ASSURANCE AND ADVISORY
BUSINESS SERVICES

# Toronto Parking Authority

## Audit Results – Year Ended December 31, 2006

Report to the Board of Directors

ERNST & YOUNG
Quality In Everything We Do

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April 4, 2007

Members of the Board of Directors of
The Toronto Parking Authority

Dear Members of the Board:

We are pleased to present the results of our audit of the financial statements of Toronto Parking Authority (the “Authority”).

This report to the Board 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 December 31, 2006 financial statements of the organization. In planning the audit, we held discussions with management, considered current and emerging business needs, along with 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 Board of Directors, management and ultimately the City of Toronto Council, 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 December 31, 2006 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 Board of Directors 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,

Ernst & Young LLP

**Chartered Accountants**
**Licensed Public Accountants**

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# Required Communications

Generally accepted auditing standards in Canada require the auditor to communicate certain matters to the Board 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 |
|---|---|
| **Auditors' Responsibilities Under Generally Accepted Auditing Standards (GAAS)** | |
| As set out in the section on terms of engagement, we designed our audit to express an opinion on your organization's financial statements.<br><br>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.<br><br>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. | We anticipate issuing an unqualified audit opinion dated March 23, 2007 upon approval of the financial statements by the Board of Directors and completion of certain outstanding procedures. The following procedures are outstanding:<br>- Management Letter of Representation<br>- Legal Letters |
| **Changes to Audit Approach Outlined in Planning Document** | |
| In our planning document, we indicated that we would conduct our audit in accordance with Canadian generally accepted auditing standards in order to deliver to you our final report for your 2006 financial statements. Our plan to you indicated that our strategy would be mainly substantive in nature, except for the auditing of disbursements, as the operations of the Authority are relatively simple and as such the use of confirmations and specific testing of account balances is the more efficient approach for us to take. | There were no changes to the audit approach outlined in the planning document. |
| **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** | |
| We determine that the Board 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.<br><br>In addition, we report to the Board 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 the acceptability of the policies or methods ultimately retained by management. | None. |

## Required Communications (continued)

| Area | Comments |
|---|---|
| **Sensitive Accounting Estimates and Disclosures** | |
| 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.<br>We determine that the Board 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. | There are significant judgments or estimates required to prepare the financial statements where actual amounts may be significantly different from the estimates. Refer to the section on "Items of Significance Discussed with Management". |
| **Major Issues Discussed with Management Including Accounting for Significant Unusual Transactions and for Controversial or Emerging Areas** | |
| We determine that the Board 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. | We are not aware of any significant unusual transactions recorded by the organization or of any significant accounting policies used by the organization related to controversial or emerging areas for which there is a lack of authoritative guidance. |
| **Significant Audit Adjustments and Unrecorded Differences Considered by Management to be Immaterial** | |
| We provide the Board 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. | There were five recorded audit adjustments related to the current year, none of which were significant. |
| We inform the Board about unrecorded audit differences accumulated by us 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. | There were no unrecorded audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on the financial reporting process. Refer to "Summary of Audit Differences" section for details on unrecorded amounts. |

# Required Communications (continued)

| Area | Comments |
|---|---|
| **Disagreements with Management** | None. |
| **Serious Difficulties Encountered in Dealing with Management when Performing the Audit** | None. |
| **Significant Weaknesses in Internal Controls**<br>We communicate all significant weaknesses in internal control over financial reporting that may have been identified during the course of our audit. | We are not aware of any significant weaknesses in internal controls. |
| **Fraud and Illegal Acts**<br>We report to the Board 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.<br>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 are not aware of any matters that require communication.<br>We would request that the 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**<br>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. | We review the Authority's annual report for consistency with the audited financial statements. |
| **Related Party Transactions**<br>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 Board. | Related party amounts are with respect to the City of Toronto and are disclosed within the financial statements. The City's transactions are conducted in the normal course of operations. |

## Required Communications (continued)

| Area | Comments |
|---|---|
| **Major Issues Discussed with Management in Connection with Initial or Recurring Retention** | None. |
| **Matters Relating to Component Entities of the Organization**<br>When the financial statements of an organization (primary entity) include financial information from financial statements of a component entity (a subsidiary, investee (other than a portfolio investment), or joint venture; or an entity whose financial information from financial statements is included with those of the Board of Directors those matters relating to the component entities that in the auditor's judgment are of significance in the context of the primary entity (for example, weaknesses in systems of internal control that have resulted, or could result, in material errors in the primary entity's consolidated financial statements). | None of which we are aware. |
| **Auditors' Independence**<br>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. |
| **Other Audit and Non-Audit Services Provided to Your Organization** | None. |
| **Fees** | • A summary of our fees for the year ended December 31 is included below for your reference. |

| | 2006<br>$ | 2005<br>$ |
|---|---|---|
| Annual audit fees – main audit | $15,000 | $15,000 |
| Other audit services – carpark 161 report | $5,000 | $5,000 |

Fees are inclusive of expenses and GST in accordance with our agreed proposal with the City of Toronto.

## Items of 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 |
|---|---|---|
| **Related Party Transactions** | • The Authority has amounts payable to and from the City of Toronto.<br>• The Authority also has amounts payable to the Toronto Transit Commission ("TTC") relating to TTC lots that are operated by the Authority on its behalf. The Authority charges a management fee and the net profits of these lots are remitted to the TTC. | • Management provided a reconciliation of the City of Toronto balance to ensure that the year-end amounts were appropriately accounted for and in agreement with the City.<br>• In addition, we have confirmed all year-end balances with the City and as such, are comfortable that all the balances with the City have been reflected in the accounts of the Authority for 2006. |
| **Estimates** | • The Authority conducts its business in a number of lots around the City and in the normal course of operations will either purchase or sell lots. Municipal taxes for the lots are determined through the Municipal Property Assessment Corporation and this process can take a couple of years before final assessments are done and the City provides the tax billings.<br>• Management's process for evaluating taxes owing on these properties is to equate the property to a similar one held and provide for taxes on an annual basis accordingly. | • We have reviewed management's method of accruing for property taxes and believe it to be a reasonable assessment. Variances may occur based on final billings from the City of Toronto and these will be recorded as incurred. |
| **Revenue Accrual** | • The Authority recognizes revenue on a cash basis for pay and display machines and meters rather than on an accrual basis.<br>• Management has provided an estimate of the revenue accrual for 2004, 2005 and 2006 in order to assess the net revenue impact.<br>• The calculation is based on taking the daily average of the first collection for each machine in the next fiscal year, multiplied by the number of days in the previous year included in the same collection.<br>• This estimate is used as it would be impractical to track the exact amount of collections for each machine.<br>• The net revenue impact is approximately $35,000 for 2006 and $126,000 for 2005. | • We have reviewed management's calculation of the accrual for 2004, 2005 and 2006 and found it to be reasonable.<br>• We then assessed the net revenue impact for 2005 and 2006, and in our judgment, they do not have a significant effect on the financial statements. These adjustments have not been recorded and are reflected on the summary of audit differences. |

# Items of Significance Discussed with Management (continued)

| Item | Description | Audit Results and Comments |
|---|---|---|
| **Financial Instruments** | • As noted under "New Developments in Accounting or Auditing Standards" in our planning document to you, there are changes in the accounting for and disclosures related to financial instruments.<br>• The new rules are effective for the Authority's fiscal 2007 year and although may be early adopted, we understand that they will be implemented in 2007.<br>• The new rules will require consideration of such things as the categorization of investments – categorized as held for trading, available for sale etc. and additional disclosures required by the new standards, for which we understand the Board has approved the classification as held for trading at their January 2007 meeting.<br>• Management will need to familiarize themselves with the rules and the impacts on the 2007 financial statements. | • We have provided management with a brochure on the new developments for their consideration.<br>• We recommend management review any contracts they have that may be impacted by the new rules, for example, hydro contracts. |
| **Monthly summarized bank reconciliations** | • Monthly summarized bank reconciliations are not prepared and reviewed on a timely basis.<br>• Although management indicated that the individual components of the monthly bank reconciliations are prepared by different employees, a summary that includes all the components of the bank reconciliation is not prepared on a timely basis. | • We recommend that monthly summarized bank reconciliations be prepared and reviewed on a timely basis. Also, the preparers and reviewer should sign and date each monthly bank reconciliation as evidence of the control. |
| **Capitalization policy** | • The Authority capitalizes expenditures based on the capital budget rather than the nature of expenditures, which results in the inconsistent treatment of the same type of expenses across different carparks [i.e. painting expenses are capitalized if it was part of the capital budget for a carpark rather than expensed].<br>• An entry was made to correct for the 2006 misallocation in the financial statements of approximately $181,000. | • We recommend that the Authority capitalize and expense expenditures based on its nature, as consistent with the CICA Handbook. |

| Item | Description | Audit Results and Comments |
|---|---|---|
| Amortization of additions | • The Authority does not apply the half year rule to amortize all additions made in the year.<br>• Through our audit, we noted that the Authority applies the half year rule only to parking equipment and not to non-parking equipment. | • We recommend the consistent application of the half year rule to amortize all additions made in the year. |
| Fully amortized property and equipment no longer in use | • The Authority reviewed their property and equipment listing and identified equipment and furnishings with a cost and accumulated amortization of $5.5M that are no longer in use. The financial statements were updated to reduce the cost and accumulated amortization by this amount. | • We agree with management's treatment of removing the property and equipment no longer in use. |
| Vacation | • The Authority accrues for its unused vacation pay that can by carried forward in its financial statements.<br>• As at December 31, 2006, there are a significant number of days carried forward for vacation for use by members of management of the Authority. | • We recommend that the Authority develop a plan to reduce the amount of vacation days owing to management. Management should be encouraged to take time off on an annual basis, or have vacation paid out, or limit vacation that can be carried forward so that the days do not continue to grow into the future. |
| Old balances in accounts receivable and allowance for doubtful accounts | • The Authority has balances not likely to be collected in accounts receivable, which have been provided for in the allowance for doubtful accounts. | • We recommend that these balances be written off and removed from accounts receivable and the allowance for doubtful accounts. |
| Changes to the 2006 Financial Statements | • There have been no major changes to the 2006 financial statements. | • None noted. |

## 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) Excess of Revenue over Expenses | |
|---|---|---|
| | **2006** | **2005** |
| | $ | $ |
| Known Audit Differences: | | |
| Revenue accrual | 579,908 | 544,917 |
| Revenue received for the operational transfer of a lot over to TTC in the year | Nil | 264,541* |
| Internal insurance reserve | Nil | 90,000 |
| Total Unadjusted Audit Differences Before Turnaround Effect of Prior Year Differences | 579,908 | 899,458 |
| Turnaround Effect of Prior Year Differences in Net Assets | (634,917) | |
| Total Unadjusted Audit Differences in Income After Turnaround Effect of Prior Year Differences | (55,009) | |

* This audit difference does not turn around to income. Impact to equity.

# Independence Letter

March 23, 2007

The Board of Directors of the
Toronto Parking Authority

We have been engaged to audit the financial statements of the Toronto Parking Authority (the "Authority") for the year ending December 31, 2006.

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 organization 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 March 24, 2006, the date of our last letter.

We are not aware of any relationships between Ernst & Young and the organization that, in our professional judgment, may reasonably be thought to bear on our independence, since March 24, 2006, the date of our last letter.

Canadian generally accepted auditing standards require that we confirm our independence to the Board of Directors 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 organization within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as of March 23, 2007.

The total fees charged to the organization during the period January 1, 2006 to March 23, 2007 are set out in "Other Required Communications" in the Audit Results package.

This report is intended solely for the use of the Board of Directors, management, and others within the Authority (ultimately the City of Toronto) and should not be used for any other purposes.

Yours truly,

Ernst & Young LLP

**Chartered Accountants**
**Licensed Public Accountants**

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