

ASSURANCE AND ADVISORY BUSINESS
SERVICES

February 18, 2005

Trust Funds of the Toronto Public Library

Audit Results – Year Ended December 31, 2004

Report to Members of the Finance and Audit Committee of the Board of Directors

 **ERNST & YOUNG**
Quality In Everything We Do



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February 18, 2005

Members of the Toronto Public Library Board as Trustees
for the Trust Funds of the Toronto Public Library Board

Dear Trustees:

We are pleased to present the results of our audit of the financial statements of the Trust Funds of the Toronto Public Library Board ("the Trust"). This report to the Toronto Public Library Board summarizes the scope 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, 2004 financial statements of the Trust. We 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 and we conducted the audit with the objectivity and independence that you, the Trust, and the community expect.

As always, we strive to continually improve the quality of our audit services. This meeting is a forum for you to provide feedback on ways we can continue to meet and exceed your expectations.

This report is intended solely for the use of the Toronto Public Library Board and management, and is not intended to be and should not be used by anyone other than these specified parties.

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

Very truly yours,

Diana Brouwer/Arthur Chen
905-882-3037/905-882-3067

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Terms of Our Engagement

	Discussion
Overview	<ul style="list-style-type: none">• We performed an examination of your organization's December 31, 2004 financial statements in accordance with Canadian generally accepted auditing standards. The objective of our audit is to obtain reasonable – not absolute - assurance that the financial statements are free from material misstatement. The preparation of the financial statements and the accompanying notes are the responsibility of management.• While the primary objective of our audit examination is to render an opinion on the fairness of the financial statements as a whole, we consider internal accounting procedures and systems of internal controls to the extent necessary to determine our auditing procedures. Our work does not provide assurance on the internal control structure, nor do our procedures necessarily cover all control systems upon which management may be relying.• The detailed terms of our engagement are outlined in our engagement letter included in this document.
Your Team	<ul style="list-style-type: none">• Ernst & Young continues to serve you with a team of professionals under the direction of our principal, Diana Brouwer, who offers both industry expertise and a history of involvement with your organization. Their enthusiasm and commitment ensure responsive, innovative and forward looking service focused on your business issues.

Engagement Member

Diana Brouwer
Arthur Chen
Martha Tory

Responsibility:

Engagement Principal
Manager
Reference Partner

Audit Approach

Overview	Discussion
	<ul style="list-style-type: none">• Audit risk is influenced by business risk. Our audit scope is developed after considering inherent and control risks in the current environment and the existence of effective internal controls that mitigate those risks. A variety of factors are considered when establishing the audit scope for the organization, including size, specific risks, the volume and types of transactions processed, changes in the business environment, and other factors.• Ernst & Young will review and evaluate the overall internal control environment and assess the computer environment. We will report in writing to the Trust any material observations resulting from our audit. Where the audit plan is dependent on an understanding or reliance on internal controls, we will document and test the specific internal control. This approach will result in the most effective external audit, providing you with maximum benefits at a lower cost (both in fees and in financial management support time).• Our understanding of the business and controls provides the basis for our audit risk assessments, and the identification of audit procedures responsive to those risk assessments. Our balanced approach is designed to focus comparatively more audit effort on complex, higher-risk areas than on those assessed as lower risk. <p>Consistent with prior years, we took a substantive approach to most aspects of the audit. In other words, we do not rely on controls. It is generally more efficient to use audit procedures such as confirmations and analytical review to obtain our audit assurance.</p> <ul style="list-style-type: none">• Our principal areas of focus were:<ul style="list-style-type: none">– Accounts payable and accrued liabilities– Fund balances - continuity

Audit Approach (continued)

	Discussion
Materiality	<ul style="list-style-type: none">• Our evaluation of areas of audit significance is made relative to “materiality”. An understanding of what is significant or material in relation to the overall results of your organization is critical to the performance of an effective and efficient audit. An item is considered material if its impact might reasonably be expected to affect the decisions of a reader of the financial statements.• The level at which materiality is set affects the following audit planning decisions:<ul style="list-style-type: none">➢ extent of evaluation of internal accounting controls➢ extent and nature of audit evidence (i.e., extent of testing) to be examined• Materiality for not-for-profit entities is generally measured in terms of a range between 1/2% and 2% of revenues/expenses or 1/2% and 1% of net assets for organizations such as foundations where revenues and expenses are not always the most meaningful base. This range corresponds with the recommendations in the CICA Handbook guideline which deals with materiality and audit risk.• We have determined that an amount greater than \$9,600, which represents approximately 0.4% of your total assets of \$2 million, is considered material. Of course, the final determination of items to be reported is also affected by the item’s sensitivity and whether the item is of a routine nature. For purposes of reporting to the Finance and Audit Committee, amounts greater than \$96 are addressed.
Use of Specialists	<ul style="list-style-type: none">• None
Internal Audit	<ul style="list-style-type: none">• None

New Developments in Accounting or Auditing Standards

Each year, we review changes in professional standards, legislation and stakeholder requirements that may have an impact on our audit, including the presentation or disclosure of items in the financial statements, our audit scope, and matters requiring communication. While none of the items below have a current impact on the Trust, we have highlighted the changes for you for your future considerations.

	Discussion
Generally Accepted Accounting Principles	<ul style="list-style-type: none">• In July 2003, the Accounting Standards Board (AcSB) issued Section 1100, <i>Generally Accepted Accounting Principles</i>, which establishes standards for financial reporting in accordance with generally accepted accounting principles (GAAP) and provides information regarding primary sources of GAAP in order of authority. Industry practice is not included as a primary source of GAAP and is also not included in the discussion of other sources of GAAP. Consequently, industry practice remains acceptable only when it is consistent with the primary sources of GAAP and has been developed through the exercise of professional judgment and the application of the concepts described in Section 1000.• The provisions of this new section are effective for fiscal years beginning on or after October 1, 2003.• <i>This new section does not have any current impact on the financial statements of the organization.</i>
Changes in Accounting Policies and Estimates, and Errors	<ul style="list-style-type: none">• This exposure draft proposes to amend Accounting Changes, Section 1506, such that a change in accounting policy would be made only when it is required by a primary source of GAAP or results in a reliable and more relevant financial statement presentation. The main changes are:<ul style="list-style-type: none">– to more precisely define when a change in accounting policy is permitted;– to specify when application to comparative information is impractical; and– to enhance disclosures about the effect of changes in accounting policies, estimates and errors on the financial statements.• These proposals are expected to be effective for fiscal years beginning on or after January 1, 2005.• <i>These changes are not expected to have a significant impact on the preparation of the financial statements of the organization.</i>
Subsequent Events	<ul style="list-style-type: none">• In March 2004, the AcSB issued an exposure draft aimed at amending Section 3820, <i>Subsequent Events</i> and later issued a re-exposure draft in March 2005.• It is proposed that the period during which subsequent events are required to be considered for disclosure is extended to include events that occur between the date of the balance sheet and the date of authorization for issue of the financial statements in publicly accountable enterprises and for all others, to the date of completion of financial statements with consideration to the release date of events for which management is aware.• These proposals are expected to be effective for fiscal years beginning on or after June 30, 2006. <p><i>Subsequent to year end, administrative responsibility for the remaining Trust Funds was transferred to the Toronto Public Library Foundation. This has been documented in the note disclosure to the financial statements.</i></p>

New Developments in Accounting or Auditing Standards (continued)

	Discussion
Financial Instruments	<ul style="list-style-type: none">On January 27, 2005, the AcSB issued typescript copies of the following new Handbook Sections:<ul style="list-style-type: none">Section 3855, <i>Financial Instruments – Recognition and Measurement</i>, prescribes when a financial instrument is to be recognized on the balance sheet and at what amount – sometimes using fair value; other times using cost-based measures. It also specifies how financial instrument gains and losses are to be presented.Section 3865, <i>Hedges</i>, provides alternative treatments to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. It builds on existing Accounting Guideline AcG-13, <i>Hedging Relationships</i>, and Section 1650, <i>Foreign Currency Translation</i>, by specifying how hedge accounting is applied and what disclosures are necessary when it is applied.Section 1530, <i>Comprehensive Income</i>, introduces a new requirement to temporarily present certain gains and losses outside net income.The new requirements are effective for fiscal years beginning on or after October 1, 2006.<i>These changes are not expected to have a significant impact on the financial statements of the organization.</i>
Employee Future Benefits	<ul style="list-style-type: none">In March 2004, the AcSB issued new disclosure requirements regarding employee future benefits to enhance and expand the disclosure obligations applicable to such benefits. The amendments do not change existing recognition and measurement standards.These new disclosure requirements are effective for fiscal years ending on or after June 30, 2004.<i>This new section does not have any current impact on the financial statements of the organization.</i>
Quality Control	<ul style="list-style-type: none">In August, 2004, the AASB issued new standards and guidance relevant to quality control for assurance engagements at both the firm level and assurance engagement level.The proposed standards would establish a framework and provide guidance on the quality control policies and procedures to be established by a firm or legislative audit office that performs assurance engagements with the objective of maintaining and enhancing the quality of performance of assurance engagements by firms. The proposed engagement standards would provide guidance on the specific quality control procedures to be performed by the practitioner and other members of the assurance team in an assurance engagement.These new provisions are effective December 1, 2005 to allow for the preparation of detailed implementation guidance and provide practitioners with sufficient time to prepare for their application.

Other Required Communications

Generally accepted auditing standards in Canada require the auditor to ensure that the committee of the Board having oversight responsibility for the financial reporting process receives additional information regarding the scope and results of the audit that may assist them in fulfilling their responsibilities.

Area	Comments
Auditors' Responsibilities Under Generally Accepted Auditing Standards (GAAS) As set out in the section on audit approach, 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 February 18, 2005 upon approval of the financial statements by the Board of Directors.
Adoption of – or changes in - Significant Accounting Policies Initial selection of and changes in significant accounting policies or their application and new accounting and reporting standards during the year must be reported. We ensure that the Finance and Audit Committee is informed about the initial selection of, and changes in, significant accounting policies or their application occurring during the year and the reasons for the change.	None.
Auditors' Judgments About the Quality of Accounting Principles The preparation of financial statements may require management to select from more than one acceptable approach to accounting. We comment on the quality, not just the acceptability of accounting principles selected by management, the consistency of their application and the clarity and completeness of the financial statements, including related disclosures.	We did not identify any areas where management's approach to accounting was significantly different from industry practice. We believe that the accounting policies are clear and complete and that they have been applied consistently with the prior year.

Other Required Communications (continued)

Area	Comments
Management Judgments and Accounting Estimates The preparation of financial statements requires the use of accounting estimates. Certain estimates are particularly sensitive due to their significance to the financial statements and the possibility that future events may differ significantly from management's expectations. We determine that the Finance and Audit Committee is informed about management's process for formulating particularly sensitive accounting estimates and about the basis for our conclusions regarding the reasonableness of those estimates.	There are no significant judgments or estimates required to prepare the financial statements where actual amounts are likely to be significantly different from the estimates.
Major Issues Discussed with Management Including Accounting for Significant Unusual Transactions	We are not aware of any significant unusual transactions recorded by the Trust or of any significant accounting policies used by the Trust related to controversial or emerging areas for which there is a lack of authoritative guidance. See "Items of Audit Significance Discussed with Management".
Significant Audit Adjustments and Uncorrected Misstatements Determined by Management to be Immaterial We provide the Finance and Audit Committee 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 Finance and Audit Committee about unadjusted audit differences accumulated by us during the current audit 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.	There were no recorded audit adjustments related to the current year. There were no unrecorded audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on the financial reporting process. Further, there were no unadjusted audit differences in excess of our scope of \$96 which were determined by management to be material – with the exception of the non-accrual of audit fees within the Trust statements. The audit fee accrual is covered in the Board statements and not in these separate statements. Given that the fees are not material (\$5,600) and the fact that the statements are winding up for 2005 -- the amount has not been adjusted for.
Significant Disclosures Not Made	None identified.
Disagreements with Management on Financial Accounting and Reporting Matters	None.
Serious Difficulties Encountered in Performing the Audit	None. There were no restrictions placed on the approach to or extent of our work. We have received the full cooperation of the officers and employees and were provided complete and timely access to all books and records, documents and other supporting data which we required.

Other Required Communications (continued)

Area	Comments
Material Weaknesses in Internal Controls	No material weaknesses in internal control were discovered during the normal course of the audit that would inhibit our ability to express our opinion.
Fraud and Illegal Acts We report to the Finance and Audit Committee 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.	Testing of the financial records and enquiries made of personnel did not reveal any instances of fraud or illegal acts.
Consultation with Other Accountants	None.
Other Information in Documents Containing Audited Financial Statements	None.
Related Party Transactions Related party transactions identified by the auditor that are not in the normal course of operations and that involve significant judgments made by management concerning measurement or disclosure must be disclosed to the Finance and Audit Committee.	All related party transactions have been appropriately disclosed in the financial statements.
Matters Relating to Component Entities of the Organization When the financial statements of an entity (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 Finance and Audit Committee 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.

Other Required Communications (continued)

Area	Comments
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. In determining which relationships to report, these standards require us to consider relevant rules and related interpretations prescribed by the appropriate provincial institute / ordre and applicable legislation, covering such matters as: (a) holding a financial interest, either directly or indirectly, in a client; (b) holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client; (c) personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client; (d) economic dependence on a client; and (e) provision of services in addition to the audit engagement. Further, GAAS requires that we must confirm our independence to the appropriate committee of the Board in the context of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.	We are not aware of any relationships between Ernst & Young and your organization that, in our professional judgment, may reasonably be thought to bear on our independence that have occurred from February 20, 2004 to March 14, 2005. We hereby confirm that we are objective with respect to your organization within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as of March 14, 2005.
Other Audit and Non-Audit Services Provided to Your Organization	None.
Fees	Audit \$5,607 (plus GST)

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
Transfer of Trust Funds	<ul style="list-style-type: none">A review of the trust balances revealed that 3 balances were not trust and more in the nature of deferred revenues for the Toronto Public Library Board (“the Library”). Accordingly, the balances of these funds have been transferred to the Library in the amount of \$219,440. <p>In 2005, administrative responsibility for the remaining trust balances will be transferred to the Toronto Public Library Foundation.</p>	<ul style="list-style-type: none">We have discussed the details with management and have agreed details of the transfers and the disclosures made within the 2004 financial statements.
Changes to Financial Statements	<p>The significant changes to the 2004 financial statements are as follows:</p> <ul style="list-style-type: none">Splitting out the trade payables number on the statement of financial position showing amounts due to the Foundation and the Board at year end.Inclusion of “cash and cash equivalent” and removal of investments - policy notes.Note 6 – Fund Balance Transfer – addressing the first issue noted above.Note 9 – required disclosure for financial instruments.	<ul style="list-style-type: none">We concur with the changes made to the 2004 financial statements.

Engagement Letter

August 23, 2004

Mr. Jeffrey Griffiths
Auditor General
City of Toronto
Metro Hall
55 John Street, 9th Floor
Toronto, ON M5V 3C6

Dear Mr. Griffiths:

1. This will confirm our statutory engagement to audit and report on the consolidated financial statements of the **City of Toronto** for the year ending December 31, 2004. The objective of our audit is to express an opinion on the fairness, in all material respects, of the presentation of the consolidated financial statements in conformity with Canadian generally accepted accounting principles.

Audit Responsibilities and Limitations

2. We will conduct our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we obtain reasonable rather than absolute assurance that the consolidated financial statements are free of material misstatement whether caused by error or fraud. As you are aware, there are inherent limitations in the audit process, including, for example, selective testing and the possibility that collusion or forgery may preclude the detection of material error, fraud, and illegal acts. Accordingly, a material misstatement may remain undetected. Also, an audit is not designed to detect error or fraud that is immaterial to the consolidated financial statements.
3. As part of our audit, we will consider, solely for the purpose of planning our audit and determining the nature, timing, and extent of our audit procedures, the City's internal control. This consideration will not be sufficient to enable us to provide assurance on internal control or to identify all weaknesses.
4. If we determine that there is evidence that fraud may exist, we will bring this matter to the attention of an appropriate level of management and the Auditor General's Office. If we become aware of fraud involving senior management or fraud (whether caused by senior management or other employees) that causes a material misstatement of the consolidated financial statements, we will report this matter directly to the Auditor General and to the Audit Committee. We will determine that the Audit Committee and appropriate members of management are adequately informed of illegal acts that come to

our attention unless they are clearly inconsequential. In addition, we will inform the Audit Committee and appropriate members of management of significant audit adjustments and significant weaknesses noted during our audit procedures.

Canadian generally accepted auditing standards define a significant weakness in internal control as one in which, in the auditor's professional judgment, the deficiency is such that a material misstatement is not likely to be prevented or detected in the financial statements being audited.

5. We also may communicate other opportunities we observe for economies in or improved controls over the City's operations. In accordance with standards established by the Canadian Institute of Chartered Accountants, we will communicate certain matters related to the conduct and results of the audit to the City's Audit Committee. Such matters include, when applicable, disagreements with management, whether or not resolved; difficulties encountered in performing the audit; the auditor's level of responsibility under professional standards in Canada for the financial statements, for internal control, and for other information in documents containing the audited financial statements; unadjusted audit differences that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole; changes in the City's significant accounting policies and methods for accounting for significant unusual transactions or for controversial or emerging areas; our judgments about the quality of the City's accounting principles; our basis for conclusions regarding sensitive accounting estimates; management's consultations, if any, with other accountants; and major issues discussed with management prior to our retention.
6. We will communicate to the Audit Committee certain independence matters as required by professional standards.

Management's Responsibilities and Representations

7. The consolidated financial statements are the responsibility of the management of the City, which is also responsible for establishing and maintaining effective internal control, for properly recording transactions in the accounting records, for safeguarding assets, and for the overall fair presentation of the consolidated financial statements. Management of the City also is responsible for identifying and ensuring that the City complies with the laws and regulations applicable to its activities.
8. Management is responsible for adjusting the consolidated financial statements to correct material misstatements and for affirming to us in its representation letter that the effects of any unadjusted audit differences accumulated by us during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated financial statements taken as a whole.
9. Management is responsible for apprising us of the existence of any whistle-blower allegations involving financial improprieties received by management, the Auditor General's Office or the Audit Committee, and providing full access to these allegations and any internal investigations of them, on a timely basis. Allegations of financial improprieties include allegations of manipulation of financial results by management or employees, misappropriation of

assets by management or employees, intentional circumvention of internal controls, inappropriate influence on related party transactions by related parties, intentionally misleading the auditors, or other allegations of illegal acts or fraud.

10. As required by Canadian professional standards, we will make specific inquiries of management about the representations contained in the consolidated financial statements. At the conclusion of the audit, we obtain representation letters from certain members of management about these matters. The responses to those inquiries, the written representations, and the results of our audit tests comprise the evidential matter we will rely upon in forming an opinion on the consolidated financial statements. Management is responsible for providing us with all financial records and related information on a timely basis, and its failure to do so may cause us to delay our report, modify our procedures, or even terminate our engagement.

Fees and Billings

11. Our fees, which we will bill as work progresses, are based on our original response to your request for proposal, which stated a fixed fee of \$750,000 inclusive of expenses and GST, for the 5-year term of our engagement, which ends with the fiscal year ending December 31, 2007.
12. Our estimated fees and schedule of performance are based upon, among other things, our preliminary review of the City's records and the representations City personnel have made to us and are dependent upon the City's personnel providing the agreed upon level of assistance under the terms of the request for proposal. Should our assumptions with respect to these matters be incorrect or should the condition of the records, degree of cooperation, or other matters beyond our reasonable control require additional commitments by us beyond those upon which our estimated fees are based, we shall promptly notify the City of this situation and with the consent of the City, not to be unreasonably withheld, may adjust our fees and planned completion dates in order to achieve the goal set out in paragraph 1 of this letter.

Other Matters

13. You will provide to us copies of the printer's proofs of your annual report prior to publication for our review. We will review the report for consistency between the annual financial statements and other information contained in the report, and to determine if the financial statements and our report thereon have been accurately reproduced. If we identify any errors or inconsistencies which may impact on the financial statements, we will advise management and the audit committee as appropriate.
14. In addition to reporting on the consolidated financial statements of the City, we will also audit and report on the undernoted financial statements. The fee for these services is included in the \$750,000 mentioned in part 7 of this letter. Our comments noted above setting out the terms of our engagement as auditors of the City of Toronto also apply to the entities/work listed below.

Toronto Economic Development Corporation
Toronto Community Housing Corporation
Toronto Parking Authority (including Carpark #161)
Police Museum Reserve Fund
Police Services Board Special Funds
Police Services Board Trust Funds
City of Toronto Sinking Funds
Investment Policy Compliance
City of Toronto Trust Funds
Homes for the Aged Interest Trust Fund
Toronto Board of Health
Various Subsidy Claims

➤ Toronto Public Health

- Preschool Speech and Language Program
- Healthy Babies Healthy Children Program
- AIDS Bureau Program
- Infant Hearing Program

➤ 10 Homes for the Aged

- Albion Lodge
- Bendale Acres
- Carefree Lodge
- Castleview Wychwood Towers
- Cummer Lodge
- Fudger House
- Kipling Acres
- Lakeshore Lodge
- Seven Oaks
- True Davidson Acres

➤ Community and Neighbourhood Services – “Supportive Housing and Community Support”

Toronto Coach Terminal, Inc.
Toronto Transit Commission
TTC Insurance Company Limited
Metropolitan Toronto Pension Fund
Police Supplemental Pension Benefits Trust Funds
Toronto Fire Department Superannuation and Benefit Fund
Toronto Pension Fund

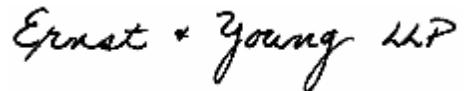
Toronto Police Benefit Fund
TTC Pension Fund Society
TTC Sick Benefit Association
York Employees Pension and Benefit Fund
Hummingbird Centre
Toronto Zoo
Toronto Zoo Foundation
Board of Governors of Exhibition Place
Canadian National Exhibition Association
Canadian National Exhibition Foundation
St. Lawrence Centre for the Arts
North York Performing Arts Centre Corporation
Toronto Public Library Board
Toronto Public Library Foundation
Toronto Public Library Trust Fund
Toronto Track and Field Centre

15. By your signature below, you confirm that the City, through its Council, has expressly authorized you to enter into this agreement with us on the City's behalf.
16. The attached standard terms and conditions form an integral part of this agreement.

To confirm these arrangements are acceptable, please sign one copy of this letter and return it to us.

We very much appreciate the opportunity to serve as the **City of Toronto's** auditors and would be pleased to furnish any additional information you may request concerning our responsibilities and functions.

Yours very truly,

A handwritten signature in black ink that reads "Ernst & Young LLP". The signature is cursive and fluid, with "Ernst & Young" on the top line and "LLP" on the bottom line.

Ernst & Young LLP

The original letter has been signed by by the City's Clerks Department and returned to Ernst & Young.

Standard Terms and Conditions

Except as otherwise specifically provided in the engagement letter or contract into which these terms and conditions are incorporated (collectively the "Agreement"), these terms and conditions shall apply to the engagement carried out by Ernst & Young LLP ("EY"). For the purposes of the Agreement the term EY includes EY and its subcontractors and their respective partners, directors, officers and employees.

1. **Timely Performance** - EY will use all reasonable efforts to complete the performance of the services described in the Agreement (the "Services") within the time-frame stipulated. EY will exercise due professional care and competence in the performance of the Services, to the reasonable satisfaction of the Auditor General, CFO and Treasurer. EY shall not be liable for failures or delays in the performance of Services that arise from causes beyond its control, including the untimely performance by client, its representatives, advisors or agents, of its obligations under the Agreement.
2. **Client Responsibilities** - Client will provide to EY in a timely manner complete and accurate information and access to management personnel, staff, premises, computer systems and applications as is reasonably required by EY to complete the performance of the Services.
3. **Confidentiality** – EY shall not at any time before, during or after the completion of the engagement divulge any confidential information communicated to or acquired by EY or disclosed by any of the entities being audited in the course of carrying out the engagement, except as required by law. No such information shall be used by EY on any other project without prior written approval of the client. The client shall take all reasonable steps to maintain the confidentiality of any of EY's proprietary or confidential information.
4. **Auditor Oversight** - Client hereby acknowledges that EY may from time to time receive requests or orders from the Canadian Public Accountability Board or from professional, securities or other regulatory or governmental authorities, that fulfil similar functions (both in Canada and abroad) to provide them with information, documents and copies of our working papers, and other work-product relating to client's affairs and consents to EY providing or producing, as applicable, this information without further reference to, or authority from, client. EY may also be required to provide information relating to the fees that EY collects from client for the provision of audit services, other accounting services and non-audit services.
5. **Internet Communications** - Unless otherwise agreed with client, EY may correspond by means of the Internet or other electronic media. Because of the inherent risks associated with the electronic transmission of information on the Internet or otherwise, EY does not guarantee the security and integrity of any electronic communications sent or received in relation to this engagement. Whilst it is EY's policy to check its e-mail correspondence with anti-virus software, EY does not guarantee that transmissions will be free from infection and accepts no responsibility or liability for any damages as a result of communicating by means of the Internet or other electronic media.
6. **Right to Terminate Services** - Either party may terminate this Agreement, with or without cause, by providing written notice to the other party. In the event of early termination, for whatever reason, client will be invoiced for time and expenses incurred up to the end of the notice period together with reasonable time and expenses incurred to bring the engagement to a close in a prompt and orderly manner. EY shall also have the right, upon 7 days prior notice, to suspend performance of the Services in the event client fails to pay any amount required to be paid under this Agreement.
7. **Fees** - Any fee estimates by EY take into account the agreed-upon level of preparation and assistance from client personnel. EY undertakes to advise client management on a timely basis should this preparation and assistance not be provided or should any other circumstances arise which cause actual time to exceed estimated time.

8. **Expenses** - EY will bill for all reasonable expenses. Expenses such as long-distance telephone and telecommunication charges, photocopying, delivery, postage, clerical assistance and micro-computer technology costs are based on a percentage (included within our fixed fee) of our fees for professional services. Other major direct costs such as travel, meals, accommodation and other significant expenses will be charged as incurred.
9. **Billing** - Bills including expenses will be rendered on a regular basis as the assignment progresses. Accounts are due when rendered. Interest on overdue accounts is calculated at the rate noted on the invoice commencing 30 days following the date of the invoice.
10. **Taxes** - The fees, expenses and other charges payable pursuant to this Agreement do not include taxes or duties. All applicable taxes or duties, whether presently in force or imposed in the future, shall be assumed and paid by client without deduction from the fees, expenses and charges hereunder. *[Note that our agreement includes the taxes as noted in the letter – however, for billing purposes the fee will be broken out accordingly.]*
11. **Governing law** - This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein. The parties hereby irrevocably and unconditionally attorn to the exclusive jurisdiction of the courts of the Province of Ontario and all courts competent to hear appeals therefrom.
12. **Working Papers/Reports** - EY retains all copyright and other intellectual property rights in everything developed by EY either before or during the course of an engagement including systems, methodologies, software and know-how. EY also retains all copyright and other intellectual property rights in all reports, written advice or other materials (the "Reports") provided by us to client. Audit reports are provided to client in accordance with the provisions of the *Municipal Act, 2001* and in particular with section 295 and 296 thereof and EY specifically acknowledges and agrees that the audit reports shall be public records and may be inspected by any person. EY does not assume any duties or obligations to third parties who may obtain access to any Reports. Any use which a third party makes of the Reports, or any reliance on or decisions to be made based on them are the responsibility of such third parties. All working papers and reports will be retained by EY, at its expense, for a ten (10) years, unless notified by the Client in writing of the need to extend the retention period.
13. **Limitation of Liability** - In any action, claim, loss or damage (whether in tort, contract or otherwise) arising out of the engagement to which these terms and conditions are attached ("Claim") the parties agree that:
 - (a) Subject to the limits set out in subsections 14(b) and 14(c), EY's liability shall be several and not joint and several and EY shall only be liable for its proportionate share of the total liability based on degree of fault;
 - (b) Under no circumstances shall EY be liable for damages in respect of any incidental, punitive, special, indirect or consequential loss, even if EY has been advised of the possibility of such damages including but not limited to loss of profits, loss of revenues, failure to realize expected savings, loss of data, loss of business opportunity, or similar losses of any kind; and
 - (c) EY's total liability for any Claim arising out of the performance of the Services, regardless of the form of Claim, shall in no event exceed an amount equal to the greater of (i) the total fees paid to EY for the Services; and (ii) \$2,000,000. This clause shall not limit EY's liability for death, personal injury or property damage caused by the negligent acts or omissions of EY and its partners and staff, or for loss or damage caused by their fraud or wilful misconduct.

14. **No Application** - Paragraph 13, or any portion of it, shall have no application to any liability for which exclusion or restriction is prohibited by law.
15. **Solicitation & Hiring of EY Personnel** – EY's independence could be compromised if client were to hire certain EY personnel. Without the prior written consent of EY, client shall not solicit for employment or for a position on its Board of Directors, nor hire, any current or former partner or professional employee of any of EY, any affiliate thereof or any other EY entity, if such partner or professional employee has been involved in the performance of any audit, review, attest or assurance service for or relating to client at any time since the date of filing of client's most recent financial statements with the relevant securities regulator(s) or stock exchange(s) (or, if the Company has not previously filed such financial statements, since the beginning of the most recent fiscal year to
16. **Severability** - If any of the provisions of these terms and conditions are determined to be invalid or unenforceable, the remaining provisions shall remain in effect and be binding on the parties to the fullest extent permitted by law.
17. **Global Resources** - From time to time EY may use the services of partners or staff from other member firms of Ernst & Young Global Limited ("EYG") or Ernst & Young International Ltd. ("EYI") to assist it in providing Services. When the services of such partners or staff are used in connection with Services provided pursuant to this Agreement they are deemed to be acting as EY's agents and not the partners, servants or agents of any other person (including any other member of EYG or EYI or EYG or EYI themselves) and EY shall assume liability for their activities as if they were in all respects the partners or staff of EY. Client agrees that any claim of any kind whatsoever, whether in contract, tort or otherwise, arising out of or in connection with this Agreement shall be brought only against EY and that no claims shall be brought personally against any persons involved in performance of the Services pursuant to this Agreement, whether actual or deemed servants or agents of EY or not, and the Client agrees not to bring any proceedings of any kind whatsoever arising out of or in connection with this Agreement in any jurisdiction against EYG, EYI or any other member firm of EYG or EYI or any partner or personnel thereof.
18. **Proceeds of Crime (Money Laundering) and Terrorist Financing Act** – Pursuant to this legislation, all accountants and securities dealers (including those providing portfolio management or investment counselling services) in Canada are required, in certain circumstances, to report any "suspicious transactions" to the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), a government agency. Suspicious transactions are transactions which may relate to money laundering and the financing of terrorist activities.
19. **Legal Proceedings** - In the event EY is requested or authorized by client or is required by government regulation, subpoena, or other legal process to produce documents or personnel as witnesses with respect to the engagement for client, and provided that EY is not a party to the legal proceedings, client shall reimburse EY for reasonable professional time and expenses, as well as the reasonable fees and expenses of counsel, incurred in responding to such requests provided that such requests do not fall within the scope of this engagement..
20. **LLP Status** – EY is a registered limited liability partnership ("LLP") continued under the laws of the province of Ontario. A partner of an LLP has a degree of limited liability protection in that he or she is not personally liable for any debts, obligations or liabilities of the LLP that arise from the negligence of another partner or any person under that partner's direct supervision or control. As an LLP, EY is required to maintain certain insurance. EY's insurance exceeds the mandatory professional liability insurance requirements established by the various Institute/Orders of Chartered Accountants across Canada.

21. **Miscellaneous** - EY shall provide all Services as an independent contractor and nothing shall be construed to create a partnership, joint venture or other relationship between EY and client. Neither party shall have the right, power or authority to obligate or bind the other in any manner. This Agreement shall not be modified except by written agreement between the parties. The Agreement represents the entire and sole agreement between the parties. Any terms and provisions of this Agreement that by their nature operate beyond the term or expiry of this Agreement shall survive the termination or expiry of this Agreement, including without limitation those provisions headed Confidentiality, Auditor Oversight, Limitation on Liability, Solicitation & Hiring of EY Personnel and Legal Proceedings.

22. **Other Relevant Documents** – The terms and conditions contained in the Request for Proposal No. 9155-03-7140 and the Proposal by EY in response to R.F.P. No. 9155-03-7140 are incorporated into and form a part of this agreement. In the event of any inconsistency between the terms of the documents which make up this agreement, the following shall be the order of priority of the documents to the extent of any inconsistency:

1. The Engagement Letter;
2. The Standard Terms and Conditions
3. the Proposal by EY referred to above;
4. R.F.P. No. 9155-03-7140

Independence Letter



Chartered Accountants
Ernst & Young Tower
P.O. Box 251, 222 Bay St.
Toronto-Dominion Centre
Toronto, Canada M5K 1J7

Phone: (416) 864-1234
Fax: (416) 864-1111

February 18, 2005

Mr. Larry Hughsam
Director, Finance and Treasurer
Toronto Public Library
789 Yonge Street
Toronto, ON M4W 2G8

Dear Mr. Hughsam:

We have been engaged to audit the financial statements of the Toronto Public Library Trust ("the Trust") for the year ended December 31, 2004.

Canadian generally accepted auditing standards (GAAS) require that we communicate at least annually with you regarding all relationships between the Trust and us that, in our professional judgment, 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 appropriate provincial institute / order and applicable legislation, covering such matters as:

- (a) holding a financial interest, either directly or indirectly, in a client;
- (b) holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client;
- (c) personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client;
- (d) economic dependence on a client; and
- (e) provision of services in addition to the audit engagement.

We have prepared the following comments to facilitate my discussion with you regarding independence matters arising since February 20, 2004, the date of our last letter.

We are not aware of any relationships between the Trust and Ernst & Young LLP that, in our professional judgment, may reasonably be thought to bear on our independence, that have occurred from February 18, 2004 to February 18, 2005.

The total fees charged to the Trust for audit services were \$5,607 for the audit of the 2004 fiscal year.

GAAS require that we confirm our independence to the audit committee, 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 Trust within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as of February 18, 2005.

This report is intended solely for the use of the audit committee, the board of directors, management, and others within the Trust and should not be used for any other purposes.

Yours truly,

Ernst & Young LLP

Diana Brouwer/Arthur Chen
905-882-3037/905-882-3067

Letter of Recommendations



■ Chartered Accountants ■ Phone: (416) 864-1234
Ernst & Young Tower Fax: (416) 864-111
P.O. Box 251, 222 Bay St.
Toronto-Dominion Centre
Toronto, Canada M5K 1J7

February 18, 2005

Mr. Larry Hughsam
Director, Finance and Treasurer
Toronto Public Library
789 Yonge Street
Toronto, Ontario M4W 2G8

Dear Mr. Hughsam:

In planning and performing our audit of the financial statements of the Trust for the year ended 2004; we considered its internal control structure to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. Our consideration of internal control for the limited purpose of determining the nature, timing, and extent of our auditing procedures to express an opinion on the organization's 2004 financial statements would not necessarily disclose all deficiencies in internal control over financial reporting. While our purpose was not to provide assurances on the internal control structure, certain matters came to our attention that we want to report to you. These matters, along with our recommendations, are described in the accompanying memorandum.

We would be pleased to discuss the above matters or to respond to any questions, at your convenience.

Yours truly,

A handwritten signature in cursive ink that reads 'Ernest & Young LLP'.

Diana Brouwer/Arthur Chen
905-882-3037/905-882-3067

Letter of Recommendations (cont'd)

Oversight and maintaining of the Trust Funds (2002 point carried forward)

Observation:

Our review of the majority of the funds within the Trust Fund financial statements would appear to indicate that they are not “trusts” under the definition of the word, but rather funds that have been advanced to the Library from bequests and other contributions on a similar basis as to what a typical Foundation would receive.

The definition of a trust that is found within the Public Sector Accounting Handbook of the Canadian Institute of Chartered Accountants, Section 1700 is as follows:

Trusts under administration

.73 Trusts are defined as property which has been conveyed or assigned to a trustee to be administered as directed by *agreement or statute*. In a trust relationship, the trustee holds title to property for the benefit of, and stands in a fiduciary relationship to, the beneficiary.

.74 A local government acts as a trustee when it administers trusts on behalf of the beneficiaries specified in the agreement or statute. As trustee, the local government is accountable to third parties for the use and disposition of trust assets and for the funds derived from those trust activities. *Also, trust assets are not owned by the local government.* For those reasons, trusts should be excluded from the reporting entity.

From our review it would appear that the majority of the funds currently included within the Trust Fund financial statements are amounts that have been granted/contributed to the Library for their use as directed by the donor and are now considered to be an asset of the Trust Funds.

Currently, the Library is maintaining a set of records for the Trust Funds and a separate set of records for the Foundation.

Letter of Recommendations (cont'd)

Recommendation:

We suggest that management take a thorough review of the funds currently being accounted for within the Trust Fund financial statements and review the possibility of having these funds transferred to the Foundation for future administration. In doing this, the Foundation would be able to have a greater investing power for the excess cash thereby creating a better return to the Library in the long run. In addition, the Library could gain efficiencies in its accounting and administration by having these funds all under one umbrella.

Management should consult with a solicitor on any legal issues that may surround such a transfer, keeping in mind that this is only a transfer for the oversight role and not the ultimate use of the funds.

2004 Update:

During 2004, an extensive review was performed on the fund balances. The result of the review had three balances transferred to the Library as at December 31, 2004 and administrative responsibility for the remainder of the funds is to be transferred to the Foundation in 2005 – as per Library Board approval.

This point is now considered closed.

Management's 2003 response:

The transfer of the Trust Funds from the Library to the Foundation has been delayed due in part to a staff absence. This situation was resolved in December of 2003, and the expectation is for the Trust Funds to be transferred by mid-2004.

Management's 2002 response:

Management agrees that it would be more efficient and economical to administer the Trust Funds within the Toronto Public Library Foundation. All funds included in the Trust Funds are currently being reviewed by staff and legal counsel with a view to transferring the funds to the Foundation for administration. The transfer, expected by mid 2003, will require approval by the Toronto Public Library Board.



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