

November 24, 2014

The Board of Directors
Manitoulin-Sudbury District Services Board
210 Mead Boulevard
Espanola, ON
P5E 1R6

Dear Board of Directors Members:

It has come to our attention that your organization has been contacted by the Canada Revenue Agency Audit Division Refund Integrity Department "CRA" with respect to claiming of Harmonized Sales Tax "HST". They are looking at the Input Tax Credits claimed on insurance, motor vehicles and insurance benefits for the period January 1, 2011 through to September 30, 2014.

The tax paid on insurance is not considered HST. Insurance is an exempt supply and has not changed with the implementation of the HST on July 1, 2010. Any tax charged would be a provincial tax and not considered to be HST.

As for the HST paid on purchases of ambulances, per further communication with CRA, they have agreed that the rebate of 8% or the Provincial Part of HST would be allowable.

Lastly, with respect to benefits, the HST claimed was the Provincial tax of 8% on the health insurance benefits.

The total amount of PST that was claimed as HST during the past three years is as follows: Insurance \$19,000 and health insurance benefits \$106,000 for a total amount overclaimed of \$125,000.

Our annual audit of the financial statements of the Manitoulin-Sudbury District Services Board "MSDSB" was performed 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 as to whether the financial statements are free from material misstatement. On an annual basis we calculate a materiality amount and use this figure to calculate our sample sizes and evaluate any discrepancies we find as a result of our testing.

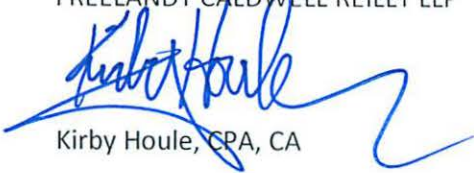
During our 2013 fiscal year-end audit we tested a sample of 27 payments by cheque, 6 EFT transfers and 6 direct withdrawals out of the bank account. For this sample we also recalculated the HST and ensured that it was reasonable. No exceptions were noted in our sample. Similarly in the 2012 year-end we tested a sample of 25 payments by cheque, 6 EFT transfers and 6 withdrawals out of the bank account. The HST was recalculated and checked to make sure it was reasonable. No payments for insurance or benefit payments were included in the sample. Since HST was calculated correctly and reasonable we had no further reason to increase our testing or do further work on HST.

We recommend that you disclose this information to CRA and pay the amount owing.

Should you have any further questions with respect to this letter, please do not hesitate to contact me at the office.

Yours truly,

FREELANDT CALDWELL REILLY LLP

A handwritten signature in blue ink, appearing to read "Kirby Houle", with a long, sweeping flourish extending to the right.

Kirby Houle, CPA, CA

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