



REPORT TO THE LIBRARY BOARD

MEETING DATE: APRIL 26, 2012

Session:	Public Session
Subject:	Financial Update – Draft Audited 2011 Financial Statements
Prepared By:	Barbara Jessop
Presented By:	Barbara Jessop
Purpose of Report:	For Decision: Approval <input checked="" type="checkbox"/>

Recommendation

It is recommended that the Library Board approve this report.

Issue/Opportunity

The purpose of this report is to provide the draft 2011 London Public Library audited financial statements. The draft 2011 operating financial statements, and Audit Findings Report, will be presented by Katie denBok and Ian Jeffreys, of KPMG, to the Board at its April 26, 2012 meeting. The draft audited statements are attached. Upon approval by the Library Board, the draft financial statements will become final.

Review

Commencing with the 2009 financial statements, the Library implemented PSAB sections 1200 Financial Statement Presentation and 3150 Tangible Capital Assets. Section 1200 establishes general reporting principles and standards for the disclosure of information in government financial statements. Section 3150 requires the recording and amortizing of tangible capital assets in the financial statements (see note 1(g)(i)). In prior years, tangible capital asset additions were expensed in the year of acquisition. Adopting the new reporting standards, and recording tangible capital assets at historical cost and amortizing them over their useful lives, has resulted in a surplus at the end of 2011 in the amount of \$30,261,540. As outlined in Note 8, the accumulated surplus consists of the net book value (cost minus amortization) of the capital assets and future benefit liabilities.

The Library was in a break even position at the end of 2011 (before amortization) and although the 2013 budget will be presented in the new Service Based Budget format, it will not incorporate the changes as a result of tangible capital assets. This does not impact the capital and operating budget processes and funding from the City.

Although not available at the time of printing, the Trust Fund statements will be emailed in advance of the Board meeting.

Financial Statements of

**THE LONDON PUBLIC LIBRARY
BOARD**

Year ended December 31, 2011

INDEPENDENT AUDITORS' REPORT

To The London Public Library Board

We have audited the accompanying financial statements of The London Public Library Board, which comprise the statement of financial position as at December 31, 2011, the statements of operations, change in net debt, and cash flow statement for the year then ended, and notes, comprising 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 generally accepted accounting principles, 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.

Auditors' 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 an 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 Organization'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 Organization's internal controls. 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.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The London Public Library Board as at December 31, 2011, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

April 26, 2012

London, Canada

THE LONDON PUBLIC LIBRARY BOARD

Statement of Financial Position

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December 31, 2011, with comparative figures for 2010

	2011	2010
Financial assets:		
Cash	\$ 1,115,184	\$ 1,323,827
Accounts receivable:		
The City of London	468,456	782,788
Other	222,634	470,202
	<u>1,806,274</u>	<u>2,576,817</u>
Financial liabilities:		
Accounts payable and accrued liabilities	1,394,807	2,059,952
Deferred revenue	336,460	245,808
Payable to The City of London	11,570	265,146
Capital lease obligations (note 7)	13,020	48,461
Employee future benefits and other liabilities (note 2)	3,168,146	3,047,488
	<u>4,924,003</u>	<u>5,666,855</u>
Net debt	(3,117,729)	(3,090,038)
Non-financial assets:		
Tangible capital assets (note 6)	33,239,285	34,954,338
Prepaid expenses	139,984	202,870
	<u>33,379,269</u>	<u>35,157,208</u>
Commitments (note 4)		
Accumulated surplus (note 8)	<u>\$ 30,261,540</u>	<u>\$ 32,067,170</u>

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

THE LONDON PUBLIC LIBRARY BOARD

Statement of Operations

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Year ended December 31, 2011, with comparative figures for 2010

	Budget (unaudited)	2011	2010
Revenue:			
User charges:			
Fines	\$ 530,000	\$ 503,291	\$ 540,033
Fee, rental, sundry	380,568	413,183	396,460
Grants:			
Federal	-	-	84,380
Ontario	598,829	1,367,252	1,311,836
The City of London:			
Current	17,794,000	17,794,000	17,086,095
Capital	529,133	529,133	522,070
Other	-	46,444	83,114
Investment income	10,000	24,604	11,215
Total revenues	19,842,530	20,677,907	20,035,204
Expenses:			
Personnel costs	13,429,009	14,190,570	13,418,058
Personnel services	112,777	91,530	102,195
Purchased services	598,709	614,582	555,785
Technology	699,500	366,471	400,080
Utilities	795,800	811,212	712,651
Facility services	1,410,671	1,475,024	1,483,788
Collections and lending services	2,063,925	617,682	272,657
Program services	62,276	64,738	79,618
General	6,000	213,743	336,666
Amortization of tangible capital assets	-	3,560,248	3,585,523
Facilities repairs and maintenance	256,226	417,906	314,536
Equipment	44,055	17,124	3,286
Contribution to vehicle reserve	-	-	2,500
Contribution to self-insurance reserve	-	42,707	40,673
Total expenses	19,478,948	22,483,537	21,308,016
Annual surplus (deficit)	\$ 363,582	\$ (1,805,630)	\$ (1,272,812)
Accumulated surplus, beginning of year		32,067,170	33,339,982
Accumulated surplus, end of year		\$ 30,261,540	\$ 32,067,170

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

THE LONDON PUBLIC LIBRARY BOARD

Statement of Change in Net Debt

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Year ended December 31, 2011, with comparative figures for 2010

	2011	2010
Annual deficit	\$ (1,805,630)	\$ (1,272,812)
Acquisition of tangible capital assets	(1,845,195)	(2,422,000)
Amortization of tangible capital assets	3,560,248	3,585,523
	(90,577)	(109,289)
Change in prepaid expenses	62,886	(62,862)
Change in net debt	(27,691)	(172,151)
Net debt, beginning of year	(3,090,038)	(2,917,887)
Net debt, end of year	\$ (3,117,729)	\$ (3,090,038)

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

THE LONDON PUBLIC LIBRARY BOARD

Statement of Cash Flows

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Year ended December 31, 2011, with comparative figures for 2010

	2011	2010
Cash provided by (used in):		
Operating activities:		
Annual deficit	\$ (1,805,630)	\$ (1,272,812)
Items not involving cash:		
Amortization of tangible capital assets	3,560,248	3,585,523
Change in employee future benefits and other liabilities	120,658	128,838
Changes in non-cash assets and liabilities:		
Receivable from The City of London	314,333	(405,595)
Accounts receivable	247,568	(248,245)
Accounts payable and accrued liabilities	(665,145)	393,361
Payable to The City of London	(253,576)	224,339
Deferred revenue	90,651	1,568
Prepaid expenses	62,886	(62,862)
	1,671,993	2,344,115
Capital activities:		
Cash used to acquire tangible capital assets	(1,845,195)	(2,422,000)
Financing activities:		
Repayment of capital lease obligations	(35,441)	(45,193)
Decrease in cash	(208,643)	(123,078)
Cash, beginning of year	1,323,827	1,446,905
Cash, end of year	\$ 1,115,184	\$ 1,323,827
Supplemental disclosure:		
Cash paid in respect of:		
Interest	\$ 15,754	\$ 16,059

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

THE LONDON PUBLIC LIBRARY BOARD

Notes to Financial Statements

Draft

Year ended December 31, 2011

1. Significant accounting policies:

The financial statements of The London Public Library Board (the "Board"), a registered charity and a local board of the Corporation of the City of London (the "City"), are prepared in accordance with Canadian generally accepted accounting principles for governments as recommended by the Public Sector Accounting Board ("PSAB") of the Canadian Institute of Chartered Accountants. Significant accounting policies adopted by the Board are as follows:

(a) Basis of accounting:

The Board follows the accrual method of accounting for revenues and expenses. Revenues are normally recognized in the year in which they are earned and measurable. Expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and/or the creation of a legal obligation to pay.

(b) Municipal funding:

The City provides funding to the Board for both operating and capital expenditures such as refurbishment, replacement and major repairs and maintenance to the Library buildings. Operating and capital funding from the City is recorded as revenue in the statement of operations in the year in which it is received. However, capital expenditures are considered to be acquisitions of tangible capital assets and are therefore included in the statement of financial position as a non-financial asset. These amounts are amortized over the useful life of the respective asset and shown on the statement of operations as amortization of tangible capital assets.

(c) Deferred revenue:

Deferred revenues represent grants and other designated funding which has been received but for which the service has yet to be performed. These amounts will be recognized as revenues in the fiscal year in which the services are performed.

(d) Investment income:

Investment income is reported as revenue in the period earned.

(e) Employee future benefits:

The Board provides certain employee benefits which will require funding in future periods. These benefits include life insurance, extended health and dental benefits for early retirees.

The costs of life insurance, extended health and dental benefits are actuarially determined using management's best estimate of salary escalation, insurance and health care cost trends, long term inflation rates and discount rates.

THE LONDON PUBLIC LIBRARY BOARD

Notes to Financial Statements (continued)

Draft

Year ended December 31, 2011

1. Significant accounting policies (continued):

(f) Pension contributions:

The Board has a pension agreement with the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer defined contribution benefit plan. The Board's costs are the contributions due to the plan in the period.

(g) Non-financial assets:

Non-financial assets 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.

(i) Tangible capital assets:

Tangible capital assets are recorded at cost which includes amounts that are directly attributable to acquisition, construction, development or betterment of the assets. The cost, less residual value, of the tangible capital assets, excluding land, are amortized on a straight line basis over their estimated useful lives as follows:

Asset	Useful Life - Years
Buildings	15 - 60
Computers	3
Collections	7
Library shelving	40
Motor vehicles	5
Furniture and equipment	7

Annual amortization is charged in the year of acquisition and in the year of disposal. Assets under construction are not amortized until the asset is available for productive use.

(ii) Works of art and cultural and historic assets:

Works of art and cultural and historic assets are not recorded as assets in these financial statements.

(iii) Leased tangible capital assets:

Leases which transfer substantially all the benefits and risks incidental to ownership of property are accounted for as leased tangible capital assets. All other leases are accounted for as operating leases and the related payments are charged to expenses as incurred.

THE LONDON PUBLIC LIBRARY BOARD

Notes to Financial Statements (continued)

Draft

Year ended December 31, 2011

1. Significant accounting policies (continued):

(h) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the period. Significant estimates include assumptions used in estimating provisions for accrued liabilities and in preparing actuarial valuations for employee future benefits.

In addition, the Board's implementation of the Public Sector Accounting Handbook PS3150 has required management to make estimates of historical cost and useful lives of tangible capital assets.

Actual results could differ from those estimates.

2. Employee future benefits and other liabilities:

Employee future benefits and other liabilities are comprised of the following:

	2011	2010
Liability for vested sick leave benefits	\$ 463,296	\$ 505,019
Vacation pay liability	991,850	907,469
Employee future benefits obligation	1,713,000	1,635,000
	<u>\$ 3,168,146</u>	<u>\$ 3,047,488</u>

(a) Liability for vested sick leave benefits:

Under the sick leave benefit plan, employees hired prior to May 1, 1985 can accumulate unused sick leave and may become entitled to a cash payment when they leave the employment of the Board.

The liability of these accumulated days, to the extent that they have vested and could be taken in cash by an employee on terminating (as at December 31, 2011), amounts to \$463,296 (2010 - \$505,019). This amount is partially funded by a reserve held by The City of London in the amount of \$245,881 (2010 - \$231,554).

(b) Retiree benefits:

The Board provides certain post-employment and post-retirement employee benefits which will require funding in future periods.

The Board pays certain life insurance benefits on behalf of the retired employees as well as extended health and dental benefits for early retirees to age sixty-five. The Board recognizes these post-retirement costs in the period in which the employees rendered the services. The most recent actuarial valuation was performed as at December 31, 2009.

THE LONDON PUBLIC LIBRARY BOARD

Notes to Financial Statements (continued)

Draft

Year ended December 31, 2011

2. Employee future benefits and other liabilities (continued):

Detailed information about retiree benefits is as follows:

	2011	2010
Accrued employee future benefit obligation:		
Balance, beginning of year	\$ 1,635,000	\$ 1,541,000
Current period benefit cost	79,000	76,000
Interest	107,000	106,000
Benefits paid	(148,000)	(129,000)
Actuarial loss	530,000	571,000
Balance, end of year	2,203,000	2,165,000
Unamortized actuarial loss	(492,000)	(530,000)
Employee future benefits obligation	\$ 1,711,000	\$ 1,635,000

Post-employment and post-retirement benefit expenses included in total expenditures consist of the following:

	2011	2010
Current year benefit cost	\$ 79,000	\$ 76,000
Interest on accrued benefit obligation	107,000	104,000
Amortization of net actuarial loss	38,000	41,000
Total payments made during the year	\$ 224,000	\$ 221,000

Significant assumptions used in the actuarial valuation are as follows:

Discount rate	5.00%
Rate of compensation increase	3.00%
Healthcare cost increases	4.5% to 7.0%

The actuarial loss is amortized over the expected average remaining service life of the related employee group of fourteen years.

3. Trust funds:

Trust funds administered by the Board amounting to \$2,859,377 (2010 - \$2,274,125) have not been included in the statement of financial position nor have their operations been included in the statement of operations. They are reported separately on the trust fund statement of continuity.

THE LONDON PUBLIC LIBRARY BOARD

Notes to Financial Statements (continued)

Draft

Year ended December 31, 2011

4. Commitments:

The Board is committed under operating leases for the rental of premises and equipment. The minimum annual payments under these leases are as follows:

2011	\$	559,783
2012		562,385
2013		530,262
2014		235,312
2015		195,351
	\$	2,083,093

5. Pension agreement:

The Board has a pension agreement with OMERS, which is a multi-employer plan, on behalf of its full and part-time staff. The plan is a contributory defined benefit plan which specifies the amount of retirement benefit to be received by the employees based on the length of service and rates of pay. The amount contributed to OMERS for 2011 is \$763,503 (2010 - \$637,964) for current service and is included as an expenditure in the statement of operations.

6. Tangible capital assets:

Cost	Balance at December 31, 2010	Additions	Disposals	Balance at December 31, 2011
Land	\$ 4,611,030	\$ -	\$ -	\$ 4,611,030
Buildings	38,975,578	-	-	38,975,578
Leasehold improvements	349,083	-	-	349,083
Collections	9,972,414	1,465,683	1,168,454	10,269,643
Shelving	1,349,696	-	-	1,349,696
Computers	790,590	301,020	201,957	889,653
Computers under capital lease	615,244	-	-	615,244
Furniture and equipment	1,044,136	78,492	29,486	1,093,142
Total	\$ 57,707,771	\$ 1,845,195	\$ 1,399,897	\$ 58,153,069

THE LONDON PUBLIC LIBRARY BOARD

Notes to Financial Statements (continued)

Draft

Year ended December 31, 2011

6. Tangible capital assets (continued):

Accumulated Amortization	Balance at December 31, 2010	Amortization Expense	Disposals	Balance at December 31, 2011
Land	\$ -	\$ -	\$ -	\$ -
Buildings	16,020,154	1,577,027	-	17,597,181
Leasehold improvements	178,199	28,272	-	206,471
Collections	4,535,065	1,445,861	1,168,454	4,812,472
Shelving	513,691	33,742	-	547,433
Computers	350,699	279,610	201,957	428,352
Computers under capital lease	558,718	44,813	-	603,531
Furniture and equipment	596,907	150,923	29,486	718,344
Total	\$ 22,753,433	\$ 3,560,248	\$ 1,399,897	\$ 24,913,784

	Net book value December 31, 2010	Net book value December 31, 2011
Land	\$ 4,611,030	\$ 4,611,030
Buildings	22,955,424	21,378,397
Leasehold improvements	170,884	142,612
Collections	5,437,349	5,457,171
Shelving	836,005	802,263
Computers	439,891	461,301
Computers under capital lease	56,526	11,713
Furniture and equipment	447,229	374,798
Total	\$ 34,954,338	\$ 33,239,285

7. Capital lease obligations:

	2011	2010
2011	\$ -	\$ 39,338
2012	14,047	14,047
Minimum lease payments	14,047	53,385
Less amount representing interest at rates ranging from 7.89% to 9.42%	1,027	4,924
Present value of net minimum capital lease payments	\$ 13,020	\$ 48,461

THE LONDON PUBLIC LIBRARY BOARD

Notes to Financial Statements (continued)

Draft

Year ended December 31, 2011

8. Accumulated surplus:

Accumulated surplus consists of surplus and reserve funds as follows:

	2011	2010
Surplus:		
Invested in tangible capital assets	\$ 33,226,266	\$ 34,905,877
Unfunded:		
Employee benefits - accrued sick and vacation	(1,455,146)	(1,412,488)
Employee benefits - future benefit liability	(1,713,000)	(1,635,000)
Other	(42,461)	(22,773)
Total surplus	30,015,659	31,835,616
Reserves set aside by the Board:		
Stabilization fund	-	-
Collections encumbrance	-	-
Total reserves	-	-
Reserve held by the City on behalf of the Board:		
Sick leave reserve	245,881	231,554
	\$ 30,261,540	\$ 32,067,170

DRAFT Consolidated Financial Statements of

**THE LONDON PUBLIC LIBRARY
BOARD TRUST FUNDS**

Year ended December 31, 2011

INDEPENDENT AUDITORS' REPORT

To the Chair and Members of The London Public Library Board Trust Funds

We have audited the accompanying consolidated financial statements of The London Public Library Board Trust Funds, which comprise the consolidated financial position as at December 31, 2011, the consolidated statements of earnings and fund equity for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

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

Basis for Qualified Opinions

In common with many charitable organizations, The London Public Library Board Trust Funds derives revenue from donations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the entity and we were not able to determine whether any adjustments might be necessary to donation revenues, excess of revenues over expenses, assets and fund equity.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of The London Public Library Board Trust Funds as at December 31, 2011, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

Month DD, YYYY

London, Canada

THE LONDON PUBLIC LIBRARY BOARD TRUST FUNDS

Consolidated Statement of Financial Position

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December 31, 2011, with comparative figures for 2010

	Income fund	Capital fund	R.E.A.D. Program	2011 Total	2010 Total
Assets					
Cash	\$ 2,661,627	\$ 69,785	\$ 14,279	\$ 2,745,691	\$ 2,116,877
Investment (note 2)	62,472	-	-	62,472	62,472
Accounts receivable	112,799	60	1,006	113,865	115,023
	<u>\$ 2,836,898</u>	<u>\$ 69,845</u>	<u>\$ 15,285</u>	<u>\$ 2,922,028</u>	<u>\$ 2,294,372</u>

Accounts Payable, Accrued Liabilities and Equity

Accounts payable and accrued liabilities	\$ 62,810	\$ -	\$ 34	\$ 62,844	\$ 20,246
Fund equity	2,774,088	69,845	15,251	2,859,184	2,274,126
	<u>\$ 2,836,898</u>	<u>\$ 69,845</u>	<u>\$ 15,285</u>	<u>\$ 2,922,028</u>	<u>\$ 2,294,372</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:

_____ Director _____ Director

THE LONDON PUBLIC LIBRARY BOARD TRUST FUNDS

Consolidated Statement of Earnings and Fund Equity

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Year ended December 31, 2011, with comparative figures for 2010

	Income fund	Capital fund	R.E.A.D. Program	2011 Total	2010 Total
Fund equity, beginning of year	\$ 2,189,683	\$ 69,170	\$ 15,273	\$ 2,274,126	\$ 2,088,318
Interest earned	23,169	675	181	24,025	11,677
Donations	655,531	-	1,200	656,731	290,243
Other revenue	87,346	-	-	87,346	87,232
	2,955,729	69,845	16,654	3,042,228	2,477,470
Expenditures	181,641	-	1,403	183,044	203,344
Fund equity, end of year	\$ 2,774,088	\$ 69,845	\$ 15,251	\$ 2,859,184	\$ 2,274,126

See accompanying notes to consolidated financial statements.

THE LONDON PUBLIC LIBRARY BOARD TRUST FUNDS

Notes to Consolidated Financial Statements

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Year ended December 31, 2011

1. Significant accounting policies:

The financial statements of The London Public Library Board Trust Funds (the "Funds") are prepared in accordance with accounting principles as defined in the Canadian Institute of Chartered Accountants Public Sector Accounting Handbook.

(a) Accrual accounting:

The accrual basis of accounting is used in the preparation of these financial statements, with the exception of donations, which are recorded as revenue when received.

The accrual basis of accounting recognizes revenues as they become available and measurable; expenditures are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.

(b) Investment:

Investment is carried at cost. A write-down of the carrying value is charged to expenditures when evidence indicates a permanent decline in the underlying value and earning power of an individual investment.

(c) Contributions:

Contributions received with direction by the donor that the capital of the gift is to be held for a period of not less than ten years are included in the capital portion of each Fund.

Contributions received for library use and investment income are included in the income portion of each Fund.

2. Investment:

The investment is comprised of shares held at year end by the Income Fund. The market value of the investment is \$72,554 at December 31, 2011 (2010 - \$77,617).