



STAFF REPORT ACTION REQUIRED

23.

2011 Audited Financial Statements – Toronto Public Library Board

Date:	June 25, 2012
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, 2011 to the Toronto Public Library Board for approval and provide highlights of the Library's 2011 financial results.

RECOMMENDATIONS

The City Librarian recommends that the Toronto Public Library Board:

1. approves the 2011 Audited Financial Statements of the Toronto Public Library Board, appended as Attachment 1.

FINANCIAL IMPACT

For 2011, there was an operating budget surplus of \$160,643, which was returned to the City. The capital budget was 87% expended, and the unexpended amount of \$3,289,075 has been returned to the City.

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

ISSUE BACKGROUND

At its meeting on December 12, 2011, the Library Board received for information the PricewaterhouseCoopers's (PwC) report on the *Audit Plan for the Year Ending December 31, 2011*, 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 are prepared in accordance with Canadian Generally Accepted Accounting Principles for local governments as defined by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants.

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 December 31 st .
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.

The detailed breakdown of the accumulated surplus, including all of its components - amount invested in capital assets; capital fund; and amounts to be recovered from future revenues - are presented in the Financial Highlights section.

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

Statement of Operations and Accumulated Surplus

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

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

As described in note 2 to the financial statements, the total Council approved “cash requirement basis” operating and capital budgets for 2011 have been combined and reflected in the Statement of Operations and Accumulated Surplus, and modified for the acquisition of tangible capital assets (TCA). The “modified cash requirement basis” budget reflects an annual surplus which is due to the removal (i.e., capitalization) of expenditures related to the acquisition of tangible capital assets, comprised primarily of expenditures for the capital budget and library collections. The financial statements are prepared using PSAB full accrual accounting, which includes capitalization of tangible capital assets as well as non-cash expenses such as the amortization of tangible capital assets and the change in future employment benefits.

The differences in accounting treatments are summarized below:

Council Approved Budget (Cash Requirements Basis)	Unaudited Budget (Modified Cash Requirement Basis)	Financial Statement (PSAB Full Accrual Accounting)
<ul style="list-style-type: none">• Cash items only (No amortization of TCA or change in employment benefits)• TCA: expenditures recognized (expensed) as the asset is acquired or built	<ul style="list-style-type: none">• Cash items only (No amortization of TCA or change in employment benefits)• TCA expenditures: capitalized	<ul style="list-style-type: none">• Cash items as well as non-cash expenses (e.g. amortization and changes in future employment benefits)• TCA expenditures: capitalized

Because the budget is shown on a modified cash requirement basis, it is shown as unaudited.

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 which are mainly deducting the costs to acquire tangible capital assets and adding back amortization charged during the year.

COMMENTS

The Audited Financial Statements for the year ended December 31, 2011, appended as Attachment 1, 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, 2011.

The auditors provided an unqualified opinion in the Auditors' Report contained in the financial statements (Page 2 - 3 of Attachment 1). An unqualified opinion means that the financial statements are presented fairly, in all material respects.

2011 Financial Highlights

- The net value of the Library's tangible capital assets has increased by \$14.1M. The historical cost and accumulated amortization of assets as at December 31, 2011 were \$377.3M and \$144.0M, respectively for a net book value of \$233.3M (2010 - \$219.2M). Tangible capital asset purchases during 2011 totalled \$42.8M (2010 - \$41.5M). Amortization of tangible capital assets during 2011 totalled \$28.7M (2010 - \$27.6M).
- The Library's accumulated surplus increased by \$10.1M to \$160.1M as at December 31, 2011 (2010 - \$150.0M). A significant portion of the accumulated surplus is due to the Library's \$233.3M net investment in tangible capital assets, partially offset by \$73.9M for unfunded employee benefits liabilities to be recovered from future budgets. Given that the Library's tangible capital assets do not provide liquidity, they are not included in the calculation of net debt.
- The Library's net debt increased by \$4.0M to \$73.2M (2010 - \$69.2M).
- The gross employee benefits liability increased by \$10.3M to \$82.5M (2010 - \$72.2M), while the net liability increased by \$3.8M to \$73.9M (2010 - \$70.1M).
- The Library received revenues of \$216.1M (2010 - \$208.6M) and had expenses of \$206.0M (2010 - \$194.6M) for a net surplus on a PSAB full accrual accounting basis of \$10.1M (2010 - \$14.0M).

- Cash and short-term investments in total remained relatively unchanged at \$27.2M (2010 - \$27.3M), while accounts receivable increased by \$5.2M to \$7.1M (2010 - \$1.9M) and accounts payable and accrued liabilities increased by \$5.6M to \$31M (2010 - \$25.4M).

Reconciliation to the Operating Budget Surplus

The \$160,643 operating budget surplus, which is the under-spending of the Council-approved cash basis annual operating budget, has been returned to the City and the 2011 funding from the City to the Library adjusted accordingly. The following schedule reconciles the annual accounting surplus reported in the financial statements to the operating budget surplus:

	2011 Surplus
Operating budget surplus	160,643
Budget surplus return to City	<u>(160,643)</u>
	-
PSAB adjustments for tangible capital assets, which are capitalized and amortized on the Financial Statement:	
Add: TCA - Capital budget expenditures	24,027,614
Add: TCA - Library materials expenditures	17,051,188
Add: TCA - Transfer from operating budget	1,689,752
Less: Amortization - Buildings, equip. & furniture	(10,844,119)
Less: Amortization - Library collections	<u>(17,817,280)</u>
Total TCA adjustments	<u>14,107,155</u>
PSAB adjustments for employee benefits liability	(3,761,021)
Other adjustments	<u>(264,204)</u>
Annual Accounting Surplus	10,081,930

The following schedule shows the differences between the annual accounting surplus and the unaudited budget surplus:

	Unaudited Budget Surplus	Actual Surplus	Difference
PSAB adjustments for tangible capital assets, which are capitalized and amortized on the Financial Statement:			
Add: TCA - Capital budget expenditures	21,718,547	24,027,614	(2,309,067)
Add: TCA - Library materials expenditures	17,114,854	17,051,188	63,666
Add: TCA - Transfer from operating budget	1,256,229	1,689,752	(433,523)
Less: Amortization - Buildings, equip. & furniture	-	(10,844,119)	10,844,119
Less: Amortization - Library collections	-	(17,817,280)	17,817,280
Total TCA adjustments	40,089,630	14,107,155	25,982,475
PSAB adjustments for employee benefits liability	-	(3,761,021)	3,761,021
Other adjustments	-	(264,204)	264,204
Annual Surplus	40,089,630	10,081,930	30,007,700

Net Debt

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

The Library's net debt as at December 31, 2011 increased by \$4.0M to \$73.2M (2010 - \$69.2M). This increase in the Library's net debt is primarily due to increase in employee benefits liability.

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.

Analysis of Key Asset and Liability Accounts

Accounts Receivable

The City of Toronto receivable of \$3.4M in 2011, when compared to the \$4.8M payable in 2010, reflects the impact of an accrual for \$7.2M of funding for the Voluntary Separation Program as described in note 3.

The breakdown of other accounts receivable at December 31, 2011 with 2010 comparatives is as follows:

	2011	2010
Toronto Public Library Foundation	1,317,944	-
Canada Revenue Agency - HST Rebates	2,190,753	1,483,504
Other fees and charges	257,105	451,244
Total	3,765,802	1,934,748

Other accounts receivable increased by \$1.8M to \$3.7M (2010 - \$1.9M) due primarily to a \$1.3M receivable from the Toronto Public Library Foundation for funds raised for the Library and a \$0.7M increase in a rebate application for Harmonized Sales Tax to Canada Revenue Agency.

Accounts Payable and Accrued Liabilities

The breakdown of accounts payable and accrued liabilities at December 31, 2011 with 2010 comparatives is as follows:

	2011	2010
Salaries & benefits accruals	15,353,080	7,848,002
Trade payable and accruals	13,864,618	10,849,818
Holdback on construction contracts	1,880,770	1,906,190
Total	31,098,468	20,604,010

Salaries and benefits accrual increased by \$7.5M due primarily to the \$7.2M accrual for employee payouts under the Voluntary Separation Program packages (see note 12).

Trade payables and accruals are \$3.0M higher due to invoices and accruals processed at year-end.

Deferred Revenue (Note 2)

Deferred revenue is comprised of the balance of funds which have been received in the form of donations from the Foundation or grants for specific project, which have not yet been expended. There is no significant change to deferred revenue.

Employee Benefit Liabilities (Note 5)

Employee benefit liabilities were projected by Buck Consultants, with the same assumptions and methods as those used in the December 31, 2010 valuation, with the exception of the discount rate. The discount rate dropped from the previous valuation, increasing all employee benefits.

The City has employed the services of Buck Consultants, a third party valuation expert, to value the gross employee benefits liability (identified as 'Employee benefits' in Note 5 of the financial statement). Towards the end of 2011, the Library provided the necessary

information on the composition of its workforce and benefits plans to the City which was used by Buck Consultants to provide the Library with an estimate of the employee benefits liability. As a result of this valuation, the Library's gross employee benefits liability (identified as Accrued Benefit Obligation in note 5) increased by \$10.3M to \$82.5M (2010 - \$72.2M).

The net employee benefit liability increased by \$3.8M to \$73.9M (2010 - \$70.1M), which are reflected in Staff Costs. The components of the increase are due to:

	2011	2010	Increase / (Decrease)
Post-retirement benefits *	49,196,264	41,377,543	7,818,721
Disabled employees' benefits	6,384,579	5,219,543	1,165,036
Income benefits	9,932,193	7,754,250	2,177,943
Sick leave benefits	16,240,242	17,136,997	(896,755)
WSIB	791,788	743,769	48,019
Total Gross Employee Benefits	82,545,066	72,232,102	10,312,964
Net unamortized actuarial gain	(8,637,456)	(2,085,513)	(6,551,943)
Total Net Employee Benefits	73,907,610	70,146,589	3,761,021

* Post-retirement benefits includes medical, dental and life insurance benefits, but excludes the OMERS retirement savings plan. OMERS is a defined benefit pension plan that is funded by equal contributions from employers and members, and by OMERS investment earnings. Post-retirement benefits are paid out by the Library, whereas pension is paid out by OMERS upon retirement.

Payable to City of Toronto & Canada Life Assurance Company (Note 6)

Payable to City of Toronto (included in Long-Term Payables in note 6) decreased by \$66K to \$400K (2010 - \$466K) and represents the balance owing on a 2001 loan from the City's Better Buildings Partnership Program for energy efficiency improvements.

Payable to Canada Life Assurance Company (included in Long-Term Payables in note 6) decreased by \$116K to \$1.077M (2010 - \$1.193M) and represents the balance of the 2001 energy efficiency loan, which is being paid back over 15 years and funded from energy savings.

Tangible Capital Assets (Note 8)

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, as well as accumulated amortization, as at December 31, 2011 with 2010 comparatives, are presented in Note 8.

During the year, asset additions totalled \$42.8M, with the most significant portion being building and leasehold improvements of \$17.3M and library collections of \$17.1M.

During the year, accumulated amortization of tangible capital assets decreased \$1.4M to \$143.9M (2010 - \$145.3M).

Accumulated Surplus

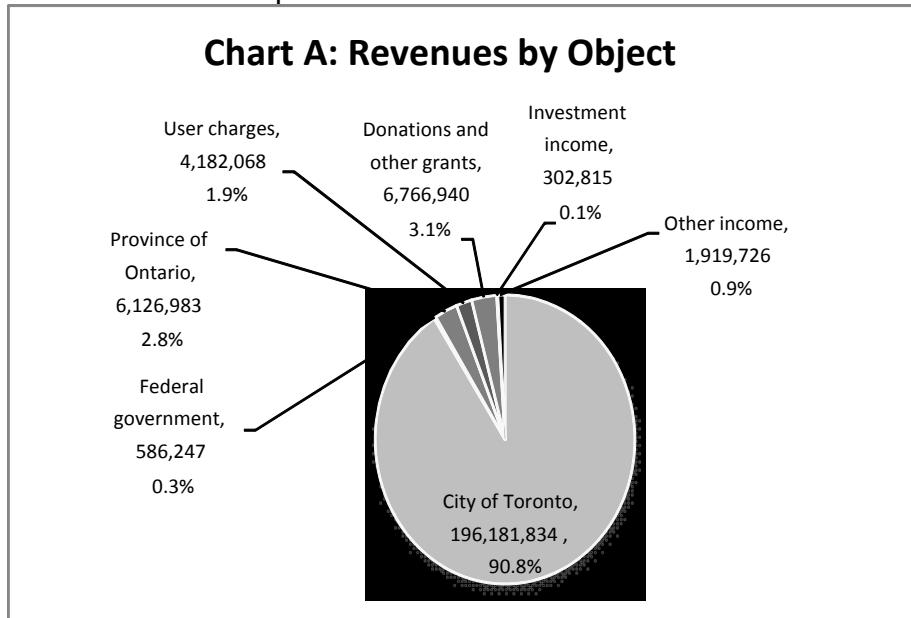
The 2011 actual accumulated surplus as shown on the Statement of Financial Position (page 4 of Attachment 1) is \$160,102,765. This accumulated surplus is a product of applying PSAB accounting, and is comprised of the following:

	2011	2010
Purchase of Tangible Capital Assets (TCA)	377,314,833	364,602,431
Accumulated amortization expense on TCA	(143,956,616)	(145,351,367)
Net Book Value	233,358,217	219,251,064
Employee benefits liability	(73,907,610)	(70,146,589)
Other	652,158	916,360
Accumulated Surplus	160,102,765	150,020,835

Revenues

Chart A breaks down the total revenues by cost objects. The Library's primary source of funding comes from the City of Toronto (90.8%).

The 2011 revenues and 2010 comparatives are shown in the table below:



	2011 Budget	2011 Actual	2011 Variance	2010 Actual
City of Toronto	189,826,234	196,181,834	(6,355,600)	189,334,840
Province of Ontario	5,677,504	6,126,983	(449,479)	6,259,748
Federal government	44,200	586,247	(542,047)	1,101,135
User charges	4,266,078	4,182,068	84,010	4,128,602
Investment income	-	302,815	(302,815)	229,704
Donations and other grants	3,334,000	6,766,940	(3,432,940)	5,888,716
Other income	1,933,247	1,919,726	13,521	1,728,542
Total Revenues	205,081,263	216,066,613	(10,985,350)	208,671,287

Revenues for 2011 totalled \$216.1M (2010 - \$208.7M) which is \$11.0M greater than budget due mainly to \$7.2M in additional funding received from the City for the Voluntary Separation Program and \$3.4M of additional donations from the Foundation for collections, programs and services and for the Toronto Reference Library capital project.

User charges primarily consist of overdue fines and the breakdown at December 31, 2011 with 2010 comparatives is as follows:

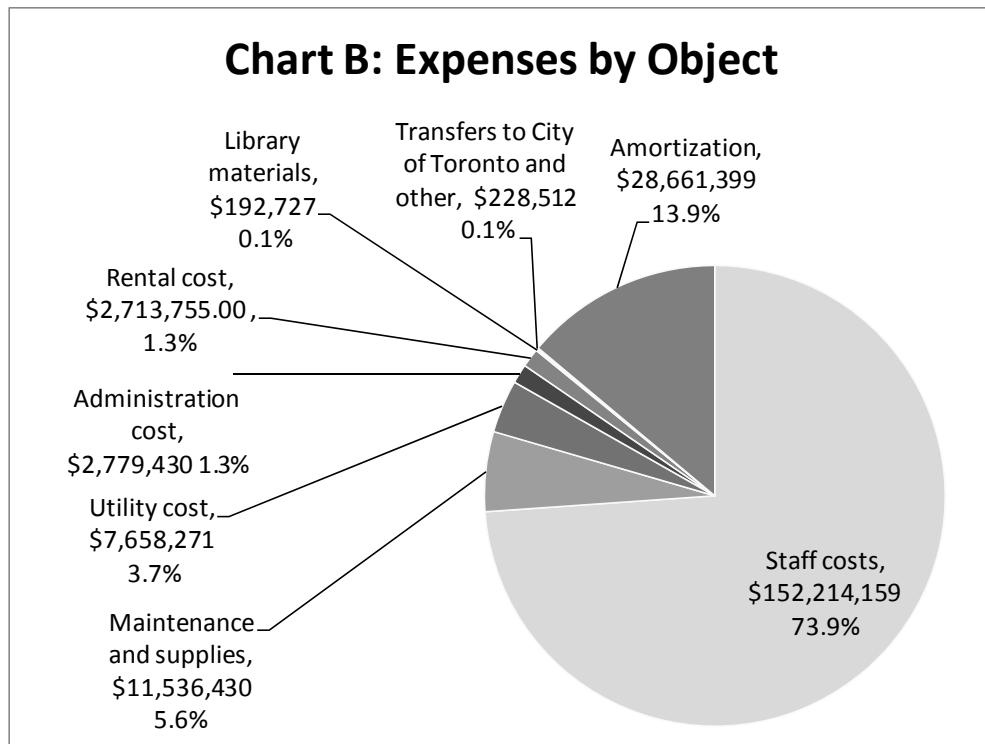
	2011	2010
Fines	2,949,776	3,060,005
Equipment & facility rentals	621,308	478,367
Photocopier receipts	551,830	535,231
Other charges	59,154	54,999
Total	4,182,068	4,128,602

Other income consists primarily of tenant rental income and revenue from the Bram and Bluma Appel Salon. The breakdown at December 31, 2011 with 2010 comparatives is as follows:

	2011	2010
Tenant income	1,241,383	968,797
Appel Salon rental	434,583	279,257
Sale of used books and other supplies	92,179	102,572
Other income	151,581	377,916
Total	1,919,726	1,728,542

Expenses

Chart B breaks down the expenses by cost objects. Staff costs accounted for the largest portion at 73.9% of the total amount.



The 2011 expenses and 2010 comparatives are shown in the table below:

	2011 Budget	2011 Actual	2011 Variance	2010 Actual
Staff costs	138,747,398	152,214,159	(13,466,761)	140,343,990
Maintenance and supplies	12,285,362	11,536,430	748,932	12,112,004
Utility cost	7,676,686	7,658,271	18,415	7,595,046
Administration cost	2,833,066	2,779,430	53,636	3,077,584
Rental cost	2,725,826	2,713,755	12,071	2,766,259
Library materials	-	192,727	(192,727)	356,287
Transfers to City of Toronto	723,295	228,512	494,783	783,005
Amortization	-	28,661,399	(28,661,399)	27,596,130
Total Expenses	164,991,633	205,984,683	(40,993,050)	194,630,305

Expenses for 2011 totalled \$205.9M (2010 - \$194.6M) which is \$41.0M higher than budget mainly due to PSAB accounting which resulted in variances in staff costs and amortization.

Staff costs total \$152.2M and is \$13.4M higher than budget due mainly to the \$7.2M cost of the Voluntary Separation Program; \$3.8M cost related to the employee benefits liability; \$0.4M in benefits costs; and \$0.9M spending related to grant and donation funding.

Library materials of \$0.2M represent additions to special collections which are expensed. Note that \$17.1M of expenditure on library collections, which is part of the approved operating budget, is capitalized and treated as an addition to tangible capital assets.

The budget for expenses, which has been adjusted and shown on a modified cash basis, does not have an amount for amortization expense. However, the actual 2011 results using PSAB accrual accounting, has a \$28.7M amortization cost comprised of \$10.9M for buildings, equipment and furniture, and \$17.8M for collections.

CONCLUSION

The financial statements are considered draft until all outstanding matters are cleared, which are the receipt by PwC of a signed management representation letter as at the date of the Board meeting in addition to Board approval of the draft financial statements.

Representatives from PwC will be in attendance at the Board meeting.

CONTACT

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SIGNATURE

Jane Pyper
City Librarian

ATTACHMENTS

Attachment 1: Audited Financial Statements – Toronto Public Library Board –
December 31, 2011