



City of Toronto Sinking Funds

Audit Results – Year Ended 31 December 2009

Report to the Members of the Sinking Fund Committee



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June 10, 2010

The Chair and Members of the City of Toronto Sinking Fund Committee

We are pleased to present the results of our audit of the financial statements of City of Toronto Sinking Funds (the "Fund" or the "organization").

This report to the Sinking Fund Committee summarizes the terms of our engagement, the issues of audit significance discussed with management and provides the communications required by our professional standards.

Our audit was designed to express an opinion on the December 31, 2009 financial statements of the Fund. In planning the audit, we held discussions with management, considered current and emerging business risk, performed an assessment of risks that could materially affect the financial statements, and aligned our audit procedures accordingly. We received the full support and assistance of the organization's personnel in conducting our audit.

This report is intended solely for the use of the Sinking Fund Committee, the management, and ultimately the City of Toronto Council, and is not intended to be and should not be used by anyone other than these specified parties. We disclaim any responsibility to any third party who may rely on it. Further, this report is a by-product of our audit of the 2009 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 the Sinking Fund Committee in fulfilling its responsibilities.

We appreciate this opportunity to meet with you to discuss 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

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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
Distributions Payable	<ul style="list-style-type: none"> • In December 2008, the Sinking Fund Committee requested approval of the distribution of the 2007 surplus amount of \$3,401M. This was approved by the Council in April 2009. <p>Since the distribution has been approved to be used in accordance with allowed regulations for surplus funds but have not yet been distributed, a payable balance should have been recorded. However, this was not the case.</p> <p>As a result, payable balance was understated and unrestricted surplus balance was overstated by \$3,401M. The difference has been brought to the Summary of Audit Differences and subsequently recorded by management.</p>	<ul style="list-style-type: none"> • The adjustment has been appropriately reflected in the financial statements.
Subsequent Events	<ul style="list-style-type: none"> • On March 23, 2010, the Sinking Fund Committee approved the deposit of \$600 million into the Sinking Funds (the "Funds") for the prepayment of future contributions to the Funds previously approved under the following by-laws: 114-96, 767-2003, 354-2004, 880-2004, 861-2005 and 605-2006 (the "by-laws"). These monies were received from the City and deposited into the Funds on April 1, 2010. On April 15, 2010 the City repealed the by-laws. 	<ul style="list-style-type: none"> • This subsequent event has been appropriately disclosed in the financial statement notes.

Summary of Audit Differences

During the course of our audit, we accumulate differences between amounts recorded by your organization and amounts that we believe are required to be recorded under generally accepted accounting principles. There were no unrecorded audit differences identified as a result of our audit procedures.

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
<p>Auditors' Responsibilities Under Generally Accepted Auditing Standards (GAAS)</p> <p>We designed our audit to express an opinion on your organization's financial statements.</p> <p>The financial statements are the responsibility of management. Our audit was designed in accordance with GAAS which provides for reasonable, rather than absolute, assurance that the financial statements are free from material misstatement.</p> <p>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.</p>	<p>We anticipate issuing an unqualified audit opinion dated April 12, 2010 upon approval of the financial statements by the Sinking Fund Committee and completion of certain outstanding procedures. The following procedures are outstanding:</p> <ul style="list-style-type: none"> • Confirmation from the Sinking Funds Committee that there are no areas of concern that have not been addressed in this document; • Management Letter of Representations.
<p>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</p> <p>We determine that the Sinking Fund Committee 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.</p> <p>In addition, we report to the Sinking Committee 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 acceptability of the policies or methods ultimately selected by management.</p>	<p>The Public Sector Accounting Board ["PSAB"] issued an exposure draft in March 2010 which sets out financial reporting proposals that would apply to government not-for-profit organizations. Specifically, PSAB proposes to incorporate into the Public Sector Accounting ["PSA"] Handbook the 4400 series from the CICA Handbook without making substantive changes at this time; amend the Introduction of Accounting Standards that apply only to not-for-profit organizations currently in the PSA Handbook to set out the applicability of standards in the PSA Handbook to government not-for-profit organizations; and amend the Introduction to Public Sector Accounting Standards to direct government not-for-profit organizations to apply the standards for not-for-profit organizations in the PSA Handbook for fiscal periods beginning on or after January 1, 2012 with retroactive application with restatement of prior periods. PSAB expects the final standards will be incorporated into the PSA Handbook in late 2010. Government not-for-profit organizations currently use the standards developed by the Accounting Standards Board that are used by private sector not-for-profit organizations. If these proposals are adopted, government not-for-profit organizations will continue to apply the 4400 series of standards using the PSA Handbook.</p>

Required Communications (continued)

Area	Comments
Our Judgments About the Quality of the Organization's Accounting Principles	
<p>We discuss our judgments about the quality, not just acceptability, of the accounting principles as applied in the organization's financial reporting, including the consistency of the accounting policies and their application and the clarity and completeness of the financial statements and related disclosures.</p>	<p>We believe the quality of accounting policies disclosed in the financial statements as applied in the financial reporting, the consistency of their application, and the understandability and completeness of the financial statements are reasonable in relation to industry practice.</p>
Sensitive Accounting Estimates and Disclosures	
<p>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.</p> <p>We determine that the Sinking Fund Committee is informed about management's process for formulating particularly sensitive accounting estimates and disclosures and about the basis for our conclusions regarding the reasonableness of those estimates.</p>	<p>The determination of the Sinking Funds requirements is subject to significant judgments and estimates, which are required to prepare the financial statements. We have reviewed and concur with the judgments and estimates made by management of the Funds.</p>
Major Issues Discussed with Management Including Accounting for Significant Unusual Transactions and for Controversial or Emerging Areas	
<p>We determine that the Sinking Fund Committee 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.</p>	<p>We are not aware of any significant unusual transactions recorded by the organization or of any significant accounting policies used by the organization related to controversial or emerging areas for which there is a lack of authoritative guidance.</p>

Required Communications (continued)

Area	Comments
<p>Significant Audit Adjustments and Unrecorded Audit Differences Considered by Management to be Immaterial</p> <p>We provide the Sinking Fund Committee 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 organization's financial statements.</p> <p>We inform the Sinking Fund Committee 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 financial statements taken as a whole.</p>	<p>EY noted an audit difference with respect to a distribution payable for the 2007 surplus that was approved in 2009, but not accrued for. EY posted this error to the summary of audit differences, which was subsequently recorded by the client.</p> <p>There were no unrecorded audit differences.</p>
<p>Disagreements with Management</p>	<p>None.</p>
<p>Serious Difficulties Encountered in Dealing with Management when Performing the Audit</p>	<p>None.</p>
<p>Significant Weaknesses in Internal Controls</p> <p>We communicate all significant weaknesses in internal control over financial reporting that may have been identified during the course of our audit.</p>	<p>No significant weaknesses in internal control were identified.</p>
<p>Fraud and Illegal Acts</p> <p>We report to the Sinking Fund Committee 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 financial statements.</p> <p>We are also required to make inquiries of the Sinking Fund Committee related to fraud, including both (1) their views about the risks of fraud, and (2) their knowledge of any actual or suspected fraud.</p>	<p>We are not aware of any matters that require communication.</p> <p>We would request that the Sinking Fund Committee 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.</p>

Required Communications (continued)

Area	Comments
Consultation with Other Accountants	None of which we are aware.
Other Information in Documents Containing Audited Financial Statements Our financial statement audit opinion relates only to the 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 the Sinking Fund Committee.	None of which we are aware.
Major Issues Discussed with Management in Connection with Initial or Recurring Retention	None.

Required Communications (continued)

Area	Comments									
<p>Auditors' Independence</p> <p>Canadian generally accepted auditing standards (GAAS) require that we communicate at least annually with you regarding all relationships between your organization and Ernst & Young that, in our professional judgment, may reasonably be thought to bear on our independence.</p>	<p>Refer to "Independence Letter" section.</p>									
<p>Fees</p>	<ul style="list-style-type: none"> • A summary of our fees is included below for your reference. <table style="margin-left: auto; margin-right: auto; border-collapse: collapse;"> <thead> <tr> <th style="border-bottom: 1px solid black;"></th> <th style="text-align: center; border-bottom: 1px solid black;">2009</th> <th style="text-align: center; border-bottom: 1px solid black;">2008</th> </tr> <tr> <th style="border-bottom: 1px solid black;"></th> <th style="text-align: center; border-bottom: 1px solid black;">\$</th> <th style="text-align: center; border-bottom: 1px solid black;">\$</th> </tr> </thead> <tbody> <tr> <td style="border-bottom: 1px solid black;">Annual audit fees</td> <td style="text-align: center; border-bottom: 1px solid black;">13,770</td> <td style="text-align: center; border-bottom: 1px solid black;">13,770</td> </tr> </tbody> </table> <p>The fees noted above include our 11.5% administrative charge to cover expenses such as telecommunication charges, photocopying, delivery, postage, clerical assistance and computer technology costs.</p> <ul style="list-style-type: none"> • This is the last year of a two-year contract extension approved by City Council. 		2009	2008		\$	\$	Annual audit fees	13,770	13,770
	2009	2008								
	\$	\$								
Annual audit fees	13,770	13,770								

Independence Letter

June 10, 2010

Members of the City of Toronto Sinking Fund Committee

We have been engaged to audit the financial statements of the City of Toronto Sinking Fund (the "Fund") for the year ended December 31, 2009.

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 Fund 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 June 8, 2009, the date of our last letter.

We are not aware of any relationships between Ernst & Young and the Fund that, in our professional judgment, may reasonably be thought to bear on our independence since June 8, 2009, the date of our last letter.

Canadian generally accepted auditing standards require that we confirm our independence to the Sinking Fund 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 Fund within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as of June 10, 2010.

The total fees charged to the City of Toronto on behalf of the City of Toronto Sinking Funds during this period are set out in the Audit Results package.

We are looking forward to discussing with you the matters addressed in this package at our upcoming meeting.

This report is intended solely for the use of the Sinking Fund Committee, management, and ultimately the City of Toronto, and should not be used for any other purposes.

Yours truly,



Chartered Accountants
Licensed Public Accountants