



City of Toronto

Audit Planning – Year Ended December 31, 2008

Report to Audit Committee of Council of the City of Toronto



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October 23, 2008

Members of the Audit Committee of Council
of the City of Toronto

We are pleased to meet with you on November 4, 2008 to discuss our audit approach and current year audit plan for the City of Toronto (the "City" or the "organization"). We will outline the scope of our services, identify the Ernst & Young team that will serve you and present some key considerations that will affect the 2008 audit. We are providing the enclosed materials so you can familiarize yourselves with them prior to our meeting.

Our audit is designed to express an opinion on the 2008 consolidated financial statements. We are currently in the planning phase of our audit. We will consider the City's current and emerging business risks, assess those risks that could materially affect the financial statements and align our procedures accordingly. The plan will be responsive to your needs and will maximize audit effectiveness so we can deliver the high quality audit you expect.

The City selected Ernst & Young to perform its 2008 audit and we appreciate your confidence. Our commitment to quality will be reflected in every aspect of our work.

Very truly yours,

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Mark Barrett, Partner / Kathi Lavoie, Senior Manager

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 City and its environment, including internal control, sufficient to identify and assess the risks of material misstatement of the financial statements whether due to fraud and error; and to design and perform further audit procedures, which may include tests of controls;
 - 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 on the design, implementation or effectiveness of internal control. In addition, our procedures are not designed to identify matters that may be of interest to management or the Audit Committee.
- 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 City.

Terms of Our Engagement (continued)

**Audit and Non-Audit Services
Provided by the Auditor**

- We have designed our audit to express an opinion on the 2008 consolidated financial statements of the City in accordance with Canadian generally accepted auditing standards.
- We also express an opinion on certain 2008 financial statements of the City's agencies, boards and commissions in accordance with our two-year extension for audit services for 2008 and 2009 for the City of Toronto.
- We are also appointed auditors of the following related entities:
 - Toronto Hydro Corporation
 - Enwave District Energy Limited
- Throughout any given year we may also report on special projects at the request of the City based on certain funding agreements. To date, we are in the process of completing a report on the federal gas tax funding, a report on the Canada Strategic Infrastructure Fund and a report for additional rent charges payable to the Board of Governors of Exhibition Place under a lease agreement with respect to RICOH Coliseum.
- During the upcoming months, we will also perform audit procedures over the City's implementation of CICA Public Sector Handbook Section 3150: Tangible Capital Assets as this project progresses through its implementation phases.

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 is in the process of being signed by the City's Clerk in accordance with the Council approved two-year extension for audit services for the City of Toronto.
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Required Communications

	Discussion
Overview of Required Communications	<ul style="list-style-type: none">• Professional standards require us to communicate certain matters to the Audit Committee that may assist the Committee 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 Audit Committee the results of our audit. The results package will address independence matters as well as other matters of significance to the Audit Committee. Such matters may include the following:<ul style="list-style-type: none">○ 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 organization'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.

Audit Process

	Discussion
Audit Process	<ul style="list-style-type: none">• 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 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. Our procedures include tests of controls over payroll, purchases/cash disbursements and substantive tests of other significant account balances and transactions.• Areas of audit emphasis for financial statements and disclosure include:<ul style="list-style-type: none">○ System documentation over information technology as it pertains to the financial statements and related processes (includes evaluating the controls over the completeness and accuracy of computer produced information), financial statement close, payroll, purchases/cash disbursements, taxes/user charges and cash receipts, parking tag revenue, social services expenditures, government transfers, budget, investment and debt processes;○ Fraud considerations and the risk of management override (including examining journal entries, reviewing accounting estimates and evaluating the business rationale of significant unusual transactions);○ Property taxes and user charges revenue, including valuation of related accounts receivable and provisions for doubtful accounts;○ Liabilities, contingent liabilities and contractual obligations (including legal, landfill and employee benefit liabilities);○ Investments, reserves and reserve funds, and long-term debt financing; and○ Consolidation.• We will provide an opinion on the City's 2008 consolidated financial statements.

Audit Process (continued)

	Discussion
Materiality	<ul style="list-style-type: none">• Our evaluation of areas of audit significance is made relative to “materiality”. An understanding of what is significant or material in relation to the overall results of your organization is critical to the performance of an effective and efficient audit. An item is considered material if its impact might reasonably be expected to affect the decisions of a reader of the financial statements.• The level at which materiality is set affects the following audit planning decisions:<ul style="list-style-type: none">○ extent of evaluation of internal accounting controls○ extent and nature of audit evidence (i.e., extent of testing) to be examined• Our estimation of planning materiality requires professional judgment and necessarily takes into account qualitative as well as quantitative considerations.• Based on budgeted gross expenditures (operating and capital) of the City, materiality for the audit of the 2008 consolidated financial statements is estimated to be \$60 million [2007 - \$55 million] which represents \$23/resident [2007 - \$20/resident] or approximately 0.6% of the total budgeted gross expenditures of \$9.8 billion [2007 - \$9.2 billion]. This approach to calculating materiality corresponds with 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 forecast; the materiality level may be adjusted in order to recognize this change in circumstances.

Audit Process (continued)

	Discussion
Use of Specialists	<ul style="list-style-type: none"> • We rely on Mercer Human Resources Consulting to provide the actuarial estimates required to account for non-pension future employee benefit costs and accident claims; • We rely on Mercer Human Resources Consulting and Buck Consultants to provide the actuarial estimates required to audit the defined benefit pensions; • We rely on the work done by Mercer Oliver Wyman to provide the actuarial estimates required to audit the estimates on insurance related liabilities; and • We rely on the Municipal Property Assessment Corporation ["MPAC"] to provide the assessment value of the properties in determining the taxation revenue for property taxes in the year. • When we rely on others, we are required by our 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	<ul style="list-style-type: none"> • In planning our approach, 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 addition, we ensure that the Auditor General is informed on a timely basis about any significant issues that arise in the City or any other entities.
Reliance on Other Auditors	<ul style="list-style-type: none"> • There are other auditors for various Boards and Agencies for the City, which are included in the City's consolidation process. These entities are individually insignificant and, as such, we do not place reliance on the work of the other auditors for purposes of the consolidated financial statements.

Audit Team and Fees

	Discussion
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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	Years of Service
Mark Barrett	Engagement Partner	1
Diana Brouwer	Independent Reviewer	11
Kathi Lavoie	Senior Manager	8
Carmela Cirillo	Manager	6
Mike Robillard	Commodity Tax Partner	10
Paul O'Donnell	Information Systems Partner	1

Fees

	2008	2007
	\$	\$
Annual audit fees – consolidated City only	449,670	319,000

- The total annual audit fees for the entities included in our detailed terms of engagement are \$1,226,500 inclusive of expenses plus GST. This is the first year of a two-year contract extension ending with the audit of the December 31, 2009 consolidated financial statements.
- We will provide a complete listing of 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	September -December	January - June
	– Meet with management regarding operating, accounting, and reporting matters	√	
	– Conduct other audit planning events with management (e.g. fraud discussions/updates) and coordinate audit plan with management	√	
	– Audit Committee 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		√
	– Report to Audit Committee on audit results		√
Key Dates	<ul style="list-style-type: none"> Interim fieldwork commenced October 6, 2008 Year-end fieldwork to commence March 2, 2009 		

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, the Public Sector Accounting Board [“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 which is a significant change from the previous accounting of these as an expenditure in the year incurred.• 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 applied to fiscal years beginning on or after January 1, 2007.• In September 2008, PSAB approved a Statement of Recommended Practice [“SORP”] on “Assessment of Tangible Capital Assets”. The SORP provides guidance to those that choose to prepare and present a report on the physical condition of their tangible capital assets, including leased tangible capital assets. The SORP is expected to be released later this fall. SORP’s do not constitute generally accepted accounting principles and are intended to provide general guidance only.• <i>This is a significant change in reporting for the City, which will require a significant investment in resources to be ready for compliance with the new standard. We understand that the City has a management group involved with preparing for the new reporting requirements and will continue to work through the changes in time to meet the implementation deadline. For the year ended December 31, 2007, the City complied with the disclosures related to the guideline above and will continue to do so till full implementation of PS 3150 in 2009.</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 requiring local governments to apply 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>Together with the section on Tangible Capital Assets, this section requires significant changes in reporting for the City. The City will need to consider the impact of these changes, which include those that will be addressed through the reporting of tangible capital assets. The consolidated statements for the City will look different with the addition of new statements to report the change in net debt and removing the statements for the reserves and reserve funds (which may be reported in the notes but not as a separate statement).</i>

New Developments in Accounting or Auditing Standards (continued)

	Discussion
Segment Disclosure	<ul style="list-style-type: none">• In January 2006, PSAB approved final Section PS 2700, <i>Segment Disclosures</i>.• This Section establishes standards on how to define and disclose segments in a government's summary financial statements. Other government organizations that apply the standards of the CICA Public Sector Accounting Handbook (for the City this would include the Toronto Public Library) are encouraged to provide the disclosures established in this Section when their operations are diverse enough to warrant such disclosures.• 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:<ul style="list-style-type: none">• 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.• This new section applies to fiscal years beginning on or after April 1, 2007 – which for the City will be the current year ended December 31, 2008.• <i>This section is not expected to have a significant impact on the City's reporting.</i>

New Developments in Accounting or Auditing Standards (continued)

	Discussion
Government Transfers	<ul style="list-style-type: none">• Government Transfers is a project that was started to develop amendments to Section PS 3410, <i>Government Transfers</i>, to address application and interpretation issues raised by the government community. The major issues in the project include:<ul style="list-style-type: none">• 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 issued in 2007 with still no consensus on what the standard should be. The PSAB taskforce is now working on a second re-exposure draft for approval at the November 2008 PSAB meeting.• <i>While this section is not expected to have a significant impact on the City's reporting under the current rules, with the change in the reporting model, accounting for tangible capital assets and the hopes of more infrastructure money coming to local government, there will be impacts that the City will need to consider in their future reporting.</i>
Introduction to Public Sector Accounting Standards	<ul style="list-style-type: none">• The objective of this project is to revise the "Introduction to Public Sector Accounting Standards" to clarify which generally accepted accounting principles ["GAAP"] government organizations should apply when preparing their own financial statements. This first phase proposes that government business enterprises and government business-type organizations follow GAAP for publicly accountable enterprises (which has implications with respect to the complexities of the new International Financial Reporting Standards).• The second phase of this project is to examine the implications for government not-for-profit organizations and other government organizations that may currently apply the CICA Handbook – Accounting.• In November 2007, PSAB approved Phase 1 of this project. In response to letters received from stakeholders, PSAB, at its September 2008 meeting, agreed to seek additional information relating to the application of the current definitions of and the source of generally accepted accounting principles used by government organizations.• At the September 2008 PSAB meeting, PSAB, in conjunction with the Accounting Standards Board's efforts, agreed to work toward the issuance of a collaborative invitation to comment that will seek views on the sources of generally accepted accounting principles that could be applied by various types of not-for-profit organizations in both the private and public sectors.• <i>While this project has no current impact on the City's operations, changes made may have a significant impact on the accounting of the City's ABC's (currently an impact for TTC, TEDCO, Board of Governors of Exhibition Place and Toronto Parking Authority starting in the year ended December 31, 2011) and the consolidation process at the City in reporting on the final consolidated financial statements.</i>

New Developments in Accounting or Auditing Standards (continued)

	Discussion
Environmental Liabilities	<ul style="list-style-type: none">• This project will focus on providing guidance for the recognition, measurement and disclosure of those environmental obligations that result in liabilities. This project does not incorporate landfill liabilities which currently has its own accounting standard.• Recognition of environmental liabilities is expected to consider such criteria as: there has to be damage done; there must be legislation in place and the government must be responsible to deal with the environmental amount to be considered for recording as a liability.• A Statement of Principals is going to the November 2008 PSAB meeting for approval.• <i>Once this standard is developed, the City will need to evaluate the impact it will have on its financial reporting.</i>
Other projects	<ul style="list-style-type: none">• Other projects in progress for PSAB are:<ul style="list-style-type: none">• 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. PSAB is considering alternatives raised relating to the accounting for and presentation of information about financial instruments in government statements and expects to approve an Exposure Draft by March 2009 with final revisions approved by September 2009.• Tax Revenue – this project is to deal with the accounting and reporting guidance for various types of taxes. PSAB intends on using the work being done by the International Public Sector Accounting Standards Board on revenues from non-exchange transactions in determining how to account for tax revenues.• <i>The City will need to monitor these projects for impacts on their own financial reporting.</i>

Current Year Developments and Areas of Audit Emphasis

Each year in preparing our audit planning, we review significant developments within your organization 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
Credit Crisis	<ul style="list-style-type: none"> • The credit crisis has significantly affected the global financial markets. What began as a deterioration of credit quality in the subprime mortgage sector has rapidly spread, causing adverse conditions throughout the mortgage banking industry, the broader US housing market and the global markets. But the impact of the credit crisis is not limited to financial services; all industry sectors are potentially affected. Further, decreasing consumer confidence combined with negative savings, high oil prices and falling home prices are contributing to the credit crunch in the mortgage and consumer credit markets. • In April 2008, the Accounting Standards Board ["AcSB"] released a financial reporting commentary with respect to the estimation of fair value of non-bank-sponsored Asset Backed Commercial Paper ("ABCP"). The AcSB states that considerable new information has become available in 2008 with respect to the credit crisis, and transactions and changes in circumstances have occurred that should be taken into account in estimating the fair value of the ABCP for financial statements. We understand that the City's investment portfolio does not include ABCP. • The credit crisis is currently very fluid and many indicators suggest continued credit, valuation and liquidity turmoil. As media focus remains high, organizations continue to evaluate actual and possible consequences, and investors further adjust their risk profile. In this environment, the City may face business disruption, liquidity constraints and other negative consequences. 	<ul style="list-style-type: none"> • Given the nature of the City's operations and its accounting policies for cash, investments, accounts receivable, mortgages and long-term debt, we do not anticipate the credit crisis having a significant impact on the City's consolidated financial statements at this time. • However, given the complexity and professional judgment involved in the evaluation of significant accounting, auditing and financial reporting matters, assessing the impact of any significant changes in the City's operations or changes in accounting policies in the future, may necessitate timely consultation with Ernst & Young's auditing and valuation specialists and accounting subject matter experts.

Current Year Developments and Areas of Audit Emphasis (continued)

Accounting/Audit Issues	Discussion	Preliminary Evaluation
Credit Crisis (continued)	<ul style="list-style-type: none"> In addition, prolonged adverse economic conditions may increase the risk of fraud within the organization and we encourage the City to monitor the economic environment and impact on fraud. 	<ul style="list-style-type: none"> We have ongoing discussions with management and the Auditor General on the risks of fraud and reported fraud instances and assess the impact, if any, on our audit procedures and the consolidated financial statements.
Personnel Changes in the Organization	<ul style="list-style-type: none"> One component of an entity's control environment is its organizational structure and assignment of authority and responsibility. We are aware of the recent personnel changes in the City's administrative structure, specifically in the City Manager, Deputy City Manager and Chief Financial Officer and Director of Accounting Services roles. 	<ul style="list-style-type: none"> We will assess any changes of the City's control environment in assessing effectiveness of internal controls at the entity level and the impact, if any, on our audit strategy.
Employee Benefit Costs	<ul style="list-style-type: none"> The City sponsors defined benefit plans providing pension and other retirement and post-employment benefits to employees. Actuarial valuations for these plans are conducted on a periodic basis. The last actuarial review was completed by Mercers Human Resource Consulting in 2007 using the results as of December 2006 for the pension and other retirement and post-employment benefits. This valuation also included projections for 2008 and 2009. The last actuarial review was completed by Buck Consultants in 2007 using the results as of December 2007 for pension benefits. This valuation included projections for 2008. 	<ul style="list-style-type: none"> We rely on the work performed by Mercers and Buck Consultants in auditing the pension and post-employment and retirement benefits. Our audit procedures will include steps for us to gain comfort that any new plan changes since the updated valuation have been considered by management.

Current Year Developments and Areas of Audit Emphasis (continued)

Accounting/Audit Issues	Discussion	Preliminary Evaluation
Environmental Liabilities	<ul style="list-style-type: none"> • Currently, the City records environmental liabilities to the extent they relate to the closure and post-closure costs of their active and inactive landfill sites. The provision for closure and post-closure costs is one of the significant unfunded liabilities of the City. • The accounting rules are very specific as to the recording, presentation and disclosure of these amounts within the consolidated financial statements. • Other environmental liabilities that may exist within the City are accrued to the extent that there is a legal obligation to remediate the properties to a certain level. Accruals beyond this point are not required under the current accounting standards. 	<ul style="list-style-type: none"> • Our audit procedures will test the assumptions and rates used in the present value calculations of the closure and post-closure costs relating to both active and inactive landfill sites to determine that they are within our zone of reasonableness. • We will test the reasonableness of the closure and post-closure accruals and other environmental accruals and review the adequacy of the information presented within the consolidated financial statements.
Tangible Capital Asset Reporting	<ul style="list-style-type: none"> • Included in our 2007 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 that may have a significant impact on the City. Tangible capital asset reporting is a significant upcoming change that will require significant time and resources for the City to implement. • The City has been proactive with regards to this new standard and is very involved in projects currently underway related to the implementation of the new requirements, including corresponding with ABC's. 	<ul style="list-style-type: none"> • We will perform audit procedures with respect to the required disclosures for the 2008 consolidated financial statements within the transitional years in the new standard. • We will also perform audit procedures over the City's implementation of tangible capital asset reporting as this project progresses through its implementation phases in preparation for the 2009 reporting year.

Current Year Developments and Areas of Audit Emphasis (continued)

Accounting/Audit Issues	Discussion	Preliminary Evaluation
Significant Estimates	<ul style="list-style-type: none"> • The preparation of the City's consolidated financial statements requires the use of accounting estimates in the following significant areas: <ul style="list-style-type: none"> • Employee benefit costs • Environmental liabilities (including landfill closure/post-closure costs) • Provision related to property taxes, including payments in lieu of taxes • Water revenue/receivable accrual and provision • Contingent liabilities • Provisions against other receivables, such as parking tags and other miscellaneous receivables outstanding at year-end • Management has processes in place for formulating these estimates. 	<ul style="list-style-type: none"> • Our audit procedures test management's calculations, supporting data used in those calculations and any assumptions used. • At the conclusion of our audit, we will communicate to the Audit Committee management's process for formulating particularly sensitive accounting estimates and the basis for our conclusions regarding the reasonableness of those estimates. We will also communicate our conclusion on the adequacy of the disclosures presented within the consolidated financial statements.
Land Transfers	<ul style="list-style-type: none"> • We understand that land transfers with Toronto Economic Development Corporation ("TEDCO") have occurred in 2008 and that under the proposed new Shareholder Direction between the City and TEDCO, and the establishment of Build Toronto and Invest Toronto, additional land transfers may occur during the remainder of 2008. 	<ul style="list-style-type: none"> • We will review any new agreements with TEDCO and Council Decisions during the year with respect to land transfers. If any lands have been transferred to TEDCO, Build Toronto or Invest Toronto during the year, we will review the accounting for the transfer and the disclosure in the consolidated financial statements

Current Year Developments and Areas of Audit Emphasis (continued)

Accounting/Audit Issues	Discussion	Preliminary Evaluation
City of Toronto Act	<ul style="list-style-type: none"> • We understand that there are new accounting processes in 2008 as a result of the implementation of Land and Vehicle Transfer Taxes under the new City of Toronto Act. • Our understanding is that the new Land Transfer Tax was effective February 1, 2008 and the Vehicle Registration Tax was effective September 1, 2008. 	<ul style="list-style-type: none"> • We will understand and document the new processes put into place for 2008 and perform audit procedures over those that are significant to the 2008 consolidated financial statements. • We will continue to monitor new developments throughout the rest of 2008 for new revenue streams as a result of the City's powers under the City of Toronto Act.
Move Ontario Trust	<ul style="list-style-type: none"> • As indicated in our 2007 Audit Results package, we communicated to you the nature of the City's involvement in the Move Ontario Trust [the "Trust"], which was established to hold and invest contributions for the beneficiaries of the Trust. The beneficiaries of the Trust will receive fund distributions that are restricted for investment in new heavy rail inter-regional public transit infrastructure expansion referred to as the Spadina Subway Extension Project [the "Project"]. • Total estimated costs of the project are \$2.6 billion. The Provincial government has contributed amounts to the Trust in the past with a further contribution announced in January 2008 of \$200 million. It is anticipated that there will be a Federal portion to cover another 1/3 of the project and the balance of the costs will be shared between the City (59.96%) and York Region (40.04%). • Fund assets available for distribution include contributions to the Trust and interest income earned thereon, with the use of interest restricted to transit purposes as per Section 3.2(8) of the Declaration of Trust document. 	<ul style="list-style-type: none"> • We understand that for 2008 onward, the City is restricted from using interest earned by the Trust for operating purposes. As such, no amount was included in the 2008 operating budget. Distributions received in 2008 are restricted for capital purposes only. • We will test that distributions received during the year are recorded in accordance with the restrictions that are attached to them.

Current Year Developments and Areas of Audit Emphasis (continued)

Accounting/Audit Issues	Discussion	Preliminary Evaluation
<p>Capital Funding Receivable from the Federal and Provincial Governments</p>	<ul style="list-style-type: none"> • As indicated in our 2007 Audit Results package, the City entered into a Memorandum of Understanding (“MOU”) on December 15, 2004 with the Provincial and Federal governments under the Canadian Strategic Infrastructure Fund (CFIS). This MOU relates to various programs of the Toronto Transit Commission (TTC) including the State of Good Repair, Ridership, Growth/Subway Expansion and Integrated Ticketing System. • On March 18, 2008, an agreement was signed between the three parties, which replaced the MOU. Under this agreement, the governments are not required to make any payments until claims have been submitted and an annual report and external audit have been conducted. The Federal government will assess on an annual basis whether a compliance report will have to be performed and may also audit the City’s accounts directly if it chooses. • Revenues are accrued based on expenses incurred to date that meet the eligibility requirements under the agreement. • Funding under the agreement will continue on an ongoing basis for expenses incurred until March 31, 2012. The City has until March 31, 2013 to submit all claims and there will be no obligation by the governments to fund any claims submitted after this deadline. Total funding is capped at \$350 million. 	<ul style="list-style-type: none"> • We will review accrued revenues to the extent they are significant in 2008 to test that they continue to meet the eligibility requirements under the agreement. • We continue to encourage the City to take steps to ensure external audits of the claims are performed in a timely manner to prevent any unnecessary delays in the receipt of funding.

Current Year Developments and Areas of Audit Emphasis (continued)

Accounting/Audit Issues	Discussion	Preliminary Evaluation
International Financial Reporting Standards (IFRS)	<ul style="list-style-type: none"> • Included in our 2007 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 the accounting rules to be applied to government organizations. • Within the City's ABC's, there are some government business type organizations and government business enterprises (e.g. Board of Governors of Exhibition Place, TTC, Toronto Parking Authority and TEDCO) that these changes will apply to. These organizations will be required to prepare their financial statements in accordance with IFRS. • This new reporting will be applicable to these entities for their 2011 financial reporting year, requiring restatement for 2010. 	<ul style="list-style-type: none"> • Changing to International Accounting Standards is a significant undertaking which can impact more than just the financial reporting within an organization. As such, it is imperative that organizations don't leave the evaluation of the impacts to them till 2011 and they should be reacting to what those requirements are now. • In our communications to the respective ABC's for which this will have an impact, we will highlight the need for immediate reaction to understanding what this means to them. Due to the resources within those entities, we do recommend that management at the City develop a working group whereby resources can be shared and to ensure that the organizations will be on track for the implementation.

Engagement Letter

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

September 30, 2008

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, 2008. 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.

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

Engagement Letter (continued)

accordance with Canadian generally accepted auditing standards. Also, an audit is not designed to detect error or fraud that is immaterial to the consolidated financial statements.

4. 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.
5. 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 over financial reporting. 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.

6. 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 is adequately informed of misstatements, resulting from error, other than trivial errors and illegal or possibly

Engagement Letter (continued)

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.

7. 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.
8. 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.

Management's Responsibilities and Representations

9. 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.
10. 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 of the City 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

Engagement Letter (continued)

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 the City's 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 Audit Committee.

11. Management 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.
12. 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.
13. 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;

Engagement Letter (continued)

- 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 City 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.
14. 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

15. Our fees are based on our two-year contract extension for external audit services for fiscal years 2008 and 2009, which stated a fee for 2008 of \$1,226,500 inclusive of expenses plus 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 18 as their terms and conditions are covered in a separate engagement letter. The cost of all of these audits are detailed in the Price Proposal Form previously submitted to the Auditor General. We will submit our invoices as work progresses and payment of them will be due upon receipt.
16. 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

Engagement Letter (continued)

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 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

17. 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 consolidated financial statements and other information contained in the report, and to determine if the consolidated financial statements and our report thereon have been accurately reproduced. If we identify any errors or inconsistencies which may impact on the consolidated financial statements, we will advise management and the Audit Committee as appropriate.
18. 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 \$1,226,500 mentioned in part 15 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
Housing Services Inc.
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

Engagement Letter (continued)

- Toronto Public Health
 - Preschool Speech and Language Program
 - Healthy Babies Healthy Children Program
 - AIDS Bureau Program
 - Infant Hearing Program
- 10 Homes for the Aged
 - Bendale Acres
 - Carefree Lodge
 - Castleview Wychwood Towers
 - Cummer Lodge
 - Fudger House
 - Kipling Acres
 - Lakeshore Lodge
 - Seven Oaks
 - True Davidson Acres
 - Wesburn Manor
- Community and Neighbourhood Services – “Supportive Housing and Community Support”
 - Toronto Coach Terminal, Inc.
 - Toronto Transit Commission
 - TTC Insurance Company Limited
 - Metropolitan Toronto Pension Fund
 - Toronto Fire Department Superannuation and Benefit Funds
 - Toronto Pension Fund
 - Toronto Police Benefit Fund
 - TTC Pension Fund Society
 - TTC Sick Benefit Association
 - York Employees Pension and Benefit Funds
 - Sony Centre for the Performing Arts
 - Toronto Zoo
 - Board of Governors of Exhibition Place
 - Canadian National Exhibition Association

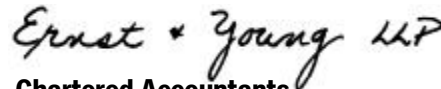
Engagement Letter (continued)

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

19. 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.
20. The attached additional Terms and Conditions form an integral part of this engagement letter and govern our respective rights and obligations arising therefrom.

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 Mark Barrett, Ernst & Young LLP, 175 Commerce Valley Drive, Suite 600, Thornhill, ON, L3T 7P6.

Yours very truly,



Chartered Accountants
Licensed Public Accountants

Ernst & Young LLP
Chartered Accountants
Licensed Public Accountants

Engagement Letter (continued)

Acknowledged and agreed:
City of Toronto

By: _____

[Name of Client Official]

[Title]

By: _____

[Name of Client Official]

[Title]

Engagement Letter (continued)

Terms and Conditions

Except as otherwise specifically provided in the engagement letter or contract to which these terms and conditions are attached (collectively, the "Agreement") the following additional terms and conditions shall apply. 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 shall 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. **Unexpected Events** - If changes to the scope or timing of any Services are required because of a change in applicable law or professional standards or events beyond a party's reasonable control, but not involving its fault or negligence (any of which, a "Change"), the parties agree to adjust the fees for, and/or timing of, the Services appropriately and, if necessary, Client will obtain Audit Committee and Council approval of such adjustments. Each party shall be excused from default or delay in the performance of its obligations (other than payment obligations) under this Agreement to the extent caused by a Change.
3. **Client Data & Information** - Client will provide, or cause to be provided, to EY in a timely manner complete and accurate data and information ("Client Data") and access to resources as may be reasonably required by EY to perform the Services. EY may disclose Client Data, including personal information, to other EY Entities for the purposes of (i) rendering the Services, (ii) fulfilling EY Entities' professional obligations to manage conflicts of interest and to maintain auditor independence and (iii) implementing standardized performance recording and documentation systems within the global Ernst & Young network. EY Entities or their service providers may process and store Client Data, which may include personal information, outside of Canada.
4. **Confidentiality** - Subject to the other terms of this Agreement, both Client and EY agree that they will take reasonable steps to maintain the confidentiality of any proprietary or confidential information of the other.

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

Engagement Letter (continued)

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.

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. Personal information is collected, used and disclosed by EY in accordance with EY's privacy policy, which is available at <http://www.ey.com/ca>.
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. **Expenses** - Client shall reimburse EY for all reasonable expenses incurred in connection with the performance of the Services. The costs of administrative items such as telephone, research material, facsimile, overnight mail, messenger, administrative support, among others will be billed to Client at 11.5% of EY's fees for professional services and are included in our fee. Other major direct costs such as travel, meals, accommodation and other significant expenses will be charged as incurred.

Engagement Letter (continued)

9. **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.
10. **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.
11. **EY Reports** - EY retains all copyright and other intellectual property rights in everything created by EY before or during the course of an engagement, including all EY reports, advice or other EY communications of any kind ("EY Reports") and all methodologies, tools, systems, software and working papers created by EY. Any EY Reports are intended solely for the purpose described in the engagement letter or contract to which these terms and conditions are attached. Except as otherwise specifically agreed in such engagement letter or contract Client shall not refer to EY or reproduce, quote or refer to any EY Report (or any portion, summary or abstract thereof) in any document filed or distributed in connection with (i) a purchase or sale of securities or (ii) continuous disclosure obligations under applicable securities laws. EY assumes no duty, obligation or responsibility whatsoever to any third parties that obtain access to an EY Report (i.e. parties other than those to whom an EY Report is addressed). Any services or procedures performed for Client will not be planned or conducted (i) in contemplation of reliance by third parties (ii) with respect to any specific transactions contemplated by third parties or (iii) with respect to the interests or requirements of third parties. Client may not rely on any draft EY Report.

The client will have the full right to use any Reports for their intended purpose, i.e. audit reports 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 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.

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.

Engagement Letter (continued)

12. **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), breach of statute, strict liability, failure of essential purpose or otherwise,
- (a) EY's liability shall be several and not joint and several, solidary or *in solidum* 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 either party be liable to the other 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, even if the relevant party 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 the greater of (i) the total fees paid to EY for the Services and (ii) \$2,000,000. This paragraph (c) shall not limit EY's liability for death, bodily injury, physical damage to tangible property, fraud or willful 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.

13. **Insurance** - 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.

Engagement Letter (continued)

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.

14. **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 (whether in contract, tort, or otherwise) 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.
15. **No Application** - The preceding two sections (*Limitation of Liability, Global Resources*) shall not apply to the extent prohibited by applicable law or regulation (including for these purposes applicable rules and interpretations of the US Securities and Exchange Commission relating to auditor independence and any applicable rules or guidance from a provincial Institute/Order of Chartered Accountants having jurisdiction).
16. **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.

Engagement Letter (continued)

17. **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.
18. **Legal Proceedings** - In the event EY is requested 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 professional time and expenses, as well as the fees and expenses of counsel, incurred in responding to such requests.
19. **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.
20. **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. 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 *Client Data & Information, Confidentiality, Auditor Oversight, Limitation of Liability, Global Resources, Solicitation & Hiring of EY Personnel, and Legal Proceedings*. This Agreement shall enure to the benefit of and be binding upon the parties and their respective successors and permitted assigns. The provisions of this Agreement shall operate for the benefit of, and may be enforced by, other EY Entities and any subcontractors, members, shareholders, directors, officers, managers, partners or employees of EY or any other EY Entity. This Agreement constitutes the entire agreement between the parties relating to its subject matter and supersedes all prior representations, negotiations and understandings.

Engagement Letter (continued)

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 as amended by the price proposal form dated approved by City council at its meeting held on May 26 and 27, 2008; and
4. Request for Proposals No. 9155-03-7140.



ERNST & YOUNG LLP

www.ey.com/ca

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