ASSURANCE AND ADVISORY
BUSINESS SERVICES

February 20, 2004

Trust Funds of the Toronto Public Library

Audit Results – Year Ended December 31, 2003

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

ERNST & YOUNG

Quality In Everything We Do

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February 20, 2004

Members of the Finance and Audit Committee of the Board of Directors
of the Trust Funds of the Toronto Public Library

Dear Members:

We are pleased to present the results of our audit of the financial statements of the Trust Funds of the Toronto Public Library (the "Trust"). This report 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 Trust. As in previous years, our current-year plan was prepared based on our understanding of the Trust's business and industry. Our plan was designed to be responsive to the unique needs of the Trust, 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 Trust's finance and operating personnel.

The Trust and Ernst & Young share a commitment to quality. Our job demands a thorough understanding of the Trust, its operations, and emerging issues in order to mitigate risk. Ensuring that the right things get done right means constantly challenging the Trust'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 or our work.

We appreciate the opportunity to meet with you. If you have any questions or comments, please do not hesitate to give us a call.

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This report is intended solely for the use of the Finance and Audit Committee, the Board of Directors and management, and should not be used for any other purpose, without our express written consent.

Very truly yours,

Ernst & Young LLP

Diana Brouwer/John Teti
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Terms of Our Engagement

	Discussion
Overview	• We performed an examination of the Trust's December 31, 2003 financial statements in accordance with Canadian generally accepted auditing standards. The objective of our audit is to obtain reasonable – not absolute - assurance that the financial statements are free from material misstatement. The preparation of the financial statements and the accompanying notes are the responsibility of management. • While the primary objective of our audit examination is to render an opinion on the fairness of the financial statements as a whole, we consider internal accounting procedures and systems of internal controls to the extent necessary to determine our auditing procedures. Our work does not provide assurance on the internal control structure, nor do our procedures necessarily cover all control systems upon which management may be relying. • The detailed terms of our engagement are outlined in our engagement letter, which was submitted to and signed back by the clerk's department of the City of Toronto as the Trust was included within the City's RFP in 2002.
Your Team	• 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 Trust. Their enthusiasm and commitment ensure responsive, innovative and forward looking service focused on your business issues.

Engagement Member	Responsibility
Diana Brouwer	Engagement Principal
John Teti	Manager
Martha Tory	Reference Partner

Audit Approach

	Discussion
Overview	• 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 Trust'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 Finance and Audit Committee 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 a substantive approach to most aspects of the audit. In other words, we do not rely on controls. It is generally more efficient to use audit procedures such as confirmations and analytical review to obtain our audit assurance for your Trust.

Audit Approach (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 your Trust 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
	• Materiality for not-for-profit entities is generally measured in terms of a range between ½% and 2% of revenues or expenditures or as a percentage of ½% and 1% of assets. This range corresponds with the recommendations in the CICA Handbook guideline that deals with materiality and audit risk.
	• Our experience with your Trust has led us to base materiality in the higher end of this range. We use assets as a base as it is the growth of the assets that provides the future for the Trust. As a result, an amount greater than $21,000, which represents approximately 1% of your total assets, 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 $500.

Use of Specialists	• None
Internal Audit	• None

New Developments in Accounting or Auditing Standards

Each year, we review changes in professional standards, legislation and stakeholder requirements that may have an impact on our audit, including the presentation or disclosure of items in the financial statements, our audit scope, and matters requiring communication.

	Discussion	Evaluation
Accounting for Severance and Termination Benefits	• The Emerging Issues Committee of the CICA issued EIC-134, Accounting for Severance and Termination Benefits, to address the different accounting treatments of the various types of severance and termination benefits related to the termination of employees' services prior to normal retirement. This EIC confirms that the liability with respect to special termination benefits for involuntary terminations can only be accrued once the special termination benefit has been communicated to employees. EIC-134 is to be applied prospectively and should be applied to termination benefits initiated after March 31, 2003.	• This will likely not apply to the Trust as the employees are that of the Library with only an admin charge flowing through to the Trust.
Financial Instruments Accounting Standards	• On March 31, 2003, the CICA released three exposure drafts setting out proposed standards intended to improve how financial instruments are currently reported in the financial statements. The proposed standards could mean changes in accounting for investments and derivatives. The new standards propose that most investments and derivatives be recognized at fair value and is planned to come into effect for fiscal years beginning on or after October 1, 2004.	• Ernst & Young will continue to monitor when this may be applicable to ensure that the standards are met. For fiscal 2003, there were no issues and if investments etc. continue to be the same – there will be no changes for the Trust.
Employee Future Benefits	• The Accounting Standards Board has approved revisions to the disclosure requirements of "Employee Future Benefits", Section 3461. These revisions do not change any recognition or measurement requirements currently in Section 3461. The revisions modify the wording of the disclosure requirements for defined contribution plans, multi-employer plans and special termination benefits only where needed to conform terminology. Additional annual disclosures are effective for years ending on or after June 30, 2004.	• This will likely not apply to the Trust as the employees are that of the Library with only an admin charge flowing through to the Trust.

New Developments in Accounting or Auditing Standards (continued)

	Discussion	Evaluation
Changes in Accounting Policies and Estimates, and Errors	• This exposure draft proposes to amend Accounting Changes, Section 1506, such that a change in accounting policy would be made only when it is required by a primary source of GAAP or results in a reliable and more relevant financial statement presentation.	• No impact on the Trust's statements for 2003.
Auditor's Responsibility to Consider Fraud and Error	• The Auditing and Assurance Standards Board ("AASB") of the CICA proposes to revise "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 proposed timing of the new standards related to fraud and error are proposed for audits of periods ending on or after December 15, 2004. Principal changes proposed from the existing Sections 5090 and 5135 include more emphasis on the respective responsibilities of auditors, management, and those charged with governance with respect to fraud; the elimination of any reference to an assumption of management's good faith; and guidance on procedures required to comply with the standards.	• 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. • Our enquiries of management, and our audit work performed, did not reveal any issues within the Trust.

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 Trust'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 February 20, 2004 upon approval of the financial statements by the Board of Directors.
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.	No changes made nor any new policies adopted.
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.	The Trust does not have any significant estimates.
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.	See "Summary of Audit Differences".
Significant Disclosures Not Made	None noted.
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 did identify areas in which improvements could be made in 2002 and have carried the comment forward again this year. See "Letter of recommendations."
Irregularities and Illegal Acts	Testing of the financial records and enquiries made of personnel did not reveal any 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 Canadian generally accepted auditing standards (GAAS) require that we communicate at least annually with you regarding all relationships between your Trust and Ernst & Young that, in our professional judgment, may reasonably be thought to bear on our independence. In determining which relationships to report, these standards require us to consider relevant rules and related interpretations prescribed by the appropriate provincial institute / ordre and applicable legislation, covering such matters as: (a) holding a financial interest, either directly or indirectly, in a client; (b) holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client; (c) personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client; (d) economic dependence on a client; and (e) provision of services in addition to the audit engagement.	We are not aware of any relationships between Ernst & Young and your Trust that, in our professional judgment, may reasonably be thought to bear on our independence that have occurred from March 1, 2003 to February 20, 2004.	
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.	We hereby confirm that we are objective with respect to your Trust within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as of February 20, 2004.	
Other Audit and Non-Audit Services Provided to Your Trust	None.	
Fees	Audit	$5,600

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
Friends of Osborne & LH Smith Trust	▪ The "Friends of Osborne & LH Smith Trust" consists of an outside volunteer fundraising group. The group has no reporting responsibilities to the Board of the Toronto Public Library. ▪ Current accounting of the Friends of Osborne & LH Smith Trust is done through the Toronto Public Library by Library staff. Expenses of the Friends of Osborne & LH Smith Trust are not subject to the same approval and processes as other trusts are for which the Library has direct control. ▪ The "Friends of Osborne & LH Smith Trust" sells merchandises to the public as its main fundraising. This revenue accounts for approximately 12% of the total Library Trust revenues in 2003.	• Currently the Library Trust Funds account for the Friends of Osborne & LH Smith by showing total revenues and total expenses received. • Our understanding is that the Library does not govern the fundraising and has no authority on what they do. Similar to other fundraising groups, this group should have its accounting done outside of the Library's and only the net amounts that are being passed onto the Library should be recorded as revenues. • When the Trust funds account for everything on a "gross basis" they are indicating that these are in fact – Library gross revenues and expenses. As such, from an audit perspective we get concerns around the completeness and accuracy of the transactions occurring within the group – such as the accounting for the merchandise sales and revenue tracking, and capitalization of assets (currently an item is noted on the "summary of audit differences"). Although none of these are material to the Library Trust funds at this time, they could be areas of concern in the near future. • Management and Ernst & Young has had an ongoing discussion for a few years now on how this particular trust should be treated. We have highlighted this again in 2003 as it should be something that is revisited as the various trusts gets transferred over to the books and records of the Library Foundation. Without the Library or the Foundation having direct responsibility on the transactions, only the net amount of revenues that the Friends of Osborne & LH Smith Trust has passed onto the Library for their use should be recorded as revenue.

Summary of Audit Differences

During the course of our audit, we accumulate differences between amounts recorded by management and amounts that we believe are required to be recorded under generally accepted accounting principles. Following is a summary of those differences:

	Recording Differences Would Have Increased (Decreased) Income	
	2003	**2002**
	$	$
Known and Judgemental Audit Differences:		
Equipment expensed vs. capitalized (diff. Between cost and what amortization should be) *This relates to equipment purchased by the "Friends of Osborne & LH Smith Trust.*	2,800	Nil
Total Unadjusted Audit Differences Before Turnaround Effect of Prior Year Differences	2,800	Nil
Turnaround Effect of Prior Year Differences	Nil	
Total Unadjusted Audit Differences After Turnaround Effect of Prior Year Differences	2,800	

- Management has concluded that these differences are not material, either individually or in the aggregate, to the financial statements taken as a whole.
- In evaluating these differences we considered both qualitative and quantitative factors. Materiality is a matter of professional judgment, but as a general rule is judged in relation to the reasonable prospect of an item's significance in the making of decisions by the readers of financial statements.
- We concur with management's conclusion that these differences are not material – however, with no offsets in future years, could become significant with the turnaround impact in 2004.

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February 20, 2004

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

Dear Mr. Hughsam:

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

Canadian generally accepted auditing standards (GAAS) require that we communicate at least annually with you regarding all relationships between the Trust and us that, in our professional judgment, may reasonably be thought to bear on our independence.

In determining which relationships to report, these standards require us to consider relevant rules and related interpretations prescribed by the appropriate provincial institute / 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 4, 2003, the date of our last letter.

We are not aware of any relationships between the Trust and Ernst & Young LLP that, in our professional judgment, may reasonably be thought to bear on our independence, which have occurred from March 1, 2003 to February 20, 2004.

The total fees charged to the Trust for audit services were $5,600 during the period from March 1, 2003 to February 20, 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 Trust within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as of February 20, 2004.

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

Yours very truly,

Ernst & Young LLP

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

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February 20, 2004

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

Dear Mr. Hughsam:

Re: Letter of Recommendations for the year ended December 31, 2003

Our audit of the financial statements for the Trust Funds of the Toronto Public Library Board (the "Trust Funds") for the year ended December 31, 2003 has been completed. We conduct our audit in accordance with Canadian generally accepting auditing standards and as such, we 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. As a result of the above procedures, we have evaluated and tested only those controls on which we intend to rely in performing our audit. Accordingly, our audit will not necessarily disclose all conditions requiring attention.

ERNST & YOUNG

The comments outlined in the memorandum represent opportunities for improvement in processes and control and are not intended to reflect in any way upon the integrity or abilities of the employees of the Library. We would like to thank you and your staff for their assistance during the audit.

Should you wish to discuss the memorandum with us, we would be pleased to do so at your convenience.

Yours truly,

Ernst & Young LLP

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

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

Observation:

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

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

Trusts under administration

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

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

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

Currently, the Library is maintaining a set of records for the Trust Funds and a separate set of records for the Foundation. All of this takes time and commitment of staff to ensure that there is timely and accurate reporting.

Recommendation:

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

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

Management's 2002 response:

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

Management's updated response:

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

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