Toronto Public Library Board

Audit Results – 31 December 2009

Report to the Members of the Library Board

Ernst & Young
Quality In Everything We Do

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

June 9, 2010

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, 2009 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, 2009 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
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	• A new actuarial valuation was conducted by Buck Consultants to determine the Library's employee future benefit obligation and expense as at December 31, 2009. • Various assumptions are made in preparing the valuation, including the determination of an appropriate discount rate.	• As noted in our audit planning document submitted to the Board, we rely on the work of specialists and perform only certain procedures as required by our standards. • Through our audit procedures, we have reviewed the valuation of post-retirement non-pension and post employment benefits and the pension expense which has been re-computed based on the December 31, 2009 valuation and assumptions prepared by Buck Consultants. We tested the underlying data and assumptions used by Buck Consultants to determine the 2009 pension expense and noted no issues. • 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 Buck Consultants.
Employee Benefit Liabilities – Balance Sheet Misclassification	• During fiscal 2008, it was determined that the City of Toronto management historically extrapolated and recorded its sick leave benefits using expected benefit payments. • The impact of using expected payments rather than actual payments overstated the unamortized actuarial loss and therefore understated employee benefit liabilities and overstated accumulated surplus by $2,800,000 at December 31, 2006.	• We performed audit procedures in the prior year with respect to management's estimation of the understatement of employee benefit liabilities and overstatement of accumulated surplus at December 31, 2006. • The amortization of actuarial losses is overstated by $220,000 in each of 2007, 2008 and 2009, which have been taken to the Summary of Audit Differences. As a result, employee benefit liabilities are understated and accumulated surplus is overstated by $2,400,000 and $2,180,000 at December 31, 2008 and 2009, respectively.

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

Item	Description	Audit Results and Comments
Adoption of PSAB 1200	• Within the New Developments in Accounting and Auditing Standards section our audit planning document submitted to the Board, we discussed the new government financial reporting model adopted by the Library in the preparation of the December 31, 2009 financial statements. • The new reporting model significantly changes the reporting of the 2009 financial statements as compared to the presentation of previous years. In addition to a new statement 'Changes in Net Liabilities', the new reporting model includes the introduction of an accumulated surplus balance, recording of tangible capital assets on the statement of financial position, inclusion of non-cash expenditures such as amortization, gains/losses or write-offs on disposals of capital assets and exclusion of the schedule of capital operations.	• In accordance with the new accounting standard, PS1200, management has appropriately prepared its financial statements under the new presentation requirements.

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

Item	Description	Audit Results and Comments
Capital Asset Reporting	• Effective January 1, 2009, the Board adopted changes to Section 3150 of the Public Sector Accounting Handbook, which requires governments to record and amortize their tangible capital assets in their financial statements. Tangible capital assets were formerly expensed as acquired. • This change in accounting standards resulted in a restatement in the 2008 accumulated surplus from $89,449,000 to $102,408,000 and annual surplus from $2,130,000 to $17,651,000 as a result of the capitalization of the tangible capital assets and recognition of the related amortization costs.	• We have performed audit procedures on the opening tangible capital asset balances as at January 1, 2008, as well as the additions and amortization of tangible assets during 2008 and 2009. • The useful lives of some leasehold improvements as determined by management were too long. As a result, as at December 31, 2009, capital assets were overstated by $832,000 [2008 - $729,000] and amortization expenses for the year were understated by $103,000. These have been taken to the Summary of Audit Differences and subsequently adjusted by management. • A lease was accounted for as an operating lease rather than a capital lease as at December 31, 2009. As a result, expenses were understated by $6,000 in 2008 and 2009, which have been taken to the Summary of Audit Differences. • Tangible capital assets were understated by $206,000 [2008 - $213,000], capital lease obligations were understated by $310,000 [2008 - $311,000] and accumulated surplus was understated by $104,000 [2008 - $98,000]. • We concur with the balances reported, except for the capital lease noted above.
Accrued Liabilities	• Over accrual for Workplace Safety Insurance expense	• The invoice for Workplace Safety Insurance expense is received approximately 5 months after the fiscal year end. An accrual was made at year end based on the claims made to date and related expense for 2009. The accrual was overstated by $204,000. This over-accrual has been reflected on the summary of audit differences.

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) Annual Surplus	
Operations		
Known Audit Differences	**2009**	**2008**
Amortization of sick leave benefits	220,000 [2]	220,000
Understatement of expenses for asset under capital lease	(6,000)[3]	(6,000)
Over accrual of WSIB expenses	204,000	—
Under accrual for common area maintenance	—	(54,000) [1]
Total Unadjusted Audit Differences Before Turnaround Effect of Prior Year Differences	418,000	160,000
Turnaround Effect of Prior Year Differences in annual surplus	54,000	
Total Unadjusted Audit Differences After Turnaround Effect of Prior Year Differences	472,000	

Notes:
[1] The turnaround effect of this prior year unadjusted audit difference is an increase of $54,000 to the current year's annual surplus.
[2] Employee benefits liability and accumulated surplus were understated by $2.18million.
[3] Tangible capital assets were understated by $206,000, capital lease obligations were understated by $310,000 and accumulated surplus was understated by $104,000.

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. 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 April 23, 2010, upon approval of the financial statements by the Board of Directors and completion of certain outstanding procedures. The following procedures are outstanding: ▪ 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; ▪ final financial statement procedures.
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 as 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.	We believe the quality of accounting policies disclosed in the financial statements as applied in the financial reporting, the consistency of their application, and the understandability and completeness of the financial statements are reasonable in relation to industry practice.
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 employee future benefits.
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. 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.	Refer to "Summary of Audit Difference" section for details on recorded and unrecorded amounts.
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	• A summary of our fees is included below for your reference. **$** Annual audit fees — 43,720 Fees for auditing the adoption of PS1200 /PS3150 — 90,000 • The above fees are inclusive of expenses and plus GST. This is the last 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.

	$
Annual audit fees	43,720
Fees for auditing the adoption of PS1200 /PS3150	90,000

Independence Letter

June 9, 2010

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, 2009.

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 10, 2009, 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 10, 2009, 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 June 9, 2010.

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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