

**LibraryCo Inc.**  
**Management Discussion and Analysis**  
**December 31, 2009**

## **Results of Operations**

Results for the 2009 year identify a surplus of \$649,000 compared to a surplus of \$58,000 in 2008. The surplus is attributable to unused contingency expense and head office expenses, other law libraries' expenses, and capital & special needs grants being less than budget.

Total revenues decreased from \$8.7 million in 2008 to \$8.1 million in 2009 due to decreases in the grants from the Law Society and the Law Foundation of Ontario. Total expenses experienced a similar decrease from \$8.6 million to \$7.5 million with the decrease mainly in electronic products.

## **Balance Sheet**

### **Cash and short-term investments**

Cash and near cash balances at \$1.8 million are \$655,000 higher than 2008 primarily because of the operating surplus during the year.

### **General fund**

The General Fund ended the year with a balance of \$819,000 (2008 - \$170,000) after the surplus for the year.

### **Reserve fund**

The Reserve Fund at \$885,000 is unchanged from 2008. In accordance with a Board resolution, the Reserve fund will be maintained at a minimum of \$500,000, comprising a general component of \$200,000, a capital and special needs component of \$150,000, and a staffing and severance component of \$150,000. Any expenses of this Fund that would reduce the Fund Balance below \$500,000 should be replenished in the following year.

## **Statement of Revenues and Expenses**

### **Revenues**

#### ***Law Society of Upper Canada grant***

This is the lawyer-based fee totaling \$7.4 million in 2009 (2008 - \$7.7 million) that is transferred to LibraryCo from

the Law Society. The 2009 County Library Levy collected by the Law Society was \$220 per lawyer (2008 - \$235). The decrease in the levy occurred as there were lower electronic product expenses.

#### ***Law Foundation of Ontario ("LFO") grant***

The LFO approved a grant of \$690,000 in 2009 (2008 - \$954,000) for the purchase of legal electronic resources. The reduction in the grant and related expenses of \$264,000 is due to changes made in the toolkit of electronic resources.

### **Expenses**

#### ***Salaries & administration***

These expenses increased from \$514,000 in 2008 to \$593,000 in 2009 primarily a result of a new part-time position and administration costs.

#### ***Electronic products and services***

Electronic products and services expenditures at \$690,000 for the year are \$1.1 million lower than 2008 because the toolkit of electronic resources was modified.

#### ***Group benefits***

These are premiums paid for a benefit plan for library staff and insurance for the libraries including property and general liabilities. The benefit plan includes health, dental and life insurance coverage. In 2009 the amount has increased by \$33,000.

#### ***County and District Law Libraries – grants***

The remittances by LibraryCo to the county libraries totaled \$5.7 million in 2009 (2008 - \$5.7 million) based on approved budgets. Although there was a general increase of 2% in the 2009 grant amounts, the 2008 amount included special payments related to staffing at county law libraries.

## Auditors' Report

To the Shareholders of  
LibraryCo. Inc.

We have audited the balance sheet of LibraryCo. Inc. as at December 31, 2009 and the statements of revenues and expenses, changes in fund balances and of cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Organization as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Deloitte & Touche LLP*

Chartered Accountants  
Licensed Public Accountants  
February 4, 2010

**LibraryCo Inc.**  
**Balance Sheet**

*Stated in dollars*

*As at December 31*

	<b>2009</b>	2008
<b>Current assets</b>		
Cash and short-term investments	<b>1,750,325</b>	1,094,802
Accounts receivable	<b>15,698</b>	16,803
Prepaid expenses	<b>16,794</b>	12,046
<b>Total assets</b>	<b>1,782,817</b>	1,123,651
<b>Liabilities, share capital and fund balances</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 5)	<b>78,593</b>	68,011
<b>Total liabilities</b>	<b>78,593</b>	68,011
<b>Share capital and fund balances</b>		
Share capital (note 4)	<b>200</b>	200
General fund	<b>818,636</b>	170,052
Reserve fund (note 2)	<b>885,388</b>	885,388
<b>Total share capital and fund balances</b>	<b>1,704,224</b>	1,055,640
<b>Total liabilities, share capital and fund balances</b>	<b>1,782,817</b>	1,123,651

*See accompanying notes*

On behalf of the Board of Directors



Chair – Board of Directors



Chair – Audit and Finance Committee

**LibraryCo Inc.**  
**Statement of Revenues and Expenses**

*Stated in dollars*

*For the year ended December 31*

	2009	2008
<b>Revenues</b>		
Law Society of Upper Canada grant	7,434,591	7,691,092
Law Foundation of Ontario grant	689,850	953,689
Other Income	3,849	27,970
<b>Total revenues</b>	<b>8,128,290</b>	<b>8,672,751</b>
<b>Expenses</b>		
Head office/administration		
Salaries and administration	592,887	514,312
Professional fees	22,709	30,212
Other (note 6)	47,400	41,374
<b>Total head office / administration expenses</b>	<b>662,996</b>	<b>585,898</b>
County and District Law Libraries – centralized purchases		
Electronic products and services	689,850	1,817,110
Group benefits	277,243	244,105
Other (note 7)	141,618	251,288
	<b>1,108,711</b>	<b>2,312,503</b>
County and District Law Libraries – grants (note 11)	5,673,351	5,703,396
Capital and special needs grants	34,648	12,966
<b>Total County and District Law Libraries expenses</b>	<b>6,816,710</b>	<b>8,028,865</b>
<b>Total expenses</b>	<b>7,479,706</b>	<b>8,614,763</b>
<b>Surplus</b>	<b>648,584</b>	<b>57,988</b>

*See accompanying notes*

**LibraryCo Inc.**  
**Statement of Changes in Fund Balances**

*Stated in dollars*

*For the year ended December 31*

	<b>2009</b>			2008
	<b>General Fund</b>	<b>Reserve Fund</b>	<b>Total</b>	<b>Total</b>
Balances, beginning of year	170,052	885,388	<b>1,055,440</b>	997,452
Surplus	648,584	-	<b>648,584</b>	57,988
<b>Balances, end of year</b>	818,636	885,388	<b>1,704,024</b>	1,055,440

*See accompanying notes*

**LibraryCo Inc.**  
**Statement of Cash Flows**

*Stated in dollars*

*For the year ended December 31*

	<b>2009</b>	2008
<b>Net (outflow) inflow of cash related to operating activities:</b>		
<b>Surplus</b>	<b>648,584</b>	57,988
Net change in non-cash operating working capital items:		
Accounts receivable	<b>1,105</b>	24,666
Prepaid expenses	<b>(4,748)</b>	(1,180)
Accounts payable and accrued liabilities	<b>10,582</b>	2,857
Deferred revenue	-	(212,500)
<b>Cash provided by (used in) operating activities</b>	<b>655,523</b>	(128,169)
Cash and short-term investments, beginning of year	<b>1,094,802</b>	1,222,971
<b>Cash and short-term investments, end of year</b>	<b>1,750,325</b>	1,094,802

*See accompanying notes*

## 1. General

LibraryCo Inc. (“the organization”) was established to develop policies, procedures, guidelines and standards for the delivery of county law library services and legal information across Ontario and to administer funding from the Law Society of Upper Canada (“the Society”).

The organization has two classes of shares: Common shares and Special shares. The Society holds all of the 100 Common shares outstanding. Of the 100 Special shares outstanding, 25 are held by the Toronto Lawyers Association (“TLA”) and 75 are held by the County and District Law Presidents’ Association (“CDLPA”). The Society may appoint up to four directors, CDLPA may appoint up to three directors and TLA may appoint one director.

The organization is not subject to income or capital taxes because it is a not-for-profit corporation.

Under an Administrative Services Agreement, the Society provides most of the administrative functions of the organization.

## 2. Significant Accounting Policies

### *Basis of presentation*

The financial statements have been prepared in accordance with the accounting standards for non-profit organizations published by the Canadian Institute of Chartered Accountants (“CICA”), using the restricted fund method of reporting contributions.

The General Fund accounts for the delivery, management and administration of library services. The Reserve Fund is maintained to assist the organization’s cash flows and act as a contingency fund. In accordance with a Board resolution, the fund will be maintained at a minimum of \$500,000, comprising a general component of \$200,000, a capital and special needs component of \$150,000, and a staffing and severance component of \$150,000. Any expenses of this fund that would reduce the fund balance below \$500,000 should be replenished in the following year.

### *Cash and short-term investments*

Cash and short-term investments are amounts on deposit and invested in short-term (less than one year) investment vehicles according to the organization’s investment policy.

### *Revenue recognition*

Restricted contributions related to the general operations are recognized as revenue of the General Fund in the year in which the related expenses are incurred. All other restricted contributions are recognized as revenue of the Reserve fund.

### *Measurement uncertainty*

The preparation of the financial statements in accordance with Canadian Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingencies at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## 3. Financial Instruments

Under the standards for recognizing and measuring financial instruments, all financial assets are classified into one of the following four categories: held for trading, held to maturity, loans and receivables or available for sale. All financial liabilities are classified into one of the following two categories: held for trading or other financial liabilities.

The organization’s financial assets and financial liabilities are classified and measured as follows:

Asset / Liability	Category	Measurement
Cash and short-term investments	Held for trading	Fair value
Receivables	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost

The other amounts noted on the Balance Sheet are not financial instruments.

The organization has not entered into any derivative transactions. In addition, the organization's contractual arrangements do not have any embedded features.

#### 4. Share Capital

Authorized

Unlimited number of Common shares

Unlimited number of Special shares

Issued	2009	2008
100 Common shares	\$100	\$100
100 Special shares	100	100
	\$200	\$200

#### 5. Related Party Transactions

The Society provides administrative services to the organization (Note 1) as well as certain other services and publications. The total amount billed by the Society for 2009 was \$670,000 (2008 - \$592,000). Included in accounts payable are amounts due to the Society of \$60,000 (2008 - \$53,000).

#### 6. Other Expenses – Head Office/Administration

Other expenses include printing and stationery, publications, 1-800 lines, insurance and board expenses.

#### 7. Other Expenses – County and District Law Libraries – centralized purchases

Included in these expenses are costs associated with staffing and travel, document delivery, publications, committee meetings, computer upgrades and miscellaneous items.

#### 8. Contingencies and Guarantees

In the normal course of business, the organization enters into agreements that meet the definition of a guarantee. The organization's primary guarantees are as follows:

(a) Indemnity has been provided to all directors and/or officers of the organization for various items including, but not limited to, all costs to settle suits or actions due to their involvement with the organization, subject to certain restrictions. The organization has purchased directors' and officers' liability insurance to mitigate the cost of any

potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a trustee, director or officer of the organization. The maximum amount of any potential future payment cannot be reasonably estimated.

(b) In the normal course of business, the organization has entered into agreements that include indemnities in favour of third parties, such as purchase and sale agreements, engagement letters with advisors and consultants, information technology agreements and service agreements. These indemnification agreements may require the organization to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

The nature of these indemnification agreements prevents the organization from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability that stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the organization has not made any significant payments under such or similar indemnification agreements and therefore no amount has been accrued in the financial statements with respect to these agreements.

#### 9. Capital Management

The organization was incorporated under the *Business Corporations Act* of Ontario. Capital comprises LibraryCo's Share Capital and Fund Balances which are described separately in these notes. As at December 31, 2009 the organization's share capital was \$200 (2008 - \$200) and Fund Balances totalled \$1,704,000 (2008: \$1,055,000). The organization's objectives when managing capital are to provide sufficient funding to carry out its functions duties and powers and to maintain financial strength. There are no externally imposed requirements.

#### 10. Comparative Figures

Certain of the prior year's comparative figures have been reclassified to conform to the current year's financial statement presentation.

## 11. County and District Law Library Grants

These grants represent the quarterly distribution of funds to the 48 County and District Law Libraries. The grants are distributed in accordance with policies and procedures established by the organization's Board of Directors. The following individual law association grants were distributed by the organization during 2009 and 2008:

Law Association	2009	2008
Algoma District	\$120,698	\$118,244
Brant	91,220	88,831
Bruce	49,148	48,184
Carleton County	549,519	649,664
Cochrane	27,197	43,330
Dufferin	36,479	49,489
Durham Region	118,382	116,061
Elgin	69,500	68,167
Essex	248,196	252,602
Frontenac	128,384	129,120
Grey County	59,306	58,144
Haldimand	27,195	26,658
Halton County	117,020	115,821
Hamilton	399,272	395,125
Hastings County	77,173	75,810
Huron	67,022	65,876
Kenora District	79,400	77,841
Kent	64,110	63,284
Lambton	68,165	62,380
Lanark	35,734	35,210
Leeds & Grenville	65,334	64,053
Lennox & Addington	24,196	23,914
Lincoln County	152,517	151,097
Manitoulin	5,687	6,556
Middlesex	319,852	315,125
Muskoka	58,714	48,978
Nipissing	73,251	70,466
Norfolk	64,126	62,869
Northumberland County	69,973	68,601
Oxford	66,980	66,164
Parry Sound	35,834	30,856
Peel	260,190	255,088
Perth County	47,600	47,044
Peterborough	107,200	99,298
Prescott and Russell	12,653	8,104
Rainy River	25,405	24,907
Renfrew County	113,027	111,148
Simcoe County	127,283	125,492
Stormont, Dundas & Glengarry	65,500	63,402
Sudbury District	168,757	165,451
Temiskaming	34,318	38,886
Thunder Bay	150,781	146,226
Toronto	535,137	524,106
Victoria-Haliburton	77,232	74,650
Waterloo	218,085	213,538
Welland County	85,395	83,806
Wellington	68,914	67,563
York Region	206,290	206,167
	<b>\$5,673,351</b>	<b>\$5,703,396</b>