
City of Toronto Sinking Funds

*2013 year-end report
to the Audit Committee*

*Prepared as of
June 12, 2014*





June 12, 2014

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

Dear Members of the Audit Committee:

PricewaterhouseCoopers LLP (PwC or we) have substantially completed our audit of the financial statements of City of Toronto Sinking Funds (the City Sinking Funds) prepared in accordance with the basis of accounting disclosed in note 2 to the financial statements as at December 31, 2013 and for the year then ended. We propose to issue an unqualified report on those financial statements, pending resolution of outstanding items outlined on page 1. Our draft auditor's report is included as Appendix A.

We have issued the accompanying report to assist you in your review of the financial statements. It includes an update on the status of our work, as well as a discussion on the significant accounting and financial reporting issues dealt with during the audit process.

The matters raised in this report are only those that have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. This report has been prepared solely for the use of the Audit Committee, City Council and management, and should not be used by anyone other than these specified parties. We disclaim any responsibility to any third party who may rely on it.

We would like to express our sincere thanks to the management and the staff who have assisted us in carrying out our work.

Yours very truly,

PricewaterhouseCoopers LLP

Cathy Russell
Engagement Leader

c.c.: Mr. J. Pennachetti, City Manager
Mr. R. Rossini, Deputy City Manager & Chief Financial Officer
Mr. J. Griffiths, Auditor General

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Communications to the Audit Committee

Key matters for discussion	Comments
Status of the audit	<p>We have substantially completed our audit of the financial statements.</p> <p>Significant outstanding items at the date of this report include the following:</p> <ul style="list-style-type: none"> • Completion of subsequent events procedures to the date of our audit opinion. • Approval of the financial statements by City Council.
Objectives of an Audit and Our Auditor's Report	<p>As your auditor, our primary responsibility is to form and express an opinion on the financial statements as at December 31, 2013 and for the year then ended in accordance with the disclosed basis of accounting as outlined in note 2 to the financial statements. The financial statements are prepared by management with the oversight of those charged with governance (the Audit Committee). An audit of the financial statements does not relieve management or the Audit Committee of its responsibilities.</p> <p>We conducted our audit in accordance with Canadian GAAS. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.</p> <p>Our draft Auditor's Report is included in Appendix A</p>
Audit approach	<p>Our audit approach is designed to allow us to execute a quality and efficient audit. We do this by:</p> <ol style="list-style-type: none"> i. gaining an understanding new developments and key issues affecting the entity as well as management's monitoring of controls and business processes; ii. identifying significant audit risks, sharing our perspectives, obtaining your feedback and ensuring our audit is tailored to these risks; iii. using well-reasoned professional judgment, especially in areas that are subjective or require estimates; and iv. leveraging reliance where possible on the entity's internal controls and information technology and data systems. <p>In the current year, our work included testing of key controls in the following areas:</p> <ul style="list-style-type: none"> • Investments • Investment Income <p>All other areas were subject to tests of detail and substantive analytical testing.</p>

Key matters for discussion	Comments
Materiality	<p>Misstatements, including omissions, are considered to be material if they (individually or in aggregate with other misstatements) could reasonably be expected to influence the economic decisions of users, taken on the basis of the consolidated financial statements.</p> <p>Judgments about materiality are made in light of surrounding circumstances and are affected by the size or nature of a misstatement, or a combination of both.</p> <p>We have set an overall materiality of \$30,900,000. The overall materiality was determined on the basis of 1.50% of assets as at December 31, 2013.</p> <p>We have reported to the Audit Committee individual unadjusted and adjusted misstatements in excess of the de minimus level of \$1,545,000 (set at 5% of overall materiality).</p>
Significant accounting policies	<p>We are responsible for providing our views about qualitative aspects of the significant accounting practices, including accounting policies, accounting estimates and financial statement disclosures.</p> <p>Generally accepted accounting principles provide for the City to make accounting estimates and judgments about accounting policies and financial statement disclosures.</p> <p>We will inform you about the appropriateness of the accounting policies to the particular circumstances of the City Sinking Funds. When acceptable alternative accounting policies exist, we will identify the financial statement items that are affected by the choice of significant policies.</p> <p>There were no changes in accounting policies from the prior year. Refer to footnote 2 of the financial statements for disclosure of all significant accounting policies.</p>
Summary of unadjusted items and audit adjustments	As a result of our audit, no adjusted or unadjusted audit differences were noted.
Internal controls recommendations	<p>We are required to communicate to those charged with governance, internal control weaknesses identified as part of our audit that are considered to be significant deficiencies.</p> <p>Based on the results of our audit procedures, we have noted no significant deficiencies in internal controls and have no internal controls recommendations.</p>

Key matters for discussion	Comments
Fraud	No instances of fraud involving senior management, or employees with a significant role in internal control or that would cause a material misstatement of the financial statements, came to our attention as a result of our audit procedures and no instances of management override of controls were noted. We wish to reconfirm whether the Audit Committee is aware of any known, suspected or alleged incidents of fraud.
Significant difficulties or disagreements that occurred during the audit	We experienced no difficulties or disagreements with management during the completion of our audit that requires the attention of the Audit Committee.
Any matters involving known or suspected non-compliance with laws or regulations that came to our attention	No instances of known or suspected non-compliance with laws or regulations came to our attention as a result of our audit procedures. We wish to reconfirm whether the Audit Committee is aware of any known or suspected incidents of non-compliance with laws or regulations.
Management representation letter	We have included a draft version of the management representation letter in Appendix B.
Independence letter	We confirm that we are independent of the City as at June 12, 2014, the date of this report.
Subsequent events	We have not been made aware of any subsequent events which would impact the financial statements other than those disclosed. We will complete our subsequent events procedures to the date of our audit opinion.

Appendices

Appendix A- Draft Auditor's Report

Appendix B - Draft Management Representation Letter

The matters raised in this and other reports that will flow from our involvement as your auditor on the interim review are only those that have come to our attention that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising and, in particular, we cannot be held responsible for reporting all risks in your business or all internal control weaknesses. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted, as the report has not been prepared for, and is not intended for, any other purpose. Comments and conclusions should only be taken in context of the financial statements as a whole as we do not mean to express a conclusion on any individual item or accounting estimate.

Appendix A: Draft auditor's report



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July X, 2014

Independent Auditor's Report

To the Members of Council of City of Toronto

We have audited the accompanying financial statements of the City of Toronto Sinking Funds, which comprise the statement of financial position as at December 31, 2013 and the statements of operations and changes in unrestricted surplus, and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting described in note 2 to the financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the City of Toronto Sinking Funds as at December 31, 2013 and the results of its operations and its cash flows for the year then ended in accordance with the basis of accounting described in note 2 to the financial statements..

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Basis of Accounting and Restriction on Use

Without modifying our opinion, we draw attention to Note 2 to the financial statements, which describes the basis of accounting. The financial statements are prepared for management and to the Members of Council. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Members of Council and management and should not be used by any other parties.

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Chartered Accountants, Licensed Public Accountants

Appendix B: Draft management representation letter

[City of Toronto Letterhead]

July X, 2014

PricewaterhouseCoopers LLP
Chartered Professional Accountants
PwC Tower
18 York Street, Suite 2600
Toronto ON M5J 0B2
Attn: Ms. Cathy Russell

Dear Ms. Russell,

We are providing this letter in connection with your audit of the financial statements of City of Toronto Sinking Funds (the Funds) as at December 31, 2013 and for the year then ended for the purpose of expressing an opinion as to whether such financial statements present fairly, in all material respects, the financial position, results of operations of the Funds in accordance with the basis of accounting described in note 2 to the financial statements.

Management's responsibilities

We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated November 1, 2010. In particular, we confirm to you that:

- We are responsible for the preparation and fair presentation of the financial statements in accordance with the basis of accounting described in note 2 to the financial statements;
- We are responsible for designing, implementing and maintaining an effective system of internal control over financial reporting to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error. In this regard, we are responsible for establishing policies and procedures that ensure financial statements are prepared in accordance with the basis of accounting described in note 2 to the financial statements.
- We have provided you with all relevant information and access, as agreed in the terms of the audit engagement; and
- All transactions have been recorded in the accounting records and are reflected in the financial statements.

We confirm the following representations:

Use of the financial statements

We confirm that the financial statements are solely for the information, use of the Members of Council of City of Toronto. We understand that these financial statements are not intended to be and should not be used by anyone other than the above-mentioned users or for any other purpose. We also understand that, during your audit, items of possible interest to a third party, other than the above-mentioned users, have not been specifically addressed and matters may exist that would be assessed differently by a third party, possibly in connection with a specific transaction.

Preparation of financial statements

The financial statements include all disclosures necessary for fair presentation in accordance the basis of accounting described in note 2 to the financial statements and disclosures otherwise required to be included therein by the laws and regulations to which Funds are subject.

We have appropriately reconciled our books and records (e.g. general ledger accounts) underlying the financial statements to their related supporting information (e.g. sub ledger or third party data). All related reconciling items considered to be material were identified and included on the reconciliations and were appropriately adjusted in the financial statements. There were no material unreconciled differences or material general ledger suspense account items that should have been adjusted or reclassified to another account balance. There were no material general ledger suspense account items written off to a balance sheet account, which should have been written off to an operations account and vice versa. All consolidating entries have been properly recorded. All inter-governmental unit accounts have been eliminated or appropriately measured and considered for disclosure in the financial statements.

Accounting policies

We confirm that we have reviewed the Funds' accounting policies and, having regard to the possible alternative policies, our selection and application of accounting policies and estimation techniques used for the preparation and presentation of the financial statements is appropriate in Funds' particular circumstances to present fairly in all material respects its financial position, results of operations in accordance with the basis of accounting described in note 2 to the financial statements.

Internal controls over financial reporting

We have designed disclosure controls and procedures to ensure material information relating to City of Toronto Sinking Funds is made known to us by others during the period in which the annual filings are being prepared.

We have designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with the basis of accounting described in note 2 to the financial statements.

We have not identified any deficiency in the design or operation of disclosure controls and procedures and internal control over financial reporting identified as part of our assessment as at December 31, 2013.

We have disclosed to you all deficiencies in the design or operation of disclosure controls and procedures and internal control over financial reporting that we are aware.

Disclosure of information

We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements, such as records, documentation and other matters including:
 - Contracts and related data;
 - Information regarding significant transactions and arrangements that are outside of the normal course of business;
- Minutes of the meetings of shareholders, management, directors and committees of directors. There have been no meetings held during the reporting period;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

Completeness of transactions

All contractual arrangements entered into by the Funds with third parties have been properly reflected in the accounting records and, where material (or potentially material) to the financial statements, have been disclosed to you. We have complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance.

Fraud

We have disclosed to you:

- The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- All information in relation to fraud or suspected fraud of which we are aware affecting the Funds involving management, employees who have significant roles in internal control or others where the fraud could have a material effect on the financial statements; and
- All information in relation to any allegations of fraud, or suspected fraud, affecting the Funds' financial statements, communicated by employees, former employees, analysts, regulators or others.

Compliance with laws and regulations

We have disclosed to you all aspects of laws, regulations and contractual agreements that may affect the financial statements, including actual or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

We are not aware of any illegal or possibly illegal acts committed by the Funds' officers or employees acting on the Funds' behalf.

Accounting estimates and fair value measurements

Significant assumptions used by the Funds in making accounting estimates, including fair value accounting estimates, are reasonable.

For recorded or disclosed amounts in the financial statements that incorporate fair value measurements, we confirm that:

- The measurement methods are appropriate and consistently applied;
- The significant assumptions used in determining fair value measurements represent our best estimates, are reasonable and have been consistently applied;
- No subsequent event requires adjustment to the accounting estimates and disclosures included in the financial statements; and
- The significant assumptions used in determining fair value measurements are consistent with the Funds' planned courses of action. We have no plans or intentions that have not been disclosed to you, which may materially affect the recorded or disclosed fair values of assets or liabilities.

Significant estimates and measurement uncertainties known to management that are required to be disclosed in accordance with CPA Canada Public Sector Accounting Handbook Section PS 2130, Measurement Uncertainty, have been appropriately disclosed.

Related parties

We confirm the completeness of information provided to you regarding the identification of related parties as defined by CICA Handbook, Part II, Section 3840, *Related Party Transactions*, which include, but are not limited to directors, officers, senior members of management, or immediate family members of such individuals, or entities over which these individuals are able to exert significant influence.

We also confirm the completeness of information provided to you regarding the nature of our relationships with and transactions involving those entities.

We have not identified any related parties transactions, as defined by CICA Handbook, Part II, Section 3840, *Related Party Transactions*.

Going concern

We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements (e.g. to dispose of the business or to cease operations).

Assets and liabilities

We have satisfactory title or control over all assets.

We have recorded or disclosed, as appropriate, all liabilities, in accordance with the basis of accounting described in note 2 to the financial statements. All liabilities and contingencies, including those associated with guarantees, whether written or oral, under which the Funds are contingently liable in accordance with the CPA Canada Public Sector Accounting Handbook Section PS 3300, Contingent Liabilities, have been disclosed to you and are appropriately reflected in the financial statements.

Litigation and claims

All known actual or possible litigation and claims, which existed at the balance sheet date or exist now, have been disclosed to you and accounted for and disclosed in accordance with the basis of accounting described in note 2 to the financial statements, whether or not they have been discussed with legal counsel.

Misstatements detected during the audit

Certain representations in this letter are described as being limited to those matters that are material. Items are also considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.

We confirm that the financial statements are free of material misstatements, including omissions.

There were no adjusted misstatements identified during your audit.

Events after balance sheet date

We have identified all events that occurred between the statement of financial position date and the date of this letter that may require adjustment of, or disclosure in, the financial statements, and have effected such adjustment or disclosure.

Cash and banks

The books and records properly reflect and record all transactions affecting cash funds, bank accounts and bank indebtedness of the Funds.

All cash balances are under the control of the Funds, free from assignment or other charges, and unrestricted as to use, except as disclosed to you.

The amount shown for cash on hand or in bank accounts excludes trust or other amounts, which are not the property of the Funds.

Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit or similar arrangements have been properly disclosed.

All cash and bank accounts and all other properties and assets of the Funds are included in the financial statements as at December 31, 2013.

Financial assets (other than loans and receivables)

All securities which were owned by the Funds were recorded in the accounts.

All income earned on the financial assets has been recorded in the accounts, and any interest income has been accrued using the effective interest rate method.

We are not aware of any objective evidence of impairment that would result in the recognition of an impairment loss on any financial asset.

For all financial assets classified as "held-to-maturity" or equivalent as at December 31, 2013, the entity has the intention to hold these assets, without sale or disposal, until the specified maturity date of each. Management are not aware of any constraints, legal, financial or otherwise that could mean that the entity is not expected to be able to hold these assets until the maturity date of each financial instrument.

Investments

With respect to the Funds' investments:

- a. Investments included in the Funds' financial statements at December 31, 2013 have been determined in accordance with the requirements of CICA Handbook, Part II, section 3856 which requires long positions to be valued at bid and short positions to be valued at ask.
- b. For the year ended December 31, 2013, the Funds have not entered into security lending arrangements, except as disclosed in the financial statements.
- c. The Funds have not purchased any restricted securities during the year ended December 31, 2013, and do not hold any securities on December 31, 2013 which are restricted in any way as to their resale. The Funds have not entered into any agreements, nor are they in the process on entering into any agreements, to acquire restricted securities.
- d. The Funds have no open derivative contracts at on December 31, 2013.

Yours truly,

City of Toronto Sinking Funds

Mr. Roberto Rossini, Deputy City Manager & CFO,
City of Toronto

Mr. Joe Pennachetti, City Manager

Mr. Joe Farag, Director, Corporate Finance

Mr. Martin Willschick, Manager, Capital Markets

Mr. Mike St.Amant, Director, Accounting Services

