

INTERLINK FEDERATED PUBLIC
LIBRARY SYSTEM

FINANCIAL STATEMENTS

DECEMBER 31, 2011

INDEPENDENT AUDITOR'S REPORT

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To the Directors of
InterLINK Federated Public Library System

We have audited the accompanying financial statements of InterLINK Federated Public Library System which comprise the statement of financial position as at December 31, 2011 and the statements of operations, changes in net assets, and cash flows 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 generally accepted accounting principles, 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.

Auditor's 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 auditor's judgement, 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

In common with many not for profit organizations, the federation derives revenues from voluntary contributions and other fundraising activities the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the federation and we were not able to determine whether any adjustments might be necessary to revenues, the excess of revenues over expenses, or assets and net assets.

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Independent Auditor's Report
To the Directors of InterLINK Federated Public Library System
March 27, 2012

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of InterLINK Federated Public Library System as at December 31, 2011 and the results of its operations, changes in net assets, and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada
March 27, 2012

Collins Barrow
CHARTERED ACCOUNTANTS

INTERLINK FEDERATED PUBLIC LIBRARY SYSTEM

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2011

	<u>ASSETS</u>	<u>2011</u>	<u>2010</u>
Current assets			
Cash and short-term deposits (note 3)		\$ 1,020,333	\$ 1,042,444
Accounts receivable		16,376	10,257
Prepaid expenses		<u>11,066</u>	<u>5,348</u>
		1,047,775	1,058,049
Capital assets (note 4)		<u>38,240</u>	<u>53,130</u>
		<u>\$ 1,086,015</u>	<u>\$ 1,111,179</u>

LIABILITIES AND NET ASSETS

Current liabilities			
Accounts payable and accrued liabilities		\$ 23,353	\$ 29,054
Deferred revenue		---	10,000
Payable to member libraries		<u>407,954</u>	<u>473,102</u>
		<u>431,307</u>	<u>512,156</u>
Net assets			
Net assets invested in capital assets		38,240	53,130
Net assets internally restricted (note 6)		522,893	496,342
Unrestricted net assets		<u>93,575</u>	<u>49,551</u>
		654,708	599,023
Commitments and contingent liabilities (note 7(b))		<u> </u>	<u> </u>
		<u>\$ 1,086,015</u>	<u>\$ 1,111,179</u>

Approved by the Directors:

_____, Chair

_____, Director

INTERLINK FEDERATED PUBLIC LIBRARY SYSTEM

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>2011</u>	<u>2010</u>
Revenues		
Membership fees	\$ 630,777	\$ 593,037
Grants from the provincial government	600,623	600,623
Audiobooks	383	3,136
Interest and other	13,101	10,694
Non-government grants and fees - Teen Reading Club	14,106	---
Contributions from net service borrowing libraries (note 5)	<u>118,276</u>	<u>124,154</u>
	<u>1,377,266</u>	<u>1,331,644</u>
Expenses		
Amortization	16,490	16,083
Audiobooks - library acquisition, production and supply costs	119,826	108,795
Board/committees/membership	10,254	7,591
Children services programs	12,547	10,536
Courier	45,582	40,132
Office and miscellaneous	57,265	47,272
Professional fees	6,331	6,331
Public relations	4,075	12,245
Rent	12,400	11,724
Salaries and benefits	367,813	397,962
Supplies and contractors - Teen Reading Club	15,917	---
Technical support - Virtual Reference	8,291	---
Vehicle operation	<u>18,560</u>	<u>13,249</u>
	695,351	671,920
Transfers to member libraries and regional resource provider (note 5)	<u>626,230</u>	<u>697,256</u>
	<u>1,321,581</u>	<u>1,369,176</u>
Excess (deficiency) of revenues over expenses for the year	<u>\$ 55,685</u>	<u>\$ (37,532)</u>

INTERLINK FEDERATED PUBLIC LIBRARY SYSTEM

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>2011</u>				<u>2010</u>
	<u>Invested in Capital Assets</u>	<u>Internally Restricted</u>	<u>Unrestricted</u>	<u>Total</u>	<u>Total</u>
Balance, beginning of the year	\$ 53,130	\$ 496,342	\$ 49,551	\$ 599,023	\$ 636,555
Excess (deficiency) of revenues over expenses for the year	(16,490)	---	72,175	55,685	(37,532)
Investment in capital assets	1,600	---	(1,600)	---	---
Internally imposed restrictions (note 6)	---	26,551	(26,551)	---	---
Balance, end of the year	<u>\$ 38,240</u>	<u>\$ 522,893</u>	<u>\$ 93,575</u>	<u>\$ 654,708</u>	<u>\$ 599,023</u>

INTERLINK FEDERATED PUBLIC LIBRARY SYSTEM

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>2011</u>	<u>2010</u>
Cash from (used in) operations		
Excess (deficiency) of revenues over expenses for the year	\$ 55,685	\$ (37,532)
Items not involving cash		
Amortization	<u>16,490</u>	<u>16,083</u>
	72,175	(21,449)
Change in non-cash working capital items:		
Increase in non-redeemable guaranteed investment certificate	(600,623)	---
Increase in accounts receivable	(6,119)	(93)
Increase in prepaid expenses	(5,718)	(1,882)
Increase (decrease) in accounts payable and accrued liabilities	(5,701)	1,643
Increase (decrease) in deferred revenue	(10,000)	10,000
Decrease in payable to member libraries	<u>(65,148)</u>	<u>(23,513)</u>
	<u>(621,134)</u>	<u>(35,294)</u>
Cash used in investing activities		
Capital asset additions	<u>(1,600)</u>	<u>---</u>
Decrease in cash and cash equivalents for the year	(622,734)	(35,294)
Cash and cash equivalents, beginning of the year	<u>1,042,444</u>	<u>1,077,738</u>
Cash and cash equivalents, end of the year	<u>\$ 419,710</u>	<u>\$ 1,042,444</u>

INTERLINK FEDERATED PUBLIC LIBRARY SYSTEM

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2011

1. General information

InterLINK Federated Public Library System ("InterLINK"), a not-for-profit organization, was incorporated under the provisions of the Library Act of British Columbia on April 1, 1994. As a registered charity under the Income Tax Act InterLINK is exempt from federal and provincial income taxes. The primary purpose of InterLINK is to serve member libraries through the provision of open access to library services and the development and implementation of collaborative service efficiencies and enhancements.

InterLINK is dependant upon the Government of British Columbia for a substantial portion of its revenue which it receives in the form of grants.

2. Summary of significant accounting policies

- a) Revenue recognition - InterLINK follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Membership fees and donations are recognized as revenue when they are received. Interest income is recognized as revenue when earned.

- b) Financial instruments - All financial instruments are measured at fair value on initial recognition. After initial recognition financial instruments are measured at their fair values, except for financial assets classified as held-to-maturity or loans and receivables and other financial liabilities, which are measured at cost or amortized cost using the effective interest method. Financial assets classified as available-for-sale that do not have a quoted market price in an active market are measured at cost.
- c) Audiobooks - InterLINK maintains audiobooks for its member libraries and for sale. Audiobook acquisitions and audiobook master tape production costs are charged to operations as incurred.
- d) Capital assets - Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair market value at the date of contribution. Amortization is calculated by the straight-line method over the estimated useful lives of the assets:

Computers and equipment	5 years
Furniture and fixtures	10 years
Leasehold improvements	term of the lease
Vehicle	5 years

- e) Expenses - Expenses are recorded when incurred on an accrual basis.

INTERLINK FEDERATED PUBLIC LIBRARY SYSTEM

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2011

2. Summary of significant accounting policies - continued

- f) Contributed services - Because of the difficulty of determining their fair value, contributed services are not recognized in the financial statements.
- g) 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 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 period. Actual results could differ from those estimates. Significant areas requiring the use of management estimates relate to the determination of useful lives of capital assets for purposes of calculating amortization and the amount payable to member libraries.
- h) Recent accounting pronouncements

In December 2010, the Accounting Standards Board (AcSB) released Part III of the CICA Handbook - Accounting, which consists of accounting standards for not-for-profit organizations, which are effective for fiscal years beginning on or after January 1, 2012. Existing standards for not-for-profit organizations will remain in effect for the time being until the mandatory effective date for adopting the new standards, although earlier application of the new standards is permitted. The federation has continued to apply the existing not-for-profit standards and will review the differences between existing standards and the new standards for not-for-profit organizations to determine the impact of adopting the new standards.

3. Cash and short-term deposits

	<u>2011</u>	<u>2010</u>
Cash	\$ 19,710	\$ 40,216
Cashable guaranteed investment certificates with interest at the rate of 1.2% (2010 - 1%) per annum:		
- National Trust Company, due April 20, 2011	200,000	---
- National Trust Company, due April 5, 2012	---	200,000
- Montreal Trust Company of Canada, due April 20, 2011	---	200,000
- The Bank of Nova Scotia, due April 20, 2012	200,000	---
Three month non-redeemable guaranteed investment certificate:		
- The Bank of Nova Scotia, due February 16, 2011 with interest at the rate of 1.29% per annum	---	<u>602,228</u>
Cash and cash equivalents	419,710	1,042,444
Six month non-redeemable guaranteed investment certificate:		
- Montreal Trust Company of Canada, due June 16, 2012 with interest at the rate of 1.28% per annum	<u>600,623</u>	---
	<u>\$ 1,020,333</u>	<u>\$ 1,042,444</u>

INTERLINK FEDERATED PUBLIC LIBRARY SYSTEM

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2011

4. Capital assets

	<u>2011</u>			<u>2010</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Computers and equipment	\$ 51,263	\$ 48,449	\$ 2,814	\$ 3,812
Furniture and fixtures	18,399	17,014	1,385	1,661
Leasehold improvements	26,838	26,838	---	---
Vehicle	<u>68,081</u>	<u>34,040</u>	<u>34,041</u>	<u>47,657</u>
	<u>\$ 164,581</u>	<u>\$ 126,341</u>	<u>\$ 38,240</u>	<u>\$ 53,130</u>

5. Contributions from net service borrowing libraries and transfers to member libraries and regional resource provider

InterLINK transfers funds to net service provider libraries based on their provision of circulation and reference services to non-residents. InterLINK intends to make transfers in 2012 of \$509,944 to net service provider libraries and \$100,000 to the regional resource provider with respect to 2011 activities. \$407,954 of this amount is included in current liabilities at December 31, 2011 representing a portion of the amount of the provincial government grant received in 2011. The remaining \$201,990 is expected to be funded in 2012 from \$100,000 of membership fees and \$101,990 of contributions from net service borrowing libraries.

6. Net assets internally restricted

During the year, the board of directors allocated amounts between unrestricted and internally restricted net assets, as follows:

	<u>2011</u>	<u>2010</u>
Unrestricted net assets to restricted net assets		
Vehicle replacement reserve	\$ <u>49,551</u>	\$ <u>---</u>
Internally restricted net assets to unrestricted net assets		
General reserve	<u>---</u>	<u>104,464</u>
Program reserve	<u>23,000</u>	<u>---</u>
	<u>23,000</u>	<u>104,464</u>
Net allocation to(from) restricted net assets from (to) unrestricted net assets	26,551	(104,464)
Internally restricted balances, beginning of the year	<u>496,342</u>	<u>600,806</u>
Internally restricted balances, end of the year	<u>\$ 522,893</u>	<u>\$ 496,342</u>

The internally restricted amounts are not available for other purposes without approval of the board of directors.

7. Other information

a) Financial instruments

The federation's financial assets and financial liabilities are classified as held for trading. All transaction costs are recognized immediately in the statement of operations. The federation's financial instruments consist of cash and short-term deposits, accounts receivable, accounts payable and payable to member libraries. It is management's opinion that the federation is not exposed to significant interest, currency or credit risks arising from these financial instruments. The carrying amount of the financial instruments approximate their fair values given their short-term maturities.

b) Commitments and contingent liabilities

See note 5.

The office premises are being leased on a month to month basis.

Certain employees accumulate sick leave entitlement on a monthly basis, but they can only use this entitlement for paid time off under certain circumstances. No provision has been recorded relating to any potential future obligations to the employees as the related cost, if any, is not determinable.

c) Employee pensions

Certain employees of InterLINK are members of a multi-employer defined benefit pension plan. InterLINK's contributions are not segregated in a separate account. A contribution rate is established periodically to ensure that the pension plan assets are adequate to cover the pension plan's future benefit payments. Salaries and benefits expenses on the statement of operations includes \$15,826 (2010 - \$21,047) of contributions by InterLINK to the pension plan.

d) Capital disclosures

InterLINK's capital is comprised of its net assets invested in capital assets, internally restricted net assets (see schedule) and unrestricted net assets. InterLINK is not subject to externally imposed requirements on its capital. The federation's objectives when managing its capital are to maintain flexibility between enabling it to operate efficiently and generating predictable cash flows for continuing operations. The Board of Directors does not establish quantitative return on capital criteria; but rather promotes year over year sustainable surpluses in order to maintain operations.

e) Statement of cash flows

Cash flows from operating activities includes interest income of \$11,991 (2010 - \$10,677).

INTERLINK FEDERATED PUBLIC LIBRARY SYSTEM
SCHEDULE OF INTERNALLY RESTRICTED NET ASSETS
DECEMBER 31, 2011

	Internally Restricted Balances, January 1, 2011	Allocations From (To) Unrestricted Net Assets	Internally Restricted Balances, December 31, 2011
Audiobooks reserve	\$ 81,932	\$ ---	\$ 81,932
Equipment and furnishings reserve	27,226	---	27,226
General reserve	65,645	---	65,645
Internet reserve	30,000	---	30,000
Program reserve	146,724	(23,000)	123,724
Project reserve	121,614	---	121,614
Vehicle replacement reserve	<u>23,201</u>	<u>49,551</u>	<u>72,752</u>
	<u>\$ 496,342</u>	<u>\$ 26,551</u>	<u>\$ 522,893</u>