

## **2013 Audited Financial Statements**

<b>Date:</b>	May 26, 2014
<b>To:</b>	Toronto Public Library Board
<b>From:</b>	City Librarian

### **SUMMARY**

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The purpose of this report is to present the Audited Financial Statements for the year ended December 31, 2013 to the Toronto Public Library Board for approval and provide highlights of the Library's 2013 financial results.

### **RECOMMENDATIONS**

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**The City Librarian recommends that the Toronto Public Library Board:**

1. approves the 2013 Audited Financial Statements of the Toronto Public Library Board, appended as Attachment 1.

### **FINANCIAL IMPACT**

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These financial statements reflect the 2013 combined results of the spending of the operating and capital budgets. For 2013, there was an operating budget surplus of \$0.387 million, which will be returned to the City. The capital budget was 87% expended, and the unexpended amount of \$4.975 million will be carried-forward into the next year.

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

### **ISSUE BACKGROUND**

At the Board meeting of November 18, 2013, the PricewaterhouseCooper's (PwC) report on the Audit Plan for the Year Ending December 31, 2013, 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:

<b>Name</b>	<b>Purpose</b>
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 operating and capital budgets as approved by Council be reflected in the Financial Statements and be adjusted for accrual based accounting. The 2013 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 2013 have been combined and reflected in the statement of operations and accumulated surplus. The budget for acquisition of tangible capital assets, primarily comprised of expenditures of the capital budget and for library collections, results in a budget surplus.

### Statement of Change in Net Debt

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

### Statement of Cash Flow

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

## **COMMENTS**

The draft Audited Financial Statements for the year ended December 31, 2013 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, 2013. The financial statements are considered draft until approved by the Library Board.

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

## Budget Monitoring Reports

At the Board meeting on March 24, 2014, the 2013 results of spending the operating and capital budgets were presented for information. The Operating Budget Monitoring Report – December 31, 2013 showed an operating surplus of \$0.387 million which will be returned to the City and is reflected in the financial statements as payable to the City. The Capital Budget Monitoring Report – December 31, 2014 showed an 87% expenditure rate, and the unexpended amount of \$4.975 million will be carried forward into the next year. The \$3.830 million debt portion of the capital carry-forward, is reflected in the financial statements as payable to the City

## Detailed Review of Statement of Financial Position

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

### Financial Statement Variance Table (\$ millions, or \$M)

	Actual 2013	Actual 2012	Variance
<b>Financial assets</b>			
Cash and cash equivalents	9,920,371	31,394,681	(21,474,310)
Accounts receivable:			
City of Toronto	14,770,698	-	14,770,698
Other accounts receivable	3,250,690	9,315,633	(6,064,943)
	<b>27,941,759</b>	<b>40,710,314</b>	<b>(12,768,555)</b>
<b>Liabilities</b>			
Accounts payable and accrued liabilities:			
City of Toronto	-	15,226,775	(15,226,775)
Other accounts payable	23,188,989	20,453,437	2,735,552
Deferred revenue	1,217,625	1,568,236	(350,611)
Employee benefits	84,598,410	80,863,486	3,734,924
Payable to Canada Life Assurance Company	815,951	952,071	(136,120)
	<b>109,820,975</b>	<b>119,064,005</b>	<b>(9,243,030)</b>
<b>Net debt</b>	<b>(81,879,216)</b>	<b>(78,353,691)</b>	<b>(3,525,525)</b>
Tangible capital assets	267,896,366	243,814,200	24,082,166
<b>Accumulated surplus</b>	<b>186,017,150</b>	<b>165,460,509</b>	<b>20,556,641</b>

## Cash

Cash and cash equivalents decreased by \$21.5M to \$9.9M [2012 - \$31.4M] due primarily to the deferral of some of the approved 2013 City funding, which will be received in early 2014, to better match cash inflows against expenditures.

## 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:

	2013	2012
2013 approved City budget funding receivable	19,542,909	-
Operating expenses accrued	(81,215)	(355,961)
Operating surplus payable to City	(386,655)	(5,703,487)
Hydro charges payable	(776,967)	(583,375)
Repayment of capital project funding	303,000	(597,000)
Unexpended capital advance (carry-forward)	(3,830,374)	(7,986,952)
<b>Total Accounts receivable (Accounts payable) – City of Toronto</b>	<b>14,770,698</b>	<b>(15,226,775)</b>

The \$14.8M receivable from the City in 2013 is comprised mainly of \$19.5M related to the deferral of some of the approved 2013 City funding, which will be received in early 2014, partially offset by \$3.8M of unexpended capital budget funding.

## Other accounts receivable

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

	2013	2012
Ministry of Tourism and Culture –Provincial Household Grant	-	4,127,362
Toronto Public Library Foundation	-	3,096,734
Canada Revenue Agency – HST rebate	2,817,900	1,960,525
Southern Ontario Library Service – 2013 Grant	124,404	-
Other	308,386	131,012
<b>Total Other accounts receivable</b>	<b>3,250,690</b>	<b>9,315,633</b>

Other accounts receivable decreased by \$6.0M to \$3.3M [2012-\$9.3M] due to timing of the receipt the 2013 Provincial Household Grant and funding from the Toronto Public Library Foundation, both of which were received before year-end.

## 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:

	2013	2012	Variance
Salaries and benefits	8,430,154	8,114,065	316,089
Accounts payable and accruals	11,179,332	9,969,008	1,210,324
Holdback payable on construction contracts	3,579,503	2,370,364	1,209,139
<b>Total accounts payable and accrued liabilities – Other</b>	<b>23,188,989</b>	<b>20,453,437</b>	<b>2,735,552</b>

Accounts payable and accruals and Holdback payable on construction contracts were both increased by \$1.2M due primarily to the higher capital spending in 2013, especially as it relates to Toronto Reference Library, Fort York and Scarborough.

## Deferred Revenue (Note 2)

Deferred revenue is comprised of the balance of funds which have been received in the form of funding 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 4)

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 4 of the Financial Statement). Towards the end of 2013, 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 4) decreased by \$3.8M to \$70.5M (2012 - \$74.3M). 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, 2013, performed a per capita claim analysis which shows positive experience in claiming patterns compared to the prior valuation assumption, thus creating savings in the post-retirement benefits obligation.

	2013	2012	Increase / (Decrease)
Post-retirement benefits	40,492,682	43,798,816	(3,306,134)
Disabled employees' benefits	4,317,366	4,163,099	154,267
Income benefits	7,528,670	7,611,386	(82,716)
Sick leave benefits	16,927,468	17,603,424	(675,956)
WSIB	1,262,458	1,155,679	106,779
<b>Employee Benefits/Accrued Benefit Obligation</b>	<b>70,528,644</b>	<b>74,332,404</b>	<b>(3,803,760)</b>
Net unamortized actuarial gain / (loss)	14,069,766	6,531,082	7,538,684
<b>Total Net Employee Benefits</b>	<b>84,598,410</b>	<b>80,863,486</b>	<b>3,734,924</b>

The net employee benefits liability increased by \$3.7M to \$84.6M (2012 - \$80.9M). The components of the increase are due to the net unamortized actuarial gain / (loss) calculated as follows:

	2013	2012
Unamortized gain / (loss) – beginning of year	6,531,082	(8,637,456)
Amortization of net actuarial loss (A)	367,995	1,287,281
Actuarial gain / (loss) (B)	7,170,689	13,881,257
<b>Net unamortized gain / (loss) – end of year (C)</b>	<b>14,069,766</b>	<b>6,531,082</b>

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 \$14,069,766 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) become fully amortized.

**Payable to Canada Life Assurance Company (Note 5)**

The payable to Canada Life Assurance Company decreased by \$136K to \$816K (2012 - \$952K) and represents the balance of the 2001 energy efficiency loan, which is being repaid 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 \$3.6M to \$81.9M [2012 - \$78.3M]. This increase in the Library’s net debt is primarily due to the increase in employee benefits liability. (See Statement of Changes 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 7)**

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

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

	2013			2012
	Cost	Accumulated Amortization	Net	Net
Land	15,376,261	-	15,376,261	15,376,262
Building and leasehold improvements	226,517,100	75,303,474	151,213,627	133,160,096
Furniture, fixtures and equipment	47,820,307	22,176,765	25,643,542	23,557,680
Vehicles	2,680,106	1,589,055	1,091,051	1,112,394
Library materials	108,495,060	54,077,214	54,417,846	53,899,568
Assets under construction	20,154,040	-	20,154,040	16,708,200
<b>Total Tangible Capital Assets</b>	<b>421,042,874</b>	<b>153,146,508</b>	<b>267,896,366</b>	<b>243,814,200</b>

The net value of the Library’s tangible capital assets increased by \$24.1M, mainly for building and assets under construction. During the year, asset additions totalled \$53.6M, with the most significant portion being building improvements of \$26.1M and library collections of \$18.5M.

During the year, accumulated amortization of tangible capital assets increased \$5.6M to \$153.1M [2012 - \$147.5M].

### Accumulated Surplus

The 2013 actual accumulated surplus as shown on the Statement of Financial Position (page 4 of Attachment 1) is \$186,017,150. 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:

	2013	2012
Purchase of Tangible Capital Assets	421,042,874	391,298,462
Accumulated amortization	(153,146,508)	(147,484,262)
<b>Net book value of Tangible Capital Assets</b>	<b>267,896,366</b>	<b>243,814,200</b>
Employee benefits liability	(84,598,410)	(80,863,486)
Other liabilities less financial assets	2,719,194	2,509,795
<b>Accumulated Surplus</b>	<b>186,017,150</b>	<b>165,460,509</b>

### Annual Surplus

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

1. Audited Budget Annual Surplus (\$18.6M)
2. PSAB Actual Surplus (\$20.6M)

The third surplus disclosed in Note 3 is the under spending of the approved operating budget, which is returned to the City (\$386K).

The 2013 PSAB annual surplus shown is \$20.6M while the operating budget surplus for 2013, which is the under spending of the approved operating budget, was \$386K 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:

	2013	2012
Operating Budget Surplus	386,655	5,703,487
Surplus Returned to the City	(386,655)	(5,703,487)
Balance	-	-
Net increase in net book value of Tangible Capital Assets	24,082,166	10,455,980
Employee benefit liability	(3,734,924)	(6,955,876)
Unspent Capital and Library Material funding	76,386	931,798
Energy savings loan	136,120	525,427
Employee benefit vacation liability	(3,107)	394,072
Capital lease	-	6,342
<b>PSAB Annual Surplus</b>	<b>20,556,641</b>	<b>5,357,744</b>

As described in Note 2, the audited budget on the financial statements is the sum of the approved 2013 operating and capital budgets which have been adjusted for PSAB accounting, with a resulting budget surplus of \$18.6M comprised of expenditures for the capital budget and library collections, less amortization. The budget surplus is compared to the PSAB surplus below:

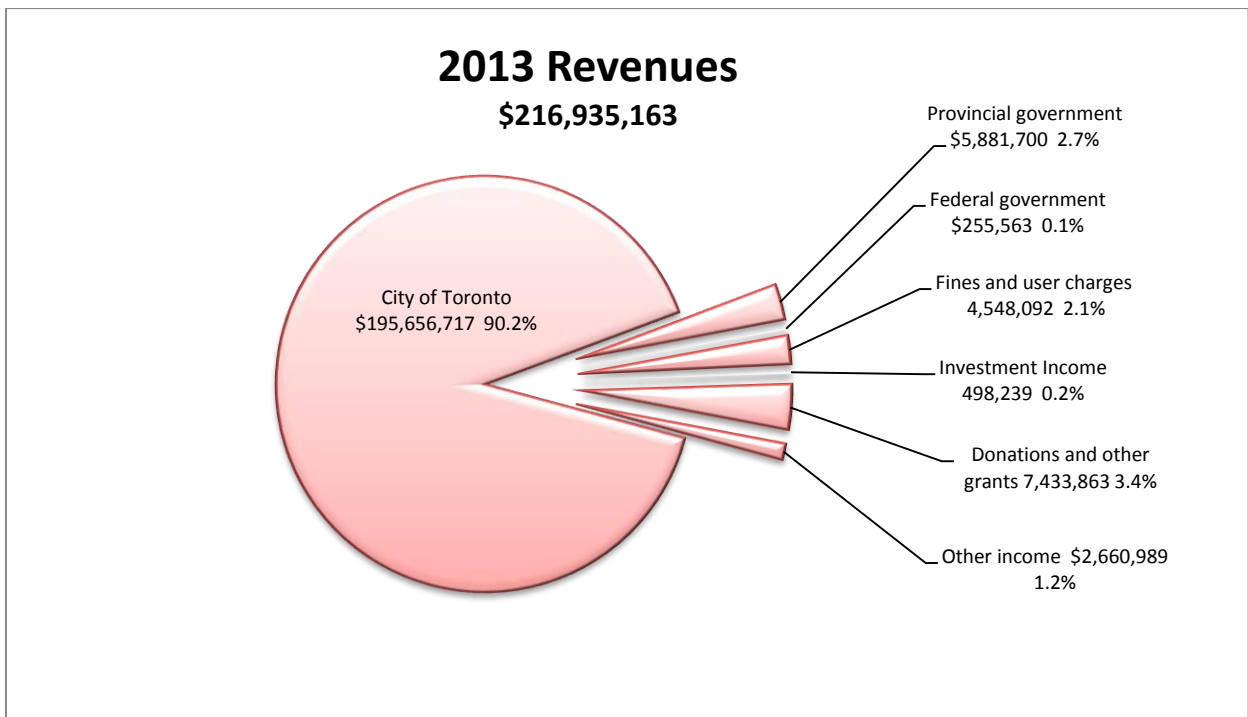


	<b>Audited Budget Surplus</b>	<b>PSAB Actual Surplus</b>
Capital budget expenditure	30,794,000	35,106,041
Operating budget expenditure – Library materials	17,365,754	18,520,038
<b>Tangible assets gross amount [a]</b>	<b>48,159,754</b>	<b>53,626,079</b>
Amortization – Capital budget expenditure	(11,542,152)	(11,542,152)
Amortization – Operating budget expenditure – Library materials	(18,001,761)	(18,001,761)
<b>Total amortization [b]</b>	<b>(29,543,913)</b>	<b>(29,543,913)</b>
<b>Tangible assets net book value [c = a + b]</b>	<b>18,615,841</b>	<b>24,082,166</b>
Post-retirement and post-employment benefit expense	-	(3,734,924)
Other	-	209,399
<b>Annual Surplus</b>	<b>18,615,841</b>	<b>20,556,641</b>

## Detailed Review of Statement of Operations and Accumulated Surplus

### Revenues

The following chart breaks down the total revenues by cost objects. The Library's primary source of funding comes from the City of Toronto (90.2%).



The 2013 revenues and prior year comparatives are shown in the table below:

	%	2013 Budget	2013 Actual	Variance	2012 Actual
City of Toronto	90.2	190,228,587	195,656,717	(5,428,130)	177,990,840
Province of Ontario	2.7	5,685,704	5,881,700	(195,996)	5,765,802
Federal government	0.1	20,000	255,563	(235,563)	284,053
Fines and user charges	2.1	4,943,245	4,548,092	395,153	4,832,388
Investment income	0.2	139,500	498,239	(358,739)	342,096
Donations and other grants	3.4	6,159,800	7,433,863	(1,274,063)	4,747,728
Other income	1.2	2,134,080	2,660,989	(526,909)	2,383,594
<b>Total Revenues</b>	<b>100.0</b>	<b>209,310,916</b>	<b>216,935,163</b>	<b>(7,624,247)</b>	<b>196,346,501</b>

Revenues for 2013 totalled \$216.9M [2012 - \$196.3M] which is \$7.6M more than budget, due mainly to \$1.2M increase in funding received from the Toronto Public Library Foundation and \$5.4M increase in funding received from the City, which consist of \$1.2M from a reserve for non-union employee salary cost of living and \$4.1M from the reduction in unexpended capital budget funding.

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:

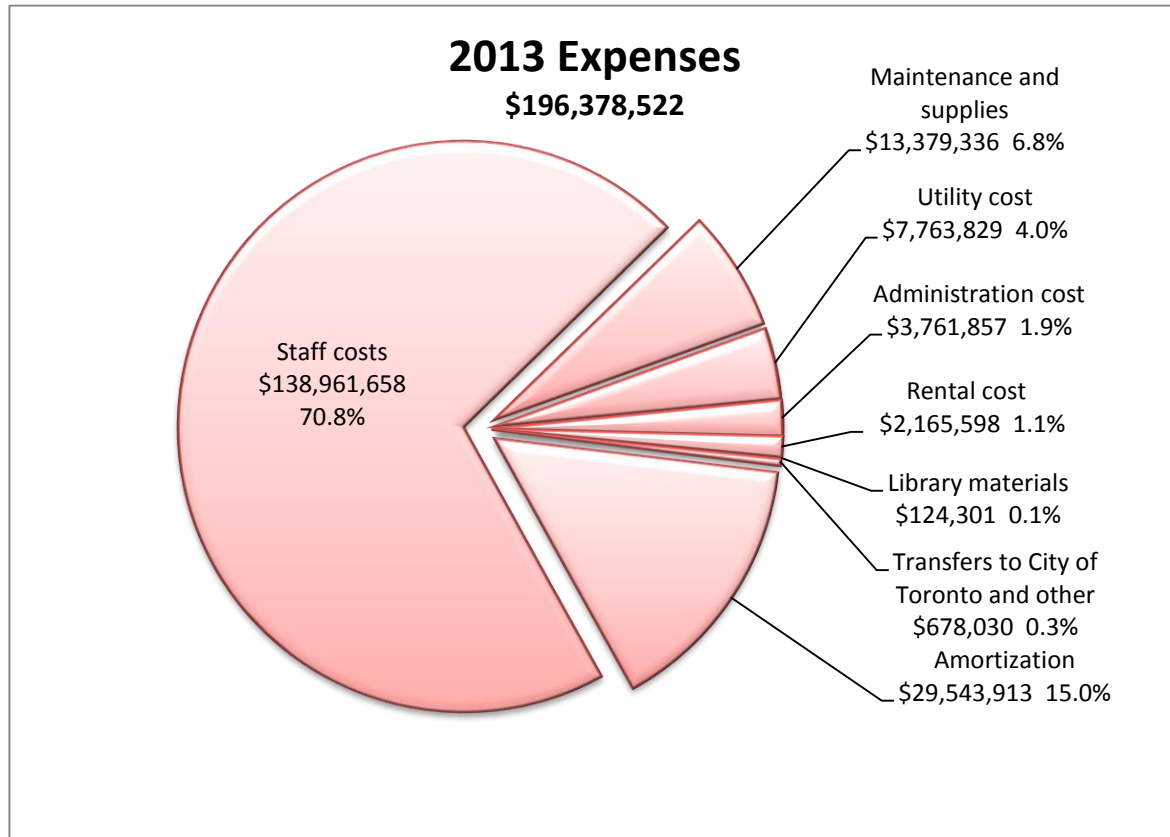
	2013	2012	Variance
Fines	3,249,988	3,653,199	(413,211)
Equipment & facility rentals	651,934	592,577	59,357
Photocopier receipts	588,258	527,540	60,718
Other charges	57,912	59,072	(1,160)
<b>Fines and user fees</b>	<b>4,548,092</b>	<b>4,832,388</b>	<b>(284,296)</b>

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:

	2013	2012	Variance
Tenant leases	1,220,798	1,182,163	38,635
Salon rentals	646,480	624,123	22,357
Sale of used books	96,909	109,647	(12,738)
Other income	696,802	467,661	229,141
<b>Total Other Income</b>	<b>2,660,989</b>	<b>2,383,594</b>	<b>277,395</b>

## Expenses

The following chart breaks down the 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 only donations to special collections which are expensed. Note that \$18.5M of expenditure on library collections, which is part of the approved operating budget, is treated as an addition to tangible capital assets.

The 2013 expenses and prior year comparatives are shown in the table below:

	%	2013 Budget	2013 Actual	Variance	2012 Actual
Staff costs	70.8	135,317,952	138,961,658	(3,643,706)	135,151,436
Maintenance and supplies	6.8	12,015,821	13,379,336	(1,363,515)	12,411,203
Utility cost	4.0	7,871,166	7,763,829	107,337	7,548,105
Administration cost	1.9	2,641,316	3,761,857	(1,120,541)	2,884,961
Rental cost	1.1	2,510,356	2,165,598	344,758	2,408,724
Library materials	0.1	-	124,301	(124,301)	61,862
Transfers to City of Toronto and other	0.3	794,551	678,030	116,521	1,453,960
Amortization	15.0	29,543,912	29,543,913	(1)	29,068,506
<b>Total Expenses</b>	<b>100.0</b>	<b>190,695,074</b>	<b>196,378,522</b>	<b>(5,683,448)</b>	<b>190,988,757</b>

Expenses for 2013 totalled \$196.4M (2012 - \$191.0M) which is \$5.6M higher than budget, mainly due to PSAB accounting which resulted in a \$3.7M increase in employee benefits and therefore increased staff costs. Other expenditures which exceed budget are mainly related to grants and funding received from the Foundation.

	<b>2013 Budget</b>	<b>2013 Actual</b>	<b>Variance</b>	<b>2012 Actual</b>
Administrative	804,483	877,391	(72,908)	827,735
Training & mileage	574,118	576,515	(2,397)	446,410
Supplies & services	98,464	460,273	(361,809)	106,850
Programs, printing & advertising	1,164,251	1,847,678	(683,427)	1,503,966
<b>Total Administration cost</b>	<b>2,641,316</b>	<b>3,761,857</b>	<b>(1,120,541)</b>	<b>2,884,961</b>

Administration cost for 2013 totalled \$3.8M (2012 - \$2.9M) which is \$1.1M higher than budget, mainly due to \$0.683M increase in programs, printing & advertising expenses that resulted from increase in funding from Toronto Public Library Foundation. Supplies and services expenses increased by \$0.362M due to air testing at the processing centre on Front Street, the economic benefits study by Martin Prosperity Institute and mould testing expenses resulting from weather related incidents (flooding) in 2013.

## 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

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Jane Pyper  
City Librarian

## ATTACHMENTS

Attachment 1: Audited Financial Statements - Toronto Public Library Board - December 31, 2013