Toronto Parking Authority

Audit Results – 31 December 2008

Report to the Board of Directors

Ernst & Young
Quality In Everything We Do

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April 3, 2009

Members of the Board of Directors of
Toronto Parking Authority

Dear Members of the Board of Directors:

We are pleased to present the results of our audit of the financial statements of Toronto Parking Authority (the "Authority" or the "organization").

This report to the Board of Directors 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, 2008 financial statements of the organization. In planning the audit, we held discussions with management, considered current and emerging business risks, 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 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, 2008 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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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
Related Party Transactions	• The Authority operates 43 parking facilities on a year round basis on properties owned by other City of Toronto departments and agencies. There are 16 other locations operated during the summer months on behalf of the Parks and Recreation Department. These parking facilities are operated under separately negotiated agreements with each City department or agency. Amounts owing from or to the Authority under these agreements are included within accounts receivable or accounts payable and accrued liabilities at December 31, 2008. • Management provided a reconciliation of the City of Toronto balance to ensure that the year-end amounts recorded in the accounts of the Authority were appropriately accounted for and in agreement with the City.	• We noted $94K related to old payables to the City dating back to 1999 and prior that have not been recognized in the City reconciliation. This difference was taken to the Summary of Audit Differences as an overstatement of accounts payable and understatement of equity. • We have confirmed all year-end balances with the City and, as such, have concluded that all balances with the City have been appropriately reflected in the accounts of the Authority for 2008. • We also re-performed the calculation of the City's share of the Authority's income with no exceptions.
Transfer to the City of Toronto	• At the October 21, 2008 Board of Directors meeting, the Board approved returning $20M to the City of Toronto as being excess of the Authority's capital needs. • The Authority did not record this amount in the 2008 financial statements.	• We recorded an amount of $20M in the Summary of Audit Differences as an understatement of the liability to the City. Management has agreed to and recorded the adjustment.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Fraud – 3rd party service provider	• The Authority noted two reversals of funds initially deposited by a 3rd party service provider on February 29, 2008 for $84K and September 16, 2008 for $189K. These inappropriate reversals were subsequently discovered by management during the bank reconciliation process, in April and November respectively. • In addition, an amount of $47K of float funds held by the 3rd party was included in the claim.	• The Authority recorded $295K as a receivable from the insurance company, net of $25K deductible per the insurance policy as the service provider would not repay the funds. • We concur with management's accounting treatment.

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.
	• 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, except for the following:
		  • an underaccrual of $229K [2007 - $138K] for property taxes relating to CP13 since amount is currently in dispute with the City; and
		  • an underaccrual of $74K [2007 - $74K] for CP34 based on the calculations performed.
		• Other variances may occur based on final billings from the City of Toronto and these will be recorded as bills are received and reconciled.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Capitalization Policy	• The Authority capitalized the cost of painting car parks to parking garage and surface car parks which is amortized over 25 years on the basis that painting enhances the appearance of the lots. Total of $663K [2007 - $790K] painting costs were capitalized in 2008. Amortization of $27K [2007 - $32K] was also recorded in 2008 on the capitalized painting costs.	• As the painting costs are maintenance rather than a betterment which extends the original life, we recorded an amount of $636K, as an overstatement of capital assets and an understatement of expenses on the Summary of Audit Differences. • We recorded the impact of painting costs capitalized in 2007 on the Summary of Audit Differences as an overstatement of 2007 capital assets and an understatement of expenses of $758K.
	• During the course of the audit in prior years, we noted that the Authority applies the half year rule only to parking equipment and not to non-parking equipment.	• Management has implemented our recommendation for consistent application of amortization of all additions made in the year.
Sale of Car Park 12 (30 Alvin Street) and Receipt of Funding	• In the current year, as a result of the sale of the air rights for CP12, 30 Alvin St., the Authority has remitted 75% of the gain to the City less $3,800,000 as per a City Council agreement with the City in order to assist with future funding of the construction of the underground parking garage to be built on this site.	• We concur with management's calculation for the gain on sale and the reduction of the City's share of income recorded in the statement of operations.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
TTC Operating Agreement	• The Authority provides various services to TTC including staffing the stations, snow removal, maintenance and repairs, etc. TTC has also authorized the Authority to purchase capital equipment on its behalf for installation in the commuter lots. The full amounts for these expenditures are billed and paid by TTC directly. Therefore, these assets are not recorded as part of the Authority's capital assets. • The Authority tracks the costs incurred on TTC's behalf in separate sub-accounts in the general ledger and recovers these costs from TTC on a monthly basis. At yearend, a comparison to actual is made and TTC is either charged or reimbursed for the difference. • The Authority collects a management fee of $113K from TTC, which is recorded as a credit to rent expense.	• We have performed the following procedures: a) sent a confirmation to TTC to confirm the related party balances, b) reviewed the final reconciliation between the Authority and TTC performed at yearend, as well as, c) reviewed the calculation of the management fee received. • Differences were noted between amounts recorded by the Authority and the initial confirmation received from TTC. These differences were reconciled. • Based on the procedures performed, we are satisfied that the Authority is accounting for the transactions with TTC properly. • We recommend that reconciliations between the Authority and TTC be performed during the year allowing for any differences to be resolved in a timely manner.
Employee Future Benefits	• In 2007, the Authority identified a deficiency with respect to the offer of enrolment as required by the OMERS Act. An estimated potential liability of $300K was recorded in the 2007 financial statements. • Reports provided by OMERS during 2008 assisted in determining a potential liability of $879K, which management has adjusted the liability to.	• We have reviewed management's assumptions and calculations for the determination of the liability and concur with the liability recorded by management.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Vacation Policy	• The Authority accrues in the financial statements unused vacation pay that can by carried forward to future years. • As at December 31, 2008, 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 accumulate into the future.
Cash in Transit	• The Authority recorded $599K [2007 - $1,242K] of cash collected in the parking machines by a 3rd party service provider and credit card companies for December 31 as cash in transit. These amounts were deposited in the bank after year-end.	• As these amounts were deposited after year-end and should therefore, be recorded as accounts receivable. • We recorded an amount of $599K [2007 - $1,242K] as a misclassification between cash and accounts receivable on the Summary of Audit Differences. Management has agreed to and recorded the adjustment for 2007 and 2008.
Legal Accruals	• As part of legal inquiry procedures in 2006, a letter was requested from the City's legal services confirming the details of a claim filed by Homelife Regional Realty Ltd vs various parties including the City of Toronto and the Authority. The claim was in the amount of $443K plus interest and cost proceedings. An amount of $64K was accrued in 2007 based on a legal letter received. • The Authority has another liability of $50K related to a claim identified in 2007.	• Legal inquiries were sent to the City's legal services and other legal counsel with the description of the claims unchanged from prior year. We will re-evaluate the Authority's exposure based on response once received. • We have taken an additional $35K to the Summary of Audit Differences for a policy grievance related to the rate of pay for parking enforcement officers.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Deferred Payment Plan for Card Readers	• In 2007, the Authority purchased $10,010,000 of credit card readers from Precise Parklink, with no specific expected terms of repayment nor any interest or carrying charges, except that the full amount is to be repaid at the end of the five year term. • The Authority recorded the capital asset and accounts payable based on the $10M consideration paid. • The Authority continues to record the asset and related liability at the book value, net of $2M payment in 2008. • The number of machines installed was 55 units lower than the value recorded by the Authority.	• Based on a discount rate of 4% and term of 5 years, the fair value of the liability was calculated as $8,912,548 at December 31, 2007. EY took the difference between the fair value and the recorded value of $1,097,542 as a reclassification difference between accounts payable and capital assets to the Summary of Audit Differences in 2007. We also recorded an amount of $55K as the impact on amortization on the Summary of Audit Differences in 2007. • We determined the fair value of the liability at December 31, 2008 and the impact on the amortization for 2008. The following amounts were recorded on the Summary of Audit Differences: - overstatement of accounts payable - $740K - overstatement of capital assets - $932K - understatement of interest expense - $357K - overstatement of amortization expense - $110K - overstatement of capital assets and overstatement of accounts payable of $188K related to the 55 units

Item	Description	Audit Results and Comments
Accounting Standards in Canada: New Directions	• In our audit planning package previously presented to the Audit Committee, under "New Developments in Accounting and Auditing Standards", we informed you of the strategic direction for financial reporting adopted by the Accounting Standards Board ("AcSB") in Canada. • For publicly accountable entities, Canadian GAAP will be replaced by International Financial Reporting Standards ("IFRS") and cease to exist as a separate, distinct basis of financial reporting for publicly accountable enterprises. • The Authority is a government business enterprise ("GBE") as defined by the Public Sector Accounting Board ("PSAB"). For purposes of financial reporting, GBE's and government business-type organizations ("GBTO's") are deemed to be publicly accountable enterprises and are currently required to adhere to the standards applicable to publicly accountable enterprises in the CICA Handbook – Accounting. • As a result, the Authority will be required to apply IFRS under the current direction. Adoption of IFRS is required for years beginning January 1, 2011 (including comparatives for 2010). • Because of feedback suggesting that GBEs should not be required to adopt IFRS, PSAB has issued an Invitation to Comment ("ITC") that sets out alternatives for financial reporting by government organizations. Alternatives presented in the ITC include: – Applying IFRS to those government organizations that meet the definition of 'publicly accountable enterprises' as proposed by the AcSB. GBE's and GBTO's that do not meet the definition would be able to select IFRS or the PSA Handbook, depending on their objectives and	• The results of the Authority will determine whether amendments to the existing Introduction to Public Sector Accounting Standards are required. Any amendments may change the appropriate source of generally accepted accounting principles used by government organizations, including the Authority. • We will provide management with any updates and the impact to the Authority's financial statements as PSAB considers these alternatives.

	circumstances. – Applying IFRS to GBE's as defined by PSAB. GBTO's would be reclassified as Other Government Organizations and would be able to select IFRS or the PSA Handbook, depending on their objectives and circumstances. – Applying IFRS to all GBE's, as defined by PSAB, and self-sustaining GBTO's. GBTO's that are not self-sustaining would be able to select IFRS or the PSA Handbook, depending on their objectives and circumstances. • Applying IFRS to all GBE's and only those GBTO's as defined by PSAB that are competing with similar entities outside of the public sector that also follow IFRS.	
2007 Summary of Audit Differences	• As part of the 2008 audit procedures, we noted the following differences relating to 2007: - prepaid tickets in 2007 were overstated by $134K; and - overaccrual of payroll expenses related to maintenance staff of $93K in 2007.	• We took these amounts to the 2007 Summary of Audit Differences.
Changes to Accounting Policies	• Note 2 sets out details of the changes in accounting policies related to CICA 1535: Capital Disclosures and CICA 3862: Financial Instruments – Disclosures and CICA 3863: Financial Instruments - Presentation. • Note 11 sets out the required disclosures resulting from the adoption of recommendations related to Financial Instruments. • Note 12 sets out the required disclosures resulting from the adoption of recommendations related to Capital Disclosures.	• We concur with the accounting for and disclosures related to the new accounting standards.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Changes to the 2008 Financial Statements	The significant changes to the financial statements not addressed elsewhere are as follows: • Inventory was classified as prepaid supplies on the balance sheet in 2008; the 2007 amounts were also reclassified to conform to the current year presentation. • Note 9 to the financial statements provides additional disclosure of the Authority and City agreement related to the $20M gain on sale of property and $3.8M reduction of City of Toronto's share of income as discussed above. • Details of the change in non-cash working capital balances in the statement of cash flows are disclosed in note 10 to the financial statements. • Details of non-cash transactions were added to the statement of cash flows. • Deferred revenue policy was included in note 2 to the financial statements as part of the revenue recognition policy.	• We concur with the changes to the financial statements.

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) Net Income	
	2008	**2007**
	$	$
Unrecorded Audit Differences		
Understatement of interest expense - extended terms purchase	(357,242)	-
Overstatement of amortization expense - extended terms purchase	109,744	54,873
Understatement of accruals - legal claims	(85,000)	(125,000)
Overstatement of payroll accrual	-	92,853
Overstatement of prepaid tickets	-	(134,470)
Overstatement of capital assets - painting (net of amortization)	(636,838)	(758,532)
Overstatement of AP related to old City balances		94,139
Judgmental Differences		
Underaccrual of property tax accrual related to interest charges in dispute with the City	(303,136)	(211,386)
Total Unadjusted Audit Differences Before Turnaround Effect of Prior Year Differences	(1,272,472)	(987,523)
Turnaround Effect of Prior Year Differences	41,617	
Total Unadjusted Audit Differences After Turnaround Effect of Prior Year Differences	**(1,230,855)**	

Required Communications

Generally accepted auditing standards in Canada require the auditor to communicate certain matters to the Board of Directors 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 planning document presented to the Board of Directors, we designed our audit to express an opinion on your organization's financial statements. 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. 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 30, 2009, upon approval of the financial statements by the Board of Directors and completion of certain outstanding procedures. The following procedures are outstanding: ▪ confirmation from the Board of Directors that there are no areas of concern that have not been addressed in this document; ▪ letter of management representation; ▪ legal letter – City of Toronto; and ▪ final procedures relating to the draft of the financial statements and footnotes.
Changes to Audit Approach Outlined in Planning Document	
In our planning document, we indicated that we would follow a substantive audit approach with most aspects of the audit except for payroll process and purchases/cash disbursements where controls will be relied upon.	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 of Directors 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. In addition, we report to the Board of Directors 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.	Refer to "Items of Audit Significance Discussed with Management" section.

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. We determine that the Board of Directors 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 could to be significantly different from the estimates. Refer to section on "Items of Audit 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 of Directors 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 Audit Differences Considered by Management to be Immaterial	
We provide the Board of Directors 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.	As a result of our audit there was one recorded audit adjustment related to the $20M distribution to the City of Toronto as discussed in "Items of Audit Significance Discussed with Management" section.
We inform the Board of Directors 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.	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	
We communicate all significant weaknesses in internal control over financial reporting that may have been identified during the course of our audit.	No significant weaknesses in internal control were identified.
Fraud and Illegal Acts	
We report to the Board of Directors 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 Board of Directors 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 Board of Directors 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.	We will review the Authority's annual report for consistency with the audited financial statements.

Required Communications (continued)

Area	Comments
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 Board of Directors.	Related party amounts are with respect to the City of Toronto and Toronto Transit Commission ("TTC"). This is disclosed within the financial statements. The City's and TTC's transactions are conducted in the normal course of operations.
Major Issues Discussed with Management in Connection with Initial or Recurring Retention	None.
Matters Relating to Component Entities of the Organization 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 primary entity), the auditor communicates with 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 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
Other Audit and Non-Audit Services Provided to Your Organization	None.
Fees	• A summary of our fees is included below for your reference.

	2008 $	2007 $
Annual audit fees	23,070	15,000
Other audit related fees:		
Car park 161 report	7,545	5,000
Audit related fees for new reporting requirements	TBD	2,500

- Annual fees for 2008 are inclusive of expenses and plus GST. This is the first year of a two-year contract extension ending with the audit of the December 31, 2009 financial statements in accordance with our agreement with the City of Toronto.
- We are in the process of discussing with management additional fees related to various accounting/auditing issues and disclosure of new reporting requirements in the notes to the financial statements.

Independence Letter

April 3, 2009

Members of the Board of Directors of
Toronto Parking Authority

We have been engaged to audit the financial statements of Toronto Parking Authority for the year ended December 31, 2008.

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 April 14, 2008, 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 April 14, 2008, 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 April 3, 2009.

The total fees charged to the organization 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 Board of Directors, management, and others within the organization (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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