

Financial Statements of

**ST. JOHN'S TRANSPORTATION
COMMISSION**

December 31, 2012

ST. JOHN'S TRANSPORTATION COMMISSION
December 31, 2012

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Independent Auditor's Report

To the Commissioners of St. John's Transportation Commission

We have audited the accompanying financial statements of St. John's Transportation Commission, which comprise the statement of financial position as at December 31, 2012, and the statements of operations and accumulated deficit, changes in net debt and cash flows for the year then ended, and 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 Canadian public sector accounting 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.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of St. John's Transportation Commission as at December 31, 2012, and the results of its operations, changes in net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Deloitte LLP

Chartered Accountants
May 30, 2013

ST. JOHN'S TRANSPORTATION COMMISSION
Statement of Operations and Accumulated Deficit
Year ended December 31, 2012

	Budget 2012 \$ (Unaudited)	Actual 2012 \$	Actual 2011 \$
Operating revenues			
Municipal funding	10,474,020	10,474,020	9,727,650
Passenger fares	5,371,970	5,615,825	4,596,187
City of Mount Pearl	810,590	812,590	698,969
Transit advertising	314,920	246,194	278,927
Park and ride	-	83,843	32,356
Sundry	44,000	83,812	79,690
Charters	110,150	82,074	97,664
Interest	6,000	12,994	10,180
Government grant	-	8,640	28,465
Taxi chits	-	-	27,850
	17,131,650	17,419,992	15,577,938
Operating expenses			
Operations (Schedule 1)	7,831,330	7,917,263	6,993,593
Maintenance (Schedule 2)	3,466,420	3,175,213	2,904,842
Finance and administration (Schedule 3)	4,579,310	4,791,567	4,413,280
Amortization	1,494,200	1,397,811	1,137,586
Interest on long-term debt	197,590	138,069	90,246
	17,568,850	17,419,923	15,539,547
Excess of revenues over expenditures before undernoted items	(437,200)	69	38,391
Increase in employee future benefits	(1,579,379)	(1,579,379)	(502,176)
(Increase) decrease in accrued pension obligation	(263,346)	(109,217)	180,690
Excess of expenditures over revenues	(2,279,925)	(1,688,527)	(283,095)
Deficit, beginning of the year	(4,463,505)	(4,463,505)	(4,180,410)
Deficit, end of the year	(6,743,430)	(6,152,032)	(4,463,505)

See accompanying notes to the financial statements

ST. JOHN'S TRANSPORTATION COMMISSION
Statement of Financial Position
December 31, 2012

	2012	2011
	\$	\$
Financial assets		
Cash	-	143,819
Accounts receivable	697,270	522,516
	<u>697,270</u>	<u>666,335</u>
Financial liabilities		
Bank indebtedness	59,334	-
Credit facility (Note 4)	6,009,000	3,534,000
Accounts payable and accrued liabilities	1,205,983	1,140,928
Accrued pension obligation (Note 5)	403,602	294,385
Employee benefits payable (Note 6)	1,099,224	1,024,420
Employee future benefits (Note 7)	8,305,079	6,725,700
	<u>17,082,222</u>	<u>12,719,433</u>
Net debt	<u>(16,384,952)</u>	<u>(12,053,098)</u>
Non-financial assets		
Tangible capital assets (Note 8)	9,639,400	7,001,827
Parts, supplies and accessories	281,789	276,234
Prepaid expenses	311,731	311,532
	<u>10,232,920</u>	<u>7,589,593</u>
Accumulated deficit	<u>(6,152,032)</u>	<u>(4,463,505)</u>
Commitments (Note 10)		
Contingencies (Note 11)		

On behalf of Commissioners:

Commissioner

Commissioner

See accompanying notes to the financial statements

ST. JOHN'S TRANSPORTATION COMMISSION
Statement of Changes in Net Debt
Year Ended December 31, 2012

	Budget 2012 \$ (Unaudited)	Actual 2012 \$	Actual 2011 \$
Excess of expenditures over revenues	(2,279,925)	(1,688,527)	(283,095)
Changes in tangible capital assets			
Acquisition of tangible capital assets	(4,857,000)	(4,035,384)	(143,229)
Amortization of tangible capital assets	1,494,200	1,397,811	1,137,586
(Increase) decrease in net book value of tangible capital assets	(3,362,800)	(2,637,573)	994,357
Changes in other non-financial assets			
Change in prepaid expenses	-	(199)	(14,948)
Acquisition of parts, supplies and accessories, net of usage	-	(5,555)	31,838
(Increase) decrease in non-financial assets	-	(5,754)	16,890
(Increase) decrease in net debt	(5,642,725)	(4,331,854)	728,152
Net debt, beginning of year	(12,053,098)	(12,053,098)	(12,781,250)
Net debt, end of year	(17,695,823)	(16,384,952)	(12,053,098)

See accompanying notes to the financial statements

ST. JOHN'S TRANSPORTATION COMMISSION
Statement of Cash Flows
Year Ended December 31, 2012

	2012	2011
	\$	\$
Operating transactions		
Excess of expenditures over revenues	(1,688,527)	(283,095)
Adjustments for:		
Amortization	1,397,811	1,137,586
	(290,716)	854,491
Change in other (Note 9)	1,647,947	75,554
	1,357,231	930,045
Capital transaction		
Acquisition of tangible capital assets	(4,035,384)	(143,229)
Financing transaction		
Drawings (payments) on credit facility	2,475,000	(1,099,500)
Net decrease in cash	(203,153)	(312,684)
Cash, beginning of year	143,819	456,503
(Bank indebtedness) cash, end of year	(59,334)	143,819

Supplemental cash flow information (Note 9)

See accompanying notes to the financial statements

ST. JOHN'S TRANSPORTATION COMMISSION
Notes to the Financial Statements
December 31, 2012

1. NATURE OF OPERATIONS

The St. John's Transportation Commission (the "Commission") was established by the City of St. John's under the provisions of the City of St. John's Act and has the sole responsibility of operating a public transit service in St. John's and environs.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared by management in accordance with Canadian public sector accounting standards ("PSAS") as established by the Public Sector Accounting Board ("PSAB") of the Canadian Institute of Chartered Accountants ("CICA"), and reflect the following significant accounting policies:

Revenue recognition

a) Municipal funding and Government grants

Government grants and transfers are recognized as revenue in the financial period in which events give rise to the transfer occurring, providing the transfers are authorized, any eligibility criteria have been met including performance and return requirements, and reasonable estimates of the amount can be determined.

b) Passenger fares

Cash fares are recorded as revenue when collected. Monthly bus and semester pass sales are recorded as revenue in the period in which they are valid. 30 day bus pass sales and 10 ride passes are recorded as revenue in the period sold.

c) Other revenue

Other revenues are recognized as earned and when collection is reasonably assured.

d) Transit advertising

Revenues are recognized over the period where services have been performed and collection is reasonably assured.

Cash

Cash and cash equivalents include cash on hand, balances with banks (net of overdrafts) and short-term deposits with original maturities of three months or less. Bank borrowings are considered to be financing activities.

ST. JOHN'S TRANSPORTATION COMMISSION
Notes to the Financial Statements
December 31, 2012

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Parts, supplies and accessories

Parts, supplies and accessories are valued at the lower of average cost and replacement cost.

Tangible capital assets

Tangible capital assets are recorded at cost. Amortization is based on their estimated useful lives using the following methods and rates or term:

Buses	12 years	straight line
Bus operating equipment	20%	declining balance
Buildings	5 – 10 %	declining balance
Office furniture and equipment	15 – 50%	declining balance
Garage equipment	15 – 25%	declining balance
Vehicles	30%	declining balance
Land improvements	4%	declining balance
Fareboxes	7 years	straight line

Impairment of long-lived assets

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

Accrued pension benefits

The Commission maintains two defined benefit plans which provide pension benefits to its union and non-union employees. The plans provide benefits based on length of service and average earnings. The Commission has adopted the following policies for its pension plans:

- (i) The cost of pensions earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of expected plan investment performance, salary escalation, and retirement ages of employees.
- (ii) For the purpose of calculating the expected return on plan assets, those assets are valued at market related value.
- (iii) Past service costs from plan amendments are amortized on a straight line basis over the average remaining service period of active employees at the date of amendment.
- (iv) The excess of net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee future benefits

The Commission provides post-retirement benefits in the form of prescription drug coverage to both union and non-union employees and dental coverage to non-union employees. The cost and obligations of these benefits earned by employees are actuarially determined using the accrued benefit method pro-rated on service and management's best estimate of assumptions and future claim rates and costs.

Use of estimates

The preparation of financial statements in conformity with Canadian PSAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates have been used in calculating the allowance for doubtful accounts, the useful lives of tangible capital assets, the outstanding M-rewards point liability, and accrued pension and employee future benefits. Actual results could differ from these estimates.

3. FUTURE ACCOUNTING PRONOUNCEMENTS

The Commission has not early adopted the following new and revised Standards that have been issued but are not yet effective. The following standards are effective for annual periods beginning on or after April 1, 2012, with earlier adoption permitted. The Commission is currently assessing the impact they will have on the statements.

Financial Instruments: PSAS 3450 establishes how to account for and report all types of financial instruments including derivatives. Financial instruments include primary instruments (such as receivables, payables and equity instruments) and derivative financial instruments (such as financial options, futures and forwards, interest rate swaps and currency swaps).

Foreign currency translation: PSAS 2601 establishes how to account for and report transactions that are denominated in a foreign currency.

4. CREDIT FACILITY

The Commission has access to a \$15,000,000 credit facility, guaranteed by the City of St. John's, for capital expenditures. Under the terms of its lending arrangements, the Commission issues banker's acceptances. At December 31, 2012 the outstanding banker's acceptances bear interest at 2.225% and mature on January 25, 2013. The credit facility, which was renewed on May 27, 2013, bears interest at 2.22% and matures on June 26, 2013.

ST. JOHN'S TRANSPORTATION COMMISSION
Notes to the Financial Statements
December 31, 2012

5. ACCRUED PENSION OBLIGATION

Based on an actuarial valuation of the plans, completed as at December 31, 2010, the following results have been extrapolated to December 31, 2012.

	2012		2011	
	Union	Non-union	Union	Non-union
<i>Accrued benefit obligation</i>				
Balance, beginning of year	23,280,662	10,537,766	21,688,877	8,852,119
Current service cost	933,875	458,761	763,489	399,050
Interest cost	1,393,998	600,199	1,350,447	537,229
Benefits paid	(1,052,680)	(662,937)	(941,945)	(202,347)
Participant contributions	24,093	5,142	15,017	6,678
Loss on accrued benefit obligation	858,547	460,214	404,777	945,037
	25,438,495	11,399,145	23,280,662	10,537,766
<i>Accrued benefit asset</i>				
Fair value, beginning of year	18,172,511	7,785,379	19,529,084	8,127,366
Return on plan assets	1,604,203	756,458	(1,576,937)	(687,557)
Benefits paid	(1,052,680)	(662,937)	(941,945)	(202,347)
Employer contributions to plan	1,206,725	452,430	873,152	400,233
Employee contributions to plan	440,943	182,769	289,157	147,684
Fair value, end of year	20,371,702	8,514,099	18,172,511	7,785,379
Funded status - deficit	(5,066,793)	(2,885,046)	(5,108,151)	(2,752,387)
Unamortized amounts	4,823,232	2,725,005	4,780,548	2,785,605
	(243,561)	(160,041)	(327,603)	33,218
Accrued pension liability		(403,602)		(294,385)

ST. JOHN'S TRANSPORTATION COMMISSION
Notes to the Financial Statements
December 31, 2012

5. ACCRUED PENSION OBLIGATION (Continued)

	2012		2011	
	Union	Non-union	Union	Non-union
	\$	\$	\$	\$
<i>Net benefit expense for the year</i>				
Current service cost	933,875	458,761	763,489	399,050
Interest cost	1,393,998	600,199	1,350,447	537,229
Amortization of gains/losses	319,860	211,218	122,978	60,111
Employee contributions	(440,943)	(182,769)	(289,157)	(147,684)
Liability increase due to flexible contributions	24,093	5,142	15,017	6,678
Expected return on plan assets	(1,108,200)	(446,862)	(1,227,454)	(498,009)
	1,122,683	645,689	735,320	357,375

	2012		2011	
	Union	Non-union	Union	Non-union
<i>Significant assumptions used</i>				
Discount rate	5.75%	5.50%	6.00%	5.75%
Expected long-term rate of return on plan assets	6.00%	5.75%	6.25%	6.00%
Rate of compensation increase	3.50%	3.75%	3.50%	3.75%
Average remaining service period for active employees	16.3 years	14.1 years	16.3 years	14.1 years

The plan's asset mix at December 31, 2012 was:

Equities	60%
Bonds	35%
Cash and short-term investments	5%
	100%

6. EMPLOYEE BENEFITS PAYABLE (SICK PAY AND VACATION)

Sick pay benefits accrue to employees at the rate of 12 days per year. Employees can accumulate up to 30 days of sick pay benefits to be paid to them upon retirement, termination or illness. Any excess is paid out to the employees annually.

ST. JOHN'S TRANSPORTATION COMMISSION
Notes to the Financial Statements
December 31, 2012

6. EMPLOYEE BENEFITS PAYABLE (SICK PAY AND VACATION) (Continued)

Vacation pay accrues to employees at a rate between 4% to 12% of gross wages depending on the number of years of service.

The Commission charges operations with the amount of benefits accruing to employees in each year. The liability at December 31 is comprised of the following:

	2012	2011
	\$	\$
Sick pay benefits	740,826	675,770
Vacation pay benefits	358,398	348,650
	1,099,224	1,024,420

7. OTHER EMPLOYEE FUTURE BENEFITS

The Commission provides post-retirement benefits in the form of prescription drug coverage to both union and non-union employees and dental coverage to non-union employees.

Based on an actuarial valuation of the plan, completed as at December 31, 2011, the following results have been extrapolated to December 31, 2012:

	2012	2011
	\$	\$
<i>Accrued benefit obligation</i>		
Balance, beginning of year	7,866,172	7,600,953
Current service cost	293,251	224,825
Interest cost	408,738	409,643
Benefits paid	(220,359)	(254,778)
Impact of plan amendments	982,998	-
Actuarial loss on benefit obligation	-	(114,471)
Balance, end of year	9,330,800	7,866,172
Funded status - deficit	9,330,800	7,866,172
Unamortized amounts	(1,025,721)	(1,140,472)
Accrued benefit obligation	8,305,079	6,725,700

ST. JOHN'S TRANSPORTATION COMMISSION
Notes to the Financial Statements
December 31, 2012

7. OTHER EMPLOYEE FUTURE BENEFITS (Continued)

	2012	2011
	\$	\$
<i>Net benefit expense for the year</i>		
Current service cost	293,251	224,825
Interest cost	408,738	409,643
Amortization of gains/losses	114,751	122,486
	816,740	756,954
<i>Significant assumptions used</i>		
Discount rate	4.60%	5.40%
Average remaining service period of active employees	14.8 years	14.8 years

8. TANGIBLE CAPITAL ASSETS

	2012			2011	
	Cost	Accumulated Amortization	Net Book Value	Cost	Net Book Value
	\$	\$	\$	\$	\$
Buses	19,147,430	12,013,080	7,134,350	17,983,141	4,451,105
Bus operating equipment	1,642,034	1,108,731	533,303	1,541,954	535,844
Buildings	3,396,963	2,331,770	1,065,193	3,372,253	1,113,081
Office furniture and equipment	1,279,443	1,100,312	179,131	1,160,252	77,481
Garage equipment	724,372	658,882	65,490	724,372	84,862
Vehicles	26,092	17,955	8,137	26,092	9,666
Land	155,317	-	155,317	155,317	155,317
Land improvements	185,259	107,406	77,853	173,882	69,720
Fareboxes	588,876	168,250	420,626	588,876	504,751
	27,145,786	17,506,386	9,639,400	25,726,139	7,001,827

ST. JOHN'S TRANSPORTATION COMMISSION
Notes to the Financial Statements
December 31, 2012

9. CHANGE IN OTHER

	2012	2011
	\$	\$
Accounts receivable	(174,754)	(152,544)
Parts, supplies and accessories	(5,555)	31,838
Prepaid expenses	(199)	(14,948)
Accounts payable and accrued liabilities	65,055	(95,903)
Accrued pension obligation	109,217	(180,690)
Employee future benefits	1,579,379	502,176
Employee benefits payable	74,804	(14,375)
	1,647,947	75,554
Interest paid	138,069	90,246

10. COMMITMENTS

Under the terms of long-term leases on equipment, the Commission is required to make approximate annual lease payments as follows:

	\$
2013	18,600
2014	11,700
2015	4,300

11. CONTINGENCIES

The Commission is contingently liable for claims below \$50,000 for all incidents prior to December 1, 2010 which are not covered under its current fleet and general insurance policies. Effective December 1, 2010 the Commission is contingently liable for claims below \$100,000. Management believes that adequate provisions have been recorded in the accounts where required.

12. CAPITAL FUNDING

Under the Canada-Newfoundland and Labrador Agreement on the Transfer of Funds for Public Transit and the Public Transit Capital Trust Fund (the "Fund"), the City of St. John's (the "City") has received \$25,454,492 on behalf of the Commission, which accumulated interest of \$1,035,296. All these monies have been used for the purposes of public transit infrastructure of the Commission. The City also transferred \$2,500,000 of its committed \$8,200,000 to the Fund during 2012, which has accumulated interest of \$2,379. Any monies from the City and related interest will be transferred to back to the City when the project is complete. At December 31, 2012 the Fund has a balance of \$187,595.

ST. JOHN'S TRANSPORTATION COMMISSION
Notes to the Financial Statements
December 31, 2012

13. ECONOMIC DEPENDENCE

The Commission is dependent on funding from the City of St. John's to fund ongoing operations.

14. BUDGET AMOUNTS

Budget data presented in these financial statements are based upon the 2012 budget approved by the Commission and the City of St. John's. The table below reconciles the approved budget to the budget figures reported in these financial statements.

	Budget 2012 \$ (unaudited)
Revenue	
Operating	6,657,630
Municipal funding	10,474,020
Total revenues	17,131,650
Expenses	
Operating	15,877,060
Capital	1,254,590
Total expenses	17,131,650
Total approved budget	-
Less:	
Amortization	(1,494,200)
Accrued pension obligation	(263,346)
Employee benefits payable	(1,579,379)
Add:	
Debt principal payments	1,057,000
Total adjustments	(2,279,925)

ST. JOHN'S TRANSPORTATION COMMISSION
Schedule of Expenses
Year Ended December 31, 2012

	Actual 2012 \$	Actual 2011 \$
		SCHEDULE 1
Operations		
Operators' salaries	4,174,567	3,631,661
Diesel fuel	2,032,007	1,800,103
Operations' salaries	1,035,682	962,774
Advertising	165,573	97,766
Bus charter	133,167	92,045
Transit advertising	98,833	81,667
Uniforms and clothing	55,958	62,473
Promotions	50,880	67,305
Licenses	42,728	39,940
Communication equipment	39,322	31,257
Company vehicles	34,959	28,142
Registration and memberships	22,800	18,193
Schedules and transfers	21,104	11,851
Miscellaneous	9,683	5,955
Taxi chits	-	62,461
	7,917,263	6,993,593
		SCHEDULE 2
Maintenance		
Garage salaries	1,641,005	1,470,436
Stock parts	542,697	510,412
Wash salaries	242,615	201,833
Furnace fuel	183,114	178,490
Bus lubricants	101,602	87,019
Utilities	92,755	76,324
Garage expense	86,357	83,809
Tires	83,083	70,765
Building and yards	55,942	106,684
Bus stops and shelters	38,869	34,234
Janitorial and sanitation	30,537	20,943
Maintenance vehicles	26,785	26,376
Body shop supplies	23,319	17,414
Farebox repairs	11,651	4,579
Shop tools and equipment	9,350	8,339
Bus wash	5,532	7,185
	3,175,213	2,904,842

See accompanying notes to the financial statements

ST. JOHN'S TRANSPORTATION COMMISSION
Schedule of Expenses
Year Ended December 31, 2012

	Actual 2012 \$	Actual 2011 \$
SCHEDULE 3		
Finance and administration		
Pension	1,851,335	1,767,174
Administrative and commissioners' salaries	688,619	657,770
Group insurance	519,134	470,741
Fleet insurance	503,190	537,689
Sick leave	250,015	203,967
Employer's payroll taxes	160,910	143,216
Employment insurance	159,782	141,417
Workers' compensation	152,388	122,261
Professional fees	131,220	37,164
Computer	100,067	81,451
Office	83,634	74,454
Telephone	76,272	56,859
Miscellaneous	48,285	45,193
General insurance	34,817	37,430
Travel	20,483	15,228
Training	17,461	21,266
Bad debt expense	1,760	-
Gain on disposal of capital assets	(7,805)	-
	4,791,567	4,413,280

See accompanying notes to the financial statements