June 11, 2015

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

Dear Members of the Audit Committee:

We have substantially completed our audit of the financial statements of the City of Toronto Sinking Funds (the City Sinking Funds) prepared in accordance with the basis of accounting disclosed in Note 2 of the financial statements as at December 31, 2014 and for the year then ended. We propose to issue an unqualified report on those financial statements, pending resolution of outstanding items as outlined on page 1. Our draft auditor's report is included as Appendix A.

We prepared 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 matters dealt with during the audit process.

We will review the key elements of this report at the upcoming meeting and discuss our findings with you.

We would like to express our sincere thanks to the management and staff who have assisted us in carrying out our work, and we look forward to our meeting on June 26, 2015.

Yours very truly,

Cathy Russell
Partner
Assurance

c.c.: Mr. J. Livey, Acting City Manager
Mr. R. Rossini, Deputy City Manager & Chief Financial Officer
Ms. B. Romeo-Behler, Auditor General
**Communications to the Audit Committee**

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<tr>
<th>Key matters for discussion</th>
<th>Comments</th>
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| Status of the audit        | PricewaterhouseCoopers LLP (PwC or we) have substantially completed our audit of the City Sinking Funds financial statements (the financial statements). Significant outstanding items at time of mailing include the following:  
  - Receipt of signed management representation letter;  
  - Approval of final financial statements by City Council; and  
  - Completion of subsequent events procedures to the date of our opinion. |
| Risk of material misstatement due to management override of controls | Canadian audit standards require that management override of controls be considered an area of significant audit risk. Management has implemented internal controls to ensure that appropriate segregation of duties have been established for the City Sinking Funds in order to mitigate the risk of management override of controls.  
  PwC work performed:  
  - We performed audit work on a sample of significant and non-standard manual journal entries.  
  - We obtained documentation to support the manual entries selected and ensured that all were appropriately approved.  
  Conclusion:  
  Based on our work performed, we found no circumstances that evidenced inappropriate management override of controls. |
| Materiality                | Misstatements are considered to be material if they could reasonably be expected to influence the economic decisions of users of the financial statements.  
  We have set an overall materiality of $37,300,000 which is based on 1.75% of total assets as at December 31, 2014.  
  We have no unadjusted and adjusted misstatements over $1,865,000 (set at 5% of overall materiality) to report to the Audit Committee. |
| Internal controls recommendations | We have no significant internal control recommendations to report. |
## Key matters for discussion

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<tbody>
<tr>
<td>Fraud and illegal acts</td>
<td>No fraud involving senior management, or employees with a significant role in internal control or that would cause a material misstatement of the financial statements and no illegal acts came to our attention as a result of our audit procedures. We wish to reconfirm that the Audit Committee is not aware of any known, suspected or alleged incidents of fraud or illegal acts not previously discussed with us.</td>
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<td>Significant difficulties or disagreements that occurred during the audit</td>
<td>No difficulties or disagreements occurred while performing our audit that requires the attention of the Audit Committee.</td>
</tr>
<tr>
<td>Any matters involving known or suspected non-compliance with laws or regulations that came to our attention</td>
<td>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.</td>
</tr>
<tr>
<td>Management Representation Letter</td>
<td>We have included a draft version of the management representation letter in Appendix B.</td>
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<tr>
<td>Independence</td>
<td>We confirm our independence with respect to the City Trust Funds as of June 11, 2015, the date of this report.</td>
</tr>
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<td>Subsequent events</td>
<td>No subsequent events which would impact the financial statements other than those disclosed have come to our attention. We would like to reconfirm that the Audit Committee is not aware of any other subsequent events that might affect the financial statements.</td>
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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. 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. This report has been prepared solely for your use. It was not prepared for, and is not intended for, any other purpose. No other person or entity shall place any reliance upon the accuracy or completeness of statements made herein. PwC does not assume responsibility to any third party, and, in no event, shall PwC have any liability for damages, costs or losses suffered by reason of any reliance upon the contents of this report by any person or entity other than you.
Appendix A: Draft auditor’s report
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, 2014 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, 2014 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.

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215, www.pwc.com/ca

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

DRAFT

Chartered Professional Accountants, Licensed Public Accountants
June 26, 2015

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 the City of Toronto Sinking Funds (the Sinking Funds) as at December 31, 2014 and for the year then ended for the purpose of expressing an opinion as to whether such financial statements are presented fairly, in all material respects, the financial position, the results of its operations and the cash flows in accordance with the basis of accounting as described in Note 2 to the financial statements.

Management 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 the 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 the 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 pertain to the maintenance of accounting systems and records, the authorization of receipts and disbursements, the safeguarding of assets and the reporting of financial information in accordance with the requirements of 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:

Distribution and use of the financial statements
We confirm that the financial statements are solely for the information, distribution and 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 distributed and 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 be specifically addressed and matters may exist that would be assessed differently by a third party, possibly in connection with a specific transaction.

Preparation of the financial statements
The financial statements include all disclosures necessary for fair presentation in accordance with 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 we 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. 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 our accounting policies and, having regard to the possible alternative policies, our selection and application of accounting policies and estimation techniques used for the preparation of the financial statements is appropriate in our particular circumstances to be prepared fairly, in all material respects, 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 the Sinking Funds is made known to us by others.

We have designed internal controls 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 performed an assessment of the effectiveness of our internal controls over financial reporting and concluded that we have maintained effective disclosure controls and procedures and internal controls over financial reporting.

**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.
- 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 us 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 us, 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 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 our directors, officers or employees acting on our behalf.

Accounting estimates and fair value measurements
Significant assumptions used by the Sinking 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 Sinking 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 that we have disclosed to you the identity of the Sinking Funds’ related parties as defined by the basis of accounting described in Note 2 to the financial statements, 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.

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 the basis of accounting described in Note 2 to the financial statements.
**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).

The financial statements disclose all the matters of which we are aware that are relevant to the Sinking Funds’ ability to continue as a going concern, including all significant conditions and events, mitigating factors affecting going concern. We have made available to you all relevant information on the Sinking Funds’ ability to continue as a going concern that could affect the financial statements, including the recoverability or classification of recorded assets or amounts and classification of liabilities.

Accordingly, the Sinking Funds’ financial statements are appropriately prepared on a going concern basis.

**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 we are contingently liable in accordance with the basis of accounting described in Note 2 to the financial statements, 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 December 31, 2014 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.

**Cash and banks**

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

All cash balances are under the control of the Sinking 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 Sinking 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 Sinking Funds are included in the financial statements as at December 31, 2014.

Financial assets
All securities and other financial assets that were owned by the Sinking 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, 2014, 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:

- Investments included in the Funds’ financial statements at December 31, 2014 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.
- For the year ended December 31, 2014, the Funds have not entered into security lending arrangements, except as disclosed in the financial statements.
- The Funds have not purchased any restricted securities during the year ended December 31, 2014, and do not hold any securities on December 31, 2014 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.
- The Funds have no open derivative contracts at on December 31, 2014.
Events after the financial statements
We have identified all events that occurred between December 31, 2014 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

Mr. Roberto Rossini, Deputy City Manager & CFO

Mr. John Livey, Acting City Manager

Mr. Joe Farag, Executive Director, Corporate Finance

Mr. Martin Willschick, Manager, Capital Markets

Ms. Shairoz Murji, Acting Director, Accounting Services