www.pwc.com/ca

Toronto Parking Authority

2012 Year-end report to the Audit Committee

Prepared as of April 17, 2013

pwc

April 17, 2013

Members of the Audit Committee
Toronto Parking Authority
33 Queen Street East
Toronto ON M5C 1R5

Dear Members of the Audit Committee:

We have substantially completed our audit of the financial statements (the financial statements) of Toronto Parking Authority (the organization or TPA) prepared in accordance with International Financial Reporting Standards (IFRS) for the year ended December 31, 2012. We propose to issue an unqualified report on those financial statements, pending resolution of outstanding items outlined on page 1. Our draft auditor's report is included in Appendix A.

We have issued the accompanying report to assist you in your review of the financial statements. It includes an update on the status of our work, as well as a discussion on the significant accounting and financial reporting issues dealt with during the audit process.

We propose to review the key elements of this report at the upcoming meeting and discuss our key findings with you.

We would like to express our sincere thanks to the management and the staff of the organization who have assisted us in carrying out our work and we look forward to your meeting on April 24, 2013. Should you have any questions or concerns prior to the meeting, please do not hesitate to contact me in advance.

Yours very truly,

PricewaterhouseCoopers LLP

Terri McKinnon
Partner
Audit and Assurance Group

cc: Lorne Persiko, President
Gerard Daigle, Vice President of Finance and Administration/Chief Financial Officer

PricewaterhouseCoopers LLP
North American Centre, 5700 Yonge Street, Suite 1900, North York, Ontario, Canada M2M 4K7
T: 1 416 218 1500, F: 1 416 218 1499, www.pwc.com/ca

Contents

Page

1. Executive summary

a. Status of the audit

We have substantially completed our audit of the 2012 financial statements. Our auditor's report will be issued once we receive and have completed our audit work on the outstanding items noted below.

This document includes the required communications between an auditor and audit committee, as required by Canadian generally accepted auditing standards (Canadian GAAS).

The following items will need to be completed/received prior to the issuance of our opinion. We will provide an update on the status of these items at our upcoming meeting.

Outstanding item	Status as at April 24, 2013
i. Receipt of confirmations from the City of Toronto	
ii. Update of subsequent events, including updated responses from legal counsel	
iii. Receipt of signed management representation letter	
iv. Approval of the financial statements by the Board of Directors	

b. Key issues for discussion

Discussion item	Summary	For further reference
Fraud	• No instances of fraud were noted as part of our audit procedures. • We wish to confirm whether the Board of Directors is aware of any known, suspected or alleged incidents of fraud.	Section 3
Items discussed with management	• During the course of our work we discussed the following items with management: - Completeness of revenues for off-street parking - Related party transactions - TTC operating agreement - Recognition of interest income earned on the agreement for sale of car park 15 - Management override of controls - Significant estimates	Section 4
Summary of unadjusted items	• As a result of our audit, we identified unadjusted items with an effect of $1,695,966 overstatement of net income. • Unadjusted items, including disclosure exceptions or items not impacting net income are listed in section 5. • In our opinion, the financial statements, taken as a whole, are free of material misstatement.	Section 5
Management representations	• Under Canadian GAAS, we are required to inform you of the representations we are requesting from management. A copy of the management representation letter is included in Appendix B.	Appendix B

2. *Audit administration*

a. Your team

Your client service team comprises the following individuals:

Name	Role	Phone number	Email address
Cathy Russell	Overall engagement leader for City of Toronto	416 815 5291	cathy.russell@ca.pwc.com
Terri McKinnon	Engagement leader	416 228 1922	terri.mckinnon@ca.pwc.com
Rommel Acob	Engagement manager	416 228 4097	rommel.v.acob@ca.pwc.com

b. Our audit objectives

As the organization's auditor, our primary responsibility is to form and express an opinion on the organization's financial statements as at December 31, 2012 and for the year then ended in accordance with IFRS. The financial statements are prepared by management with the oversight of those charged with governance (the Audit Committee). An audit of the financial statements does not relieve management or the Audit Committee of its responsibilities.

We conducted our audit in accordance with Canadian GAAS. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

In addition, we are committed to being a trusted advisor to management and to the Audit Committee. Where appropriate, we will discuss segment standards, provide management our views and insights and also advise management of other services we feel could be helpful - at all times staying within the realms of our independence rules.

c. Engagement terms

Our engagement letter with the City of Toronto and dated November 1, 2010 and reconfirmed on October 11, 2012, sets out the terms and conditions for our engagement as the independent auditor of the organization for the above mentioned year.

In addition, our engagement letter outlines our responsibilities as the auditor and the responsibilities of management.

3. How we performed the audit

a. Our audit approach

Our audit approach is designed to allow us to execute a quality and efficient audit. We do this by:

i. gaining an understanding of the business by focusing on new developments and key business issues affecting the organization as well as management's monitoring of controls and business processes;
ii. identifying significant audit risks, sharing our perspectives, obtaining your feedback and ensuring our audit is tailored to these risks;
iii. using well-reasoned professional judgment, especially, in areas that are subjective or require estimates; and
iv. leveraging reliance where possible on the organization's internal controls and information technology and data systems.

In the current year, our work included testing of key controls in the following areas:

- Purchases, payables and disbursements
- Payroll
- Parking revenue

All areas were subject to tests of detail and substantive analytical testing.

Throughout the audit, we scale our work based on the size of an account balance, its complexity and its impact on the financial statements. As a result, you will always hear us talking to you about the key issues.

b. Materiality

Misstatements, including omissions, are considered to be material if they (individually or in aggregate with other misstatements) could reasonably be expected to influence the economic decisions of users, taken on the basis of the financial statements.

Judgments about materiality are made in light of surrounding circumstances and are affected by the size or nature of a misstatement, or a combination of both. A common measure for setting materiality for a government business entity (which is considered to be a 'for-profit' entity) is to use between 5% to 10% of profit.

Accordingly, we set our materiality for the audit as follows:

	Basis	**Amount**	**Prior year's amount**
Overall materiality	6.5% of net income	$3,866,667	$2,800,000
Unadjusted and adjusted items in excess of this amount are reported to the Audit Committee	5% of overall materiality	$193,333	$140,000

c. Discussion on fraud risk

Canadian GAAS requires us to discuss fraud risk annually with the Audit Committee. We understand that part of your governance role is also to consider the fraud risks facing the organization and the responses to those risks.

Question 1:

Required discussion	• Through our audit process (and prior years' audits), we have developed an understanding of your oversight processes including: - Presentations by management, including business performance reviews - Review of related party transactions - Consideration of tone at the top - Internal audit • Are there any new processes or changes to the above that we should be aware of?
Response	

Question 2:

Required discussion	We are not aware of any fraud at the current time. We would like to ask whether you are aware of instances of actual, suspected or alleged fraud affecting the organization.
Response	

An auditor's responsibilities for detecting fraud

We are responsible for planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatements, whether caused by error or fraud.

The likelihood of not detecting a material misstatement resulting from fraud is higher than the likelihood of not detecting a material misstatement resulting from error, because fraud may involve collusion as well as sophisticated and carefully organized schemes designed to conceal it.

During our audit, we performed the following procedures in order to fulfill our responsibilities:

- inquiried of management, the Audit Committee and others related to any knowledge of fraud or suspected fraud;
- consider unusual or unexpected relationships identified in planning the audit;
- incorporated an element of unpredictability in the selection of the nature, timing and extent of our audit procedures;
- performed additional required procedures to address the risk of management's override of controls, including:
  - testing internal controls designed to prevent and detect fraud;
  - examining journal entries and other adjustments for evidence of the possibility of material misstatement due to fraud;
  - reviewing accounting estimates for biases that could result in material misstatement due to fraud, (including a retrospective review of significant prior years' estimates); and
  - evaluating the business rationale of significant unusual transactions.

4. Significant audit, accounting and financial reporting matters

Preparation of the financial statements requires management to select accounting policies, as well as make critical accounting estimates and disclosures that may involve significant judgment and measurement uncertainty. These matters can significantly impact the organization's reported results.

We are responsible for discussing with the Audit Committee our views about the significant qualitative aspects of the organization's accounting practices, including accounting policies, the accounting estimates, and financial statement disclosures in accordance with the requirements of International Financial Reporting Standards (IFRS).

Our comments and views included in this report should only be taken in the context of the financial statements as a whole and are not meant to express an opinion on any individual item or accounting estimate. We are sharing our views with you to facilitate an open dialogue of these matters.

Item	Comments
Completeness of revenues for off-street parking	We noted an audit risk in respect of the off-street parking revenues due to the significant amount of cash that is collected from these operations. Therefore we tested internal controls surrounding the cash collections and reconciliations which are performed on a daily basis. We has tested a sample of these reconciliations and ensured they were complete and accurately recorded in the general ledger. We did not note any exceptions.
Related party transactions	TPA operates 50 parking facilities on a year round basis on properties owned by the City of Toronto 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. TPA receives compensation in the form of either a share of net income or on a cost recovery plus a fixed fee basis. Amounts owing from or to the Authority under these agreements are included within accounts receivable or accounts payable and accrued liabilities at year end. We have assessed these transactions with the City of Toronto. No exceptions were noted. Beginning in 1998, the City and TPA established a 3-year income sharing agreement. This agreement has been renewed since then, with the most recent renewal effective January 1, 2010 to December 31, 2012. Through the agreement, a base amount plus 75% of TPA's net income, subject to certain adjustments, is distributed to the City. We also recomputed the City's share of TPA's income and noted no exceptions.

Item	Comments
TTC operating agreement	TPA has an agreement with the TTC to provide various services including snow removal, maintenance and repairs etc. TPA tracks the costs incurred on behalf of the TTC in separate accounts in the general ledger and recovers these costs monthly. At year end, the actual costs incurred are compared to the recovered amount and TTC is either charged or reimbursed for the difference. The annual management fee paid to TPA by the TTC is $130K. We performed the following procedures: • Receipt of confirmation from TTC to confirm the related party balances • Review management's year end reconciliation between TPA and TTC No exceptions were noted in testing performed. In the prior year, we proposed a reclassification of the management fee earned to other income, which management recorded. In the current year management recorded the amount prior to the commencement of the audit.
Recognition of interest income earned on the agreement for sale of car park 15	We noted that management has recognized $1.6m of payments as interest income in the current year related to the agreement to sell car park 15 to a third party. The agreement stipulates in Schedule B of the amendment to the agreement that TPA is to receive interest at a rate of 5% from the purchaser on the outstanding amount of monies to be paid on closing in 2016. Management has determined that because there is no requirement to refund the receipt of the interest payments regardless of the outcome of the transaction, there is no further obligation to deliver a service or product in relation to these interest payments. Therefore, TPA has recognized the amount into revenue in the current year. However, our view is that these payments are not in substance interest income, as they are not being earned from the use of the Authority's assets (e.g. monies held on deposit) as defined in International Accounting Standard 18 - Revenue. We have determined that the interest payments received are not separable from the purchase of the property, and therefore form part of the purchase price and should be recognized as part of the gain on sale in 2016. Therefore, the amount received should be deferred as a deposit until recognition of the transaction when the sale closes. The audit difference arising from this transaction is included in section 5 of this report.

Item	Comments
Management override of controls	GAAS requires that the risk of material misstatement due to management override of controls be considered a significant risk on every audit engagement. Management ensures appropriate segregation of duties and authorization of manual journal entries. We reviewed and tested a sample of manual journal entries for appropriateness and authorization. We did not note any exceptions. We also performed unpredictability procedures as required by Canadian auditing standards. We identified the purchases, payables, and disbursements cycle as an area of focus. For a sample of vendors used by TPA, we performed procedures to ensure the vendors are valid and existing companies. No issues were noted. Significant management estimates are also considered when addressing fraud and are considered further below. Except as discussed in this section, we did not note any significant unusual transactions.
Significant estimates	We have reviewed management's methodology in arriving at material estimates for reasonability and consistency. Furthermore, we noted management utilizes estimates to calculate the balance of the allowance for doubtful accounts and provisions. However, these estimates are not significant.

5. Summary of unadjusted and adjusted items

We have concluded that the financial statements taken as a whole are free of material misstatement and (pending the completion, to our satisfaction, of the outstanding matters identified in section 1), we are prepared to issue an unqualified opinion on the financial statements.

Our responsibility is to issue an opinion as to whether the financial statements are free of material misstatement.

Under Canadian GAAS, we are required to communicate to you the unadjusted items and the effect that they may have on our opinion and to request that unadjusted items be corrected. As a result of our audit, we identified certain items and have discussed these with management, and management adjusted the financial statements to reflect certain of these items. Management has concluded that the remaining unadjusted items, which are described in (a) below, are immaterial individually and in the aggregate.

We are also required to communicate the effects of any unadjusted items that relate to prior periods. We did not identify any such items.

a. Unadjusted items

If all of the items (including differences in estimates) were adjusted, the following would be the effect on the organization's financial statements.

	Comprehensive income	Statement of financial position		
Description	**Overstated (understated) $**	**Assets (overstated) understated $**	**Liabilities overstated (understated) $**	**Net assets overstated (understated) $**
Differences in calculation of net receivable amount and estimated fair value and residual values related to the calculation of the finance lease receivable				1,465,494
Dr. Retained earnings	164,016			
Dr. Interest earned	(128,050)			
Cr. Other income (contingent rent)		(1,501,460)		
Cr. Finance lease receivable				
Reclass negative accounts payable balances to accounts receivable.				
Accounts payable			(495,605)	
Accounts receivable		495,605		
Total unadjusted differences	**35,966**	**(1,005,855)**	**(495,605)**	**1,465,494**

In addition, we noted certain disclosure exceptions, which are summarized below:

- Rental income and related expense has not been recorded in the statement of operations as management records these transactions through accounts payable on the balance sheet as the net amount is remitted to the City of Toronto. However GAAP requires the gross revenue and expenses of $1,255,008 be recorded on the statement of operations. Management has shown these gross amounts in a note disclosure to the financial statements.

b. Adjusted items

	Comprehensive income	Statement of financial position		
Description	**Over (under) stated $**	**Assets (over) under stated $**	**Liabilities over (under) stated $**	**Equity over (under) stated $**
Defer recognition of amounts received related to the future sale of car park 15				
Interest income				
Deferred revenue	1,640,000		(1,640,000)	
Total adjusted differences	**1,640,000**	**-**	**(1,640,000)**	**-**

In addition, we noted certain disclosure exceptions that have been corrected by management, which are summarized below:

- Comparative figures on certain disclosure notes, such as the property, plant, and equipment note, have been adjusted to disclose more detail in addition to final balances.

6. Other required communications

Canadian GAAS requires that the external auditor communicate certain matters to the Board of Directors that may assist you in overseeing management's financial reporting and disclosure process.

Below, we summarize these required communications as they apply to you:

Matter to be communicated	PwC's response
Management's representations	• Under Canadian GAAS, we are required to inform you of the representations we are requesting from management. A copy of the management representation letter is included in Appendix B.
Significant deficiencies in internal control	• Recent changes to Canadian GAAS require us to communicate to the Board of Directors internal control weaknesses identified as part of our audit that are considered to be significant deficiencies. • A significant deficiency is defined as an internal control deficiency that we consider merits the attention of the Board of Directors. • During our work, we did not note any significant deficiencies however, we noted a number of internal control weaknesses included in Section 7.
Other information in documents containing audited financial information	• Once it is available, we will read the annual report and consider whether its content or manner and preparation is materially consistent with the financial statements.
Significant difficulties or disagreements that occurred during the audit	• No difficulties or disagreements occurred while performing our audit that require the attention of the Board of Directors.
Fraud and illegal acts	• No fraud came to our attention as a result of our audit procedures.

7. Internal control recommendations

The purpose of our audit was to enable us to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation 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 internal control.

During our audit, we identified recommendations to improve TPA's internal controls that we have discussed with management and wish to bring to your attention.

a. Current year recommendations

Item noted	Recommendation	Management's response
Timely performance of payroll controls A number of exceptions were noted related to appropriate and timely sign off of employee termination forms, change forms, and review of payroll reconciliations by the Director of HR and/or Manager, Payroll. We noted that these issues primarily arose due to staffing changes within the year, resulting in lapses in the controls during this time period and for a backlog period thereafter. However, we also noted sufficient compensating controls, such as the employment information form or similar forms being approved by the appropriate levels on a timely basis, were in place.	Human Resource policies should be adhered to so that no unauthorised alterations are made to salaries.	Management agrees that the exceptions were a result of staffing changes which occurred during the year, and that these should be corrected in the future.

b. Prior year recommendations

Item noted	Recommendation	Management's response
Review of payroll exception reports We noted that management reviews exception reports for payroll, however, there is no formal sign off as evidence of review.	We recommend that the reviewer sign the reports as evidence of his review.	Management agrees with the recommendation and will formally sign off on the review.
2012 update: Resolved Management now formally signs off on the exception reports.		
Collectability of receivables During our audit of the rent receivables, it was noted that balances are not assessed for collectability.	Although the balances are not material, we recommend that Finance consult with the real estate department to assess collectability.	Collectability of rent receivables are assessed at least annually and doubtful amounts are provided for when justification exists. Management is hesitant to write off amounts too quickly as any subsequent pursuit of collection would cease.
2012 update: Resolved In the current year we noted that management annually reviews rent receivables for collectability as noted in the prior year response and that some amounts were written off.		

8. 2012 audit fees

Our estimated fees were based on the expected time required to complete the audit. Our fees excluded taxes and out-of-pocket costs, as outlined in our engagement letter.

Service description	**Estimated fees 2012 $**	**Actual fees - prior year $**
Audit of the financial statements	15,140	14,110
Transition to IFRS	-	22,750
Total services	**15,140**	**36,860**

Appendix A: Draft financial statements

Appendix B: Management representation letter