



Toronto Public Library Board

Audit Results – 31 December 2008

Report to the Members of the Library Board



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April 10, 2009

Members of the Board of Directors of the
Toronto Public Library Board

Dear Members of the Board of Directors:

We are pleased to present the results of our audit of the financial statements of The Toronto Public Library Board (the "Library" or the "Board").

This report to the Board of Directors summarizes the terms of our engagement, the issues of audit significance discussed with management and provides the communications required by our professional standards.

Our audit was designed to express an opinion on the December 31, 2008 financial statements of the organization. In planning the audit, we held discussions with management, considered current and emerging business risks, performed an assessment of risks that could materially affect the financial statements, and aligned our audit procedures accordingly. We received the full support and assistance of the organization's personnel in conducting our audit.

This report is intended solely for the use of the Board of Directors, management, and ultimately the City of Toronto Council and is not intended to be and should not be used by anyone other than these specified parties. We disclaim any responsibility to any third party who may rely on it. Further, this report is a by-product of our audit of the December 31, 2008 financial statements and indicates matters identified during the course of our audit. Our audit did not necessarily identify all matters that may be of interest to the Board of Directors in fulfilling its responsibilities.

We appreciate this opportunity to meet with you to discuss the contents of this report and answer any questions you may have about these or any other audit-related matters.

Very truly yours,

Ernest & Young LLP
Chartered Accountants
Licensed Public Accountants

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Items of Audit Significance Discussed with Management

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
Employee Future Benefits	<ul style="list-style-type: none">Actuarial valuations are conducted on a periodic basis, with the last actuarial review completed by Mercer as at December 31, 2006 and extrapolated to December 31, 2007, 2008 and 2009.During 2009, the City identified an error in the actuarial valuation of sick leave liabilities for 2007, which are included in employee future benefits payable.Certain assumptions are made in preparing the valuation, including the determination of an appropriate discount rate. <ul style="list-style-type: none">There were no changes to employee agreements in 2008 that would impact these extrapolations.	<ul style="list-style-type: none">We have relied on the work performed by Mercer in auditing the 2008 financial statements.The City of Toronto identified an error in the actuarial valuation of sick leave liabilities, which impacted employee future benefits payable recorded in 2007. Mercer prepared a revised valuation of the sick leave liabilities as at December 31, 2007. As a result of the revised valuation, the employee future benefits payable was restated for 2007.We are currently reviewing the revised valuation prepared by Mercer and the adjustments recorded by management and the disclosures in the financial statements.
	<ul style="list-style-type: none">Management has identified an error with the valuation where 32 retired employees were omitted. The resulting under-accrual is approximately \$96,000.	<ul style="list-style-type: none">We have confirmed through our audit procedures that no changes have been made to plans offered by the Board that would have an impact on the valuation provided by Mercer.The under-accrual has not been adjusted in the financial statements and has been reflected on the summary of audit differences for both 2007 and 2008.

Items of Audit Significance Discussed with Management (cont'd)

Capital Asset Reporting

- Effective January 1, 2007, the Board adopted Accounting Guideline 7 ["PSG-7"] of the Public Sector Accounting Handbook of the Canadian Institute of Chartered Accountants with respect to the disclosure of tangible capital assets of local governments. PSG-7 provides transitional guidance on presenting information related to tangible capital assets until Section 3150 – Tangible Capital Assets of the Public Sector Accounting Handbook comes into effect on January 1, 2009. These provisions require local government to record tangible capital assets at cost and amortize these assets over their estimated useful lives.
- The Board continues to record tangible capital assets including assets held under capital leases at cost in the period they were acquired on the statement of financial position and as expenditures within the capital fund. This will change when the new recommendations for accounting for tangible capital assets is implemented for the 2009 reporting year.
- During 2008, the Board continued to work towards compliance with the new recommendations for accounting for tangible capital assets. As of December 31, 2008, the Board had significantly completed the inventory of the listing of assets in the following categories: land, buildings, computer hardware and software, library materials and vehicles. A listing of assets and values which are not yet completed is currently underway and expected to be completed by June 30, 2009.
- The Library has been proactive in preparing for the impact of this new standard, and is working closely with City of Toronto Finance Department staff.
- In accordance with the new accounting guideline, management has included new disclosures in the financial statements. We concur with this disclosure.
- We will perform audit procedures over the Library's implementation of tangible capital asset reporting as this project progresses through its implementation phases in preparation for the 2009 reporting year.

Items of Audit Significance Discussed with Management (cont'd)

CAM Provision Estimates

- The Library has accrued an estimate of additional 2008 common area maintenance costs ("CAM") for rented premises at various branch locations. The accrual was established on the basis of historical CAM payments per square foot of rented space
- An incorrect square footage was used in determining the year-end CAM accrual for some branch locations. The resulting under-accrual of \$53,445 (prior year- \$59,386) has not been adjusted to the financial statements and has been reflected on the summary of audit differences.
- Going forward EY recommends the square footage on the branch profile be used to assess the CAM accrual.

Changes to the 2008 Financial Statements

- There have been no major changes to the 2008 financial statements, except for the restatement of employee future benefits as discussed above and the added disclosures for tangible capital assets.

Summary of Audit Differences

During the course of our audit, we accumulate differences between amounts recorded by your organization and amounts that we believe are required to be recorded under generally accepted accounting principles. Following is a summary of those differences we have identified through the date of this report:

	Differences Would Have Increased (Decreased)			
	Net Liabilities/Net Revenues			
Current Operations				
<i>Known Audit Differences</i>				
Underaccrual in accounts payable re: common area maintenance	2008 (53,445)	2007 (59,386)		
Overaccrual in accounts payable re: purchase of library cards	2008 —	2007 94,500		
Underaccrual in employee benefits	2008 (96,000)	2007 (96,000)		
 Total Operating Differences	 <u>(149,445)</u>	 <u>(60,886)</u>		
Capital Operations				
<i>Known Audit Differences</i>				
Capital expenditures relating to next year accrued in current year	2008 —	2007 <u>43,498</u>		
Total Capital Differences	2008 —	2007 <u>43,498</u>		
Total Unadjusted Audit Differences Before Turnaround Effect of Prior Year Differences	2008 (149,445)	2007 (17,388)		
Turnaround Effect of Prior Year Differences in Net Liabilities	2008 <u>17,388</u>			
Total Unadjusted Audit Differences in Income After Turnaround Effect of Prior Year Differences	2008 <u>(132,057)</u>			

Required Communications

Generally accepted auditing standards in Canada require the auditor to communicate certain matters to the Board that may assist them in overseeing management's financial reporting and disclosure process. Below we summarize these required communications as they apply to your organization.

Area	Comments
Auditors' Responsibilities Under Generally Accepted Auditing Standards (GAAS)	
As set out in the planning document presented to the Board, we designed our audit to express an opinion on your organization's financial statements.	We anticipate issuing an unqualified audit opinion dated March 13, 2009, upon approval of the financial statements by the Board of Directors and completion of certain outstanding procedures. The following procedures are outstanding: <ul style="list-style-type: none">▪ confirmation from the Board of Directors that there are no areas of concern that have not been addressed in this document;▪ letter of management representation;▪ We are currently reviewing the revised valuation prepared by Mercer and the adjustments recorded by management and the disclosures in the financial statements.
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 from 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.	
Changes to Audit Approach Outlined in Planning Document	
In our planning document, we indicated that we would follow a substantive audit approach with respect to most aspects of the audit except for purchases/cash disbursements and payroll where controls will be relied upon.	There were no changes to the audit approach outlined in the planning document.

Required Communications (continued)

Area	Comments
Adoption of, or Changes in, an Accounting Principle , Including Material Alternative Accounting Treatments Discussed with Management and Acceptability of a Particular Policy used by Management	
We determine that the Board of Directors is informed about the initial selection of, and any changes in, significant accounting principles or their application when the accounting principle or its application, including alternative methods of applying the accounting principle, has a material effect on the financial statements. In addition, we report to the Board of Directors all alternative accounting treatments within Canadian generally accepted accounting principles (GAAP) for policies and practices related to material items (including recognition, measurement, presentation and disclosure alternatives) that have been discussed with management during the current audit period including acceptability of the policies or methods ultimately selected by management.	Refer to "Items of Audit Significance Discussed with Management" section.
Sensitive Accounting Estimates and Disclosures	
We determine that the Board of Directors is informed about management's process for formulating particularly sensitive accounting estimates and disclosures and about the basis for our conclusions regarding the reasonableness of those estimates.	There are significant judgments or estimates required to prepare the financial statements where actual amounts are likely to be significantly different from the estimates. See the discussions under "Items of Significance Discussed with Management" for further discussion on these areas.
Major Issues Discussed with Management Including Accounting for Significant Unusual Transactions and for Controversial or Emerging Areas	
We determine that the Board of Directors is informed about the methods used to account for significant unusual transactions and the effects of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.	We are not aware of any significant unusual transactions recorded by the organization or of any significant accounting policies used by the organization related to controversial or emerging areas for which there is a lack of authoritative guidance.

Required Communications (continued)

Area	Comments
Significant Audit Adjustments and Unrecorded Audit Differences Considered by Management to be Immaterial	
We provide the Board of Directors with information about adjustments arising from the audit (whether recorded or not) that could in our judgment either individually or in the aggregate have a significant effect on the organization's financial statements.	Refer to "Summary of Audit Difference" section for details on unrecorded amounts.
We inform the Board of Directors about unrecorded audit differences accumulated by us (i.e. adjustments either identified by us or brought to our attention by management) during the current audit period 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.	
Disagreements with Management	None.
Serious Difficulties Encountered in Dealing with Management when Performing the Audit	None.
Significant Weaknesses in Internal Controls	
We communicate all significant weaknesses in internal control over financial reporting that may have been identified during the course of our audit.	No significant weaknesses in internal control were identified.
Fraud and Illegal Acts	
We report to the Board of Directors fraud and illegal acts involving senior management and fraud and illegal acts (whether caused by senior management or other employees) that cause a material misstatement to the financial statements.	We are not aware of any matters that require communication.
We are also required to make inquiries of the Board of Directors related to fraud, including both (1) their views about the risks of fraud, and (2) their knowledge of any actual or suspected fraud.	We would request that the Board of Directors raise with us any areas of risk not addressed in our communications and that they inform us of their knowledge of any actual or suspected fraud.
Consultation with Other Accountants	None of which we are aware.

Required Communications (continued)

Area	Comments
Other Information in Documents Containing Audited Financial Statements	
Our financial statement audit opinion relates only to the financial statements and accompanying notes.	We are not aware of any other documents prepared by the Board containing audited financial statements.
Related Party Transactions	
Related party transactions identified by the auditor that are not in the normal course of operations or that involve significant judgments made by management concerning measurement or disclosure must be disclosed to the Board of Directors.	Related party amounts are with respect to the City of Toronto and the Toronto Public Library Foundation. Amounts are disclosed within the financial statements. The transactions are conducted in the normal course of operations.
Major Issues Discussed with Management in Connection with Initial or Recurring Retention	
	None.
Matters Relating to Component Entities of the Organization	
When the financial statements of an organization (primary entity) include financial information from financial statements of a component entity (a subsidiary, investee (other than a portfolio investment), or joint venture; or an entity whose financial information from financial statements is included with those of the primary entity), the auditor communicates with the Board of Directors those matters relating to the component entities that in the auditor's judgment are of significance in the context of the primary entity (for example, weaknesses in systems of internal control that have resulted, or could result, in material errors in the primary entity's consolidated financial statements).	None of which we are aware.
Auditors' Independence	
Canadian generally accepted auditing standards (GAAS) require that we communicate at least annually with you regarding all relationships between your organization and Ernst & Young that, in our professional judgment, may reasonably be thought to bear on our independence.	Refer to "Independence Letter" section.

Required Communications (continued)

Area	Comments
Other Audit and Non-Audit Services Provided to Your Organization	None.
Fees	<ul style="list-style-type: none">A summary of our fees is included below for your reference.
	\$
Annual audit fees	43,720
	<ul style="list-style-type: none">Annual fees for 2008 are inclusive of expenses and plus GST. This is the first year of a two-year contract extension ending with the audit of the December 31, 2009 financial statements in accordance with our agreement with the City of Toronto.

Independence Letter

April 10, 2009

Members of the Board of Directors of the
Toronto Public Library Board

We have been engaged to audit the financial statements of the Toronto Public Library for the year ended December 31, 2008.

Pursuant to Canadian generally accepted auditing standards, we communicate at least annually with you regarding all relationships between Ernst & Young and its related entities and the organization and its related entities that, in our professional judgment, may reasonably be thought to bear on our independence.

We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since April 4, 2008, the date of our last letter.

We are not aware of any relationships between Ernst & Young and the organization that, in our professional judgment, may reasonably be thought to bear on our independence since April 4, 2008, the date of our last letter.

Canadian generally accepted auditing standards require that we confirm our independence to the Board of Directors in the context of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario. Accordingly, we hereby confirm that we are independent with respect to the organization within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as of April 10, 2009.

The total fees charged to the organization during this period are set out in the Audit Results package.

We are looking forward to discussing with you the matters addressed in this package at our upcoming meeting.

This report is intended solely for the use of the Board of Directors, management, and others within the organization (ultimately the City of Toronto) and should not be used for any other purposes.

Yours truly,

Ernst & Young LLP
Chartered Accountants
Licensed Public Accountants



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