

Toronto Public Library Board

Audit Results – December 31, 2006

Report to the Members of the Library Board

 **ERNST & YOUNG**

Quality In Everything We Do



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April 2, 2007

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”) and the status of our final procedures.

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, 2006 financial statements of the organization. In planning the audit, we held discussions with management, considered current and emerging business needs, along with 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, 2006 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,

Chartered Accountants
Licensed Public Accountants

Diana Brouwer / Gurdeep Lotey
(416) 943-7177 / (905) 882-2990

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
<p>Auditors' Responsibilities Under Generally Accepted Auditing Standards (GAAS)</p> <p>As set out in the section on terms of engagement, we designed our audit to express an opinion on your organization's financial statements.</p> <p>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.</p> <p>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.</p>	<p>We anticipate issuing an unqualified audit opinion dated March 23, 2007 upon approval of the financial statements by the Board of Directors and completion of certain outstanding procedures. The following procedures are outstanding:</p> <ul style="list-style-type: none"> - legal confirmation from Miller Thompson
<p>Changes to Audit Approach Outlined in Planning Document</p> <p>In our planning document, we indicated that we would conduct our audit in accordance with Canadian generally accepted auditing standards in order to deliver to you our final report for your 2006 financial statements. Our plan to you indicated that our strategy would be to test and rely on controls around your payroll and purchases / disbursements accounting streams, with substantive procedures covering off the remainder of the accounts, as the use of confirmations and specific testing of account balances is the more efficient approach for us to take in those areas.</p>	<p>There were no changes to the audit approach outlined in the planning document.</p>
<p>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</p> <p>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.</p> <p>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 the acceptability of the policies or methods ultimately retained by management.</p>	<p>None.</p>

Required Communications (continued)

Area	Comments
<p data-bbox="191 313 940 334">Sensitive Accounting Estimates and Disclosures</p> <p data-bbox="191 349 940 505">The preparation of financial statements requires the use of accounting estimates. Certain estimates and disclosures are particularly sensitive due to their significance to the financial statements and the possibility that future events may differ significantly from management’s current judgments.</p> <p data-bbox="191 519 940 638">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.</p>	<p data-bbox="940 349 1915 440">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.</p>
<p data-bbox="191 660 940 708">Major Issues Discussed with Management Including Accounting for Significant Unusual Transactions and for Controversial or Emerging Areas</p> <p data-bbox="191 722 940 841">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.</p>	<p data-bbox="940 722 1915 813">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.</p>
<p data-bbox="191 880 940 927">Significant Audit Adjustments and Unrecorded Differences Considered by Management to be Immaterial</p> <p data-bbox="191 941 940 1060">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.</p> <p data-bbox="191 1075 940 1226">We inform the Board of Directors about unrecorded audit differences accumulated by us 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.</p>	<p data-bbox="940 941 1915 963">There were no significant recorded audit adjustments related to the current year.</p> <p data-bbox="940 1075 1915 1096">Refer to “Summary of Audit Differences” section for details on unrecorded amounts.</p>

Required Communications (continued)

Area	Comments
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.	
Consultation with Other Accountants	None of which we are aware.
Other Information in Documents Containing Audited Financial Statements	
Our financial statement audit opinion relates only to the financial statements and accompanying notes. However, we also review other information in the annual report, such as management's discussion and analysis, for consistency with the audited financial statements.	None.
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.

Required Communications (continued)

Area	Comments															
<p>Major Issues Discussed with Management in Connection with Initial or Recurring Retention</p>	None.															
<p>Matters Relating to Component Entities of the Organization</p>																
<p>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 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).</p>	None of which we are aware.															
<p>Auditors’ Independence</p>																
<p>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.</p>	Refer to “Independence Letter” section.															
<p>Other Audit and Non-Audit Services Provided to Your Organization</p>																
<p>Fees</p>	<p>None.</p> <ul style="list-style-type: none"> • A summary of our fees for the year ended December 31 is included below for your reference. <table style="margin-left: auto; margin-right: auto; border-collapse: collapse;"> <thead> <tr> <th style="border-top: 1px solid black; border-bottom: 1px solid black;"></th> <th style="border-top: 1px solid black; border-bottom: 1px solid black; text-align: right;">2006</th> <th style="border-top: 1px solid black; border-bottom: 1px solid black; text-align: right;">2005</th> </tr> <tr> <th style="border-bottom: 1px solid black;"></th> <th style="border-bottom: 1px solid black; text-align: right;">\$</th> <th style="border-bottom: 1px solid black; text-align: right;">\$</th> </tr> </thead> <tbody> <tr> <td style="padding-left: 20px;">Annual audit fees - Library</td> <td style="text-align: right;">\$25,000</td> <td style="text-align: right;">\$25,000</td> </tr> <tr> <td style="padding-left: 20px;">Additional billing re: payroll conversion testing</td> <td style="text-align: right;">\$8,000</td> <td style="text-align: right;">—</td> </tr> <tr> <td style="padding-left: 20px;">Annual audit fees - Trust</td> <td style="text-align: right;">—</td> <td style="text-align: right;">\$2,500</td> </tr> </tbody> </table> <p>Annual audit fees are inclusive of expenses and GST and are in accordance with our agreed proposal with the City of Toronto. Refer to discussion under “Areas of Significance Discussed with Management” for details on additional billing.</p>		2006	2005		\$	\$	Annual audit fees - Library	\$25,000	\$25,000	Additional billing re: payroll conversion testing	\$8,000	—	Annual audit fees - Trust	—	\$2,500
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Additional billing re: payroll conversion testing	\$8,000	—														
Annual audit fees - Trust	—	\$2,500														

Areas of 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
Wage Harmonization	<ul style="list-style-type: none"> • During 2004, final settlement was received for the wage harmonization giving retroactive pay to September 2003. The retroactive portion of this award amounted to \$7,992,000 and was recorded in the 2004 financial statements. • During 2005, a substantial portion of the harmonization was paid out. As at December 31, 2005, an accrual still remained relating to Group 0 jobs (i.e. union jobs created after January 1, 1998). The excess portion of the funding was presented in the 2005 financial statements as part of Accounts Payable to the City of Toronto. • In 2006, the majority of the accrued balance was paid, with some additional payments being made subsequent to year-end in January 2007. 	<ul style="list-style-type: none"> • We have audited the accrual in the accounts as at December 31, 2006. • Based on the payments to date and the activity related to final settlements, we believe there may be an overaccrual of \$76,813 as at December 31, 2006. The overaccrual has been taken to the summary of audit differences as a judgmental difference.
Employee Future Benefits	<ul style="list-style-type: none"> • The Library sponsors defined benefit plans providing pension and other retirement and post-employment benefits to employees. Actuarial valuations are conducted on a periodic basis, with the most recent actuarial review completed as at December 31, 2002. • Significant changes resulted from the 2003 revaluation of the Library's retirement benefits, having an impact of \$10.6 million to its accrued benefit obligation. This amount, an actuarial loss, is being amortized over 13 years or approximately \$850,000 per year. • For 2006, Mercer's has provided an updated report based on changes in circumstances surrounding employee benefit costs. The changes with respect to the Library were minimal but did result in an actuarial gain of \$755,566 that will be amortized beginning in 2007 over 13 years. 	<ul style="list-style-type: none"> • We agree with the approach taken and have audited the assumptions and estimates used within the current valuation. We concur with the disclosures made in the financial statements. • We understand that the City has engaged Mercer's to complete an updated actuarial valuation as at December 31, 2006. We will audit the updated valuation during our 2007 audit to ensure all the relevant information for the Library Board has been considered in the update.
Payroll Conversion	<ul style="list-style-type: none"> • During 2006, the Library implemented a new time and attendance payroll system for tracking employees' time and accrual information (i.e. sick days, vacation days, etc.), replacing the Library's method of tracking this information via the Payflex system. 	<ul style="list-style-type: none"> • As part of our 2006 audit, we tested the Library's transfer of employee data from the old to new system. Our initial testing did note some differences and as a result we extended our sample to provide assurance that there were no significant errors in the conversion. Additional testing yielded no discrepancies.

Areas of Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
CAM Provision Estimates	<ul style="list-style-type: none"> The Library has accrued an estimate of additional 2006 common area maintenance costs (“CAM”) for rented premises at various branch locations. The accrual was established on the basis of \$1 per square foot of rented space, determined using management’s best estimate. 	<ul style="list-style-type: none"> Management was unable to adequately support the basis of using \$1 per square foot as the best estimate of additional CAM costs for 2006. As such, the unsupported balance of \$39,956 has been taken to the summary of audit differences as a likely difference. We suggest that management track the history of additional CAM costs on an annual basis in order to more accurately determine accruals required for these amounts at year-end.
Capital Asset Reporting	<ul style="list-style-type: none"> Our 2006 planning package and previous year’s reporting packages informed you of upcoming changes to the accounting for capital assets. In June 2006, the Public Sector Accounting Board approved Section PS 3150, Tangible Capital Assets as it relates to local governments and a final public sector guideline, PSG-7, was issued for Tangible Capital Assets of Local Governments. PSG-7 provides guidance to local governments on presenting information in notes or schedules related to tangible capital assets as a transition step to the implementation of the requirements of PS 3150. This new guideline is applicable for fiscal years beginning on or after January 1, 2007. The application for the new section PS 3150 is for fiscal years beginning on or after January 1, 2009. 	<ul style="list-style-type: none"> Implementing this new section will be a significant undertaking for the Library. The Library should work closely with City of Toronto Finance Department staff in developing and working through a plan on how to implement this new standard for the Library. The Library needs to carefully consider the resource requirements to work through these changes.
Disaster Recovery Plan	<ul style="list-style-type: none"> In a prior year management letter point, we noted that there was no disaster recovery plan in place covering systems recovery in the event of the loss of the computer room. Without a defined, communicated and tested disaster recovery plan, Toronto Public Library may be unable to continue with critical operations in the event of a prolonged system outage or loss of central processing facility. 	<ul style="list-style-type: none"> We had recommended in our prior year’s letter, that the Library implement a formal current disaster recovery plan to ensure continued operations of the organization. We noted through our 2006 audit procedures, that the Library has developed and is in process of implementing the plan, which was approved by the Board during the year.
Changes to the 2006 Financial Statements	<ul style="list-style-type: none"> There have been no major changes to the 2006 financial statements. 	<ul style="list-style-type: none"> No significant changes to the 2006 financial statements.

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.

	Recording Differences Would Have (Increased)Decreased Net Liabilities/Net Expenditures	
	<u>2006</u> \$	<u>2005</u> \$
Current Operations		
<i>Known Audit Differences:</i>		
Prepaid rent in accounts receivable	—	(200,430)
Overaccrual in accounts payable – restructuring	—	300,000
Underaccrual in accounts payable re: Common Area Maintenance	(43,498)	—
<i>Likely Audit Differences:</i>		
Overaccrual in accounts payable – wage harmonization	76,813	132,764
Overaccrual in accounts payable – common area maintenance	39,956	—
WSIB Accrual	<u>—</u>	<u>95,290</u>
Total Operating Differences	<u>73,271</u>	<u>327,624</u>
Capital Operations		
<i>Known Audit Differences</i>		
Capital charges not expensed in F'05	—	(88,786)
Capital expenditures relating to next year accrued in current year	<u>372,173</u>	<u>206,178</u>
Total Capital Differences	<u>372,173</u>	<u>117,392</u>
Total Unadjusted Audit Differences Before Turnaround Effect of Prior Year Differences	445,444	<u>445,016</u>
Turnaround Effect of Prior Year Differences in Net Liabilities	<u>(445,016)</u>	
Total Unadjusted Audit Differences in Income After Turnaround Effect of Prior Year Differences	<u>428</u>	

Independence Letter

April 2, 2007

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

Dear Members of the Board:

We have been engaged to audit the financial statements of the Toronto Public Library Board (the "Library" or the "organization") for the year ended December 31, 2006.

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, if any 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.

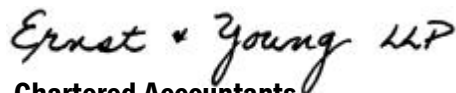
We are not aware of any relationships between Ernst & Young and the organization that, in our professional judgment, may reasonably be thought to bear on our independence since March 31, 2006, the date of our last letter.

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 March 23, 2007 (date of our audit report).

The total fees charged to the organization are set out in "Other Required Communications" in the Audit Results package.


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

Yours truly,



Chartered Accountants
Licensed Public Accountants

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