

June 20, 2011

Members of the Sinking Funds Committee
City of Toronto

Dear members of the Sinking Funds Committee:

This document has been prepared in order to provide a summary of the work performed in connection with the annual audit of the City of Toronto Sinking Funds (the Fund) as at December 31, 2010 and to aid your review of the financial statements.

At the time of preparation of this summary, we have substantially completed our audit of the financial statements of the Fund subject to the approval of the financial statements and receipt of the management representation letter. We propose to issue an unqualified report on those financial statements pending the completion of the above mentioned outstanding items. Our draft auditor's report is included as Appendix A. We have described below the results of our audit.

In summary:

- Our audit was performed in accordance with Canadian Auditing Standards (CAS), designed to provide reasonable, but not absolute assurance whether the Fund's financial statements are free of material misstatement;
- The financial statements are prepared in accordance with Canadian public sector accounting standards; and
- No restrictions were imposed on the nature and extent of our auditing procedures.

The auditor's responsibility under CAS

The preparation of the financial statements and the accompanying notes is the responsibility of management. Our primary responsibility is to express an opinion on the financial statements based on our audit. In addition, we also advise management on matters relating to the financial statements.

We planned and conducted our audit in accordance with CAS. Those standards require that we plan and perform our audit to obtain reasonable, but not absolute, assurance whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

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Our audit was planned and conducted in accordance with our risk based approach which provides for an initial assessment of audit risk by the audit team. The scope of our audit procedures was also determined based on our evaluation of the adequacy of internal accounting controls.

Reliance on internal controls

We obtained an understanding of the Fund's internal control over financial reporting solely for the purpose of identifying types of potential misstatements, considering factors that affect the risks of material misstatements and determining the nature, timing and extent of auditing procedures necessary for expressing our opinion on the financial statements. This understanding is not sufficient to render an opinion on the effectiveness of internal control over financial reporting, or to consider whether internal controls are adequate for management's purposes, or to identify all significant weaknesses in the Fund's system of internal control over financial reporting.

Materiality

Our audit was performed in accordance with CAS and designed to provide reasonable, rather than absolute, assurance that the Fund's financial statements are free of material misstatement.

Whether a misstatement is material can only be judged in the context of the actual financial statements being reported on as a whole, including the related note disclosures. Both qualitative and quantitative factors enter into the judgment. These factors can vary depending on the nature of the item and recent trends in related balances and figures. Accordingly, it is inappropriate and can be misleading to specify a single quantitative measure of materiality for a set of financial statements; however, it is necessary to establish a level of materiality for audit planning purposes. In assessing materiality, we have taken into consideration other qualitative aspects such as the nature of the investments, the adequacy of the system of internal accounting controls surrounding the preparation of the Fund's financial statements and the continuous processing of the Fund's transactions. The materiality level we have used of \$11 million is 1% of the net assets of the Fund as at December 31, 2010.

The materiality level set does not determine whether a particular misstatement or aggregation of misstatements is material; this decision requires professional judgement.

Summary of unadjusted and adjusted misstatements

Our responsibility is to issue an opinion as to whether the financial statements are free of material misstatement.

As a result of our audit, we identified one item and have discussed this with management. Management has adjusted the financial statements to reflect this misstatement. There were no material unadjusted misstatements noted.

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The adjusted misstatement noted in our 2010 audit is summarized below:

Adjusted misstatement

1. Adjustment to actuarial requirement liability relating to the accounting for the transfer of funds from the Strategic Infrastructure Partnership Reserve Fund to the City's Sinking Funds resulting in an overstatement of the actuarial requirement's liability and provision for actuarial requirements of \$257,676,000.

We have concluded that the financial statements taken as a whole are free of material misstatement and, subject to the completion of the work outstanding as identified on page 1; we are prepared to issue an unqualified opinion on the financial statements.

Other required communications to the Sinking Funds Committee

CAS require that the external auditor communicate certain matters to those charged with governance that may assist you in overseeing management's financial reporting and disclosure process.

Below, we summarize these required communications as they apply to the Fund:

Matter to be communicated	PricewaterhouseCoopers LLP's response
Management's representations	<ul style="list-style-type: none"> Under CAS, we are required to inform you of the representations we are requesting from management. A copy of the management representation letter is included in Appendix B.
Significant deficiencies in internal control	<ul style="list-style-type: none"> Changes to CAS require us to communicate to the Sinking Funds Committee control weaknesses identified as part of our audit that are considered to be significant deficiencies. A significant deficiency is defined as an internal control deficiency that we consider merits the attention of the Sinking Funds Committee. There have been no significant deficiencies identified as part of our audit procedures.
Significant difficulties or disagreements that occurred during the audit	<ul style="list-style-type: none"> No disagreements occurred while performing our audit procedures.

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Matter to be communicated	PricewaterhouseCoopers LLP's response
Fraud and illegal acts	<ul style="list-style-type: none"> • No fraud involving senior management, 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.
Consultations with other accountants	<ul style="list-style-type: none"> • We are not aware of any such consultations.
Related party transactions that are not in the normal course of operations and involve significant judgments made by management concerning measurement and disclosure	<ul style="list-style-type: none"> • Management has represented to us that they have disclosed to us all related party transactions
Independence	<ul style="list-style-type: none"> • Our professional standards require that we communicate with you, at least annually, regarding any relationships between the Fund and PricewaterhouseCoopers LLP that, in our professional judgment, may reasonably be thought to bear on our independence. We 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. We are not aware of any relationships between the Fund and our firm that may reasonably be thought to bear on our independence.
Any matters involving known or suspected non-compliance with laws or regulations that came to our attention	<ul style="list-style-type: none"> • There were no instances of known or suspected non-compliance with laws or regulations that came to our attention during the completion of our audit.
Inclusion of "Other matter" paragraph in audit opinion	<ul style="list-style-type: none"> • In accordance with CAS, an "Other Matter" paragraph was included in the audit opinion as a result of the 2010 audit being an initial engagement for PricewaterhouseCoopers LLP. The wording of the Other Matter paragraph is included in the draft opinion (Appendix A).

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

PricewaterhouseCoopers LLP

Cathy Russell
Partner
Audit and Assurance Group

Encl. Appendix A – Draft auditor’s report
Appendix B – Draft management representation letter

The matters raised in this and other reports that will flow from the audit 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. 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 an opinion on any individual item or accounting estimate.

Appendix A – Draft auditor’s report

**To the Chair and Members
of the City of Toronto Sinking Funds Committee**

We have audited the accompanying financial statements of the City of Toronto Sinking Funds, which comprise the balance sheet as at December 31, 2010 and the statements of operations and changes in unrestricted surplus, and cash flows for the year then ended, and the related notes including 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 Canadian public sector accounting standards, 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 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, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Other matter

The financial statements as at December 31, 2009 and for the year then ended were audited by another auditor who expressed an unmodified opinion on those financial statements on April 12, 2010.

DRAFT

Chartered Accountants, Licensed Public Accountants

July 5, 2011

Toronto, Canada

Appendix B – Draft management representation letter

July 5, 2011

Ms. Cathy Russell, Partner
PricewaterhouseCoopers LLP
Royal Trust Tower
TD Centre, Suite 3000
Toronto, Ontario
M5K 1G8

Dear Ms. Russell:

We are providing this letter in connection with your audit of the financial statements of the City of Toronto Sinking Funds (the Funds) as of December 31, 2010 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, the results of operations of the Funds in accordance with Canadian public sector accounting standards..

Management’s responsibilities

We have fulfilled our responsibilities, as set out in the terms of the audit engagement 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 Canadian public sector accounting standards;
- We are responsible for designing, implementing and maintaining internal control relevant to the preparation and fair presentation of 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 pertain to the maintenance of accounting systems and records, the authorization of receipts and disbursements, the safeguarding of assets and for reporting financial information in accordance with Canadian public sector accounting standards;
- 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:

Preparation of financial statements

The financial statements include all disclosures necessary for fair presentation in accordance with Canadian public sector accounting standards and disclosures otherwise required to be included therein by the laws and regulations to which the 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 a profit and loss account and vice versa.

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 the Funds' particular circumstances to present fairly in all material respects its financial position, results of operations and cash flows in accordance with Canadian public sector accounting standards.

Internal controls over financial reporting

We have designed disclosure controls and procedures to provide reasonable assurance that material information relating to the Funds is made known to us by others.

We have designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian public sector accounting standards.

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 as of December 31, 2010.

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 management and committees;
- 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 Fund with third parties have been properly reflected in the accounting records or/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 Fund 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 Fund's 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 financial statements.

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

Accounting estimates and fair value measurements

Significant assumptions used by the Fund 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 Canadian Institute of Chartered Accountants (CICA) Handbook Section 1508, Measurement Uncertainty and CICA Handbook Section 3862, Financial Instruments – Disclosures, 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 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 the Funds' relationships with and transactions involving those entities.

The identity and relationship of and balances and transactions with related parties have been properly recorded and adequately disclosed in the financial statements, as required by Canadian public sector accounting standards.

The list of related parties detailed in the consolidated financial statements of the City of Toronto for the year ended December 31, 2010, accurately and completely describes the Fund's related parties and the relationships with such parties.

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 funds or to cease operations).

Litigation and claims

All known actual or possible litigation and claims, which existed at the statement of financial position date or exist now, have been disclosed to you and accounted for and disclosed in accordance with Canadian public sector accounting standards, 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. Solely for the purpose of this letter, the term "material" means any item referred to in this letter, individually or the aggregate that are more than \$11 million. 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.

The adjusted misstatements identified during your audit and summarized in the attached table (Appendix A) have been approved by us and adjusted in the financial statements.

Assets and liabilities

We have satisfactory title or control over all assets. All liens or encumbrances on the Funds' assets and assets pledged as collateral, to the extent material, have been disclosed in the financial statements. Receivables recorded in the financial statements represent bona fide claims against debtors for sales or other charges arising on or before the statement of financial position date and are not subject to discount except for normal cash discounts. Receivables classified as current do not include any material amounts that are collectible after one year. All receivables have been appropriately reduced to their estimated net realizable value.

We have recorded or disclosed, as appropriate, all liabilities, in accordance with Canadian public sector accounting standards. All liabilities and contingencies, including those associated with guarantees, whether written or oral, under which the Funds are contingently liable in accordance with Accounting Guideline 14, Disclosure of Guarantees, or CICA Handbook Section 3290, Contingencies, have been disclosed to you and are appropriately reflected in the financial statements.

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 of which we are aware are included in the financial statements at December 31, 2010.

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.

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.

Yours truly,

City of Toronto Sinking Funds

Cam Weldon, Deputy City Manager and Chief Financial Officer
and Chair of the Sinking Funds Committee

Joe Pennachetti, City Manager

Len Brittain, Director Corporate Finance

Martin Willschick, Manager Capital Markets

Appendix A – Summary of Adjusted Misstatement

000's of dollars	Statement of Operations	Statement of Financial Position		
Description	Operating Excess Over/(Under) Stated	Assets (Over)/Under Stated	Liabilities Over/(Under) Stated	Operating excess Over/(Under) Stated
<p><i>Current year adjusted misstatements</i></p> <p>Adjustment to actuarial requirement liability relating to the accounting for the transfer of funds from the Strategic Infrastructure Partnership Reserve Fund to the City's Sinking Funds.</p>	(257,676)		257,676	
Total Adjusted Differences	\$ (257,676)		\$ 257,676	