

AGENDA 5.1

TO: Markham Public Library Board

FROM: Catherine Biss, CEO & Secretary-Treasurer

PREPARED BY: Michelle Sawh, Director, Administration

DATE OF MEETING: May 27, 2024

SUBJECT: Financial Statements of the Markham Public Library Board, December 31, 2023

RECOMMENDATIONS:

That the report entitled “Financial Statements of the City of Markham Public Library Board, December 31, 2023” be received; and,

That the Board approves the Financial Statements of the City of Markham Public Library Board, December 31, 2023; and,

That the Board Chair be authorized to sign the approved 2023 Financial Statements on behalf of the Board; and,

That the Board authorize Staff to issue the final audited Financial Statements for the fiscal year ended December 31, 2023;

AND That Staff be authorized and directed to do all things necessary to give effect to this resolution.

EXECUTIVE SUMMARY:

KPMG LLP has completed an audit of the Financial Statements of the Library Board and has expressed an unqualified or “clean” opinion that the Financial Statements present fairly, in all material respects, the consolidated financial position of the Library.

The audit process included an examination of the Library’s accounts and review of Board minutes for the calendar year 2023, as well as a review of the organization’s procedures and tests of the Internal Control Systems. The financial statements of the Markham Public Library Board were prepared in accordance with Canadian generally accepted accounting principles established by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants.

PURPOSE:

The purpose of this Report is to obtain the Board’s approval of the “Financial Statements of the City of Markham Public Library Board, December 31, 2023”.

AGENDA 5.1

BACKGROUND:

This Report is prepared in accordance with the *Municipal Act, 2001, S.O. 2001, c. 25 (the Act)*. Section 296 (1) states that:

A municipality shall appoint an auditor licensed under the *Public Accounting Act, 2004* who is responsible for,

- a) annually auditing the accounts and transactions of the municipality and its local boards and expressing an opinion on the financial statements of those bodies based on the audit; and
- b) performing duties required by the municipality or local board.

Section 1(1) of the *Act* indicates that the definition of “local board” includes a public library board.

The City of Markham’s external auditors, KPMG, have completed the examination of the Financial Statements of the Markham Public Library, for the year ended December 31, 2023. The Financial Statements are attached to this report for the Board’s consideration and review (Appendix “A”).

Approval of the Financial Statements is required each year as a condition of continued funding from the Province of Ontario. The 2023 Ministry of Tourism, Culture and Sport survey was submitted last year, and the Public Library Operating Grant of \$228,778 was received following submission. Financial disclosure to the Ministry is required under the *Public Libraries Act, R.S.O. 1990, P.44*, Regulation 976 “Grants for Public Libraries,” sec. 1(b).

DISCUSSION:

KPMG LLP has completed an audit of the Financial Statements of the Markham Public Library Board and has expressed an unqualified or “clean” opinion that the Financial Statements present fairly and in all material respects the financial position of the Board.

The audit included an examination of the accounts and Library Board Meeting minutes for 2023. The auditor reviewed the Library’s procedures and conducted tests of the Internal Control Systems. The major part of the audit was conducted from the City of Markham’s Financial Services Department, where the Library’s accounting and payroll data is stored.

On May 13, 2024, the Library Board Chair, the CEO, the Director Administration, and the Financial Analyst met with the auditor to review the audited Financial Statements. In attendance from KPMG LLP were Maria Khoushnood, Partner, Audit; and Ben Haak, Manager, Audit. They provided a summary of the audit results which will be confirmed at the Board meeting on May 27, 2024.

The Financial Statements of the Markham Public Library Board were prepared in accordance with Canadian generally accepted accounting principles established by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. These statements indicate the operating results and how the Library financed its activities and met its cash requirements. Additionally, the statements confirm that the resources were obtained and used in accordance with the Operating and Capital Budgets as approved by the Board.

AGENDA 5.1

Appendix “A” (*Financial Statements of City of Markham Public Library Board, December 31, 2023*) is the audited statements document and accompanying notes, consisting of the following:

- Statement of Financial Position
- Statement of Operations
- Statement of Change in Net Financial Assets (Debt)
- Statement of Cash Flows
- Notes to the Financial Statements

(1) **Statement of Financial Position** (Appendix A – page 1 of 9)

The Statement of Financial Position outlines the Library’s financial assets, financial liabilities and non-financial assets.

Financial Assets:

These are the resources controlled by the organization as a result of past events and from which future economic benefits are expected to flow to it. Financial assets include cash, receivables and other assets expected to be converted to cash, sold or consumed either within a year or within the operating cycle. These assets are continually turned over in the course of normal business activities.

The Financial Assets figure in 2023 was \$7,669,187 compared to the 2022 figure of \$8,106,954. The difference between these figures is mostly explained by the “**Due from the City of Markham**” figure, which is a mathematical calculation prepared for the financial statement based on the balances at year-end. This figure varies from year to year.

“**Cash**” consists of the money received at the end of each calendar year, but was actually deposited to the bank at the beginning of the following year. In 2023, the figure was \$3,510 compared to \$2,918 in 2022. There was more outstanding cash to be deposited in January 2023 than there was the previous year.

In 2023, \$7,561,850 was “**Due from the City of Markham**” compared to \$8,034,261 in 2022. The explanation for this is outlined within Note 5 on page 8 of the Statement.

“**Accounts receivable**” consists of HST receivables, as the government reimburses most of the HST that MPL pays to purchase products and services. This figure was higher in 2023 than it was in 2022.

Financial Liabilities:

These are financial obligations to outside organizations or individuals that are the result of transactions or events that occurred on or before the end of the accounting period.

“**Accounts payable**” is a figure representing amounts owed by the Library to vendors and contractors and is shown as a liability on the balance sheet. In 2023, this figure was \$53,118 compared to \$30,135 in 2022. In 2023, more invoices were received late and therefore could not be processed prior to year-end.

AGENDA 5.1

“**Accrued salaries and wages**” are salaries and wages that were earned at the end of one calendar year, but were actually paid out in January of the next year. This figure varies each year and is a function of the calendar, i.e. the timing of the first pay period in any year and when that pay period is actually paid out to employees. In 2023, this figure was \$528,868 compared with \$729,455 in 2022.

“**Accrued vacation pay**” results from full time employees carrying forward vacation entitlement earned in one calendar year to be used in the next, which represents a liability. In 2023, this figure was \$180,689 compared to \$159,038 in 2022, representing an increase in this liability. The number of carried-over vacation days increased to 537.51 (2023) from 506.21 (2022) – see Note 3 on page 8 of the Statement. Under the Full Time Collective Agreement and Library policy, full time employees are entitled to carry forward up to 50% of earned vacation entitlement, to be used no later than June 30th of the following year.

“**Deferred revenue**” is revenue received in 2023 from customers for paid for programs and room rentals that actually commenced in calendar year 2024. Deferred revenue is considered a liability until the funds are spent, and it varies from year to year. The increased program fees revenue received in 2023 resulted in a higher deferred revenue figure that year.

Non-Financial Assets:

Non-financial assets are assets that have a physical value such as property. They include “**Tangible capital assets**” (TCAs) and “**Prepaid expenses**”. TCAs includes Library collections, furniture and fixtures. The net book value of TCAs is comprised of the gross capital asset cost, plus additions, less disposals, less accumulated amortization and other adjustments.

The TCAs figure for 2023 of \$6.0M compares to the 2022 figure of \$6.5M. Details of the TCAs can be found in Note 2 on page 8 of the Statement.

“**Prepaid expenses**” include subscriptions and contracts whose terms are for fixed periods commencing in calendar year 2023 and continuing into the next year. This figure includes both paper and electronic subscriptions, including databases to which the Library subscribes. This figure can fluctuate from year to year based on timing differences related to the payment of invoices through Financial Services. In 2023, there was an increase in this figure compared to the previous year.

Accumulated Surplus:

This is the sum of Net Debt and Non-Financial Assets. This is the go-forward balance and is equivalent to Retained Earnings.

(2) **Statement of Operations** (Appendix A – page 2 of 9)

This statement accounts for the Library’s operating revenues and expenditures, and includes amortization of TCAs in the accounting period – the second line under **EXPENSES**.

(3) **Statement of Change in Net Financial Assets (Debt)** (Appendix A – page 3 of 9)

This statement presents changes in net financial assets such as TCAs and describes the change in value of the Library’s non-financial assets from the previous year.

(4) **Statement of Cash Flows** (Appendix A – page 4 of 9)

AGENDA 5.1

This statement presents changes in cash and cash equivalents by highlighting the sources and uses of cash. The statement indicates how the Library's activities were financed and how cash requirements were met.

(5) **Notes to the Financial Statements** (Appendix A – pages 5 to 9)

Detailed discussion and explanations of the following:

1. Significant Accounting Policies, including:
 - Basis of Accounting
 - Government Transfers
 - Non-Financial Assets
 - Deferred Revenue
 - Pension Agreement
 - Use of Estimates
 - Vacation Pay
 - Related Party Transactions
 - Adoption of New Accounting Standards
 - Future Accounting Pronouncements
2. Tangible Capital Assets
3. Accrued Vacation Pay
4. Pension Agreements
5. Due from the City of Markham
6. Budget
7. Financial Instruments

Catherine Biss
CEO & Secretary-Treasurer

ATTACHMENTS:

- **Appendix "A"** – Financial Statements of City of Markham Public Library Board, December 31, 2023

Financial Statements of

CITY OF MARKHAM PUBLIC LIBRARY BOARD

December 31, 2023

CITY OF MARKHAM PUBLIC LIBRARY BOARD
Statement of Financial Position
December 31, 2023, with comparative information for 2022

	Note	2023	2022
FINANCIAL ASSETS			
Cash		\$ 3,510	\$ 2,918
Due from the City of Markham	5	7,561,850	8,034,261
Accounts receivable		103,827	69,775
		<u>7,669,187</u>	<u>8,106,954</u>
FINANCIAL LIABILITIES			
Accounts payable		53,118	30,135
Accrued salaries and wages		528,868	729,455
Accrued vacation pay	3	180,689	159,038
Deferred revenue		135,568	116,838
		<u>898,243</u>	<u>1,035,466</u>
NET DEBT		6,770,944	7,071,488
NON-FINANCIAL ASSETS			
Tangible capital assets	2	6,041,761	6,467,573
Prepaid expenses		217,196	88,792
		<u>6,258,957</u>	<u>6,556,365</u>
ACCUMULATED SURPLUS		13,029,901	13,627,853

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

CITY OF MARKHAM PUBLIC LIBRARY BOARD**Statement of Operations****For the year ended December 31, 2023, with comparative information for 2022**

	2023 Budget (note 6)	2023 Actual	2022 Actual
REVENUES			
City of Markham grants	\$ 17,571,865	\$ 17,571,865	\$ 16,662,008
Province of Ontario			
Per household grant	228,778	228,778	228,778
Seniors grant	-	3,341	-
Federal Grant: Summer Employment	-	42,075	45,691
Program fees	520,319	400,848	251,452
Fines and Fees	222,648	48,014	53,805
Rentals	57,148	15,812	7,628
Photocopying	30,250	28,754	13,224
Sales	71,186	57,498	28,379
Miscellaneous	16,791	19,718	41,341
	\$18,718,985	\$18,416,703	\$17,332,306
EXPENSES			
Salaries, wages and benefits	\$13,477,244	\$13,312,553	\$11,442,492
Amortization	2,056,964	2,021,651	2,125,538
Library materials and supplies	1,150,000	1,616,616	1,403,979
Property rental/leased equipment	926,870	924,024	919,895
Contracts and service agreements	258,317	239,956	240,127
Maintenance and repairs	212,202	190,814	238,187
Utilities	166,112	158,490	140,443
Communication	157,360	150,041	132,025
Program expenses	111,282	116,883	102,384
Training and travel	112,999	108,100	95,113
Professional services	77,642	118,158	78,183
Printing and office supplies	35,957	28,641	33,801
Promotion	31,000	23,412	33,795
Office furniture and equipment	6,000	5,316	5,983
	\$18,779,949	\$19,014,655	\$16,991,945
Annual Surplus (Deficit)	(60,964)	(597,952)	340,361
ACCUMULATED SURPLUS, BEGINNING OF YEAR	13,627,853	13,627,853	13,287,492
ACCUMULATED SURPLUS, END OF YEAR	\$ 13,566,889	\$ 13,029,901	\$ 13,627,853

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

CITY OF MARKHAM PUBLIC LIBRARY BOARD
Statement of Change in Net Financial Assets (Debt)
For the year ended December 31, 2023, with comparative information for 2022

	2023	2022
	Actual	Actual
ANNUAL SURPLUS/(DEFICIT)	\$ (597,952)	\$ 340,361
Acquisition of tangible capital assets	(1,595,839)	(1,290,452)
Amortization of tangible capital assets	2,021,651	2,125,538
Change in non-financial assets and liabilities	(128,404)	1,703
CHANGE IN NET FINANCIAL ASSETS	(300,544)	1,177,150
NET DEBT, BEGINNING OF YEAR	7,071,488	5,894,338
NET DEBT, END OF YEAR	\$ 6,770,944	\$ 7,071,488

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

CITY OF MARKHAM PUBLIC LIBRARY BOARD

Statement of Cash Flows

For the year ended December 31, 2023, with comparative information for 2022

	2023	2022
Cash provided by (used in)		
Operating Activities:		
Annual Surplus (Deficit)	\$ (597,952)	\$ 340,361
Amortization of tangible capital assets	2,021,651	2,125,538
Change in other non-cash assets and liabilities		
Accounts receivable	(34,052)	(1,384)
Accounts payable	22,984	7,226
Accrued salaries and wages	(200,587)	347,900
Accrued vacation pay	21,651	(5,797)
Deferred revenue	18,729	41,034
Prepaid expenses	(128,404)	1,705
Net Change in cash from operating activities	1,124,020	2,856,583
Capital Activities:		
Purchase of tangible capital assets	(1,595,839)	(1,290,452)
Net Change in cash from capital activities	(1,595,839)	(1,290,452)
Financing Activities:		
Increase/(decrease) in amount due from the City of Markham	472,411	(1,569,434)
Net Change in cash from financing activities	472,411	(1,569,434)
NET CHANGE IN CASH	592	(3,303)
OPENING CASH	2,918	6,221
CLOSING CASH	\$ 3,510	\$ 2,918

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

1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Markham Library Board (the "Library Board") have been prepared by management in accordance with Canadian generally accepted accounting principles established by the Public Sector Accounting Board ("PSAB") of the Chartered Professional Accountants of Canada.

Significant accounting policies adopted by the Library Board are as follows:

BASIS OF ACCOUNTING

Revenues and expenditures are reported on the accrual basis of accounting. The accrual basis of accounting recognize revenues as they become available and measurable; expenditures are the cost of goods or services acquired in the period whether or not payment has been made or invoices received.

GOVERNMENT TRANSFERS

Government transfers are recognized in the financial statements in the period in which the events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amounts can be made. The Corporation of the City of Markham's (the "City") contribution consists of the current year's requisition as approved by Council.

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

The estimated useful lives as follows:

Asset	Useful Life - Years
Library Furniture & Fixtures	10
Library Media Collection	7

1. SIGNIFICANT ACCOUNTING POLICIES

The financial information recorded includes the actual or estimated historical cost of the tangible capital assets. When historical cost records were not available, other methods were used to estimate the costs and accumulated amortization of the assets. The City of Markham Public Library Board applied a consistent method of estimating the replacement or reproduction cost of the tangible capital assets for which it did not have historical cost records, except in circumstances where it could be demonstrated that a different method would provide a more accurate estimate of the cost of a particular type of tangible capital asset. After defining replacement or reproduction cost, CPI was used to deflate the replacement or reproduction cost to an estimated historical cost at the year of acquisition.

Library Media Collections include all non-electronic publications with a useful life extending beyond one year. Electronic products are expensed in the year of acquisition as library materials and supplies within the Statement of Operations. Amortization is pro-rated to 6 months in the year of acquisition and in the year of disposal.

(ii) Works of art, culture and historic assets

Works of art, culture and historic assets are not recorded as assets in these financial assets.

DEFERRED REVENUE

Deferred revenue represents amounts which have been collected but for which the related services have yet to be performed. These amounts will be recognized as revenues in the fiscal year the services are performed.

PENSION AGREEMENT

The Library Board contributes to the Ontario Municipal Employees Retirement System on behalf of its staff. The plan is a defined benefit plan and specifies the amount the retirement benefit to be received by the employees based upon length of credited service and average earnings. As the plan is a multi-employer plan, the Library Board accounts for the plan as if it were a defined contribution plan.

USE OF ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, and the disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the period. Actual results could differ from those estimates.

VACATION PAY

Vacation entitlements are accrued for as earned by the employee. Values are derived by the employees current wage rate and vacation entitlement, unless specified otherwise in employment contracts or union agreements.

1. SIGNIFICANT ACCOUNTING POLICIES

RELATED PARTY TRANSACTIONS

A related party exists when one party has the ability to exercise control or shared control over the other. Related parties also include key management personnel, such as City Councillors, as well as their close family members.

PS 2200 - Related Party Disclosure, requires the City to disclose circumstances in which the entity enters into transactions with its related parties at a value different from that which would have been arrived at if the parties were unrelated (i.e. not at arm's length) and these transactions are considered to have a significant financial impact on the City's consolidated financial statements. In the event qualifying transactions are identified, the City would disclose the nature of relationships with all involved parties, type of related party transaction, and amounts recognized in the consolidated financial statements.

ADOPTION OF NEW ACCOUNTING STANDARDS

The Library Board adopted the following new public sector accounting standards ("PS") for the year ended December 31, 2023.

(i) PS 3280, Asset Retirement Obligations

(ii) PS 1201, Financial Statement Presentation, PS 3450, Financial Instruments, and PS 2601, Foreign Currency Translation, PS 3041, Portfolio Investments

The adoption of these new accounting standards did not have a significant impact on the financial statements of the Library Board.

FUTURE ACCOUNTING PRONOUNCEMENTS

These standards and amendments were not yet effective for the year ended December 31, 2023, and have therefore not been applied in preparing these financial statements. Management is currently assessing the impact of the following accounting standards updates on the future financial statements.

(vi) PS 3160 - Public Private Partnerships ("P3s"), identifies requirements on how to account for and disclose transactions in which public sector entities procure major infrastructure assets and/or services from private sector entities. Recognition of assets arising from P3 arrangements is ultimately dependent on whether public sector entities control the purpose and use of the assets, access to the future economic benefits and exposure to the risks associated with the assets, and significant residual interest in the asset, if any, at the end of the term of P3s. Measurement of the asset and related liability will also be dependent on the overall model used to compensate the private sector entity. This standard is effective for fiscal years beginning on or after April 1, 2022 (the Library Board's December 31, 2023 year-end).

(vii) PS 3400, Revenue, establishes a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement. This standard is effective for fiscal years beginning on or after April 1, 2023 (the Library Board's December 31, 2024, year-end).

CITY OF MARKHAM PUBLIC LIBRARY BOARD
Notes to the Financial Statements
Year ended December 31, 2023

1. SIGNIFICANT ACCOUNTING POLICIES

(viii) Public Sector Guideline 8 Purchased Intangibles, allows public sector entities to recognize intangibles purchased through an exchange transaction. This guideline is effective for fiscal years beginning on or after April 1, 2023 (the Library Board's December 31, 2024 year-end).

2. TANGIBLE CAPITAL ASSETS

	Cost				Accumulated Depreciation				Net book value	
	Jan 1, 2023	Additions	Disposals	Dec 31, 2023	Jan 1, 2023	Additions	Disposals	Dec 31, 2023	Dec 31, 2023	Dec 31, 2022
Library Furniture & Fixtures	2,599,218	319,222	(513,010)	2,405,430	1,673,237	213,233	(513,010)	1,373,460	1,031,970	925,981
Library Media Collection	14,893,280	1,276,617	(2,051,393)	14,118,504	9,351,688	1,808,418	(2,051,393)	9,108,713	5,009,791	5,541,592
Total	17,492,499	1,595,840	(2,564,403)	16,523,934	11,024,925	2,021,651	(2,564,403)	10,482,173	6,041,761	6,467,573

3. ACCRUED VACATION PAY

Full-time staff is entitled to carry forward up to fifty percent of the earned vacation, to be used no later than June of the following year.

At year-end, the number of unused vacation days for full-time staff totaled 537.51 days (2022 – 506.01 days).

4. PENSION AGREEMENTS

The Library Board makes contributions to the Ontario Municipal Employees Retirement System (“OMERS”), which is a multi-employer public sector pension plan, on behalf of 147 members (2020 - 180) of its staff. The plan is a defined benefit plan, which specifies the amount of the retirement benefit to be received by the employees based on the length of services and rates of pay.

The amount contributed to OMERS for current services for 2023 was \$921,310 (2022 - \$712,159).

5. DUE FROM THE CITY OF MARKHAM

The amount due from the City is not subject to any specific terms of repayment and does not bear any interest. The amount arises primarily as the result of net current year operations and capital expenditure incurred by the City on behalf of the Markham Public Library Board and is consolidated with the City’s financial statements.

6. BUDGET

The 2023 operating budget, as approved by Council, was adopted by the Library Board at the May 29, 2023, meeting.

7. FINANCIAL INSTRUMENTS

(a) Fair value measurement hierarchy:

All financial instruments must be classified in accordance with the significance of the inputs used in making fair value measurements. The fair value hierarchy prioritizes the valuation techniques used to determine the fair value of a financial instrument based on whether the inputs to those techniques are observable or unobservable:

- Level 1: when valuation can be based on quoted prices in active markets for identical assets and liabilities.
- Level 2: when they are valued using quoted prices for similar assets and liabilities, quoted prices in markets that are not active, or models using inputs that are observable; and
- Level 3: when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable.

Fair value inputs are taken from observable markets where possible, but if they are unavailable, judgement is required in establishing fair value. The Library Boards's fair value hierarchy is classified as Level 1 for all financial assets and liabilities.

(b) Credit Risk:

Credit risk is the risk of a financial loss to the entity if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Such risks arise principally from certain financial assets held by the City consisting of accounts receivables.

As at December 31, 2023 there were no significant balances of accounts receivable due except for the City of Markham as per note 5.

(c) Liquidity Risk:

Liquidity risk is the risk that the entity will not be able to meet its obligations as they become due. The Library Board's objective is to have sufficient liquidity to meet these liabilities when due. The Library Board monitors its cash balance and cash flows generated from operations to meet its liquidity requirements.

(d) Market Risk:

Market risk is the risk that changes in market price, such as foreign exchange rates, interest rates and other price risks, will affect the entity's net results of operations or the fair value of its holdings of financial instruments. The Library Board does not have any market risk.