ASSURANCE AND ADVISORY
BUSINESS SERVICES

City of Toronto Consolidated Trust Funds

Audit Results – Year Ended December 31, 2006

Report to the Members of City of Toronto Council

ERNST & YOUNG
Quality In Everything We Do

ERNST & YOUNG

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August 15, 2007

Members of City of Toronto Council

Dear Members of Council:

We are pleased to present the results of our audit of the consolidated financial statements of the City of Toronto Trust Funds (the "Funds").

This report to Council summarizes the terms of our engagement, the issues of audit significance discussed with management, the status of our final procedures, and provides the communications required by our professional standards.

Our audit was designed to express an opinion on the 2006 financial statements of the Funds. In planning the audit we held discussions with management, considered current and emerging business risks, performed an assessment of risks that could materially affect the consolidated financial statements, and aligned our audit procedures accordingly. We received the full support and assistance of the Funds' personnel in conducting our audit.

This report is intended solely for the use of Council and management, 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. Further, this report is a by-product of our audit of the 2006 consolidated financial statements and indicates matters identified during the course of our audit. Our audit did not necessarily identify all matters that may be of interest to Council in fulfilling its responsibilities.

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

Very truly yours,

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Diana Brouwer, C.A./Kathi Lavoie, C.A.
(416) 943-7177/(905) 882-3056

Terms of Our Engagement

	Discussion
Auditor's Responsibilities Under Generally Accepted Auditing Standards	• Management is responsible for the preparation of the consolidated 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 consolidated financial statements based on an audit thereof. • An audit is performed to obtain reasonable but not absolute assurance as to whether the consolidated 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 consolidated 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 consolidated 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.
Detailed Terms of Engagement	• The detailed terms of our engagement are outlined in our engagement letter, which was included our detailed City package and in accordance with the request for proposal of audit services.

Audit Process

	Discussion
Overview	• For purposes of the audit of the financial statements, our audit scope is developed after considering the inherent and control risks and the effectiveness of the organization'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 organization's significant accounts, disclosures and classes of transactions, as well as our assessment of risk, including the risks of fraud. Given the size of the operations, our procedures are primarily of a substantive nature. In other words, we will not rely on controls except those at the entity level that address significant risks. • Areas of audit emphasis for the consolidated financial statements and disclosures include: – completeness of trust funds – completeness of investment income and other revenue – measurement and completeness of expenditures and accounts payable – existence and completeness of cash, interest and other accounts receivable – valuation of investments
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 organization is critical to the performance of an effective and efficient audit. An item is considered material if its impact might reasonably be expected to affect the decisions of a reader of the consolidated 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 materiality requires professional judgment and necessarily takes into account qualitative as well as quantitative considerations. Based on the results of the Funds, materiality for the audit of the 2006 financial statements was determined to be $57,800 [$68,500 in 2005], which represents approximately 1% of your total revenues of $5,786,000. This approach to calculating materiality corresponds with the recommendations in the CICA Handbook guideline which deals with materiality and audit risk.
Use of Specialists	• None.

Audit Process (continued)

	Discussion
Co-ordination with Auditor General's Office and Internal Audit	• 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 about any significant issues that arise in the City or any other entities, on a timely basis.
Reliance on Other Auditors	• There are other auditors for two of the trust funds, which are included in the Funds' consolidation process. We place reliance on the work of the auditors' of these trust funds and communicate our reliance directly with these auditors.

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 your organization's business. We continue to focus on providing a committed and experienced team to your organization. The table below shows the key team members for the audit.

Engagement Member	Responsibility
Diana Brouwer	Engagement Executive
Kathi Lavoie	Manager

Fees

• A summary of our fees is included below for your reference.

	2006 $	2005 $
Annual audit fees	6,000	6,000

Fees are inclusive of expenses and GST in accordance with our agreed proposal with the City of Toronto.

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
Not-for-Profit Organizations	• The AcSB is considering recommendations made by the Not-for-Profit Advisory Committee (AdCom) to amend or improve certain parts of the *Handbook* that relate to not-for-profit organizations and expects to issue an Exposure Draft in the second quarter of 2007. • The AcSB is considering, among others, the following proposals made by the AdCom to amend the following existing standards or parts of the *Handbook*. • Introduction to Accounting Standards that Apply Only to Not-for-Profit Organizations: – Cross-reference the Introduction to CICA 1100, *Generally Accepted Accounting Principles*, thereby reminding readers that Accounting Guidelines and EIC Abstracts are applicable to NFPs; • CICA 4400, *Financial Statement Presentation by Not-for-Profit Organizations:* – Make CICA 1540, Cash Flow Statements, applicable to NFPs; – Make the disclosure of net assets invested in capital assets optional—if presented, it may be either in a note to the financial statements or directly on the face of the statement of financial position; – Limit the reporting of certain revenues net of expenses in the statement of operations; • CICA 4430, *Capital Assets Held by Not-for-Profit Organizations:* – Amend CICA 4430 to clarify that the size test for relief from the Section is intended to allow NFPs to expense, rather than capitalize and amortize, their capital assets. It is not intended to allow NFPs to choose to capitalize but not amortize their capital assets, nor is it intended to allow different methods of accounting for various types of capital assets; • CICA 4450, *Reporting Controlled and Related Entities by Not-for-Profit Organizations:* – Amend CICA 4450 to clarify the material related to the identification of control, particularly as it relates to other not-for-profit organizations, and require controlled entities to be consolidated; amend the economic interest definition; enhance the disclosure requirements for economic interest relationships; and eliminate the exemption from consolidation of a large number of individually immaterial organizations; • CICA 4460, *Disclosure of Related Party Transactions By Not-for-Profit Organizations:* Amend CICA 4460.02 to be consistent with *Related Party Transactions*, CICA 3840.02; • CICA 1751, *Interim Financial Statements:* Expand the scope of CICA 1751 to make it applicable to all entities, not just profit-oriented enterprises; • Proposed new Section, *Allocation of Expenses by Not-for-Profit Organizations:* Require NFPs to disclose their policy on the allocation of joint expenses, the nature of expenses being allocated and the basis on which such allocations have been made in the note on significant accounting policies. • These changes are not expected to have a significant impact on the Funds.

New Developments in Accounting or Auditing Standards (continued)

	Discussion
Financial Instruments	• The AcSB has issued the following new Handbook Sections: – CICA 3855, *Financial Instruments – Recognition and Measurement.* This Section will probably affect all entities to some degree. It prescribes when a financial instrument is to be recognized on the balance sheet and at what amount – sometimes using fair value; other times using cost-based measures. It also specifies how financial instrument gains and losses are to be presented. – CICA 3862, *Financial Instruments – Disclosures,* and CICA 3863, *Financial Instruments – Presentation.* These Sections replace CICA 3861, *Financial Instruments Disclosure and Presentation.* CICA 3862 places increased emphasis on disclosures about risks associated with both recognized and unrecognized financial instruments and how these risks are managed. CICA 3863 carries forward the presentation requirements from CICA 3861, unchanged. – CICA 3865, *Hedges.* Application of this Section is optional. It provides alternative treatments to CICA 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. It replaces the guidance formerly in Accounting Guideline AcG-13, *Hedging Relationships,* and CICA 1650, *Foreign Currency Translation,* by specifying how hedge accounting is applied and what disclosures are necessary when it is applied. – CICA 1530, *Comprehensive Income,* introduces a new requirement to temporarily present certain gains and losses outside net income. This Section does not apply to not-for-profit organizations. CICA 4400 was amended to provide that these gains and losses are recorded directly in assets. • Significant changes include the following: – Investments and other financial instruments must be recorded on the balance sheet at market. – In certain circumstances, gains and losses are recorded in net assets. – Derivatives must be recorded on the balance sheet at fair value. Off-balance sheet treatment is no longer allowed. – Increased disclosures related to risks. • Entities are permitted a "fresh start" in applying the new standards for classification of financial assets and liabilities. Any adjustments to carrying amounts are recognized as adjustments to opening net assets. • The new requirements in CICA 3855, 3865 and 4400 are effective for fiscal years beginning on or after October 1, 2006 for publicly accountable entities. Not-for-profit entities are considered publicly accountable. Early adoption is permitted only if the entity adopts all requirements of CICA 3855, 3865 and 1530 at the same time. The new requirements are effective for non publicly accountable entities for fiscal years beginning on or after October 1, 2007. The new requirements in CICA 3862 and 3863 are effective for fiscal years beginning on or after October 1, 2007. • These recommendations will require the following changes: – more detailed disclosures in the notes to the financial statements; – recording of the fair value of derivative contracts on the balance sheet; and – valuation of investments at market rather than cost.

New Developments in Accounting or Auditing Standards (continued)

<table>
<tr><th></th><th>Discussion</th></tr>
<tr><td>Capital Disclosures</td><td>

In December 2006, the AcSB issued CICA 1535, Capital Disclosures.
CICA 1535 applies to all entities regardless of whether they have financial instruments and are subject to external capital requirements. The new Section requires disclosure of information about an entity's objectives, policies and processes for managing capital, as well as quantitative data about capital and whether the entity has complied with any capital requirements.
The standards are applicable for annual financial statements relating to fiscal years beginning on or after October 1, 2007.
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<tr><td>Accounting Standards in Canada: New Directions</td><td>
In January 2006, the AcSB approved its new strategic plan, "Accounting Standards in Canada: New Directions," which outlines the broad policy objectives that will guide the AcSB in carrying out its standard-setting mandate from 2006 to 2011.
In summary, the AcSB has adopted the following strategic direction for financial reporting in Canada:

For publicly accountable enterprises, the AcSB will converge Canadian GAAP with IFRS over an expected five-year period, after which Canadian GAAP will be replaced by IFRS and cease to exist as a separate, distinct basis of financial reporting for publicly accountable enterprises;
For non-publicly accountable enterprises, the AcSB has begun a comprehensive examination of their financial reporting and will determine the most appropriate financial reporting model to meet those needs;
For not-for-profit organizations, the AcSB will continue to apply those elements of GAAP for profit-oriented enterprises that are applicable to their circumstances and develop standards that deal with the special circumstances of the not-for-profit sector; and
Canada will continue to maintain its own standard-setting capability to carry out the strategic direction outlined above, although roles, structures, processes and resources may evolve.

The AcSB is now taking steps necessary to implement its new strategies and published a detailed implementation plan for IFRS convergence on July 31, 2006.</td></tr>
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New Developments in Accounting or Auditing Standards (continued)

	Discussion
CICA 1506, Changes in Accounting Policies and Estimates, and Errors	In July 2006, the CICA issued CICA 1506, *Changes in Accounting Policies and Estimates, and Errors*, to replace the existing CICA 1506, *Accounting Changes*. The new Section includes the following changes from the former standard: • An entity is permitted to change an accounting policy only when it is required by a primary source of GAAP, or when the change results in a reliable and more relevant presentation in the financial statements; • Changes in accounting policy should be applied retroactively, except in instances where specific transitional provisions in a primary source of GAAP permit otherwise or application to comparative information is impractical (the standard provides specific guidance as to what is considered impractical); • Expanded disclosures about the effects of changes in accounting policy, estimates and errors on the financial statements; and • Disclosures of new primary sources of GAAP that have been issued but have not yet come into effect and have not yet been adopted by the entity. • This new Section applies to interim and annual financial statements for fiscal years beginning on or after January 1, 2007 and their early application is allowed. • These changes are not expected to have a significant impact on the Funds.
Going Concern	• In August 2006, the AcSB issued the Exposure Draft *Going Concern* which is applicable to all entities. • The Exposure Draft proposed the following: – Management is required to make an assessment of an entity's ability to continue as a going concern; – In making its assessment, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the balance sheet date; – Financial statements must be prepared on a going concern basis unless management intends either to liquidate the entity or to cease trading, or has no realistic alternative but to do so; – Disclosure is required of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern; – When financial statements are not prepared on a going concern basis, that fact must be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern; – The final amendments to CICA 1400 are expected to be issued in the second quarter of 2007 and be effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008; and – The issuance and effective date of the Going Concern amendments to CICA 1400 will be coordinated with the AASB's going concern audit standard. • This section is not expected to have a significant impact on the Funds.

New Developments in Accounting or Auditing Standards (continued)

	Discussion
Fair Value Measurements	• In September 2004, the AcSB approved a proposal to develop a standard on how to determine fair value when other standards require a fair value measurement or disclosure. The project is about how to measure fair value, not when to do so. • The intent is to develop proposed centralized guidance on fair value measurements that can be referenced from other *Handbook* Sections requiring fair value measurement or disclosure. The project will also need to consider the merits of changing existing guidance found in existing and proposed *Handbook* Sections. • The project will notably address the following issues: – How to define "fair value"; – The appropriateness of the fair value hierarchy and whether the guidance in applying the levels in the hierarchy is appropriate and sufficiently comprehensive; and – The appropriateness of disclosures about the use of fair value to remeasure assets and liabilities recognized in the statement of financial position. • The AcSB expects to issue an Exposure Draft with the IASB in 2008.

Other Required Communications

Generally accepted auditing standards in Canada require the auditor to communicate certain matters to the committee that may assist them in overseeing management's financial reporting and disclosure process. Below we summarize these required communications as they apply to your organization.

Area	Comments
Auditors' Responsibilities Under Generally Accepted Auditing Standards (GAAS) As set out in the section on terms of engagement, we designed our audit to express an opinion on the Funds' consolidated financial statements. The financial statements are the responsibility of management. Our audit was designed in accordance with GAAS to obtain reasonable, rather than absolute, assurance about whether the financial statements are free from material misstatement. As a part of our audit, we obtained a sufficient understanding of the internal control structure to plan our audit and to determine the nature, timing and extent of testing performed.	We anticipate issuing an unqualified audit opinion dated April 17, 2007 upon approval of the financial statements by Council and completion of certain outstanding procedures. The following procedures are outstanding: • confirmation from Council that there are no areas of concern that have not been addressed in this document.
Adoption of, or Changes in, an Accounting Principle, Including Material Alternative Accounting Treatments Discussed with Management and Acceptability of a Particular Policy used by Management We determine that Council is informed about the initial selection of, and any changes in, significant accounting principles or their application when the accounting principle or its application, including alternative methods of applying the accounting principle, has a material effect on the financial statements. In addition, we report to Council all alternative accounting treatments within Canadian generally accepted accounting principles (GAAP) for policies and practices related to material items (including recognition, measurement, presentation and disclosure alternatives) that have been discussed with management during the current audit period including the acceptability of the policies or methods ultimately selected by management.	None.

Other Required Communications (continued)

Area	Comments
Sensitive Accounting Estimates and Disclosures The preparation of financial statements requires the use of accounting estimates. Certain estimates and disclosures are particularly sensitive due to their significance to the financial statements and the possibility that future events may differ significantly from management's current judgments. We determine that Council is informed about management's process for formulating particularly sensitive accounting estimates and about the basis for our conclusions regarding the reasonableness of those estimates.	There are no significant judgments or estimates required to prepare the consolidated financial statements where actual amounts are likely to be significantly different from the estimates.
Major Issues Discussed with Management Including Accounting for Significant Unusual Transactions and for Controversial or Emerging Areas We determine that Council is informed about the methods used to account for significant unusual transactions and the effects of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.	We are not aware of any significant unusual transactions recorded by the Funds or of any significant accounting policies used by the Funds related to controversial or emerging areas for which there is a lack of authoritative guidance.
Significant Audit Adjustments and Unrecorded Audit Differences Considered by Management to be Immaterial We provide Council with information about adjustments arising from the audit (whether recorded or not) that could in our judgment either individually or in the aggregate have a significant effect on the Funds' financial statements. We inform Council about unrecorded audit differences accumulated by us (i.e., adjustments either identified by us or brought to our attention by management) during the current audit period and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the consolidated financial statements taken as a whole.	There were no recorded audit adjustments or unrecorded audit differences related to the 2005 and 2006 audits.
Disagreements with Management	None.
Serious Difficulties Encountered in Dealing with Management when Performing the Audit	None.
Significant Weaknesses in Internal Controls We communicate all significant weaknesses in internal control over financial reporting that may have been identified during the course of our audit.	No significant weaknesses in internal control were identified.

Other Required Communications (continued)

Area	Comments
Fraud and Illegal Acts We report to Council fraud and illegal acts involving senior management and fraud and illegal acts (whether caused by senior management or other employees) that cause a material misstatement to the consolidated financial statements.	We are not aware of any matters that require communication.
We are also required to make inquiries of Council related to fraud including both their views about the risks of fraud and their knowledge of any actual or suspected fraud. We would request that Council members raise with us any areas of risk not addressed in our communications and that they inform us of their knowledge of any actual or suspected fraud.	We would request that Council members raise with us any areas of risk not addressed in our communications that they inform us of their knowledge of any actual or suspected fraud.
Consultation with Other Accountants	None of which we are aware.
Other Information in Documents Containing Audited Financial Statements	None.
Other Information in Documents Containing Audited Financial Statements Our financial statement audit opinion relates only to the consolidated financial statements and accompanying notes. However, we also review other information in the Annual Report, such as Management's Discussion and Analysis, for consistency with the audited financial statements.	None.
Related Party Transactions Related party transactions identified by the auditor that are not in the normal course of operations or that involve significant judgments made by management concerning measurement or disclosure must be disclosed to Council.	Related party transactions are with respect to the City of Toronto and are disclosed within the financial statements.
Major Issues Discussed with Management in Connection with Initial or Recurring Retention	None.

Other Required Communications (continued)

Area	Comments
Matters Relating to Component Entities of the Organization When the financial statements of a Organization (primary entity) include financial information from financial statements of a component entity (a subsidiary, investee (other than a portfolio investment), or joint venture; or an entity whose financial information from financial statements is included with those of the primary entity), the auditor communicates with Council those matters relating to the component entities that in the auditor's judgment are of significance in the context of the primary entity (for example, weaknesses in systems of internal control that have resulted, or could result, in material errors in the primary entity's consolidated financial statements).	None of which we are aware.
Independence Canadian generally accepted auditing standards (GAAS) require that we communicate at least annually with you regarding all relationships between your organization and Ernst & Young that, in our professional judgment, may reasonably be thought to bear on our independence.	Refer to "Independence Letter" section.
Other Audit and Non-Audit Services Provided to Your Organization	None.

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
Financial Instruments	• As noted under "New Developments in Accounting or Auditing Standards", there are changes in the accounting for and disclosures related to financial instruments. • The new rules are effective for the Funds' fiscal 2007 year and although may be early adopted, we understand that they will be implemented in 2007. • The new rules require consideration of such things as the categorization of investments – categorized as held for trading, available for sale etc. and additional disclosures required by the new standards.	• We have provided management with a brochure on the new developments and we will work with management in adopting the new standards in 2007. • Management needs to ensure that they are identifying where all instruments impacted by these rules exist and the impact of these on their 2007 reporting. In addition, management needs to ensure the appropriate approvals by Council have been made for their investment classifications in their 2007 financial statements.
New Trust Fund	• During the year, the Ricoh Coliseum Trust Fund was created based on a supplemental award from and arbitrator of $441K regarding the Agreement of Sublease between BPC Coliseum Inc., the City of Toronto, the Board of Governors of Exhibition Place and Coliseum Renovation Corporation. • The City is required to hold this balance in trust as per the arbitrator's decision.	• We have reviewed the Funds' accounting for this new trust fund as at December 31, 2006 and concur with the accounting and presentation of this new fund in the consolidated financial statements.

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August 15, 2007

Dear Members of Council:

We have been engaged to audit the consolidated financial statements of the City of Toronto Trust Funds (the "Funds") for the year ending December 31, 2006. Pursuant to Canadian generally accepted auditing standards, we communicate at least annually with you regarding all relationships between Ernst & Young and its related entities and the Funds and its related entities that, in our professional judgment, may reasonably be thought to bear on our independence. We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since April 24, 2006, the date of our last communication.

We are not aware of any relationships between Ernst & Young and the Corporation that, in our professional judgment, may reasonably be thought to bear on our independence since April 24, 2006, the date of our last communication.

Canadian generally accepted auditing standards require that we confirm our independence to the Audit Committee in the context of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario. Accordingly, we hereby confirm that we are independent with respect to the Corporation within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as of April 17, 2007.

The total fees charged to the organization are set out in "Other Required Communications" in the Audit Results package.

This report is intended solely for the use of Council and management and should not be used for any other purposes.

Yours truly,

Ernst & Young LLP

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Licensed Public Accountants

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