

Toronto Public Library Board
Year-end Report to the Board
December 31, 2010

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May 2, 2011

The Board Members
Toronto Public Library Board

Dear Board Members:

We have substantially completed our audit of the financial statements of Toronto Public Library Board (the Board) for the year ended December 31, 2010 and propose to issue an unqualified report on those financial statements, pending resolution of outstanding items outlined on page 1. Our draft auditors' report is included in Appendix A.

We have issued the accompanying report to assist you in your review of the financial statements. It includes an update on the status of our work as well as a discussion on the significant accounting and financial reporting issues dealt with during the audit process.

We propose to review the key elements of this report at the upcoming meeting and discuss with your Board Members our key findings.

We would like to express our sincere thanks to the management and the staff of the Board who have assisted us in carrying out our work and we look forward to our meeting on May 9, 2011. Should you have any questions or concerns prior to the Board meeting, please do not hesitate to contact me in advance.

Yours very truly,

PricewaterhouseCoopers LLP

Terri McKinnon
Partner
Audit and Assurance Group

cc: Ms. Jane Pyper, City Librarian
Mr. Larry Hughsam, Director of Finance and Treasurer

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The matters raised in this and other reports that will flow from the audit are only those that have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising and, in particular, we cannot be held responsible for reporting all risks in your business or all internal control weaknesses. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted, as the report has not been prepared for, and is not intended for, any other purpose. Comments and conclusions should only be taken in context of the financial statements as a whole as we do not mean to express an opinion on any individual item or accounting estimate.

1. Executive summary

a. Status of the audit

We have substantially completed our audit of the 2010 financial statements. Our audit report will be issued once we receive and have completed our audit work on the outstanding items noted below.

Our audit has been performed substantially in accordance with the plan previously communicated to you. Due to first year audit procedures and some management delays in audit readiness, the timeline of the audit has exceeded the dates previously communicated.

The following items will need to be completed or received prior to the issuance of our opinion. We will provide an update on the status of these items at our upcoming meeting.

Outstanding item	Status as at May 2, 2011
i. Finalization of employee future benefits testing	Final evaluation of significant assumptions by our internal actuarial experts
ii. Receipt of signed management representation letter	To be received at Board meeting
iii. Approval of the financial statements by the Board Members	

b. Key issues for discussion

The following is a summary of the key audit and financial reporting issues we discussed with management during the audit. Further details on each issue can be found within this document.

	Issue	Summary discussion	For further reference
i.	Significant audit, accounting and financial reporting matters	<ul style="list-style-type: none"> We discussed the significant risk areas outlined in our audit plan as well as several significant audit, accounting and financial reporting matters. 	Section 2
ii.	Summary of uncorrected misstatements	<ul style="list-style-type: none"> We identified one adjustment during the audit. This resulted in an understatement of annual surplus of \$188,000. This uncorrected item is not considered significant. Based on the results of our audit to date, we are not aware of any material misstatements to the financial statements as a whole. 	Appendix B
iii.	Significant deficiencies in internal control	<ul style="list-style-type: none"> Internal control observations noted during our audit are addressed in Section 5 of this report. There were no significant deficiencies noted. 	
iv.	Independence	<ul style="list-style-type: none"> We are independent of Toronto Public Library Board as at May 2, 2011. Our independence letter can be found in the referenced Appendix. 	Appendix D

	Issue	Summary discussion	For further reference
v.	Fraud	<ul style="list-style-type: none"> • No instances of fraud were noted as part of our audit procedures. • We wish to confirm whether the Board Members are aware of any known, suspected or alleged incidents of fraud. 	Section 4
vi.	Management representations	<ul style="list-style-type: none"> • Under Canadian Auditing Standards, we are required to inform you of the representations we are requesting from management. A copy of the management representation letter is included in the referenced Appendix. 	Appendix C

2. Significant audit, accounting and financial reporting matters

The preparation of the financial statements under Canadian generally accepted accounting principles (GAAP) requires management to select accounting policies as well as make critical accounting estimates and disclosures that involve significant judgment and measurement uncertainty, which can significantly impact the Board's reported results.

We are responsible for discussing with the Board Members our views about the significant qualitative aspects of the Board's accounting practices, including the appropriateness of accounting policies, the reasonability of key accounting estimates and judgments, as well as the adequacy of financial statement disclosures.

Our comments and conclusions included in this report should only be taken in the context of the financial statements as a whole and are not meant to express an opinion on any individual item or accounting estimate.

During the audit, we dealt with the following complex issues, areas of judgment and significant audit risks:

Issue	Discussion
<p>Risk of management override of controls</p> <p>Significant estimates represent management's best estimates based on available information and are inherently risky due to its subjective nature.</p> <p>Existence of proper controls over the segregation of duties and reviews performed by the appropriate level of management.</p>	<p>We have reviewed assumptions used by management in making significant estimates, and reviewed the nature and approval of manual journal entries. No significant exceptions or issues have been noted.</p> <p>We have performed unpredictable procedures during the audit. The exceptions noted are discussed in the internal control recommendations section (Section 5) of this report.</p>
<p>Overstatement of accruals and expenses</p> <p>There is an inherent risk of overstatement of accruals and expenses to expend the budgeted funds received from the City of Toronto, and minimize the amount payable back to the City of Toronto of unused monies.</p>	<p>We have performed a combination of controls and substantive testing over the appropriateness of expenses and accruals to ensure they are accurate, exist, included in the proper period, and have been properly approved. No exceptions were noted.</p> <p>We noted that certain library branches constructed in the last seven years are situated on land owned by the City of Toronto, for which no occupancy costs are currently being charged. While the City of Toronto may charge some occupancy costs, this matter is being negotiated. The Board accrues their obligation to pay these occupancy costs should the City of Toronto request payment in future. The amount represents the aggregate common area maintenance operating costs of the branches and totals to \$673,841 at December 31, 2010 (2009 - \$677,141) which represents three to five years of occupancy cost accrued.</p>

Issue	Discussion
<p>Valuation of employee future benefits</p> <p>The Board sponsors defined benefit plans to provide retirement and post employment benefits to its employees. Valuation of the plan is driven by discount rates and various assumptions performed by the external actuarial group, Buck Consultants. Variances in these rates and assumptions may cause significant fluctuations in the Board's obligation at year end.</p>	<p>We have obtained the Buck Consultants' valuation report as of December 31, 2010 and have consulted with our internal actuarial group to ensure that the discount rates and significant assumptions used in their valuation conclusions are appropriate. As noted in the "Status of the audit" section (Section 1) of this report, we awaiting final results from our internal actuarial experts and will update the Board of the results at the upcoming meeting.</p>
<p>Derecognition of long term debt and accumulated sinking fund with City of Toronto</p> <p>The long term debt and accumulated sinking fund previously recorded in the financial statements are not considered a liability to the Board.</p>	<p>Subsequent to reviewing the City of Toronto's debenture and sinking fund agreement, we determined that the debt recorded in 2009 was incorrectly recorded in the financial statements of the Board. Further we discussed the matter with the central City of Toronto audit team and Mike St. Amant, Director of Accounting at the City of Toronto, and they concurred that the debt should be recorded on the City of Toronto's financial statements.</p> <p>Management also enquired of the City of Toronto's finance and legal departments to ascertain the party that is liable in the agreement. The City's legal counsel confirmed that the City is the entity that is party to the agreement and there are no side agreements which include the Board. We confirmed that no payments have been made to the City of Toronto in relation to the debt.</p> <p>In accordance with CICA Handbook PS 2120 – Accounting Changes, an error in accounting is corrected retroactively in the financial statements. The accumulated surplus for 2009 has been restated, the long term debt obligation has been derecognized from the Statement of Financial Position, while the current year associated interest expense on the debt and the interest revenue on the accumulated sinking fund in has been removed in the Statement of Operations. Please refer to note 9 of the financial statements.</p>

Issue	Discussion
<p>Reclassification of capital expenditures from operating expenses to tangible capital assets</p> <p>As part of the annual budgeting process, a portion of funds provided by the City of Toronto is to be spent on capital expenditures. These capital additions in the year are initially recorded as expenses in the general ledger reports, for budget-to-actual tracking purposes for the City of Toronto throughout the year, and subsequently reclassified to tangible capital assets at year end for legal entity financial statement purposes. Due to the numerous additions during the year, and the manual process of tracking these capital expenditures, there is an inherent risk of inappropriate capital versus expense classification.</p>	<p>We have performed testing over the existence and classification of tangible capital assets and of operating expenses. No exceptions or issues were noted.</p>

3. Summary of uncorrected and corrected misstatements

Our responsibility is to issue an opinion as to whether the financial statements are free of material misstatement.

As a result of our audit, we identified certain items and have discussed these with management. Management has corrected the financial statements to reflect certain of these items. The items that remain uncorrected are summarized in (a) below and described further in Appendix B. Under Canadian Auditing Standards we are required to ask the Board to consider adjusting the financial statements for these items.

a. Uncorrected misstatements

Total uncorrected misstatements result in an understatement of the surplus of \$188,000. The materiality level (as previously communicated to you) is \$1,928,000.

If uncorrected misstatements were corrected, it would have the following effect on the Board's annual surplus:

	\$
Annual surplus per financial statements	14,040,982
Uncorrected misstatements	188,000
	<hr/>
Annual surplus after recording uncorrected misstatements	14,228,982
	<hr/>

As a result of our audit, we conclude that the above uncorrected misstatements, summarized in Appendix B are individually and in aggregate immaterial to the financial statements taken as a whole. Pending the completion to our satisfaction of the outstanding matters identified in section 1, we are prepared to issue an unqualified opinion on the financial statements.

b. Corrected misstatements

A summary of adjustments made by the Board in 2010 as part of the audit process is also included in Appendix B. Please refer to note 9 of the financial statements for the adjustments recorded to fiscal 2009 as a result of the removal of the long-term debt with the City.

4. Other required communications

Canadian Auditing Standards require that the external auditor communicate certain matters to the Board Members that may assist you in overseeing management's financial reporting and disclosure process.

Below, we summarize these required communications as they apply to Toronto Public Library Board:

Matter to be communicated	PwC's response
Management's representations	Under Canadian Auditing Standards, we are required to inform you of the representations we are requesting from management. A copy of the management representation letter is included in Appendix C.
Significant deficiencies in internal control	Changes to Canadian Auditing Standards require us to communicate to the Board internal control weaknesses identified as part of our audit that are considered to be significant deficiencies. A significant deficiency is defined as an internal control deficiency that we consider merits the attention of the Board. There were no significant deficiencies noted; however, we have included other items in Section 5 to assist the Board in improving its internal controls and processes.
Significant difficulties or disagreements that occurred during the audit	There were no significant difficulties encountered in carrying out our work. We did not have any disagreements with management.
Fraud and illegal acts	<p>No fraud involving senior management, employees with a significant role in internal control, or that would cause a material misstatement of the consolidated financial statements, came to our attention as a result of our audit procedures.</p> <p>We would like to confirm if the Board Members are aware of any fraudulent matters involving the Board.</p>

5. Internal control recommendations

The purpose of our audit was to enable us to express an opinion on the financial statements.

The audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

During our audit, we identified the following significant deficiencies and certain other control recommendations that we have discussed with management and wish to bring to your attention.

a. Internal control deficiencies

Item	Recommendation	Management Response
<p>Supporting documentation for employee expense claims</p> <p>We noted during our testing of internal controls that an employee expense report was approved that was missing documentation to support one item claimed. The employee had claimed mileage reimbursement in place of air fare costs. In accordance with the Board's expense claim Policy, such mileage claims can be paid out equivalent to the costs for the lowest alternative mode of transportation. An equivalent lower cost airfare and transportation to the airport was claimed. The transportation claim of \$160, while it has subsequently been verified as reasonable, it did not have the appropriate supporting documentation.</p>	<p>PwC recommends the review and approval process for management expense reports be conducted in a more detailed manner. Expense claims with insufficient supporting documents should be returned to the employee with instruction to resubmit the expense report with all relevant supporting documentation.</p>	<p>Additional training will be provided to staff who review and approve expense reports to ensure appropriate documentation is included with the expense report before reimbursement is made.</p>

Item	Recommendation	Management Response
<p>Lack of review of payroll expense reconciliation</p> <p>On a bi-weekly basis, the Payroll Officer prepares a manual reconciliation of the payroll information from the Ceridian payroll register as well as the journal entry to record the payroll in the general ledger. According to Board policy, the Accounting and Payroll Manager should be reviewing the journal entry prior to posting the entry. We noted that the journal entry is being reviewed by another Payroll Officer instead of the individual stated in the policy.</p>	<p>PwC recommends that the Board policy be adhered to.</p>	<p>The control was not followed as the department was going through a period of role transition that resulted in a temporary omission of review by the Accounting and Payroll Manager. The policy will be adhered to in future.</p>

Appendix A: Draft financial statements

See Board Report. No. 19

Appendix B: Summary of uncorrected and corrected misstatements

Summary of Uncorrected Misstatements

Description	Net Income (in '000s) [Over (Under) statement]	Balance Sheet (in '000s) [Over (Under) statement]				Equity
		Current Assets	Non-Current Assets	Current Liabilities	Non-Current Liabilities	
Overstatement of WSIB accrual	(188)			188		(188)
Total 2010 Impact	(188)	-	-	188	-	(188)

Summary of Corrected Misstatements

Description	Net Income (in '000s)		Balance Sheet (in '000s)				
	[Over (Under) statement]		Current Assets	Non-Current Assets	Current Liabilities	Non-Current Liabilities	Equity
Reclass of part-time employee benefit participation payments from Other Income (revenue) to Staff Costs (payroll benefits expense)	(430)	430					(918) 918
Overstatement of Long Term Debt with City of Toronto, net of Accumulated Sinking Fund	3,060	(3,060)				42,510	(42,510)
Reclass of Federal government revenue to City of Toronto revenue							3,060 (3,060)
Total 2010 Impact:	-	-	-	-	-	42,510	(42,510)

Appendix C: Management representation letter

[Client Letterhead]

May 9, 2011

PricewaterhouseCoopers LLP
North American Centre
5700 Yonge Street, Suite 1900
North York, Ontario
M2M 4K7

Dear Sirs:

We are providing this letter in connection with your audit of the financial statements of Toronto Public Library Board (the Board) as of December 31, 2010 and for the years then ended for the purpose of expressing an opinion as to whether such financial statements present fairly, in all material respects, the financial position, the results of operations and the cash flows of the Board in accordance with Canadian public sector accounting standards.

Management's responsibilities

We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated November 1, 2010. In particular, we confirm to you that:

- We are responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards;
- We are responsible for designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. In this regard, we are responsible for establishing policies and procedures that pertain to the maintenance of accounting systems and records, the authorization of receipts and disbursements, the safeguarding of assets and for reporting financial information in accordance with Canadian public sector accounting standards;
- We have provided you with all relevant information and access, as agreed in the terms of the audit engagement; and
- All transactions have been recorded in the accounting records and are reflected in the financial statements.

We confirm the following representations:

Preparation of financial statements

The financial statements include all disclosures necessary for fair presentation in accordance with Canadian public sector accounting standards and disclosures otherwise required to be included therein by the laws and regulations to which the Board is subject.

We have appropriately reconciled our books and records (e.g. general ledger accounts) underlying the financial statements to their related supporting information (e.g. sub ledger or third party data). All related reconciling items considered to be material were identified and included on the reconciliations and were appropriately adjusted in the financial statements. There were no material unreconciled differences or material general ledger suspense account items that should have been adjusted or reclassified to another account balance. There were no material general ledger suspense account items written off to a balance sheet account, which should have been written off to an operations account and vice versa. All inter-governmental unit accounts, as applicable, have been eliminated or appropriately measured and considered for disclosure in the financial statements.

Accounting policies

We confirm that we have reviewed the Board's accounting policies and, having regard to the possible alternative policies, our selection and application of accounting policies and estimation techniques used for the preparation and presentation of the financial statements is appropriate in the Board's particular circumstances to present fairly in all material respects its financial position, results of operations and cash flows in accordance with Canadian public sector accounting standards.

Internal controls over financial reporting

We have designed disclosure controls and procedures to provide reasonable assurance that material information relating to the Board, is made known to us by others.

We have designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian public sector accounting standards.

We have disclosed to you all deficiencies in the design or operation of disclosure controls and procedures and internal control over financial reporting that we are aware as of December 31, 2010.

Disclosure of information

We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements, such as records, documentation and other matters including:
 - Contracts and related data;
 - Information regarding significant transactions and arrangements that are outside of the normal course of business;
 - Minutes of the meetings of management, directors and committees of directors. The most recent meeting held was the Board meeting on April 4, 2011;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

Completeness of transactions

All contractual arrangements entered into by the Board with third parties have been properly reflected in the accounting records or/and, where material (or potentially material) to the financial statements, have been disclosed to you. We have complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance.

Fraud

We have disclosed to you:

- The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- All information in relation to fraud or suspected fraud of which we are aware affecting the Board involving management, employees who have significant roles in internal control or others where the fraud could have a material effect on the financial statements; and
- All information in relation to any allegations of fraud, or suspected fraud, affecting the Board's financial statements, communicated by employees, former employees, analysts, regulators or others.

Compliance with laws and regulations

We have disclosed to you all aspects of laws, regulations and contractual agreements that may affect the financial statements, including actual or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

We are not aware of any illegal or possibly illegal acts committed by the Board's directors, officers or employees acting on the Board's behalf.

Accounting estimates and fair value measurements

Significant assumptions used by the Board in making accounting estimates, including fair value accounting estimates, are reasonable.

For recorded or disclosed amounts in the financial statements that incorporate fair value measurements, we confirm that:

- The measurement methods are appropriate and consistently applied;
- The significant assumptions used in determining fair value measurements represent our best estimates, are reasonable and have been consistently applied;
- No subsequent event requires adjustment to the accounting estimates and disclosures included in the financial statements; and
- The significant assumptions used in determining fair value measurements are consistent with the Board's planned courses of action. We have no plans or intentions that have not been disclosed to you, which may materially affect the recorded or disclosed fair values of assets or liabilities.

Significant estimates and measurement uncertainties known to management that are required to be disclosed in accordance with The Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook Section PS 2130, Measurement Uncertainty have been appropriately disclosed.

Related parties

We confirm the completeness of information provided to you regarding the identification of related parties as defined by CAS 550 – Related Parties. We also confirm the completeness of information provided to you regarding the nature of the Board's relationships with and transactions involving those entities.

The identity and relationship of balances and transactions with related parties have been properly recorded and adequately disclosed in the financial statements, as required by Canadian generally accepted accounting principles.

Going concern

We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements (e.g. to dispose of the entity or to cease operations).

Assets and liabilities

We have satisfactory title or control over all assets. There are no liens or encumbrances on the Board's assets and assets pledged as collateral.

Receivables recorded in the financial statements represent bona fide claims against debtors for sales or other charges arising on or before the statement of financial position date and are not subject to discount except for normal cash discounts. Receivables classified as current do not include any material amounts that are collectible after one year. All receivables have been appropriately reduced to their estimated net realizable value.

We have recorded or disclosed, as appropriate, all liabilities, in accordance with Canadian public sector accounting standards. All liabilities and contingencies, including those associated with guarantees, have been disclosed to you and are appropriately reflected in the financial statements.

Specific items

We confirm that the long term debt relating to the City of Toronto sinking fund debentures, is not a liability of the Board, and that there are no side or mirror agreements with the City of Toronto that would obligate the Board to this debt. The Board's assets have also not been pledged as collateral to debt holders.

Litigation and claims

All known actual or possible litigation and claims, which existed at the statement of financial position date or exist now, have been disclosed to you and accounted for and disclosed in accordance with Canadian public sector accounting standards, whether or not they have been discussed with legal counsel.

Misstatements detected during the audit

Certain representations in this letter are described as being limited to those matters that are material. Items are also considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.

We confirm that the financial statements are free of material misstatements, including omissions.

The effects of the uncorrected misstatements in the financial statements, as summarized in the accompanying schedule (Appendix A), are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We confirm that we are not aware of any uncorrected misstatements other than those included in Appendix A.

The corrected misstatements identified during your audit and summarized in the attached table (Appendix A) have been approved by us and corrected in the financial statements.

Restatement of prior year's balances

The restatement made to correct a material misstatement in the prior year's financial statements that affect the comparative information has been appropriately accounted for and disclosed in accordance with the requirements of Canadian public sector accounting standards.

Events after balance sheet date

We have identified all events that occurred between the statement of financial position date and the date of this letter that may require adjustment of, or disclosure in, the financial statements, and have effected such adjustment or disclosure.

Yours very truly,

Toronto Public Library Board

Larry Hughsam, Director of Finance and Treasurer

Wayne Lam, Manager of Accounting

Appendix D: Independence letter

May 2, 2011

The Board Members
Toronto Public Library Board
789 Yonge St
Toronto, Ontario
M4W 2G8

Dear Board Members:

We have been engaged to audit the financial statements of the Toronto Public Library Board (the Board) for the year ended December 31, 2010.

Canadian generally accepted auditing standards (GAAS) require that we communicate at least annually with you regarding all relationships between the Board, its management and us that 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 Canadian Institute of Chartered Accountants of Ontario and applicable legislation, covering such matters as:

- (a) holding a financial interest, either directly or indirectly, in a client;
- (b) serving as an officer or director of a client;
- (c) performance of management functions for an assurance client;
- (d) personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client or its management;
- (e) economic dependence on a client;
- (f) long association of senior personnel with a listed entity audit client;
- (g) board members approval of services to a listed entity audit client; and
- (h) provision of services in addition to the audit engagement.

We have prepared the following comments to facilitate our discussion with you regarding independence matters.

We are not aware of any relationships between the Board or its management and PricewaterhouseCoopers LLP that may reasonably be thought to bear on our independence, that have occurred from November 1, 2010 to May 2, 2011.



We hereby confirm that we are independent with respect to the Board within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as of May 2, 2011.

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

We look forward to discussing with you the matters addressed in this letter at our upcoming meeting on May 9, 2011.

Yours very truly,

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Appendix E: Financial reporting update

Keeping you informed

Changes in financial reporting
requirements for Canada's
not-for-profit organizations



Changes in financial reporting requirements for Canada's not-for-profit organizations

In December 2010, the Canadian Accounting Standards Board issued new accounting standards for not-for-profit organizations (NPOs) and changes for government not-for-profit organizations (GNPOs).

Under the previous approach, both GNPOs and non-government NPOs were directed to follow the Canadian Institute of Chartered Accountants' (CICA) Handbook, which includes standards developed to deal with the unique circumstances of many NPOs — the 4400 series. The new accounting framework will now be dependent on your organization's classification as either an NPO or GNPO.

To determine which standards to follow under the new framework, it's

important to understand whether or not your organization is controlled by a government body. The Public Sector Accounting (PSA) Handbook section 1300 provides guidance on the interpretation and application of the concept of government control. In some instances it may not be readily apparent whether government control exists, especially when an organization receives government funding indirectly or from a number of government bodies. As a result, NPOs should have a careful understanding of their particular facts and circumstances.

Once you've determined whether your organization is a government or non-government NPO, you will be required to adopt the appropriate standards for fiscal years beginning on or after January 1, 2012. The standards may have a significant impact on the financial reporting for your organization. We encourage both NPOs and GNPOs to consider the potential impact of the new standard and the appropriate time frame for adoption, as early adoption is permitted.



Understanding the new framework

The following table summarizes the key distinction in the new framework:

Definition	Existing Canadian Generally Accepted Accounting Principles (GAAP)	New Canadian Generally Accepted Accounting Principles
Non-government not-for-profit organizations Organizations that are not controlled by the government and that are organized and operated exclusively for social, educational, professional, religious, charitable or any other NPO purposes. Its members, contributors and other resource providers do not, in such capacity, receive any financial return directly from the organization.	Former CICA Handbook, including CICA 4400 Series (standards that apply only to NPOs)	Choice between: a. Part I of the CICA Handbook – International Financial Reporting Standards (IFRS) b. Part III of the CICA Handbook – Accounting Standards for Not-For-Profit Organizations (based largely upon Part II of the CICA Handbook – Accounting Standards for Private Entities, plus CICA 4400 Series)
Government not-for-profit organizations Organizations controlled by the government that have counterparts outside the public sector and that are organized and operated exclusively for social, educational, professional, religious, charitable or any other NPO purposes. Its members, contributors and other resource providers do not, in such capacity, receive any financial return directly from the organization. Under the current definition, schools, hospitals, colleges and universities typically fall under this category.	Former CICA Handbook, including CICA 4400 Series	Choice between: a. PSA Handbook b. PSA Handbook supplemented by CICA 4400 series for NPOs which have been incorporated into the PSA Handbook as PS4200

Potential impacts of adopting Part III of the CICA Handbook – Accounting Standards for Not-For-Profit Organizations

It is expected that the majority of non-government NPOs in Canada will adopt Part III of the CICA Handbook. While for many organizations, this will not result in any significant accounting or disclosure changes, for others the implications may be more significant. The potential accounting and disclosure differences for NPOs that elect to adopt Part III of the Handbook include:

Accounting

- **Intangible assets** – A new intangible assets section reaffirms the applicability of section 3064 Goodwill and intangible assets, unless provided otherwise in the new section. Organizations are directed to consider the service potential of an intangible asset when assessing the existence of an impairment.
- **Financial instruments.**
 - The disappearance of the “available for sale” option means that organizations will no longer have the option to recognize unrealized gains and losses in the statement of changes in net assets/fund-balances. Going forward, all changes in the fair value of the financial instruments will be recognized in the statement of operations.
 - All financial instruments can be carried at fair value if the option is selected on initial recognition. If not, the default treatment for quoted debt securities will be cost or amortized cost. For quoted equity securities, it will continue to be fair value. This creates a different default accounting treatment for investments depending on their nature.

- **Transaction costs** – Transaction costs incurred to acquire or issue financial instruments measured at amortized cost will be required to be netted against the carrying value rather than being expensed.
- **Defined benefit plans** – For organizations with a defined benefit plan, there will be an option to select between the “immediate recognition approach”, where actuarial gains or losses would be recognized immediately in the statement of operations each period, or the “deferral and amortization approach”.
- **Capital assets** – On transition to these standards, the organization may measure any individual capital asset at fair value and then use that fair value as its deemed cost at that date.
- **Government remittances** – Government remittances payable that are outstanding at the balance sheet date are required to be disclosed and include federal and provincial sales tax, payroll taxes, health taxes and workers’ safety insurance premiums among other items.
- **Measurement uncertainty** – A description of the circumstances giving rise to the uncertainty and relevant information about the anticipated resolution of the uncertainty is required. Previously only the nature of material uncertainties was required to be disclosed.
- **Presentation of investments** – Investments are classified as current only when reasonably prompt liquidation is possible.

Presentation and disclosure

- **Primary Generally Accepted Accounting Principles** – Various items have been eliminated from the primary principles including Emerging Issues Committee (EIC) abstracts, background information, basis of conclusion documents, illustrative material and implementation guides.
- **Cash flow statements** – All organizations must prepare and present a cash flow statement. There is no longer the option to omit the cash flow statement if the required cash flow information is readily apparent from other financial statements or note disclosures.
- **Non-classified balance sheet** – The balance sheet is segregated into current or non-current categories unless the entity operates in an industry where doing so is not appropriate.
- **Capital disclosures** – The requirement to disclose the organization’s policy and capital restrictions has been eliminated.
- **Inventory** – No significant changes other than a reduction in disclosures – for example, there is no longer the requirement to have specific disclosures around impairments or reversals.

***Potential impacts of adopting
Part I of the CICA Handbook –
International Financial Reporting
Standards***

The option to adopt International Financial Reporting Standards (IFRS) is available to all non-government NPOs but will likely initially only be considered by those organizations that:

- Are part of a global organization whose affiliates have chosen to use IFRS;
- Participate in an industry with for-profit companies who report under IFRS; or
- Have international funders or other users of the financial statements who require the use of IFRS.

IFRS was originally developed for use in the for-profit world and does not contain specific guidance for NPOs. In addition, there is currently no intention to modify IFRS for NPOs; these organizations will be subject to the same standards and requirements as publicly accountable entities. Some of the most significant accounting and reporting implications of adopting IFRS include:

Accounting

- **Revenue recognition** – Under IFRS, there are no specific standards to address the unique nature of contribution revenue for NPOs. This specifically impacts the recognition of contributions restricted for specific purposes or time periods as well as endowment contributions that currently have specific recognition criteria under Canadian Generally Accepted Accounting Principles. Under IFRS, revenue is recognized under a general revenue recognition standard that may result in timing differences for recognition of contributions.
- **Property and equipment** – IFRS permits an entity to revalue property and equipment to fair value on the date of transition to the new accounting framework. If a NPO has investment property, it must be carried at fair value and revalued annually to determine any fair value adjustments. Annual assessments for impairment of property and equipment must be made and impairment losses recovering in future periods can be reversed and recorded in the financial records.
- **Consolidation** – Current Canadian accounting standards provide NPOs with various alternatives to report controlled and related entities. Under IFRS, no similar standard exists, so accounting for controlled and related entities would follow general consolidation standards. This would result in the consolidation of all controlled entities and equity accounting for all entities in which a NPO has significant influence. Cost accounting would be used for those investments that a NPO does not control or have significant influence.

Next steps

Organizations are required to transition to the appropriate standards by the fiscal year beginning on or after January 1, 2012, although early adoption is permitted. Now is the time to consider the options available and start to think about the appropriate implementation date of the new standards for your organization. Our team understands the new framework and is ready to help you through the process.

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- **Employee future benefits** – While the standards around employee future benefits are similar to current Canadian GAAP, there are some differences that could result in how employee future benefits are recognized under IFRS. These primarily relate to the immediate recognition of past service costs and the planned elimination of the ability to smooth the recognition of actuarial gains and losses over time periods.
- **Capital leases** – Under current IFRS standards, accounting for leases is similar to Canadian GAAP. However, the specific tests to determine if a lease is capital in nature are slightly different, which may result in a different conclusion under IFRS. Organizations should also be aware that there is a current IFRS exposure draft on leases that could significantly change how leases are accounted for, including the potential recognition of all leases, operating and capital, on the balance sheet.

Presentation and disclosure

- **General financial statement presentation and fund accounting** – IFRS does not have an equivalent standard to Handbook Series 4400. As a result, the concept of fund accounting and the presentation of separate funds in the financial statements does not exist under IFRS. Related statements, such as the statement of changes in net assets, are replaced with IFRS statements, and would include a statement of comprehensive income.

- **Financial statement notes** – Under IFRS, note disclosure is generally more extensive, with detailed note requirements for specific accounts and balances. For example, disclosure of the compensation of key management personnel is required under IFRS in the notes to the financial statements. As well, because many NPOs have previously taken advantage of the exemptions available under Canadian GAAP to limit disclosures around financial instruments, additional disclosures will likely be required in this area.

Potential impacts of adopting the PSA Handbook

The status quo will no longer be an option for GNPOs as the PSA Handbook guidance differs from the CICA Handbook. Some of the more significant differences include:

Accounting

- **Pension plans** – Neither the corridor approach nor full recognition of actuarial gains and losses are allowed – all actuarial gains and losses are amortized over the average remaining service life of the employee group. There are other changes in the calculation methodology including the discount rate and a requirement to recognize plan amendments immediately.
- **Other employee future benefits** – Leave benefits, such as sick pay, are accrued under the PSA Handbook regardless of vesting provisions.
- **Intangibles** – Other than software, intangibles are not recognized as assets. Goodwill is rarely capitalized, but rather expensed in the period of acquisition.

- **Financial Instruments** – There are currently no standards dealing with financial instruments, although draft standards are currently under review. If adopted in their current form, there would be several changes, including the requirement to recognize unrealized gains and losses associated with derivatives and the translation of foreign denominated balances in a statement of remeasurement gains and losses.

Presentation and disclosure

- If an organization elects to adopt the PSA Handbook excluding sections 4200 to 4270, there will be numerous differences in presentation with respect to the primary statements. For example, statement of financial position classifications will now include financial and non-financial assets. The statement of operations will include budget information, and a statement of changes in net debt will be required. However, if an GNPO elects to adopt the PSA Handbook including the 4200 series of standards, financial statement presentation will be largely unchanged.

Organizations converting to the PSA Handbook will need to identify the differences in the standards that impact them and quantify these differences. In addition, the PSA Handbook contains specific exemptions and exceptions applicable to the first time adoption of PSA Standards by government organizations.