

# **Toronto Parking Authority**

Financial Statements

**December 31, 2014**

(all amounts are in Canadian dollars)



June 5, 2015

## **Independent Auditor's Report**

### **To the Board of Directors of Toronto Parking Authority**

We have audited the accompanying financial statements of Toronto Parking Authority, which comprise the statement of financial position as at December 31, 2014 and the statements of income and comprehensive income, changes in equity and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's responsibility**

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Toronto Parking Authority as at December 31, 2014 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*PricewaterhouseCoopers LLP*

**Chartered Professional Accountants, Licensed Public Accountants**

# Toronto Parking Authority

## Statement of Financial Position

As at December 31, 2014

(all amounts are in Canadian dollars)

	Note	2014 \$	2013 \$
<b>Assets</b>			
<b>Current assets</b>			
Cash		61,727,973	25,064,656
Investments	7	59,089,900	74,403,200
Accounts receivable	8, 12(c)	858,507	1,011,598
Finance lease receivable	9	648,050	648,050
Supplies		301,765	306,145
Prepaid expenses		812,377	1,492,203
		<u>123,438,572</u>	<u>102,925,852</u>
<b>Finance lease receivable</b>	9	6,917,478	6,874,463
<b>Investment in garage</b>	10(b)(ii)	6,000,000	6,000,000
<b>Property and equipment</b>	10	<u>135,965,174</u>	<u>136,781,553</u>
		<u>272,321,224</u>	<u>252,581,868</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		6,540,646	6,519,599
Provisions	11	200,250	244,820
Deferred revenue		1,162,172	507,378
Due to related parties	12(c)	5,757,749	3,605,570
Debt payable	13	435,591	412,038
		<u>14,096,408</u>	<u>11,289,405</u>
<b>Deferred deposits</b>	14	11,285,250	7,585,000
<b>Debt payable</b>	13	<u>5,494,585</u>	<u>5,930,176</u>
		<u>30,876,243</u>	<u>24,804,581</u>
<b>Equity</b>	15	<u>241,444,981</u>	<u>227,777,287</u>
		<u>272,321,224</u>	<u>252,581,868</u>
<b>Commitments and contingent liabilities</b>	23		

### Approved on Behalf of the Board of Directors

\_\_\_\_\_ Chairman \_\_\_\_\_ President

The accompanying notes are an integral part of these financial statements.

**Toronto Parking Authority**  
**Statement of Income and Comprehensive Income**  
**For the year ended December 31, 2014**

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(all amounts are in Canadian dollars)

	Note	2014 \$	2013 \$
<b>Parking revenue</b>	16	<u>128,755,234</u>	<u>130,078,044</u>
<b>Direct expenses</b>			
Operating	25	41,414,551	40,098,050
Municipal property tax		18,986,602	17,965,350
Finance interest paid on debt	13	141,503	150,655
Amortization of property and equipment	10	<u>7,325,685</u>	<u>7,432,534</u>
		<u>67,868,341</u>	<u>65,646,589</u>
<b>Income before administration expense and other income</b>		60,886,893	64,431,455
<b>Administration expense</b>		<u>8,140,321</u>	<u>8,082,797</u>
<b>Income before other income</b>		<u>52,746,572</u>	<u>56,348,658</u>
<b>Other income</b>			
Income earned on financial instruments	18	3,702,102	2,308,048
Other income	18	<u>1,563,932</u>	<u>6,022,827</u>
		<u>5,266,034</u>	<u>8,330,875</u>
<b>Net income and comprehensive income for the year</b>		<u>58,012,606</u>	<u>64,679,533</u>

The accompanying notes are an integral part of these financial statements.

**Toronto Parking Authority**  
**Statement of Changes in Equity**  
**For the year ended December 31, 2014**

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(all amounts are in Canadian dollars)

	Note	2014 \$	2013 \$
<b>Balance - Beginning of year</b>		227,777,287	207,293,460
Net income and comprehensive income for the year		<u>58,012,606</u>	<u>64,679,533</u>
Fixed asset contribution from City of Toronto	12(d)	285,789,893	271,972,993
Special distribution to City of Toronto	20	-	710,849
Annual distribution to City of Toronto	20	<u>(43,705,912)</u>	<u>(44,906,555)</u>
<b>Balance - End of year</b>		<u>241,444,981</u>	<u>227,777,287</u>

The accompanying notes are an integral part of these financial statements.

# Toronto Parking Authority

## Statement of Cash Flows

For the year ended December 31, 2014

(all amounts are in Canadian dollars)

	Note	2014 \$	2013 \$
<b>Cash flows from operating activities</b>			
Net income and comprehensive income for the year		58,012,606	64,679,533
Add (deduct) non-cash items			
Amortization of property and equipment	10	7,325,685	7,432,534
Gain on sale of property and equipment	18	-	(4,808,297)
Net amount - interest/finance income and finance charges		(3,495,099)	(2,601,104)
Net unrealized loss (gain) on held-for-trading financial assets	18	(65,500)	443,710
		<u>61,777,692</u>	<u>65,146,376</u>
Net change in non-cash working capital balances related to operating activities	24	<u>3,620,747</u>	<u>(21,974,921)</u>
Net cash flow from operating activities		<u>65,398,439</u>	<u>43,171,455</u>
<b>Cash flows from investing activities</b>			
Interest received from held-for-trading financial assets	18	2,945,537	2,064,446
Interest received on loans and receivables (finance lease receivable)	9	648,050	648,050
Proceeds from sale of property and equipment		-	7,907,752
Deferred receipt from asset sale		3,700,250	3,895,000
Purchase of property and equipment	10	(6,509,306)	(8,281,862)
Net cash flow from investing activities		<u>784,531</u>	<u>6,233,386</u>
<b>Cash flows from financing activities</b>			
Net decrease in investments		15,378,800	1,027,090
Distribution to City of Toronto		(44,344,912)	(44,906,555)
Long-term debt to finance purchase of property and equipment			
Repayments		(412,038)	(389,353)
Finance charges paid on long-term debt	13	(141,503)	(150,655)
Net cash flow from financing activities		<u>(29,519,653)</u>	<u>(44,419,473)</u>
<b>Increase in cash during the year</b>		<u>36,663,317</u>	<u>4,985,368</u>
<b>Cash - Beginning of year</b>		<u>25,064,656</u>	<u>20,079,288</u>
<b>Cash - End of year</b>		<u>61,727,973</u>	<u>25,064,656</u>

The accompanying notes are an integral part of these financial statements.

# Toronto Parking Authority

## Notes to Financial Statements

December 31, 2014

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(all amounts are in Canadian dollars)

### **1 Statement of compliance**

These financial statements of the Toronto Parking Authority (the Authority) have been prepared on a going concern basis and comply with all the requirements of International Financial Reporting Standards (IFRS).

These financial statements were authorized by the Authority's Board of Directors at their meeting held on May 28, 2015.

### **2 Nature of operations and relationship to the City of Toronto**

The Authority is a local board of the City of Toronto (the City), established under the City of Toronto Act, 2006 with a mandate to operate, manage and maintain municipal off-street parking facilities and on-street meter operations on behalf of the City in support of local business areas. Municipal off-street parking facilities are of two primary types: (a) open-air single level lots without structures referred to as surface lots and; (b) covered, multi-level structures referred to as parking garages/structures. On November 15, 2013, Municipal Code Chapter 179, Parking Authority was amended to expand the Authority's mandate to include the responsibility and authority for the operation and management of the City's public bike share program.

The address of the Authority's registered office is 33 Queen Street East, Toronto, Ontario.

The City is considered the ultimate controlling entity of the Authority. In its relationship with the City, the Authority has an agreement on income-sharing, which is more fully described in note 20.

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

### **3 Basis of presentation**

The Authority is a public sector entity and meets the definition of a Government Business Enterprise (GBE) as set out in the Introduction to Public Sector Accounting Standards. GBEs are deemed to be publicly accountable enterprises and are required to apply IFRS as set out in Part I of the Chartered Professional Accountants of Canada Handbook - Accounting.

### **4 Summary of significant accounting policies**

#### **Basis of measurement**

The financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets to fair value.



# Toronto Parking Authority

## Notes to Financial Statements

December 31, 2014

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(all amounts are in Canadian dollars)

### Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Stated in very general terms, a financial asset is cash or a contractual right to receive cash such as a bond or a trade receivable. Similarly, a financial liability is a contractual obligation to deliver cash or another financial asset such as a bank loan or a trade payable to another entity.

#### • Classification and measurement of financial instruments

The Authority classifies its financial instruments into one of the following categories based on the Authority's intended use of the instrument. The Authority's accounting policy for measurement of each category is as follows:

Financial instrument	Category	Subsequent measurement
Cash	loans and receivables	fair value through profit or loss
Investments	held-for-trading	fair value through profit or loss
Accounts receivable	loans and receivables	amortized cost
Finance lease receivable (including current portion)	loans and receivables	amortized cost
Accounts payable and accrued liabilities	other financial liabilities	amortized cost
Due to related parties	other financial liabilities	amortized cost
Debt payable	other financial liabilities	amortized cost

All financial instruments are measured initially at fair value, which is generally the transaction price.

#### • Method of determining fair value

Fair value is determined:

- on the basis of quoted prices in an active market, or if an active market does not exist;
- using accepted valuation techniques or parameters derived from a combination of active markets or from statistical estimates or other quantitative methods.

Other categories of financial instruments that are measured subsequently at amortized cost do not trade on an active market.

For assets measured at fair value, changes in fair value (gains and losses) are recognized in profit or loss as an unrealized gain or loss.

#### • Cash

Cash comprises cash-on-hand, deposits held on call with banks and other liquid investments with original maturities of less than three months.

# Toronto Parking Authority

## Notes to Financial Statements

December 31, 2014

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(all amounts are in Canadian dollars)

- **Investments**

Investments consist of fixed income securities of governments and high-quality corporate bonds carried at fair value and interest receivable thereon.

Investments have been classified as held-for-trading and measured at fair value based on quoted market prices, which is considered to be the closing market bid price at the year-end. Investments are recognized and derecognized on the trade date. Investments are classified as held-for-trading (or fair value through profit or loss) as they are intended for sale in the short term, are part of a portfolio of identified financial instruments that are managed together and there is a recent pattern of short-term trading to realize gains. The primary use made by the Authority of held-for-trading financial assets is to fund capital purchases and their measurement at fair value provides more relevant information than does amortized cost and is consistent with the Authority's approach to their evaluation and management.

Investment income includes interest, realized and unrealized gains or losses on investments. Investment income is classified under profit or loss and is recorded as other income on the statement of income and comprehensive income.

Investments classified as current assets have varying maturity dates with some greater than one year from the date of the financial statements. However, all are capable of prompt liquidation and have been classified as current assets. When investments are not capable of liquidation within one year of the date of the financial statements, they would be classified as long-term investments.

Fees for custody and management services are expensed as incurred in the statement of income and comprehensive income.

The Authority's investment policy is to invest only in eligible investments as prescribed in the financial activities regulation of the City of Toronto Act, 2006.

- **Accounts receivable**

Accounts receivable are primarily trade receivables recorded at amortized cost, less a provision for impairment, which involves annual testing to assess and estimate uncollectible amounts. A provision for uncollectible amounts is made when objective evidence indicates the Authority may not be able to collect a receivable. Balances are written off when collection is assessed as remote. Adjustments to the amortized cost are included in profit or loss. The amortized cost of accounts receivable approximates their fair value due to their short-term nature.

- **Finance lease receivable**

The finance lease receivable represents the present value of minimum lease payments due to the Authority as lessor under a finance lease.

# Toronto Parking Authority

## Notes to Financial Statements

December 31, 2014

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(all amounts are in Canadian dollars)

- **Accounts payable and accrued liabilities**

Accounts payable and accrued liabilities are primarily trade payables, pension remittances and liabilities to government for sales and payroll related taxes measured at their amortized cost, which approximates their fair value due to their short-term nature. Adjustments to the amortized cost are included in profit or loss.

- **Impairment of financial assets**

As at each statement of financial position date, the Authority assesses whether the assets valued at amortized cost are impaired. When objective evidence of impairment is available, the impairment is recognized in the same period by adjusting the value on the statement of financial position and recognizing an expense in the statement of income and comprehensive income. When previous impairment losses reverse, they are recognized up to the extent of the impairment amount originally recognized.

- **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. As at December 31, 2014 and December 31, 2013, there were no derivative contracts outstanding.

### **Property and equipment and investment property**

- **Measurement basis - cost model**

The Authority measures property and equipment using the cost model. The cost model provides that property and equipment be recorded at their cost at the time of recognition.

Any costs incurred subsequent to initial recognition, which enhance the service capacity (an improvement), are capitalized as property and equipment and amortized over the remaining useful life of the asset or the improvement, whichever is shorter.

- **Component accounting**

Components of an item of property and equipment that have different useful lives and have a significant cost in relation to the total cost of the item have been classified and amortized to profit or loss separately. Parking garage structures are currently the only item of property and equipment identified as having components with differing useful lives that have significant costs in relation to the cost of the entire item.

# Toronto Parking Authority

## Notes to Financial Statements

December 31, 2014

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(all amounts are in Canadian dollars)

- **Amortization**

The amount subject to amortization is the cost of the asset less any residual value. Amortization expense is recognized in profit or loss and is calculated from the date the assets are available for use on a straight-line basis over their estimated useful lives as follows:

Parking garages - concrete structure	25 or 40 years
Surface car parks and other parking garage components	25 years
Equipment and furnishings	5 to 10 years

Projects to build garages or surface car parks, which are in process, are included in property and equipment as acquired and are amortized once the asset is placed into service. Improvements to facilities that meet the recognition criteria are added to the asset and amortized over a period up to 25 years.

Land is not amortized, as it is considered to have an indefinite life.

Assets acquired through a finance lease are classified under property and equipment and amortized consistent with other similar assets.

The useful lives of property and equipment are reviewed at each statement of financial position date and are estimated by management based on historical analysis and other available information. The residual values of property and equipment are reviewed at each statement of financial position date and are based on the assessment of useful lives and other available information.

When there is a change in use of property and equipment between use as investment property or for the Authority's principal activity of parking, the asset is transferred to the appropriate classification at its carrying amount without recognition of a gain or loss.

- **Investment property**

When property is held to earn rental income or for capital appreciation rather than for the Authority's principal strategic purpose of providing parking, it is classified as investment property.

Some properties owned by the Authority include a portion that is held to earn rental income and another portion that is held for strategic parking or administrative purposes. If these portions could be sold separately, they are accounted for separately. If these portions could not be sold separately, the property is classified as investment property only if an insignificant portion is held for parking or administrative purposes.

If the utilization of the property for its principal strategic purpose is greater than 10%, the Authority's policy is to classify the entire property as property and equipment rather than investment property. There are no properties classified as investment property as at December 31, 2014 or December 31, 2013.

# Toronto Parking Authority

## Notes to Financial Statements

December 31, 2014

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(all amounts are in Canadian dollars)

- **Impairment of non-financial assets**

Property and equipment are reviewed annually for indications of impairment or when circumstances indicate the carrying amount may not be recoverable.

If an asset is determined to be impaired it is written down to its recoverable amount, which is the higher of fair value, less costs to sell and value in use. In the absence of a reliable estimate of fair value for an asset that is clearly impaired, the value in use may be applied. If there is an indication that a previously impaired asset has experienced an increase in fair value or value in use, the previous impairment is reversed but only to the extent of the carrying amount had no impairments been recognized.

Impairment losses or reversals are recorded in profit or loss.

### **Provisions**

Provisions are recognized when the Authority has a present legal or constructive obligation or entitlement as a result of past events, it is probable that a payment will have to be made/received to settle the obligation/entitlement and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period and are discounted to present value where the effect is material.

### **Revenue and other income recognition**

Revenue is recorded on the accrual basis of accounting. Revenue includes parking fee revenue and other income from investment, rental and advertising activities. The accrual basis of accounting recognizes revenue as the service is performed or the income is earned, can be reliably measured and collection is reasonably assured. The timing of revenue recognition for the Authority's significant sources of revenue is as follows:

- parking fee revenue as the service is performed;
- interest and finance income on a time proportion basis with reference to the principal amount and effective interest rate;
  - gains or losses when the transaction occurs;
  - rental revenue on a straight-line basis over the term of the lease;
  - advertising revenue in accordance with the substance of the agreement, which currently supports recognition on a straight-line basis over the term; and
  - other revenue as the Authority has a legal or constructive right to receive a future economic benefit.

Deferred revenue consists of deposits and payments for monthly permits and sponsorship revenue paid in advance, which are to be earned and recognized in future periods.

# Toronto Parking Authority

## Notes to Financial Statements

December 31, 2014

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(all amounts are in Canadian dollars)

Revenue is measured at the fair value of the consideration received or receivable, net of any discounts or volume rebates.

### **Multi-employer pension plan**

The Authority makes contributions to Ontario Municipal Employees Retirement System (OMERS), which is a multi-employer plan (the plan), on behalf of substantially all of its employees. The plan is a contributory defined benefit pension plan funded by equal contributions from participating employers and employees as well as by investment earnings of the plan. The plan specifies the amount of the retirement benefits to be received by the employees based on the length of service and rates of pay.

Contributions received from all OMERS employers are co-mingled and used to jointly purchase investments to support the pension obligations. OMERS does not track its investments by employer. In addition, OMERS engages an independent actuary to determine the funded status of the plan with actuarial assumptions developed based on the entire plan membership, not by employer. Although the plan has defined benefit plan characteristics, there is insufficient information available to account for the plan as a defined benefit plan. Defined benefit plan accounting would require the recording of the discounted amount of the future benefit obligations offset against the fair value of plan assets. In this situation, International Accounting Standard (IAS) 19, Employee Benefits, requires that defined contribution accounting and disclosure be applied.

On the basis of the most recent reliable information available (generally the OMERS 2014 annual report to members), the plan was in a deficit position of approximately \$7.1 billion at the end of 2014, a decrease from a deficit of \$8.6 billion in 2013. OMERS is funding this deficit through a combination of contribution increases, temporary benefit calculation changes and an investment strategy designed to generate strong and stable investment returns over the long term.

### **Leases**

#### **• Finance leases**

Assets leased under arrangements that transfer substantially all the risks and benefits of ownership, with or without ultimate transfer of title, are classified as finance leases. The Authority is party to finance leases as both lessor and lessee.

- a) When the Authority is a lessor under a finance lease, a finance lease receivable is recorded at the inception of the lease at an amount equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments plus any unguaranteed residual value.
  - Lease payments received are allocated between a reduction of the receivable and finance income on an amortized basis to produce a constant rate of interest on the remaining balance of the receivable.
  - Finance income is recorded as other income.
  - When assets are recognized under a finance lease for the first time, there is a concurrent derecognition of the asset as property and equipment (as if effectively disposed of).

# Toronto Parking Authority

## Notes to Financial Statements

December 31, 2014

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(all amounts are in Canadian dollars)

- b) When the Authority is a lessee under a finance lease, the accounts involved include an asset and a future liability capitalized, at the inception of the lease, at an amount equal to the fair value of the asset or, if lower, the present value of minimum lease payments plus a payment under a bargain purchase option that, at the inception of the lease, is reasonably certain to be exercised.
- The leased asset is classified as property and equipment and is amortized on the same basis as other assets within the same class.
  - Lease payments made are allocated between a reduction to the lease liability and as finance expense on an amortized basis to produce a constant rate of interest on the remaining balance of the liability.
  - Finance expense is recorded as a direct operating expense.

- **Operating leases**

Assets leased under arrangements that do not transfer substantially all the risks and benefits of ownership are classified as operating leases. The Authority is party to operating leases as both lessor and lessee.

- a) When the Authority is a lessor under an operating lease, assets are classified within property and equipment on the Authority's statement of financial position and amortization is provided for in a systematic manner consistent with the Authority's amortization policy for similar property and equipment.
- Lease income is recognized on a straight-line basis over the term of the lease.
  - If a lease incentive is provided, it is accounted for as a reduction to rental income.
- b) When the Authority is the lessee under an operating lease, neither an asset nor a liability is recognized in relation to the leased asset.
- Lease payments are expensed as a direct expense on a straight-line basis over the term of the lease.
  - Lease incentives are recognized as a reduction to rental expense on a straight-line basis.

In circumstances where straight-line recognition of lease income or expense does not accurately reflect the Authority's pattern of benefit or cost under a lease, some other systematic method may be applied that better reflects the patterns.

# Toronto Parking Authority

## Notes to Financial Statements

December 31, 2014

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(all amounts are in Canadian dollars)

### 5 IFRS issued but not yet adopted

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2015, with earlier application permitted. The Authority has not yet assessed the impact of these standards and amendments or determined whether it will early adopt them.

- a) IAS 1, Presentation of Financial Statements, was amended to clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The improvements are effective for years beginning on or after January 1, 2016.
- b) IFRS 9, Financial Instruments, is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39, Financial Instruments - Recognition and Measurement. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured using amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest; otherwise, it is measured at fair value through profit or loss. In addition, the requirements for hedge accounting have been replaced with new guidance which states there is a requirement for an economic interest between the hedged item and hedging instrument, and for the hedged ratio to be the same as the one that the entity actually uses for risk management purposes. The mandatory effective date of this standard was deferred and is effective January 1, 2018.

IFRS 7, Financial Instruments - Disclosures, was amended to require additional disclosures on transition from IAS 39 to IFRS 9. This standard becomes effective on adoption of IFRS 9.

- c) IFRS 15, Revenue from Contracts with Customers, will supersede guidance included in IAS 18, Revenue, and IAS 11, Construction Contracts, and requires an entity to recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to exchange for those goods or services. This standard is effective for years beginning on or after January 1, 2017.
- d) IAS 24, Related Party Disclosures, was amended to revise the definition of related party to include an entity that provides key management personnel services to the reporting entity or its parent and clarifies related disclosure requirements. The improvements are effective for years beginning on or after July 1, 2014.

### 6 Critical accounting judgments and estimates

In applying the Authority's accounting policies as described in note 4, summary of significant accounting policies, management is required to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period.



# Toronto Parking Authority

## Notes to Financial Statements

December 31, 2014

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(all amounts are in Canadian dollars)

The estimates and judgments management made in applying the Authority's accounting policies relate to:

- **Finance lease receivable**

The present value of the lease receivable is based on management's estimate of future minimum lease payments, which include an estimation of future fair value and residual value of the property. Management has made a judgment on the lease classification.

- **Property and equipment**

Management judgment is applied in determining amortization rates and useful lives of assets. In addition, management has assessed whether properties should be classified as investment properties based on criteria developed by the Authority (note 4).

### 7 Investments

Investments consist of bonds with financial institutions with a weighted average yield to maturity of 2.15% (2013 - 2.46%) and a weighted average duration to maturity of 1.63 years (2013 - 2.89 years). Investments include interest receivable of \$255,273 (2013 - \$274,420).

Investments reported in the statement of financial position at a fair value of \$58,834,627 (2013 - \$74,128,780), excluding interest receivable, have a cost of \$58,655,756 (2013 - \$74,056,029).

### 8 Accounts receivable

	2014 \$	2013 \$
Gross value	890,507	1,040,598
Provision for doubtful accounts	(32,000)	(29,000)
Accounts receivable - net	<u>858,507</u>	<u>1,011,598</u>

Writeoffs charged to the provision during the year were \$3,607 (2013 - \$35,623).

### 9 Finance lease receivable

A receivable under a finance lease is presented in the statement of financial position as follows:

	2014 \$	2013 \$
Finance lease receivable, current portion	648,050	648,050
Finance lease receivable, long-term portion	6,917,478	6,874,463
	<u>7,565,528</u>	<u>7,522,513</u>

# Toronto Parking Authority

## Notes to Financial Statements

December 31, 2014

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(all amounts are in Canadian dollars)

As lessor, the Authority has recognized a receivable from a hotel tenant for use of the land on which a hotel was constructed at 220 Bloor Street West. The ground lease is for a 99-year term with a commencement date of September 1, 1989, at which point lease payments commenced. Minimum lease payments are defined in the lease for the first 11 years after which adjustments were made to the minimum payments for each subsequent block of five rental years based on changes in the consumer price index. Percentage rent is also payable each lease year based on 6% of the hotel's gross receipts in excess of minimum rent.

A reconciliation of the gross investment in the lease to the present value of the minimum lease payments receivable (the Authority's net investment in the lease) and the payments due are detailed in the following schedules:

<b>Lease receivable - payments due</b>	<b>Gross investment in lease receivable</b> \$	<b>Future finance income</b> \$	<b>Present value of minimum lease payments</b> \$
Not more than 1 year	653,450	(695,114)	(41,664)
1 year but not more than 5 years	2,662,539	(2,814,674)	(152,135)
Over 5 years	55,236,432	(47,477,105)	7,759,327
	<u>58,552,421</u>	<u>(50,986,893)</u>	<u>7,565,528</u>

There is an insignificant unguaranteed residual value recognized in light of the 99-year term of the lease and the uncertainty of the land value at such a distant point in the future. While the Authority legally retains title to the land, the present value of the land at the end of the lease term, if determinable, would likely not be significant.

# Toronto Parking Authority

## Notes to Financial Statements

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(all amounts are in Canadian dollars)

### 10 Property and equipment

Property and equipment held by the Authority are detailed in the following schedule:

							2014	2013
	Land \$	Parking garages - concrete structural component with 40-year useful life \$ (i)	Parking garages acquired by finance lease \$	Older parking garages and other components with a 25-year useful life \$ (ii)	Surface car parks \$	Equipment and furnishings \$	Total \$	Total \$
<b>Cost at January 1</b>	65,608,092	19,554,453	483,990	73,221,433	19,092,551	63,268,385	241,228,904	235,677,315
Acquisitions	2,612,045	-	-	2,722,996	632,469	541,796	6,509,306	8,992,711
Disposals	-	-	-	-	-	-	-	(3,441,122)
<b>Cost at December 31</b>	<b>68,220,137</b>	<b>19,554,453</b>	<b>483,990</b>	<b>75,944,429</b>	<b>19,725,020</b>	<b>63,810,181</b>	<b>247,738,210</b>	<b>241,228,904</b>
<b>Accumulated amortization at January 1</b>	-	8,368,483	483,990	41,044,733	6,489,428	48,060,717	104,447,351	97,356,483
Amortization	-	392,336	-	2,445,016	732,283	3,756,050	7,325,685	7,432,534
Disposals	-	-	-	-	-	-	-	(341,666)
<b>Accumulated amortization at December 31</b>	<b>-</b>	<b>8,760,819</b>	<b>483,990</b>	<b>43,489,749</b>	<b>7,221,711</b>	<b>51,816,767</b>	<b>111,773,036</b>	<b>104,447,351</b>
<b>Net book value at December 31</b>	<b>68,220,137</b>	<b>10,793,634</b>	<b>-</b>	<b>32,454,680</b>	<b>12,503,309</b>	<b>11,993,414</b>	<b>135,965,174</b>	<b>136,781,553</b>

# Toronto Parking Authority

## Notes to Financial Statements

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(all amounts are in Canadian dollars)

### Notes to schedule of property and equipment

- i) This component includes only the concrete structure of garage facilities built since 1990.
  - ii) This component includes the entire garage (structure and other components) built prior to 1990 and the non-structural components of garages built since 1990. All are amortized on a straight-line basis over a 25-year useful life.
- a) Title to all land purchased by the Authority is held in the name of the City.
- b) As at December 31, 2014, there are contractual commitments for the purchase or sale of property and equipment. Many of the commitments described below involve, in partnership with private developers, the sale of above grade strata title to air rights over land on which the Authority currently operates parking lots and the purchase of above grade and/or substrata title to parking structures in a completed development. Sale of above grade strata title is also known as selling condominium rights.
- i) In 2008, the Authority entered into an agreement with a private developer that requires the Authority to purchase a 209-space underground garage at an estimated cost not to exceed \$9,000,000 when title to the completed facility is transferred. The project had not commenced as at December 31, 2014.
  - ii) In 2010, the Authority entered into an agreement with a private developer under which the Authority received cash proceeds for the sale of above strata air rights plus future delivery of a 150-space underground garage valued at \$6,000,000. Construction of the garage commenced in 2014 and it allows for a purchase price bonus to be paid to the Authority should the purchaser achieve site density in excess of specified thresholds. A density bonus of \$1.6 million was received by the Authority in 2012. The prepayment of the garage is recorded on the statement of financial position as an investment in garage until the garage is completed, at which time it will be transferred to property and equipment.
  - iii) In 2011, the Authority entered into an agreement with a private developer for the Authority to purchase 128 spaces for \$3,950,000 in an underground parking garage to be incorporated into the completed condominium development. When this garage begins operation, a nearby 29-space surface parking lot currently operated by the Authority will be closed. Construction of the development is expected to be completed in 2015.
  - iv) In 2011, the Authority entered into an agreement with a private developer providing for the sale of above grade strata title over land on which a parking garage now operates. The proceeds will be in the form of cash plus delivery of strata title to an 800-space underground garage to be built under a residential condominium. The sale proceeds of the above grade strata title will be \$76,000,000, less the garage cost of \$32,000,000 for net proceeds of \$44,000,000. The agreement allows for a purchase price bonus to be paid to the Authority should the purchaser achieve site density in excess of a specified threshold.

# Toronto Parking Authority

## Notes to Financial Statements

December 31, 2014

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(all amounts are in Canadian dollars)

The purchase and sale agreement has been approved by the Authority and City Council. Beginning in 2012, the Authority annually receives 5% of the unpaid balance and interest on the remaining unpaid balance annually until closing in December 2015. The Authority waived all of its conditions, such as obtaining various approvals, in March 2012. The project is not expected to commence until 2016.

- v) In 2011, the Authority entered into an agreement with a private developer under which the Authority received cash proceeds in 2013 for the sale of above strata air rights plus future delivery plus additional consideration in the future should the final approved density and residential condominium sales levels exceed specified thresholds. The agreement also commits the Authority to purchase a 40-space (approximate) garage to be included in the final development for a price not to exceed \$40,000 per space. The project commenced in 2014.
- vi) In 2011, the Authority entered into an agreement with a private developer under which the Authority received cash proceeds in 2013. The agreement also commits the Authority to purchase approximately 66 spaces in an underground parking garage for a price not to exceed \$45,000 per space and a 10,000 square foot retail component (for subsequent leasing) at a price to be based on market rental rates. The project commenced in 2014.
- vii) In 2012, the Authority, along with two adjacent property owners, entered into an agreement with a private developer to sell the above grade air rights over all three properties for consideration of \$50,000,000 plus additional consideration in the future should the final approved density exceed specified thresholds. The Authority property being sold is above an existing surface parking lot. The total proceeds are to be allocated among the vendors based on proportionate land area. The agreement also commits the Authority to purchase a 250 (minimum) space garage to be included in the final development for a price of \$40,000 per space. The sale is to close in 2015 and construction must commence within 36 months of the closing date.
- viii) In 2014, the Authority entered into an agreement with a private developer for the sale of above grade strata title over land on which a surface parking lot now operates for a sale price of \$14,500,000. The agreement allows for a purchase price bonus to be paid to the Authority should the purchaser achieve site density in excess of a specified threshold. The sale is to close one year after waiver of the conditions stated in the agreement. The conditions have not been waived as of December 31, 2014.

The agreement also commits the Authority to purchase a 175 (minimum) space garage to be included in the final development for a price of \$45,000 per space. Construction must commence within five years after the waiver of the conditions in the sale of the above grade strata title.

- ix) In 2014, the Authority entered into an agreement to purchase a property for subsequent development of a surface parking lot. Closing date of the purchase is expected to be in 2015 for the purchase price of \$1,200,000.
- x) Subsequent to year-end, the Authority entered into an agreement to purchase a property for subsequent development of a surface parking lot. Closing date of the purchase is expected to be in 2015 for the purchase price of \$2,038,000.

# Toronto Parking Authority

## Notes to Financial Statements

December 31, 2014

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(all amounts are in Canadian dollars)

- xi) Subsequent to year-end, the Authority entered into an agreement to purchase a property for subsequent development of a surface parking lot. Closing date of the purchase is expected to be in 2015 for the purchase price of \$2,625,000.

### 11 Provisions

As at December 31, 2014, the Authority has recorded provisions for the following liabilities:

- The Authority has not yet been assessed or billed for property taxes on certain parcels of land acquired for parking purposes. A provision for the estimated amount of property tax owing on these properties was determined using the assessed value of similar properties and the actual tax rates for the year. Billings would be due upon receipt and it is expected the properties will be assessed and billing rendered within the next year.
- The Authority is the defendant in a claim for unpaid fees related to a prior year land purchase. An amount has been accrued based on the opinion of legal counsel as to the likely outcome. The timing of the payout cannot be estimated with certainty.

The change in the provision during the year is as follows:

	2014 \$	2013 \$
Opening balance	244,820	226,112
Unused amounts reversed during the year	(78,570)	-
Additional year provided for unassessed/unbilled property tax	34,000	18,708
	<hr/>	<hr/>
Closing balance	200,250	244,820

### 12 Related party transactions and balances

#### a) Related party relationships

The City is the ultimate controlling entity of the Authority as exercised through direction approved by City Council. As related parties, the Authority and City enter into transactions and have outstanding balances owing and commitments to each other at points in time.

Other related parties with whom the Authority has significant transactions and who are related by virtue of being part of the same group controlled by the City are:

- Toronto Transit Commission (TTC) - the Authority manages the commuter parking lots of the TTC on a cost recovery basis and for a fixed management fee.

# Toronto Parking Authority

## Notes to Financial Statements

December 31, 2014

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(all amounts are in Canadian dollars)

- City of Toronto - the Authority operates parking lots on a number of properties under the control of the parks and recreation and real estate departments of the City. The Authority pays rent for the use of these properties, typically calculated as a percentage of the net income earned. From time to time, the Authority utilizes services of the City's in-house legal department at billing rates charged to other departments.
- Toronto Hydro - the Authority utilizes hydro service at prevailing market billing rates.
- Key management personnel - the Authority's Board of Directors and certain senior officers are considered related parties when they have responsibility for planning, directing and controlling the activities of the Authority.

### b) Related party transactions

The Authority operates 53 parking facilities on a year-round basis on properties owned by other City departments and agencies. There are 15 other locations operated during the summer months on behalf of the Parks and Recreation Department of the City. 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.

In the normal course of operations, the Authority incurs costs for various expenses payable to the City and related entities such as hydro, legal and other administrative costs.

	2014 \$	2013 \$
Amounts paid to the City		
City's share of the Authority's net income	43,705,912	44,906,555
Municipal property taxes	19,457,668	18,261,329
Hydro and water	2,472,271	2,516,289
Rent paid for use of City-owned properties	2,080,713	1,609,173
Legal services	166,925	248,887
Office, maintenance supplies and other	333,978	1,259,447
Hydro costs paid to Toronto Hydro	277,678	324,731
Management fee received from the TTC	124,092	132,678
Management fee received from the TCHC	99,644	-

### c) Related party balances

Amounts due to related parties are as follows:

	2014 \$	2013 \$
Due to the City	4,697,737	2,878,451
Due to the TTC	774,513	664,145
Due to Toronto Hydro	285,499	62,974
	<hr/> 5,757,749	<hr/> 3,605,570

# Toronto Parking Authority

## Notes to Financial Statements

December 31, 2014

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(all amounts are in Canadian dollars)

Amounts owing are due on demand and are non-interest bearing.

As at December 31, 2014, amounts due from related parties that are included in accounts receivable are as follows:

	2014 \$	2013 \$
Due from the TTC	14,002	78,943
Due from the City	76,147	35,035
	<hr/> 90,149	<hr/> 113,978

### d) Reserve funds

The City maintains a number of reserve funds on behalf of the Authority. These reserve funds were established by City Council and are detailed in Chapter 227 of the City of Toronto Municipal Code. The City holds the following reserve funds for use by the Authority in funding capital projects.

- Parking Authority Shopping Mall Rented Properties Reserve Fund (PASMRPRF)

Net income generated by retail leasing operations that are developed and operated by the Authority is paid annually into the PASMRPRF to fund property and equipment purchases. During the year, gross revenue earned was \$1,069,516 (2013 - \$1,334,933) and expenses incurred were \$1,097,924 (2013 - \$1,250,939). The balance in this fund as at December 31, 2014 is \$3,269,305 (2013 - \$3,297,713). During 2014 and 2013, no money was drawn from the PASMRPRF to finance property and equipment additions.

- Parking Payment In Lieu Reserve Fund

Parking payments received by the City from developers under agreements in lieu of providing facilities are paid into the Parking Payment In Lieu Reserve Fund to fund property and equipment purchases. The amount credited into this fund from these sources during 2014 was \$49,197 (2013 - \$3,092,065) and interest income earned was \$54,738 (2013 - \$79,000). The balance in this fund as at December 31, 2014 is \$5,747,591 (2013 - \$5,742,050). During 2014, \$49,197 was drawn to finance property additions (2013 - \$3,092,065).

- Bike Share Reserve Fund

Established November 2013, this fund provides a source of funding for the debt, transition costs, interim operating payments, capital expansion and replacement costs and ongoing contributions to the Authority for any system operating losses related to the bike share program. In 2013 the City transferred fixed assets to the Authority with a fair market value of \$710,849 for nil consideration. These assets will be amortized on a straight-line basis over a period of two to four years. In the event the bike share program operated by the Authority should generate an operating surplus, the Authority is required to replenish the Bike Share Reserve Fund with a transfer back of such a surplus.



# Toronto Parking Authority

## Notes to Financial Statements

December 31, 2014

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(all amounts are in Canadian dollars)

### e) Compensation of directors and key management

Compensation to the key managers, including directors, with responsibility to plan, direct and control the operations of the Authority is \$1,422,925 (2013 - \$1,241,828) and consists of salaries and short-term benefits.

### 13 Debt payable

Debt payable of \$5,930,176 (2013 - \$6,342,214) is owing for the purchase of equipment upgrades undertaken in 2009 and 2010, of which \$5,494,585 (2013 - \$5,930,176) is classified as long-term and \$435,591 (2013 - \$412,038) is included in current liabilities. The original amount owing of \$7,618,088 is payable over 15 years at an effective interest rate of 2.298% with the term ending on June 30, 2025. Finance interest paid during the year was \$141,503 (2013 - \$150,655).

Debt payable will be repaid as follows:

	\$
2015	435,591
2016	460,041
2017	485,417
2018	511,749
2019	539,070
2020 and thereafter	<u>3,498,308</u>
	<u>5,930,176</u>

### 14 Deferred deposits

This amount represents potentially refundable deposits received under purchase and sale agreements, as described more fully in note 10 (b) iv), v), and vi) property and equipment.

### 15 Equity

Equity of the Authority represents the accumulated retained net income and comprehensive income of the Authority, less distributions to the City. Equity of the Authority is retained to fund the purchase and maintenance of major property and equipment. The Authority is without share capital with the City holding a 100% beneficial interest in the Authority's equity.

# Toronto Parking Authority

## Notes to Financial Statements

December 31, 2014

(all amounts are in Canadian dollars)

### 16 Parking revenue

Parking revenue is made up of the following components:

			<u>2014</u>	<u>2013</u>
	<u>On-street</u>	<u>Off-street</u>	<u>Total</u>	<u>Total</u>
	\$	\$	\$	\$
Short-term fees - cash and credit card	49,011,989	70,880,770	119,892,759	121,530,165
Short-term fees - Fast Track card	-	2,829,138	2,829,138	2,333,618
Monthly parking permit sales	-	5,750,642	5,750,642	5,893,634
Courtesy charges	-	209,951	209,951	233,550
Special event billings	-	72,744	72,744	87,077
	<u>49,011,989</u>	<u>79,743,245</u>	<u>128,755,234</u>	<u>130,078,044</u>

### 17 Employee benefits

Salary, wages and benefits included in direct expenses - operating consist of:

			<u>2014</u>	<u>2013</u>
	<u>On-street</u>	<u>Off-street</u>	<u>Total</u>	<u>Total</u>
	\$	\$	\$	\$
Salaries and wages	2,006,086	10,440,349	12,446,435	12,741,960
Benefits expense	433,029	3,649,485	4,082,514	3,971,857
	<u>2,439,115</u>	<u>14,089,834</u>	<u>16,528,949</u>	<u>16,713,817</u>

Salary, wages and benefits included in administration expense consist of:

	<u>2014</u>	<u>2013</u>
	\$	\$
Salary, wages and honorarium	4,168,262	4,072,131
Benefits expense	1,284,786	1,317,605
	<u>5,453,048</u>	<u>5,389,736</u>

# Toronto Parking Authority

## Notes to Financial Statements

December 31, 2014

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(all amounts are in Canadian dollars)

### 18 Income earned on financial instruments and other income

These consist of the following amounts:

	2014 \$	2013 \$
Interest earned on cash balances	439,568	203,109
Interest earned on investments	1,713,179	1,840,581
Realized gain on sale of investments	792,790	20,756
	<hr/>	<hr/>
Investment income from held-for-trading financial assets (note 7)	2,945,537	2,064,446
Unrealized gain (loss) on investments - net (note 7)	65,500	(443,710)
Interest earned - finance lease (loans and receivables)	691,065	687,312
	<hr/>	<hr/>
	3,702,102	2,308,048
	<hr/>	<hr/>
Other income		
Gain on sale of property and equipment	-	4,808,297
Miscellaneous other income	1,563,932	1,214,530
	<hr/>	<hr/>
	1,563,932	6,022,827
	<hr/>	<hr/>
	5,266,034	8,330,875
	<hr/>	<hr/>

### 19 Operating leases

The Authority is lessor in a number of operating leases for building properties. The future minimum lease payments receivable under non-cancellable operating leases for these properties are:

Receivable in	\$
Not more than 1 year	859,109
1 year but not more than 5 years	2,345,141
Over 5 years	1,023,311
	<hr/>
	4,227,561
	<hr/>

These operating leases do not provide for contingent rental payments.

### 20 City's share of net income

In 1998, the City and the Authority established an income-sharing arrangement for a three-year period ending December 31, 2000. The arrangement has been continuously renewed, most recently for the 2013 to 2015 period. Under this renewal, the Authority makes an annual payment to the City equal to the greater of \$37,000,000 or 75% of the net income and comprehensive income earned by the Authority during the year. The share of gains/losses on the sale of properties or air rights payable to the City may be adjusted, if necessary, by the cost of replacement facilities required under the related purchase/sale agreement that exceeds the 25% portion retained by the Authority.

# Toronto Parking Authority

## Notes to Financial Statements

December 31, 2014

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(all amounts are in Canadian dollars)

### **One-time payments to the City**

From time to time, the Authority will make a special distribution to the City that is in excess of its forecasted capital budget funding requirements over the ensuing ten-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 net income and comprehensive income paid under the income-sharing arrangement. When property sales occur, gains on sale of the property sold, typically under agreements with private developers, are included in the profit or loss of the Authority. Under the income-sharing arrangement, the Authority retains only 25% of such gains to fund capital requirements. The agreements typically take the form of a sale of air rights at an existing surface car park 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 such opportunities, the Authority requires that the proceeds from the sale of the air rights be sufficient to fund the underground garage spaces purchased as part of the redevelopment arrangement. On most 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 the Authority retains to fund its purchase.

### **Funding of capital program**

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

- i) to principal and interest on debentures issued to finance the cost of parking facilities;
- ii) toward the cost of new parking facilities; and
- iii) for other purposes as determined by City Council.

Income retained by the Authority, after payments to the City of 75% of its net income and comprehensive income and any one-time special distribution, is used solely to fund its capital program. The Authority has never financed new car park development through debentures or any other form of debt financing.

## **21 Financial instruments**

IFRS 7, Financial Instruments - Disclosures, requires disclosure of a three-level hierarchy for fair value measurement that reflects the significance of the inputs used in valuing an asset or liability measured at fair value. The three levels are defined as follows:

- Level 1 - fair value is based on quoted market prices in active markets for identical assets or liabilities that can be accessed at the measurement date. Level 1 assets and liabilities generally include equity securities traded in an active exchange market.

# Toronto Parking Authority

## Notes to Financial Statements

December 31, 2014

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(all amounts are in Canadian dollars)

- Level 2 - fair value is based on observable inputs, other than Level 1 prices, such as quoted market prices for similar (but not identical) assets or liabilities in active markets, quoted market prices for identical assets or liabilities in markets that are not active, and other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 - fair value is based on non-observable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This category generally includes private equity investments and securities that have liquidity restrictions.

The fair value of the Authority's investments, which comprise Canadian government and corporate bonds, was determined based on observable inputs for similar instruments quoted in active markets and as such these investments are considered to be Level 2 of the fair value hierarchy.

### Measurement categories

As explained in note 4, financial assets and financial liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the statement of income and comprehensive income. Those categories that are applicable to the Authority are loans and receivables, held-for-trading and financial liabilities at amortized cost. The following table shows the carrying amounts of financial assets and financial liabilities for each of these categories:

	2014 \$	2013 \$
Financial assets		
Loans and receivables		
Cash	61,727,973	25,064,656
Accounts receivable	858,507	1,011,598
Finance lease receivable - including current portion	7,565,528	7,522,513
Held-for-trading		
Investments	59,089,900	74,403,200
Total	<u>129,241,908</u>	<u>108,001,967</u>
Financial liabilities		
Amortized cost		
Accounts payable and accrued liabilities	6,540,646	6,519,599
Due to related parties	5,757,749	3,605,570
Debt payable	5,930,176	6,342,214
Total	<u>18,228,571</u>	<u>16,467,383</u>

# Toronto Parking Authority

## Notes to Financial Statements

December 31, 2014

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(all amounts are in Canadian dollars)

### **Nature and extent of risks arising from financial instruments**

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

#### **Market risk**

Market risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Authority manages market risk by investing in a range of maturity terms with diverse issuers. Market risk comprises the following:

- Foreign currency risk

The Authority has no material exposure to foreign currency risk.

- Interest rate risk

Interest rate risk refers to the effect on the fair value or future cash flows of an investment or debt obligations due to fluctuations in interest rates. Historically, as opportunities arise, the Authority has sold investments when interest rates have been declining in order to realize 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. The Authority's long-term debt has a fixed rate of interest and is therefore not subject to fair value changes as a result of interest rate changes.

The investment portfolio primarily consists of fixed interest securities. The investment portfolio's sensitivity to interest rate changes is such that a 1% increase or decrease in interest rates would result in a 3.375% increase or decrease in the fair value of the portfolio.

- Price risk

Price risk is the risk the fair value of an investment will fluctuate because of changes in market prices (other than those arising from foreign currency risk or interest rate risk).

The Authority is exposed to changes in electricity prices associated with the wholesale spot market for electricity in Ontario. The Authority has not addressed the commodity price risk exposure associated with changes in the wholesale price of electricity as it has not entered into any energy related purchase and sales contracts since 2009.

# Toronto Parking Authority

## Notes to Financial Statements

December 31, 2014

(all amounts are in Canadian dollars)

### Credit risk

Credit risk is the risk the Authority will be unable to redeem investments or collect accounts receivable or other debts due to it. The Authority collects revenues primarily in cash and does not extend a significant amount of trade credit. The Authority attempts to control credit risk on its investments through a conservative investment policy, which involves only purchasing investments prescribed in the financial activities regulation of the City of Toronto Act, 2006 and focusing on issuers with strong credit ratings. Credit risk is considered low.

Credit limits during the reporting period may be exceeded in circumstances when management believes the risk of non-payment is low. Management does not expect any losses from non-performance by these counterparties. The allowance for doubtful accounts has been recorded and evaluated on an annual basis.

	Less than 30 days \$	31 - 60 days \$	More than 60 days \$
Past due not impaired Accounts receivable - 2014	57,307	86,747	80,663

### Liquidity risk

Liquidity risk is the risk the Authority will be 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 and long-term investments. Varying maturities of investments are purchased to ensure the Authority can fund its capital program as needs arise. Long-term liabilities are not considered material and repayment is scheduled to allow settlement from cash flows generated from operating activities. The effect is a stable cash flow from operations, which acts to reduce liquidity risk.

The following table is a maturity analysis of the Authority's financial liabilities:

	<b>2014</b>				
	Up to 1 month \$	More than 1 month up to 1 year \$	More than 1 year up to 5 years \$	More than 5 years \$	Total \$
Accounts payable and accrued liabilities	6,540,646	-	-	-	6,540,646
Due to related parties	5,757,749	-	-	-	5,757,749
Debt payable	35,338	400,253	1,996,277	3,498,308	5,930,176
	<u>12,333,733</u>	<u>400,253</u>	<u>1,996,277</u>	<u>3,498,308</u>	<u>18,228,571</u>

### Transfer of financial assets

Financial assets that have been transferred by the Authority have been derecognized in their entirety and the Authority does not have any continuing involvement in the derecognized financial assets.

# Toronto Parking Authority

## Notes to Financial Statements

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(all amounts are in Canadian dollars)

### 22 Capital management

The Authority returns 75% of its annual net income and comprehensive income to the City and retains 25% to fund its long-term, multi-year capital budget plan. As such, the majority of the Authority's capital is 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 and longer-term bonds to balance the 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 funding is projected to exceed capital budget needs over the capital budget period, excess funds are returned to the City in order to maintain capital levels at one to two years of capital investment needs.

As at December 31, 2014, the Authority has met its objective of having sufficient liquid resources to meet its current obligations and fund capital investment opportunities as they arise.

### 23 Commitments and contingent liabilities

#### Commitments

- Commitments to purchase property and equipment are disclosed in note 10(b).
- The Authority has a commitment under an extended warranty agreement with a third party for the servicing of pay and display equipment. The agreement expires on June 30, 2025 and calls for future annual payments by the Authority starting at \$1,644,000 in 2015 based on current equipment totals with an annual inflation factor increase based on the consumer price index (CPI).
- On behalf of the Authority, the City enters into contracts to purchase natural gas at fixed prices. These contracts are entered into and continue to be held for the purpose of receipt of natural gas in accordance with the Authority's expected usage.
- Future minimum payments under a snow clearing contract that expires in 2015 are estimated at \$873,000.
- Commitments under operating leases for use of land and equipment are as follows:

	<b>2014</b>
	<b>\$</b>
Payable in	
Not more than 1 year	3,422,158
1 year but not more than 5 years	5,911,612
Over 5 years	728,369
	<u>10,062,139</u>



# Toronto Parking Authority

## Notes to Financial Statements

December 31, 2014

(all amounts are in Canadian dollars)

Contingent rent paid under these leases is based on a percentage of income earned by the Authority related to the leased properties. The amount of contingent rent paid under these leases during the year was \$4,931,000 (2013 - \$4,525,000).

### Contingent liabilities

The Authority has contingent liabilities in respect of legal claims arising in the ordinary course of business. At present, the outcome of these cases is not determinable. The Authority believes these claims are without merit and will vigorously defend itself in each of these actions. It is not anticipated that any material liabilities will arise from the contingent liabilities, other than those provided for.

## 24 Statement of cash flows

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

	2014 \$	2013 \$
Accounts receivable	153,091	349,231
Supplies	4,380	51,053
Prepaid expenses	679,826	(869,140)
Accounts payable and accrued liabilities	21,047	(428,883)
Provisions	(44,570)	18,708
Deferred revenue	654,794	93,808
Due to related parties	2,152,179	(21,189,698)
	<u>3,620,747</u>	<u>(21,974,921)</u>

## 25 Direct expenses - operating

	2014			2013
	On-street \$	Off-street \$	Total \$	Total \$
Salaries, wages and benefits (note 17)	2,439,115	14,089,834	16,528,949	16,713,817
Maintenance of facilities and equipment	1,852,336	3,668,042	5,520,378	4,540,798
Rent	-	6,713,223	6,713,223	6,307,411
Utilities	-	2,685,313	2,685,313	2,727,735
Pay and display network communications	2,167,890	215,852	2,383,742	2,316,198
Tickets	930,451	378,020	1,308,471	1,349,029
Credit card processing fees	583,192	1,201,685	1,784,877	1,729,537
Security and monitoring	180	1,248,769	1,248,949	1,271,959
Snow clearing	-	1,269,712	1,269,712	1,273,750
Insurance	70,403	988,551	1,058,954	949,726
Staff mileage	24,595	180,800	205,395	200,010
Telephone	5,505	261,080	266,585	223,526
Outside coin counting	89,184	35,024	124,208	127,040
Other	9,960	305,835	315,795	367,514
	<u>8,172,811</u>	<u>33,241,740</u>	<u>41,414,551</u>	<u>40,098,050</u>