

Toronto Public Library Board

**Financial Statements
December 31, 2017**



May 31, 2018

Independent Auditor's Report

To the Members of Toronto Public Library Board

We have audited the accompanying financial statements of Toronto Public Library Board, which comprise the statement of financial position as at December 31, 2017 and the statements of operations and accumulated surplus, change in net debt and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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PwC refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Toronto Public Library Board as at December 31, 2017 and the results of its operations, change in net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

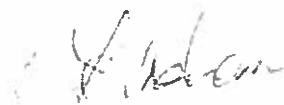
PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto Public Library Board
Statement of Financial Position
As at December 31, 2017

	2017 \$	2016 \$
Financial Assets		
Cash and cash equivalents	14,006,616	10,876,052
Accounts receivable		
City of Toronto (note 3)	17,430,561	9,650,768
Other accounts receivable (note 3)	3,948,410	4,020,919
	<u>35,385,587</u>	<u>24,547,739</u>
Liabilities		
Accounts payable and accrued liabilities		
City of Toronto (note 3)	6,016,570	-
Other accounts payable and accrued liabilities	25,357,816	21,790,545
Deferred revenues (note 3)	2,132,170	1,338,058
Employee benefits (note 4)	84,420,159	86,441,642
Payable to Canada Life Assurance Company (note 5)	148,424	335,853
	<u>118,075,139</u>	<u>109,906,098</u>
Net debt	(82,689,552)	(85,358,359)
Non-financial assets		
Tangible capital assets (note 7)	<u>325,374,100</u>	<u>309,506,934</u>
Accumulated Surplus		
Accumulated operating surplus	<u>242,684,548</u>	<u>224,148,575</u>
Lease commitments and contingencies (notes 6 and 8)		

Approved by the Board



Toronto Public Library Board Chair



City Librarian

The accompanying notes are an integral part of these financial statements.

Toronto Public Library Board
Statement of Operations and Accumulated Surplus
For the year ended December 31, 2017

	Budget \$ (note 2)	Actual 2017 \$	Actual 2016 \$
Revenues			
City of Toronto (note 3)	213,141,387	207,425,496	206,002,944
Province of Ontario	5,678,427	6,000,980	6,230,181
Federal government	557,312	796,194	251,239
Fines and user charges	5,062,195	4,318,533	4,480,557
Investment income	139,500	264,751	202,550
Donations and other grants (note 3)	162,800	1,981,032	3,710,465
Other income	1,987,800	3,753,233	2,868,689
	<u>226,729,421</u>	<u>224,540,219</u>	<u>223,746,625</u>
Expenses			
Staff costs	147,576,330	140,520,085	142,356,420
Maintenance and supplies	13,290,947	14,568,129	14,479,061
Utility costs	9,413,336	9,588,028	9,385,065
Administration costs	2,803,551	3,728,477	3,552,045
Rental costs	2,951,451	3,054,747	2,651,349
Library materials	-	140,054	191,664
Transfers to City of Toronto and other (note 3)	941,340	1,065,642	195,893
Amortization of tangible capital assets	33,339,084	33,339,084	31,984,145
	<u>210,316,039</u>	<u>206,004,246</u>	<u>204,795,642</u>
Surplus for the year	<u>16,413,382</u>	18,535,973	18,950,983
Accumulated surplus - Beginning of year		<u>224,148,575</u>	<u>205,197,592</u>
Accumulated surplus - End of year		<u>242,684,548</u>	<u>224,148,575</u>

The accompanying notes are an integral part of these financial statements.

Toronto Public Library Board

Statement of Change in Net Debt

For the year ended December 31, 2017

	2017 \$	2016 \$
Surplus for the year	18,535,973	18,950,983
Acquisition of tangible capital assets	(49,206,250)	(48,426,157)
Amortization of tangible capital assets	33,339,084	31,984,145
	<hr/>	<hr/>
Change in net debt	2,668,807	2,508,971
Net debt - Beginning of year	<hr/> (85,358,359)	<hr/> (87,867,330)
Net debt - End of year	<hr/> (82,689,552)	<hr/> (85,358,359)

The accompanying notes are an integral part of these financial statements.

Toronto Public Library Board

Statement of Cash Flows

For the year ended December 31, 2017

	2017 \$	2016 \$
Cash provided by (used in)		
Operating activities		
Surplus for the year	18,535,973	18,950,983
Items not affecting cash		
Amortization of tangible capital assets	33,339,084	31,984,145
Employee benefits expense	(2,021,483)	(2,033,865)
	<hr/>	<hr/>
	49,853,574	48,901,263
Changes in non-cash assets and liabilities		
Accounts receivable	(7,707,284)	(4,823,748)
Accounts payable and accrued liabilities	9,583,841	5,744,192
Deferred revenues	794,112	(543,751)
	<hr/>	<hr/>
	52,524,243	49,277,956
Capital activities		
Acquisition of tangible capital assets	(49,206,250)	(48,426,157)
Financing activities		
Principal repayment of Canada Life Assurance Company payable	(187,429)	(172,912)
	<hr/>	<hr/>
Increase in cash and cash equivalents during the year	3,130,564	678,887
Cash and cash equivalents - Beginning of year	<hr/>	<hr/>
	10,876,052	10,197,165
Cash and cash equivalents - End of year	<hr/>	<hr/>
	14,006,616	10,876,052

The accompanying notes are an integral part of these financial statements.

Toronto Public Library Board

Notes to Financial Statements

December 31, 2017

1 Operations

The Toronto Public Library Board (the Board or the Library) is a local board of the City of Toronto (the City) deemed to be a public library board established under the Public Libraries Act (Ontario) and is responsible for providing public library services that reflect the community's unique needs. The Public Libraries Act (Ontario) has also designated the Board as a special library service board to provide library resources and services to the Ontario library community.

The Board is not subject to income taxes under Section 149(1) of the Income Tax Act (Canada).

The Toronto Public Library Foundation (the Foundation) has responsibility for most of the fundraising activities for the Library. Fundraising efforts of the Foundation are to benefit the Library. The Foundation's net assets, revenues and expenses are not included in these financial statements (note 3).

2 Summary of significant accounting policies

Basis of accounting

These 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. A summary of the significant accounting policies is as follows:

Revenue recognition

Government transfers, which include municipal, provincial and federal grants, are recognized in the year in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met and reasonable estimates of the amounts can be made.

Donations and other grants are recognized as revenue when received or receivable if the amount to be received can be reasonably measured and collection is reasonably assured. Donations and other grants received that have restrictions are recognized as revenue to the extent the funds have been spent, with any unspent amounts recorded as deferred revenue.

Revenues from user charges and other related services are recognized at the point of sale or when services have been provided and collection is reasonably assured. Investment income earned on available current funds is reported as revenue in the year earned.

Cash and cash equivalents

Cash and cash equivalents include cash on deposit, money market funds and short-term securities with original terms to maturity of less than 90 days.

Included in cash is \$159,216 (2016 - \$210,074) of restricted amounts held in trust for employees eligible for the sabbatical leave program and a \$299,750 Irrevocable Standby Letter of Credit issued for a construction project.

Toronto Public Library Board

Notes to Financial Statements

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Materials and supplies

Materials and supplies purchased for consumption in the Library's activities are reported as an expense on the statement of operations and accumulated surplus in the year of acquisition.

Tangible capital assets

Tangible capital assets are non-financial assets that are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

Purchased tangible capital assets are recorded at cost. Contributed tangible capital assets are recorded at fair value at the date of contribution. The Board recognizes disposals when the tangible capital assets are considered fully amortized, which is at the end of the useful lives for capital assets and vehicles and at the end of the lease for leasehold improvements, or when the asset has been disposed of. Amortization is recognized on a straight-line basis over their estimated useful lives as follows:

Buildings	50 years
Leasehold improvements	term of the lease or useful life estimated by management
Furniture, fixtures and equipment	5 to 20 years
Vehicles	8 to 12 years
Library materials	6 years

Assets under construction are not amortized until the date of substantial completion.

Contributed rare books and other collections are expensed in the year received.

The cost of normal maintenance and repairs, which does not significantly enhance the service potential of tangible capital assets, is recognized as an expense in the year it has been incurred.

Impairment of tangible capital assets

The Board reviews the carrying amount, amortization and useful lives of its tangible capital assets regularly. If the capital asset no longer has any long-term service potential to the Board, the excess of the net carrying amount over any residual value is recognized as an expense in the statement of operations and accumulated surplus.

Contributed materials and services

Donated materials and services are not recorded in the financial statements except for special collections and works of art, which are measured at fair value. During the year, there were contributions of special collections of \$144,538 (2016 - \$356,778) and works of art of \$13,660 (2016 - \$45,161), which have been recorded as revenues and expenses in the statement of operations and accumulated surplus.

Toronto Public Library Board

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Employee benefits

The Board has adopted the following policies with respect to employee benefit plans:

- the Board makes contributions to the Ontario Municipal Employees' Retirement System plan (OMERS), a multi-employer pension plan, on behalf of most of its employees. OMERS is a defined benefit plan, which specifies the amount of the retirement benefit to be received by the employees, based on the length of service and rates of pay. Employees and employers contribute jointly to the plan. The Board's contributions to OMERS are expensed when contributions are due, as the plan is accounted for as a defined contribution plan;
- the costs of termination benefits and compensated absences are recognized when the event that obligates the Board occurs. Costs include projected future income payments, health-care continuation costs and fees paid to independent administrators of these plans, calculated on a present value basis;
- the costs of other employee benefits are actuarially determined using the projected benefits method prorated on service and management's best estimate of retirement ages of employees, salary escalation, expected health-care costs and plan investment performance;
- past service costs from plan amendments related to prior years' employee services are accounted for in the year of the plan amendment;
- employee future benefit liabilities are discounted using the City's cost of borrowing;
- net actuarial gains and losses are amortized over the expected average remaining service life of the related employee group, which ranges from 12 to 16 years; and
- the effects of a gain or loss from settlements or curtailments are expensed in the year they occur.

Financial instruments

PSAS allows the Library to classify its financial instruments as either fair value or amortized cost. Currently, the Library does not classify any financial instruments at fair value. Financial instruments carried at amortized cost include accounts receivable and accounts payable and accrued liabilities. They are initially recognized at cost and subsequently carried at amortized cost, less any impairment losses on financial assets, except for contributions, which are initially recognized at fair value.

Writedowns on financial assets in the amortized cost category are recognized when the amount of a loss is known with sufficient precision, and there is no realistic prospect of recovery. Financial assets are then written down to net recoverable value with the writedown recognized in the statement of operations and accumulated surplus.

Toronto Public Library Board

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December 31, 2017

Budget figures

Budget data presented is based on the 2017 operating and capital budgets approved by the City's council. Adjustments to budgeted values were required to provide comparative budget values based on the PSAS basis of accounting. The following chart reconciles the approved budget with the budget figures as presented in the statement of operations and accumulated surplus.

	Budget amount \$
Revenues	
Approved budgets	
Operating	199,047,202
Capital	30,000,112
Less: Inter-budget transfers	<u>(2,317,893)</u>
	<u>226,729,421</u>
Expenses	
Approved budgets	
Operating	199,047,202
Capital	30,000,112
Less: Inter-budget transfers	<u>(2,317,893)</u>
	226,729,421
Adjustments	
Tangible capital assets	
Library materials - included in operating expenses	(19,752,354)
Building and equipment - capitalized for GAAP purposes	(30,000,112)
Amortization	<u>33,339,084</u>
	<u>210,316,039</u>
Adjusted annual budget surplus on PSAS basis	<u>16,413,382</u>

Use of estimates

The preparation of the financial statements in accordance with PSAS requires management to make estimates and assumptions. The employee benefits liability and related costs charged to the statement of operations and accumulated surplus depend on certain actuarial and economic assumptions. These estimates and assumptions are based on the Board's best information and judgment and may differ significantly based on actual results.

3 Related party balances and transactions

City of Toronto

As part of the terms of the agreement between the Board and the City, the Board is funded by the City as approved in its operating and capital budgets on an annual basis. Any operating excess or deficiency and any unexpended capital project funding is to be transferred to or recovered from the City. In addition, in the normal

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Notes to Financial Statements

December 31, 2017

course of operations, the Board incurs costs for various expenses payable to the City. Such transactions between the City and the Board are made at the agreed exchange amount. The Board also manages on behalf of the City the capital program for libraries. As a result, the Board will incur capital expenses that are recoverable from the City.

Accounts receivable from (payable to) the City consist of the following:

	2017 \$	2016 \$
City funding receivable	19,346,945	8,858,903
Rental receivable	-	40,482
Operating expenses	(460,169)	-
Operating surplus payable	(69,490)	(246,233)
Hydro charges	(1,386,725)	-
Capital project funding receivable	-	1,437,683
Unexpended capital advance	-	(440,067)
City of Toronto Receivables	17,430,561	9,650,768
Capital project funding payable	(1,440,632)	-
Unexpended capital advance	(4,575,938)	-
City of Toronto Payable	(6,016,570)	-
City of Toronto, net receivable	11,413,991	9,650,768

Payments to the City that are included in the statement of operations and accumulated surplus consist of the following:

	2017 \$	2016 \$
Maintenance	394,053	371,414
Rent	586,541	506,465
Construction	125,928	278,751
Utilities	5,604,906	6,072,096
Other	187,408	143,483
	6,898,836	7,372,209

The Board received \$289,423 (2016 - \$274,961) from the City, consisting of \$254,048 (2016 - \$257,471) in rental income and \$35,375 (2016 - \$17,490) in miscellaneous income.

The Board contributes to a fund held by the City that provides funding for vehicle, property and liability insurance claim payments and related legal and adjusting expenses. The fund is established for insurance claim costs below deductible levels and for payments that exceed insurance coverage levels. Contributions are paid to the City, which makes insurance premium payments on behalf of the Board. During the year, the Board made \$609,543 (2016 - \$551,002) in contributions. This amount is included in Transfers to City of Toronto and other in the statement of operations and accumulated surplus.

Toronto Public Library Board

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Vehicle and equipment reserve fund

The City maintains a reserve fund on behalf of the Board. The reserve fund was established by the City Council and is detailed in the City's Municipal Code.

The purpose of this fund is to provide funding to purchase or acquire any vehicles or equipment for the Library. The funding promotes efficiencies and provides budget stabilization by moderating large fluctuations in the annual replacement of vehicles and equipment. During the year, the Library made \$339,412 (2016 - \$342,000) in contributions, based on future replacement of the vehicle fleet, while the City committed \$37,740 (2016 - \$58,223) of the balance to fund the purchase of vehicles. Contributions are included in Transfers to City of Toronto and other in the statement of operations and accumulated surplus.

Expenditures of the fund amounted to \$133,704 during the year (2016 - \$742,501). The balance of the Vehicle and Equipment Reserve Fund as at December 31, 2017 was \$882,956 (2016 - \$636,120).

Toronto Public Library Foundation

The Board benefits from the fundraising efforts of the Foundation. During the year, the Board received contributions of \$2,599,524 (2016 - \$3,331,555) from the Foundation, of which \$1,814,796 (2016 - \$926,692) is included in deferred revenues. Of the amounts received and deferred from prior years, \$1,981,032 (2016 - \$3,710,465) has been recognized in revenues. Included in other accounts receivable is \$156,421 (2016 - \$152,586) owing from the Foundation.

4 Employee benefits

The Board sponsors defined benefit plans providing pension and other retirement and post-employment benefits to most of its employees. The plans provide health, dental, life insurance, accidental death and dismemberment insurance and long-term disability benefits to certain employees.

Information about the Board's employee benefits, other than the multi-employer, defined benefit pension plan noted below, is as follows:

Sick leave

The Board's short-term disability plan for non-unionized employees provides salary protection to eligible employees who are absent from work due to short-term illnesses or non-compensative injuries for up to 26 weeks of coverage each calendar year and/or per injury or illness. Absences greater than 26 weeks' duration are covered under the Board's long-term disability plan.

Under the sick leave benefit plan for unionized employees, all new permanent employees are enrolled in a short-term disability plan that does not include the accumulation of unused sick leave. The short-term disability plan provides coverage for up to 130 days in a calendar year. Prior to April 1, 2010, employees were credited with a maximum of 18 days' sick time per year. Unused sick leave could accumulate and employees could become eligible for a cash payment, capped at one-half of unused sick time to a maximum of 130 days when they leave the Board's employment. Union employees, as of that date, were given the option of remaining on the

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December 31, 2017

sick leave plan of 18 days' sick time per year and the accumulation of unused sick time to a maximum of 130 days or moving to the short-term disability plan that does not include the accumulation of unused sick leave. The liability for the accumulated sick leave represents the extent to which sick leave benefits have vested and could then be taken in cash by employees on termination of employment.

Workplace Safety Insurance Board (WSIB)

The Board is a Schedule 2 employer and, as such, pays the full cost of all medical and all other benefits for its employees who sustain injuries at the workplace plus the administration cost as determined by the WSIB.

Post-retirement and post-employment benefits

The Board provides health, dental, life insurance and long-term disability benefits to certain employees.

The liability in relation to the above defined benefit plans has been noted, in aggregate, as follows:

	2017 \$	2016 \$
Accrued benefit obligation	60,189,579	63,621,295
Net unamortized actuarial gain	24,230,580	22,820,347
	<hr/>	<hr/>
Total employee benefit liability	84,420,159	86,441,642

Components of the accrued benefit obligation are as follows:

	2017 \$	2016 \$
Post-retirement benefits	28,910,539	31,815,147
Disabled employees' benefits	6,117,063	6,361,018
Income benefits	7,479,416	7,646,122
Sick leave benefits	16,944,644	17,291,462
WSIB	737,917	507,546
	<hr/>	<hr/>
	60,189,579	63,621,295

The continuity of the accrued benefit obligation is as follows:

	2017 \$	2016 \$
Balance - Beginning of year	63,621,295	64,755,104
Current year's service cost	2,786,329	2,819,849
Interest cost	2,056,092	1,991,328
Benefits paid	(4,693,279)	(4,815,322)
Plan amendment - prior service cost	(310,945)	(241,656)
Actuarial gain	(3,269,913)	(888,008)
	<hr/>	<hr/>
Balance - End of year	60,189,579	63,621,295

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The total expenses related to employee benefits other than those related to the multi-employer pension plan are included in staff costs in the statement of operations and accumulated surplus and include the following components:

	2017 \$	2016 \$
Current year's service cost	2,786,329	2,819,849
Amortization of net actuarial gain	(1,859,680)	(1,788,064)
Interest cost	2,056,092	1,991,328
	<u>2,982,741</u>	<u>3,023,113</u>

Cash payments made during the year are as follows:

	2017 \$	2016 \$
Post-retirement plans	1,445,444	1,445,818
Disabled employees' benefits	1,055,078	1,114,767
Sick leave benefits	1,544,632	1,091,470
	<u>4,045,154</u>	<u>3,652,055</u>

Due to the complexities in valuing the plans, actuarial valuations are conducted on a periodic basis. The most recent actuarial report was completed as at December 31, 2015. The next actuarial valuation is expected to be completed in 2018.

The significant actuarial assumptions are as follows:

	2017 %	2016 %
Accrued benefit obligation		
Discount rate		
Post-retirement	3.2	3.5
Disabled employees, income benefit	2.8	2.7
Sick leave	3.0	3.1
WSIB	3.0	3.1
Accrued benefit cost		
Discount rate		
Post-retirement	3.2	3.5
Disabled employees, income benefit	2.8	2.7
Sick leave - WSIB	3.0	3.1
Health-care inflation		
Hospital dental care and other medical	3.0	3.0
Drugs	5.8	6.0
Rate of compensation increase	3.0	3.0

In 2018, the drug rates are assumed to decrease by 0.25% per annum to 4%.

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Total employer contributions made to OMERS for the year amounted to \$9,879,057 (2016 - \$10,045,785) and are included in staff costs in the statement of operations and accumulated surplus.

5 Payable to Canada Life Assurance Company

The long-term payable relates to a loan for energy efficiency improvements made in 2002. Under the terms of the agreement, the Board agrees to pay Canada Life annual payments of \$211,052, which include principal and interest at 8.02%, which is ultimately funded by the energy savings over the matching 15-year period. The remaining loan balance to be repaid is \$148,424 in 2018.

6 Lease commitments

As at December 31, 2017, the Board is committed to the following annual operating lease payments for facilities:

	\$
2018	2,328,886
2019	2,040,450
2020	1,961,042
2021	1,772,655
2022	1,413,004
Thereafter	<u>10,412,167</u>
	<u>19,928,204</u>

7 Tangible capital assets

Tangible capital assets consist of the following:

	<u>2017</u>		
	Cost \$	Accumulated amortization \$	Net \$
Land	15,376,262	-	15,376,262
Buildings and leasehold improvements	303,258,180	96,548,253	206,709,927
Furniture, fixtures and equipment	57,721,832	26,141,064	31,580,768
Vehicles	3,349,596	2,174,043	1,175,553
Library materials	114,398,247	55,768,910	58,629,337
Assets under construction	11,902,253	-	11,902,253
	<u>506,006,370</u>	<u>180,632,270</u>	<u>325,374,100</u>

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	2016		
	Cost \$	Accumulated amortization \$	Net \$
Land	15,376,262	-	15,376,262
Buildings and leasehold improvements	280,276,508	91,843,820	188,432,688
Furniture, fixtures and equipment	53,476,968	24,027,195	29,449,773
Vehicles	3,518,604	2,112,662	1,405,942
Library materials	111,194,924	54,020,668	57,174,256
Assets under construction	17,668,013	-	17,668,013
	<u>481,511,279</u>	<u>172,004,345</u>	<u>309,506,934</u>

During the year, there were capital additions in the amount of \$49,206,250 (2016 - \$48,426,157). Disposals for the year were \$24,711,159 (2016 - \$26,441,680), which included only fully amortized tangible capital assets for \$nil in proceeds.

8 Contingencies

In the normal course of operations, the Board is subject to various arbitrations, litigations and claims. Where a potential liability is determinable, management believes the ultimate disposition of the matters will not materially exceed the amounts recorded in the accounts. In other cases, the ultimate outcome of the claims cannot be determined at this time. Any additional losses related to claims will be recorded in the year when the liability can be estimated.