



STAFF REPORT ACTION REQUIRED

17.

2015 Audited Financial Statements – Toronto Public Library Board

Date:	May 30, 2016
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, 2015 to the Toronto Public Library Board for approval and provide highlights of the Library's 2015 financial results.

RECOMMENDATIONS

The City Librarian recommends that the Toronto Public Library Board:

1. approves the 2015 Audited Financial Statements of the Toronto Public Library Board, appended as Attachment 1.

FINANCIAL IMPACT

These financial statements reflect the 2015 combined results of the spending of the operating and capital budgets. For 2015, there was an operating budget surplus of \$0.013 million [2014 – \$0.026 million], which will be returned to the City. The capital budget was 88.4% [2014 – 93.6%] expended, and the unexpended amount of \$2.568 million [2014 – \$2.052 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 23, 2015, PricewaterhouseCooper's (PwC) report on the Audit Plan for the year ending December 31, 2015, 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 have been prepared in accordance with Canadian public sector accounting standards (PSAS) for local governments as defined by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada.

These Financial Statements have been audited by PwC whose role is to express an independent opinion on the fair presentation of the Library’s financial position and operating results, and to confirm that the statements are free from material misstatement. The external auditor’s opinion is to provide comfort to third parties that the financial statements can be relied upon.

Financial Statements

The Financial Statements include the following individual statements:

Name	Purpose
Statement of Financial Position	Summarizes the assets (financial and non-financial), liabilities, net debt and accumulated surplus as at year end.
Statement of Operations and Accumulated Surplus	Outlines revenues, expenses, surplus for the year and accumulated surplus at year end. This statement reflects the combined operations of the operating and capital funds for the Library and provides the calculation of the Library’s accumulated surplus at year end.
Statement of Change in Net Debt	Outlines the changes in net debt as a result of annual operations and tangible capital asset transactions.
Statement of Cash Flows	Summarizes the Library’s cash position and changes during the year by outlining the Library’s sources and uses of cash.

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

Statement of Financial Position

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

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

Statement of Operations and Accumulated Surplus

The Statement of Operations and Accumulated Surplus 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.

PSAS legislation requires the operating and capital budgets as approved by Council be reflected in the Financial Statements and be adjusted for accrual based accounting. The 2015 budget values presented in this statement have been adjusted to reflect the differences between amounts as budgeted at the City and Library on a modified "cash requirements" basis and amounts now recorded in these financial statements on an accrual basis. As described in Note 2 to the financial statements (Budget figures), the total approved operating and capital budgets for 2015 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, 2015 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, 2015. 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 21, 2016, the 2015 results of spending the operating and capital budgets were presented for information. The Operating Budget Monitoring Report – December 31, 2015 showed an operating surplus of \$0.013 million, which will be returned to the City and is reflected in the financial statements as payable to the City (see Table 2 on page 5). The Capital Budget Monitoring Report – December 31, 2015 showed an 88.4% expenditure rate, and the unexpended amount of \$2.568 million will be carried forward into the next year. The \$2.246 million debt portion of the capital carry-forward, is reflected in the financial statements as payable to the City (see Table 2 on page 5).

Detailed Review of Statement of Financial Position

(M= millions; K=thousands)

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

Table 1 – Statement of financial position variance (2015 vs. 2014)

	Actual 2015	Actual 2014	Increase / (Decrease)
Financial assets			
Cash and cash equivalents	10,197,165	15,439,423	(5,242,258)
Accounts receivable:			
City of Toronto (Table 2)	6,641,916	4,744,429	1,897,487
Other accounts receivable (Table 3)	2,206,023	1,899,569	306,454
	19,045,104	22,083,421	(3,038,317)
Liabilities			
Accounts payable and accrued liabilities:			
Other accounts payable (Table 4)	16,046,353	19,010,740	(2,964,387)
Deferred revenue	1,881,809	1,480,475	401,334
Employee benefits (Table 5)	88,475,507	87,035,965	1,439,542
Payable to Canada Life Assurance Company	508,765	668,497	(159,732)
	106,912,434	108,195,677	(1,283,243)
Net debt	(87,867,330)	(86,112,256)	1,755,074
Tangible capital assets (Table 7)	293,064,922	285,569,788	7,495,134
Accumulated surplus (Table 8)	205,197,592	199,457,532	5,740,060

Cash

Cash and cash equivalents decreased by \$5.2M to \$10.2M [2014 – \$15.4M] due to \$4M decrease in accounts payable (see Table 4) and \$1.5M increase in receivable from City of Toronto (see Table 2).

Accounts receivable – City of Toronto (Note 3)

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

Table 2 – City of Toronto receivable

	2015	2014	Increase / (Decrease)
2015 approved City budget funding receivable	8,212,436	8,103,404	109,032
Operating expenses accrued	(121,990)	(468,097)	(346,107)
Operating surplus payable to City	(13,525)	(26,174)	(12,649)
Hydro charges payable	(770,779)	(1,233,155)	(462,376)
Capital project funding receivable	1,581,805	-	1,581,805
Unexpended capital advance (carry-forward) – City debt portion	(2,246,031)	(1,631,549)	614,482
Total Accounts receivable (Accounts payable) – City of Toronto	6,641,916	4,744,429	1,897,487

The \$6.6M receivable from the City in 2015 is comprised mainly of \$8.2M related to the deferral of some of the approved 2015 City funding, which will be received in early 2016. The \$1.5M receivable for the construction of the Scarborough Civic Centre Streetscape, which is a project completed by the Library and funded by the City. The receivables are offset by \$2.2M payable, which represents the unexpended capital budget debt funding.

Other accounts receivable

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

Table 3 – Other receivable

	2015	2014	Increase / (Decrease)
Canada Revenue Agency – HST rebate	1,772,366	1,604,190	168,176
Other	433,657	295,379	138,278
Total Other accounts receivable	2,206,023	1,899,569	306,454

Other accounts receivable increased by \$0.3M to \$2.2M [2014 – \$1.9M] mainly due to an increase in HST rebate receivable from Canada Revenue Agency which will be received in early 2016.

Accounts payable and accrued liabilities

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

Table 4 – Accounts payable and accrued liabilities

	2015	2014	Increase / (Decrease)
Salaries and benefits payable	9,074,442	7,978,099	1,096,343
Accounts payable and accruals	6,038,543	10,084,241	(4,045,698)
Holdback payable on construction contracts	933,368	948,400	(15,032)
Total accounts payable and accrued liabilities	16,046,353	19,010,740	(2,964,387)

Salaries and benefits payable increased by \$1.0M due primarily to the timing for payroll accruals at the end of the year. In 2015, payroll accrual consist of five days compared to four days in 2014. Accounts payable and accruals decreased by \$4.0M due to fewer active capital projects at the end of the year.

Deferred Revenue (Note 2)

Deferred revenue is comprised of the balance of funds that have been received in the form of funding from the Foundation or grants for specific programs, which have not yet been expended. Programs include Digitization, Ontario Libraries Capacity Fund Grant, Business Inc., Home Library Services and Mobile Library Services for the purchase of a new bookmobile.

Employee Benefit Liabilities (Note 4)

The City has employed the services of Morneau Shepell, a third party valuation expert, to value the gross employee benefits liability (identified as ‘employee benefits’ in Note 4 of the Financial Statement). Towards the end of 2015, the Library provided the necessary information on the composition of its workforce and benefits plans to the City. As a result of this valuation, the Library’s gross employee benefits liability (identified as Accrued Benefit Obligation in Note 4) decreased by \$16.1M to \$64.7M [2014 – \$80.8M]. The decrease in the liability is due to a decrease in the trend rate from 6% (2014) to 3% (2015) for extended healthcare and lower anticipated current per-capita retiree claim costs than those used in the December 31, 2012 valuation.

Table 5 – Net employee benefits

	2015	2014	Increase / (Decrease)
Post-retirement benefits	31,910,016	48,593,987	(16,683,971)
Disabled employees' benefits	6,430,786	4,728,247	1,702,539
Income benefits	7,797,657	7,872,326	(74,669)
Sick leave benefits	18,324,830	18,150,670	174,160
WSIB	291,815	1,472,148	(1,180,333)
Employee Benefits/Accrued Benefit Obligation	64,755,104	80,817,378	(16,062,274)
Net unamortized actuarial gain / (loss)	23,720,403	6,218,587	17,501,816
Total Net Employee Benefits	88,475,507	87,035,965	1,439,542

The net employee benefits liability increased by \$1.4M to \$88.4M [2014 – \$87.0M]. The components of the increase are due to a \$16.1M decrease in accrued benefit obligation offset by a \$17.5M increase in the net unamortized actuarial gain / (loss) calculated as follows:

Table 6 – Net unamortized gain/(loss)

	2015	2014
Unamortized gain – beginning of year	6,218,587	14,069,766
Amortization of net actuarial (gain) / loss (A)	405,982	(106,885)
Actuarial (loss) / gain (B)	17,095,834	(7,744,294)
Net unamortized gain / (loss) – end of year (C)	23,720,403	6,218,587

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 \$23,720,403 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 Canada Life Assurance Company (Note 5)

The payable to Canada Life Assurance Company decreased by \$159K to \$509K [2014 – 668K] and represents the balance of the 2001 energy efficiency loan, which is being repaid from energy savings.

Change in Net Debt (Statement of Changes in Net Debt of Attachment 1)

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

The Library’s net debt at year-end increased by \$1.7M to \$87.8M [2014 – \$86.1M]. This increase in the Library’s net debt is primarily due to the increase in employee benefits liability and the change in the unspent non-debt portion of capital funding (see Table 9).

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:

Table 7 – Tangible capital assets

	2015			2014
	Cost	Accumulated Amortization	Net	Net
Land	15,376,262	-	15,376,262	15,376,262
Building and leasehold improvements	274,178,704	86,103,169	188,075,535	177,885,202
Furniture, fixtures and equipment	52,527,800	23,653,713	28,874,087	27,741,641
Vehicles	2,776,103	1,879,227	896,876	1,017,104
Library materials	110,183,860	54,825,770	55,358,090	54,886,564
Assets under construction	4,484,072	-	4,484,072	8,663,015
Total Tangible Capital Assets	459,526,801	166,461,879	293,064,922	285,569,788

The net value of the Library’s tangible capital assets increased by \$7.5M, mainly for building and leasehold improvements. During the year, asset additions totalled \$39.0M, comprised of building improvements of \$11.6M, furniture and equipment of \$8.5M and library collections of \$18.8M.

During the year, accumulated amortization of tangible capital assets increased \$6.4M net to \$166.4M [2014 – \$160.1M].

Accumulated Surplus

The 2015 actual accumulated surplus as shown on the Statement of Financial Position (page 4 of Attachment 1) is \$205,197,592. The accumulated surplus is a product of applying PSAS accounting and is comprised of the net book value of tangible capital assets, employee benefit liability and other liabilities less financial assets:

Table 8 – Accumulated surplus

	2015	2014
Purchase of Tangible Capital Assets	459,526,800	445,767,912
Accumulated amortization	(166,461,878)	(160,198,124)
Net book value of Tangible Capital Assets	293,064,922	285,569,788
Employee benefits liability	(88,475,507)	(87,035,965)
Other liabilities less financial assets	608,177	923,709
Accumulated Surplus (Table 1)	205,197,592	199,457,532

Annual Surplus

There are two annual surpluses on the Statement of Operations and Accumulated Surplus (page 5 of Attachment 1; breakdown shown in Table 10):

1. Audited Budget Annual Surplus - \$6.4M
2. PSAS Actual Surplus - \$5.7M

The third surplus disclosed in Note 3 is the under spending of the approved operating budget, which is returned to the City (\$13K).

The 2015 PSAS annual surplus shown is \$5.7M while the operating budget surplus for 2015 was \$13K which is the under spending of the approved operating budget. The reconciliation of the operating budget surplus returned to the City to the PSAS annual surplus is shown below:

Table 9 – PSAS annual surplus

	2015	2014
Operating Budget Surplus	13,525	26,174
Surplus Returned to the City	(13,525)	(26,174)
Balance	-	-
Net increase in net book value of Tangible Capital Assets (Table 2)	7,495,134	17,673,422
(Decrease) / Increase in unspent non-debt Capital and Library Material funding	(471,064)	(1,933,690)
Net increase in employee benefit liability (Table 2)	(1,439,541)	(2,437,555)
Net increase in employee benefit vacation liability	(4,201)	(9,249)
Net decrease in energy savings loan (Table 2)	159,732	147,454
PSAS Annual Surplus	5,740,060	13,440,382

As described in Note 2, the audited budget on the financial statements is the sum of the approved 2015 operating and capital budgets which have been adjusted for PSAS accounting, with a resulting budget surplus of \$6.4M comprised of expenditures for the capital budget and library collections, less amortization. The budget surplus is compared to the PSAS surplus below:

Table 10 – Annual surplus (budget vs. actual)

	Audited Budget Surplus	PSAS Actual Surplus
Capital budget expenditure	19,334,000	20,169,215
Operating budget expenditure – Library materials	18,585,854	18,802,756
Tangible assets gross amount [a]	37,919,854	38,971,971
Amortization – Capital budget expenditure	(13,145,605)	(13,145,605)
Amortization – Operating budget expenditure – Library materials	(18,331,232)	(18,331,232)
Total amortization [b]	(31,476,837)	(31,476,837)
Tangible assets net book value [c = a + b]	6,443,017	7,495,135
Post-retirement and post-employment benefit expense (Table 5)	-	(1,439,542)
Other	-	(315,533)
Annual Surplus	6,443,017	5,740,060

Detailed Review of Statement of Operations and Accumulated Surplus

Revenues

The following chart breaks down the total revenues (operating and capital) by funding source. The Library's primary source of funding comes from the City of Toronto (91.7%).

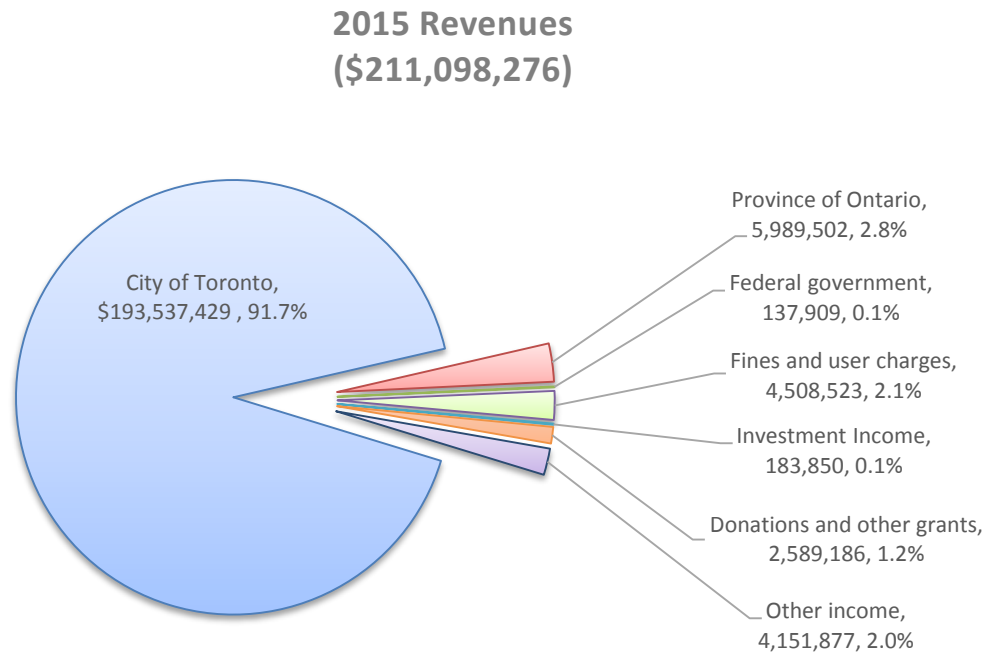


Figure 1 – Pie chart showing revenue amounts and percentages by funding source.

Table 11 – Current year revenues and prior year comparatives

	%	2015 Budget	2015 Actual	Variance	2014 Actual
City of Toronto	91.7	193,645,289	193,537,429	(107,860)	196,247,086
Province of Ontario	2.8	5,678,427	5,989,502	311,075	5,765,715
Federal government	0.1	20,000	137,909	117,909	138,582
Fines and user charges (see Table 12)	2.1	4,356,695	4,508,523	151,828	4,344,427
Investment income	0.1	139,500	183,850	44,350	266,904
Donations and other grants	1.2	122,800	2,589,186	2,466,386	2,628,721
Other income (see Table 13)	2.0	2,327,307	4,151,877	1,824,570	3,150,666
Total Revenues	100.0	206,290,018	211,098,276	4,808,258	212,542,101

Revenues for 2015 totalled \$211.0M [2014 – \$212.5M] which is \$4.8M more than budget, due mainly to \$2.6M in funding received from the Toronto Public Library Foundation and \$1.6M in funding received from the City related to the Scarborough Civic Centre Streetscape project. City of Toronto revenue decreased by \$2.7M from 2014 due to decrease in capital projects funding.

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

Table 12 – Fines and user charges

	2015	2014	Variance
Fines	2,876,405	2,936,527	(60,122)
Equipment & facility rentals	823,104	689,611	133,493
Photocopier receipts	716,823	641,446	75,377
Other charges	92,191	76,843	15,348
Fines and user charges	4,508,523	4,344,427	164,096

Other income consists primarily of tenant rental income and revenue from the Bram and Bluma Appel Salon. The Salon rentals income increase gross revenue by 22%. The breakdown at year-end with prior year comparatives is as follows:

Table 13 – Other income

	2015	2014	Variance
Tenant leases	1,419,977	1,298,186	121,791
Salon rentals	834,522	684,428	150,094
Sale of merchandise	125,084	102,132	22,952
Miscellaneous	1,772,294	1,065,920	706,374
Total Other Income	4,151,877	3,150,989	1,001,211

Included in miscellaneous is special projects revenue of \$1.6M (2014 – \$0.9M) for the Scarborough Civic Centre Streetscape project.

Expenses

The following chart breaks down the expenses by category. Staff costs accounted for the largest portion at 69.8% of the total amount.

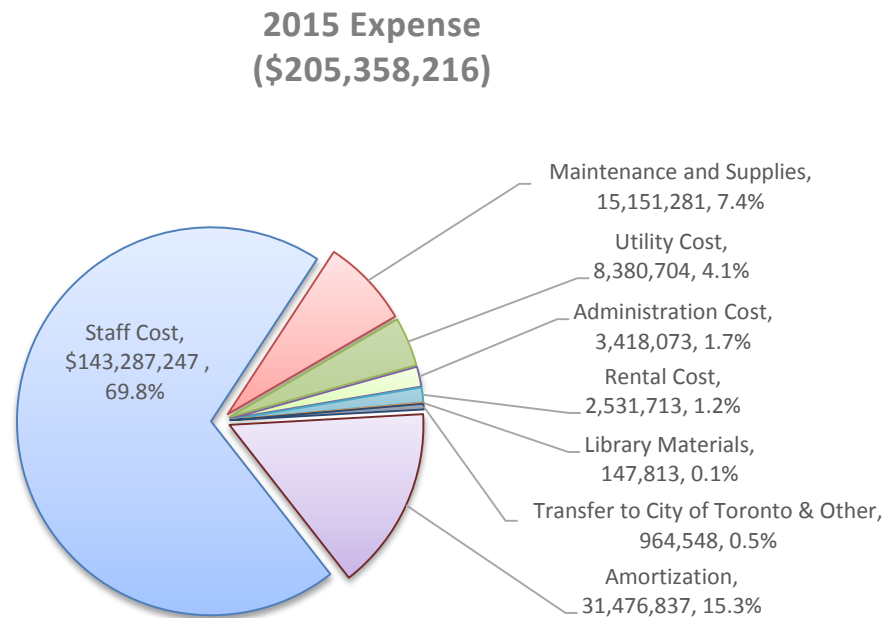


Figure 2 – Pie chart showing expense amounts and percentages.

The library materials shown in the chart represent only donations to special collections which are expensed. Note that \$18.6M of expenditure on library collections, which is part of the approved operating budget, is treated as an addition to tangible capital assets.

Table 14 – Current year expenses and prior year comparatives

	%	2015 Budget	2015 Actual	Variance	2014 Actual
Staff costs	69.8	141,221,781	143,287,247	(2,065,466)	140,395,647
Maintenance and supplies	7.4	12,540,726	15,151,281	(2,610,559)	13,704,251
Utility cost	4.1	8,499,756	8,380,704	119,056	7,730,644
Administration cost (Table 15)	1.7	2,756,404	3,418,073	(661,669)	3,484,790
Rental cost	1.2	2,514,546	2,531,713	(17,167)	2,378,802
Library materials	0.1	-	147,813	(147,813)	87,298
Transfers to City of Toronto and other	0.5	836,951	964,548	(127,597)	762,540
Amortization	15.3	31,476,837	31,476,837	-	30,557,747
Total Expenses	100.0	199,847,001	205,358,216	(5,511,215)	199,101,719

Expenses for 2015 totalled \$205.3M [2014 – \$199.1M] which is \$5.5M higher than budget, mainly due to PSAS accounting which resulted in a \$1.4M (see Table 5) increase in employee benefits and therefore increased staff costs. Staff cost was also increase by \$0.6M due to staff retiree payouts for sick leave costs. The other attributing factor is the Scarborough Civic Center Streetscape capital project, which was a City project carried out by the Library increased materials and supplies actuals by \$2.0M.

Table 15 – Administration cost

	2015 Budget	2015 Actual	Variance	2014 Actual
Administrative	855,616	912,350	(56,734)	840,466
Training & mileage	544,068	551,658	(7,590)	589,248
Supplies & services	49,613	34,040	15,573	112,598
Programs, printing & advertising	1,307,107	1,920,025	(612,918)	1,942,478
Total Administration cost	2,756,404	3,418,073	(661,669)	3,484,790

Administration cost for 2015 totalled \$3.4M [2014 – \$3.5M] which is \$0.664M higher than budget, mainly due to \$0.612M increase in programs, printing & advertising expenses, which are funded by the Toronto Public Library Foundation.

CONCLUSION

The financial statements are considered draft until four outstanding matters are cleared: update on legal confirmations; subsequent events procedures; the receipt of a signed management representation letter; and Board approval of the draft financial statement.

A representative from PwC will be in attendance at the Board meeting.

CONTACT

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SIGNATURE

Vickery Bowles
City Librarian

ATTACHMENTS

Attachment 1: Audited Financial Statements - Toronto Public Library Board - December 31, 2015