

Financial Statements of

**THE CITY OF MEDICINE HAT
LIBRARY BOARD**

And Independent Auditors' Report thereon

Year ended December 31, 2019

Management's Responsibility for Financial Reporting

The City of Medicine Hat Library Board's management is responsible for the preparation, accuracy, objectivity, and integrity of the accompanying financial statements and the notes thereto. Management believes that the financial statements present fairly the Library's financial position as at December 31, 2019 and the results of its operations for the year then ended.

The financial statements have been prepared in accordance with Canadian public sector accounting standards. The financial statements include certain amounts based on estimates and judgments. Such amounts have been determined on a reasonable basis in order to ensure that the financial statements are presented fairly in all material respects.

In fulfilling its responsibilities and recognizing the limits inherent in all systems, management has designed and maintains a system of internal controls to produce reliable information to meet reporting requirements. The system is designed to provide management with reasonable assurance that transactions are properly authorized, reliable financial records are maintained, and assets are properly accounted for and safeguarded.

The Board of Trustees is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial statements. The Trustees fulfill these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Trustees are also responsible for recommending the appointment of the Library's external auditors.

The financial statements have been audited by the independent firm of KPMG LLP, Chartered Accountants. Their report to the Board of The City of Medicine Hat Library Board outlines the scope of their examination and provides their opinion on the financial statements.



Chief Librarian

May 6, 2020



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INDEPENDENT AUDITORS' REPORT

To Board of Trustees of The City of Medicine Hat Library Board

Opinion

We have audited the financial statements of The City of Medicine Hat Library Board (the Entity), which comprise:

- the statement of financial position as at December 31, 2019
- the statement of operations for the year then ended
- the statement of changes in net 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 Entity as at December 31, 2019, and its results of operations, and its cash flows for the year then ended in accordance with Canadian Public Sector Accounting Standards.

Basis for Opinion

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

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian Public Sector Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represents 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

Lethbridge, Canada

May 6, 2020

THE CITY OF MEDICINE HAT LIBRARY BOARD

Statement of Financial Position

December 31, 2019, with comparative information for 2018

	2019	2018
Financial Assets:		
Cash	\$ 848,654	\$ 661,898
Short-term investments (note 4)	147,489	160,908
Accounts receivable	7,724	3,337
Due from City of Medicine Hat (note 6)	--	30,604
	<hr/> 1,003,867	<hr/> 856,747
Financial Liabilities:		
Accounts payable and accrued liabilities	75,204	73,478
Deferred revenue (note 5)	18,610	36,665
Due to City of Medicine Hat (note 6)	22,047	--
	<hr/> 115,861	<hr/> 110,143
Net financial assets	<hr/> 888,006	<hr/> 746,604
Non-Financial Assets:		
Tangible capital assets (note 11)	957,888	967,790
Prepaid collection levy	37,948	35,796
Prepaid expense	--	300
	<hr/> 995,836	<hr/> 1,003,886
Commitments (note 15)		
Accumulated surplus (note 12)	<hr/> \$ 1,883,842	<hr/> \$ 1,750,490

See accompanying notes to financial statements.

THE CITY OF MEDICINE HAT LIBRARY BOARD

Statement of Operations and Changes in Accumulated Surplus

Year ended December 31, 2019, with comparative information for 2018

	Budget	2019	2018
Grant revenue:			
City of Medicine Hat	\$ 2,277,400	\$ 2,298,403	\$ 2,348,434
Province of Alberta	349,750	349,750	349,750
Services to Shortgrass Regional Library System	--	11,500	15,214
Employment grants	5,000	25,120	21,379
Other grants	--	102,582	12,437
	<u>2,632,150</u>	<u>2,787,355</u>	<u>2,747,214</u>
Sales, service and other revenue:			
Memberships	30,000	36,889	32,914
Fees and fines	30,400	32,931	35,506
Discarded materials	2,800	3,027	3,035
Room and equipment rental	8,150	9,245	12,016
Other services	6,000	53,298	51,863
Interest	800	6,356	4,962
Other donations and miscellaneous	--	38,536	25,523
	<u>78,150</u>	<u>180,282</u>	<u>165,819</u>
	<u>2,710,300</u>	<u>2,967,637</u>	<u>2,913,033</u>
Expenses (schedule)	2,388,939	2,834,285	2,893,480
Excess of revenue over expenses	321,361	133,352	19,553
Accumulated surplus, beginning of year	1,750,490	1,750,490	1,730,937
Accumulated surplus, end of year	<u>\$ 2,071,851</u>	<u>\$ 1,883,842</u>	<u>\$ 1,750,490</u>

See accompanying notes to financial statements.

THE CITY OF MEDICINE HAT LIBRARY BOARD

Statement of Change in Net Financial Assets

Year ended December 31, 2019, with comparative information for 2018

	Budget	2019	2018
Excess of revenue over expenses	\$ --	\$ 133,352	\$ 19,553
Acquisition of tangible capital assets	--	(379,448)	(338,560)
Amortization of tangible capital assets	--	389,350	394,408
		143,254	75,401
Net acquisition (reduction) of prepaid expenses	--	300	80
Net acquisition (reduction) of prepaid collection levy	--	(2,152)	5,262
	--	141,402	80,743
Net financial assets, beginning of year	--	746,604	665,861
Net financial assets, end of year	\$ --	\$ 888,006	\$ 746,604

See accompanying notes to financial statements.

THE CITY OF MEDICINE HAT LIBRARY BOARD

Statement of Cash Flows

Year ended December 31, 2019, with comparative information for 2018

	2019	2018
Cash provided by (used in):		
Operations:		
Excess of revenue over expenses	\$ 133,352	\$ 19,553
Amortization which does not involve cash	389,350	394,408
Net changes in non-cash financial assets and liabilities:		
Accounts receivable	(4,387)	(2,357)
Deferred revenue	(18,055)	12,195
Accounts payable and accrued liabilities	1,726	10,240
Prepaid collection levy	(2,152)	5,262
Prepaid expenses	300	80
	<u>500,134</u>	<u>439,381</u>
Investing:		
Short-term investments	13,419	858
Capital Activities:		
Acquisition of tangible capital assets	(379,448)	(338,560)
Financing:		
Due to City of Medicine Hat	52,651	(421,365)
Repayment of long-term debt- capital	--	(4,847)
	<u>52,651</u>	<u>(426,212)</u>
Increase (decrease) in cash	186,756	(324,533)
Cash, beginning of year	661,898	986,431
Cash, end of year	<u>\$ 848,654</u>	<u>\$ 661,898</u>

See accompanying notes to financial statements.

THE CITY OF MEDICINE HAT LIBRARY BOARD

Notes to Financial Statements

Year ended December 31, 2019

1. Significant accounting policies:

The financial statements of The City of Medicine Hat Library Board (the "Library") are the representations of management prepared in accordance with Canadian Public Sector accounting standards. Significant aspects of the accounting policies adopted by the Library are as follows:

(a) Basis of accounting:

The Library 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) Revenue recognition:

The operating grant and unrestricted contributions are recognized as received. Restricted contributions and capital grants are recognized when the related expenses are incurred and stipulations are met. Investment income is recognized on an accrual basis. Room and equipment rental revenue is recognized when services are provided. Fines, fees and all other revenue are recognized as earned.

(c) Contributed materials and services:

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

(d) Pension expense:

The Library participates in the Local Authorities Pension Plan, a multi-employer defined benefit pension plan, through the City of Medicine Hat. This plan is accounted for as a defined contribution plan.

(e) Cash and cash equivalents:

Cash and cash equivalents include cash on hand and short term deposits which are highly liquid with original maturities of less than three months at the date of acquisition. These financial assets are convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

THE CITY OF MEDICINE HAT LIBRARY BOARD

Notes to Financial Statements

Year ended December 31, 2019

1. Significant accounting policies (continued):

(f) 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 and landfill sites, are amortized on a straight line basis over their estimated useful lives as follows:

Asset	Useful Life - Years
Building improvements	10
Furniture and fixtures	7
Computer equipment	3
Books and library collection	3

Annual amortization is charged in the year of acquisition and in the year of disposal.

Contributions of tangible capital assets:

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

(g) Use of estimates:

The preparation of financial statements in accordance with Canadian Public Sector Accounting Standards, 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 financial statement date, and reported amounts of revenues and expenses during the reporting period.

THE CITY OF MEDICINE HAT LIBRARY BOARD

Notes to Financial Statements

Year ended December 31, 2019

2. Future accounting pronouncements:

The following summarizes the upcoming changes to the Public Sector Accounting Standards by the Public Sector Accounting Standards Board (PSAB). In 2019, the Library will continue to assess the impact and prepare for the adoption of these standards. While the timing of standard adoption can vary, certain standards must be adopted concurrently.

a) PS 3280 – Asset Retirement Obligation:

This accounting standard provides guidance on how to account for and report a liability for retirement of a tangible capital asset. This standard is effective for years starting on or after April 1, 2021.

b) PS 3400 - Revenue:

This standard provides guidance on how to account for and report revenue, specifically addressing revenue from exchange transactions and unilateral transactions. This standard is effective for years starting on or after April 1, 2021.

3. Adoption of new accounting standards:

During the year, the Library adopted the following accounting standards:

- PS 1201 – Financial Statement Presentation
- PS 3450 – Financial Instruments
- PS 2601 – Foreign Currency Translation
- PS 3041 – Portfolio Investments
- PS 3430 – Restructuring Transactions

The adoption of these standards did not affect the financial statements.

THE CITY OF MEDICINE HAT LIBRARY BOARD

Notes to Financial Statements

Year ended December 31, 2019

4. Short-term investments:

	2019	2018
Guaranteed investment certificates	\$ 147,489	\$ 160,908

The guaranteed investment certificates bear interest ranging from 1.30% to 2.75% and mature at varying dates to September, 2020.

5. Deferred revenue:

Deferred revenue represents unspent externally restricted contributions.

Change in the deferred revenue balance is as follows:

	2019	2018
Balance, beginning of year	\$ 36,665	\$ 24,470
Add amounts received in year	100,875	35,255
Less amounts recognized into revenue	(118,930)	(23,060)
Balance, end of year	\$ 18,610	\$ 36,665

THE CITY OF MEDICINE HAT LIBRARY BOARD

Notes to Financial Statements

Year ended December 31, 2019

6. Due from (to) City of Medicine Hat:

The Library is accountable for the administration of their financial affairs under the terms of their funding agreement to the City of Medicine Hat. At December 31, 2019 the Library owed the City of Medicine Hat \$22,047 (2018 - City of Medicine Hat owed the Library \$30,604). This is the result of current year operations and repayment of expenditures under a capital project in full.

7. Salary and benefits disclosure:

Disclosure of salaries and benefits for municipal officials as required by Alberta Regulation 379/94 is as follows:

			2019	2018
	Salary	Benefits and Allowances	Total	Total
Chief librarian (1)	\$ 120,003	\$ 19,450	\$ 139,453	\$ 97,145
Department heads (4)	303,676	48,557	352,233	357,231
	\$ 423,679	\$ 68,007	\$ 491,686	\$ 454,376

8. Economic dependence and related party transactions:

The Library is dependent upon the City of Medicine Hat to provide funding for operations.

The Library also uses a building owned by the City of Medicine Hat at no cost.

As indicated in note 6, the City of Medicine Hat provides financing to the Library in the nature of long-term and short term financing. During the year, the Library paid the City \$nil of interest (2018 - \$194).

THE CITY OF MEDICINE HAT LIBRARY BOARD

Notes to Financial Statements

Year ended December 31, 2019

9. Local Authorities Pension Plan:

Employees of The City of Medicine Hat Library Board participate in the Local Authorities Pension Plan (LAPP), which is covered by the Alberta Public Sector Pension Plans Act. The Plan serves about 265,813 (2018 – 259,714) people and about 421 (2018 – 420) employers. It is financed by employer and employee contributions and investment earnings of the LAPP Fund.

Contributions for current service are recorded as expenditures in the year in which they become due. The Library is required to make current service contributions to the Plan of 11.39% of pensionable earnings up to the Canada Pension Plan Year's Maximum Pensionable Earnings and 15.84% for the excess. Employees of the Library are required to make current service contributions of 10.39% pensionable salary up to the year's maximum pensionable salary and 14.84% pensionable salary above this amount.

Total current service contributions by the Library to the Local Authorities Pension Plan in 2019 were \$112,212 (2018 - \$99,359). Total current service contributions by the employees of the Library to the Local Authorities Pension Plan in 2019 were \$100,930 (2018 - \$90,322).

At December 31, 2018, the Plan disclosed an actuarial surplus of \$3.469 billion (2017 - \$4.835 billion).

THE CITY OF MEDICINE HAT LIBRARY BOARD

Notes to Financial Statements

Year ended December 31, 2019

10. Tangible capital assets:

	Building improvements	Furniture and fixtures	Computer equipment	Books and library collection	Total 2019
Cost:					
Balance, beginning of year	\$ 1,259,586	\$ 299,320	\$ 254,059	\$ 788,199	\$ 2,601,164
Additions	39,110	54,315	12,979	273,044	379,448
Disposals	--	--	--	(287,887)	(287,887)
Balance, end of year	1,298,696	353,635	267,038	773,356	2,692,725
Accumulated amortization:					
Balance, beginning of year	656,048	244,030	201,120	532,176	1,633,374
Disposals	--	--	--	(287,887)	(287,887)
Amortization expense	76,718	18,929	35,918	257,785	389,350
Balance, end of year	732,766	262,959	237,038	502,074	1,734,837
Net book value, end of year	\$ 565,930	\$ 90,676	\$ 30,000	\$ 271,282	\$ 957,888
Cost:					
Balance, beginning of year	\$ 1,258,386	\$ 288,731	\$ 195,044	\$ 878,717	\$ 2,620,878
Additions	1,200	10,589	59,015	267,758	338,562
Disposals	--	--	--	(358,276)	(358,276)
Balance, end of year	1,259,586	299,320	254,059	788,199	2,601,164
Accumulated amortization:					
Balance, beginning of year	563,195	228,982	177,345	627,718	1,597,240
Disposals	--	--	--	(358,275)	(358,275)
Amortization expense	92,853	15,048	23,775	262,733	394,409
Balance, end of year	656,048	244,030	201,120	532,176	1,633,374
Net book value, end of year	\$ 603,538	\$ 52,290	\$ 52,939	\$ 256,023	\$ 967,790

THE CITY OF MEDICINE HAT LIBRARY BOARD

Notes to Financial Statements

Year ended December 31, 2019

11. Accumulated surplus:

	Unrestricted surplus (deficit)	Reserves	Invested in tangible capital assets	Total 2019	Total 2018
Balance, beginning of year	\$ --	\$ 782,700	\$ 967,790	\$1,750,490	\$ 1,730,937
Excess of revenue over expenses	133,352	--	--	133,352	19,553
Tangible capital assets acquired with internal funds	(379,448)	--	379,448	--	--
Amortization of internally funded tangible capital assets	389,350	--	(389,350)	--	--
Transfers	(143,254)	143,254	--	--	--
	\$ --	\$ 925,954	\$ 957,888	\$1,883,842	\$ 1,750,490

Reserves are comprised of the following:

	2019	2018
Reserves:		
Capital assets (i)	\$ 866,954	\$ 723,700
Insurance deductible (ii)	50,000	50,000
Vacation payable (iii)	9,000	9,000
	\$ 925,954	\$ 782,700

i) Capital asset reserve:

This reserve has been established to fund capital projects as approved by the Board. As well, the Board has the discretion to use this reserve to fund any operating deficit or allocate any operating surplus.

ii) Insurance deductible reserve:

This reserve has been established to cover the insurance deductible and shall be maintained at no less than the insurance deductible.

iii) Vacation payable reserve:

The vacation entitlement reserve is intended to assist in funding vacation benefits as they become due.

THE CITY OF MEDICINE HAT LIBRARY BOARD

Notes to Financial Statements

Year ended December 31, 2019

12. Financial instruments:

- (i) It is management's opinion that the Library is not exposed to significant interest, currency or credit risks arising from its financial instruments except as otherwise disclosed.

The carrying amount of short-term investments, accounts receivable, due to City of Medicine Hat, accounts payable and accrued liabilities approximates their fair value due to the short-term maturities of these items.

- (ii) At December 31, 2019 the Library had a line of credit totaling \$20,000, none of which was drawn. The line of credit bears interest at the prime rate of 3.95% (prime plus 2% at December 31, 2018). This line of credit is unsecured. At December 31, 2019 the prime rate was 3.95% (2018 – 3.95%).

13. Budgeted information:

The budget information presented in these financial statements is based upon the 2019 budget approved by the Board of Directors. Amortization was not contemplated in the development of the budget and, as such, has not been included. The chart below reconciles the approved budget to the budget information reported in the financial statements.

Revenue:	
Total budget	\$ 2,710,300
Expenses:	
Total budget	2,710,300
Less:	
Shortgrass levy	(321,361)
Repayment of debt	--
Capital purchases	--
Total expenses	2,388,939
Excess of revenue over expenses	\$ 321,361

The budget was approved by the Board of Directors on February 7, 2018.

THE CITY OF MEDICINE HAT LIBRARY BOARD

Notes to Financial Statements

Year ended December 31, 2019

14. Commitments:

The Library is a member of the Shortgrass Regional Library System. As such, they are committed to a yearly per capita levy based on the most recent published census population. The 2019 levy was approximately \$5.08 per capita; \$321,361 in aggregate (2018 - \$4.98 per capita; \$315,035 in aggregate).

15. Contractual Rights:

Contractual rights are rights of the Library to economic resources arising from contracts or agreements that will result in both assets and revenues in the future when the terms of those contracts or agreements are met.

Estimated amounts that will be received or receivable for the next year are as follows:

	2020
City of Medicine Hat	\$ 2,279,101
Province of Alberta	349,750
	<u>\$ 2,628,851</u>

THE CITY OF MEDICINE HAT LIBRARY BOARD

Schedule of Expenses

Year ended December 31, 2019, with comparative information for 2018

	Budget	2019	2018
Staff:			
Salaries and benefits	\$ 1,942,719	\$ 1,992,946	\$ 1,958,106
Materials:			
Binding, repair and processing	--	4,245	14,782
Ebooks	--	46,165	52,540
	--	50,410	67,322
Administration:			
Advertising and publicity	15,000	16,734	22,803
Board expenses	20,580	12,512	14,343
Dues and subscriptions	10,000	8,870	7,502
Interest and bank charges	3,000	2,445	2,583
Interest on long-term debt	--	--	194
Grant expenses	--	14,925	14,343
Professional fees	12,000	10,545	10,240
Office, supplies and consumables	19,889	16,467	25,572
Program expenses	35,000	40,804	36,122
Special projects	15,775	2,947	43,831
Staff travel	10,000	6,913	11,632
Membership costs	10,000	5,005	--
Telephone and communication	3,500	3,567	3,545
	154,744	141,734	192,710
Building, maintenance and insurance:			
Insurance	29,056	30,775	27,136
Computer maintenance and services	28,500	14,745	18,441
Repairs, maintenance and supplies	129,920	115,563	129,748
Utilities	104,000	98,762	105,609
	291,776	259,845	280,934
Amortization of tangible capital assets	--	389,350	394,408
Total expenses	\$ 2,388,939	\$ 2,834,285	\$ 2,893,480