Financial Statements

Toronto Parking Authority

December 31, 2008

ERNST & YOUNG
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AUDITORS' REPORT

To the Board of Directors of
Toronto Parking Authority

We have audited the balance sheet of **Toronto Parking Authority** as at December 31, 2008 and the statements of operations and equity and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Toronto, Canada,
March 30, 2009.

Chartered Accountants
Licensed Public Accountants

Toronto Parking Authority

BALANCE SHEET

As at December 31

	2008	2007
	$	$
ASSETS		
Current		
Cash	**52,216,211**	14,380,429
Short-term investments *[note 4]*	**236,260**	4,265,112
Accounts receivable *[note 3]*	**2,718,233**	2,018,953
Prepaid supplies	**360,810**	500,700
Prepaid expenses, other	**511,005**	545,301
Total current assets	**56,042,519**	21,710,495
Long-term investments *[note 4]*	**39,943,325**	45,355,776
Deferred charges *[note 5]*	**534,706**	611,280
Property and equipment, net *[note 6]*	**131,025,847**	131,463,256
	227,546,397	199,140,807
LIABILITIES AND EQUITY		
Current		
Accounts payable and accrued liabilities *[notes 3 and 8]*	**56,623,093**	29,568,655
Deferred revenue	**993,424**	470,148
Total current liabilities	**57,616,517**	30,038,803
Accounts payable and accrued liabilities *[note 8]*	**6,008,000**	8,008,000
	63,624,517	38,046,803
Contingencies and commitments *[notes 7, 13 and 14]*		
Equity	**163,921,880**	161,094,004
	227,546,397	199,140,807

See accompanying notes

On behalf of the Board:

Geo. K. Soulis

Chairman

President

Toronto Parking Authority

STATEMENT OF OPERATIONS AND EQUITY

Year ended December 31

	2008				2007
	Budget	**On-street**	**Off-street**	**Total**	**Total**
	$	$	$	$	$
	[unaudited]				
Revenue	**109,128,830**	**45,121,384**	**67,959,414**	**113,080,798**	102,572,345
Direct expenses					
Operating *[schedule]*	**47,297,397**	**7,580,045**	**40,343,763**	**47,923,808**	45,600,929
Amortization of property and equipment	**9,036,731**	**5,011,222**	**2,871,825**	**7,883,047**	7,871,836
	56,334,128	**12,591,267**	**43,215,588**	**55,806,855**	53,472,765
Direct operating income	**52,794,702**	**32,530,117**	**24,743,826**	**57,273,943**	49,099,580
Administration expense *[note 7]*	**7,164,227**			**6,785,384**	6,450,263
Operating income	**45,630,475**			**50,488,559**	42,649,317
Investment income	**2,390,100**			**3,452,527**	2,245,512
Gain on sale of property *[note 9]*	**—**			**20,536,646**	—
Net rental income	**1,139,635**			**1,132,173**	1,140,436
Sundry	**291,753**			**393,648**	281,047
	3,821,488			**25,514,994**	3,666,995
Income before the following	**49,451,963**			**76,003,553**	46,316,312
City of Toronto's share of income *[note 9]*	**(37,062,722)**			**(53,175,677)**	(34,710,323)
Distribution to the City of Toronto *[note 9]*				**(20,000,000)**	—
Net income for the year	**12,389,241**			**2,827,876**	11,605,989
Equity, beginning of year				**161,094,004**	149,488,015
Equity, end of year				**163,921,880**	161,094,004

See accompanying notes

Toronto Parking Authority

STATEMENT OF CASH FLOWS

Year ended December 31

	2008	2007
	$	$
OPERATING ACTIVITIES		
Net income for the year	**2,827,876**	11,605,989
Add (deduct) non-cash items		
Amortization of property and equipment	**7,883,047**	7,871,836
Gain on sale of property and equipment	**(20,536,646)**	—
Amortization of deferred charges	**76,574**	76,574
	(9,749,149)	19,554,399
Net change in non-cash working capital balances related to operations *[note 10]*	**27,052,620**	(43,782)
Cash provided by operating activities	**17,303,471**	19,510,617
INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	**20,976,281**	—
Purchase of property and equipment	**(7,907,821)**	(7,909,226)
Cash provided by (used in) investing activities	**13,068,460**	(7,909,226)
FINANCING ACTIVITIES		
Net decrease (increase) in investments	**9,441,303**	(20,349,377)
Unrealized loss on opening investments	**—**	(58,870)
Funding from reserve funds held by the City of Toronto for property and equipment	**22,548**	318,572
Decrease in long-term accounts payable and accrued liabilities	**(2,000,000)**	—
Cash provided by (used) in financing activities	**7,463,851**	(20,089,675)
Net increase (decrease) in cash during the year	**37,835,782**	(8,488,284)
Cash, beginning of year	**14,380,429**	22,868,713
Cash, end of year	**52,216,211**	14,380,429
Non-cash transactions		
Property and equipment in accounts payable and accrued liabilities	**—**	10,010,000

See accompanying notes

SCHEDULE OF OPERATING EXPENSES

Year ended December 31

	2008			2007
	On-street	**Off-street**	**Total**	**Total**
	$	$	$	$
Salaries, wages and benefits *[note 7]*	**2,114,857**	**12,300,927**	**14,415,784**	13,484,531
Municipal taxes	—	**14,839,191**	**14,839,191**	14,652,642
Maintenance	**1,828,918**	**2,903,695**	**4,732,613**	4,723,187
Utilities	—	**2,185,738**	**2,185,738**	2,178,993
Rent	—	**3,488,310**	**3,488,310**	2,918,372
Snow clearing	—	**1,055,375**	**1,055,375**	1,018,175
Tickets	**1,187,104**	**426,863**	**1,613,967**	1,507,171
Security and monitoring	**4,398**	**793,353**	**797,751**	696,828
Insurance	**63,234**	**588,249**	**651,483**	698,018
Pay and display network communications	**1,739,157**	**158,745**	**1,897,902**	1,797,038
Outside coin counting	**144,013**	**56,172**	**200,185**	236,372
Credit card processing	**453,702**	**751,945**	**1,205,647**	850,541
Sundry	**44,662**	**795,200**	**839,862**	839,061
	7,580,045	**40,343,763**	**47,923,808**	45,600,929

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

1. OPERATIONS AND RELATIONSHIP WITH THE CITY OF TORONTO

Toronto Parking Authority [the "Authority"] is a local board of the City of Toronto [the "City"], established under the City of Toronto Act 1997 (No. 2) with a mandate to operate, manage and maintain municipal parking facilities and on-street meter operations on behalf of the City in support of local business areas. In its relationship with the City, the Authority has an agreement on income sharing with the City *[note 9]*.

By virtue of Section 149(1) of the Income Tax Act (Canada), the Authority is not subject to income taxes.

These financial statements reflect the financial position and results of operations of the Authority's off-street parking facilities and on-street parking meters. They do not include the operations of the retail stores and offices on Cumberland, Queen, Charles and St. Andrew Streets; or payments received by the City from developers under agreements in lieu of providing parking facilities. The results of these activities are paid into reserve funds recorded in the City's accounts and are available for the exclusive use of the Authority to fund on-going capital projects and improvements *[note 3]*.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles for profit-oriented organizations, unless otherwise directed to specific accounting recommendations of the Public Sector Accounting Board.

Revenue recognition

Revenue is recorded on the accrual basis of accounting. The accrual basis of accounting recognizes revenue as the service is performed, is measurable and collection is reasonably assured and expenses when they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.

Deferred revenue consists of deposits and payments for monthly permits paid in advance and are to be earned in the future period.

Investments

Investments are recorded at amortized cost plus accrued interest which approximates fair market value. Investment income includes interest, realized and unrealized gains or losses on investments. The amount of investments classified as long-term represents those assets with maturity dates greater than one year from the date of these financial statements. Transactions are recorded on the trade date and transaction costs are expensed as incurred.

Derivative financial instruments

The Authority utilizes derivative financial instruments in the management of its purchase of electricity. The Authority's policy is not to utilize derivative financial instruments for trading or speculative purposes.

Derivative contracts entered into by the City in connection with the purchase of electricity, to which the Authority is a party, are not designated to be in a hedging relationship and are recorded at their fair value as an asset or a liability based on quoted market prices or dealer quotes with changes in fair value, if any, recorded in investment income.

Financial instruments

The Authority has designed its financial instruments as follows:

- Cash as held for trading
- Investments as held-to-maturity
- Accounts receivable as loans and receivables
- Accounts payable and accrued liabilities as other liabilities

Property and equipment

Purchased property and equipment are recorded at cost less any amounts funded from the City's reserve funds *[note 3]*. Amortization is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Parking garages and surface car parks	25 years
Equipment and furnishings	5 to 10 years

Car parks and projects not completed are capitalized as incurred and are amortized as described above once the asset is placed in service.

Employee related costs

The Authority's contributions to a multi-employer defined benefit pension plan are expensed when contributions are due.

Use of estimates

The preparation of these financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

New accounting policy changes

Effective January 1, 2008, the Authority adopted the recommendations of the Canadian Institute of Chartered Accountants ["CICA"] relating to CICA 3862: *Financial Instruments - Disclosures* and CICA 3863: *Financial Instruments - Presentation*, which enhance the abilities of users of financial statements to evaluate the significance of financial instruments to an entity, related exposures and the management of these risks. CICA 3863 replaces CICA 3861 without change.

Effective January 1, 2008, the Authority adopted the recommendations of CICA 1535: *Capital Disclosures*, which requires the disclosure of qualitative and quantitative information that enables users of the financial statements to evaluate the Authority's objectives, policies and processes for managing capital.

The above changes in accounting policies required only additional disclosures in the financial statements, which are provided in notes 11 and 12.

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

3. RELATED PARTY TRANSACTIONS

The Authority operates 51 [2007 - 43] parking facilities on a year round basis on properties owned by other City departments and agencies. There are 15 [2007 - 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. The Authority receives compensation in the form of either a share of net income or on a cost recovery plus a fixed fee basis. Amounts owing from or to the Authority under these agreements are included within accounts receivable or accounts payable and accrued liabilities at year-end.

In the normal course of operations, the Authority incurs costs for various expenses payable to the City such as hydro, legal, and other administrative costs. Transactions between the City and the Authority are made at the agreed upon exchange amount.

As at December 31, 2008, the amount due from related parties included in accounts receivable is $1,366,216 [2007 - $524,221] and the amount due to related parties included in accounts payable and accrued liabilities is $47,089,774 [2007 - $20,617,652].

The net amount of $45,723,558 [2007 - $20,093,431] due to related parties at December 31 is non-interest bearing and is summarized as follows:

	2008 $	**2007** $
Due from the Toronto Transit Commission	**1,189,084**	339,028
Due to Toronto Hydro	**(66,222)**	(38,089)
Due to the City of Toronto	**(46,846,420)**	(20,394,370)
	(45,723,558)	(20,093,431)

As referred to in note 1, the City holds reserve funds for use by the Authority in funding capital projects. Net income generated by retail leasing operations which are developed and operated by the Authority are paid annually into the "Malls and Rental Properties Fund". The balance in this fund as at December 31, 2008 is $1,679,390 [2007 - $1,053,012]. During the year, $13,652 [2007 - $49,548] was drawn from this fund to finance property and equipment additions. Payments received by the City from developers under agreements in lieu of providing parking facilities are paid into the "Off-Street Parking Fund". The balance in this fund as at December 31, 2008 is $7,626,650 [2007 - $6,553,706]. During the year, $8,896 was drawn from [2007 - $195,518 was returned to] this fund to finance property and equipment additions.

4. INVESTMENTS

Investments consist of government and financial institution bonds with a weighted average yield to maturity of 5.05% and an average duration to maturity of 7.3 years [2007 - weighted average yield to maturity of 4.37% and an average duration to maturity of 3.6 years].

5. DEFERRED CHARGES

Deferred charges relates to leased property under various long-term lease agreements for periods up to 2039. The total rent originally paid in advance for these leases was $2,220,168 and is being amortized over the terms of the individual leases. Amortization expense of $76,574 [2007 - $76,574] is included in the statement of operations.

6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2008		2007	
	Cost	**Accumulated amortization**	**Cost**	**Accumulated amortization**
	$	$	$	$
Land	**66,738,862**	**—**	63,903,925	—
Parking garages	**65,235,419**	**37,174,341**	62,118,362	35,486,326
Surface car parks	**11,314,137**	**3,535,727**	11,305,221	3,138,397
Car parks and projects not completed	**2,280,162**	**—**	1,989,781	—
Equipment and furnishings	**61,971,403**	**35,804,068**	60,917,945	30,147,255
	207,539,983	**76,514,136**	200,235,234	68,771,978
Less accumulated amortization	**76,514,136**		68,771,978	
Net book value	**131,025,847**		131,463,256	

7. PENSION OBLIGATIONS

The Authority makes contributions to the Ontario Municipal Employees Retirement Fund ["OMERS"], which is a multi-employer plan, on behalf of substantially all of its employees. The plan is a defined benefit plan that specifies the amount of the retirement benefits to be received by the employees based on the length of service and rates of pay. During the year, the Authority's contributions were $1,458,958 [2007 - $915,367].

The Authority, which is an OMERS employer, did not offer OMERS enrolment as required by the OMERS Act & Regulations to all employees. Full-time employees must be enrolled in OMERS at their start date. Employees, other than continuous full-time employees who meet the OMERS qualifying criteria, must be provided with an offer to join OMERS in each and every year in which they qualify and can choose to join or waive participation.

The Authority has identified and is addressing a deficiency with respect to the offer of enrolment as required by the OMERS Act. The Authority has an obligation to permit qualified employees to join the plan and these employees have the option of purchasing their past service as part of their enrolment. This election, together with the employees' purchase of their past service contributions, will create an obligation of the Authority to finance the required past service costs. Based primarily on amounts determined by OMERS, this obligation has been accrued and recorded in the statement of operations and equity. OMERS has provided liability amounts for all but a small number of eligible employees for which management calculated estimates. As a result, management does not anticipate any deficiencies to be significant to these financial statements.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITES

Included in accounts payable and accrued liabilities is an amount of $8,010,000 [2007 - $10,010,000] owing for the cost of equipment upgrades undertaken in 2007, of which $6,008,000 [2007 - $8,008,000] is classified as long-term. The amount is payable in equal annual installments of $2,002,500 over the next four years with no interest to be charged. The fair value is estimated at $7,260,000 [2007 - $8,912,548] assuming an average cost of funds over the next four years [2007 - five years] of 4% [2007 - 4%].

9. CITY OF TORONTO'S SHARE OF INCOME

In 1998, the City and the Authority established an income sharing arrangement for a three-year period ending December 31, 2000. Revised terms were negotiated for the 2001-2003 period and without any changes, the arrangement underwent two successive three-year extensions with the current extension period expiring on December 31, 2009. Under this arrangement which has been in effect since 2001, the Authority pays annual rent equal to the greater of 75% of its net income for the year or $18,000,000.

From time to time, the Authority will pay an amount to the City that is in excess of its capital budget funding requirements over the ensuing five-year period. The capital budget is the plan in which most property and equipment purchases are approved. This return of funds is in addition to the City's share of annual operating income paid under the income sharing arrangement. When such sales occur, gains on the sale of property sold under joint venture arrangements with private developers are included in net income of the Authority. Under the income sharing arrangement, the Authority retains only 25% of such gains to fund capital requirements. The joint venture arrangements take the form of a sale of air rights at an existing surface carpark followed by the supply of underground garage spaces to the Authority in the redeveloped property. The Authority thereby maintains or expands its existing supply of parking spaces while maximizing the value of the land. When evaluating a joint venture opportunity the Authority requires that the proceeds from the sale of the air rights be sufficient to fund the underground garage spaces purchased at the end of the redevelopment process. On past joint venture projects, the cost of the underground parking has either been less than or has not significantly exceeded the 25% portion of the gain on the sale that the Authority retains to fund its purchase. In 2008 the Authority sold the air rights to a surface carpark resulting in a gain on the sale. However the cost of the large underground parking facility to be purchased by the Authority exceeds the 25% share of net income that the Authority would retain under the income sharing arrangement. As a result, when the Authority sought approval of City Council in 2006 to proceed with the project it also requested that, in the fiscal year the proceeds of sale were received, the Authority may reduce the City's calculated share of net income for that year by the amount the cost of the garage exceeded the Authority's 25% share of the gain. During the year, the proceeds from the sale of the air rights were received and a reduction of $3,800,000 was made to the City's 75% share of net income.

Under the City of Toronto Municipal Code, chapter 227, any earnings retained by the Authority are to be applied in order as follows:

1. Principal and interest on debentures issued to finance the cost of parking facilities;

2. To the cost of new parking facilities and;

3. General purposes as determined by City Council.

During the year, the Authority agreed to pay an additional $20,000,000, above the income sharing agreement, as a one-time distribution to the City.

10. STATEMENT OF CASH FLOWS

The net change in non-cash working capital balances related to operations consists of the following:

	2008 $	2007 $
Accounts receivable	**(699,280)**	(1,503,453)
Prepaid supplies	**139,890**	(61,023)
Prepaid expenses, other	**34,296**	(236,113)
Accounts payable and accrued liabilities	**27,054,438**	1,698,976
Deferred revenue	**523,276**	57,831
	27,052,620	(43,782)

11. FINANCIAL INSTRUMENTS

The carrying value of the Authority's financial instruments approximate their fair values unless otherwise noted.

The Authority's investment activities expose it to certain financial risks. These risks include market risk [primarily interest rate risk], credit risk and liquidity risk. The Authority manages these financial risks in accordance its' policy on investments which restricts investments to types prescribed for municipalities under Ontario Regulation 610/06 (Financial Activities) of the City of Toronto Act, 2006.

The Authority is exposed to changes in electricity prices associated with the wholesale spot market for electricity in Ontario. The Authority has addressed the commodity price risk exposure associated with changes in the wholesale price of electricity by entering into energy related purchase and sales contracts, through an agreement with the City, that fixes a portion of the wholesale price over the term of the contract. One contract is outstanding at December 31, 2008 and expires on December 31, 2009. The contract is in a loss position at December 31, 2008; however, the Centre's portion of this loss is nominal.

Market risk

Market risk is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market prices. The Authority manages market risk by investing in a range of maturity terms and with diverse issuers. Varying maturities are purchased to ensure that the Authority can fund its capital program as needs arise and as more fully explained in Note 12 on the management of capital. Market risk is comprised of the following:

[a] Foreign currency risk

The Authority has no material exposure to foreign currency risk.

[b] Interest rate risk

Interest rate risk refers to the effect on the fair value or future cash flows of an investment due to fluctuations in interest rates. The Authority selects varying maturity terms for investments in an attempt to match cash flow needs thereby avoiding the need to sell an investment before maturity. Allowing investments to mature avoids interest rate risk. Historically, as opportunities arise, the Authority has sold investments when interest rates have been declining in order to crystallize the resulting profits. The Authority is not exposed to significant interest rate risk on its monetary current assets and current liabilities due to their short-term maturities.

[c] Price risk

Price risk is the risk that the fair value of an investment will fluctuate because of changes in market prices [other than those arising from foreign currency or interest rate risk]. Because the Authority invests solely in interest bearing investments they are not exposed to price risk.

[d] Credit risk

Credit risk is the risk of being unable to collect accounts receivable or other debts due to it. The Authority collects revenues primarily in cash and does not extend significant amounts of trade credit as such credit risk is considered low.

[e] Liquidity risk

Liquidity risk is the risk of being unable to settle or meet commitments as they come due. The Authority's commitments are largely in the form of short-term liabilities which are met out of cash flows generated by operating activities. Long-term liabilities are not considered material and repayment is scheduled to allow settlement from cash flows generated from operating activities.

12. CAPITAL MANAGEMENT

The Authority returns 75% of its annual net operating income to the City of Toronto and retains 25% to fund its long term, multi-year capital budget plan. As such, the majority of the Authority's capital is already invested in property and equipment and the majority of funding for the multi-year capital plan is derived from future income still to be earned. The Authority attempts to maintain capital on hand at a level sufficient to fund one to two years of capital investment and holds this capital in a combination of cash equivalents and longer term bonds to balance dual goals of maximizing returns while maintaining sufficient liquidity to allow the Authority to react to capital investment opportunities as they arise.

To the extent that funding is projected to exceed capital budget needs over the capital budget period, "excess" funds are returned to the City of Toronto in order to maintain capital levels at one to two years of capital investment needs.

As at December 31, 2008, the Authority has met its objective of having sufficient liquid resources to meet its current obligations and fund capital investment opportunities as they arise.

13. COMMITMENTS

The Authority is party to a joint development agreement with a private developer that requires the Authority to purchase an underground garage at an estimated cost of $9,000,000 when title to the completed facility is transferred. The project had not commenced as at December 31, 2008.

The Authority also has commitments extending into 2010 for the purchase of snow clearing services and ticket paper totaling $1,936,500.

Future minimum annual lease payments under leasing agreements for use of land and equipment are approximately as follows:

	$
2009	1,787,000
2010	1,823,000
2011	843,000
2012	590,000
2013	574,000
2014 and thereafter	2,372,000
	7,989,000

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

14. CONTINGENCIES

In the normal course of its operations, the Authority is subject to various arbitrations, litigations and claims. Where a potential liability is determinable, management believes the ultimate disposition of the matters will not materially exceed the amounts recorded in the accounts. In other cases, the ultimate outcome of the claims cannot be determined at this time. Any additional losses related to claims will be recorded in the period during which the liability is determinable.

15. SUBSEQUENT EVENT

The Authority purchased a parking garage as part of a joint venture development arrangement, which closed on February 26, 2009, for a cost of $1,990,000.

16. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2008 financial statements.

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