ASSURANCE AND ADVISORY
BUSINESS SERVICES

Toronto Public Library Board

Audit Results – December 31, 2007

Report to the Members of the Library Board

ERNST & YOUNG
Quality In Everything We Do

ERNST & YOUNG

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April 4, 2008

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, 2007 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, 2007 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,

Ernst & Young LLP

Chartered Accountants
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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 section on terms of engagement, we designed our audit to express an opinion on your organization's 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.	We anticipate issuing an unqualified audit opinion dated March 18, 2008 upon approval of the financial statements by the Board of Directors and completion of certain outstanding procedures. The following procedures are outstanding: - legal confirmation from the City Solicitor; - confirmation of two bank accounts; and - confirmation from the Board that there are no outstanding matters which we have not addressed;
Changes to Audit Approach Outlined in Planning Document	
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 2007 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.	There were no changes to the audit approach outlined in the planning document.
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 the acceptability of the policies or methods ultimately retained by management.	None.

Required Communications (continued)

Area	Comments
Sensitive Accounting Estimates and Disclosures 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. 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.
Significant Audit Adjustments and Unrecorded 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.	There were no significant recorded audit adjustments related to the current year.
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.	Refer to "Summary of Audit Differences" section for details on unrecorded amounts.

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 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 are not aware of any matters that require communication.
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
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 organization), 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.
Other Audit and Non-Audit Services Provided to Your Organization	None.
Fees	• A summary of our fees for the year ended December 31 is included below for your reference. Annual audit fees are inclusive of expenses and GST and are in accordance with our agreed proposal with the City of Toronto.

	2007 $	2006 $
Annual audit fees	$25,000	$25,000
Audit fees related	—	$8,000

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
Capital Asset Reporting	• Our 2007 planning package and previous year's reporting packages informed you of upcoming changes to the accounting for capital assets. • 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 life. • 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 2007, the Board continued to work towards compliance with the new recommendations for accounting for tangible capital assets. As of December 31, 2007, 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, 2008.	• 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.

Areas of Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Employee Future Benefits	• 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 being completed as at December 31, 2006. • The revaluation conducted at December 31, 2006 has resulted in an actuarial gain of $695,303 that is being amortized beginning in 2007 over the expected average remaining service life at the time of the revaluation ("EARSL), or 13 years. • Previous years' actuarial gains or losses arising from revaluations and / or changes in circumstances surrounding employee benefit costs continue to be amortized over their original EARSL.	• We agree with the approach taken and have audited the assumptions and estimates used within the current valuation. An error was noted where the 2006 actuarial gain was being amortized over the incorrect EARSL. The resulting difference of approximately $50,000 has been adjusted in the financial statements. • We concur with the disclosures made in the financial statements with respect to employee future benefits.
Gift-in-Kind Donation	• In F2007, the Library received a donation of books, videos and pictures. According to the Library's policies, cultural gifts are to be donated to the Library (and not the Toronto Public Library Foundation) and appraised by the Canadian Cultural Property Export and Review Board ("CCPERB"), who then issues the tax receipt to the donor. • According to a third party appraisal, the donated items are worth an estimated $75,000. However, the CCPERB has not yet finished their appraisal, and the Library did not record the donation in F'07.	• Based on the Library's past experience, the amount appraised by the CCPERB is usually very similar to third party appraisals that are done. Given that the donation was received prior to the F2007 year end, this should have been recognized in 2007. • Recording the $75,000 donation would result in an increase to revenues and expenses, and has not been adjusted in these financial statements.
CAM Provision Estimates	• The Library has accrued an estimate of additional 2007 common area maintance 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 underaccrual of $59,000 has been reflected on the summary of audit differences.
Changes to the 2007 Financial Statements	• There have been no major changes to the 2007 financial statements, except for the added disclosures for tangible capital assets.	• We concur with the disclosures in the 2007 financial statements.

Summary of Audit Differences

During the course of our audit, we accumulate differences between amounts recorded by management 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	
	2007	**2006**
	$	$
Current Operations		
Known Audit Differences		
Underaccrual in accounts payable re: Common Area Maintenance	(59,386)	(43,498)
Overaccrual in accounts payable re: purchase of library cards	94,500	—
Likely Audit Differences:		
Overaccrual in accounts payable – wage harmonization	—	76,813
Overaccrual in accounts payable – common area maintenance	—	39,956
Total Operating Differences	35,114	73,271
Capital Operations		
Known Audit Differences		
Capital expenditures relating to next year accrued in current year	43,498	372,173
Total Capital Differences	43,498	372,173
Total Unadjusted Audit Differences Before Turnaround Effect of Prior Year Differences	78,612	445,444
Turnaround Effect of Prior Year Differences in Net Liabilities	(445,444)	
Total Unadjusted Audit Differences in Income After Turnaround Effect of Prior Year Differences	(366,832)	

Independence Letter

April 4, 2008

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, 2007.

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 April 2, 2007, 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 4, 2008.

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,

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

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