

Toronto Public Library Board

**Financial Statements
December 31, 2015**

DRAFT

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

@@@, 2016

Independent Auditor's Report

To the Members of the Board 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, 2015 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.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Toronto Public Library Board as at December 31, 2015 and the results of its operations, change in net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Professional Accountants, Licensed Public Accountants

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Toronto Public Library Board

Statement of Financial Position

As at December 31, 2015

	2015 \$	2014 \$
Financial Assets		
Cash and cash equivalents	10,197,165	15,439,423
Accounts receivable		
City of Toronto (note 3)	6,641,916	4,744,429
Other accounts receivable (note 9)	2,206,023	1,899,569
	<u>19,045,104</u>	<u>22,083,421</u>
Liabilities		
Accounts payable and accrued liabilities	16,046,353	19,010,740
Deferred revenues (note 9)	1,881,809	1,480,475
Employee benefits (note 4)	88,475,507	87,035,965
Payable to Canada Life Assurance Company (note 5)	508,765	668,497
	<u>106,912,434</u>	<u>108,195,677</u>
Net debt	<u>(87,867,330)</u>	<u>(86,112,256)</u>
Non-financial assets		
Tangible capital assets (note 7)	<u>293,064,922</u>	<u>285,569,788</u>
Accumulated Surplus		
Accumulated operating surplus	<u>205,197,592</u>	<u>199,457,532</u>
Lease commitments and contingencies (notes 6 and 10)		

Approved by the Board

Toronto Public Library Board Chair

City Librarian

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

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Toronto Public Library Board

Statement of Operations and Accumulated Surplus

For the year ended December 31, 2015

	Budget \$ (note 2)	Actual 2015 \$	Actual 2014 \$
Revenues			
City of Toronto (note 3)	193,645,289	193,537,429	196,247,086
Province of Ontario	5,678,427	5,989,502	5,765,715
Federal government	20,000	137,909	138,582
Fines and user charges	4,356,695	4,508,523	4,344,427
Investment income	139,500	183,850	266,904
Donations and other grants (note 9)	122,800	2,589,186	2,628,721
Other income	2,327,307	4,151,877	3,150,666
	<u>206,290,018</u>	<u>211,098,276</u>	<u>212,542,101</u>
Expenses			
Staff costs	141,221,781	143,287,247	140,395,647
Maintenance and supplies	12,540,726	15,151,281	13,704,251
Utility costs	8,499,756	8,380,704	7,730,644
Administration costs	2,756,404	3,418,073	3,484,790
Rental costs	2,514,546	2,531,713	2,378,802
Library materials	-	147,813	87,298
Transfers to City of Toronto and other (note 3)	836,951	964,548	762,540
Amortization of tangible assets	31,476,837	31,476,837	30,557,747
	<u>199,847,001</u>	<u>205,358,216</u>	<u>199,101,719</u>
Annual surplus	<u>6,443,017</u>	5,740,060	13,440,382
Accumulated surplus - Beginning of year		<u>199,457,532</u>	<u>186,017,150</u>
Accumulated surplus - End of year		<u>205,197,592</u>	<u>199,457,532</u>

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Toronto Public Library Board

Statement of Change in Net Debt

For the year ended December 31, 2015

	2015 \$	2014 \$
Annual surplus	5,740,060	13,440,382
Acquisition of tangible capital assets	(38,971,971)	(48,231,169)
Amortization of tangible capital assets	31,476,837	30,557,747
Change in net debt	(1,755,074)	(4,233,040)
Net debt - Beginning of year	(86,112,256)	(81,879,216)
Net debt - End of year	(87,867,330)	(86,112,256)

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Statement of Cash Flows

For the year ended December 31, 2015

	2015 \$	2014 \$
Cash provided by (used in)		
Operating activities		
Annual surplus	5,740,060	13,440,382
Items not affecting cash		
Amortization of tangible capital assets	31,476,837	30,557,747
Employee benefits expense	1,439,542	2,437,555
	38,656,439	46,435,684
Changes in non-cash assets and liabilities		
Accounts receivable	(2,203,941)	11,377,390
Accounts payable and accrued liabilities	(2,964,387)	(4,178,249)
Deferred revenue	401,334	262,850
	33,889,445	53,897,675
Capital activities		
Acquisition of tangible capital assets	(38,971,971)	(48,231,169)
Financing activities		
Principal repayment on long-term payable with Canada Life Assurance Company	(159,732)	(147,454)
Increase (decrease) in cash and cash equivalents during the year	(5,242,258)	5,519,052
Cash and cash equivalents - Beginning of year	15,439,423	9,920,371
Cash and cash equivalents - End of year	10,197,165	15,439,423

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Toronto Public Library Board

Notes to Financial Statements

December 31, 2015

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 service that reflects 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 9).

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.

Revenues are presented on the accrual basis of accounting. The accrual basis of accounting recognizes revenues as they become available, are measurable and collection is reasonably assured.

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. 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.

Expenses

The Board reports its expenses of the year by object, instead of by function or major program. Presentation by object outlines the major types of expenses incurred, and is the basis by which the Board tracks, analyzes and monitors its costs for budgeting and decision-making purposes.

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Measurement uncertainty

The preparation of the financial statements in accordance with PSAS requires management to make estimates and assumptions. The employee benefits liabilities 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.

Restricted cash

Included in cash is \$130,848 (2014 - \$204,350) of restricted amounts held in trust for employees eligible for the sabbatical leave program.

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.

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 provided 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.

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Toronto Public Library Board**Notes to Financial Statements****December 31, 2015**

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.

Deferred revenue

Deferred revenue includes the balance of funds that have been received from the Foundation for specific operating projects, which the Board has not yet expended.

Employee benefits

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

- the Board's contributions to a multi-employer, defined benefit pension plan 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.

Liability for contaminated sites

A contaminated site is a site at which substances occur in concentrations that exceed the maximum acceptable amounts under an environmental standard. A liability for remediation of contaminated sites is recognized when the Board is directly responsible or accepts responsibility; it is expected that future economic benefits will be given up; and a reasonable estimate for the amount can be made. As at December 31, 2015 the Board has not recorded any liability in the financial statements as no sites have met the recognition criteria. The Board will continue to review contaminated sites on an annual basis and when the criteria for recognition have been met, a liability will be recorded.

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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. The 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 using the effective interest rate method, less any impairment losses on financial assets, except for contributions, which are initially recognized at fair value. Transaction costs related to financial instruments in the amortized cost category are added to the carrying value of the instrument.

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.

Budget figures

Budget data presented is based on the 2015 operating and capital budgets approved by city 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 \$
Revenue	
Approved budgets	
Operating	188,645,989
Capital	19,334,000
Less: Inter-budget transfers	(1,689,971)
	<u>206,290,018</u>
Expenses	
Approved budgets	
Operating	188,645,989
Capital	19,334,000
Less: Inter-budget transfers	(1,689,971)
	<u>206,290,018</u>
Adjustments	
Tangible capital assets	
Library materials - included in operating expenses	(18,585,854)
Building and equipment - capitalized for GAAP purposes	(19,334,000)
Amortization	31,476,837
	<u>199,847,001</u>
Adjusted annual budget surplus on PSAS basis	<u>6,443,017</u>

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3 Related party balances and transactions

In the normal course of operations, the Board incurs costs for various expenses payable to the City and earns various revenues from the City. Such transactions between the City and the Board are made at the agreed exchange amount.

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

	2015 \$	2014 \$
City funding receivable	8,212,436	8,103,404
Operating expenses	(121,990)	(468,097)
Operating surplus payable	(13,525)	(26,174)
Hydro charges	(770,779)	(1,233,155)
Capital project funding receivable	1,581,805	-
Unexpended capital advance	(2,246,031)	(1,631,549)
	<u>6,641,916</u>	<u>4,744,429</u>

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

	2015 \$	2014 \$
Maintenance	364,416	325,143
Rent	603,904	560,146
Construction	20,698	8,097
Utilities	4,410,825	4,522,174
Other	243,884	240,952
	<u>5,643,727</u>	<u>5,656,512</u>

The Board received \$228,587 (2014 - \$252,108) from the City, consisting of \$225,339 (2014 - \$246,581) in rental income and \$3,248 (2014 - \$5,527) 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 \$551,002 (2014 - \$448,521) in contributions.

Vehicle and equipment reserve fund

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

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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 \$342,000 (2014 - \$342,000) in contributions, based on future replacement of the vehicle fleet, while the City committed \$100,714 (2014 - \$314,333) of the balance to fund the purchase of vehicles. The balance of the Vehicle and Equipment Reserve Fund as at December 31, 2015 was \$1,094,844 (2014 - \$695,630).

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 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 at 100% or 75%, based on an employee's benefit eligibility date for up to 26 weeks per illness or per calendar year. 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, employees are 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. Effective April 1, 2010, all new permanent employees are enrolled in a short-term disability plan that does not include the accumulation of unused sick leave. 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.

	2015 \$	2014 \$
Accrued benefit obligation	64,755,104	80,817,378
Net unamortized actuarial gain	23,720,403	6,218,587
Total employee benefit liability	88,475,507	87,035,965

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Components of the accrued benefit obligation are as follows:

	2015 \$	2014 \$
Post-retirement benefits	31,910,016	48,593,987
Disabled employees' benefits	6,430,786	4,728,247
Income benefits	7,797,657	7,872,326
Sick leave benefits	18,324,830	18,150,670
WSIB	291,815	1,472,148
	<u>64,755,104</u>	<u>80,817,378</u>

The continuity of the accrued benefit obligation is as follows:

	2015 \$	2014 \$
Balance - Beginning of year	80,817,378	70,528,644
Current year's service cost	3,982,826	3,612,740
Interest cost	2,499,172	2,899,378
Benefits paid	(5,448,439)	(3,967,678)
Actuarial loss (gain)	(17,095,833)	7,744,294
	<u>64,755,104</u>	<u>80,817,378</u>
Balance - End of year		

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:

	2015 \$	2014 \$
Current year's service cost	3,982,826	3,612,740
Amortization of net actuarial loss (gain)	405,982	(106,885)
Benefit interest expenditure	2,499,172	2,899,378
	<u>6,887,980</u>	<u>6,405,233</u>
Total expenditures related to retirement benefits		

Cash payments made during the year are as follows:

	2015 \$	2014 \$
Post-retirement plans	1,314,996	1,303,487
Disabled employees' benefits	1,044,704	1,100,705
Sick leave benefits	1,639,285	1,070,311
	<u>3,998,984</u>	<u>3,474,503</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.

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The significant actuarial assumptions are as follows:

	2015 %	2014 %
Accrued benefit obligation		
Discount rate		
Post-retirement	3.4	3.4
Disabled employees, income benefit	2.5	2.8
Sick leave	2.9	3.2
WSIB	2.9	2.8
Accrued benefit cost		
Discount rate		
Post-retirement	3.4	3.4
Disabled employees, income benefit	2.5	2.8
Sick leave - WSIB	2.9	3.2
Health-care inflation		
Hospital dental care and other medical	3.0	3.0 - 6.0
Drugs	6.0	6.0
Rate of compensation increase	3.0	3.0

For measurement purposes, a 3.0% annual rate of increase in the per capita cost of covered health-care and dental benefits was assumed, except for a 6.0% annual rate of increase for drug benefits. In 2016, the dental rates are assumed to decrease by 0.25% per annum to 4%.

In addition to the above-noted benefits, 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. Total employer contributions for the year amounted to \$9,739,311 (2014 - \$9,623,429) and are included in staff costs in the statement of operations and accumulated surplus.

5 Long-term payables

During 2001, the Board entered into an Energy Service Agreement with the City and Ameresco Canada (Ameresco), formerly DukeSolutions Canada Inc. Ameresco completed energy efficiency improvements to Library facilities in 2003 for a total net cost of \$3,218,935.

The first \$1,000,000 in improvements was financed by an interest-free loan from the Better Building Partnership Program of the City, which was fully repaid at the end of 2012.

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The remaining \$2,218,935 was financed through a tri-party agreement among Ameresco, Canada Life Assurance Company (Canada Life) and the Board. 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. Details of repayment of the Ameresco loan are as follows:

	\$
2016	172,912
2017	187,430
2018	148,423
	<u>508,765</u>

6 Lease commitments

As at December 31, 2015, the Board is committed to the following annual operating lease payments for equipment and facilities:

	\$
2016	1,924,980
2017	1,905,047
2018	1,534,886
2019	1,169,256
2020	1,073,369
Thereafter	12,170,892
	<u>19,778,430</u>

7 Tangible capital assets

Tangible capital assets consist of the following:

	2015		
	Cost \$	Accumulated amortization \$	Net \$
Land	15,376,262	-	15,376,262
Buildings and leasehold improvements	274,178,704	86,103,169	188,075,535
Furniture, fixtures and equipment	52,527,800	23,653,713	28,874,087
Vehicles	2,776,103	1,879,227	896,876
Library materials	110,183,860	54,825,770	55,358,090
Assets under construction	4,484,072	-	4,484,072
	<u>459,526,801</u>	<u>166,461,879</u>	<u>293,064,922</u>

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	2014		
	Cost \$	Accumulated amortization \$	Net \$
Land	15,376,262	-	15,376,262
Buildings and leasehold improvements	258,352,378	80,467,176	177,885,202
Furniture, fixtures and equipment	50,829,832	23,088,191	27,741,641
Vehicles	2,755,503	1,738,399	1,017,104
Library materials	109,790,922	54,904,358	54,886,564
Assets under construction	8,663,015	-	8,663,015
	445,767,912	160,198,124	285,569,788

Contributions-in-kind, which include special collections of \$229,345 (2014 - \$123,697) and works of art of \$46,794 (2014 - \$40,501) have been expensed in the Statement of Operations and Accumulated Surplus.

During the year, there were capital additions in the amount of \$38,971,971 (2014 - \$48,231,169). Disposals for the year were \$25,213,082 (2014 - \$23,506,131), which included only fully amortized tangible capital assets.

8 Economic dependence

For the year ended December 31, 2015, approximately 91.70% (2014 - 92.0%) of the Board's revenue is from the City. Total receivable from the City is \$6,641,916 as at December 31, 2015 (2014 - \$4,744,429).

9 Toronto Public Library Foundation

The Board benefits from the fundraising efforts of the Foundation. During the year, the Board received contributions of \$2,686,077 (2014 - \$2,802,157) from the Foundation, of which \$1,302,634 (2014 - \$1,202,715) is included in deferred revenues and \$1,383,443 (2014 - \$1,599,442) is included in revenues. Included in other accounts receivable is \$31,078 (2014 - \$10,752) owing from the Foundation.

10 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 is able to be estimated.

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