>	<b>625,011</b>	622,171
<b>Delivery &amp; Communication Expenses (Schedule 3)</b>	<b>109,633</b>	115,696
<b>Library Materials Expenses (Schedule 4)</b>	<b>427,581</b>	423,831
<b>Total expenses</b>	<b>1,817,594</b>	1,819,066
<b>Deficiency of revenue over expenses</b>	<b>(9,717)</b>	(37,971)

**Shortgrass Library System**  
**Statement of Changes in Net Assets**  
*For the year ended December 31, 2016*

	<i>Internally restricted capital</i>	<i>Internally restricted contingency</i>	<i>Unrestricted</i>	<b>2016</b>	<b>2015</b>
Net assets, beginning of year	625,007	92,375	470,683	1,188,065	1,226,036
Deficiency of revenue over expenses	-	-	(9,717)	(9,717)	(37,971)
Transfer of investment income <i>(Note 8)</i>	2,420	298	(2,718)	-	-
Transfer of funds <i>(Note 8)</i>	(93,629)	-	93,629	-	-
<b>Net assets, end of year</b>	<b>533,798</b>	<b>92,673</b>	<b>551,877</b>	<b>1,178,348</b>	<b>1,188,065</b>

# Shortgrass Library System Statement of Cash Flows

For the year ended December 31, 2016

	2016	2015
<b>Cash provided by (used for) the following activities</b>		
<b>Operating</b>		
Cash received from customers and funders	1,820,130	1,758,619
Cash paid to suppliers	(986,313)	(1,034,246)
Cash paid to employees	(807,340)	(789,839)
Cash transferred from (to) restricted cash	96,742	(114,530)
	<b>123,219</b>	<b>(179,996)</b>
<b>Investing</b>		
Purchase of investments	(1,904,138)	(3,319,185)
Disposal of investments	1,898,307	3,756,934
	<b>(5,831)</b>	<b>437,749</b>
<b>Increase (decrease) in cash resources</b>	<b>117,388</b>	<b>257,753</b>
<b>Cash resources, beginning of year</b>	<b>466,678</b>	<b>208,925</b>
<b>Cash resources, end of year</b>	<b>584,066</b>	<b>466,678</b>

**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 \$124,829 (in 2015 building improvements and computer equipment were purchased for a total cost of \$166,351). During the year various assets were disposed of for total proceeds of \$327 (in 2015 a vehicle for \$2,700). 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, 2016 and December 31, 2015, 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.



2. **Significant accounting policies** *(Continued from previous page)*

**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 250,000 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 2015) of pensionable earnings up to the year's maximum pensionable earnings under the Canadian Pension Plan and 15.84% (15.84% in 2015) on pensionable earnings above this amount. Employees of the Organization are required to make current service contributions of 10.39% (10.39% in 2015) of pensionable salary up to the year's maximum pensionable salary and 14.84% (14.84% in 2015) on pensionable salary above this amount.

Total current service contributions by the Organization to the Local Authorities Pension Plan in 2016 were \$69,145 (2015 - \$71,374). Total current service contributions by the employees of the Organization to the Local Authorities Pension Plan in 2016 were \$63,497 (2015 - \$61,004).

**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 and therefore all financial instruments are reported at amortized cost.

**Shortgrass Library System**  
**Notes to the Financial Statements**  
*For the year ended December 31, 2016*

**2. Significant accounting policies** *(Continued from previous page)*

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.

**3. Cash**

	<b>2016</b>	2015
Cash in bank	601,554	580,908
Petty cash	300	300
Less reclassification to restricted cash	<b>(17,788)</b>	(114,530)
	<b>584,066</b>	466,678

**4. Marketable securities**

	<b>2016</b>	2015
Guaranteed Investment Certificates	117,053	116,369
Less reclassification to restricted cash	<b>(117,053)</b>	(116,369)
	-	-

The Organization holds various marketable securities with values from \$1,603 to \$61,888 (\$1,596 to \$61,472 in 2015) and interest rates from 0.40% to 0.60% (0.40% to 0.65% in 2015) maturing from January 25, 2017 to February 26, 2017 (January 13, 2016 to April 7, 2016 in 2015).

**Shortgrass Library System**  
**Notes to the Financial Statements**  
*For the year ended December 31, 2016*

**5. Restricted cash and investments**

	2016	2015
Cash in bank	6	6
Guaranteed Investment Certificates	491,625	486,477
Add reclassification from cash	17,788	114,530
Add reclassification from marketable securities	117,053	116,369
	626,472	717,382

The Organization holds marketable securities with values from \$2,437 to \$231,066 (\$10,909 to \$229,738 in 2015) and interest rates of 0.40% to 0.70% (0.55% to 0.70% in 2015) maturing from January 25, 2017 to April 2, 2017 (January 8, 2016 to March 30, 2016 in 2015) that have been restricted to fund the internally restricted assets.

**6. Deferred revenue**

	2016	2015
Grant revenue	-	3,288
Contract revenue	15,560	15,560
Member library board materials (Note 9)	67,142	66,143
	82,702	84,991

**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 \$22,123. 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 a lease with Enmax for solar panels. The lease term is for 14 years with the following estimated annual payments over the next five years.

Year 1	\$5,749
Year 2	\$5,852
Year 3	\$5,956
Year 4	\$6,062
Year 5	\$6,171

**Shortgrass Library System**  
**Notes to the Financial Statements**  
*For the year ended December 31, 2016*

**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 (nil in 2015) from unrestricted net assets to the internally restricted contingency fund. There were no funds used from internally restricted contingency fund (\$10,407 in 2015). There were no transfers from unrestricted net assets to the internally restricted capital fund as of December 31, 2016 (\$500,000 in 2015). There were \$93,629 of funds used from the internally restricted capital fund (\$100,000 in 2015).

**9. Member library board materials**

	2016	2015
Annual member library boards materials revenue	503,251	479,675
Prior year unspent amount	66,143	74,408
Current year unspent amount	(67,142)	(66,143)
Prior year overspent amount	(1,133)	(2,274)
Current year overspent amount	7,630	1,133
	508,749	486,799

**10. Building and capital**

	2016	2015
Capital	103,145	-
Insurance	6,190	3,821
Repairs, maintenance and improvements	42,431	155,174
Utilities	17,565	20,415
	169,331	179,410

**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, 2016, two customers and funders accounted for 60% (2015 - two customers and funders for 91%) 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.

***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 \$40,000 (\$77,000 in 2015). The amount charged against this limit at December 31, 2016 is \$8,511 (\$609 in 2015). The credit cards bear interest at 19.99% (19.99% in 2015) and are unsecured.

**12. Comparative figures**

Certain comparative figures have been reclassified to conform with current year presentation.

Materials operational levy revenue previously reported in the library materials revenue has been separated into the main revenue of the Shortgrass Library System.

**Shortgrass Library System**  
**Schedule 1 - Administrative Expenses**  
*For the year ended December 31, 2016*

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	<b>2016</b>	<b>2015</b>
<b>Administrative Expenses</b>		
Advertising	3,532	55
Computer software purchase and repair	2,309	-
Conferences and workshops	23,745	21,883
Dues and memberships	9,709	9,371
Interest and bank charges	496	376
Professional fees	22,405	21,713
Repairs and maintenance	1,530	-
Salary, wages and benefits	192,946	181,966
Stationary supplies and photocopying	2,349	4,349
	<b>259,021</b>	<b>239,713</b>

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**Shortgrass Library System**  
**Schedule 2 - Tech & Public Services Expenses**  
*For the year ended December 31, 2016*

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	2016	2015
<b>Tech &amp; Public Services Expenses</b>		
Cataloguing tools and software	27,841	24,320
Computer hardware	17,503	7,362
Repairs and maintenance	2,664	21,657
Salaries and benefits	558,782	543,676
Stationary supplies and photocopying	630	3,876
Supplies - processing	5,637	5,667
Technology software and support	11,954	15,613
	<b>625,011</b>	<b>622,171</b>

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**Shortgrass Library System**  
**Schedule 3 - Delivery & Communication Expenses**  
*For the year ended December 31, 2016*

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	<b>2016</b>	<b>2015</b>
<b>Delivery &amp; Communication Expenses</b>		
Integrated library system	<b>19,753</b>	30,179
Postage	<b>1,955</b>	1,751
Salaries and benefits	<b>54,143</b>	56,739
Telephone, fax and internet	<b>12,980</b>	9,832
Vehicle	<b>20,802</b>	17,195
	<b>109,633</b>	115,696

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**Shortgrass Library System**  
**Schedule 4 - Schedule of Library Materials Revenues and Expenses**  
*For the year ended December 31, 2016*

	<b>2016</b>	<b>2015</b>
<b>Revenue</b>	<b>403,024</b>	<b>383,421</b>
<b>Library Materials Expenses</b>		
E-books and platform fees	41,565	53,006
Electronic data bases	24,190	38,663
Materials	358,262	327,956
Shipping and handling	3,564	4,206
	<b>427,581</b>	<b>423,831</b>
<b>Excess of revenue over expenses</b>	<b>(24,557)</b>	<b>(40,410)</b>