

ASSURANCE AND ADVISORY
BUSINESS SERVICES

March 23, 2004

Toronto Public Library Board

Audit Results – Year Ended December 31, 2003

Report to the Members of the Library Board

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

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March 17, 2004

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

Dear Members:

We are pleased to present the results of our audit of the financial statements of the Toronto Public Library Board (the "Library" or "Board"). This report to the Members summarizes the scope of our work, our team, issues of audit significance discussed with management and provides the communications required by our professional standards.

We have completed the audit of the financial statements of the Library. As in previous years, our current-year plan was prepared based on our understanding of the Library's business and industry. Our plan was designed to be responsive to the unique needs of the Library, to maximize audit effectiveness, and to deliver the high quality you expect. The completion of this year's audit was once again accomplished through the effective support and assistance of the Library's finance and operating personnel.

The Library and Ernst & Young share a commitment to quality. Our job demands a thorough understanding of the Library, its operations, and emerging issues in order to mitigate risk. Ensuring that the right things get done right means constantly challenging the Library's risk profile. Honoring the commitment to quality means bringing the most technically qualified people and a fresh perspective each year as part of our audit. It means executing each day with a standard of excellence. Rest assured that our unceasing commitment to quality is and will continue to be reflected in every aspect of our work..

If you have any questions or comments, please do not hesitate to give us a call.

Very truly yours,

A handwritten signature in cursive script that reads "Ernst & Young LLP".

Diana Brouwer/John Teti
905-882-3037 /905-882-3023

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Terms of Our Engagement

	Discussion
Overview	<ul style="list-style-type: none">• We performed an examination of the Library's December 31, 2003 financial statements in accordance with Canadian generally accepted auditing standards as prescribed by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. 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 issued to the City of Toronto, a copy of which is attached in Appendix A.
Your Team	<ul style="list-style-type: none">• Ernst & Young continues to serve you with a team of professionals who offer both not-for-profit 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 Responsibility

Diana Brouwer	Engagement Principal
Martha Tory	Independent Partner
John Teti	Manager

Audit Approach

Overview	Discussion
	<ul style="list-style-type: none">• Audit risk is influenced by business risk. Our audit methodology is a risk-based approach that focuses on the drivers of the business, the associated risks, and the potential effects on financial statement accounts. It emphasizes the importance of understanding your organization's operations, including critical business processes. As part of our audit, we gain an understanding of the factors that could affect your operations and business risks.• 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.• Ernst & Young reviews and evaluates the overall internal control environment and assesses the computer environment. We report in writing to the Board any material observations resulting from our audit. Where the audit plan is dependent on an understanding or reliance on internal controls, we document and test the specific internal control. This approach results 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.• Consistent with prior years, we took an approach that balanced a reliance of controls together with some substantive work to the audit. We review and test your controls upon which we intend to rely around the payroll, purchases and budget processes. In the areas of revenues, employee benefits etc., it is generally more efficient to use audit procedures such as confirmations and analytical review to obtain our audit assurance.

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 controlsextent and nature of audit evidence (i.e., extent of testing) to be examinedMateriality for not-for-profit entities is generally measured in terms of a range between 1/2% and 2% of revenues or expenditures. This range corresponds with the recommendations in the CICA Handbook guideline which deals with materiality and audit risk.Our experience with your organization has led us to base materiality in the middle of this range. As a result, an amount greater than \$1.3 million, which represents approximately 1% of your revenues, 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. We report to you, through this package, any errors discovered in excess of \$39,000.
Use of Specialists	<ul style="list-style-type: none">We rely on Mercer Human Resources Consulting to provide the actuarial estimates to account for non-pension future employee benefit costs and costs associated with the defined benefit plan and accident claims.
Co-ordination With Auditor General’s Office and Internal Audit	<ul style="list-style-type: none">We work closely with the City’s Auditor Generals’ Office and the newly created Internal Audit Department so that we take into consideration work they have completed in planning our approach. In addition, we ensure that the Auditor General is informed about any significant issues that arise in the organization, on a timely basis.

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. There are no current pronouncements the Organization must adopt for its 2003 fiscal year; however, the listing below is an update on the status of current developments that may impact the Board in the near future.

	Discussion	Evaluation
Post-employment Benefits, Compensated Absences and Termination Benefits (Final handbook section)	<ul style="list-style-type: none">▪ In May of 2002, the Public Sector Accounting Board [“PSAB”] approved a Handbook section for post-employment benefits, compensated absences and termination benefits. Many governments have a wide variety of benefits that fall into these categories. Some are similar in substance to retirement benefits while others are quite different. A key focus of this section is identifying the differences in the types of benefits. The new Handbook section groups these benefits into two basic types - those that are accounted for on a full accrual basis, similar to retirement benefits, and those that are accounted for only once a certain specific event occurs.• Benefits that vest or accumulate are accounted for on a full accrual basis using the principles established in the section on retirement benefits. Since the substance of benefits that vest or accumulate is similar to retirement benefits.• For event-driven benefits, the liability is recorded once a specific event occurs. For example, an accrual for the cost of long-term disability is made only once an employee becomes disabled. Until that time, there is uncertainty about the potential liability. Once the event occurs, the measurement principles established in the Retirement Benefits section would be applied.• These new standards are effective for fiscal years beginning on or after January 1, 2004.	<ul style="list-style-type: none">• The Library has already adopted these rules. For fiscal 2003, a new actuarial valuation was performed and the updated results were incorporated into the 2003 audit – and financial statements of the Library.

New Developments in Accounting or Auditing Standards (continued)

	Discussion	Evaluation
Liabilities, Contingent Liabilities and Contractual Obligations (In-progress)	<ul style="list-style-type: none">▪ In November 2003, PSAB approved the issuance of an exposure draft on liabilities, contingent liabilities and contractual obligations. This new section proposes that liabilities are present obligations arising from past transactions or events, the settlement of which is expected to result in the future sacrifice of economic benefits. Liabilities include those arising from contractual, legislative, constructive and equitable obligations. Where a reasonable estimate of the amount cannot be made, then there should be disclosure within the notes to the statements. Previous Handbook guidance did not allow for the recognition of contingent liabilities except for loan guarantees. This section now proposes that they be booked when the event is likely to occur and disclosed in the notes to the statements.▪ If approved, it is expected that these proposals will apply to fiscal years beginning on or after April 1, 2005.	While there is no impact on the Board right now, management and the Board need to be aware of any significant contingencies and contractual obligations. Where these were previously not required to be disclosed and/or booked – this will change if this section is adopted.
Financial Statement Discussion and Analysis (FSD&A) (In progress)	<ul style="list-style-type: none">• In July 2003, PSAB issued an exposure draft, which establishes the qualitative characteristics of Financial Statement Discussion and Analysis [“FSD&A”] information and recommends that an FSD&A report accompany the financial statements of a government. It also sets out basic presentation recommendations for providing information such as variance and trend analysis. The guideline here was originally intended to be a standard but was later changed to be a statement of recommended practices. It was determined that disclosure contained within an FSD&A should be discretionary disclosure and not form part of GAAP.	<p>This is only a guideline and therefore discretionary to the Board if they wish to do an annual report.</p> <p>Please note that if the Board decides to start doing an annual report that makes reference to the auditors or the financial information of the Library which may relate back to us – we are required to review it prior to any publications being done.</p>

New Developments in Accounting or Auditing Standards (continued)

	Discussion	Evaluation
Other projects	<ul style="list-style-type: none">• In addition to previous projects – PSAB has also has an ongoing project with the Government reporting entity. This has no impact on the Library and as such, we have not expanded on it in this document.• Each year PSAB develops a project schedule. Some of the areas on the current schedule which have not yet made it to a public exposure draft are as follows:<ul style="list-style-type: none">➢ GAAP – to set out guidance for government entities on where to look to when issues are not dealt with in the PSAB Handbook➢ Government Transfers – guidance on when and how to account for transfers in government statements➢ Revenues - to define government revenue; considering the appropriateness of the general principle of revenue recognition embodied in the general standards of financial statement presentation of the PSAB Handbook for all types of government revenues; and developing specific recognition principles for government exchange and non-exchange revenues.➢ Tangible capital assets - accounting for and reporting the non-financial assets of local governments. Non-financial assets include tangible capital assets, inventories of supplies and prepaid expenses such as insurance.	<ul style="list-style-type: none">• No further analysis has been done on these projects with respect to the impact at the Library. No final standards are set as of yet, and none of these would be considered to have a significant impact on the Library – with the exception of the tangible capital assets.• We will continue to monitor the status of the tangible capital asset section and keep you apprised of any new developments as they occur.

New Developments in Accounting or Auditing Standards (continued)

	Discussion	Evaluation
Auditor's Responsibility to Consider Fraud and Error	<ul style="list-style-type: none">• The Auditing and Assurance Standards Board (“AASB”) of the CICA has revised “The Auditor’s Responsibility to Consider Fraud and Error in an Audit of Financial Statements”, Section 5135 and “Audit of Financial Statements – An Introduction”, Section 5090 to harmonize the working of Canadian standards with the equivalent proposed international standard and to encompass the substantive requirements of the recently issued US standard in this area. The recommendations in the revised Sections are effective with respect to audits of financial statements and other financial information relating to periods ending on or after December 15, 2004.• Principal changes to these Sections include more emphasis on the respective responsibilities of auditors, management, and those charged with governance with respect to fraud; more guidance on assessing the risks of misstatement due to fraud, including requirements to make enquiries of management and others within the entity, and understanding the role of those charged with governance; more emphasis on management’s ability to override internal controls and management fraud generally and requiring procedures to be performed to address management’s ability to override internal controls.	<ul style="list-style-type: none">• We will keep abreast of all changes in this area and ensure it is corresponded back to you. For fiscal 2003, our firm had come out with additional guidance which had us ask increased questions to management on the risk of fraud and any incidences of fraud for which they may be aware of.

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 of material misstatement. As a part of our audit, we obtained a sufficient understanding of the internal control structure to plan our audit and to determine the nature, timing and extent of testing performed.	We anticipate issuing an unqualified audit opinion dated March 10, 2004 upon approval of the financial statements by the Board.
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.	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.	Significant estimates and judgments are made around the actuarial calculation of employee benefit costs. We review the assumptions made to our internal guidelines to ensure that they are within acceptable boundaries. We are comfortable with the provisions made.
Major Issues Discussed with Management Including Accounting for Significant Unusual Transactions	See "Items of Significance Discussed with Management".
Uncorrected Misstatements Determined by Management to be Immaterial We inform the 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.	None identified.
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; however, we have made some recommendations that management may want to further consider. See "Letter of Recommendation" attached.
Irregularities and Illegal Acts	Enquiries of management and with the Auditor General's Office – did make us aware of an incident of fraud that is currently under investigation. The one incident is not significant to the overall operations and is being left with the Auditor General and the Library for final follow up and resolutions. Our testing of the financial records and enquiries made of personnel did not reveal any other instances of irregularities or illegal acts.
Consultation with Other Accountants	None.
Other Information in Documents Containing Audited Financial Statements	None.

Other Required Communications (continued)

Area	Comments
Auditors' Independence <p>Canadian generally accepted auditing standards (GAAS) require that we communicate at least annually with you regarding all relationships between your organization and Ernst & Young that, in our professional judgment, may reasonably be thought to bear on our independence. 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:</p> <ul style="list-style-type: none">(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. <p>Further, GAAS requires that we must confirm our independence to the appropriate committee of the Board. However, since the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario deal with the concept of independence in the terms of objectivity, our confirmation is to be made in that context.</p>	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 March 12, 2003 to March 23, 2004. <p>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 23, 2004.</p>
Other Audit and Non-Audit Services Provided to Your Organization	Specified procedures relating to "Stanley Knowles" and the audit of the Toronto Public Library Foundation and Trust Funds.
Fees	Audit \$23,365 This fee is inclusive of expenses.

Items of Audit Significance Discussed with Management

During the course of planning and executing our audit, the following items/matters of audit significance were discussed with management:

Item	Description	Audit Results and Comments
Employee Future Benefits	<ul style="list-style-type: none">During 2003 the City issued a request for proposal and subsequently selected, Mercer Consulting for preparing an updated actuarial valuation of the City and its related entities' employee benefit costs.Significant changes resulted from this valuation – with the Library having an impact of \$10.6 million to its accrued benefit obligation.The first valuation of these benefits was done at the time of amalgamation and as such, it is difficult to determine the amount that may relate to errors or oversight during the first valuation and those related to experience/actuarial gains/losses since that time. In addition, the Library has had various labour negotiations over the time spanning the two valuations that will have an impact on the increased obligation (each individually not being significant plan amendments).Since the benefits are unfunded and classified as “amounts to be recovered in future years”, the approach taken for this year is to amortize the amount of the increase over the expected average remaining service life of the related employee group – which has been determined by Mercer’s at 13 years.	<ul style="list-style-type: none">Under the Public Sector Accounting rules – significant changes as a result of plan amendments/changes impacting prior years service, are to be accounted for in the year they occur, but changes as a result of actuarial gains/losses (based on experience and or assumptions made) are to be amortized over the expected average remaining service life of the related employee group.We agree with the approach taken and have ensured that the assumptions and estimates used within the current valuation are within acceptable ranges.We have ensured that the appropriate note disclosure has been made with respect to the amount to be amortized in future years.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Employee Benefits	<ul style="list-style-type: none"> • The Library is a Schedule 2 employer for workers safety and insurance board (“WSIB”) coverage – meaning that they are self-insured. During the course of the updated actuarial valuation by Mercer’s, WSIB indicated that there were no obligations by the Board and as such, no amounts were included within the new valuation. • Prior to 2003, WSIB had a confirmation for an obligation of approximately \$400,000. The employees for which that related are still at the Board and management finds it difficult that this amount no longer exists. As such, management has left the accrual on the books and it is included within the amounts to be recovered in future years. 	<ul style="list-style-type: none"> • The amount in question is judgmental and something that we as auditors look for the rationale and skepticism used in setting up the accrual. Overall, we concur with management’s approach as the amount is small overall, the amount did exist in previous years and is more likely than not – that it is just below a threshold for which WSIB would report back out on. • We will continue to monitor this in the next year and re-evaluate it again at that time for any changes.
Fraud	<ul style="list-style-type: none"> • During the course of our year-end audit, we were made aware by both management and the Auditor General’s Office of fraudulent activity in the Library. We understand that the incident is isolated and is currently under investigation. The amount in question is not significant to the overall operations of the Library. 	<ul style="list-style-type: none"> • As a result of the awareness of the issue, we re-evaluated our audit plan to see if any changes in our approach needed to be made. We discussed the particular issue with both management and staff of the Auditor General’s Office to understand the nature and extent of the transactions. • We did not deem it necessary to alter any of our procedures as a result of the review and have left any further discussion around controls to prevent this from occurring in the future for the final report to be issued from the Auditor General’s Office.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Capital Funding	<ul style="list-style-type: none">As part of the annual budget process, the Library receives funding for both operating and capital from the City of Toronto. In prior years, amounts not spent at the end of the year were rolled into the Library's municipal position as part of the capital fund balance. In 2003, the City has recorded the amount underspent in the year as a receivable due from the Library and as such, an amount of \$1,169,000 has been reclassified on the Library's statements as payable back to the City.	<ul style="list-style-type: none">While this is a change in process from prior years, we have confirmed with the City the accounting for this to ensure that it was consistent at both the Library and the City.The amount has been confirmed and as such we agree with the presentation made in the Library's 2003 statements.

Appendix A: City of Toronto Engagement Letter



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July 25, 2003

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

Dear Mr. Griffiths:

We are pleased to continue as auditors of the Corporation of the City of Toronto. It is our practice to annually reconfirm our understanding of the terms of our engagement as your auditors.

Our partner, Martha Tory, and our principal, Diana Brouwer, will be responsible for coordinating and managing all our services to the City, including planning and coordinating the audit and Mike Connolly will act as Independent Reviewer. They will draw upon the expertise of other partners in our Firm as necessary.

Our objective is to audit the City's consolidated financial statements in respect of the year ended December 31, 2003, to meet our statutory obligation and to report thereon to the Members of Council, the Inhabitants and the Ratepayers of the City of Toronto. Our report will state whether, in our opinion, the City's financial statements are fairly presented, in all material respects, in accordance with Canadian generally accepted accounting principles. The nature of our report will be governed by our audit findings. In the event that our findings cause us to believe that a reservation of our opinion might be required, we will discuss such findings with you.

To form a basis for our opinion, we will conduct our audit in accordance with Canadian generally accepted auditing standards. We will

Appendix A: City of Toronto Engagement Letter (continued)

perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement. We obtain this assurance by testing balances and transactions, and by examining evidence supporting the amounts and disclosures in the financial statements, assessing significant estimates made by management, and assessing the accounting principles and their application. The extent of our testing depends on the extent to which we decide to rely on controls. Our decision to rely on controls is based on a review of your internal control environment, gaining an understanding of the flow of each significant transaction type through the accounting system, and identifying controls that have been established to prevent and detect errors in the accounting records and the financial statements. We will evaluate and test only those controls on which we intend to rely in performing our audit. As a result, there will be internal controls that are important to the overall operations of the City that are not included in our audit program. Of course, while conducting our audit we will be alert for significant control weaknesses. We will advise you concerning any significant weaknesses in internal control that come to our attention.

As agreed, we will work closely with you and the City's Internal Audit Department to provide an effective and efficient audit. After assessing the objectivity, competence and standards of your internal auditors, we will rely on their work to the extent appropriate under Canadian generally accepted auditing standards.

It is not possible to obtain absolute assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This is because of the limitations in the audit process. For example, an audit will not usually detect fraud involving forged documents or collusion among several employees or between employees and suppliers or customers. The prevention and detection of fraud or error rests with the management of the City. However, if we do discover fraud or significant error(s) we will report immediately to you.

We will review draft copies of the summary financial statements presented on the City's website before publication. We will review the proofs for consistency between the audited financial statements and other information presented in the summary and we will report any errors or inconsistencies to you, or if applicable, the Audit Committee.

The responsibility for providing the financial information necessary to prepare the financial statements and the provision of adequate disclosure is that of management. These responsibilities include the maintenance of adequate records and internal controls, the selection and application of accounting policies and the safeguarding of assets of the City. However, we would be pleased to advise and assist you in identifying opportunities for improvement in certain of the City's controls, in preparing the financial statements, or in any other related matters.

Appendix A: City of Toronto Engagement Letter (continued)

In addition to reporting on the consolidated financial statements of the City, we will also audit and report on the undernoted financial statements. 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

Appendix A: City of Toronto Engagement Letter (continued)

- 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

As part of our audits, we will need to obtain letters of representation from City and the various entities management. These letters confirm representations made to us orally during our audits as well as representations, which are implicit in City records. The letter will address matters such as the completeness and accuracy of accounting records, assets pledged as security, commitments, litigation matters, contingencies, and the completeness of Council and Council Committee meeting minutes.

Appendix A: City of Toronto Engagement Letter (continued)

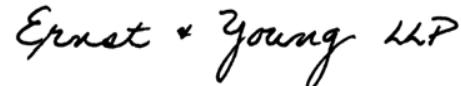
Our fees, which we will bill as work progresses, are based on our original response to your request for proposal, which stated a fixed fee of \$750,000 inclusive of expenses and GST, for the 5-year term of our engagement, which ends with the fiscal year ending December 31, 2007.

We encourage you to evaluate the services you receive from us and to inform us of any concerns so we may serve you better in the future.

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

The attached standard terms and conditions form an integral part of this agreement. If the services outlined are in accordance with your requirements and if the terms are reasonable, please sign the copy of this letter in the space provided and return it to us. The arrangements outlined will continue in effect from year to year unless changed by mutual agreement.

Yours very truly;



Martha Tory/Diana Brouwer
(416-943-3678/905-882-3037)
c.c: Audit Committee

The services and terms set out above are as agreed.

Original approved by the City Solicitor and signed by the CFO and City Clerk

Date

Signature of Authorized Individual

Appendix A: City of Toronto Engagement Letter (continued)

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 will apply to any engagement carried out by Ernst & Young LLP (“EY”). For the purposes of this Agreement the term EY includes EY and its subcontractors and other member firms of Ernst & Young International, Ltd 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 by the Client, from time to time. EY will exercise due professional care and competence in the performance of the Services and will ensure that the work is performed in a professional manner, to the reasonable satisfaction of the Auditor General, CFO and Treasurer of the Client. EY will 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. **Right to terminate Services** - Either party may terminate this Agreement, with or without cause, by providing written notice of 90 days, or less if mutually agreed upon, to the other party. In the event of early termination, for whatever reason, client will be invoiced for time and expenses prorated 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.
5. **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. *[Note that our agreement, as mentioned in the cover letter, set the fee at \$750,000 inclusive of expenses and GST].*

Appendix A: City of Toronto Engagement Letter (continued)

6. **Expenses** - EY will bill for all reasonable expenses. Expenses such as long-distance telephone and telecommunication charges, photocopying, delivery, postage, clerical assistance and microcomputer technology costs are based on a percentage (included as per our fixed fee agreement) of our fees for professional services.
7. **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.
8. **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, will 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.]*
9. **Governing law** - This Agreement will 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.
10. **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 provided by us to client although client will have the full right to use these materials for their intended purpose. All working papers and reports will be retained by EY, at its expense, for a minimum of ten (10) years, unless notified by the Client in writing of the need to extend the retention period.
11. **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) EY's liability to client, subject to the limits set out in subsection 12 (b) will be several and not joint and several and client may only claim payment from EY of EY's proportionate share of the total liability based on degree of fault; and
 - (b) EY's total liability to client for any Claim arising out of the performance of the Services, regardless of the form of Claim will in no event exceed the greater of (i) total fees paid to EY for the Services during the 12 month period commencing from the date of the Agreement for the Services; and (ii) \$2,000,000.

EY will provide to client proof of professional errors and omissions insurance.

Appendix A: City of Toronto Engagement Letter (continued)

12. **No Application** - Paragraphs 11, or any portion of it, shall have no application to any liability for which exclusion or restriction is prohibited by law.
13. **Non-Solicitation** – Client shall not, during the term of the engagement and for a period of twelve (12) months following its termination, without the prior consent of EY, solicit for employment or hire any EY partner, employee or contractor who is involved in the performance of the engagement. This undertaking shall not apply in respect of any person who, without having been previously approached directly or indirectly by the client responds to an advertisement placed by the client or on their behalf. In the event of a breach of the terms of this section which leads to the departure of an individual, the client will pay to EY, on demand, a sum equivalent to 50% of the total annual remuneration package paid to the individual prior to his or her departure. The parties acknowledge that this provision is a fair and reasonable term intended to be a genuine assessment of the likely loss.
14. **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.
15. **Proceeds of Crime (Money Laundering) Act** – Pursuant to Regulations under this new legislation, all accountants in Canada are required, in certain limited circumstances, to report any "suspicious transactions" to a new government agency. Suspicious transactions are transactions which may relate to money laundering. Accountants are prohibited under this legislation from advising a client that a suspicious transaction report has been made in connection with a client's transaction. In 2002 other regulations will come into effect requiring accountants to report large cash transactions and the importation to Canada or exportation from Canada of monetary instruments in excess of a threshold amount.
16. **Miscellaneous** - EY shall provide all services as an independent contractor and nothing shall be construed to create a partnership, joint venture or other relationship. 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.
15. **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.

Appendix B: Independence letter



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

■ Phone: (416) 864-1234
Fax: (416) 864-1174

March 23, 2004

Chair of the Board of the Toronto Public Library:

We have been engaged to audit the financial statements of the Toronto Public Library Board (the "Library") for the year ending December 31, 2003.

Canadian generally accepted auditing standards (GAAS) require that we communicate at least annually with you regarding all relationships between the Library 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 / 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.

Independence letter (continued)

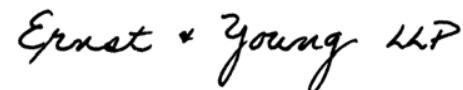
We have prepared the following comments to facilitate our discussions with you regarding independence matters arising since March 12, 2003, the date of our last letter.

We are not aware of any relationships between the Company and Ernst & Young LLP that, in our professional judgment, may reasonably be thought to bear on our independence, which have occurred from March 12, 2003 to March 23, 2004.

GAAS requires that we confirm our independence to the audit committee. However, since the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario deal with the concept of independence in terms of objectivity, our confirmation is to be made in that context. Accordingly, we hereby confirm that we are objective with respect to the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as of March 23, 2004.

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

Yours very truly,



Diana Brouwer/John Teti
905-882-3037 /905-882-3023

Appendix C: Letter of recommendations



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Ernst & Young Tower
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Toronto, Canada M5K 1J7

■ Phone: (416) 864-1234
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March 23, 2004

Chair of the Board:

Our examination of the financial statements of The Toronto Public Library Board for the year ended December 31, 2003 has been completed. As part of our examination we studied and evaluated the organization's internal controls to the extent we considered necessary under Canadian generally accepted auditing standards. This was done to establish a basis for relying on such controls in determining the nature, timing and extent of the other auditing procedures necessary to enable us to express an opinion on the organization's financial statements and otherwise to assist us in planning and performing our audit. The study was not designed to determine whether the organization's internal controls are adequate for management's purposes.

Accordingly, our examination of the financial statements, including our study and evaluation of internal controls, will not necessarily disclose all conditions requiring attention because both the audit and the study employ, as is customary, selected tests of accounting records and related data. Our study and evaluation of controls in which tested, did not disclose any conditions for which we believe should be considered as material weaknesses; however, our audit did disclose areas for which we believe further review by management is warranted.

The suggestions and comments outlined in the attached memorandum concern systems, accounting or business matters and are not intended to reflect in any way upon your personnel.

Appendix C: Letter of recommendations (continued)

We wish to acknowledge the co-operation and courtesy extended to us by your personnel and wish to thank them for their assistance during our audit. If there are any matters included in the memorandum that you would like to pursue at greater length, we would be pleased to discuss them with you.

Yours sincerely,

Ernst & Young LLP

Diana Brouwer/John Teti
905-882-3037/905-882-3023

Letter of recommendations (continued)

Employee Future Benefits

Observation and recommendation:

During 2003 the Library was part of the revaluation of the actuarial liabilities of the City. Mercer Consulting was engaged to do an update to the original valuation done back during amalgamation. The result of the update was a \$10 million increase to the Library's obligation for post-employment and retirement benefits for its employees. The increase, as discussed within "Items of Significance Discussed with Management" within our audit result package, is being amortized over the expected remaining average service life of the related employee group.

On a go forward basis, management should ensure that it works closely with their human resource group to ensure that any changes to either management or union agreements for the provision of employee benefits is reviewed and evaluated for the impact it will have on the Library's obligation as of the date of the change in the plan. The Public Sector guidelines now require full accounting for all these costs as of January 1, 2004 (for post-employment) and currently required for all retirement benefits, and as such, the Library should ensure that it has the appropriate processes in place to ensure changes are identified on a timely basis.

Management comments:

The increased actuarial liability on the Library's post-employment and retirement benefits results from a number of factors related to the amalgamation of the Library's workforce. The most significant changes were an Ontario Labour Board decision which placed the Pages in the bargaining unit; and a provision in the first collective agreement for the Library which makes a Page with five (5) years service a permanent part-time employee and eligible to participate in the benefits plan. The changes increase the number of employees who are eligible for post-employment and retirement benefits, and thus increases the actuarial liability.

Human Resources and Finance will continue to work closely in estimating all current and future costs of changes to the benefits plans for both non-union and union employees, and such costs will be included in all appropriate reports and recorded in appropriate years.

Letter of recommendations (continued)

Expense Report Approvals

Observation and recommendation:

During our review of various expenditures and the controls within the Library, we were advised that the Director of Finance approves the expenses of the City Librarian. We are not aware of any wrong doings or inappropriate expenses, but thought it would be an opportunity to indicate that in most organizations, the most senior person in management has their expenses reviewed and approved at the Board level. Approval at this level follows the lines of authority in that the most senior management position has no one else in management to whom they report – but they do report to the Board.

Management comments:

The Library's Expense Claim Policy is modeled after that of the City's, and was implemented by the Library in 1998, shortly after amalgamation. As the current policy does not require Board approval for business travel or for conferences or seminars if the amount is under \$3,500, the Director, Finance & Treasurer approves travel expenses for the City Librarian.

The Expense Claim Policy is scheduled for review in 2004. As part of the process, the current expense claim practices for City Departments, Agencies, Boards and Commissions will be reviewed, including the approval process for expense claims for the most senior management position.

Letter of recommendations (continued)

Information Technology – Program Changes

Observation and recommendation:

Based on our discussions with the IT department, there is no formal process in place to track all program changes and to ensure that all changes put into production are authorized. There is also no process to monitor changes on a regular basis.

Without a formal change management process program changes could be placed in a live production environment. This could negatively impact your live environment or corrupt data and files.

Management should ensure a formal change management process is put in place. As part of the process it is important to track all of the program changes, ensure proper testing in the test environment, and to have formal authorization before promoting changes into production. It is also important to control who has access to promote changes into production and to have a process in place to monitor all changes.

Management comments:

The IT department has a process in place for upgrades to systems to ensure testing in the test environment and review and approval by IT managers and business unit managers before promoting upgrade changes into the production system. Management agrees with the Auditors' recommendation and will implement a formal change management process in 2004. The formal change management process will ensure that all steps and appropriate authorizations are documented.

Letter of recommendations (continued)

Information Technology – Disaster Recovery Plan

Observation and recommendation:

There is no current disaster recovery plan in place covering systems recovery in the event of the loss of the computer room. Without a defined, communicated and tested disaster recovery plan, Toronto Public Library may be unable to continue with critical operations in the event of a prolonged system outage or loss of central processing facility.

We recommend that IT management implement a formal and current disaster recovery plan to ensure continued operations of the organization.

Management comments:

Aspects of security are currently in place which reduce the potential for disaster: physical security of the computer room with limited staff access, battery power backups for systems in the computer room, fire suppression systems for the computer room, network intrusion detection, user security / passwords, network / system security with desktop lock down, anti-virus protection at the server and desktop, data security (daily backups and off-site storage of data), network redundancy at single points of failure. Business continuity planning has been developed for specific situations in the past (e.g. Y2K and labour disruption).

Management agrees with the Auditors' recommendation to implement a disaster recovery plan. To achieve timely implementation, the development of a disaster recovery plan will require the assistance of external expertise. The Library will also consult with the City Information & Technology department to ensure that the Library's proposed Disaster Recovery Plan is in keeping with City guidelines. The disaster recovery plan will identify the extent to which the Library can tolerate service disruptions and the costs associated with meeting those expectations. Given the potential budget implications, full implementation may extend into 2005.

Letter of recommendations (continued)

Information Technology – User Access Controls

Observation and recommendation:

Based on our initial review of logical access there appears to be an efficient process in place; however it is a process that has not been formalized by using pre-defined forms with appropriate sign-offs.

Formalizing both the change management and logical access processes provides the Library with added assurance on the controls by providing accountability back and in addition, will provide controls from an audit perspective, allowing the external auditors to review and rely more on the IT controls than is presently done.

We recommend that the Library consider formalizing the process for granting, changing or revoking access to the network and to the applications by developing a pre-defined form and requiring appropriate sign-offs.

Management comments

Management will formalize the user access controls process in 2004 by developing forms with appropriate sign-offs. This will document and refine existing practice, which determines and limits logical access for IT and end-user staff by job function.



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