



**STAFF REPORT
ACTION REQUIRED**

13.

2012 Audited Financial Statements – Toronto Public Library Board

Date:	May 27, 2013
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, 2012 to the Toronto Public Library Board for approval and provide highlights of the Library’s 2012 financial results.

RECOMMENDATIONS

The City Librarian recommends that the Toronto Public Library Board:

1. approves the 2012 Audited Financial Statements of the Toronto Public Library Board, appended as Attachment 1.

FINANCIAL IMPACT

For 2012, there was an operating budget surplus of \$5,703,487, which was returned to the City. The capital budget was 73% expended, and the unexpended amount of \$8.0 million has been returned to the City. The \$8.0 million has been included in the 2013 Library capital funding from the City, as a carry forward.

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

ISSUE BACKGROUND

At the Board meeting of November 29, 2012, PricewaterhouseCooper’s (PwC) report on the *Audit Plan for the Year Ending December 31, 2012*, which outlined their approach to the audit, was received for information.

The Financial Statements are intended to provide the Board, City, public and other stakeholders an overview of the Library’s financial results at the end of the fiscal year and indicate revenues, expenses and funding for the year.

The preparation, content and accuracy of the Financial Statements and all other information included in the financial report are the responsibility of management.

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

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

Statement of Financial Position

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

As a result of significant investment in tangible capital assets, there is a large accumulated surplus. Although tangible capital asset balances are considerable, they do not provide liquidity,

and are not typically available for sale, the proceeds of which could be used for other purposes. It is for this purpose that tangible capital assets are not included in the calculation of net debt.

Statement of Operations and Accumulated Surplus

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

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

PSAB legislation requires the original budgets as approved by Council be reflected in the Financial Statements and be adjusted for accrual based accounting. The 2012 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, the total approved operating and capital budgets for 2012 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 an unaudited budget surplus.

Statement of Change in Net Debt

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

Statement of Cash Flows

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

COMMENTS

The Audited Financial Statements for the year ended December 31, 2012 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, 2012.

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

FINANCIAL HIGHLIGHTS

Statement of Financial Position

(M = millions)

- Cash and cash equivalents in total increased by \$4.2M to \$31.4M [2011 - \$27.2M].
- Other accounts receivable increased by \$5.5M to \$9.3M [2011 - \$3.8M].
- Accounts payable to the City increased by \$18.6M to \$15.2M [2011 - (\$3.4M)].
- Other accounts payable and accrued liabilities decreased by \$10.5M to \$20.5M [2011 - \$31.0M].
- Deferred revenue increased by \$0.4M to \$1.6M [2011 - \$1.2M].
- Net employee benefits liability increased by \$7.0M to \$80.9M [2011 - \$73.9M].
- Payable to City of Toronto is \$nil [2011 - \$0.4M].
- Payable to Canada Life Assurance Company decreased by \$0.2M to \$0.9M [2011 - \$1.1M].
- The Library's net debt increased by \$5.1M to \$78.3M [2011 - \$73.2M].
- The net value of the Library's tangible capital assets has increased by \$10.5M. The historical cost and accumulated amortization of assets year-end were \$391.3M and \$147.5M, respectively for a net book value of \$243.8M [2011 - \$233.3M]. Tangible capital asset purchases during 2012 totalled \$40.4M [2011 - \$42.8M]. Amortization of tangible capital assets during 2012 totalled \$29.1M [2011 - \$28.7M].
- The Library's accumulated surplus increased by \$5.4M to \$165.5M [2011 - \$160.1M]. A significant portion of the accumulated surplus is due to the Library's \$243.8M net investment in tangible capital assets, partially offset by \$80.9M 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.

Statement of Operations and Accumulated Surplus

- The Library received revenues of \$196.3M [2011 - \$216.1M].
- The Library had expenses of \$191.0M [2011 - \$206.0M].
- The annual surplus at year-end is \$5.4M [2011 - \$10.1M].

Statement of Change in Net Debt

- Loss on disposition of tangible capital assets for the year were \$0.9M [2011 - \$0.03M]. The City's agreement to acquire the First Parliament site involved the disposition of 281 Front Street, the location of the Library's processing centre, which resulted in a loss on disposition of \$0.8M.
- Acquisition of tangible capital assets for the year was \$40.4M [2011 - \$42.8M].
- Amortization of tangible capital assets for the year was \$29.1M [2011 - \$28.7M].
- The Library's net debt increased by \$5.1M to \$78.3M [2011 - \$73.2M].

DETAILED REVIEW OF STATEMENT OF FINANCIAL POSITION

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

Cash

Cash and cash equivalents increased by \$4.2M to \$31.4M [2011 - \$27.2M] mainly due to surplus of \$5,703,487 (2011 - \$160,643) to be returned to the City.

Other accounts receivable

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

	2012	2011
Ministry of Tourism and Culture –Provincial Household Grant	4,127,362	-
Toronto Public Library Foundation	3,096,734	1,317,944
Canada Revenue Agency – HST rebate	1,960,525	2,190,753
Other	131,012	257,105
Total Other accounts receivable	9,315,633	3,765,802

Other accounts receivable increased by \$5.5M to \$9.3M [2011-\$3.8M] due primarily to a \$3.1M receivable from the Toronto Public Library Foundation from donations for the construction of the Malvern SPOT program and the revitalization of the Toronto Reference Library. Also contributing to the increase is a \$4.1M receivable from the province for the Household Operating Grant for 2012/2013, which was received in early 2013.

Accounts payable and accrued liabilities – City of Toronto (note 3)

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

	2012	2011
Other receivable	-	1,000,000
Voluntary separation program	-	7,228,000
Operating expenses	(355,961)	(542,500)
Operating surplus payable	(5,703,487)	(160,643)
Hydro charges	(583,375)	(838,905)
Repayment of capital project funding - Malvern SPOT project	(597,000)	-
Unexpended capital advance	(7,986,952)	(3,289,075)
Total Accounts payable and accrued liabilities – City of Toronto	15,226,775	(3,396,877)

The \$15.2M payable to the City in 2012 is comprised mainly of the \$5.7M operating budget surplus being returned to the City and the \$8.0M of unexpended capital budget funding.

Accounts payable and accrued liabilities – Other

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

	2012	2011	Variance
Salaries and benefits	8,114,065	15,353,080	(7,239,015)
Accounts payable and accruals	9,969,008	13,864,618	(3,895,610)
Holdback payable on construction contracts	2,370,364	1,880,770	489,594
Total accounts payable and accrued liabilities – Other	20,453,437	31,098,468	(10,645,031)

Salaries and benefits accrual decreased by \$7.3M due primarily to payouts in 2013 under the Voluntary Separation Program which was accrued in 2011 (see Note 12).

Deferred Revenue (Note 2)

Deferred revenue is comprised of the balance of funds that have been received in the form of donations from the Foundation or grants for specific programs, which have not yet been expended. Programs include Ready for Reading, Business Incubator, Leading to Reading, and Mobile Library Services for the purchase of a new bookmobile.

Employee Benefit Liabilities (Note 5)

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 2012, the Library provided the necessary information on the composition of its workforce and benefits plans to the City. As a result of this valuation, the Library’s gross employee benefits liability (identified as Accrued Benefit Obligation in note 5) decreased by \$8.2M to \$74.3M (2011 - \$82.5M). The decrease in the liability is a result of a number of factors including the following:

- The Library provides certain health benefits to persons on retirement on a pension plan. More employees are delaying early retirement as compared with the prior valuation assumption. This change causes a reduction in early retiree benefits obligation.
- Buck Consultants as of December 31, 2012, performed a per capita claim analysis that shows positive experience in claiming patterns compared to the prior valuation assumption, thus creating savings in the post-retirement benefits obligation.

	2012	2011	Increase / (Decrease)
Post-retirement benefits	43,798,816	49,196,264	(5,397,448)
Disabled employees' benefits	4,163,099	6,384,579	(2,221,480)
Income benefits	7,611,386	9,932,193	(2,320,807)
Sick leave benefits	17,603,424	16,240,242	1,363,182
WSIB	1,155,679	791,788	363,891
Employee Benefits/Accrued Benefit Obligation	74,332,404	82,545,066	(8,212,662)
Net unamortized actuarial gain / (loss)	6,531,082	(8,637,456)	15,168,538
Total Net Employee Benefits Liability	80,863,486	73,907,610	6,955,876

The net employee benefits liability increased by \$7.0M to \$80.9M (2011 - \$73.9M). The components of the increase are due to the net unamortized actuarial gain / (loss) calculated as follows:

	2012	2011
Net Unamortized gain / (loss) – beginning of year	(8,637,456)	(2,085,513)
Amortization of net actuarial loss (A)	1,287,281	826,150
Actuarial gain / (loss) (B)	13,881,257	(7,378,093)
Net unamortized actuarial gain / (loss) – end of year (C)	6,531,082	(8,637,456)

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 net unamortized actuarial gain (C) of \$6,531,082 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.

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

The payable to City of Toronto at year-end is \$nil (2011 - \$0.4M) and represents the balance owing on a 2001 loan from the City’s Better Buildings Partnership Program for energy efficiency improvements.

The payable to Canada Life Assurance Company decreased by \$0.2M to \$0.9M (2011 - \$1.1M) and represents the balance of the 2001 energy efficiency loan, which is being paid back over 15 years and funded from energy savings.

Net Debt

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 increased by \$5.1M to \$78.3M [2011 - \$73.2M]. This increase in the Library’s net debt is primarily due to the amount of tangible capital assets purchased during the year that do not provide liquidity and therefore increases net debt. (See Statement of Change in Net Debt on page 6 of Attachment 1.)

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 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 at year-end with prior year comparatives is as follows:

	2012			2011
	Cost	Accumulated Amortization	Net	Net
Land	15,376,262	-	15,376,262	15,376,262
Building and leasehold improvements	203,832,441	70,672,346	133,160,095	130,976,819
Furniture, fixtures and equipment	45,201,554	21,643,874	23,557,680	24,051,120
Vehicles	2,653,935	1,541,541	1,112,394	1,182,071
Library materials	107,526,069	53,626,501	53,899,568	53,874,003
Assets under construction	16,708,200	-	16,708,200	7,897,944
Total Tangible Capital Assets	391,298,461	147,484,262	243,814,200	233,358,219

The net value of the Library's tangible capital assets increased by \$10.5M. During the year, asset additions totalled \$40.4M, with the most significant portion being building improvements of \$16.2M and library collections of \$17.9M.

During the year, accumulated amortization of tangible capital assets increased \$3.6M to \$147.5M [2011 - \$143.9M].

Accumulated Surplus

The 2012 actual accumulated surplus as shown on the Statement of Financial Position (page 4 of Attachment 1) is \$165,460,509. As any operating budget surplus is returned to the City, the accumulated surplus is a product of applying PSAB accounting and is comprised of the net book value of tangible capital assets, employee benefit liability and other liabilities less financial assets:

	2012	2011
Purchase of Tangible Capital Assets	391,291,461	377,314,833
Accumulated amortization	(147,484,261)	(143,956,614)
Net book value of Tangible Capital Assets	243,814,200	233,358,219
Employee benefits liability	(80,863,486)	(73,907,610)
Other liabilities less financial assets	2,509,795	652,156
Accumulated Surplus	165,460,509	160,102,765

Annual Surplus

There are two annual surpluses on the Statement of Operations and Accumulated Surplus (page 5 of Attachment 1):

1. Unaudited Budget Annual Surplus (\$43.5M)
2. PSAB Actual Surplus (\$5.4M)

The third surplus disclosed in note 3 is the under spending of the approved operating budget, which is returned to the City (\$5.7M).

The 2012 PSAB annual surplus shown is \$5.4M while the operating budget surplus for 2012, which is the under spending of the approved operating budget, was \$5.7M, which was returned to the City. The reconciliation of the operating budget surplus returned to the City to the PSAB annual surplus is shown below:

	2012	2011
Operating Budget Surplus	5,703,487	160,643
Surplus Returned to the City	(5,703,487)	(160,643)
Balance	-	-
Net increase in net book value of Tangible Capital Assets	10,455,980	14,107,155
Employee benefit liability	(6,955,876)	(3,761,021)
Unspent Capital and Library Material funding	931,798	(450,072)
Energy savings loan	525,427	182,683
Employee benefit vacation liability	394,072	(161,310)
Capital lease	6,342	164,496
PSAB Annual Surplus	5,357,744	10,081,930

The unaudited budget, which has been adjusted for PSAB accounting, does not have an amount for amortization. However, the PSAB actual 2012 results using accrual accounting, has a \$29.1M amortization cost comprised of \$11.2M for buildings and equipment, and \$17.9M for collections

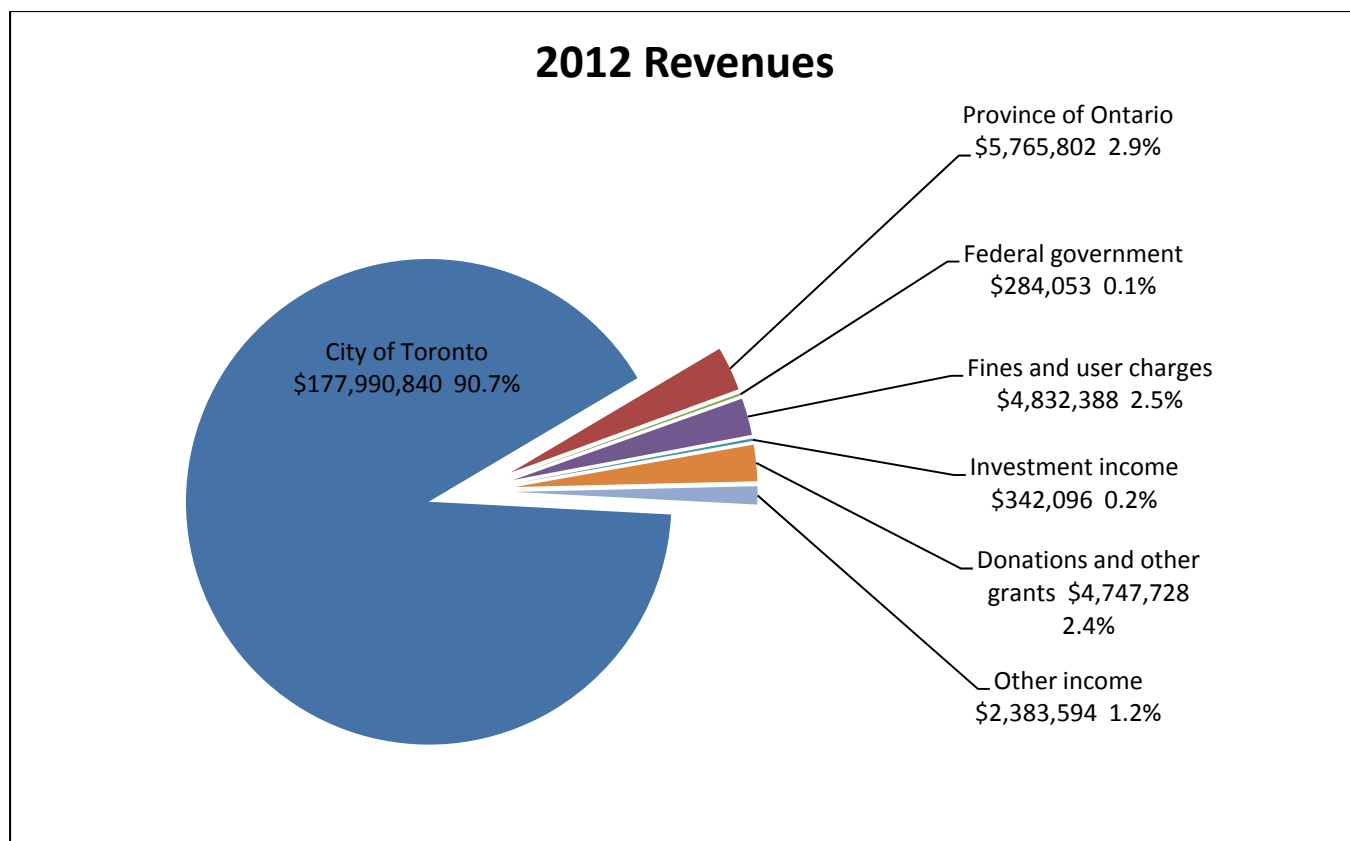
The unaudited budget on the financial statements is the sum of the approved 2012 operating and capital budgets which have been adjusted for PSAB accounting, with a resulting surplus comprised of the budget expenditures for the capital budget and library collections as shown below:

	Unaudited Budget Surplus	PSAB Actual Surplus
Capital budget expenditure	26,068,198	22,516,655
Operating budget expenditure – Library materials	17,465,754	17,897,323
Amortization – Capital budget expenditure	-	(11,196,748)
Amortization – Operating budget expenditure – Library materials	-	(17,871,758)
Post-retirement and post-employment benefit expense	-	(6,955,876)
Other	-	968,148
Annual Surplus	43,533,952	5,357,744

DETAILED REVIEW OF STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS

Revenues

Chart A breaks down the total revenues (includes operating and capital revenue) by cost objects. The Library's primary source of funding comes from the City of Toronto (90.7%).



The 2012 revenues and prior year comparatives are shown in the table below:

	2012 Budget	2012 Actual	Variance	2011 Actual
City of Toronto	189,427,269	177,990,840	11,436,429	196,181,834
Province of Ontario	5,685,704	5,765,802	(80,098)	6,126,983
Federal government	20,000	284,053	(264,053)	586,247
Fines and user charges	4,887,078	4,832,388	54,690	4,182,068
Investment income	-	342,096	(342,096)	302,815
Donations and other grants	1,556,000	4,747,728	(3,191,728)	6,766,940
Other income	2,072,747	2,383,594	(310,847)	1,919,726
Total Revenues	203,648,798	196,346,501	7,302,297	216,066,613

Revenues for 2012 totalled \$196.3M [2011 - \$216.1M], which is \$7.3M less than budget due mainly to the annual surplus of \$5.4M and the unexpended capital of \$8.0M returned to the City, offset by \$3.2M of additional donations from the Foundation for collections, programs and services for the Toronto Reference Library capital project.

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

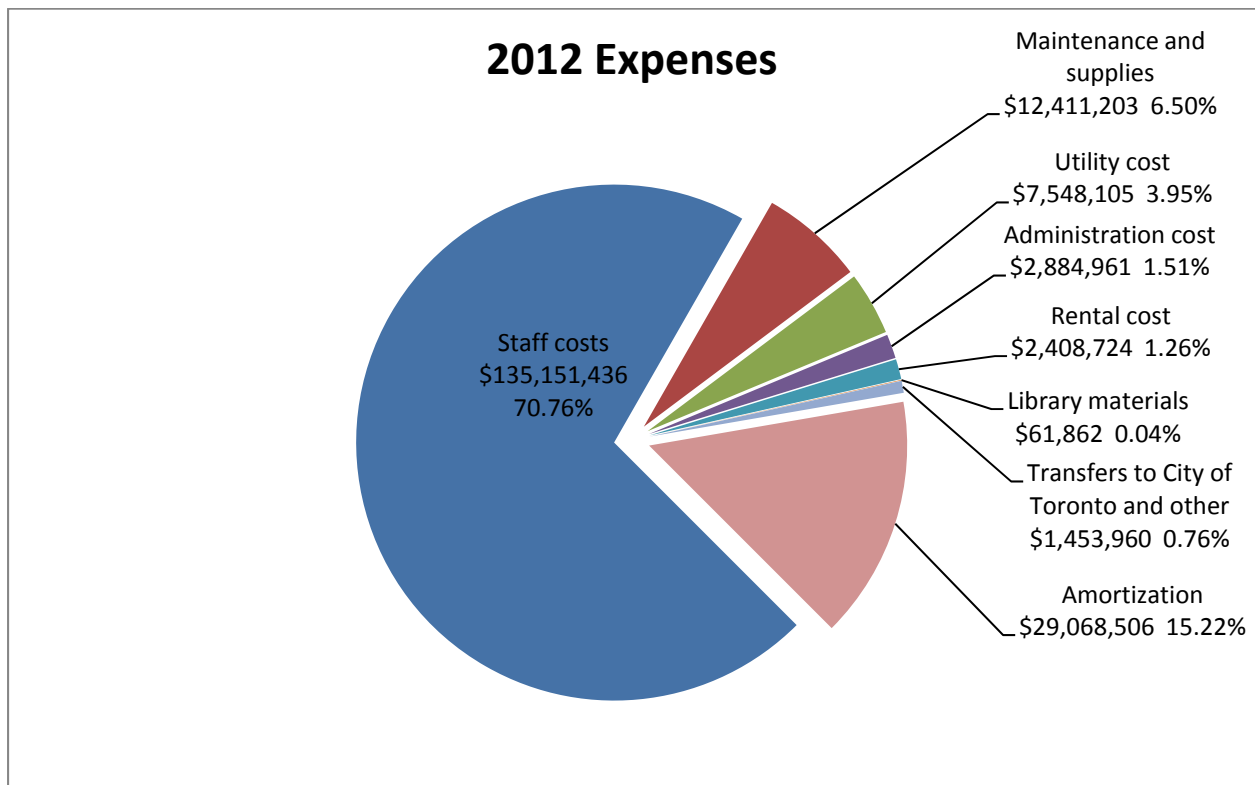
	2012	2011	Variance
Fines	3,653,199	2,949,776	703,423
Equipment & facility rentals	592,577	621,308	(28,731)
Photocopier receipts	527,540	551,830	(24,290)
Other charges	59,072	59,154	(82)
Fines and user fees	4,832,388	4,182,068	650,320

Other income consists primarily of tenant rental income and revenue from the Bram and Bluma Appel Salon. The breakdown at year-end with prior year comparatives is as follows:

	2012	2011	Variance
Tenant leases	1,182,163	1,241,383	(59,220)
Salon rentals	624,123	434,583	189,540
Sale of used books	109,647	92,179	17,468
Other income	467,661	151,581	316,080
Total Other Income	2,383,594	1,919,726	463,868

Expenses

Chart B breaks down the expenses (includes both operating and capital expenses) by cost objects. Staff costs accounted for the largest portion at 70.8% of the total amount.



The library materials shown in the chart represent donations to special collections which are expensed. Note that \$17.5M of expenditure on library collections, which is part of the approved operating budget, is treated as an addition to tangible capital assets.

The 2012 expenses and prior year comparatives are shown in the table below:

	2012 Budget	2012 Actual	Variance	2011 Actual
Staff costs	134,191,890	135,151,436	(959,546)	152,214,159
Maintenance and supplies	12,346,858	12,411,203	(64,345)	11,536,430
Utility cost	7,628,090	7,548,105	79,985	7,658,271
Administration cost	2,688,206	2,884,961	(196,755)	2,779,430
Rental cost	2,479,976	2,408,724	71,252	2,713,755
Library materials	-	61,862	(61,862)	192,727
Transfers to City of Toronto and other	779,826	1,453,960	(674,134)	228,512
Amortization	-	29,068,506	(29,068,506)	28,661,399
Total Expenses	160,114,846	190,988,757	(30,873,911)	205,984,683

Expenses for 2012 totalled \$191.0M (2011 - \$205.9M) which is \$30.9M higher than budget mainly due to PSAB accounting which resulted in variances in staff costs and amortization of tangible capital assets.

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, 2012