Toronto Parking Authority

Audit Results – Year Ended December 31, 2009

Report to the Board of Directors

Ernst & Young
Quality In Everything We Do

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Members of the Board of Directors
of the Toronto Parking Authority

3 May 2010

Dear Members of the Board of Directors,

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

This report to the Board of Directors summarizes the issues of audit significance discussed with management and provides the communications required by our professional standards.

Our audit was designed to express an opinion on the December 31, 2009 financial statements of the organization. In planning the audit, we held discussions with management, considered current and emerging business risk, performed an assessment of risks that could materially affect the financial statements, and aligned our audit procedures accordingly. We received the full support and assistance of the organization's personnel in conducting our audit.

This report is intended solely for the use of the Board of Directors, management and ultimately, the City of Toronto Council and is not intended to be and should not be used by anyone other than these specified parties. We disclaim any responsibility to any third party who may rely on it. Further, this report is a by-product of our audit of the 2009 financial statements and indicates matters identified during the course of our audit. Our audit did not necessarily identify all matters that may be of interest to the Board of Directors in fulfilling its responsibilities.

We are looking forward to meeting with you to discuss the contents of this report and answer any questions you may have about these or any other audit-related matters.

Very truly yours,

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

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Items of Audit Significance Discussed with Management

During the course of planning and executing our audit, the following items/matters of audit significance were discussed with management:

Item	Description	Audit Results and Comments
Related Party Transactions	• The Authority operates 52 parking facilities on a year round basis on properties owned by other City of Toronto departments and agencies. There are 15 other locations operated during the summer months on behalf of the Parks and Recreation Department. These parking facilities are operated under separately negotiated agreements with each City department or agency. Amounts owing from or to the Authority under these agreements are included within accounts receivable or accounts payable and accrued liabilities at December 31, 2009. • Management provided a reconciliation of the City of Toronto balance to ensure that the year-end amounts recorded in the accounts of the Authority were appropriately accounted for and in agreement with the City. • Management recorded the finalization of the City's share of income in the amount of approximately \$5.38M in the statement of operations and accounts payable and accrued liabilities. • Management recorded the finalization of the property rentals payable of approximately \$1.21M in the statement of operations and accounts payable and accrued liabilities.	• We have confirmed all year-end balance with the City of Toronto and concur with management's accounting treatment of the reconciling items. • In addition, capital contributions for the purchase of land acquired during the year amounting to approximately \$1.12M were not recorded by the City or the Authority in the accounts initially submitted for audit. This was taken to our summary of audit differences as a means to track and control subsequent adjustments. • Transactions and balances with related parties have been appropriately disclosed in the financial statements.
Transfer to the City of Toronto	• At the September 19, 2009 Board of Directors meeting, the Board approved the return of excess funds of \$10M to the City of Toronto.	• This return of excess funds is properly recorded in accounts payable and accrued liabilities and the statement of operations for the year ended December 31, 2009. The distribution was paid in February 2010.

Item	Description	Audit Results and Comments
Fraud – 3rd party service provider	• In 2008, the Authority noted two reversals of funds initially deposited by a 3rd party service provider on February 29, 2008 for $84K and September 16, 2008 for $189K. These inappropriate reversals were subsequently discovered by management during the bank reconciliation process, in April and November 2008, respectively. Management has submitted a claim to their insurer to recover these amounts. • In addition, an amount of $47K of float funds held by the 3rd party was included in the claim. • As at December 31, 2008, the Authority has therefore recorded a receivable of $295K from the insurance company representing the amounts noted above, net of the $25K deductible. • In the current year, management has provided an allowance of $127K against this receivable based on their estimate of the likely amount to be recovered resulting from discussion with their insurance broker.	• We concur with management's accounting treatment.
Capital Contribution from the City for CP248	• In 2009, the Authority acquired CP 248 (134-136 Broadview Avenue), a parcel of land adjacent to an existing parking facility for a cost of approximately $1.12M in order to replace spaces that will be lost at the facility when the spaces are taken for City purposes. • Board minutes during the year indicated that all costs incurred to replace the lost spaces are to be funded out of the Land Reserve Fund held by the City of Toronto on the Authority's behalf. This was not recorded by management.	• As discussed above in related party transactions, this was taken to our summary of audit differences and subsequently adjusted by management.

Item	Description	Audit Results and Comments
Property Taxes	• The Authority conducts its business in a number of properties around the City. Municipal taxes for the properties are determined through the Municipal Property Assessment Corporation ["MPAC"]. Property assessments upon the acquisition of land can historically take a number of years before property tax assessments are provided by MPAC to the Authority. • Management estimates the property taxes owing on unassesed properties through a comparison to a similar property owned by the Authority. • Historically, these estimates have been made and accumulated from the date of acquisition until an actual assessment was received from MPAC. For unassessed properties, management estimates have continued to accumulate over the past several years. • During 2009, management reviewed the City of Toronto Property Assessment Act. Under section 33 (3) of the Act, the City can bill for taxes relating to the current and two preceding years in which taxes were not levied. Therefore, management reviewed all unassesed properties and adjusted the accumulated estimates to be in accordance with the Act. This resulted in a reduction of accounts payable and accrued liabilities of $822K and a corresponding credit to the statement of operations for the same amount.	• As the adjustment relates to prior years, EY has identified an overstatement of municipal property tax expense and an equivalent opening equity adjustment. EY has taken these amounts to the SAD. These amounts were adjusted by management in the current year as they were considered immaterial to prior years. • While accruals remain for unassessed properties with respect to the periods of 2007 to 2009, these accruals represent management's best estimates following section 33(3) of the City of Toronto Property Assessment Act.

Item	Description	Audit Results and Comments

Deferred Payment Plan for Card Readers	• In 2007, the Authority purchased $10,010,000 of credit card readers from Precise Parklink, with no specific terms of repayment nor any interest or carrying charges, except that the full amount is to be repaid at the end of the five year term.
	• The Authority recorded the equipment and related accounts payable based on the $10M consideration to be paid.
	• The Authority continues to record the asset based on the original consideration to be paid, net of accumulated amortization. The original accounts payable has been reduced by $4M of payments made. The number of machines installed was 55 units lower than the original value recorded by the Authority.
		• The assets should be recorded based on the fair value of the consideration paid. As the consideration is non-interest bearing and due over a five year term, the fair value should be determined by discounting the future cash flows.
		• Based on a discount rate of 4% and repayment term of 5 years, the fair value of the liability on acquisition (December 31, 2007) was calculated as $8,890K, which factors in an adjustment for the 55 short units and based on the assumption that the repayments occur at the beginning of each year. This assumption is relatively consistent with historical repayments.
		• We determined the overstatement of fixed assets that remains after consideration of accumulated amortization of the related assets and the fair value of the remaining liability as at December 31, 2009 and the related statement of operation impacts for 2009. The following amounts were recorded on the Summary of Audit Differences:
		  • overstatement of 2009 opening retained earnings - $145K
		  • overstatement of accounts payable current - $143K
		  • overstatement of accounts payable long-term - $281K
		  • understatement of interest expense - $497K
		  • overstatement of property and equipment - $691K
		  • overstatement of amortization of property and equipment - $230K

Item	Description	Audit Results and Comments
TTC Operating Agreement	• The Authority provides various services to TTC including staffing the commuter lot stations, snow removal, maintenance and repairs, etc. TTC has also authorized the Authority to purchase capital equipment on its behalf for installation in the commuter lots. The full amounts for these expenditures are billed and paid by TTC directly. Therefore, these assets are not recorded as part of the Authority's capital assets. • The Authority tracks the costs incurred and parking revenues received on TTC's behalf in separate sub-accounts in the general ledger. The net amounts are recoverable from or payable to the TTC on a monthly basis. • The Authority collects a management fee of $121K [2008 - $113K] from TTC, which is recorded as a credit to rent expense.	• We have performed the following procedures: a) Confirmed the related party balances with TTC; b) Reviewed the final reconciliation between the Authority and TTC performed at year end; and c) Reviewed the calculation of the management fee. • We believe the management fees represent other income amounts and should not be recorded as a credit to rent expenses, however, the amounts credited are immaterial to require reclassification or separate presentation. Therefore on the basis of materiality we concur with the accounting treatment and financial statement disclosure relating to these transactions.
Vacation Policy	• The Authority accrues in the financial statements unused vacation pay that can by carried forward to future years. • As at December 31, 2009, there are a significant number of vacation days carried forward for use by members of management of the Authority.	• As indicated in prior years, we continue to recommend that the Authority develop a plan to reduce the amount of vacation days owing to management. Management should be encouraged to take time off on an annual basis, or have vacation paid out, or limit vacation that can be carried forward so that the days do not continue to accumulate into the future.

Item	Description	Audit Results and Comments
Legal Accruals	• As part of legal inquiry procedures in 2006, a letter was requested from the City's legal services confirming the details of a claim filed by Homelife Regional Realty Ltd vs. various parties including the City of Toronto and the Authority. The claim was in the amount of $443K plus interest and cost proceedings. An amount of $64K was accrued in 2007 based on the legal letter received at that time.	• Legal inquiries were sent to the City's legal services and other legal counsel with the description of the claims unchanged from prior year. • Legal counsel concurs with management's position that the likelihood of loss is not determinable and the amount of loss is not reasonably estimable. We concur with management's accounting treatment and disclosure. • Legal counsel has also confirmed the existence of three additional claims against the Authority and concurs with management's position that the ultimate outcome of the claims are not estimable and the outcome cannot be determined at this time • Management has included a contingent liability note in the financial statements for the claims indicated above.
Changes to accounting policies	• Note 2 to the financial statements sets out new rules that will require the adoption of International Financial Reporting Standards commencing on January 1, 2011, including the 2010 comparatives. • Note 11 sets out the required disclosures resulting from the adoption of recommendations related to CICA 3862: Financial Instruments – Disclosures and CICA 3863: Financial Instruments - Presentation.	• We concur with the disclosures and presentation related to the new accounting standards adopted in the current year and the future standards that will apply.

Item	Description	Audit Results and Comments
Changes to the 2009 Financial Statements	The significant changes to the financial statements not addressed elsewhere are as follows: • Municipal property tax direct expenses were reclassified from operating direct expenses and disclosed separately in the statement of operations. • Note 4 to the financial statements provides additional disclosure on the composition of investment income. • $325K was reclassified from administrative expenses to offstreet salaries, wages and benefits to reflect the incremental cost related to employees performing work directly related to the operations of the parking lots.	• We concur with the changes to the financial statements.
Capitalization Policy – Painting Costs	• In prior years, the Authority capitalized the cost of painting car parks to parking garage and surface car parks which is amortized over 25 years on the basis that painting enhances the appearance of the lots. • As at December 31, 2008 $1,453,511 of painting costs were capitalized to property and equipment relating to 2007 and 2008 expenditures.	• As the painting costs are maintenance rather than a betterment which would extend the original life, this amount was taken to the Summary of Audit Differences as an overstatement of capital assets and an understatement of expenses. • As at December 31, 2009, the carrying value after accumulated amortization of these capitalized costs amount to $1,305,625. This amount was taken to the Summary of Audit Differences as the remaining overstatement of property and equipment and an overstatement of equity relating to this matter.

Summary of Audit Differences

During the course of our audit, we accumulate differences between amounts recorded by your organization and amounts that we believe are required to be recorded under generally accepted accounting principles. Following is a summary of those differences we have identified through the date of this report:

	Recording Difference Would Have Increased (Decreased) Net Income for the Year	
	2009	**2008**
	$	$
Understatement of interest expense – extended terms purchase	(497,628)	(283,151)
Overstatement of amortization expense – extended terms purchase	230,303	138,182
Overstatement of property and equipment – painting	(1,305,625)	(1,453,511)
Overstatement of property tax accruals – application of 2 year carryback rule	-	821,294
Total Unadjusted Audit Differences Before Turnaround Effect of Prior Year Differences	(1,572,950)	(777,186)
Turnaround Effect of Prior Year Differences	777,186	
Total Unadjusted Audit Differences After Turnaround Effect of Prior Year Differences	**(795,764)**	

EY also noted a disclosure SAD relating to property and equipment which were recorded in accounts payable as at December 31, 2009 and therefore represent non-cash additions that should not be reflected as additions within the statement of cash flows amounting to $534,789.

Required Communications

Generally accepted auditing standards in Canada require the auditor to communicate certain matters to the Board of Directors that may assist them in overseeing management's financial reporting and disclosure process. Below we summarize these required communications as they apply to your organization.

Area	Comments
Auditors' Responsibilities Under Generally Accepted Auditing Standards (GAAS)	
As set out in the planning document presented to the Board of Directors, we designed our audit to express an opinion on your organization's financial statements. The financial statements are the responsibility of management. Our audit was designed in accordance with Canadian generally accepted auditing standards which provides for reasonable, rather than absolute, assurance that the financial statements are free from material misstatement. As a part of our audit, we obtained a sufficient understanding of the internal control structure to plan our audit and to determine the nature, timing and extent of testing performed.	We anticipate issuing an unqualified audit opinion dated March 26, 2010 upon approval of the financial statements by the Board of Directors.

Area	Comments
Changes to Audit Approach Outlined in Planning Document	
In our planning document, we indicated that we would follow a substantive audit approach with most aspects of the audit except for purchases/ payables/ cash disbursements where controls will be relied upon.	There were no changes to the audit approach outlined in the planning document.
Adoption of, or Changes in, an Accounting Principle , Including Material Alternative Accounting Treatments Discussed with Management and Acceptability of a Particular Policy used by Management	
We determine that the Board of Directors is informed about the initial selection of, and any changes in, significant accounting principles or their application when the accounting principle or its application, including alternative methods of applying the accounting principle, has a material effect on the financial statements. In addition, we report to the Board of Directors all alternative accounting treatments within Canadian generally accepted accounting principles (GAAP) for policies and practices related to material items (including recognition, measurement, presentation and disclosure alternatives) that have been discussed with management during the current audit period including acceptability of the policies or methods ultimately selected by management.	Refer to "Items of Audit Significance Discussed with Management" section above. There were no changes to significant accounting policies. We had no discussions with management regarding material alternative accounting treatments.

Area	Comments
Our Judgments About the Quality of the Organization's Accounting Principles	
We discuss our judgments about the quality, not just acceptability, of the accounting principles as applied in the organization's financial reporting, including the consistency of the accounting policies and their application and the clarity and completeness of the financial statements and related disclosures.	We believe the quality of accounting policies disclosed in the financial statements as applied in the financial reporting, the consistency of their application, and the understandability and completeness of the financial statements are reasonable in relation to industry practice.
Sensitive Accounting Estimates and Disclosures	
The preparation of financial statements requires the use of accounting estimates. Certain estimates and disclosures are particularly sensitive due to their significance to the financial statements and the possibility that future events may differ significantly from management's current judgments. We determine that the Board of Directors is informed about management's process for formulating particularly sensitive accounting estimates and disclosures and about the basis for our conclusions regarding the reasonableness of those estimates.	There are no significant judgments or estimates required to prepare the financial statements where actual amounts are likely to be significantly different from the estimates.
Major Issues Discussed with Management Including Accounting for Significant Unusual Transactions and for Controversial or Emerging Areas	
We determine that the Board of Directors is informed about the methods used to account for significant unusual transactions and the effects of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.	We are not aware of any significant unusual transactions recorded by the Authority or of any significant accounting policies used by the organization related to controversial or emerging areas for which there is a lack of authoritative guidance.

Required Communications (continued)

Area	Comments
Significant Audit Adjustments and Unrecorded Audit Differences Considered by Management to be Immaterial We provide the Board of Directors with information about adjustments arising from the audit (whether recorded or not) that could in our judgment either individually or in the aggregate have a significant effect on the organization's financial statements. We inform the Audit Committee about unrecorded audit differences accumulated by us (i.e. adjustments either identified by us or brought to our attention by management) during the current audit period and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.	As a result of our audit, there was one recorded audit adjustment related to the under accrual of Contributions from the City of approximately $1.1M for CP 248 (134 – 136 Broadview Avenue) and corresponding overstatement of property and equipment for $1.1M. Refer to "Summary of Audit Differences" and "Items of Audit Significance" section for details of unrecorded differences.
Disagreements with Management	None.
Serious Difficulties Encountered in Dealing with Management when Performing the Audit	None.
Significant Weaknesses in Internal Controls We communicate all significant weaknesses in internal control over financial reporting that may have been identified during the course of our audit.	No significant weaknesses in internal control were identified.
Fraud and Illegal Acts We report to the Board of Directors fraud and illegal acts involving senior management and fraud and illegal acts (whether caused by senior management or other employees) that cause a material misstatement to the financial statements.	We are not aware of any matters that require communication.
We are also required to make inquiries of the Board of Directors related to fraud, including both (1) their views about the risks of fraud, and (2) their knowledge of any actual or suspected fraud.	We would request that the Board of Directors raise with us any areas of risk not addressed in our communications and that they inform us of their knowledge of any actual or suspected fraud.
Consultation with Other Accountants	None of which we are aware.

Required Communications (continued)

Area	Comments
Other Information in Documents Containing Audited Financial Statements Our financial statement audit opinion relates only to the financial statements and accompanying notes.	We will review the Authority's annual report for consistency with the audited financial statements.
Related Party Transactions Related party transactions identified by the auditor that are not in the normal course of operations or that involve significant judgments made by management concerning measurement or disclosure must be disclosed to the Board of Directors.	Related party amounts are with respect to the City of Toronto and Toronto Transit Commission ("TTC") and are disclosed within the financial statements. The transactions are conducted in the normal course of operations.
Major Issues Discussed with Management in Connection with Initial or Recurring Retention	None.
Matters Relating to Component Entities of the Organization When the financial statements of an organization (primary entity) include financial information from financial statements of a component entity (a subsidiary, investee (other than a portfolio investment), or joint venture; or an entity whose financial information from financial statements is included with those of the primary entity), the auditor communicates with the Board of Directors those matters relating to the component entities that in the auditor's judgment are of significance in the context of the primary entity (for example, weaknesses in systems of internal control that have resulted, or could result, in material errors in the primary entity's consolidated financial statements).	None.
Auditors' Independence Canadian generally accepted auditing standards require that we communicate at least annually with you regarding all relationships between your organization and Ernst & Young that, in our professional judgment, may reasonably be thought to bear on our independence	Refer to "Independence Letter" section
Other Audit and Non-Audit Services Provided to Your Organization	In addition to the audit of the financial statements of the Authority, we also provide a special report on the operating revenues and expenses of Carpark 161.

Area	Comments
Fees	• A summary of our fees is included below for your reference.

	2009 $	2008 $
Annual audit fees	23,070	23,070
Other audit related fees:		
Car park 161 special report	7,545	7,545
Audit related fees for new reporting requirements	—	5,500

- Annual fees for 2009 are inclusive of expenses and plus GST. This is the last year of a two-year contract extension ending with the audit of the December 31, 2009 financial statements in accordance with our agreement with the City of Toronto.

Independence Letter

Members of the Board of Directors
of the Toronto Parking Authority

3 May 2010

We have been engaged to audit the financial statements of the Toronto Parking Authority (the "Authority" or "Organization") for the year ended December 31, 2009.

Pursuant to Canadian generally accepted auditing standards, we communicate at least annually with you regarding all relationships between Ernst & Young and its related entities and the Organization and its related entities that, in our professional judgment, may reasonably be thought to bear on our independence.

We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since April 3, 2009, the date of our last letter.

We are not aware of any relationships between Ernst & Young and the Organization that, in our professional judgment, may reasonably be thought to bear on our independence since April 3, 2009, the date of our last letter.

Canadian generally accepted auditing standards require that we confirm our independence to the Board of Directors in the context of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario. Accordingly, we hereby confirm that we are independent with respect to the Organization within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as of May 3, 2010.

The total fees charged to the Organization during this period are set out in the Audit Results package.

We are looking forward to discussing with you the matters addressed in this package at our upcoming meeting.

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

Yours truly,

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants