



STAFF REPORT ACTION REQUIRED

9.

2014 Audited Financial Statements – Toronto Public Library Board

Date:	May 25, 2015
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, 2014 to the Toronto Public Library Board for approval and provide highlights of the Library's 2014 financial results.

RECOMMENDATIONS

The City Librarian recommends that the Toronto Public Library Board:

1. approves the 2014 Audited Financial Statements of the Toronto Public Library Board, appended as Attachment 1.

FINANCIAL IMPACT

These Financial Statements reflect the 2014 combined results of the spending of the operating and capital budgets. For 2014, there was an operating budget surplus of \$0.026 million [2013 - \$0.387 million], which will be returned to the City. The capital budget was 93.6% [2013 – 87%] expended, and the unexpended amount of \$2.052 million [2013 - \$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 December 15, 2014, PricewaterhouseCooper's (PwC) reported on the Audit Plan for the year ending December 31, 2014, 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 2014 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 2014 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, 2014 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, 2014. 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 23, 2015, the 2014 results of spending the operating and capital budgets were presented for information. The Operating Budget Monitoring Report – December 31, 2014 showed an operating surplus of \$0.026 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, 2014 showed a 93.6% expenditure rate, and the unexpended amount of \$2.052 million will be carried forward into the next year. The \$1.631 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 (2014 vs. 2013)

	Actual 2014	Actual 2013	Variance
Financial assets			
Cash and cash equivalents	15,439,423	9,920,371	5,519,052
Accounts receivable:			
City of Toronto (Table 2)	4,744,429	14,770,698	(10,026,269)
Other accounts receivable (Table 3)	1,899,569	3,250,690	(1,351,121)
	22,083,421	27,941,759	(5,858,338)
Liabilities			
Accounts payable and accrued liabilities:			
Other accounts payable (Table 4)	19,010,740	23,188,989	(4,178,249)
Deferred revenue	1,480,475	1,217,625	262,850
Employee benefits (Table 5)	87,035,965	84,598,410	2,437,555
Payable to Canada Life Assurance Company	668,497	815,951	(147,454)
	108,195,677	109,820,975	(1,625,298)
Net debt	(86,112,256)	(81,879,216)	(4,233,040)
Tangible capital assets (Table 7)	285,569,788	267,896,366	17,673,422
Accumulated surplus (Table 8)	199,457,532	186,017,150	13,440,382

Cash

Cash and cash equivalents increased by \$5.5M to \$15.4M [2013 - \$9.9M] due to timing of funding received from the City.

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

	2014	2013
2014 approved City budget funding receivable	8,103,404	19,542,909
Operating expenses accrued	(468,097)	(81,215)
Operating surplus payable to City	(26,174)	(386,655)
Hydro charges payable	(1,233,155)	(776,967)
Repayment of capital project funding	-	303,000
Unexpended capital advance (carry-forward) – City debt portion	(1,631,549)	(3,830,374)
Total Accounts receivable (Accounts payable) – City of Toronto	4,744,429	14,770,698

The \$4.7M receivable from the City in 2014 is comprised mainly of \$8.1M related to the deferral of some of the approved 2014 City funding, which will be received in early 2015 and partially offset by \$1.6M of unexpended capital budget funding and \$1.2M of payables related to hydro charges.

Other accounts receivable

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

Table 3 – Other receivable

	2014	2013
Canada Revenue Agency – HST rebate	1,604,190	2,817,900
Southern Ontario Library Service – 2013 Grant	-	124,404
Other	295,379	308,386
Total Other accounts receivable	1,899,569	3,250,690

Other accounts receivable decreased by \$1.4M to \$1.9M [2013-\$3.3M] due to reduction in HST rebate receivable from Canada Revenue Agency which was 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:

Table 4 – Other accounts payable and accrued liabilities

	2014	2013	Increase / (Decrease)
Salaries and benefits	7,978,099	8,430,154	(452,055)
Accounts payable and accruals	10,084,241	11,179,332	(1,095,091)
Holdback payable on construction contracts	948,400	3,579,503	(2,631,103)
Total accounts payable and accrued liabilities – Other	19,010,740	23,188,989	(4,178,249)

Accounts payable and accruals, and holdback payable on construction contracts decreased by \$1.1M and \$2.6M, respectively, due primarily to the completion of two major capital projects, Toronto Reference Library revitalization and Fork York Branch construction in 2014.

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 (pages 13 - 15 of Attachment 1)]. Towards the end of 2014, 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) increased by \$10.3M to \$80.8M [2013 - \$70.5M]. The increase in the liability is due to a decrease in the discount rate, which is related to the Canadian municipal bond yield in effect as of December 31, 2014. The employee benefits liability increases as the discount rate decreases.

Table 5 – Net employee benefits

	2014	2013	Increase / (Decrease)
Post-retirement benefits	48,593,987	40,492,682	8,101,305
Disabled employees' benefits	4,728,247	4,317,366	410,881
Income benefits	7,872,326	7,528,670	343,656
Sick leave benefits	18,150,670	16,927,468	1,223,202
WSIB	1,472,148	1,262,458	209,690
Employee Benefits/Accrued Benefit Obligation	80,817,378	70,528,644	10,288,734
Net unamortized actuarial gain / (loss)	6,218,587	14,069,766	(7,851,179)
Total Net Employee Benefits	87,035,965	84,598,410	2,437,555

The net employee benefits liability increased by \$2.4M to \$87.0M [2013 - \$84.6M]. The components of the increase are due to a \$10.3M increase in accrued benefit obligation offset by a \$7.8M decrease in the net unamortized actuarial gain / (loss) calculated as follows:

Table 6 – Net unamortized gain/(loss)

	2014	2013
Unamortized gain – beginning of year	14,069,766	6,531,082
Amortization of net actuarial (gain) / loss (A)	(106,885)	367,995
Actuarial (loss) / gain (B)	(7,744,294)	7,170,689
Net unamortized gain / (loss) – end of year (C)	6,218,587	14,069,766

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 \$6,218,587 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 \$148K to \$668K [2013 - \$816K] 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 on Page 6 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 \$4.2M to \$86.1M [2013 - \$81.9M]. This increase in the Library’s net debt is primarily due to the increase in employee benefits liability and change in 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

	2014			2013
	Cost	Accumulated Amortization	Net	Net
Land	15,376,262	-	15,376,262	15,376,261
Building and leasehold improvements	258,352,378	80,467,176	177,885,202	151,213,627
Furniture, fixtures and equipment	50,829,832	23,088,191	27,741,641	25,643,542
Vehicles	2,755,503	1,738,399	1,017,104	1,091,051
Library materials	109,790,922	54,904,358	54,886,564	54,417,846
Assets under construction	8,663,015	-	8,663,015	20,154,040
Total Tangible Capital Assets	445,767,912	160,198,124	285,569,788	267,896,366

The net value of the Library’s tangible capital assets increased by \$17.6M, mainly for building and leasehold improvements. During the year, asset additions totalled \$48.2M, with the most significant portion being building improvements of \$20.3M and library collections of \$18.6M.

During the year, accumulated amortization of tangible capital assets increased \$7.0M to \$160.1M [2013 - \$153.1M].

Accumulated Surplus

The 2014 actual accumulated surplus as shown on the Statement of Financial Position (page 4 of Attachment 1) is \$199,457,532. 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

	2014	2013
Purchase of Tangible Capital Assets	445,767,912	421,042,874
Accumulated amortization	(160,198,124)	(153,146,508)
Net book value of Tangible Capital Assets	285,569,788	267,896,366
Employee benefits liability	(87,035,965)	(84,598,410)
Other liabilities less financial assets	923,709	2,719,194
Accumulated Surplus (Table 1)	199,457,532	186,017,150

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 - \$14.3M
2. PSAS Actual Surplus - \$13.4M

The third surplus disclosed in Note 3 is the under spending of the approved operating budget, which is returned to the City (\$26K).

The 2014 PSAS annual surplus shown is \$13.4M while the operating budget surplus for 2014 was \$26K, 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

	2014	2013
Operating Budget Surplus	26,174	386,655
Surplus Returned to the City	(26,174)	(386,655)
Balance	-	-
Net increase in net book value of Tangible Capital Assets (Table 2)	17,673,422	24,082,166
(Decrease) / Increase in unspent non-debt Capital and Library Material funding	(1,933,690)	76,386
Net increase in employee benefit liability (Table 2)	(2,437,555)	(3,734,924)
Net increase in employee benefit vacation liability	(9,249)	(3,107)
Net decrease in energy savings loan (Table 2)	147,454	136,120
PSAS Annual Surplus	13,440,382	20,556,641

As described in Note 2, the audited budget on the financial statements is the sum of the approved 2014 operating and capital budgets which have been adjusted for PSAS accounting, with a resulting budget surplus of \$14.3M 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	26,925,000	29,571,951
Operating budget expenditure – Library materials	17,986,854	18,659,218
Tangible assets gross amount [a]	44,911,854	48,231,169
Amortization – Capital budget expenditure	(12,367,247)	(12,367,247)
Amortization – Operating budget expenditure – Library materials	(18,190,499)	(18,190,499)
Total amortization [b]	(30,557,746)	(30,557,746)
Tangible assets net book value [c = a + b]	14,354,108	17,673,423
Post-retirement and post-employment benefit expense	-	(2,437,555)
Other	-	(1,795,485)
Annual Surplus	14,354,108	13,440,383

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 (92.3%).

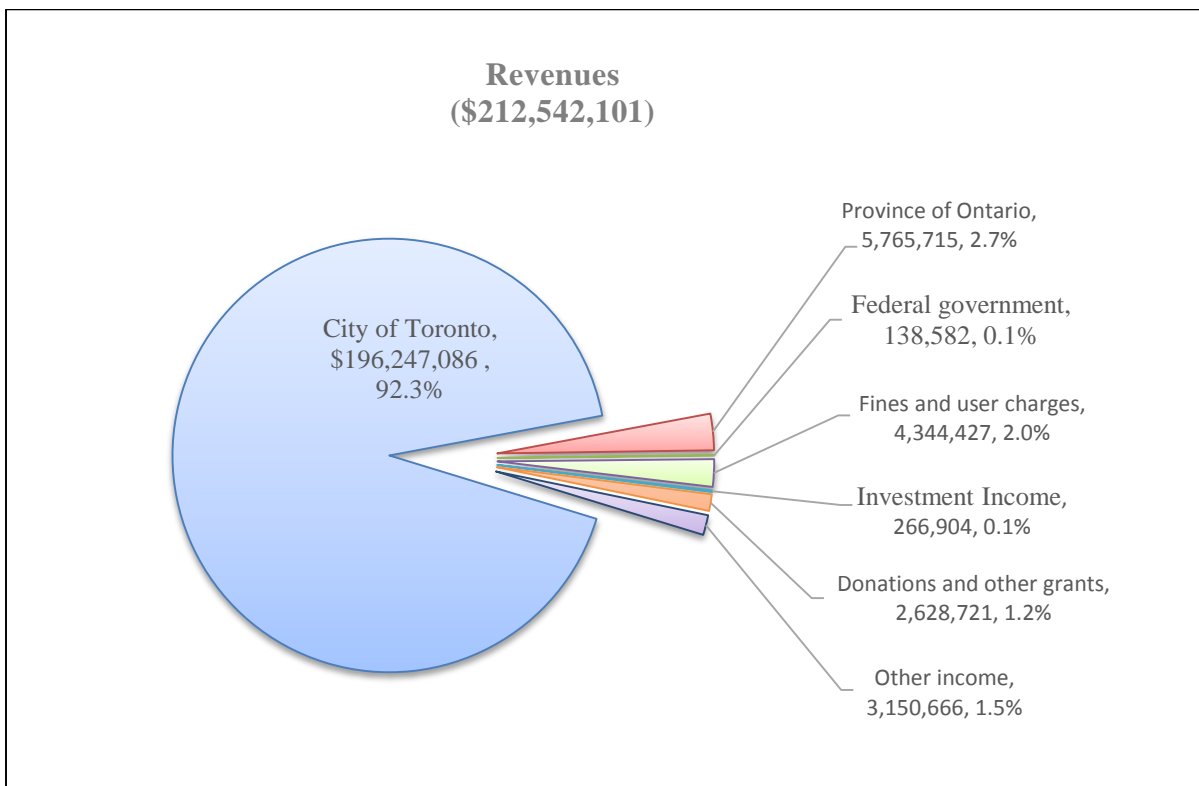


Figure 1 – Pie chart showing revenue amounts and percentages by funding source.

Table 11 – Current year revenues and prior year comparatives

	%	2014 Budget	2014 Actual	Variance	2013 Actual
City of Toronto	92.3	194,024,435	196,247,086	2,222,651	195,656,717
Province of Ontario	2.7	5,695,407	5,765,715	70,308	5,881,700
Federal government	0.1	20,000	138,582	118,582	255,563
Fines and user charges (see Table 12)	2.0	5,107,358	4,344,427	(762,931)	4,548,092
Investment income	0.1	139,500	266,904	127,404	498,239
Donations and other grants	1.3	1,092,800	2,628,721	1,535,921	7,433,863
Other income (see Table 13)	1.5	2,827,664	3,150,666	323,002	2,660,989
Total Revenues	100.0	208,907,164	212,542,101	3,634,937	216,935,163

Revenues for 2014 totalled \$212.5M [2013 - \$216.9M], which is \$3.6M more than budget, due mainly to \$1.5M in funding received from the Toronto Public Library Foundation and \$2.2M in funding received from the City related to the 2013 unexpended capital budget funding carried forward.

Fines and user charges primarily consist of overdue fines and lost items and there was a \$792k shortfall from budget, which was adjusted for in the 2015 operating budget. The breakdown at year-end with prior year comparatives is as follows:

Table 12 – Fines and user charges

	2014	2013	Variance
Fines	2,936,527	3,249,988	(313,461)
Equipment & facility rentals	689,611	651,934	37,677
Photocopier receipts	641,446	588,258	53,188
Other charges	76,843	57,912	18,931
Fines and user charges	4,344,427	4,548,092	(203,665)

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:

Table 13 – Other income

	2014	2013	Variance
Tenant leases	1,298,186	1,220,798	77,388
Salon rentals	684,428	646,480	37,948
Sale of merchandise	102,132	96,909	5,223
Other income	1,065,920	696,802	369,118
Total Other Income	3,150,989	2,660,989	490,000

Expenses

The following chart breaks down the expenses by category. Staff costs accounted for the largest portion at 70.5% of the total amount.

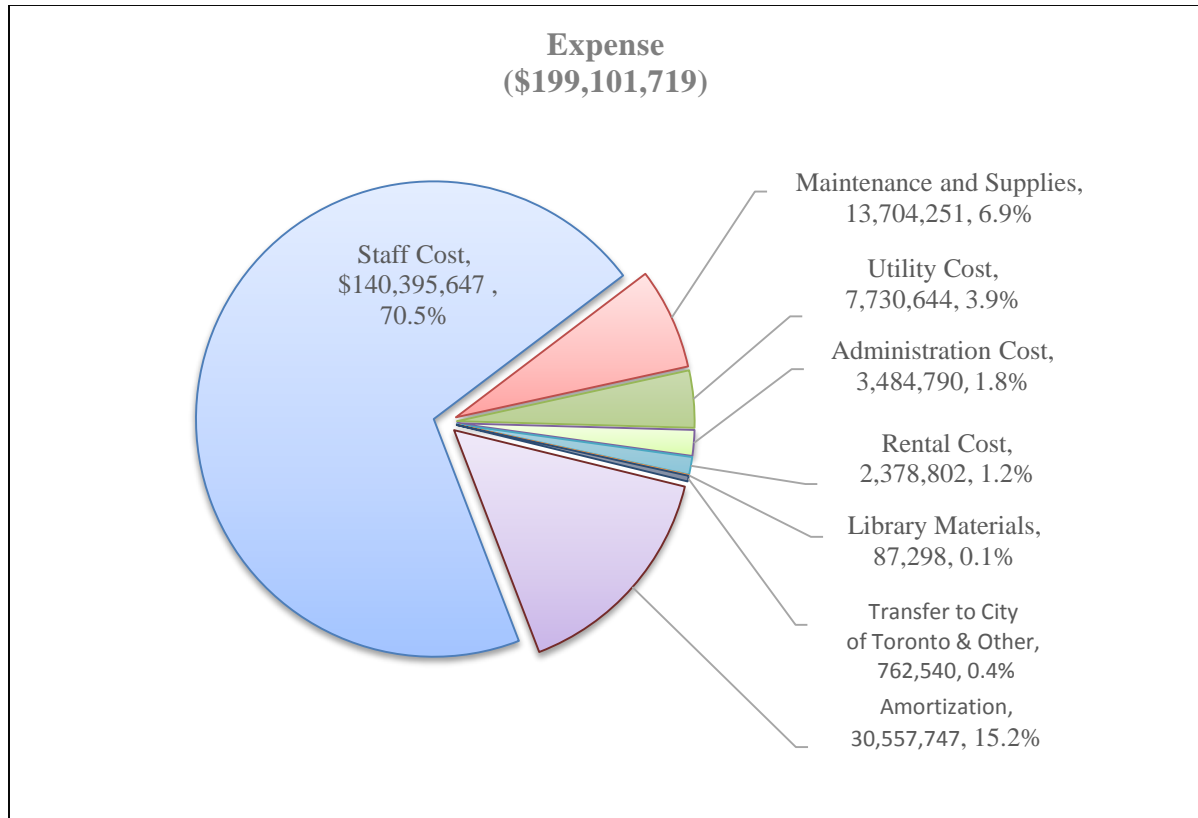


Figure 2 – Pie chart showing expense amounts and percentages.

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

	%	2014 Budget	2014 Actual	Variance	2013 Actual
Staff costs	70.5	137,747,840	140,395,647	(2,647,807)	138,961,658
Maintenance and supplies	6.9	11,995,388	13,704,251	(1,708,863)	13,379,336
Utility cost	3.9	8,073,297	7,730,644	342,653	7,763,829
Administration cost (Table 15)	1.8	2,786,188	3,484,790	(698,602)	3,761,857
Rental cost	1.2	2,514,546	2,378,802	135,744	2,165,598
Library materials	0.1	-	87,298	(87,298)	124,301
Transfers to City of Toronto and other	0.4	878,051	762,540	115,511	678,030
Amortization	15.2	30,557,746	30,557,747	(1)	29,543,913
Total Expenses	100.0	194,553,056	199,101,719	(4,548,663)	196,378,522

Expenses for 2014 totalled \$199.1M [2013 - \$196.4M] which is \$4.5M higher than budget, mainly due to PSAS accounting which resulted in a \$2.4M 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.

Table 15 – Administration cost

	2014 Budget	2014 Actual	Variance	2013 Actual
Administrative	822,913	840,466	(17,553)	877,391
Training & mileage	544,968	589,248	(44,280)	576,515
Supplies & services	105,707	112,598	(6,891)	460,273
Programs, printing & advertising	1,297,600	1,942,478	(644,878)	1,847,678
Total Administration cost	2,771,188	3,484,790	(713,602)	3,761,857

Administration cost for 2014 totalled \$3.5M [2013 - \$3.8M] which is \$0.714M higher than budget, mainly due to \$0.644M 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

Larry Hughsam; Director, Finance & Treasurer; Tel: 416-397-5946;
E-mail: lhughsam@torontopubliclibrary.ca

SIGNATURE

Vickery Bowles
City Librarian

ATTACHMENTS

Attachment 1: Audited Financial Statements - Toronto Public Library Board - December 31, 2014