



STAFF REPORT ACTION REQUIRED

14.

2018 Audited Financial Statements – Toronto Public Library Board

Date:	May 21, 2019
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, 2018 to the Toronto Public Library Board for approval and provide highlights of the Library's 2018 financial results.

RECOMMENDATIONS

The City Librarian recommends that the Toronto Public Library Board:

1. approves the 2018 Audited Financial Statements of the Toronto Public Library Board, appended as Attachment 1.

FINANCIAL IMPACT

Though the report presents financial information in the form of the 2018 Audited Financial Statements, there is no financial impact resulting from this.

These financial statements reflect the 2018 combined results of the spending of the operating and capital budgets. For 2018, there was an operating budget surplus of \$0.059 million [2017 – \$0.069 million], which will be returned to the City. The capital spending during 2018 totalled \$31.441 million or 80.4% [2017 – 75.8%], resulting in a final unspent balance of \$7.678 million [2017 – \$6.428 million].

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

ISSUE BACKGROUND

At its meeting of November 19, 2018, TPL Board received for information PricewaterhouseCooper's (PwC)'s [Audit Plan for the year ending December 31, 2018](#), which outlined their approach to the audit.

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 is 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 2018 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 2018 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 Change 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 Flow 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, 2018 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, 2018. 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 4 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 March 25, 2019, the 2018 year-end results of spending the operating and capital budgets were presented for information. The [Operating Budget Monitoring Report - December 31, 2018](#) showed an operating surplus of \$0.059 million, which will be returned to the City and is reflected in the financial statements as payable to the City as shown in Table 2 of this report. The [Capital Budget Monitoring Report - December 31, 2018](#) showed a 80.4% expenditure rate, and the unexpended amount of \$8.078 million will be carried forward into the next year. In 2018, funding required from the City for the expended amount was \$27.219 million, though actual City funding received was \$25.964 million. The difference of \$1.255 million is due to three capital projects that were spent ahead of schedule. This amount, which will be recovered from the City in 2019, is reflected in the financial statements as receivable from the City as shown in Table 2 of this report.

Budget Figures

Budget figures in the Audited Financial Statements, are based on the 2018 original operating and capital budgets approved by City Council. However, in the Operating and Capital Budget Monitoring Reports, the Council-approved 2018 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 (2018 vs. 2017)

	Actual 2018	Actual 2017	Increase / (Decrease)
Financial assets			
Cash and cash equivalents	12,963,402	14,006,616	(1,043,214)
Accounts receivable:			
City of Toronto (Table 2)	15,410,807	17,430,561	(2,019,754)
Other accounts receivable (Table 3)	2,698,094	3,948,410	(1,250,316)
	31,072,303	35,385,587	(4,313,284)
Liabilities			
Accounts payable and accrued liabilities:			
City of Toronto (Table 2)	-	6,016,570	(6,016,570)
Other accounts payable (Table 4)	26,639,932	25,357,816	1,282,116
Deferred revenue	3,109,355	2,132,170	977,185
Employee benefits (Table 5)	82,721,363	84,420,159	(1,698,796)
Payable to Canada Life Assurance Company	-	148,424	(148,424)
	112,470,650	118,075,139	(5,604,489)
Net debt	(81,398,347)	(82,689,552)	1,291,205
Tangible capital assets (Table 7)	340,900,518	325,374,100	15,526,418
Accumulated surplus (Table 8)	259,502,171	242,684,548	16,817,623

Cash and cash equivalents

Cash and cash equivalents decreased by \$1.0M to \$13.0M [2017 – \$14.0M].

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

	2018	2017	Increase / (Decrease)
2018 approved City budget funding receivable - operating and capital	14,822,367	19,346,945	(4,524,578)
Rental receivable	155,453	-	155,453
Capital project funding receivable	1,254,592	-	1,254,592
	16,232,412	19,346,945	(3,114,533)
Operating expenses	(229,953)	(460,169)	230,216
Operating surplus payable to City	(59,390)	(69,490)	10,100
Hydro charges payable	(532,262)	(1,386,725)	854,463
	(821,605)	(1,916,384)	1,094,779
Account receivable from City of Toronto	15,410,807	17,430,561	(2,019,754)
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 \$15.4M account receivable from the City in 2018 is comprised mainly of \$14.8M related to the approved 2018 City budget funding, which was received in early 2019, offset by \$0.8M of payables mostly relating to hydro charges. An additional \$1.2M receivable from the City is due to three capital projects that were spent ahead of schedule. In 2017 the Library received funding for capital projects that was not expended before year-end resulting in the \$6.0M payable to the City at the end of 2017.

Other accounts receivable

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

Table 3 – Other accounts receivable

	2018	2017	Increase / (Decrease)
Canada Revenue Agency – HST rebate	1,968,035	2,467,758	(499,723)
Canada 150 grant receivable	-	661,375	(661,375)
Landlord contribution receivable (Eglinton Square branch)	72,399	339,000	(266,601)
Foundation receivable	219,124	156,421	62,703
Rental receivable	129,708	51,121	78,587
Other	308,828	272,735	36,093
Total Other accounts receivable	2,698,094	3,948,410	(1,250,316)

Other accounts receivable decreased by \$1.2M to \$2.7M [2017 – \$3.9M] mainly due to a decrease in HST rebate receivable from Canada Revenue Agency due to timing and the Canada 150 grant for capital projects, which was completed in 2018.

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

	2018	2017	Increase / (Decrease)
Salaries and benefits payable	10,199,019	9,961,455	237,564
Accounts payable and accruals	15,797,126	13,847,201	1,949,925
Holdback payable on construction contracts	643,787	1,549,160	(905,373)
Total accounts payable and accrued liabilities	26,639,932	25,357,816	1,282,116

Accounts payable and accruals increased by \$1.3M mainly due to outstanding construction invoices related to renovation work done at the North York Central Library (Phase 1 capital project).

Deferred Revenue (Note 3)

Deferred revenue increased by \$1.0M to \$3.1M [2017 - \$2.1M] and 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 Indigenous Strategy, Staff Training, Children Services, Youth Services, Summer Reading Club, Musical Instrument Lending and Asian Heritage.

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 2018, the Library’s gross employee benefits liability (identified as Accrued Benefit Obligation in Note 4) increased by \$16.3M to \$76.5M [2017 – \$60.2M]. The increase in the liability is due mainly to a change in the trending of the retirees current per-capita claim costs, based on data obtained over the period January 1, 2017 to October 31, 2018. These per-capita claim costs were “aged” to reflect retirees claim patterns and compared to those trended from the December 31, 2015 valuation.

Table 5 – Net employee benefits

	2018	2017	Increase / (Decrease)
Post-retirement benefits	46,787,876	28,910,539	17,877,337
Disabled employees' benefits	5,586,831	6,117,063	(530,232)
Income benefits	8,568,508	7,479,416	1,089,092
Sick leave benefits	14,838,142	16,944,644	(2,106,502)
WSIB	720,983	737,917	(16,934)
Employee Benefits/Accrued Benefit Obligation	76,502,340	60,189,579	16,312,761
Net unamortized actuarial gain / (loss)	6,219,023	24,230,580	(18,011,557)
Total Net Employee Benefits	82,721,363	84,420,159	(1,698,796)

The net employee benefits liability decreased by \$1.7M to \$82.7M [2017 – \$84.4M]. The components of the decrease are due to a \$16.3M increase in accrued benefit obligation and a \$18.0M decrease in the net unamortized actuarial gain calculated as follows:

Table 6 – Net unamortized actuarial gain

	2018	2017
Unamortized gain – beginning of year	24,230,580	22,820,347
Amortization of net actuarial gain (A)	(2,123,383)	(1,859,680)
Actuarial gain (B)	(15,888,164)	3,269,913
Net unamortized gain – end of year (C)	6,219,033	24,230,580

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. The amortization of the net actuarial gain is \$2.1M (2017 – \$1.9M). In 2018, the actuarial loss(B) is \$15.9M (2017 – actuarial gain \$3.3M).

The net unamortized actuarial gain (C) of \$6.2M 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.

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 \$1.3M to \$81.4M [2017 – \$82.7M]. This decrease in the Library's net debt is primarily due to the net overall decrease in employee benefits liability (Attachment 1, Note 4).

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 6)

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

	2018			2017
	Cost	Accumulated Amortization	Net	Net
Land	15,376,262	-	15,376,262	15,376,262
Building and leasehold improvements	324,408,907	101,978,636	222,430,271	206,709,927
Furniture, fixtures and equipment	59,964,191	26,213,881	33,750,310	31,580,768
Vehicles	2,890,802	1,878,125	1,012,677	1,175,553
Library materials	116,899,612	57,146,408	59,753,204	58,629,337
Assets under construction	8,577,794	-	8,577,794	11,902,253
Total Tangible Capital Assets	528,117,568	187,217,050	340,900,518	325,374,100

The net value of the Library's tangible capital assets increased by \$15.5M, mainly due to capital projects related primarily to St. Clair/Silverthorn, Dawes Road and North York Central Library renovations. During the year, asset additions totalled \$51.5M, comprised of building improvements of \$20.5M, furniture and equipment of \$10.6M and library collections of \$20.4M.

During the year, accumulated amortization of tangible capital assets increased \$6.6M net to \$187.2M [2017 – \$180.6M].

Accumulated Surplus

The 2018 actual accumulated surplus as shown on the Statement of Financial Position (page 5 of Attachment 1) is \$259.5M. 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

	2018	2017
Purchase of Tangible Capital Assets	528,117,568	506,006,370
Accumulated amortization	(187,217,050)	(180,632,270)
Net book value of Tangible Capital Assets	340,900,518	325,374,100
Employee benefits liability	(82,721,363)	(84,420,159)
Other liabilities less financial assets	1,323,016	1,730,607
Accumulated Surplus – End of year (Table 1)	259,502,171	242,684,548

Annual Surplus

There are two annual surpluses for the year on the Statement of Operations and Accumulated Surplus (page 6 of Attachment 1; breakdown shown in Table 10):

1. Budget Surplus for the year: \$18.1M
2. PSAS Actual Surplus for the year: \$16.8M

The third surplus disclosed in Note 3 is the \$59K under spending of the approved operating budget as presented in the [Operating Budget Monitoring Report – December 31, 2018](#), 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

	2018	2017
Operating Budget Surplus	59,390	69,490
Surplus Returned to the City	(59,390)	(69,490)
Balance	-	-
Net increase in net book value of Tangible Capital Assets (Table 1)	15,526,416	15,867,166
Increase / (Decrease) in unspent non-debt Capital and Library Material funding	(556,011)	459,895
Net decrease / (increase) in employee benefit liability (Table 1)	1,698,797	2,021,483
Net increase in employee benefit vacation liability	-	-
Net decrease in energy savings loan (Table 1)	148,421	187,429
PSAS Surplus for the year	16,817,623	18,535,973

As described in Note 2, the audited budget on the financial statements is the sum of the approved 2018 operating and capital budgets, which have been adjusted for PSAS accounting, with a resulting budget surplus of \$18.1M comprised of expenditures for the capital budget and library collections, less amortization. The budget surplus is compared to the PSAS surplus in the following chart:

Table 10 – Annual surplus (budget vs. actual)

	Budget	PSAS Actual
	Surplus	Surplus
Capital budget expenditure	34,328,852	31,097,460
Operating budget expenditure – Library materials	19,766,163	20,398,689
Tangible assets gross amount [a]	54,095,015	51,496,149
Amortization – Building and Equipment	(16,694,910)	(16,694,909)
Amortization – Library materials	(19,274,822)	(19,274,822)
Total amortization [b]	(35,969,732)	(35,969,731)
Tangible assets net book value [c = a + b]	18,125,283	15,526,418
Post-retirement and post-employment benefit expense (Table 5)	-	1,698,797
Other	-	(407,592)
Surplus for the year	18,125,283	16,817,623

Detailed Review of Statement of Operations and Accumulated Surplus

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.

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 (94.2%).

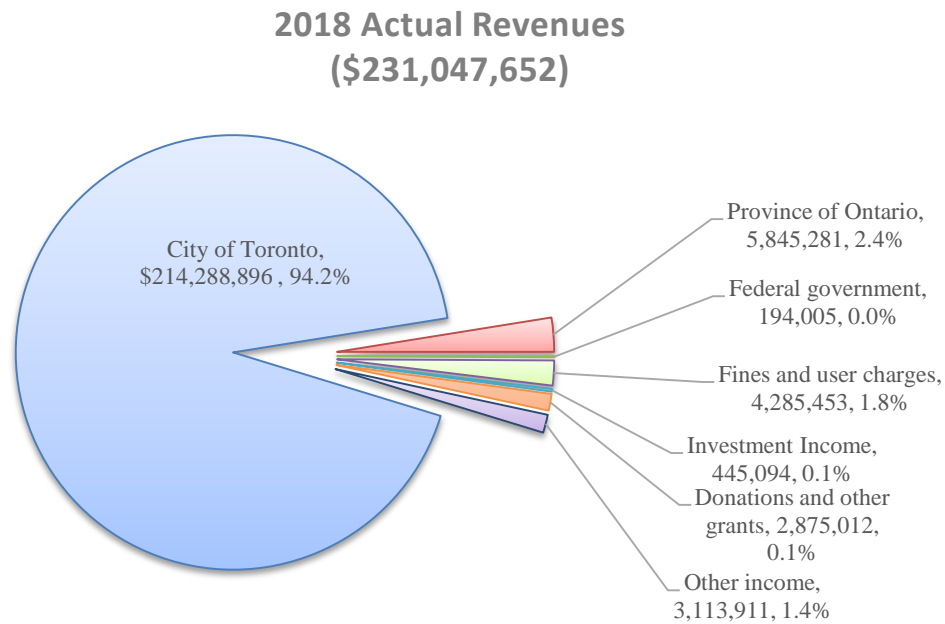


Figure 1 – Pie chart showing actual revenue amounts and percentages by funding source.

Table 11 – Current year revenues and prior year comparatives

	2018 Actual as % of Total	2018 Budget	2018 Actual	Variance Favourable / (Unfavourable)	2017 Actual
City of Toronto	94.19	219,869,798	214,288,896	(5,580,902)	207,425,496
Province of Ontario	2.43	5,678,427	5,845,281	166,854	6,000,980
Federal government	0.00	-	194,005	194,005	796,194
Fines and user charges (see Table 12) ¹	1.84	4,286,426	4,285,453	(973)	4,318,533
Investment income	0.06	139,500	445,094	305,594	264,751
Donations and other grants	0.07	162,800	2,875,012	2,712,212	1,981,032
Other income (see Table 13) ¹	1.41	3,292,065	3,113,911	(178,154)	3,753,233
Total Revenues	100.00	233,429,016	231,047,652	(2,381,364)	224,540,219

Revenues for 2018 totalled \$231.0M [2017 – \$224.5M], which is \$2.4M less than budget, due mainly to \$5.6M decrease in City of Toronto funding primarily as a result of the 80.4% capital budget spend rate at year-end due to project delays. As a result, less funding was required from the City. Offsetting this funding decrease is a \$2.7M funding increase from the Toronto Public Library Foundation.

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

	2018	2017	Variance Favourable / (Unfavourable)
Fines	2,384,191	2,528,564	(144,373)
Equipment & facility rentals	905,847	864,837	41,010
Printing / Photocopier receipts	888,043	813,648	74,395
Other charges	107,372	111,484	(4,112)
Fines and user charges	4,285,453	4,318,533	(33,080)

The reduction in fines revenue is a result of continued growth in the usage of e-materials, which are not subject to late fees, and customer knowledge regarding renewals and late due notices.

Other income consists primarily of tenant rentals and revenue from premium venue space rentals. In 2017, miscellaneous income 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

	2018	2017	Variance Favourable / (Unfavourable)
Tenant rentals	1,718,770	1,713,407	5,363
Premium venue space rentals	1,067,191	1,003,591	63,600
Sale of merchandise	154,272	136,451	17,821
Miscellaneous	173,678	899,784	(726,106)
Total Other Income	3,113,911	3,753,233	(639,322)

Expenses

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

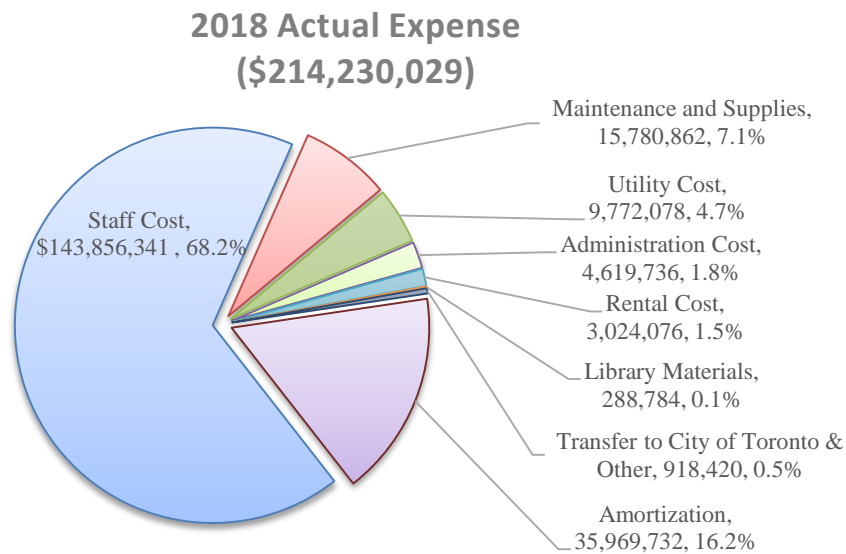


Figure 2 – Pie chart showing actual expense amounts and percentages.

The library materials shown in the chart represent only donations to special collections, which are expensed. Note that \$20.4M of expenditure on library collections (see Table 7), 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

	2018 Actual as % of Total	2018 Budget	2018 Actual	Variance Favourable / (Unfavourable)	2017 Actual
Staff costs	69.14	148,860,675	143,856,341	5,004,334	140,520,085
Maintenance and supplies	6.21	13,371,825	15,780,862	(2,409,037)	14,568,129
Utility cost	4.58	9,860,180	9,772,078	88,102	9,588,028
Administration cost (Table 15)	1.61	3,459,049	4,619,736	(1,160,687)	3,728,477
Rental cost	1.27	2,735,863	3,024,076	(288,213)	3,054,747
Library materials	0.00	-	288,784	(288,784)	140,054
Transfers to City of Toronto and other	0.49	1,046,409	918,420	127,989	1,065,642
Amortization	16.71	35,969,732	35,969,732	-	33,339,084
Total Expenses	100.00	215,303,733	214,230,029	1,073,704	206,004,246

The 2018 budget represents the initial 2018 Council-approved budget and does not include in-year budget adjustments. The \$5.0M under-expenditure in staff costs is comprised of: the \$1.2M favourable variance as detailed in the [Operating Budget Monitoring Report – December 31, 2018](#); in-year budget adjustments including a transfer of salary savings of \$2.3M to capital for the NYCL capital project, and \$0.1M related to the increase in minimum wage included in Bill 148; and a legal entity entry of \$1.7M for a reduction in future benefits liability.

Table 15 – Administration cost

	2018 Budget	2018 Actual	Variance Favourable / (Unfavourable)	2017 Actual
Professional & other services	899,152	1,225,977	(326,825)	1,189,793
Training & mileage	698,500	839,264	(140,764)	678,969
Supplies & services	32,000	53,723	(21,723)	80,145
Programs, printing & advertising	1,829,397	2,500,772	(671,375)	1,779,570
Total Administration cost	3,459,049	4,619,736	(1,160,687)	3,728,477

Administration cost for 2018 totalled \$4.6M [2017 – \$3.7M], which is \$1.2M higher than budget, mainly due to a \$0.6M 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,
2018

DRAFT

Toronto Public Library Board

**Financial Statements
December 31, 2018**

DRAFT

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



Independent auditor's report

To the Members of Toronto Public Library Board

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Toronto Public Library Board (the Toronto Public Library Board) as at December 31, 2018 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

What we have audited

The Toronto Public Library Board's financial statements comprise:

- the statement of financial position as at December 31, 2018;
- the statement of operations and accumulated surplus for the year then ended;
- the statement of change in net debt for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Toronto Public Library Board in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Responsibilities of management and those charged with governance for the financial statements

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

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership



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

Those charged with governance are responsible for overseeing the Toronto Public Library Board's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Toronto Public Library Board's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Toronto Public Library Board's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Toronto Public Library Board to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

DRAFT

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
May @@, 2019

DRAFT

Toronto Public Library Board

Statement of Financial Position

As at December 31, 2018

	2018 \$	2017 \$
Financial Assets		
Cash and cash equivalents	12,963,402	14,006,616
Accounts receivable		
City of Toronto (note 3)	15,410,807	17,430,561
Other accounts receivable (note 3)	2,698,094	3,948,410
	<u>31,072,303</u>	<u>35,385,587</u>
Liabilities		
Accounts payable and accrued liabilities		
City of Toronto (note 3)	-	6,016,570
Other accounts payable and accrued liabilities	26,639,932	25,357,816
Deferred revenues (note 3)	3,109,355	2,132,170
Employee benefits (note 4)	82,721,363	84,420,159
Payable to Canada Life Assurance Company	-	148,424
	<u>112,470,650</u>	<u>118,075,139</u>
Net debt	(81,398,347)	(82,689,552)
Non-financial assets		
Tangible capital assets (note 6)	<u>340,900,518</u>	<u>325,374,100</u>
Accumulated Surplus		
Accumulated operating surplus	<u>259,502,171</u>	<u>242,684,548</u>
Commitments and contingencies (notes 5 and 7)		

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, 2018

	Budget \$ (note 2)	Actual 2018 \$	Actual 2017 \$
Revenues			
City of Toronto (note 3)	219,869,798	214,288,896	207,425,496
Province of Ontario	5,678,427	5,845,281	6,000,980
Federal government	-	194,005	796,194
Fines and user charges	4,286,426	4,285,453	4,318,533
Investment income	139,500	445,094	264,751
Donations and other grants (note 3)	162,800	2,875,012	1,981,032
Other income	3,292,065	3,113,911	3,753,233
	<u>233,429,016</u>	<u>231,047,652</u>	<u>224,540,219</u>
Expenses			
Staff costs	148,860,675	143,856,341	140,520,085
Maintenance and supplies	13,371,825	15,780,862	14,568,129
Utility costs	9,860,180	9,772,078	9,588,028
Administration costs	3,459,049	4,619,736	3,728,477
Rental costs	2,735,863	3,024,076	3,054,747
Library materials	-	288,784	140,054
Transfers to City of Toronto and other (note 3)	1,046,409	918,420	1,065,642
Amortization of tangible capital assets	35,969,732	35,969,732	33,339,084
	<u>215,303,733</u>	<u>214,230,029</u>	<u>206,004,246</u>
Surplus for the year	<u>18,125,283</u>	16,817,623	18,535,973
Accumulated surplus – Beginning of year		<u>242,684,548</u>	<u>224,148,575</u>
Accumulated surplus – End of year		<u>259,502,171</u>	<u>242,684,548</u>

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 Change in Net Debt****For the year ended December 31, 2018**

	2018 \$	2017 \$
Surplus for the year	16,817,623	18,535,973
Acquisition of tangible capital assets	(51,496,150)	(49,206,250)
Amortization of tangible capital assets	35,969,732	33,339,084
Change in net debt	1,291,205	2,668,807
Net debt – Beginning of year	(82,689,552)	(85,358,359)
Net debt – End of year	(81,398,347)	(82,689,552)

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 Cash Flows
For the year ended December 31, 2018

DRAFT

	2018 \$	2017 \$
Cash provided by (used in)		
Operating activities		
Surplus for the year	16,817,623	18,535,973
Items not affecting cash		
Amortization of tangible capital assets	35,969,732	33,339,084
Employee benefits expense	(1,698,796)	(2,021,483)
	51,088,559	49,853,574
Changes in non-cash assets and liabilities		
Accounts receivable	3,270,070	(7,707,284)
Accounts payable and accrued liabilities	(4,734,454)	9,583,841
Deferred revenues	977,185	794,112
	50,601,360	52,524,243
Capital activities		
Acquisition of tangible capital assets	(51,496,150)	(49,206,250)
Financing activities		
Repayment of Canada Life Assurance Company payable	(148,424)	(187,429)
(Decrease) increase in cash and cash equivalents during the year	(1,043,214)	3,130,564
Cash and cash equivalents – Beginning of year	14,006,616	10,876,052
Cash and cash equivalents – End of year	12,963,402	14,006,616

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, 2018**

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 as the Board does not control the Foundation (note 3).

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

These financial statements have been prepared by management 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 \$136,694 (2017 – \$159,216) 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
NOT TO BE FURTHER COMMUNICATED**

Toronto Public Library Board

Notes to Financial Statements

December 31, 2018

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 lives 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 and accumulated surplus.

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 \$186,542 (2017 – \$144,538) and works of art of \$7,640 (2017 – \$13,660), 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, 2018**

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 pro-rated 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 only classifies cash and cash equivalents 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.

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

Toronto Public Library Board

Notes to Financial Statements

December 31, 2018

Budget figures

Budget data presented is based on the 2018 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	201,606,802
Capital	34,328,852
Less: Inter-budget transfers	(2,506,638)
	<u>233,429,016</u>
Expenses	
Approved budgets	
Operating	201,606,802
Capital	34,328,852
Less: Inter-budget transfers	(2,506,638)
	<u>233,429,016</u>
Adjustments	
Tangible capital assets	
Library materials – included in operating expenses	(19,766,163)
Building and equipment – capitalized for GAAP purposes	(34,328,852)
Amortization	35,969,732
	<u>215,303,733</u>
Adjusted annual budget surplus on PSAS basis	<u>18,125,283</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

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

Toronto Public Library Board

Notes to Financial Statements

December 31, 2018

DRAFT

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:

	2018 \$	2017 \$
City funding receivable	14,822,367	19,346,945
Rental receivable	155,453	-
Operating expenses	(229,953)	(460,169)
Operating surplus payable	(59,390)	(69,490)
Hydro charges	(532,262)	(1,386,725)
Capital project funding receivable	1,254,592	-
City of Toronto Receivables	15,410,807	17,430,561
Capital project funding payable	-	(1,440,632)
Unexpended capital advance	-	(4,575,938)
City of Toronto Payables	-	(6,016,570)
City of Toronto – Net Receivables	15,410,807	11,413,991

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

	2018 \$	2017 \$
Maintenance	366,767	394,053
Rent	575,623	586,541
Utilities	6,401,476	5,604,906
Other	204,538	187,408
	7,548,404	6,772,908

In addition, the City provided funding for capital purposes in the amount of \$2,601,285 (2017 – \$125,928). The Board received \$268,121 (2017 – \$289,423) from the City, consisting of \$254,828 (2017 – \$254,048) in rental income and \$13,293 (2017 – \$35,375) in miscellaneous income.

Insurance fund

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

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

Toronto Public Library Board

Notes to Financial Statements

December 31, 2018

\$609,543 (2017 – \$609,543) in contributions. This amount is included in Transfers to City of Toronto and other in the statement of operations and accumulated surplus.

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 \$344,588 (2017 – \$339,412) in contributions to fund the purchase of vehicles. Contributions are included in Transfers to City of Toronto and other in the statement of operations and accumulated surplus.

Expenditures of the fund amounted to \$226,574 during the year (2017 – \$133,704). The balance of the Vehicle and Equipment Reserve Fund as at December 31, 2018 was \$1,048,271 (2017 – \$882,956).

Toronto Public Library Foundation

The Board benefits from the fundraising efforts of the Foundation. During the year, the Board received contributions of \$4,036,116 (2017 – \$3,331,555) from the Foundation, of which \$2,843,479 (2017 – \$1,814,796) is included in deferred revenues. Of the amounts received and deferred from prior years, \$1,814,658 (2017 – \$1,981,032) has been recognized in revenues. Included in other accounts receivable is \$219,124 (2017 – \$156,421) 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

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

Toronto Public Library Board

Notes to Financial Statements

December 31, 2018

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 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:

	2018 \$	2017 \$
Accrued benefit obligation	76,502,340	60,189,579
Net unamortized actuarial gain	6,219,023	24,230,580
Total employee benefit liability	82,721,363	84,420,159

Components of the accrued benefit obligation are as follows:

	2018 \$	2017 \$
Post-retirement benefits	46,787,876	28,910,539
Disabled employees' benefits	5,586,831	6,117,063
Income benefits	8,568,508	7,479,416
Sick leave benefits	14,838,142	16,944,644
WSIB	720,983	737,917
	76,502,340	60,189,579

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

Toronto Public Library Board

Notes to Financial Statements

December 31, 2018

The continuity of the accrued benefit obligation is as follows:

	2018 \$	2017 \$
Balance – Beginning of year	60,189,579	63,621,295
Current year's service cost	2,762,308	2,786,329
Interest cost	1,851,034	2,056,092
Benefits paid	(4,508,895)	(4,693,279)
Plan amendment – prior service (gain) cost	320,150	(310,945)
Actuarial (gain) loss	15,888,164	(3,269,913)
Balance – End of year	76,502,340	60,189,579

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:

	2018 \$	2017 \$
Current year's service cost	2,762,308	2,786,329
Amortization of net actuarial gain	(2,123,383)	(1,859,680)
Interest cost	1,851,034	2,056,092
	2,489,959	2,982,741

Cash payments made during the year are as follows:

	2018 \$	2017 \$
Post-retirement plans	1,804,895	1,445,444
Disabled employees' benefits	1,029,749	1,055,078
Sick leave benefits	1,083,340	1,544,632
	3,917,984	4,045,154

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, 2018. The next actuarial valuation is expected to be completed in 2021.

The significant actuarial assumptions are as follows:

	2018 %	2017 %
Accrued benefit obligation		
Discount rate		
Post-retirement	3.4	3.2
Disabled employees, income benefit	3.1	2.8
Sick leave	3.2	3.0

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

Toronto Public Library Board

Notes to Financial Statements

December 31, 2018

	2018 %	2017 %
WSIB	3.4	3.0
Accrued benefit cost		
Discount rate		
Post-retirement	3.4	3.2
Disabled employees, income benefit	3.1	2.8
Sick leave – WSIB	3.2 – 3.4	3.0
Health-care inflation		
Hospital dental care and other medical	3.0	3.0
Drugs	5.5	5.8
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 \$9,927,145 (2017 – \$9,879,057) and are included in staff costs in the statement of operations and accumulated surplus.

5 Lease commitments

As at December 31, 2018, the Board is committed to the following annual operating lease payments for facilities:

	\$
2019	2,452,775
2020	2,062,275
2021	1,859,806
2022	1,498,855
2023	1,091,061
Thereafter	9,439,660
	<u>18,404,432</u>

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

Toronto Public Library Board

Notes to Financial Statements

December 31, 2018

DRAFT

6 Tangible capital assets

Tangible capital assets consist of the following:

	2018		
	Cost \$	Accumulated amortization \$	Net \$
Land	15,376,262	-	15,376,262
Buildings and leasehold improvements	324,408,907	101,978,636	222,430,271
Furniture, fixtures and equipment	59,964,191	26,213,881	33,750,310
Vehicles	2,890,802	1,878,125	1,012,677
Library materials	116,899,612	57,146,408	59,753,204
Assets under construction	8,577,794	-	8,577,794
	528,117,568	187,217,050	340,900,518

	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	1,175,553
Library materials	114,398,247	55,768,910	58,629,337
Assets under construction	11,902,253	-	11,902,253
	506,006,370	180,632,270	325,374,100

During the year, there were capital additions in the amount of \$51,496,150 (2017 – \$49,206,250). Disposals for the year were \$29,384,951 (2017 – \$24,711,159), which included only fully amortized tangible capital assets for \$nil in proceeds.

7 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.

8 Comparative figures

Certain comparative figures have been restated to conform to the current year's financial statement presentation.

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

Toronto Public Library Board

Notes to Financial Statements

December 31, 2018

9 Risk management

Credit risk

Credit risk is the risk one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Accounts receivable are exposed to credit risk since there is a risk of counterparty default. The Board provides an allowance for doubtful accounts to absorb potential credit losses.

As at December 31, 2018, the harmonized sales tax recoverability amount represents \$1,967,123 (2017 – \$2,223,650) of the total of other accounts receivable balance.

As at December 31, 2018, the following other accounts receivable were past due but not impaired.

	30 days \$	60 days \$	90 days \$	Over 120 days \$	Total \$
Accounts receivable	1,958,703	508,614	31,339	199,438	2,698,094

The Board believes it has low exposure to credit risk.

Liquidity risk

Liquidity risk is the risk the Board will not be able to meet its financial obligations when they come due. All of the Board's accounts payable and accrued liabilities are due within the first six months of fiscal 2019. The Board believes it has low exposure to liquidity risk.

Currency risk

The Board is exposed to foreign currency risk between the Canadian dollar and foreign currency primarily because of its purchases in US dollars. Financial instruments subject to foreign currency risk include cash, accounts receivable and accounts payable and accrued liabilities.

The Board does not use derivative instruments to reduce its exposure to foreign currency risk.

The Board believes the exposure to currency risk is low given the low magnitude and volume of foreign currency transactions.

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



2018 Audited Financial Statements

Toronto Public Library Board

May 21, 2019



Two types of Financial Reports that are presented to the Board

- Budget Monitoring Reports for both Operating and Capital Budget Variances
- Annual Audited Financial Statements

Financial Reports

Audited Financial Statements

- Prepared annually
- Audited by PriceWaterhouseCoopers (PwC)
- Prepared in accordance with Canadian public sector accounting standards (PSAS) for local governments

Financial Reports

Audited Financial Statements

The Audited Financial Statements include the following statements:

Type of Statement	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 plus PSAS adjustments and provides the calculation of the Library's accumulated surplus at year end.

Financial Reports

Audited Financial Statements

Type of Statement	Purpose
Statement of Change in Net Debt	Unique to governments. 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.

Financial Reports

Budget Presentation in Reporting

Audited Financial Statements Budget

- Uses the 2018 original Council approved, operating and capital budgets combined together; plus PSAS adjustments.

Operating and Capital budget used in separate monitoring reports

- Uses the final council approved operating and capital budgets plus any in-year approved adjustments.

Financial Statements

Accumulated Surplus

Accumulated Surplus

- The accumulated surplus is a product of applying PSAS accounting to the combined Operating and Capital Budget Monitoring Reports. The additional adjustments are comprised of recognizing: the net book value of tangible capital assets; employee benefit liability; and other liabilities less financial assets.

Table 8 - Accumulated surplus	2018
Purchase of Tangible Capital Assets	528,117,568
Accumulated amortization	(187,217,050)
Net book value of Tangible Capital Assets	340,900,518
Employee benefits liability	(82,721,363)
Other liabilities less financial assets	1,323,016
Accumulated Surplus – End of year	259,502,171

Financial Statements

Tangible Capital Assets

Tangible Capital Assets (TCA)

- 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.

Table 7 – Tangible capital assets

	2018		
	Cost	Accumulated Amortization	Net
Land	15,376,262	-	15,376,262
Building and leasehold improvements	324,408,907	101,978,636	222,430,271
Furniture, fixtures and equipment	59,964,191	26,213,881	33,750,310
Vehicles	2,890,802	1,878,125	1,012,677
Library materials	116,899,612	57,146,408	59,753,204
Assets under construction	8,577,794	-	8,577,794
Total Tangible Capital Assets	528,117,568	187,217,050	340,900,518

Financial Statements

Employee Benefit Liability

Employee Benefit Liability

- TPL provides post-retirement health, dental, life insurance and long-term disability benefits to certain employees. Morneau Shepell, is the third party valuation expert that determines the liability.

Table 5 – Net employee benefits	2018	2017	Increase / (Decrease)
Post-retirement benefits	46,787,876	28,910,539	17,877,337
Disabled employees' benefits	5,586,831	6,117,063	(530,232)
Income benefits	8,568,508	7,479,416	1,089,092
Sick leave benefits	14,838,142	16,944,644	(2,106,502)
WSIB	720,983	737,917	(16,934)
Employee Benefits/Accrued Benefit Obligation	76,502,340	60,189,579	16,312,761
Net unamortized actuarial gain / (loss)	6,219,023	24,230,580	(18,011,557)
Total Net Employee Benefits	82,721,363	84,420,159	(1,698,796)

Financial Statements

Budget Monitoring Reports

As reported March 25,2019:

- Operating Budget Surplus of \$59,000 in Operating Budget Monitoring Report, returned to City
- Capital Budget underspending of \$7,678,000 in Capital Budget Monitoring Report, returned to City and carried forward

Statement of Operations and Accumulated Surplus

Annual Surplus

- Budget is the sum of the original approved 2018 operating and capital budgets, adjusted for PSAS
- Budget surplus for year of \$18.1M comprised of:
 - Set up and amortize assets - expenditures from the capital budget and for library collections
- PSAS Actual Surplus for the year of \$16.8M
 - Set up and amortize assets
 - Set up employee benefit liability and amortize gain/loss, and other PSAB adjustments

Table 10 - Annual surplus (budget vs. actual)	Budget	PSAS Actual
Capital budget expenditure	34,328,852	31,097,460
Operating budget expenditure – Library materials	19,766,163	20,398,689
Tangible assets gross amount [a]	54,095,015	51,496,149
Amortization – Building and Equipment	(16,694,910)	(16,694,909)
Amortization – Library materials	(19,274,822)	(19,274,822)
Total amortization [b]	(35,969,732)	(35,969,731)
Tangible assets net book value [c = a + b]	18,125,283	15,526,418
Post-retirement and post-employment benefit expense (Table 5)	-	1,698,797
Other	-	(407,592)
Surplus for the year	18,125,283	16,817,623

Questions?