

Toronto Public Library Board

Audit Planning – Year Ending December 31, 2007

Report to Board of Directors of the Toronto Public Library Board

 **ERNST & YOUNG**

Quality In Everything We Do

October 23, 2007

Members of the Toronto Public Library Board,

We are pleased to present to you our audit approach for the Toronto Public Library Board (the “Library”). This report outlines the scope of our services, the team of Ernst & Young professionals that will serve you and what we see as the key considerations affecting the 2007 audit. Our meeting is a forum to validate our understanding of these issues, confirm your current year expectations, and make certain that our efforts are aligned with your service requirements.

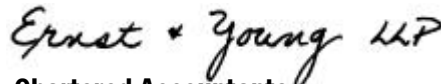
Our current year plan has been prepared based on our understanding of the Library’s business and industry. It is designed to be responsive to the unique needs of the Library, to maximize audit effectiveness, and to deliver the high quality you expect.

Our audit is designed to express an opinion on the 2007 financial statements. We will consider the Library’s current and emerging business risks, perform an assessment of risks that could materially affect the financial statements, and align our audit procedures accordingly. In accordance with professional standards, we will obtain a sufficient understanding of internal control to plan the audit and to determine the nature, timing and extent of tests to be performed. However, we were not engaged to and are not performing an audit of internal control over financial reporting.

This report is intended solely for the information and use of the Library Board, management, and ultimately City of Toronto council, and is not intended to be and should not be used by anyone other than these specified parties. We disclaim any responsibility to any third party who may rely on it.

We appreciate this opportunity to present our plan to you and answer any questions you may have about these or any other matters.

Very truly yours,



Chartered Accountants
Licensed Public Accountants

Gary Kaye / Gurdeep Lotey
(905) 882-3154 / (905) 882-2990

Terms of Our Engagement

Discussion

Auditor's Responsibilities Under Generally Accepted Auditing Standards

- Management is responsible for the preparation of the financial statements, which includes responsibilities related to internal control, such as designing and maintaining accounting records, selecting and applying accounting policies, safeguarding assets and preventing and detecting fraud and error.
- The auditor's responsibility is to express an opinion on the financial statements based on an audit thereof.
- An audit is performed to obtain reasonable but not absolute assurance as to whether the financial statements are free of material misstatement and, owing to the inherent limitations of an audit, there is an unavoidable risk that some misstatements of the financial statements will not be detected (particularly intentional misstatements concealed through collusion), even though the audit is properly planned and performed.
- The audit includes:
 - obtaining an understanding of the entity and its environment including internal control in order to plan the audit and to assess the risk that the financial statements may contain misstatements that, individually or in the aggregate, are material to the financial statements taken as a whole;
 - examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
 - assessing the accounting principles used and their application; and
 - assessing the significant estimates made by management.
- When the auditor's risk assessment includes an expectation of the operating effectiveness of controls, sufficient appropriate audit evidence will be obtained through tests of controls to support the assessment, but the scope of the auditor's review of internal control will be insufficient to express an opinion as to the effectiveness or efficiency of the entity's controls or to consider whether internal control is adequate for management's purposes.
- The auditor will express an opinion as to whether the financial statements present fairly in all material respects, in accordance with generally accepted accounting principles, the financial position, results of operations and cash flows of the entity.

Audit and Non-Audit Services Provided by the Auditor

- We have designed our audit to express an opinion on the 2007 financial statements of the Toronto Public Library Board (the "Library") in accordance with Canadian generally accepted auditing standards.

Detailed Terms of Engagement

- The detailed terms of our engagement are outlined in our engagement letter, a copy of which is included in this plan. This engagement letter has been signed by the City's Clerk in accordance with the RFP for audit services for the City of Toronto.
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Required Communications

Discussion

Overview of Required Communications

- Professional standards require us to communicate certain matters to the Library Board that may assist the Board in overseeing management's financial reporting and disclosure process. This document, together with our year end report, will provide you with the information we believe you require.
 - At the completion of the audit, we will report to the Library Board the results of our audit. The results package will address independence matters as well as other matters of significance to the Library Board. Such matters could include the following:
 - fraud and illegal acts involving senior management and fraud and illegal acts that cause an other than trivial misstatement of the financial statements;
 - material weaknesses in internal control;
 - related party transactions;
 - significant audit adjustments and unadjusted differences;
 - adoption of, or a change in an accounting principle;
 - methods of accounting for significant unusual transactions and for controversial or emerging areas;
 - our judgments about the quality of the Library's accounting principles;
 - areas where management must make significant judgments or estimates;
 - our responsibility for other information in documents containing audited financial statements;
 - disagreements with management on financial accounting and reporting matters;
 - consultations with other accountants;
 - major issues discussed with management in connection with initial or recurring retention; and
 - serious difficulties encountered in dealing with management when performing the audit.
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Audit Process

Discussion

Audit Process

- For purposes of our audit of the financial statements, our audit scope is developed after considering inherent and control risks and the effectiveness of the Library's internal controls. A variety of factors are considered when establishing the audit scope including size, specific risks, the volumes and types of transactions processed, changes in the business environment, and other factors.
 - Our audit procedures are customized based on the Library's significant accounts, disclosures and classes of transactions, as well as our assessment of risk, including the risks of fraud. Our procedures include tests of controls over payroll and purchases/cash disbursements, and substantive tests of other significant account balances and transactions.
 - Areas of audit emphasis for financial statements and disclosure include:
 - System documentation of significant processes including donation and sponsorship revenue, purchasing, payroll, and financial statement close process and preparation, as well as testing of internal controls related to payroll and purchasing;
 - Analysis of fund activity and balances, including inter-fund transfers;
 - Completeness of liabilities, contingent liabilities and contractual obligations; and
 - Completeness and measurement of expenditures.
 - We will provide an opinion on the Library's financial statements.
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Audit Process (continued)

Discussion

Materiality

- 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 the Library 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:
 - extent of evaluation of internal accounting controls
 - extent and nature of audit evidence (i.e., extent of testing) to be examined
- Our estimation of planning materiality requires professional judgment and necessarily takes into account qualitative as well as quantitative considerations. Based on budgeted (capital and operating) gross expenditures of the Library, materiality for the audit of the 2007 financial statements is estimated to be \$1.79 million [2006 - \$1.79 million] which represents approximately 1% of budgeted year end expenditures. This approach to calculating materiality is within the recommendations in the CICA Handbook guideline which deals with materiality and audit risk.
- The preliminary materiality level will be reviewed on an ongoing basis throughout our audit. Should actual results vary significantly from the plan, the materiality level will be adjusted in order to recognize this change in circumstances.

Use of Specialists

- We rely on Mercer Human Resources Consulting to provide the actuarial estimates required to account for non-pension future employee benefit costs and costs associated with the defined benefit plans.
- With our reliance on the work of others, we are required by professional standards to do some retesting of the work performed by the specialists. We incorporate this testing into our audit plan wherever reliance exists.

Co-ordination with Auditor General's Office and Internal Audit Division

- We work closely with the Auditor General's Office and the Internal Audit Division so that we take into consideration work they have completed in planning our approach. In addition, we ensure that the Auditor General is informed on a timely basis about any significant issues that arise.
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Audit Team and Fees

Discussion

Audit Team

Ernst & Young continues to serve you with a team of professionals who offer both industry experience and a working knowledge of the Library's business. We continue to focus on providing a committed and experienced team to the Library. The table below shows the key team members for the audit.

Engagement Member	Responsibility
Diana Brouwer	Independent Reviewer
Gary Kaye	Engagement Partner
Gurdeep Lotey	Manager

Fees

	2007	2006
	\$	\$
Annual audit fees	\$25,000	\$25,000

- The total annual audit fees are inclusive of expenses and GST. This is a five-year contract ending with the audit of the December 31, 2007 financial statements.
- We will provide a complete listing of any fees for other services performed during the year as part of our year-end reporting package.

Audit Timetable

	Discussion	Date	
Timetable	<ul style="list-style-type: none"> The following timetable highlights those major activities which are key elements of our audit plan: 		
	Establish Engagement Objectives	October - December	January - April
	– Meet with management regarding operating, accounting, and reporting matters	√	
	– Conduct other audit planning events with management (e.g. fraud discussions/updates)	√	
	– Coordinate audit plan with management	√	
	– Management and Library Board review of planning/scope	√	
	Understand the Business and Establish Audit Strategy		
	– Update our understanding of your systems and develop overall audit plan	√	
	– Evaluate internal control at the entity level, including fraud controls	√	√
	– Perform combined (inherent and control) risk assessments and develop customized audit approach	√	
	Perform Audit Procedures		
	– Perform tests of controls and other interim procedures	√	
	– Update control testing and perform year-end procedures		√
	Deliverables		
	– Complete review of final audited financial statements		√
	– Discussion of audit results with senior management and the Library Board		√
	– Issue management letter		√
Key Dates	<ul style="list-style-type: none"> Interim fieldwork occurred week of October 9, 2007 Year-end fieldwork to commence February 25, 2008 		

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.

	Discussion
Tangible Capital Assets	<ul style="list-style-type: none">• In June 2006, PSAB approved final Section PS 3150, <i>Tangible Capital Assets</i> as it relates to local governments.• The section establishes standards on how to account for and report tangible capital assets in government financial statements. The previous version of this standard applied to federal, provincial and territorial governments. Local governments would record an expenditure when tangible capital assets were acquired but with this revision local governments will account for their tangible capital assets in the same manner as the other levels of government.• Tangible capital assets represent a significant investment for local governments. Financial information about the stock and use of those assets is now required to be provided in the financial statements of local governments. This information is vital for stewardship, accountability, costing and developing asset management plans including ongoing maintenance and replacement requirements.• This section applies to local governments for fiscal years beginning on or after January 1, 2009.• In preparing for the guidance noted above, PSAB approved a Public Sector Guideline, <i>Tangible Capital Assets of Local Governments</i>, in January 2006.• The purpose of the guideline is to provide transitional guidance to local governments on presenting information related to tangible capital assets in notes or schedules to its summary financial statements.• The guideline applies to fiscal years beginning on or after January 1, 2007.• <i>This is a significant change in reporting for the Library, and will require an investment in resources to be ready for compliance with the new standard. We understand that Library management is working with management of the City to respond to the new reporting requirements and will continue to work through these changes in time for the implementation. For the current year ended December 31, 2007, and those years leading up to full implementation of PS 3150, the Library will require some financial statement disclosures with respect to this guideline.</i>
Government Reporting Model	<ul style="list-style-type: none">• In November 2006, PSAB approved final revisions to Section PS 1000, <i>Financial Statement Concepts</i>, PS 1100, <i>Financial Statement Objectives</i>, and PS 1200, <i>Financial Statement Presentation</i>.• The revisions made to the above noted sections primarily focused on local governments applying the same reporting model currently adopted by senior governments. With the implementation of this new section by the local government community, all governments will be reporting on a full-accrual basis of accounting.• This section applies to local governments for fiscal years beginning on or after January 1, 2009.• <i>This section is not expected to have a significant impact on the Library's reporting.</i>

New Developments in Accounting or Auditing Standards (continued)

Discussion

Segment Disclosure

- In January 2006, PSAB approved final Section PS 2700, *Segment Disclosures*.
 - This Section establishes standards on how to define and disclose segments in a government's summary financial statements.
 - These standards apply to the summary financial statements of federal, provincial, territorial and local governments. Other government organizations that apply the standards of the CICA Public Sector Accounting Handbook (CICA PSA Handbook) are encouraged to provide the disclosures established in this Section when their operations are diverse enough to warrant such disclosures.
 - Summary financial statements provide aggregated information about government and serve as a means by which a government demonstrates its accountability for the financial affairs and resources entrusted to it. Generally, however, the activities of a government are so broad and encompass so wide a range of different activities that it is valuable to disclose selected disaggregated financial information about particular segments of a government in the summary financial statements.
 - The guidance in this Section is intended to start with the summary financial statements and separate out key financial information into segments in order to provide relevant information for accountability and decision-making purposes, while ensuring that the information is consistent with the summary statements.
 - The objectives of disclosing information about segments are to:
 - help users of the financial statements identify the resources allocated to support the major activities of the government;
 - help users of the financial statements make more informed judgments about the government reporting entity and about its major activities;
 - help users of financial statements better understand the manner in which the organizations in government are organized and how the government discharges its accountability obligations;
 - enhance the transparency of financial reporting; and
 - help users of the financial statements better understand the performance of the segments and the government reporting entity.
 - Users of financial statements have a variety of needs that segment disclosures may be useful in addressing. For example, segment disclosures may assist users in assessing future net cash flows of the government
 - This new section applies to fiscal years beginning on or after April 1, 2007.
 - *This section is not expected to have a significant impact on the Library's reporting.*
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New Developments in Accounting or Auditing Standards (continued)

Discussion

Government Transfers

- Government Transfers is a project that was started to develop amendments to Section PS 3410, *Government Transfers*, to address application and interpretations issues raised by the government community. The major issues in the project include:
 - Resolving the debate over the appropriate accounting for multi-year funding provided by governments;
 - Clarifying the nature and extent of the authorization needed to be in place for a transfer to be recognized;
 - Clarifying the degree to which stipulations imposed by a transferring government should impact the timing of recognition of the transfer by both the transferor and recipient governments; and
 - Addressing the appropriate accounting for capital transfers received under an expense-based accounting regime.
- A re-exposure draft was approved in March 2007 with responses due by October 1, 2007 and a final handbook section approved for June 2008.
- *This section is not expected to have a significant impact on the Library's reporting under the current rules.*

Assessment of Tangible Capital Assets

- March 2007, PSAB approved a Statement of Principles for the Assessment of Tangible Capital Assets. The objective of this project is to issue a Statement of Recommended Practice ["SORP"] that would:
 - Assist governments in reporting information about major assets that is useful in evaluating the government's financial condition and financial and non-financial performance;
 - Improve comparability and reliability of financial and non-financial information about major assets within and across governments; and
 - Establish specific definition, measurement, presentation recommendations for providing supplementary information about major assets.
- PSAB expects to have an approved Exposure Draft in November 2007 with a final SORP by June 2008.
- *This SORP will need to be considered by Library management when they begin their reporting of tangible capital assets.*

Other projects

- Other projects in progress for PSAB are:
 - Financial Instruments – presently guidance in the Public Sector Handbook in respect of accounting for derivative financial instruments is limited to their application in hedging foreign currency items. Derivative financial instruments are increasingly being used by governments to manage other financial exposures such as interest rate exposures.
 - Foreign Currency Translation – the objective of this project is to review the current provisions in Section PS 2600, *Foreign Currency Translation*, to eliminate the deferral and amortization provisions and apply immediate recognition for foreign denominated monetary items. PSAB agreed to have this project coincide with that of Financial Instruments noted above.
 - *These projects are not expected to have a significant impact on the Library based on current operations.*
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Current Year Developments

Each year in preparing our audit planning, we review significant developments within the Library and the external environment in which you operate. This review enables us to better understand the issues you are facing and to ensure that our audit plan appropriately and effectively addresses all areas of concern. To date, we have noted and discussed with management the following areas which are of significance:

Accounting / Audit Issues	Discussion	Preliminary Evaluation
Employee Benefit Costs	<ul style="list-style-type: none"> The Library sponsors defined benefit plans providing other retirement and post-employment benefits to employees. Actuarial valuations are conducted on a periodic basis. The last actuarial review was completed in 2003 using the results as of December 2002. We understand that management is working with the City of Toronto and Mercer Human Resources Consulting to provide a full updated valuation as at December 31, 2006 that will be rolled-forward for the 2007 year, and will reflect the impact of any 2007 plan changes that will have an impact on the liability. 	<ul style="list-style-type: none"> We rely on the work performed by Mercers in auditing these employee benefits. Our audit procedures will include steps for us to gain comfort that all relevant plan changes have been considered in the updated valuation.
Capital Asset Reporting	<ul style="list-style-type: none"> Included in our 2006 Audit Results package and within the New Developments in Accounting and Auditing Standards section of this package, we have informed you of upcoming changes to reporting developments that may have a significant impact on the Library. Capital asset reporting is a significant upcoming change that will require a lot of time and resources for the Library to implement. 	<ul style="list-style-type: none"> Our 2007 audit procedures will be limited to the required disclosures for the 2007 financial statements within this transitional year to the new standard.

Engagement Letter

July 20, 2007

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

Dear Mr. Griffiths:

1. This engagement letter, including any additional terms that are attached, (collectively, the “Agreement”) confirms the terms upon which Ernst & Young LLP (“we” or “EY”) has been engaged to perform a statutory audit and report on the consolidated financial statements of the City of Toronto (the “City”) for the year ending December 31, 2007. The services described in this paragraph may hereafter be referred to as either “Audit Service” or “Audit Services.”

Audit Responsibilities and Limitations

2. The objective of our audit is to express an opinion on whether the consolidated financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the City in conformity with Canadian generally accepted accounting principles.
3. We will conduct our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable rather than absolute assurance that the consolidated financial statements taken as a whole are free of material misstatement whether caused by error, fraud or illegal acts whose consequences have a material effect on the consolidated financial statements. There are inherent limitations in the audit process, including, for example, the use of judgment and selective testing of the data underlying the financial statements, the inherent limitations of internal controls, and the fact that much of the audit evidence available to the auditor is persuasive rather than conclusive in nature. Furthermore, because of the nature of fraud, including attempts at concealment through collusion and forgery, an audit designed and executed in accordance with Canadian generally accepted auditing standards may not detect a material fraud. Further, while effective internal control reduces the likelihood that misstatements will occur and remain undetected, it does not eliminate the possibility. For these reasons, we cannot guarantee that fraud, error and illegal acts, if present, will be detected when conducting an audit in accordance with Canadian generally accepted auditing standards.

Engagement Letter (continued)

Also, an audit is not designed to detect error or fraud that is immaterial to the consolidated financial statements. 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 Audit Committee. Such matters include, when applicable, disagreements with management, whether or not resolved; difficulties encountered in performing the audit; our 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; unrecorded 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.

4. 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 controls to prevent and detect potential misstatements. This consideration will not be sufficient to enable us to provide assurance on the effectiveness of internal controls over financial reporting or to identify all significant weaknesses.

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. If we determine that there is evidence that misstatements, resulting from error, other than trivial errors, or that fraud or illegal or possibly illegal acts may exist or have occurred (other than illegal acts that are considered inconsequential), we will bring such matters to the attention of an appropriate level of management. The type and significance of the matter to be communicated will determine the level of management to which the communication is directed and whether the communication is also made to the Auditor General and the Audit Committee. 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 the Audit Committee. We will also determine that the Auditor General and the Audit Committee are adequately informed of misstatements, resulting from error, other than trivial errors and illegal or possibly illegal acts that come to our attention unless they are clearly inconsequential. We will not duplicate any reporting made by the Auditor General in his communications to the Audit Committee and we will work with the Auditor General in our understanding of the risks that may arise as a result of any reportable incidents to his group in the year. In addition, we will inform the Auditor General, the Audit Committee and appropriate members of management of significant audit adjustments and significant weaknesses in the design or implementation of internal controls to prevent or detect fraud or error noted during our audit procedures, as well as related party transactions identified by us that are not in the normal course of operations and that involve significant judgments made by management concerning measurement and disclosure.

Engagement Letter (continued)

6. We also may communicate to the appropriate levels of management other opportunities we observe for economies in or improved controls over the City's operations. The matters communicated will be those that we identify during the course of our audit. Audits do not usually identify all matters that may be of interest to management in discharging its responsibilities.
7. In accordance with CICA Handbook Section 5751, *Communications with Those Having Oversight of the Financial Reporting Process*, we will communicate in writing to the Audit Committee any relationships between Ernst & Young LLP, its partners and professional employees and the City of Toronto (including related entities) that, in our professional judgment, may reasonably be thought to bear on our independence. Further, we will confirm our independence with respect to the City of Toronto (including related entities).

Management's Responsibilities and Representations

8. The preparation and fair presentation of the consolidated financial statements in accordance with Canadian generally accepted accounting principles are the responsibility of the management of the City. Management also is responsible for establishing and maintaining effective internal controls, for properly recording transactions in the accounting records, for safeguarding assets, and for identifying and ensuring that the City complies with the laws and regulations applicable to its activities.
9. The design and implementation of internal controls to prevent and detect fraud and error are the responsibility of the City's management, as is an assessment of the risk that the consolidated financial statements may be materially misstated as a result of fraud. Management is responsible for apprising us of all known instances of fraud, suspected fraud, illegal or possibly illegal acts and allegations involving financial improprieties received by management or the Audit Committee (regardless of the source or form and including, without limitation, allegations by "whistle-blowers," employees, former employees, analysts, regulators or others), and for providing us full access to information and facts relating to these instances and 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 EY, or other allegations of illegal acts or fraud that could have a non-trivial effect on the financial statements or otherwise affect the financial reporting of the City. If the City limits the information otherwise available to us under this paragraph (based on the City's claims of solicitor/ client privilege, litigation privilege, or otherwise), the City will immediately inform us of the fact that certain information is being withheld from us. Any such withholding of information could be considered a restriction on the scope of our Audit Services and may alter the form of report we may issue on such financial statements; prevent us from consenting to the inclusion of previously issued auditor's reports in future City filings; or otherwise affect our ability to continue as the City's auditors. The City and we will disclose any such withholding of information to the Auditor General and the Audit Committee.

Engagement Letter (continued)

10. Management of the City is responsible for providing us with and making available complete financial records and related data and copies of all minutes of meetings of council and committees; information relating to any known or probable instances of non-compliance with legislative or regulatory requirements, including financial reporting requirements; information relating to any illegal or possibly illegal acts, and all facts related thereto; and information regarding all related parties and related party transactions. Failure to provide this information on a timely basis may cause us to delay our report, modify our procedures or even terminate the engagement.
11. 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 unrecorded 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.
12. As required by Canadian generally accepted auditing standards, we will make specific inquiries of management about the representations contained in the consolidated financial statements. Management is responsible for affirming to us in its representation letter and providing us with information regarding the recognition, measurement and disclosure of specific items, including but not limited to the following:
 - its assessment of the reasonableness of significant assumptions underlying fair value measurements and disclosures in the consolidated financial statements or used to support amounts in the consolidated financial statements;
 - any plans or intentions that may affect the carrying value or classification of assets and liabilities;
 - information relating to the measurement and disclosure of transactions with related parties;
 - an assessment of all areas of measurement uncertainty known to management that are required to be disclosed in accordance with CICA Handbook Section 1508, *Measurement Uncertainty*;
 - information relating to claims and possible claims, whether or not they have been discussed with the City's legal counsel;
 - information relating to other liabilities and contingent gains or losses, including those associated with guarantees, whether written or oral, under which the City is contingently liable;
 - information on whether the Company has satisfactory title to assets, whether liens or encumbrances on assets exist, or whether assets are pledged as collateral;
 - information relating to compliance with aspects of contractual agreements that may affect the consolidated financial statements; and
 - information concerning subsequent events.

Engagement Letter (continued)

13. At the conclusion of the audit, we obtain representation letters from certain members of management to confirm significant representations on matters that are directly related to items that are material, either individually or in the aggregate, to the consolidated financial statements; matters that are not directly related to items that are material to the consolidated financial statements but are significant, either individually or in the aggregate to the engagement; and those that are relevant to your judgments or estimates that are material, either individually or in the aggregate, to the consolidated financial statements. The responses to the inquiries of management, the written representations from management and the results of our audit tests comprise the evidential matter we will rely upon in forming an opinion on the consolidated financial statements.

Fees and Billings

14. Our fees, which we will bill as work progresses, are based on our original response to your request for proposal, which stated a fee for 2007 of \$750,000 inclusive of expenses and GST. The stated fee also includes the audit of the Toronto Public Library Foundation and the Toronto Zoo Foundation which are not listed in paragraph 17 as their terms and conditions are covered in a separate engagement letter. The cost of these audits, and other audits no longer required, as detailed in the Price Detail Form attached to our original response, will be deducted from this fee.

15. 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 a reasonable level of assistance. 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 may adjust our fees and planned completion dates. In addition, fees for any special audit-related projects, such as proposed business combinations or research and/or consultation on special business or financial issues, will be billed separately from the audit fee referred to above and may be the subject of other written agreements supplemental to those in this letter.

Other Matters

16. You will provide to us copies of the printer's proofs of your annual report prior to publication for our review. Management of the City bears the primary responsibility to ensure the annual report contains no misrepresentations. 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.

Engagement Letter (continued)

17. 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 14 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 Services Board Special 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
- Castlevue Wychwood Towers
- Cummer Lodge
- Fudger House
- Kipling Acres
- Lakeshore Lodge
- Seven Oaks
- True Davidson Acres

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

Engagement Letter (continued)

Toronto Coach Terminal, Inc.
Toronto Transit Commission
TTC Insurance Company Limited
Metropolitan Toronto Pension Fund
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
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 Track and Field Centre

18. By your signature below, you confirm that the City, through City of Toronto Council, has expressly authorized you to enter into this Agreement with us on the City's behalf, and to bind, the City.
19. The attached additional Terms and Conditions form an integral part of this engagement letter and govern our respective rights and obligations arising therefrom.

Engagement Letter (continued)

EY appreciates the opportunity to be of assistance to the City. If this Agreement accurately reflects the terms on which the City has agreed to engage EY, please sign below on behalf of the City and return it to Diana M. Brouwer, Ernst & Young LLP, Chartered Accountants, Ernst & Young Tower, 222 Bay Street, P.O. Box 251, Toronto, ON M5K 1J7.

Yours very truly,

Ernst & Young LLP
Chartered Accountants
Licensed Public Accountants

Ernst & Young LLP
Chartered Accountants
Licensed Public Accountants

Acknowledged and agreed:
City of Toronto

By: _____ By: _____

[Name of Client Official]

[Name of Client Official]

This engagement letter has been signed by the City Clerk's office and Treasurer; and returned to Ernst & Young LLP.

[Title]

[Title]

Engagement Letter (continued)

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"). As used herein "EY" refers to the Canadian firm of Ernst & Young LLP. "EY Entities" means EY, all members of the global Ernst & Young network, Ernst & Young Global Limited, and any of their respective affiliates (and "EY Entity" means any one of them).

1. **Services** - EY will exercise due professional care and competence in the performance of the services provided pursuant to this Agreement (the "Services") to the reasonable satisfaction of the client's Auditor General and Deputy City Manager and Chief Financial Officer and EY will use all reasonable efforts to complete the performance of the Services within any stipulated time-frames. 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.
2. **Client Data and Information** - Client will provide to EY in a timely manner complete and accurate data and information ("Client Data") and access to such management personnel, staff, premises, computer systems and applications as are reasonably required by EY to complete the performance of the Services. EY may disclose Client Data to other EY Entities for the purpose of rendering the Services. EY may also disclose Client Data to other EY Entities for the purposes of fulfilling its professional obligations to manage conflicts of interest and to maintain auditor independence as well as to implement standardized performance recording and documentation systems with the global Ernst & Young network. EY Entities or their service providers may store Client Data, which may include personal information, outside of Canada.
3. **Confidentiality** – EY shall comply with the Privacy, Security and Confidentiality Terms and Conditions attached as Appendix B to the Request for Proposals No. 9155-03-7140, except that, unless specifically requested by client, (i) EY shall not be encrypting e-mail communications which may contain personal information, and (ii) any personal information in EY's possession shall not be segregated from the rest of its audit working papers. 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. **EY Waiver Re: Tax Advice** - Notwithstanding any confidentiality obligations or other restrictions on disclosure contained in this Agreement, with regard to:
 - (a) any oral or written statement or advice related to taxes provided by EY with regard to a person or entity that:
 - (i) has any filing obligation with the US Internal Revenue Service, or
 - (ii) qualifies as a US Controlled Foreign Corporation (i.e., a non-US corporation that has US shareholders (US persons that directly or indirectly own 10% or more of the total combined voting power of all of the classes of stock of such non-US corporation) that own in the aggregate more than 50% of the total vote or value of such non-US corporation);

Engagement Letter (continued)

- (b) any oral or written statement or advice regarding US taxes or tax advice related to a transaction that could affect a US tax; or
- (c) where SEC audit independence restrictions apply to the relationship between client and any EY Entity, any oral or written statement or advice to client as to any potential tax consequences that may result from a transaction or the tax treatment of an item, (together, (a), (b) and (c) referred to as "Tax Advice"),

EY expressly authorizes client to disclose to any and all persons, without limitation of any kind, any such Tax Advice, including any fact that may be relevant to understanding such Tax Advice, and all materials of any kind (including opinions and other tax analyses) provided to client in relation to such Tax Advice. However, because the Tax Advice is solely for the benefit of client and is not to be relied upon by any other person or entity, client shall inform those to whom it discloses any such information that they may not rely upon any of it for any purpose without EY's prior written consent.

5. **Privacy** - Client confirms to EY that it has obtained any consents that may be required under applicable privacy legislation for any collection, use or disclosure of personal information that is necessary in order for EY to provide the Services. EY shall adhere to applicable privacy legislation when dealing with personal information that was obtained from client.
6. **Internet Communications** - Unless otherwise agreed with client, EY and other EY Entities may correspond by means of the Internet or other electronic media or provide information to client in electronic form. There are inherent risks associated with the electronic transmission of information on the Internet or otherwise. EY cannot guarantee the security and integrity of any electronic communications sent or received in relation to this engagement and cannot guarantee that transmissions or other electronic information will be free from infection by viruses or other forms of malicious software.
7. **Right to Terminate Services** – Subject to any applicable professional standards and legislation, either party may terminate this Agreement, with or without cause, by providing 30 days written notice to the other party. In the event of EY's failure to comply with the terms of this Agreement, client has the right to terminate this Agreement if the failure has not been rectified 15 days after written notice was provided to EY of the failure. 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.
8. **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.
9. **Expenses** - EY will bill for all reasonable expenses. Expenses such as long-distance telephone and telecommunications 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.

Engagement Letter (continued)

10. **Billing & Taxes** - 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. 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 without regard to principles of conflicts of law. The parties hereby irrevocably and unconditionally submit and attorn to the exclusive jurisdiction of the courts of the Province of Ontario in connection with any dispute, claim or other matter arising out of or relating to this Agreement or the Services.
12. **Working Papers/Reports** - EY retains all copyright and other intellectual property rights in everything developed, designed or created by EY either before or during the course of an engagement including systems, methodologies, software, know-how and working papers. EY also retains all copyright and other intellectual property rights in all reports, advice or other communications of any kind provided to client in any form (written or otherwise) during the course of the engagement (the "Reports") provided by EY to client. The client will have the full right to use any Reports for their intended purpose, i.e. audit reports are provided to client in accordance with the provisions of the *City of Toronto Act, 2006* and in particular with sections 233, 234 and 235 thereof and are not prepared for use by third parties, although EY specifically acknowledges and agrees that the audit reports shall be part of the public record which may be inspected by any person. Any audit procedures were not planned or conducted (i) in contemplation of reliance by particular third parties (ii) with respect to any specific transaction contemplated by a third party or (iii) with respect to the interests or requirements of particular third parties. 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 ten (10) years, unless notified by the Client in writing of the need to extend the retention period. Client may not rely on any draft Report.
13. Subject to the limitations contained in section 14 ("*Limitation of Liability*"), EY shall defend, save harmless and indemnify client and its Mayor, Councillors, officers, employees, agents, representatives, successors and assigns against all losses, costs, damages and other liabilities arising from the EY's performance of the Services where caused by or to the extent contributed by the negligent acts or omissions of EY and those for whom it is in law responsible. Subject to the limitations contained in section 14 ("*Limitation of Liability*"), EY shall defend, indemnify and save harmless client, its Mayor, Councillors, officers, employees, agents, representatives, successors and assigns, against all claims, actions, suits and proceedings, including all costs incurred in connection with any patent, copyright, moral right, trademark or industrial design or the use or misuse in connection EY's performance of the Services.

Engagement Letter (continued)

14. **Limitation of Liability** – To the fullest extent permitted by law and regardless of whether such liability is based on breach of contract, tort (including negligence), strict liability, failure of essential purpose or otherwise,
- (a) EY's liability shall be several and not joint and several and EY shall only be liable for its proportionate share of any total liability based on degree of fault having regard to the contribution to any loss or damage in question of any other persons responsible and /or liable for such loss and damage;
 - (b) in no event shall EY be liable for any consequential, incidental, indirect, punitive or special damages (including loss of profits, data, business or goodwill) in connection with the performance of the Services or otherwise under this Agreement, and even if EY has been advised of the likelihood of such damages; and
 - (c) in any case the total aggregate liability of EY arising out of or relating to this Agreement or the Services shall be limited to \$2,000,000. This paragraph shall not limit EY's liability for death, personal injury or physical damage to tangible 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 of EY.

For the purposes of this section ("*Limitation of Liability*"), the term EY includes all other EY Entities and any subcontractors, members, shareholders, directors, officers, managers, partners or employees of EY or any other EY Entity.

15. EY agrees that it shall, at its own expense during the performance of the Services, cause to be maintained a Comprehensive General Liability policy of insurance containing a \$2,000,000.00 per occurrence and in the aggregate limit of coverage, and a Professional Liability and Errors and Omissions policy of insurance containing a \$5,000,000.00 per occurrence and in the aggregate limit of coverage.

In respect of the **Comprehensive General Liability** coverage, such coverage shall include:

- (i) the client as an additional insured only with respect to liability arising out of the actions of EY;
- (ii) a cross liability/severability of interest clause
- (iii) personal injury liability;
- (iv) broad form contractual liability;
- (v) contingent employer's liability;
- (vi) employer's liability; and
- (vii) non-owned automobile liability.

In respect of Professional Liability and Errors and Omissions coverage, such coverage shall include coverage of each person made available for the performance of Services by EY. EY agrees that it shall, at its own expense, maintain the levels of coverage described above for Two (2) Years subsequent to the completion or other termination of the Services.

If requested by the client to do so, EY will from time to time provide certificates of insurance to the client evidencing such levels of coverage.

EY acknowledges that its insurance policies are subject to deductible amounts, which deductible amounts shall be borne by EY.

Engagement Letter (continued)

16. **Global Resources** - EY may use the services of personnel from other EY Entities to assist it in providing the Services. EY shall be solely responsible for the performance of the Services and all of the other liabilities and obligations of EY under this Agreement whether or not performed, in whole or part, by EY, any other EY Entity, or any subcontractor or personnel of any EY Entity. Client and its affiliates or other persons or entities for or in respect of which any of the Services are provided shall have no recourse, and shall bring no claim, against any EY Entity other than EY, or against any subcontractors, members, shareholders, directors, officers, managers, partners or employees of EY or any other EY Entity, or any of their respective assets, in connection with the performance of the Services or otherwise under the Agreement. Other EY Entities and any subcontractors, members, shareholders, directors, officers, managers, partners or employees of EY or any other EY Entity shall have the express benefit of this section and shall have the right to rely on and enforce any of its terms.
17. **No Application** – The preceding two sections entitled *Limitation of Liability* and *Global Resources*, or any portion of them, shall have no application to any liability for which exclusion or restriction is prohibited by applicable law or regulation (including any applicable rules or guidance from a provincial Institute/Order of Chartered Accountants having jurisdiction).
18. **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 client has not previously filed such financial statements, since the beginning of the most recent fiscal year to be covered by client's first such financial statements), or in the 12 months preceding that date.
19. **Severability** - In the event any provision of this Agreement is determined to be invalid, illegal or unenforceable, in whole or in part, such provision shall be deemed severed from this Agreement to the extent required and the remainder of this Agreement shall remain in full force and effect.
20. **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.
21. **LLP Status** - EY is a registered limited liability partnership ("LLP") continued under the laws of the province of Ontario and is registered as an extra-provincial LLP in Quebec and other Canadian provinces. Generally, 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 any provincial Institute/Order of Chartered Accountants.

Engagement Letter (continued)

22. **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 signed by the parties. This agreement may not be assigned in whole or in part by client without EY's prior written consent, not to be unreasonably withheld. This Agreement constitutes the entire agreement between the parties relating to its subject matter and except as described below, supersedes all prior representations, negotiations and understandings. 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*, *Limitation of Liability*, *Solicitation & Hiring of EY Personnel* and *Legal Proceedings*. The provisions of this Agreement shall operate for the benefit of, and may be enforced by, any subcontractor, agent, partner or employee that is providing any of the Services.
23. **Other Relevant Documents** – The terms and conditions contained in the Request for Proposals 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. Request for Proposals No. 9155-03-7140



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