



Toronto Transit Commission

Audit Results – Year Ended 31 December 2009

Report to the Chair and Members of the
Toronto Transit Commission

26 April 2010

To the Chair and Members of the Toronto Transit Commission

We are pleased to present the results of our audit of the financial statements of Toronto Transit Commission (the “TTC” or the “organization”).

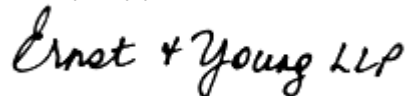
This report to the Commission summarizes the terms of our engagement, the issues of audit significance discussed with management and provides the communications required by our professional standards.

Our audit was designed to express an opinion on the 31 December 2009 financial statements of the TTC. 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 Audit Committee, the Commission, the Council of the City of Toronto and management, 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 31 December 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 Commission 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,

A handwritten signature in black ink that reads 'Ernst & Young LLP'.

Chartered Accountants
Licensed Public Accountants

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
Subsidies	<ul style="list-style-type: none"> The funding of the TTC is complex and the notes to the financial statements provide significant detail about capital and operating subsidies in prior years and the current year. In order to ensure that the disclosures are consistent with the City's understanding of funding programs and the accounting for subsidies in the statements of the City, the draft disclosures in notes 12 and 13 were provided to City staff and any suggested changes were reflected in the financial statements provided to the Committee. Note 14 to the financial statements provides details of transactions in City reserves and reserve funds. These details reflect information provided to the Commission by City staff. In order to obtain assurance about the amounts due to and from the City, TTC provides City staff with a copy of the reconciliation between the amount included in the City's records and the amount recorded in TTC's accounts. There are a number of reconciling items created primarily by timing differences. 	<ul style="list-style-type: none"> Management has asked the City to review the final wording of notes 12, 13 and 14 for accuracy. Consistent with prior years, we have obtained our assurance on the disclosures in these notes based on the City's confirmation that the details are accurate. We sent a confirmation to the City with respect to the intercompany balance and we have obtained our assurance on the amounts due to and from the City by obtaining this sign off from the City on the intercompany reconciliation provided to them by the TTC.
Settlement of Human Resource Matter	<ul style="list-style-type: none"> During 2009, a human resource matter outstanding from prior years was settled. The actual amount required to settle this matter was approximately \$3M less than what had been accrued as at 31 December 2008. The liability was reduced when the settlement was paid out and the excess accrual was recorded as a reduction of wages, salaries and benefits expense. 	<ul style="list-style-type: none"> We have reviewed the settlement agreement and recalculated the actual amount of the settlement. We believe the accounting for the settlement is appropriate.
Deferred Revenue	<ul style="list-style-type: none"> The recording of deferred revenue requires certain estimates in order to determine the amount recorded in the accounts. This year, the balance of deferred revenue increased by \$13M. This increase is explained primarily by the hoarding of tokens as a result of the fare increase effective 3 January 2010 and the higher value related to fare media issued prior to 3 January 2010 for use in 2010. In completing our work, we noted an over-accrual of deferred revenue relating to metropasses issued in 2009 and previous years which should have been recognized as revenue at year-end. Deferred revenue is overstated by \$860K as at 31 December 2009 and was overstated by \$373K as at 31 December 2008. 	<ul style="list-style-type: none"> We have audited the deferred revenue balance as at 31 December 2009, and have concluded that it is within a zone of reasonableness. We have included the \$860K in the 2009 Summary of Audit Differences and the \$373K in the 2008 Summary of Audit Differences.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Legal Matters	<ul style="list-style-type: none"> There are a large number of claims outstanding against the TTC at any point in time in connection with its operations and capital program. Management believes that outstanding claims are adequately covered by the general comment in notes 15[a] of the financial statements that the TTC is subject to various arbitrations, litigations and claims related to its operations, labour relations and completion of capital projects and that the ultimate disposition of these matters will not materially exceed the amounts recorded in the accounts. Note 15(b) was added to describe the class-action lawsuit launched on 24 March 2010 related to the St. Clair streetcar project. 	<ul style="list-style-type: none"> We agree that the disclosures in the financial statements with respect to outstanding legal matters are adequate.
Employee Future Benefit Plans	<ul style="list-style-type: none"> In order to estimate the accrued benefit obligations for the various employee future benefit plans, management must make estimates about a number of matters including the discount rate and future increases in benefit costs and salaries. As set out in note 11, changes in these assumptions can have a significant impact on the amounts recorded in the financial statements. Because the impact of changes is recorded over a number of years, the impact on any individual year is moderated. Valuations of employee future benefit plans were completed during the year and, rolled forward to 31 December 2009. In the current year, actuarial losses were created by the decrease in discount rate from 7.4% to 6.25% for post-retirement non-pension benefits, and from 7.4% to 5.0% for post-employment benefits. In completing the valuation for the post-retirement medical and dental benefits, it was noted that the eligibility criteria used by the external actuary in the 2004 valuation were incorrect. As a result, an accounting expense of \$6.163M was recorded in 2009 which reflected the cumulative impact of the error over a period of 5 years to 31 December 2008. 	<ul style="list-style-type: none"> We have reviewed management's 2009 estimates and the assumptions used to calculate these estimates, and believe they are within a zone of reasonableness. We have recorded the \$6.163M adjustment which reflects the cumulative impact over 5 years in the 2008 Summary of Audit Differences since this amount represented an understatement of the accrued benefit liability as at 31 December 2008. We concur with management that this amount is not material to the fair presentation of the financial statements.
Changes in Accounting Policies	<ul style="list-style-type: none"> There were no new accounting policies adopted in fiscal 2009. As noted in the planning document, dated 22 January 2010 that was presented to the Audit Committee, the TTC is currently defined as a government business-type organization ("GBTO") and, in the future, will be classified as an other government organization ("OGO"). We understand management has chosen to base their future financial reporting on the Public Sector Accounting Handbook rather than International Financial Reporting Standards. We understand management is determining what accounting standards will be adopted for the Toronto Coach Terminal Inc. and the TTC Insurance Company Limited. 	<ul style="list-style-type: none"> We concur with the disclosures in the financial statements in connection with future changes in accounting policies.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Capital Accounting for Transit City	<ul style="list-style-type: none"> • The Ontario Government has announced support for the TTC's Transit City Plan. Agreements have not yet been signed that define the timing, scope, magnitude and governance issues associated with this plan. Further, who will own the new lines has not been finalized. Agreements are expected to be finalized in the spring of 2010. • To date, TTC has been incurring expenses in connection with the Transit City Plan and funding has been provided to TTC by the City of Toronto. The costs of the assets are classified under capital assets as "construction in progress". • In the recent budget, the Ontario government announced a deferral of approximately \$4 billion of funding for MetroLinx projects. The impact on the Transit City projects is not determinable at this time. 	<ul style="list-style-type: none"> • We concur with the accounting for the capital assets. Once agreements are in place that define who owns the assets, any required adjustments will need to be considered.
Accident Claims	<ul style="list-style-type: none"> • The 2009 expense of \$55,908K (2008 - \$49,177K) recorded in the consolidated statement of operations and accumulated equity and the accrual as at December 31, 2009 of \$125,694K (2008 - \$94,804) recorded in the consolidated balance sheet related to accident claims have grown significantly over the prior period (\$6.8M and \$30.9M respectively). • The increase in the accrual was primarily driven by the increase in actuarial assumptions for incurred-but-not-recorded (IBNR), followed by an increase in the case reserve for automobile incidents. 	<ul style="list-style-type: none"> • We have performed audit procedures specifically on the TTCIC financial statements, which are consolidated into the TTC consolidated financial statements, including the review of the actuarial report and have concluded that the provision for accident claims is within a range of reasonableness.
Inventory Process	<ul style="list-style-type: none"> • In the 2008 audit results package, dated 9 April 2009, we recommended that Internal Audit examine the inventory requisition procedures that were put in place in 2009. • We understand that the inventory procurement process will be examined by Internal Audit in May 2010 in conjunction with the implementation of a new inventory system. 	<ul style="list-style-type: none"> • We agree that this approach will deal with the issue we raised last year.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Accruals	<ul style="list-style-type: none"> • TTC has introduced a program to reduce workplace injuries. They entered into a 3 year contract with a consultant beginning in 2008 to assist with this program. • TTC has accrued \$1M that represents two thirds of a lump sum performance payment of \$1.5M that must be paid to the consultant if a target reduction in workplace lost time injuries is met during the period beginning 31 December 2010 to 30 September 2011. There has been a decrease in workplace injuries as at 31 December 2009 as a result of the consultant's activities and TTC is on track to meet the target that will trigger the performance payment. Therefore, management concluded that a portion of the performance payment should be accrued. 	<ul style="list-style-type: none"> • We have reviewed the agreement with the consultant and note that, as at 31 December 2009, the event that creates the obligation to make the performance payment has not been met. Therefore, the definition of a liability has not been met and no amount should be accrued. We have recorded the \$1M on the Summary of Audit Differences.
	<ul style="list-style-type: none"> • In 2006, CRA determined that long-term disability payments made by the TTC were subject to CPP deductions. TTC appealed this ruling and, because of uncertainty about the success of the appeal, an amount was accrued in the accounts for this contingent liability. Given the close association between CPP and EI, the TTC also accrued for the amount of EI that would be due with respect to long-term disability payments. • In 2009, the Tax Court of Canada upheld CRA's position. The TTC appealed to the Federal Court of Appeal and, in January 2010, agreed with the TTC that LTD payments were not subject to CPP. As CRA could appeal this decision until 29 March 2010, the TTC retained the provision pending the expiry of CRA's appeal period. On 31 March 2010, staff were informed that the CRA did not appeal. 	<ul style="list-style-type: none"> • In order to record a liability in connection with a contingent liability, it must be probable that the amount will have to be paid. We have seen no evidence that this test is met now that TTC has been successful in its appeal. • As the CRA appeal period has now lapsed, this matter is now resolved and thus there is no payable to CRA in connection with CPP and EI payments related to long-term disability payments. We have recorded \$2.7M to the Summary of Audit Differences as an overstatement of liabilities.
	<ul style="list-style-type: none"> • Last year we noted that the accrual for the employer's health tax on wage accruals was understated by \$456K. 	<ul style="list-style-type: none"> • We have included the \$456K on the Summary of Audit Differences for 2008 as an understatement of liabilities.

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. Following is a summary of those differences we have identified through the date of this report:

	Recording/Differences Would Have Increased (Decreased)	
	Accumulated equity/ Decreased (Increased) Net operating costs	
	<u>2009</u>	<u>2008</u>
	\$	\$
Known Audit Differences:		
Overstatement of metropass deferred revenue account	860	373
Overstatement of liability re: CPP/EI on long-term disability payments	2,661	—
Overstatement of liability re: performance payment	1,044	—
Prior year error - Valuation correction re: eligibility criteria	—	(6,163)
Prior year error - Understatement of liability re: employer's health tax on wage accruals	—	(456)
<hr/>		
Total Unadjusted Audit Differences in Accumulated Equity (before impact on subsidies)		
Before Turnaround Effect of Prior Year Differences	4,565	(6,246)
Turnaround Effect of Prior Year Differences in Accumulated Equity (before impact on subsidies)	<u>6,246</u>	
Total Unadjusted Audit Differences in Net Operating Costs	<u>10,811</u>	

Required Communications

Generally accepted auditing standards in Canada require the auditor to communicate certain matters to the Audit 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 data-bbox="205 386 919 407">Auditors' Responsibilities Under Generally Accepted Auditing Standards (GAAS)</p> <p data-bbox="205 418 989 505">As set out in the planning document presented to the Audit Committee, we designed our audit to express an opinion on your organization's financial statements.</p> <p data-bbox="205 521 989 643">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 data-bbox="205 659 989 748">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 data-bbox="1031 418 1850 477">We anticipate issuing an unqualified audit opinion dated 25 March 2010 upon approval of the financial statements by the Commission.</p>
<p data-bbox="205 776 730 797">Changes to Audit Approach Outlined in Planning Document</p> <p data-bbox="205 813 989 1219">In our planning document, we indicated that we would obtain an understanding of the business and controls to provide the basis for our audit risk assessments, and the identification of audit procedures responsive to those risk assessments. This balanced approach is designed to focus comparatively more audit effort on complex, higher-risk areas than on those assessed as lower risk. We indicated that our audit would focus significant attention on the various estimates required to prepare the financial statements. We indicated that we would review the assumptions used for reasonableness and the detailed calculations. We planned to rely on systems and therefore test relevant controls over the more significant revenues and disbursements. We indicated that the materiality that we would use in carrying out the audit would be \$12.5M. Had we updated our materiality based on actual results, materiality would have been \$14.1M.</p>	<p data-bbox="1031 813 1885 834">There were no changes to the audit approach outlined in the planning document.</p>

Required Communications (continued)

Area	Comments
<p data-bbox="191 310 1003 375">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 data-bbox="191 386 1003 537">We determine that the Audit 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 data-bbox="191 548 1003 764">In addition, we report to the Audit 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 data-bbox="1003 386 1902 407">Refer to “Items of Audit Significant Discussed with Management” section.</p>
<p data-bbox="191 797 1003 818">Our Judgments About the Quality of the Organization's Accounting Principles</p> <p data-bbox="191 829 1003 980">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 data-bbox="1003 829 1902 948">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>
<p data-bbox="191 1016 1003 1037">Sensitive Accounting Estimates and Disclosures</p> <p data-bbox="191 1049 1003 1170">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 data-bbox="191 1182 1003 1304">We determine that the Audit 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 data-bbox="1003 1049 1902 1070">Refer to “Items of Audit Significant Discussed with Management” section.</p>

Required Communications (continued)

Area	Comments
<p>Major Issues Discussed with Management Including Accounting for Significant Unusual Transactions and for Controversial or Emerging Areas</p>	
<p>We determine that the Audit 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>Refer to “Items of Audit Significance Discussed with Management” section.</p>
<p>Significant Audit Adjustments and Unrecorded Audit Differences Considered by Management to be Immaterial</p>	
<p>We provide the Audit 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>There were no recorded audit differences that impacted the consolidated statement of operations and accumulated equity.</p>
<p>We inform the Audit 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>Refer to “Summary of Audit Differences” section for details of unrecorded 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>

Required Communications (continued)

Area	Comments
Fraud and Illegal Acts	
We report to the Audit 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.	We are not aware of any matters that require communication.
We are also required to make inquiries of the Audit Committee related to fraud, including both (1) their views about the risks of fraud, and (2) their knowledge of any actual or suspected fraud.	We would request that the Audit 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.
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.	Once completed, we will review the Annual Report for consistency between the audited financial statements and other sections of that document.
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 Audit Committee.	None of which we are aware.
Major Issues Discussed with Management in Connection with Initial or Recurring Retention	None.
Auditors' Independence	
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.	Refer to "Independence Letter" section.

Required Communications (continued)

Area	Comments	2009 \$	2008 \$
Fees	<ul style="list-style-type: none"> A summary of our fees is included below for your reference. 		
		2009	2008
		\$	\$
	Annual audit fees:		
	Toronto Transit Commission	94,580	94,580
	Toronto Coach Terminal Inc.	7,985	7,985
	TTC Insurance Company Limited	19,200	19,200
	Professional services in conjunction with the Phase 1 Privacy Assessment engagement.	60,000	—
	Professional services in connection with a recovery of Ontario retail sales tax in respect of Wheel-Trans buses.	448,674	—
	Professional services in connection with audit of disbursements under the CSIF program.	16,725	—
	All annual audit fees noted are in accordance with the contract with the City of Toronto and include all applicable expenses.		

Independence Letter

6 April 2010

To the Chair and Members of
the Toronto Transit Commission Audit Committee

We have been engaged to audit the financial statements of the Toronto Transit Commission (the "TTC") for the year ended 31 December 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 TTC 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 9 April 2009, the date of our last letter.

We are not aware of any relationships between Ernst & Young and the TTC that, in our professional judgment, may reasonably be thought to bear on our independence since 9 April 2009, the date of our last letter.

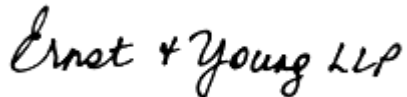
Canadian generally accepted auditing standards require that we confirm our independence to the Audit Committee in the context of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario. Accordingly, we hereby confirm that we are independent with respect to the TTC within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as of 5 April 2010.

The total fees charged to the TTC 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 Audit Committee, management, and others within the TTC and should not be used for any other purposes.

Yours truly,



Chartered Accountants
Licensed Public Accountants



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