

March 18, 2003

Toronto Public Library Board

Audit Results – Year Ended December 31, 2002

Report to the Board

 **ERNST & YOUNG**

Quality In Everything We Do

- Chartered Accountants
Ernst & Young Tower
P.O. Box 251, 222 Bay Street
Toronto Dominion Centre
Toronto, Canada M5K 1J7
- Phone: (416) 864-1234
Fax: (416) 864-1174

March 18, 2003

Members of Board
of the Toronto Public Library

Dear Members of the Board:

We are pleased to present the results of our audit of the financial statements of the **Toronto Public Library Board** [the “Library”].

This report summarizes the issues of audit significance discussed with management of the Library and provides the communications required by our professional standards.

The completion of this year’s audit was accomplished through the effective support and the assistance of the Library’s finance and operating personnel.

As always, we strive to continually improve the quality of our audit services. This meeting is a forum for you to provide feedback on ways we can continue to meet and exceed your expectations.

This report is intended solely for the use of the Library, the Board of the Library and management, and should not be used for any other purpose.

Very truly yours,

Ernst & Young LLP

Diana Brouwer/ John Teti
905-882-3037/ 905-882-3023

cc: Josephine Bryant and Larry Hughsam

Required Communications

Generally accepted auditing standards in Canada require the auditor to ensure that the committee of the Board having oversight responsibility to the financial reporting process receives additional information regarding the scope and results of the audit that may assist them in fulfilling their responsibilities.

Area	Comments
Scope of Services and Auditors' Responsibilities under Generally Accepted Auditing Standards (GAAS) As set out in our planning document, we designed our audit to express an opinion on the financial statements of The Toronto Public Library Board. The financial statements are the responsibility of management. Our audit was designed in accordance with GAAS which provides for reasonable, rather than absolute, assurance that the financial statements are free of material misstatement. As a part of our audit, we obtained a sufficient understanding of the internal control structure to plan our audit and to determine the nature, timing and extent of testing performed.	We anticipate issue an unqualified audit opinion dated March 12, 2003 upon approval of the financial statements of the Library by the Board of Directors.
Changes to Audit Approach Outlined in Planning Document In our planning document, we indicated that we would focus on understanding the significant accounting processes, we would walk through each process and then we would design substantive tests of the related account balances.	There were no changes to the audit approach outlined in the planning document.
Significant Accounting Policies Initial selection of and changes in significant accounting policies or their application and new accounting and reporting standards during the year must be reported.	There were no changes to the significant accounting policies during the year.
Auditors' Judgments About the Quality of Accounting Principles The preparation of financial statements may require management to select from more than one acceptable approach to accounting. We comment on the quality, not just the acceptability of accounting principles selected by management, the consistency of their application and the clarity and completeness of the Library's financial statements, including related disclosures.	We did not identify any areas where management's approach to accounting was significantly different from industry practice.

Required Communications (continued)

Area	Comments
Management Judgments and Accounting Estimates The preparation of financial statements requires the use of accounting estimates. Certain estimates are particularly sensitive due to their significance to the financial statements and the possibility that future events may differ significantly from management's expectations.	These are disclosed by means of the measurement uncertainty policy note within the Library's financial statements. The areas of significance in this regard is the estimates used around employee future benefits and the fact that the valuation is done based on a December 31, 1998 report. See "Items of Audit Significance Discussed with Management" for further details.
Major Issues Discussed with Management Including Accounting for Significant Unusual Transactions	See "Items of Audit Significance Discussed with Management".
Uncorrected Misstatements Determined by Management to be Immaterial We inform the audit committee about unadjusted audit differences accumulated by us during the current audit and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.	See "Summary of Audit Differences"
Significant Disclosures Not Made	None identified.
Disagreements with Management on Financial Accounting and Reporting Matters	None.
Serious Difficulties Encountered in Performing the Audit	None. There were no restrictions placed on the approach to or extent of our work. We have received the full cooperation of the officers and employees of the Library and were provided complete and timely access to all books and records, documents and other supporting data which we required.
Material Weaknesses in Internal Controls	No material weaknesses in internal control were discovered during the normal course of the audit that would inhibit our ability to express our opinion nor were any areas identified in which improvements could be made. See "No issue letter of recommendations."

Required Communications (continued)

Area	Comments
Irregularities and Illegal Acts	Testing of the financial records and enquiries made of the Library's personnel did not reveal any instances of irregularities or illegal acts.
Consultation with Other Accountants	None.
Other Information in Documents Containing Audited Financial Statements	None.
Auditors' Independence Canadian generally accepted auditing standards (GAAS) require that we communicate at least annually with you regarding all relationships between the Library and Ernst & Young that, in our professional judgment, may reasonably be thought to bear on our independence. In determining which relationships to report, these standards require us to consider relevant rules and related interpretations prescribed by the appropriate provincial institution /order and applicable legislation, covering such matters as: (a) holding a financial interest, either directly or indirectly in a client; (b) holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client; (c) personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client; (d) economic dependence on a client; and (e) provision of services in addition to the audit engagement. Further, GAAS requires that we must confirm our independence to the appropriate committee of the Board. However, since the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario deal with the concept of independence in the terms of objectivity, our confirmation is to be made in that context.	Accordingly, we hereby confirm that we are objective with respect to the Library within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as of March 12, 2003. See "Independence Letter".

Required Communications (continued)

Area	Comments
Other Audit and Non-Audit Services Provided to the Library	We were also engaged to audit the statement of revenue and expenses for the Canadian Digital Cultural Content Initiative of Toronto Public Library for the period September 1, 2001 to June 30, 2002 as determined in accordance with the Contribution Agreement between the Minister of Canadian Heritage and Toronto Public Library.
Fees	Audit Fees \$23,600

Items of Audit Significance Discussed with Management of the Library

During the course of planning and executing our audit, the following items/matters of audit significance were discussed with management:

Item	Description	Audit Results and Comments
Significant Estimates and employee related costs	<ul style="list-style-type: none"> • The most significant estimates within the Library's accounts are all around employee benefit costs – especially as they relate to the valuation of other post employment benefits. The Library bases its calculations in two areas: (1) the 1998 Mercer valuation and (2) the Library's own records for WSIB and Sick Leave costs. Given the date of the Mercer valuation, significant changes may occur upon the next detailed report. • In addition, the Library over the last couple of years has gone through several areas of employee related costs updates/valuations. These have consisted of various union negotiations for new contracts, pay equity and job equity. For the most part, the Library has dealt all of these issues and any further outstanding issues are hoping to be dealt with in the 2003 year. 	<ul style="list-style-type: none"> • As part of the audit of the financial statements we evaluate all significant estimates made for reasonableness in the accruals made within the accounts. In addition we ensure that the appropriate disclosures are made within the audited financial statements related to any of these significant estimates and provisions. • As a result of our audit, we have reviewed all the employee related costs and estimates and are satisfied with the accounting of them. In addition, we have ensured that the Library has included a policy note with respect to the uncertainty around these estimates, including the disclosure of the date of the last detailed actuarial valuation report.
Hydro Rebate Accrual	<ul style="list-style-type: none"> • In 2002 the Library joined the City of Toronto in a bulk purchase agreement for Hydro costs to take advantage of discounted bulk rates. Subsequent to this, new regulations have come into place fixing the prices for individuals and certain entities to 4.3 cents. As at December 31, 2002 the Library has booked a rebate for their portion of this rollback but at this time the legislation is still unclear as to whether or not this will apply to Agencies, Boards and Commissions of Municipal Governments or just to the local government level only. 	<ul style="list-style-type: none"> • We have reviewed the invoices and billings from the City for hydro purchases under the bulk agreement. In addition, we have reviewed the support for the accrual of \$180,000 in rebates. We have taken this amount to our summary of audit differences due to the fact that it is not yet confirmed if the Library will benefit from the rebate and as such, we are treating it as a judgemental difference.
Rent Accruals	<ul style="list-style-type: none"> • The City of Toronto has stopped invoicing the Library for rent on one location with no billings being received since 2001. The Library has continued to accrue amounts based on the historic amounts charged. 	<ul style="list-style-type: none"> • The amounts that have been accrued are not significant; however, the Library should be following up with the City on whether or not rent will be charged in the future – otherwise the accruals should be reversed.

Summary of Audit Differences

During the course of our audit, we accumulate differences between amounts recorded by the library and amounts that we believe are required to be recorded under generally accepted accounting principles. Following is a summary of those differences:

	Recording/Differences Would Have Increased (Decreased) Income	2002	2001
Likely Audit Differences:			
Hydro rebate due from city (see summary of significant issues discussed)	(180,000)		
Total Unadjusted Audit Differences Before Turnaround Effect of Prior Year Differences	\$ (180,000)		---
Turnaround Effect of Prior Year Differences	\$ —		—
Total Unadjusted Audit Differences After Turnaround Effect of Prior Year Differences	<u>\$ (180,000)</u>		<u>—</u>

Management has concluded that these differences are not material to the financial statements. We concur with their conclusion.

Letter of Recommendations

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March 18, 2003

Mr. Larry Hughsam
Director, Finance & Treasurer
Toronto Public Library Board
789 Yonge Street,
Toronto, Ontario M4W 2G8

■ Chartered Accountants
Ernst & Young Tower
P.O. Box 251, 222 Bay St.
Toronto-Dominion Centre
Toronto, Canada M5K 1J7

■ Phone: (416) 864-1234
Fax: (416) 864-1174

Dear Mr. Hughsam:

Re: Letter of Recommendations for the year ended December 31, 2002

Our examination of the financial statements of the Toronto Public Library Board [the "Library"] for the year ended December 31, 2002 has been completed. As part of our examination we studied and evaluated the Library's internal controls to the extent we considered necessary under generally accepted auditing standards.

Our examination was not designed to determine whether the Library's internal controls are adequate for management's purposes. Accordingly, our examination of the financial statements will not necessarily disclose all conditions requiring attention because the audit involves selected tests of accounting records and related data.

Our audit for the fiscal year ended December 31, 2002, did not discover any significant opportunities for improvements in the current control environment.

We would like to take this opportunity to thank the staff of the Library for their assistance and cooperation during the course of our audit.

Yours sincerely,

Ernst & Young LLP

Diana Brouwer/John Teti
905-882-3037/905-882-3023

Independence Letter

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March 12, 2003

Chair of the Board
Toronto Public Library
789 Yonge Street,
Toronto, Ontario M4W 2G8

■ Chartered Accountants
Ernst & Young Tower
P.O. Box 251, 222 Bay St.
Toronto-Dominion Centre
Toronto, Canada M5K 1J7

■ Phone: (416) 864-1234
Fax: (416) 864-1174

We have been engaged to audit the financial statements of the Toronto Public Library Board for the year ended December 31, 2002.

Assurance and Related Services Guideline AuG-11, Communications with audit/finance committees (the "Guideline"), requires that we communicate at least annually with you regarding all relationships between the Library and ourselves that, in our professional judgment, may reasonably be thought to bear on our independence. In determining which relationships to report, the Guideline requires us to consider relevant rules and related interpretations prescribed by the appropriate provincial institute /order and applicable legislation, covering such matters as:

- a) holding a financial interest, either directly or indirectly, in a client;
- b) holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client;
- c) personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client;
- d) economic dependence on a client; and
- e) provision of services in addition to the audit engagement, such as the preparation of tax returns.

We are not aware of any relationships between the Library and ourselves that, in our professional judgment, may reasonably be thought to bear on our independence.

Independence Letter (cont'd)

Since the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario deal with the concept of independence in terms of objectivity, our confirmation is to be made in that context. Accordingly, we hereby confirm that we are objective with respect to the Library within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario from March 11, 2002 (date of our last letter on this matter) through to March 12, 2003 (the date of our audit report).

This report is intended solely for the use of the Directors, management, and others within the Library and should not be used for any other purposes.

We look forward to discussing with you the matters addressed in this letter as well as other matters that may be of interest to you. We will be prepared to answer any questions you may have regarding our independence as well as other matters.

Yours very truly,

ERNST & YOUNG LLP
Chartered Accountants

Ernst & Young LLP

cc: Josephine Bryant, City Librarian
Larry Hughsam, Director, Finance & Treasurer

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