



STAFF REPORT ACTION REQUIRED

14.

2017 Audited Financial Statements – Toronto Public Library Board

Date:	May 28, 2018
To:	Toronto Public Library Board
From:	City Librarian

SUMMARY

The purpose of this report is to present the Audited Financial Statements for the year ended December 31, 2017 to the Toronto Public Library Board for approval and provide highlights of the Library's 2017 financial results.

RECOMMENDATIONS

The City Librarian recommends that the Toronto Public Library Board:

1. approves the 2017 Audited Financial Statements of the Toronto Public Library Board, appended as Attachment 1.

FINANCIAL IMPACT

These financial statements reflect the 2017 combined results of the spending of the operating and capital budgets. For 2017, there was an operating budget surplus of \$0.069 million [2016 – \$0.246 million], which will be returned to the City. The capital budget was 75.8% [2016 – 95.8%] expended, and the unexpended amount of \$6.428 million [2016 – \$2.688 million] will be carried-forward into the next year.

The Director, Finance & Treasurer has reviewed this financial impact statement and is in agreement with it.

ISSUE BACKGROUND

At the Board meeting of November 20, 2017, PricewaterhouseCooper's (PwC) report on the Audit Plan for the year ending December 31, 2017, which outlined their approach to the audit, was received for information.

The Financial Statements are intended to provide the Board, City, public and other stakeholders an overview of the Library's financial results at the end of the fiscal year and indicate revenues, expenses and funding for the year. The preparation, content and accuracy of the Financial Statements and all other information included in the financial report are the responsibility of management.

The Financial Statements have been prepared in accordance with Canadian public sector accounting standards (PSAS) for local governments as defined by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada.

These Financial Statements have been audited by PwC whose role is to express an independent opinion on the fair presentation of the Library's financial position and operating results, and to confirm that the statements are free from material misstatement. The external auditor's opinion is to provide comfort to third parties that the financial statements can be relied upon.

Financial Statements

The Financial Statements include the following individual statements:

Name	Purpose
Statement of Financial Position	Summarizes the assets (financial and non-financial), liabilities, net debt and accumulated surplus as at year end.
Statement of Operations and Accumulated Surplus	Outlines revenues, expenses, surplus for the year and accumulated surplus at year end. This statement reflects the combined operations of the operating and capital funds for the Library and provides the calculation of the Library's accumulated surplus at year end.
Statement of Change in Net Debt	Outlines the changes in net debt as a result of annual operations and tangible capital asset transactions.
Statement of Cash Flows	Summarizes the Library's cash position and changes during the year by outlining the Library's sources and uses of cash.

The Notes to the Financial Statements provide further detail about the Library's financial results and are an integral part of the Financial Statements.

Statement of Financial Position

The Statement of Financial Position is the municipal equivalent of the private sector's balance sheet. This statement focuses on the Library's assets (financial and non-financial) and liabilities. The difference between the liabilities and financial assets is the Library's net debt, which represents the net amount that must be financed from future budgets.

As a result of significant investment in tangible capital assets, there is a large accumulated surplus. Although tangible capital asset balances are considerable, they do not provide liquidity, and are not typically available for sale, the proceeds of which could be used for other purposes. It is for this purpose that tangible capital assets are not included in the calculation of net debt.

Statement of Operations and Accumulated Surplus

The Statement of Operations and Accumulated Surplus are considered to be the municipal equivalent to the private sector's Statement of Income and Retained Earnings.

The Statement of Operations and Accumulated Surplus provides a summary of revenues, expenses, and surplus throughout the reporting period and outlines the change in accumulated surplus.

PSAS legislation requires the operating and capital budgets as approved by Council be reflected in the Financial Statements and be adjusted for accrual based accounting. The 2017 budget values presented in this statement have been adjusted to reflect the differences between amounts as budgeted at the City and Library on a modified "cash requirements" basis and amounts now recorded in these financial statements on an accrual basis. As described in Note 2 to the financial statements (Budget figures), the total approved operating and capital budgets for 2017 have been combined and reflected in the statement of operations and accumulated surplus. The budget for acquisition of tangible capital assets, primarily comprised of expenditures of the capital budget and for library collections, results in a budget surplus.

Statement of Change in Net Debt

The Statement of Changes in Net Debt is unique to governments. This statement focuses on the debt of the Library, adjusting the annual surplus for the impact of tangible capital assets; mainly deducting the costs to acquire tangible capital assets and adding back amortization charged during the year.

Statement of Cash Flow

The Statement of Cash Flows summarizes the Library's cash position and changes during the year. It segregates the Library's sources (inflows) and uses (outlay) of cash into three sections: Operating activities, Capital activities and Financing activities.

COMMENTS

The draft Audited Financial Statements for the year ended December 31, 2017 are appended as Attachment 1 and provide details of the state of the Library's finances at the end of the fiscal year, and the revenues and expenses for the year ended December 31, 2017. The financial statements are considered draft until approved by the Library Board.

The auditors provided an unqualified opinion in the Auditors' Report contained in the Financial Statements (pages 2 to 3 of Attachment 1). An unqualified opinion means that the Financial Statements are presented fairly in all material respects.

Budget Monitoring Reports

At the Board meeting on April 30, 2018, the 2017 results of spending the operating and capital budgets were presented for information. [The Operating Budget Monitoring Report – December 31, 2017](#) showed an operating surplus of \$0.069 million, which will be returned to the City and is reflected in the financial statements as payable to the City (see Table 2 on page 6). The [Capital Budget Monitoring Report – December 31, 2017](#) showed a 75.8% expenditure rate, and the unexpended amount of \$6.428 million will be carried forward into the next year. The \$4.575 million City portion of the capital carry-forward is reflected in the financial statements as payable to the City (see Table 2 on page 6).

Budget Figures

Budget figures in the audited financial statements, are based on the 2017 original operating and capital budgets approved by City Council. However, in the Operating and Capital Budget Monitoring Reports, the Council-approved 2017 operating and capital budget figures also include in-year Council-approved adjustments.

Detailed Review of Statement of Financial Position

(M= millions; K=thousands)

A more detailed review of the Statement of Financial Position is provided in the following section:

Table 1 – Statement of financial position variance (2017 vs. 2016)

	Actual 2017	Actual 2016	Increase / (Decrease)
Financial assets			
Cash and cash equivalents	14,006,616	10,876,052	3,130,564
Accounts receivable:			
City of Toronto (Table 2)	17,430,561	9,650,768	7,779,793
Other accounts receivable (Table 3)	3,948,410	4,020,919	(72,509)
	35,385,587	24,547,739	10,837,848
Liabilities			
Accounts payable and accrued liabilities:			
City of Toronto (Table 2)	6,016,570	-	6,016,570
Other accounts payable (Table 4)	25,357,816	21,790,545	3,567,271
Deferred revenue	2,132,170	1,338,058	794,112
Employee benefits (Table 5)	84,420,159	86,441,642	(2,021,483)
Payable to Canada Life Assurance Company	148,424	335,853	(187,429)
	118,075,139	109,906,098	8,169,041
Net debt	(82,689,552)	(85,358,359)	2,668,807
Tangible capital assets (Table 7)	325,374,100	309,506,934	15,867,166
Accumulated surplus (Table 8)	242,684,548	224,148,575	18,535,973

Cash and cash equivalents

Cash and cash equivalents increased by \$3.1M to \$14.0M [2016 – \$10.9M].

Accounts receivable – City of Toronto (Note 3)

The breakdown of accounts receivable from the City of Toronto at year-end with prior year comparatives is as follows:

Table 2 – Account receivable and Account Payable to City of Toronto

	2017	2016	Increase / (Decrease)
2017 approved City budget funding receivable - operating	14,402,760	4,094,300	10,308,460
2017 approved City budget funding receivable - capital	4,944,185	4,764,603	179,582
	19,346,945	8,858,903	10,488,042
Rental receivable	-	40,482	(40,482)
Operating expenses	(460,169)	-	(460,169)
Operating surplus payable to City	(69,490)	(246,233)	176,743
Hydro charges payable	(1,386,725)	-	(1,386,725)
Capital project funding receivable	-	1,437,683	(1,437,683)
Unexpended capital advance (carry-forward) – City portion	-	(440,067)	440,067
Account receivable from City of Toronto	17,430,561	9,650,768	7,779,793
Capital project funding payable (Dawes Road)	(1,440,632)	-	1,440,632
Unexpended capital advance (carry-forward) – City portion	(4,575,938)	-	4,575,938
Account payable to City of Toronto	(6,016,570)	-	6,016,570

The \$17.4M account receivable from the City in 2017 is comprised mainly of \$19.3M related to the approved 2017 City budget funding, which was received in early 2018, offset by \$1.4M of payables relating to hydro charges. The \$6.0M payable to City is due to an unexpended capital advance of \$4.6M and \$1.4M funding for Dawes Road.

Other accounts receivable

The breakdown of other accounts receivable at year-end with prior year comparatives is as follows:

Table 3 – Other receivable

	2017	2016	Increase / (Decrease)
Canada Revenue Agency – HST rebate	2,467,758	3,408,509	(940,751)
Landlord contribution receivable (Eglinton Square branch)	339,000	-	339,000
Canada 150 grant receivable	661,375	158,156	503,219
Other	480,277	454,254	26,023
Total Other accounts receivable	3,948,410	4,020,919	(72,509)

Other accounts receivable increased by \$0.1M to \$3.9M [2016 – \$4.0M] mainly due to a decrease in HST rebate receivable from Canada Revenue Agency netted against Landlord contributions and Canada 150 grant receivable for capital projects. In 2017, the Canada 150 grant receivable of \$661K has been received by the City and therefore should have been offset against the unexpended capital advance in Table 2. This is an unrecorded adjustment in the 2017 financial statements.

Accounts payable and accrued liabilities

The breakdown of other accounts payable and accrued liabilities at year-end with prior year comparatives is as follows:

Table 4 – Accounts payable and accrued liabilities

	2017	2016	Increase / (Decrease)
Salaries and benefits payable	9,961,455	9,743,615	217,840
Accounts payable and accruals	13,847,201	10,125,424	3,721,777
Holdback payable on construction contracts	1,549,160	1,921,506	(372,346)
Total accounts payable and accrued liabilities	25,357,816	21,790,545	3,567,271

Accounts payable and accruals increased by \$3.6M mainly due to costs related to North York Central Library renovation.

Deferred Revenue (Note 2)

Deferred revenue is comprised of the balance of funds that have been received in the form of funding from the Foundation or grants for specific programs, which have not yet been expended. Programs include Kids Stop, Summer Reading Club, Museum and Arts Pass and Leading to Reading.

Employee Benefit Liabilities (Note 4)

The City has employed the services of Morneau Shepell, a third party valuation expert, to value the gross employee benefits liability (identified as ‘employee benefits’ in Note 4 of the Financial Statement). Towards the end of 2015, the Library provided the necessary information on the composition of its workforce and benefits plans to the City. At the end of 2017, the Library’s gross employee benefits liability (identified as Accrued Benefit Obligation in Note 4) decreased by \$3.4M to \$60.2M [2016 – \$63.6M]. The decrease in the liability is due mainly to the Government of Ontario’s introduction, starting January 1, 2018, of a universal prescription medication program (“OHIP+”) for children and youth that are age 24 and under. The OHIP+ plan reduces the expected claims costs for dependent children/youth drug claims. The last full valuation at December 31, 2015 had an explicit assumption for dependent children/youth claims.

Table 5 – Net employee benefits

	2017	2016	Increase / (Decrease)
Post-retirement benefits	28,910,539	31,815,147	(2,904,608)
Disabled employees' benefits	6,117,063	6,361,018	(243,955)
Income benefits	7,479,416	7,646,122	(166,706)
Sick leave benefits	16,944,644	17,291,462	(346,818)
WSIB	737,917	507,546	230,371
Employee Benefits/Accrued Benefit Obligation	60,189,579	63,621,295	(3,431,716)
Net unamortized actuarial gain / (loss)	24,230,580	22,820,347	1,410,233
Total Net Employee Benefits	84,420,159	86,441,642	(2,021,483)

The net employee benefits liability decreased by \$2.0M to \$84.4M [2016 – \$86.4M]. The components of the decrease are due to a \$3.4M decrease in accrued benefit obligation and a \$1.4M increase in the net unamortized actuarial gain / (loss) calculated as follows:

Table 6 – Net unamortized actuarial gain

	2017	2016
Unamortized gain – beginning of year	22,820,347	23,720,403
Amortization of net actuarial gain (A)	(1,859,680)	(1,788,064)
Actuarial gain (B)	3,269,913	888,008
Net unamortized gain – end of year (C)	24,230,580	22,820,347

Net actuarial gains and losses are amortized (A) over the expected average remaining service life of the employee group, which ranges from 12 to 16 years. In 2017, the actuarial gain is \$3.3M (2016 - \$0.9M). The 2017 actuarial gain was as a result of the introduction of the OHIP+ program. The amortization of the net actuarial gain is \$1.9M (2016 – \$1.8M). This is as a result of the 2015 actuarial gain of \$17.1M being amortized.

The net unamortized actuarial gain (C) of \$24.2M represents the remaining balance of annual actuarial gains/(losses) that has not yet been fully amortized.

An unamortized actuarial gain balance is added to the gross employee benefits obligation and an unamortized actuarial loss balance is deducted. The annual unamortized actuarial gain/(loss) balance (C) is drawn down as the actuarial gain/(loss) becomes fully amortized.

Long-Term Payables (Note 5)

The payable to Canada Life Assurance Company decreased by \$188K to \$148K [2016 – 336K] and represents the balance of the 2001 energy efficiency loan, which is being repaid from energy savings.

Change in Net Debt (Statement of Changes in Net Debt of Attachment 1)

Net debt is calculated as liabilities (e.g. trade and employment payables and loans) less financial assets (e.g. cash and cash equivalents and receivables), and represents the net amount that must be financed by future budgets.

The Library's net debt at year-end decreased by \$2.7M to \$82.7M [2016 – \$85.4M]. This decrease in the Library's net debt is primarily due to the decrease in employee benefits liability and the change in the unspent City portion of capital funding.

While the City issues long-term debt to finance certain of its operations, none of the debt or associated financing costs are allocated to the Library.

Tangible Capital Assets (Notes 2 and 7)

Note 2 outlines the Library's significant accounting policies and provides an overview of the policy for recording tangible capital assets.

The breakdown of tangible capital assets at year-end with prior year comparatives is as follows:

Table 7 – Tangible capital assets

	2017			2016
	Cost	Accumulated Amortization	Net	Net
Land	15,376,262	-	15,376,262	15,376,262
Building and leasehold improvements	303,258,180	96,548,253	206,709,927	188,432,688
Furniture, fixtures and equipment	57,721,832	26,141,064	31,580,768	29,449,773
Vehicles	3,349,596	2,174,043	1,175,554	1,405,942
Library materials	114,398,247	55,768,910	58,629,336	57,174,256
Assets under construction	11,902,253	-	11,902,253	17,668,013
Total Tangible Capital Assets	506,006,370	180,632,270	325,374,100	309,506,934

The net value of the Library's tangible capital assets increased by \$15.9M, mainly due to capital projects related primarily to Albion, Dawes Road and North York Central Library renovations. During the year, asset additions totalled \$49.2M, comprised of building improvements of \$19.0M, furniture and equipment of \$10.0M and library collections of \$20.2M.

During the year, accumulated amortization of tangible capital assets increased \$8.6M net to \$180.6M [2016 – \$172.0M].

Accumulated Surplus

The 2017 actual accumulated surplus as shown on the Statement of Financial Position (page 4 of Attachment 1) is \$242.7M. The accumulated surplus is a product of applying PSAS accounting and is comprised of the net book value of tangible capital assets, employee benefit liability and other liabilities less financial assets:

Table 8 – Accumulated surplus

	2017	2016
Purchase of Tangible Capital Assets	506,006,370	481,511,279
Accumulated amortization	(180,632,270)	(172,004,345)
Net book value of Tangible Capital Assets	325,374,100	309,506,934
Employee benefits liability	(84,420,159)	(86,441,642)
Other liabilities less financial assets	1,730,607	1,083,283
Accumulated Surplus – End of year (Table 1)	242,684,548	224,148,575

Annual Surplus

There are two annual surpluses for the year on the Statement of Operations and Accumulated Surplus (page 5 of Attachment 1; breakdown shown in Table 10):

1. Budget Surplus for the year: \$16.4M
2. PSAS Actual Surplus for the year: \$18.5M

The third surplus disclosed in Note 3 is the \$69K under spending of the approved operating budget, which is returned to the City.

The reconciliation of the operating budget surplus returned to the City to the PSAS annual surplus is shown below:

Table 9 – Reconciliation of Surplus for the year

	2017	2016
Operating Budget Surplus	69,490	246,233
Surplus Returned to the City	(69,490)	(246,233)
Balance	-	-
Net increase in net book value of Tangible Capital Assets (Table 1)	15,867,166	16,442,014
Increase / (Decrease) in unspent non-debt Capital and Library Material funding	459,895	315,628
Net decrease / (increase) in employee benefit liability (Table 1)	2,021,483	2,033,865
Net increase in employee benefit vacation liability	-	(13,435)
Net decrease in energy savings loan (Table 1)	187,429	172,911
PSAS Surplus for the year	18,535,973	18,950,983

As described in Note 2, the audited budget on the financial statements is the sum of the approved 2017 operating and capital budgets, which have been adjusted for PSAS accounting, with a resulting budget surplus of \$16.4M comprised of expenditures for the capital budget and library collections, less amortization. The budget surplus is compared to the PSAS surplus below:

Table 10 – Annual surplus (budget vs. actual)

	Budget Surplus	PSAS Actual Surplus
Capital budget expenditure	30,000,112	28,951,739
Operating budget expenditure – Library materials	19,752,354	20,254,511
Tangible assets gross amount [a]	49,752,466	49,206,250
Amortization – Capital budget expenditure	(14,539,653)	(14,539,653)
Amortization – Operating budget expenditure – Library materials	(18,799,431)	(18,799,431)
Total amortization [b]	(33,339,084)	(33,339,084)
Tangible assets net book value [c = a + b]	16,413,382	15,867,166
Post-retirement and post-employment benefit expense (Table 5)	-	2,021,483
Other	-	647,324
Surplus for the year	16,413,382	18,535,973

Detailed Review of Statement of Operations and Accumulated Surplus

Revenues

The following chart breaks down the total revenues (operating and capital) by funding source. The Library's primary source of funding comes from the City of Toronto (92.4%).

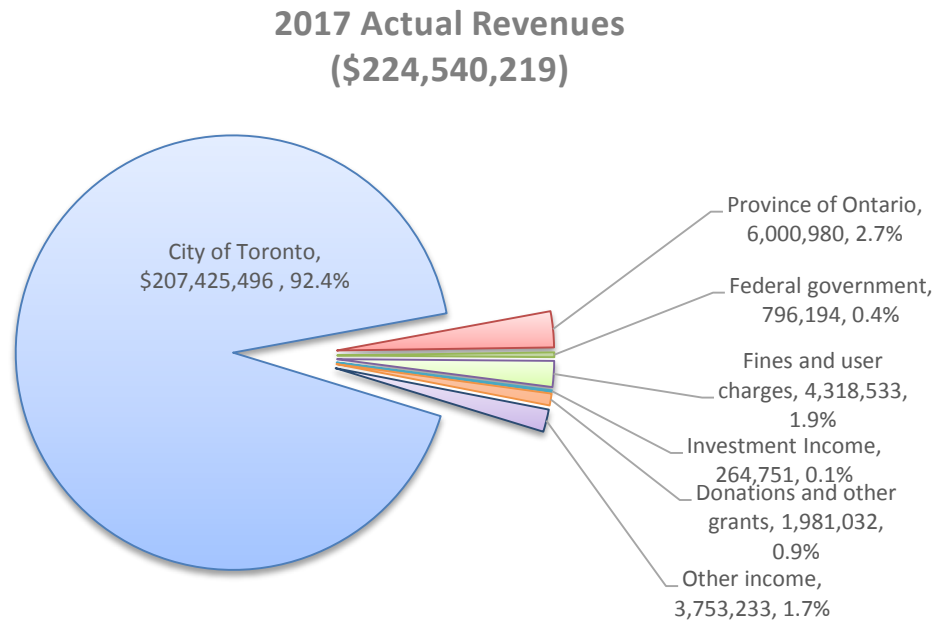


Figure 1 – Pie chart showing actual revenue amounts and percentages by funding source.

Table 11 – Current year revenues and prior year comparatives

	2017 Actual as % of Total	2017 Budget	2017 Actual	Variance Favourable / (Unfavourable)	2016 Actual
City of Toronto	92.4	213,141,387	207,425,496	(5,715,891)	206,002,944
Province of Ontario	2.7	5,678,427	6,000,980	322,553	6,230,181
Federal government	0.4	557,312	796,194	238,882	251,239
Fines and user charges (see Table 12) ¹	1.9	5,062,195	4,318,533	(743,662)	4,480,557
Investment income	0.1	139,500	264,751	125,251	202,550
Donations and other grants	0.9	162,800	1,981,032	1,818,232	3,710,465
Other income (see Table 13) ¹	1.7	1,987,800	3,753,233	1,765,433	2,868,689
Total Revenues	100.0	226,729,421	224,540,219	(2,189,202)	223,746,625

¹ Included in \$5,062,195 budget for *Fines and user charges* is \$1,097,500 that should have been categorized as *Other income*. Similarly, the variances for both categories should be adjusted by that same amount.

Revenues for 2017 totalled \$224.5M [2016 – \$223.7M], which is \$2.2M less than budget, due mainly to \$5.7M decrease in City of Toronto funding as a result of \$4.6M of unexpended

capital advance returned to the City, and \$1.1M of in-year budget adjustments not reflected in the 2017 budget. Offsetting this funding decrease are a \$1.8M funding increase from the Toronto Public Library Foundation and \$0.9M miscellaneous revenue primarily due to landlord contribution for the renovation of Eglinton Square Branch.

Fines and user charges primarily consist of overdue fines and lost items. The breakdown at year-end with prior year comparatives is as follows:

Table 12 – Fines and user charges

	2017	2016	Variance
Fines	2,528,564	2,773,896	(245,332)
Equipment & facility rentals	864,837	820,452	44,385
Photocopier receipts	813,648	782,578	31,070
Other charges	111,484	103,631	7,853
Fines and user charges	4,318,533	4,480,557	(162,024)

The reduction in fines revenue results from a combination of reduced fined rates approved by the Board and implemented late in 2016 and temporary branch closures.

Other income consists primarily of tenant rentals and revenue from premium venue space rentals. Miscellaneous income is comprised mainly of a one-time landlord contribution towards the renovation of Eglinton Square Branch. The breakdown at year-end with prior year comparatives is as follows:

Table 13 – Other income

	2017	2016	Variance
Tenant rentals	1,713,407	1,635,173	78,234
Premium venue space rentals	1,003,591	783,758	219,833
Sale of merchandise	136,451	122,770	13,681
Miscellaneous	899,784	326,988	572,796
Total Other Income	3,753,233	2,868,689	884,544

Expenses

The following chart breaks down the expenses by category. Staff costs accounted for the largest portion at 68.2% of the total amount.

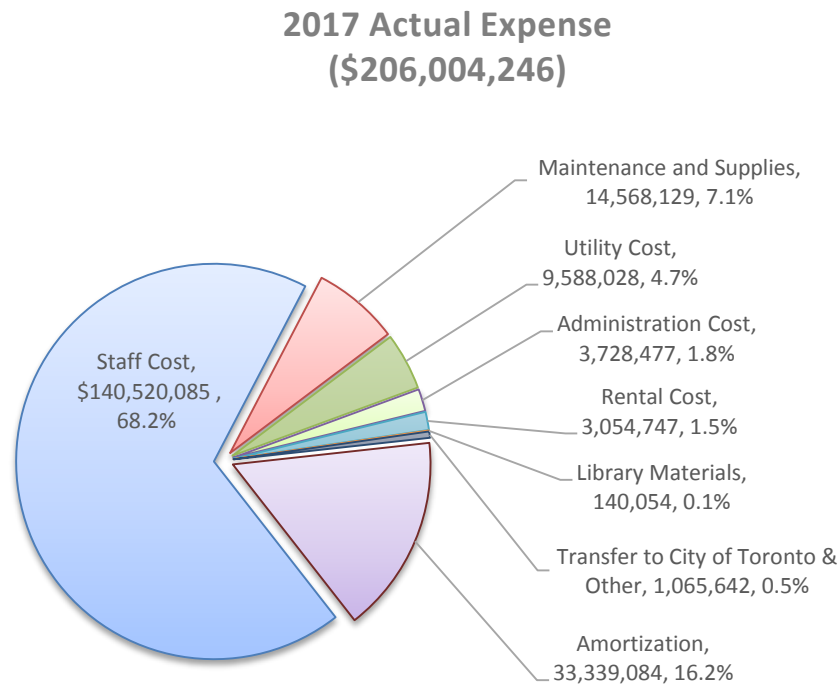


Figure 2 – Pie chart showing actual expense amounts and percentages.

The library materials shown in the chart represent only donations to special collections, which are expensed. Note that \$19.7M of expenditure on library collections, which is part of the approved operating budget, is treated as an addition to tangible capital assets.

Table 14 – Current year expenses and prior year comparatives

	2017 Actual as % of Total	2017 Budget	2017 Actual	Variance Favourable / (Unfavourable)	2016 Actual
Staff costs	68.2	147,576,330	140,520,085	7,056,245	142,356,420
Maintenance and supplies	7.1	13,290,947	14,568,129	(1,277,182)	14,479,062
Utility cost	4.7	9,413,336	9,588,028	(174,692)	9,385,065
Administration cost (Table 15)	1.8	2,803,551	3,728,477	(924,926)	3,552,045
Rental cost	1.5	2,951,451	3,054,747	(103,296)	2,651,349
Library materials	0.1	-	140,054	(140,054)	191,664
Transfers to City of Toronto and other	0.5	941,340	1,065,642	(124,302)	195,893
Amortization	16.2	33,339,084	33,339,084	-	31,984,145
Total Expenses	100.0	210,316,039	206,004,246	4,311,793	204,795,643

Expenses for 2017 totalled \$206.0M [2016 – \$204.8M], which is \$4.3M less than budget, primarily due to a \$7.1M under-expenditure in staff costs, partially offset by increased spending in maintenance and supplies (\$1.3M) mainly due to ageing buildings and increased security guard services, and administration cost (\$0.9M) mainly due to enhanced spending on specific library initiatives funded by the TPL Foundation. The under-expenditure in staff costs was mainly due to a decrease in employee benefits liability payable, savings from closure of North York Central Library for renovations and lower than budgeted expenditures in benefit costs.

Table 15 – Administration cost

	2017 Budget	2017 Actual	Variance	2016 Actual
Professional & other services	839,238	1,189,794	(350,557)	877,797
Training & mileage	592,159	678,969	(86,810)	674,246
Supplies & services	36,337	80,145	(43,807)	34,450
Programs, printing & advertising	1,335,817	1,779,570	(443,753)	1,965,552
Total Administration cost	2,803,551	3,728,477	(924,926)	3,552,045

Administration cost for 2017 totalled \$3.7M [2016 – \$3.6M], which is \$0.9M higher than budget, mainly due to a \$0.4M increase in programs, printing & advertising expenses, which is funded by the Toronto Public Library Foundation, and \$0.3M over-expenditure in professional & other services is due to higher technical consulting and legal costs.

CONCLUSION

The financial statements are considered draft until four outstanding matters are cleared: update on legal confirmations; subsequent events procedures; the receipt of a signed management representation letter; and Board approval of the draft financial statements.

A representative from PwC will be in attendance at the Board meeting.

CONTACT

Larry Hughsam; Director, Finance & Treasurer; Tel: 416-397-5946;
Email: lhughsam@torontopubliclibrary.ca

SIGNATURE

Vickery Bowles
City Librarian

ATTACHMENTS

Attachment 1: Audited Financial Statements - Toronto Public Library Board - December 31,
2017

DRAFT

Toronto Public Library Board

**Financial Statements
December 31, 2017**

DRAFT

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT
NOT TO BE FURTHER COMMUNICATED**

@@@, 2018

Independent Auditor's Report

To the Members of Toronto Public Library Board

We have audited the accompanying financial statements of Toronto Public Library Board, which comprise the statement of financial position as at December 31, 2017 and the statement of operations and accumulated surplus, change in net debt and cash flows for the year then ended, and the related notes, which comprise 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 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.

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 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 audit opinion.

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT
NOT TO BE FURTHER COMMUNICATED**

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Toronto Public Library Board at December 31, 2017 and the results of its operations, change in net debt and its cash flow for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Professional Accountants, Licensed Public Accountants

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT
NOT TO BE FURTHER COMMUNICATED**

Toronto Public Library Board

Statement of Financial Position

As at December 31, 2017

	2017 \$	2016 \$
Financial Assets		
Cash and cash equivalents	14,006,616	10,876,052
Accounts receivable		
City of Toronto (note 3)	17,430,561	9,650,768
Other accounts receivable (note 3)	3,948,410	4,020,919
	<u>35,385,587</u>	<u>24,547,739</u>
Liabilities		
Accounts payable and accrued liabilities		
City of Toronto (note 3)	6,016,570	-
Other accounts payable and accrued liabilities	25,357,816	21,790,545
Deferred revenues (note 3)	2,132,170	1,338,058
Employee benefits (note 4)	84,420,159	86,441,642
Payable to Canada Life Assurance Company (note 5)	148,424	335,853
	<u>118,075,139</u>	<u>109,906,098</u>
Net debt	(82,689,552)	(85,358,359)
Non-financial assets		
Tangible capital assets (note 7)	<u>325,374,100</u>	<u>309,506,934</u>
Accumulated Surplus		
Accumulated operating surplus	<u>242,684,548</u>	<u>224,148,575</u>
Lease commitments and contingencies (notes 6 and 8)		

Approved by the Board

Toronto Public Library Board Chair

City Librarian

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

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT
NOT TO BE FURTHER COMMUNICATED**

Toronto Public Library Board

Statement of Operations and Accumulated Surplus

For the year ended December 31, 2017

	Budget \$ (note 2)	Actual 2017 \$	Actual 2016 \$
Revenues			
City of Toronto (note 3)	213,141,387	207,425,496	206,002,944
Province of Ontario	5,678,427	6,000,980	6,230,181
Federal government	557,312	796,194	251,239
Fines and user charges	5,062,195	4,318,533	4,480,557
Investment income	139,500	264,751	202,550
Donations and other grants (note 3)	162,800	1,981,032	3,710,465
Other income	1,987,800	3,753,233	2,868,689
	<u>226,729,421</u>	<u>224,540,219</u>	<u>223,746,625</u>
Expenses			
Staff costs	147,576,330	140,520,085	142,356,420
Maintenance and supplies	13,290,947	14,568,129	14,479,061
Utility costs	9,413,336	9,588,028	9,385,065
Administration costs	2,803,551	3,728,477	3,552,045
Rental costs	2,951,451	3,054,747	2,651,349
Library materials	-	140,054	191,664
Transfers to City of Toronto and other (note 3)	941,340	1,065,642	195,893
Amortization of tangible capital assets	33,339,084	33,339,084	31,984,145
	<u>210,316,039</u>	<u>206,004,246</u>	<u>204,795,642</u>
Surplus for the year	<u>16,413,382</u>	18,535,973	18,950,983
Accumulated surplus - Beginning of year		<u>224,148,575</u>	<u>205,197,592</u>
Accumulated surplus - End of year		<u>242,684,548</u>	<u>224,148,575</u>

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

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT
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Toronto Public Library Board**Statement of Change in Net Debt****For the year ended December 31, 2017**

	2017 \$	2016 \$
Surplus for the year	18,535,973	18,950,983
Acquisition of tangible capital assets	(49,206,250)	(48,426,157)
Amortization of tangible capital assets	33,339,084	31,984,145
Change in net debt	2,668,807	2,508,971
Net debt - Beginning of year	(85,358,359)	(87,867,330)
Net debt - End of year	(82,689,552)	(85,358,359)

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

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT
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Toronto Public Library Board

Statement of Cash Flows

For the year ended December 31, 2017

	2017 \$	2016 \$
Cash provided by (used in)		
Operating activities		
Surplus for the year	18,535,973	18,950,983
Items not affecting cash		
Amortization of tangible capital assets	33,339,084	31,984,145
Employee benefits expense	(2,021,483)	(2,033,865)
	49,853,574	48,901,263
Changes in non-cash assets and liabilities		
Accounts receivable	(7,707,284)	(4,823,748)
Accounts payable and accrued liabilities	9,583,841	5,744,192
Deferred revenues	794,112	(543,751)
	52,524,243	49,277,956
Capital activities		
Acquisition of tangible capital assets	(49,206,250)	(48,426,157)
Financing activities		
Principal repayment of Canada Life Assurance Company payable	(187,429)	(172,912)
Increase in cash and cash equivalents during the year	3,130,564	678,887
Cash and cash equivalents - Beginning of year	10,876,052	10,197,165
Cash and cash equivalents - End of year	14,006,616	10,876,052

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

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT
NOT TO BE FURTHER COMMUNICATED**

Toronto Public Library Board**Notes to Financial Statements****December 31, 2017****1 Operations**

The Toronto Public Library Board (the Board or the Library) is a local board of the City of Toronto (the City) deemed to be a public library board established under the Public Libraries Act (Ontario) and is responsible for providing public library services that reflect the community's unique needs. The Public Libraries Act (Ontario) has also designated the Board as a special library service board to provide library resources and services to the Ontario library community.

The Board is not subject to income taxes under Section 149(1) of the Income Tax Act (Canada).

The Toronto Public Library Foundation (the Foundation) has responsibility for most of the fundraising activities for the Library. Fundraising efforts of the Foundation are to benefit the Library. The Foundation's net assets, revenues and expenses are not included in these financial statements (note 3).

2 Summary of significant accounting policies**Basis of accounting**

These financial statements have been prepared in accordance with Canadian public sector accounting standards (PSAS) for local governments as defined by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. A summary of the significant accounting policies is as follows:

Revenue recognition

Government transfers, which include municipal, provincial and federal grants, are recognized in the year in which 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.

Donations and other grants are recognized as revenue when received or receivable if the amount to be received can be reasonably measured and collection is reasonably assured. Donations and other grants received that have restrictions are recognized as revenue to the extent the funds have been spent, with any unspent amounts recorded as deferred revenue.

Revenues from user charges and other related services are recognized at the point of sale or when services have been provided and collection is reasonably assured. Investment income earned on available current funds is reported as revenue in the year earned.

Cash and cash equivalents

Cash and cash equivalents include cash on deposit, money market funds and short-term securities with original terms to maturity of less than 90 days.

Included in cash is \$159,216 (2016 - \$210,074) of restricted amounts held in trust for employees eligible for the sabbatical leave program and a \$299,750 Irrevocable Standby Letter of Credit issued for a construction project.

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT
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Toronto Public Library Board

Notes to Financial Statements

December 31, 2017

Materials and supplies

Materials and supplies purchased for consumption in the Library's activities are reported as an expense on the statement of operations and accumulated surplus in the year of acquisition.

Tangible capital assets

Tangible capital assets are non-financial assets that 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.

Purchased tangible capital assets are recorded at cost. Contributed tangible capital assets are recorded at fair value at the date of contribution. The Board recognizes disposals when the tangible capital assets are considered fully amortized, which is at the end of the useful life for capital assets and vehicles and at the end of the lease for leasehold improvements, or when the asset has been disposed of. Amortization is recognized on a straight-line basis over their estimated useful lives as follows:

Buildings	50 years
Leasehold improvements	term of the lease or useful life estimated by management
Furniture, fixtures and equipment	5 to 20 years
Vehicles	8 to 12 years
Library materials	6 years

Assets under construction are not amortized until the date of substantial completion.

Contributed rare books and other collections are expensed in the year received.

The cost of normal maintenance and repairs, which does not significantly enhance the service potential of tangible capital assets, is recognized as an expense in the year it has been incurred.

Impairment of tangible capital assets

The Board reviews the carrying amount, amortization and useful lives of its tangible capital assets regularly. If the capital asset no longer has any long-term service potential to the Board, the excess of the net carrying amount over any residual value is recognized as an expense in the statement of operations.

Contributed materials and services

Donated materials and services are not recorded in the financial statements except for special collections and works of art, which are measured at fair value. During the year there were contributions of special collections of \$144,538 (2016 - \$356,778) and works of art of \$13,660 (2016 - \$45,161), which have been recorded as revenues and expenses in the statement of operations and accumulated surplus.

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT
NOT TO BE FURTHER COMMUNICATED**

Toronto Public Library Board**Notes to Financial Statements****December 31, 2017****Employee benefits**

The Board has adopted the following policies with respect to employee benefit plans:

- the Board makes contributions to the Ontario Municipal Employees' Retirement System plan (OMERS), a multi-employer pension plan, on behalf of most of its employees. OMERS is a defined benefit plan, which specifies the amount of the retirement benefit to be received by the employees, based on the length of service and rates of pay. Employees and employers contribute jointly to the plan. The Board's contributions to OMERS are expensed when contributions are due, as the plan is accounted for as a defined contribution plan;
- the costs of termination benefits and compensated absences are recognized when the event that obligates the Board occurs. Costs include projected future income payments, health-care continuation costs and fees paid to independent administrators of these plans, calculated on a present value basis;
- the costs of other employee benefits are actuarially determined using the projected benefits method prorated on service and management's best estimate of retirement ages of employees, salary escalation, expected health-care costs and plan investment performance;
- past service costs from plan amendments related to prior years' employee services are accounted for in the year of the plan amendment;
- employee future benefit liabilities are discounted using the City's cost of borrowing;
- net actuarial gains and losses are amortized over the expected average remaining service life of the related employee group, which ranges from 12 to 16 years; and
- the effects of a gain or loss from settlements or curtailments are expensed in the year they occur.

Financial instruments

PSAS allows the Library to classify its financial instruments as either fair value or amortized cost. Currently, the Library does not classify any financial instruments at fair value. Financial instruments carried at amortized cost include accounts receivable and accounts payable and accrued liabilities. They are initially recognized at cost and subsequently carried at amortized cost, less any impairment losses on financial assets, except for contributions, which are initially recognized at fair value.

Writedowns on financial assets in the amortized cost category are recognized when the amount of a loss is known with sufficient precision, and there is no realistic prospect of recovery. Financial assets are then written down to net recoverable value with the writedown recognized in the statement of operations and accumulated surplus.

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Toronto Public Library Board

Notes to Financial Statements

December 31, 2017

Budget figures

Budget data presented is based on the 2017 operating and capital budgets approved by the City's council. Adjustments to budgeted values were required to provide comparative budget values based on the PSAS basis of accounting. The following chart reconciles the approved budget with the budget figures as presented in the statement of operations and accumulated surplus.

	Budget amount \$
Revenues	
Approved budgets	
Operating	199,047,202
Capital	30,000,112
Less: Inter-budget transfers	<u>(2,317,893)</u>
	<u>226,729,421</u>
Expenses	
Approved budgets	
Operating	199,047,202
Capital	30,000,112
Less: Inter-budget transfers	<u>(2,317,893)</u>
	<u>226,729,421</u>
Adjustments	
Tangible capital assets	
Library materials - included in operating expenses	(19,752,354)
Building and equipment - capitalized for GAAP purposes	(30,000,112)
Amortization	<u>33,339,084</u>
	<u>210,316,039</u>
Adjusted annual budget surplus on PSAS basis	<u>16,413,382</u>

Use of estimates

The preparation of the financial statements in accordance with PSAS requires management to make estimates and assumptions. The employee benefits liability and related costs charged to the statement of operations and accumulated surplus depend on certain actuarial and economic assumptions. These estimates and assumptions are based on the Board's best information and judgment and may differ significantly based on actual results.

3 Related party balances and transactions

City of Toronto

As part of the terms of the agreement between the Board and the City, the Board is funded by the City as approved in its operating and capital budgets on an annual basis. Any operating excess or deficiency and any unexpended capital project funding is to be transferred to or recovered from the City. In addition, in the normal

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Toronto Public Library Board

Notes to Financial Statements

December 31, 2017

course of operations, the Board incurs costs for various expenses payable to the City. Such transactions between the City and the Board are made at the agreed exchange amount. The Board also manages on behalf of the City the capital program for libraries. As a result, the Board will incur capital expenses that are recoverable from the City.

Accounts receivable from (payable to) the City consist of the following:

	2017 \$	2016 \$
City funding receivable	19,346,945	8,858,903
Rental receivable	-	40,482
Operating expenses	(460,169)	-
Operating surplus payable	(69,490)	(246,233)
Hydro charges	(1,386,725)	-
Capital project funding receivable	-	1,437,683
Unexpended capital advance	-	(440,067)
City of Toronto Receivables	17,430,561	9,650,768
Capital project funding payable	(1,440,632)	-
Unexpended capital advance	(4,575,938)	-
City of Toronto Payable	(6,016,570)	-
City of Toronto, net receivable	11,413,991	9,650,768

Payments to the City that are included in the statement of operations and accumulated surplus consist of the following:

	2017 \$	2016 \$
Maintenance	394,053	371,414
Rent	586,541	506,465
Construction	125,928	278,751
Utilities	5,604,906	6,072,096
Other	187,408	143,483
	6,898,836	7,372,209

The Board received \$289,423 (2016 - \$274,961) from the City, consisting of \$254,048 (2016 - \$257,471) in rental income and \$35,375 (2016 - \$17,490) in miscellaneous income.

The Board contributes to a fund held by the City that provides funding for vehicle, property and liability insurance claim payments and related legal and adjusting expenses. The fund is established for insurance claim costs below deductible levels and for payments that exceed insurance coverage levels. Contributions are paid to the City, which makes insurance premium payments on behalf of the Board. During the year, the Board made \$609,543 (2016 - \$551,002) in contributions. This amount is included in Transfers to City of Toronto and other in the statement of operations.

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT
NOT TO BE FURTHER COMMUNICATED**

Toronto Public Library Board**Notes to Financial Statements****December 31, 2017****Vehicle and equipment reserve fund**

The City maintains a reserve fund on behalf of the Board. The reserve fund was established by the City Council and is detailed in the City's Municipal Code.

The purpose of this fund is to provide funding to purchase or acquire any vehicles or equipment for the Library. The funding promotes efficiencies and provides budget stabilization by moderating large fluctuations in the annual replacement of vehicles and equipment. During the year, the Library made \$339,412 (2016 - \$342,000) in contributions, based on future replacement of the vehicle fleet, while the City committed \$37,740 (2016 - \$58,223) of the balance to fund the purchase of vehicles. Contributions are included in Transfers to City of Toronto and other in the statement of operations.

Expenditures of the fund amounted to \$133,704 during the year (2016 - \$742,501). The balance of the Vehicle and Equipment Reserve Fund as at December 31, 2017 was \$882,956 (2016 - \$636,120).

Toronto Public Library Foundation

The Board benefits from the fundraising efforts of the Foundation. During the year, the Board received contributions of \$2,599,524 (2016 - \$3,331,555) from the Foundation, of which \$1,814,796 (2016 - \$926,692) is included in deferred revenues. Of the amounts received and deferred from prior years, \$1,981,032 (2016 - \$3,710,465) has been recognized in revenues. Included in other accounts receivable is \$156,421 (2016 - \$152,586) owing from the Foundation.

4 Employee benefits

The Board sponsors defined benefit plans providing pension and other retirement and post-employment benefits to most of its employees. The plans provide health, dental, life insurance, accidental death and dismemberment insurance and long-term disability benefits to certain employees.

Information about the Board's employee benefits, other than the multi-employer, defined benefit pension plan noted below, is as follows:

Sick leave

The Board's short-term disability plan for non-unionized employees provides salary protection to eligible employees who are absent from work due to short term illnesses or non-compensative injuries for up to 26 weeks of coverage each calendar year and/or per injury or illness. Absences greater than 26 weeks' duration are covered under the Board's long-term disability plan.

Under the sick leave benefit plan for unionized employees, all new permanent employees are enrolled in a short-term disability plan that does not include the accumulation of unused sick leave. The short-term disability plan provides coverage for up to 130 days in a calendar year. Prior to April 1, 2010, employees were credited with a maximum of 18 days' sick time per year. Unused sick leave could accumulate and employees could become eligible for a cash payment, capped at one-half of unused sick time to a maximum of 130 days when they leave the Board's employment. Union employees, as of that date, were given the option of remaining on the sick leave plan of 18 days' sick time per year and the accumulation of unused sick time to a maximum of

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NOT TO BE FURTHER COMMUNICATED

Toronto Public Library Board

Notes to Financial Statements

December 31, 2017

130 days or moving to the short-term disability plan that does not include the accumulation of unused sick leave. The liability for the accumulated sick leave represents the extent to which sick leave benefits have vested and could then be taken in cash by employees on termination of employment.

Workplace Safety Insurance Board (WSIB)

The Board is a Schedule 2 employer and, as such, pays the full cost of all medical and all other benefits for its employees who sustain injuries at the workplace plus the administration cost as determined by the WSIB.

Post-retirement and post-employment benefits

The Board provides health, dental, life insurance and long-term disability benefits to certain employees.

The liability in relation to the above defined benefit plans has been noted, in aggregate, as follows:

	2017 \$	2016 \$
Accrued benefit obligation	60,189,579	63,621,295
Net unamortized actuarial gain	24,230,580	22,820,347
Total employee benefit liability	84,420,159	86,441,642

Components of the accrued benefit obligation are as follows:

	2017 \$	2016 \$
Post-retirement benefits	28,910,539	31,815,147
Disabled employees' benefits	6,117,063	6,361,018
Income benefits	7,479,416	7,646,122
Sick leave benefits	16,944,644	17,291,462
WSIB	737,917	507,546
	60,189,579	63,621,295

The continuity of the accrued benefit obligation is as follows:

	2017 \$	2016 \$
Balance - Beginning of year	63,621,295	64,755,104
Current year's service cost	2,786,329	2,819,849
Interest cost	2,056,092	1,991,328
Benefits paid	(4,693,279)	(4,815,322)
Plan amendment - prior service cost	(310,945)	(241,656)
Actuarial gain	(3,269,913)	(888,008)
Balance - End of year	60,189,579	63,621,295

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Toronto Public Library Board

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December 31, 2017

The total expenses related to employee benefits other than those related to the multi-employer pension plan are included in staff costs in the statement of operations and accumulated surplus and include the following components:

	2017 \$	2016 \$
Current year's service cost	2,786,329	2,819,849
Amortization of net actuarial gain	(1,859,680)	(1,788,064)
Interest cost	2,056,092	1,991,328
	<u>2,982,741</u>	<u>3,023,113</u>

Cash payments made during the year are as follows:

	2017 \$	2016 \$
Post-retirement plans	1,445,444	1,445,818
Disabled employees' benefits	1,055,078	1,114,767
Sick leave benefits	1,544,632	1,091,470
	<u>4,055,154</u>	<u>3,652,055</u>

Due to the complexities in valuing the plans, actuarial valuations are conducted on a periodic basis. The most recent actuarial report was completed as at December 31, 2015. The next actuarial valuation is expected to be completed in 2018.

The significant actuarial assumptions are as follows:

	2017 %	2016 %
Accrued benefit obligation		
Discount rate		
Post-retirement	3.2	3.5
Disabled employees, income benefit	2.8	2.7
Sick leave	3.0	3.1
WSIB	3.0	3.1
Accrued benefit cost		
Discount rate		
Post-retirement	3.2	3.5
Disabled employees, income benefit	2.8	2.7
Sick leave - WSIB	3.0	3.1
Health-care inflation		
Hospital dental care and other medical	3.0	3.0
Drugs	5.8	6.0
Rate of compensation increase	3.0	3.0

In 2018, the drug rates are assumed to decrease by 0.25% per annum to 4%.

Total employer contributions made to OMERS for the year amounted to \$9,879,057 (2016 - \$10,045,785) and are included in staff costs in the statement of operations and accumulated surplus.

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Toronto Public Library Board

Notes to Financial Statements

December 31, 2017

5 Payable to Canada Life Assurance Company

The long-term payable relates to a loan for energy efficiency improvements made in 2002. Under the terms of the agreement, the Board agrees to pay Canada Life annual payments of \$211,052, which include principal and interest at 8.02%, which is ultimately funded by the energy savings over the matching 15-year period. The remaining loan balance to be repaid is \$148,424 in 2018.

6 Lease commitments

As at December 31, 2017, the Board is committed to the following annual operating lease payments for facilities:

	\$
2018	2,328,886
2019	2,040,450
2020	1,961,042
2021	1,772,655
2022	1,413,004
Thereafter	10,412,167
	<u>19,928,204</u>

7 Tangible capital assets

Tangible capital assets consist of the following:

	2017		
	Cost \$	Accumulated amortization \$	Net \$
Land	15,376,262	-	15,376,262
Buildings and leasehold improvements	303,258,180	96,548,253	206,709,927
Furniture, fixtures and equipment	57,721,832	26,141,064	31,580,768
Vehicles	3,349,596	2,174,043	1,175,554
Library materials	114,398,247	55,768,910	58,629,336
Assets under construction	11,902,253	-	11,902,253
	<u>506,006,370</u>	<u>180,632,270</u>	<u>325,374,100</u>

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Notes to Financial Statements

December 31, 2017

	2016		
	Cost \$	Accumulated amortization \$	Net \$
Land	15,376,262	-	15,376,262
Buildings and leasehold improvements	280,276,508	91,843,820	188,432,688
Furniture, fixtures and equipment	53,476,968	24,027,195	29,449,773
Vehicles	3,518,604	2,112,662	1,405,942
Library materials	111,194,924	54,020,668	57,174,256
Assets under construction	17,668,013	-	17,668,013
	<u>481,511,279</u>	<u>172,004,345</u>	<u>309,506,934</u>

During the year, there were capital additions in the amount of \$49,206,250 (2016 - \$48,426,157). Disposals for the year were \$24,711,159 (2016 - \$26,441,680), which included only fully amortized tangible capital assets for Snit in proceeds.

8 Contingencies

In the normal course of operations, the Board is subject to various arbitrations, litigations and claims. Where a potential liability is determinable, management believes the ultimate disposition of the matters will not materially exceed the amounts recorded in the accounts. In other cases, the ultimate outcome of the claims cannot be determined at this time. Any additional losses related to claims will be recorded in the year when the liability can be estimated.

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