

Financial Statements of

**ST. JOHN'S TRANSPORTATION
COMMISSION**

December 31, 2011

ST. JOHN'S TRANSPORTATION COMMISSION
December 31, 2011

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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, 2011, 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 Transportation Commission as at December 31, 2011, 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.


Chartered Accountants
June 29, 2012

ST. JOHN'S TRANSPORTATION COMMISSION
Statement of Operations and Accumulated Deficit
Year ended December 31, 2011

	Budget 2011 \$ (Unaudited)	Actual 2011 \$	Actual 2010 \$
Operating revenues			
Municipal funding	9,727,650	9,727,650	8,375,540
Passenger fares	5,613,670	4,596,187	4,670,766
City of Mount Pearl	746,470	698,969	576,405
Transit advertising	250,000	278,927	311,305
Charters	110,150	97,664	69,522
Sundry	40,980	79,690	58,914
Park and ride	-	32,356	-
Government grant	-	28,465	56,931
Taxi chits	-	27,850	-
Interest	6,000	10,180	4,426
	16,494,920	15,577,938	14,123,809
Operating expenses			
Operations (Schedule 1)	7,418,720	6,993,593	6,265,478
Maintenance (Schedule 2)	3,092,720	2,904,842	2,820,425
Finance and administration (Schedule 3)	4,730,570	4,413,280	3,612,801
Amortization	1,115,939	1,137,586	1,136,424
Interest on long-term debt	133,410	90,246	81,887
	16,491,359	15,539,547	13,917,015
Excess of revenues over expenditures before			
undernoted items	3,561	38,391	206,794
Increase in employee future benefits	(502,176)	(502,176)	(497,989)
Decrease (increase) in accrued pension obligation	(361,561)	180,690	(299,174)
	(860,176)	(283,095)	(590,369)
Deficit, beginning of the year	(4,180,410)	(4,180,410)	(3,590,041)
Deficit, end of the year	(5,040,586)	(4,463,505)	(4,180,410)

See accompanying notes to the financial statements

ST. JOHN'S TRANSPORTATION COMMISSION
Statement of Financial Position
December 31, 2011

	2011	2010
	\$	\$
Financial assets		
Cash	143,819	456,503
Accounts receivable	522,516	369,972
	<u>666,335</u>	<u>826,475</u>
Financial liabilities		
Credit facility (Note 3)	3,534,000	4,633,500
Accounts payable and accrued liabilities	1,140,928	1,236,831
Accrued pension obligation (Note 4)	294,385	475,075
Employee benefits payable (Note 5)	1,024,420	1,038,795
Employee future benefits (Note 6)	6,725,700	6,223,524
	<u>12,719,433</u>	<u>13,607,725</u>
Net debt	<u>(12,053,098)</u>	<u>(12,781,250)</u>
Non-financial assets		
Tangible capital assets (Note 7)	7,001,827	7,996,184
Parts, supplies and accessories	276,234	308,072
Prepaid expenses	311,532	296,584
	<u>7,589,593</u>	<u>8,600,840</u>
Accumulated deficit	<u>(4,463,505)</u>	<u>(4,180,410)</u>
Commitments (Note 9)		
Contingencies (Note 10)		

See accompanying notes to the financial statements

ST. JOHN'S TRANSPORTATION COMMISSION
Statement of Changes in Net Debt
Year Ended December 31, 2011

	Budget 2011	Actual 2011	Actual 2010
	\$ (Unaudited)	\$	\$
Excess of expenditures over revenues	(860,176)	(283,095)	(590,369)
Changes in tangible capital assets			
Acquisition of tangible capital assets	(335,000)	(143,229)	(1,175,233)
Amortization of tangible capital assets	1,115,939	1,137,586	1,136,424
Decrease (increase) in net book value of tangible capital assets	780,939	994,357	(38,809)
Changes in other non-financial assets			
Change in prepaid expenses	-	(14,948)	13,134
Acquisition of parts, supplies and accessories, net of usage	-	31,838	37,331
Decrease in non-financial assets	-	16,890	50,465
Decrease (increase) in net debt	(79,237)	728,152	(578,713)
Net debt, beginning of year	(12,781,250)	(12,781,250)	(12,202,537)
Net debt, end of year	(12,860,487)	(12,053,098)	(12,781,250)

See accompanying notes to the financial statements

ST. JOHN'S TRANSPORTATION COMMISSION
Statement of Cash Flows
Year Ended December 31, 2011

	2011	2010
	\$	\$
Operating transactions		
Excess of expenditures over revenues	(283,095)	(590,369)
Adjustments for:		
Amortization	1,137,586	1,136,424
	854,491	546,055
Change in other (Note 8)	75,554	1,340,210
	930,045	1,886,265
Capital transaction		
Acquisition of tangible capital assets	(143,229)	(1,175,233)
Financing transaction		
Drawings on credit facility	(1,099,500)	(271,500)
Net increase (decrease) in cash and cash equivalents	(312,684)	439,532
Cash, beginning of year	456,503	16,971
Cash, end of year	143,819	456,503

Supplemental cash flow information (Note 8)

See accompanying notes to the financial statements

ST. JOHN'S TRANSPORTATION COMMISSION
Notes to the Financial Statements
December 31, 2011

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") for governments 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

Grants received are recorded as revenue in the year earned.

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.

Parts, supplies and accessories

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. 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, 2011 the outstanding banker's acceptances bear interest at 2.2% and mature on January 27, 2012. The credit facility, which was renewed on May 28, 2012, bears interest at 2.22071% and matures on June 28, 2012.

ST. JOHN'S TRANSPORTATION COMMISSION
Notes to the Financial Statements
December 31, 2011

4. 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, 2011.

	2011		2010	
	Union	Non-union	Union	Non-union
<i>Accrued benefit obligation</i>				
Balance, beginning of year	21,688,877	8,852,119	20,544,713	8,186,164
Current service cost	763,489	399,050	664,844	375,109
Interest cost	1,350,447	537,229	1,279,806	496,261
Benefits paid	(941,945)	(202,347)	(818,061)	(211,177)
Participant contributions	15,017	6,678	17,575	5,762
Loss on accrued benefit obligation	404,777	945,037	-	-
	23,280,662	10,537,766	21,688,877	8,852,119
<i>Accrued benefit asset</i>				
Fair value, beginning of year	19,529,084	8,127,366	18,061,974	7,351,650
Return on plan assets	(1,576,937)	(687,557)	1,478,804	610,125
Benefits paid	(941,945)	(202,347)	(818,061)	(211,177)
Employer contributions to plan	873,152	400,233	442,982	238,834
Employee contributions to plan	289,157	147,684	363,385	137,934
Fair value, end of year	18,172,511	7,785,379	19,529,084	8,127,366
Funded status - deficit	(5,108,151)	(2,752,387)	(2,159,793)	(724,753)
Unamortized amounts	4,780,548	2,785,605	1,694,358	715,113
	(327,603)	33,218	(465,435)	(9,640)
Accrued pension liability		(294,385)		(475,075)

ST. JOHN'S TRANSPORTATION COMMISSION
Notes to the Financial Statements
December 31, 2011

4. ACCRUED PENSION OBLIGATION (Continued)

	2011		2010	
	Union	Non-union	Union	Non-union
	\$	\$	\$	\$
<i>Net benefit expense for the year</i>				
Current service cost	763,489	399,050	664,844	375,109
Interest cost	1,350,447	537,229	1,279,806	496,261
Amortization of gains/losses	122,978	60,111	146,331	71,196
Employee contributions	(289,157)	(147,684)	(363,385)	(137,934)
Liability increase due to flexible contributions	15,017	6,678	17,575	5,762
Expected return on plan assets	(1,227,454)	(498,009)	(1,128,508)	(446,067)
	735,320	357,375	616,663	364,327

	2011		2010	
	Union	Non-union	Union	Non-union
<i>Significant assumptions used</i>				
Discount rate	6.00%	5.75%	6.25%	6.00%
Expected long-term rate of return on plan assets	6.25%	6.00%	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	15.0 years	14.8 years

The plan's asset mix at December 31, 2011 was:

Equities	61%
Bonds	33%
Cash and short-term investments	6%
	100%

5. 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, 2011

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

Vacation pay accrues to employees at 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:

	2011	2010
	\$	\$
Sick pay benefits	675,770	643,922
Vacation pay benefits	348,650	394,873
	1,024,420	1,038,795

6. 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, 2008, the following results have been extrapolated to December 31, 2011:

	2011	2010
	\$	\$
<i>Accrued benefit obligation</i>		
Balance, beginning of year	7,600,953	7,225,452
Current service cost	224,825	215,143
Interest cost	409,643	389,787
Benefits paid	(254,778)	(229,429)
Actuarial loss on benefit obligation	(114,471)	-
Balance, end of year	7,866,172	7,600,953
Funded status - deficit	7,866,172	7,600,953
Unamortized amounts	(1,140,472)	(1,377,429)
Accrued benefit obligation	6,725,700	6,223,524

ST. JOHN'S TRANSPORTATION COMMISSION
Notes to the Financial Statements
December 31, 2011

6. OTHER EMPLOYEE FUTURE BENEFITS (Continued)

	2011	2010
	\$	\$
<i>Net benefit expense for the year</i>		
Current service cost	224,825	215,143
Interest cost	409,643	389,787
Amortization of gains/losses	122,486	122,488
	756,954	727,418
<i>Significant assumptions used</i>		
Discount rate	5.40%	5.40%
Average remaining service period of active employees	14.8 years	14.4 years

7. TANGIBLE CAPITAL ASSETS

	2011			2010	
	Cost	Accumulated Amortization	Net Book Value	Cost	Net Book Value
	\$	\$	\$	\$	\$
Buses	17,983,141	13,532,036	4,451,105	18,152,648	5,276,141
Bus operating equipment	1,541,954	1,006,110	535,844	1,467,516	564,935
Buildings	3,372,253	2,259,172	1,113,081	3,331,523	1,147,861
Office furniture and equipment	1,160,252	1,082,771	77,481	1,149,136	85,736
Garage equipment	724,372	639,510	84,862	724,372	110,135
Vehicles	26,092	16,426	9,666	26,092	11,503
Land	155,317	-	155,317	155,317	155,317
Land improvements	173,882	104,162	69,720	163,634	62,377
Fareboxes	588,876	84,125	504,751	582,179	582,179
	25,726,139	18,724,312	7,001,827	25,752,417	7,996,184

ST. JOHN'S TRANSPORTATION COMMISSION
Notes to the Financial Statements
December 31, 2011

8. CHANGE IN OTHER

	2011	2010
	\$	\$
Accounts receivable	(152,544)	101,358
Parts, supplies and accessories	31,838	37,331
Prepaid expenses	(14,948)	13,134
Accounts payable and accrued liabilities	(95,903)	302,912
Accrued pension obligation	(180,690)	299,174
Employee future benefits	502,176	497,987
Employee benefits payable	(14,375)	88,314
	<u>75,554</u>	<u>1,340,210</u>
Interest paid	<u>90,246</u>	<u>81,887</u>

9. COMMITMENTS

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

	\$
2012	23,500
2013	12,800
2014	6,000

10. 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.

11. 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 City of St. John's has received \$25,454,492 for the Commission that is currently being held in trust, with accumulated interest of \$1,021,968, which will be used for the purposes of public transit infrastructure of the Commission. At December 31, 2011 there is a balance of \$4,486,742 that remains to be spent.

Land for the new public transit infrastructure has been purchased by the City of St. John's.

ST. JOHN'S TRANSPORTATION COMMISSION
Notes to the Financial Statements
December 31, 2011

12. ECONOMIC DEPENDENCE

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

13. BUDGET AMOUNTS

Budget data presented in these financial statements are based upon the 2011 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 2011
	\$ (unaudited)
Revenue	
Operating	6,767,270
Municipal funding	9,727,650
Total revenues	16,494,920
Expenses	
Operating	15,242,010
Capital	1,252,910
Total expenses	16,494,920
Total approved budget	-
Less:	
Amortization	(1,115,939)
Accrued pension obligation	(361,561)
Employee benefits payable	(502,176)
Add:	
Debt principal payments	1,119,500
Total adjustments	(860,176)

ST. JOHN'S TRANSPORTATION COMMISSION
Schedule of Expenses
Year Ended December 31, 2011

	Actual 2011	Actual 2010
	\$	\$
SCHEDULE 1		
Operations		
Operators' salaries	3,631,661	3,351,019
Diesel fuel	1,800,103	1,334,537
Operations' salaries	962,774	937,348
Advertising	97,766	143,446
Bus charter	92,045	42,000
Transit advertising	81,667	89,588
Promotions	67,305	176,353
Uniforms and clothing	62,473	55,624
Taxi chits	62,461	-
Licenses	39,940	40,308
Communication equipment	31,257	34,581
Company vehicles	28,142	27,842
Registration and memberships	18,193	19,039
Schedules and transfers	11,851	8,621
Miscellaneous	5,955	5,172
	6,993,593	6,265,478
SCHEDULE 2		
Maintenance		
Garage salaries	1,470,436	1,376,603
Stock parts	510,412	454,368
Wash salaries	201,833	198,137
Furnace fuel	178,490	125,459
Building and yards	106,684	213,505
Bus lubricants	87,019	82,087
Garage expense	83,809	82,051
Utilities	76,324	77,991
Tires	70,765	84,602
Bus stops and shelters	34,234	35,935
Maintenance vehicles	26,376	22,872
Janitorial and sanitation	20,943	23,494
Body shop supplies	17,414	7,466
Shop tools and equipment	8,339	8,033
Bus wash	7,185	5,087
Farebox repairs	4,579	22,735
	2,904,842	2,820,425

See accompanying notes to the financial statements

ST. JOHN'S TRANSPORTATION COMMISSION
Schedule of Expenses
Year Ended December 31, 2011

	Actual 2011	Actual 2010
	\$	\$
SCHEDULE 3		
Finance and administration		
Pension	1,767,174	886,448
Administrative and commissioners' salaries	657,770	652,447
Fleet insurance	537,689	427,502
Group insurance	470,741	472,704
Sick leave	203,967	218,322
Employer's payroll taxes	143,216	134,036
Employment insurance	141,417	141,559
Workers' compensation	122,261	114,056
Computer	81,451	89,696
Office	74,454	110,942
Telephone	56,859	49,316
Miscellaneous	45,193	49,013
General insurance	37,430	31,776
Professional fees	37,164	185,635
Training	21,266	39,041
Travel	15,228	7,577
Bad debt expense (recovery)	-	2,731
	4,413,280	3,612,801

See accompanying notes to the financial statements