



Financial Statements of

**ST. JOHN'S TRANSPORTATION
COMMISSION**

December 31, 2009

ST. JOHN'S TRANSPORTATION COMMISSION
December 31, 2009

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Auditors' Report

To the Commissioners of
St. John's Transportation Commission

We have audited the balance sheet of the St. John's Transportation Commission as at December 31, 2009 and the statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
April 16, 2010

ST. JOHN'S TRANSPORTATION COMMISSION
Statement of Operations and Deficit
Year ended December 31, 2009

	2009	2008
	\$	\$
Operating revenues		
Passenger fares	5,526,784	5,466,176
City of Mount Pearl	695,524	578,556
Transit advertising	311,857	164,587
Charters	68,968	120,672
Sundry	53,339	90,770
Interest	5,126	10,411
	6,661,598	6,431,172
Operating expenses		
Operations (Schedule 1)	6,494,320	6,887,315
Maintenance (Schedule 2)	2,797,602	2,784,264
Finance and administration (Schedule 3)	3,627,736	3,421,971
Amortization	1,166,253	1,331,190
Interest long-term debt	60,984	214,582
	14,146,895	14,639,322
Net cost of transit service before municipal funding	(7,485,297)	(8,208,150)
Municipal funding - Operations	8,080,330	7,855,710
Excess of revenues over expenditures (expenditures over revenues) before undernoted items	595,033	(352,440)
Increase in other employee future benefits	(412,514)	(410,423)
(Decrease) increase in accrued pension benefits	(779,938)	89,862
Excess of expenditures over revenues	(597,419)	(673,001)
Deficit, beginning of the year	(2,992,622)	(2,319,621)
Deficit, end of the year	(3,590,041)	(2,992,622)

ST. JOHN'S TRANSPORTATION COMMISSION

Balance Sheet

As at December 31, 2009

	2009	2008
	\$	\$
Assets		
Current assets		
Cash	16,971	-
Accounts receivable	471,330	525,193
Parts, supplies and accessories	345,403	280,532
Prepaid expenses	309,718	367,263
	<u>1,143,422</u>	<u>1,172,988</u>
Capital assets (Note 4)	7,957,375	8,966,269
Accrued pension benefits (Note 5)	-	604,037
	<u>9,100,797</u>	<u>10,743,294</u>
Liabilities		
Current liabilities		
Bank indebtedness	-	121,390
Credit facility (Note 10)	4,905,000	6,695,000
Accounts payable and accrued liabilities	933,919	695,755
Current portion of employee benefits payable (Note 6)	548,984	463,888
	<u>6,387,903</u>	<u>7,976,033</u>
Accrued pension obligation (Note 5)	175,901	-
Employee benefits payable (Note 6)	401,497	446,860
Other employee future benefits (Note 7)	5,725,537	5,313,023
	<u>12,690,838</u>	<u>13,735,916</u>
Commitments (Note 12)		
Contingencies (Note 13)		
Net Assets		
Deficit	(3,590,041)	(2,992,622)
	<u>9,100,797</u>	<u>10,743,294</u>

ST. JOHN'S TRANSPORTATION COMMISSION

Statement of Cash Flows

Year ended December 31, 2009

	2009	2008
	\$	\$
Operating activities		
Net cost of transit service before municipal funding	(7,485,297)	(8,208,150)
Adjustments for:		
Amortization	1,166,253	1,331,190
Gain on disposal of capital assets	(520)	(371)
Change in non-cash operating working capital (Note 11)	324,434	75,889
	<u>(5,995,130)</u>	<u>(6,801,442)</u>
Financing activities		
Municipal funding - operations	8,080,330	7,855,710
(Payments) drawings on credit facility	(1,790,000)	2,195,000
	<u>6,290,330</u>	<u>10,050,710</u>
Investing activities		
Purchase of capital assets	(157,359)	(1,655,938)
Proceeds on disposal of capital assets	520	371
	<u>(156,839)</u>	<u>(1,655,567)</u>
Net increase in cash resources	138,361	1,593,701
Bank indebtedness, beginning of year	(121,390)	(1,715,091)
Cash (bank indebtedness), end of year	<u>16,971</u>	<u>(121,390)</u>

Supplemental cash flow information (Note 11)

ST. JOHN'S TRANSPORTATION COMMISSION

Notes to the Financial Statements

December 31, 2009

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. CHANGES IN ACCOUNTING POLICIES

Goodwill and Intangible Assets

In February 2008, the Canadian Institute of Chartered Accountants ("CICA") issued Section 3064, "Goodwill and Intangible Assets", which replaces Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs". This Section provides more specific guidance on the recognition of internally developed intangible assets and requires that research and development expenditures be evaluated against the same criteria as expenditures for intangible assets. The Section increases harmonization of Canadian standards with international financial reporting standards and applies to annual financial statements beginning January 1, 2009. The Commission has determined that this standard has no impact on its financial statements.

Future accounting changes

The Commission currently plans to adopt the Public Sector Accounting for its fiscal year beginning on January 1, 2011; however the impact of this transition has not yet been determined.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following significant accounting policies:

Revenue recognition

a) Municipal funding

Operating grants received from the City of St. John's are recorded as revenue.

b) Other revenue

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

c) Transit advertising

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

ST. JOHN'S TRANSPORTATION COMMISSION
Notes to the Financial Statements
 December 31, 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

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 net realizable value.

Capital assets

Capital assets are recorded at cost less any related government grants. Amortization is based on their estimated useful life using the following methods and rates or term:

Buses	7 – 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 under capital lease	7 years	straight line
Electronic transfer and pass reading units	7 years	straight line

During 2009, the Commission changed its estimate of use life for its bus assets from 10 to 12 years based on the manufacturer structural warranty of the buses. This change in estimate resulted in a decrease to current year amortization expense of \$190,848. The change in accounting estimate was not applied retroactively and the financial statements of the prior year have not been restated.

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 employees (union and non-union). 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.

ST. JOHN'S TRANSPORTATION COMMISSION

Notes to the Financial Statements

December 31, 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accrued pension benefits (continued)

- (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 employees active 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.

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 generally accepted accounting principles 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. Actual results could differ from these estimates.

Financial instruments

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose, for which the financial instruments were acquired or issued, their characteristics and the Commission's designation of such instruments.

The Commission utilizes the following classifications:

- Cash, bank indebtedness and credit facility are classified as financial assets "held for trading" and any adjustments to fair value are reflected in excess of revenue over expenses for each period.
- Accounts receivable are classified as "loans and receivables" and subsequent to their initial fair value measurement, they are measured at amortized cost using the effective interest rate method which generally corresponds to cost, due to the short-term nature of the financial asset.

ST. JOHN'S TRANSPORTATION COMMISSION
Notes to the Financial Statements
December 31, 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (continued)

- Accounts payable and accrued liabilities are classified as "other liabilities" and subsequent to their initial fair value measurement, they are measured at amortized cost using the effective interest rate method which generally corresponds to cost, due to the short-term nature of the financial liabilities.

The Commission has determined that it does not have derivatives or embedded derivatives.

4. CAPITAL ASSETS

	2009			2008	
	Cost	Accumulated Amortization	Net Book Value	Cost	Net Book Value
	\$	\$	\$	\$	\$
Buses	17,712,952	11,983,000	5,729,952	17,712,952	6,647,492
Bus operating equipment	1,354,766	795,823	558,943	1,351,439	654,797
Buildings	3,315,104	2,106,823	1,208,281	3,299,377	1,273,439
Office furniture and equipment	1,131,900	1,043,262	88,638	1,123,015	101,912
Garage equipment	718,487	579,875	138,612	592,705	50,738
Vehicles	25,026	12,370	12,656	25,026	14,892
Land	155,317	-	155,317	155,316	155,316
Land improvements	163,634	98,658	64,976	163,633	67,683
Fareboxes under capital lease	625,377	625,377	-	625,377	-
Electronic transfer and pass reading units	405,763	405,763	-	405,763	-
	25,608,326	17,650,951	7,957,375	25,454,603	8,966,269

ST. JOHN'S TRANSPORTATION COMMISSION
Notes to the Financial Statements
December 31, 2009

5. ACCRUED PENSION BENEFITS

Based on an actuarial valuation of the plans completed as at December 31, 2007, the following results have been extrapolated to December 31, 2009:

	2009		2008	
	Union	Non-union	Union	Non-union
	\$	\$	\$	\$
<i>Accrued benefit obligation</i>				
Balance, beginning of year	19,323,669	7,576,045	18,008,127	6,512,384
Current service cost	784,374	344,446	757,888	298,807
Interest cost	1,208,133	459,093	1,205,816	435,954
Benefits paid	(787,061)	(197,525)	(788,185)	(186,194)
Loss due to plan amendments	-	-	-	-
Participant contributions	15,598	4,105	14,480	4,033
Transfer from Union to				
Non-Union Plan	-	-	(272,544)	272,544
Loss on accrued benefit obligation	-	-	398,087	238,517
Balance, end of year	20,544,713	8,186,164	19,323,669	7,576,045
	2009		2008	
	Union	Non-union	Union	Non-union
	\$	\$	\$	\$
<i>Accrued benefit asset</i>				
Fair value, beginning of year	15,068,918	5,989,470	18,849,078	6,845,048
Return on plan assets	2,982,150	1,216,593	(3,445,716)	(1,243,682)
Benefits paid	(787,061)	(197,525)	(788,185)	(186,194)
Employer contributions to plan	439,927	219,070	400,541	195,323
Employee contributions to plan	358,040	124,042	325,744	106,431
Transfer from Union Plan to				
Non-Union Plan	-	-	(272,544)	272,544
Fair value, end of year	18,061,974	7,351,650	15,068,918	5,989,470
Funded status - deficit	(2,482,739)	(834,514)	(4,254,751)	(1,586,575)
Unamortized amounts	2,190,985	950,367	4,513,318	1,932,045
	(291,754)	115,853	258,567	345,470
Accrued pension (liability) asset		(175,901)		604,037

ST. JOHN'S TRANSPORTATION COMMISSION
Notes to the Financial Statements
December 31, 2009

5. ACCRUED PENSION BENEFITS (Continued)

	2009		2008	
	Union	Non-union	Union	Non-union
	\$	\$	\$	\$
<i>Net benefit expense for the year</i>				
Current service cost	784,374	344,446	757,888	298,807
Interest cost	1,208,133	459,093	1,205,816	435,954
Amortization of gains/losses	282,331	128,821	(57,991)	(2,243)
Employee contributions	(358,040)	(124,042)	(325,744)	(106,431)
Liability increase due to flexible contributions	15,598	4,105	14,480	4,033
Expected return on plan assets	(942,148)	(363,736)	(1,261,025)	(457,542)
	990,248	448,687	333,424	172,578

	2009		2008	
	Union	Non-union	Union	Non-union
	\$	\$	\$	\$
<i>Significant assumptions used</i>				
Discount rate	6.25%	6.00%	6.75%	6.50%
Expected long-term rate of return on plan assets	6.25%	6.00%	6.75%	6.50%
Rate of compensation increase	3.50%	3.75%	4.00%	4.25%
Average remaining service period of active employees	15 years	14.8 years	15 years	14.8 years

The plan's asset mix at December 31, 2009 was:

Equities	59%
Bonds	39%
Cash and short-term investments	2%
	<u>100%</u>

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.

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

ST. JOHN'S TRANSPORTATION COMMISSION
Notes to the Financial Statements
December 31, 2009

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

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

	2009	2008
	\$	\$
Sick pay benefits	617,688	595,813
Vacation pay benefits	332,793	314,935
	950,481	910,748
Less portion of total liability estimated to be payable in the next fiscal year	(548,984)	(463,888)
	401,497	446,860

7. OTHER EMPLOYEE FUTURE BENEFITS

Based on an actuarial valuation of the plan, completed as at December 31, 2008, the following results have been extrapolated to December 31, 2009:

	2009	2008
	\$	\$
<i>Accrued benefit obligation</i>		
Balance, beginning of year	6,472,078	6,154,053
Current service cost	215,972	206,673
Interest cost	323,519	307,954
Benefits paid	(219,375)	(196,602)
Actuarial loss on benefit obligation	433,258	-
Balance, end of year	7,225,452	6,472,078
Funded status - deficit	7,225,452	6,472,078
Unamortized amounts	(1,499,915)	(1,159,055)
Accrued benefit obligation	5,725,537	5,313,023

ST. JOHN'S TRANSPORTATION COMMISSION
Notes to the Financial Statements
December 31, 2009

7. OTHER EMPLOYEE FUTURE BENEFITS (Continued)

	2009	2008
	\$	\$
<i>Net benefit expense for the year</i>		
Current service cost	215,972	206,673
Interest cost	323,519	307,954
Amortization of gains/losses	92,398	92,398
	631,889	607,025
<i>Significant assumptions used</i>		
Discount rate	5.00%	5.00%
Average remaining service period of active employees	14.4 years	14 years

8. CAPITAL MANAGEMENT

Capital requirements are funded through internally generated funds and an operating subsidy from the City of St. John's. The Commission's objective when managing capital is to ensure it maintains adequate capital to operate an effective public transit service in St. John's and environs. The Commission is not subject to externally imposed capital requirements.

9. FINANCIAL INSTRUMENTS

Financial risk factors

The Commission has exposure to credit risk, liquidity risk, market risk, and interest rate risk. The Commission's Board has overall responsibility for the oversight of these risks and delegates the review of these risks to management who monitor compliance with the Commission's policies on an ongoing basis to ensure that these risks are appropriately managed.

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligation. The Commission's credit risk is primarily attributable to receivables.

The Commission reviews its trade receivables accounts regularly and writes down their carrying values to their expected realizable values by making an allowance for doubtful receivables when an account is determined not to be fully collectible. This is done using management's evaluation on a customer-by-customer basis. The Commission's assessment of outstanding receivables from customers is primarily based on the Commission's assessment of the credit worthiness of the customer. The allowance is charged against earnings.

ST. JOHN'S TRANSPORTATION COMMISSION

Notes to the Financial Statements

December 31, 2009

9. FINANCIAL INSTRUMENTS (Continued)

Credit risk (continued)

The Commission's trade receivables have a carrying value of \$471,330 as at December 31, 2009, representing the maximum exposure to credit risk of those financial assets, exclusive of the allowance for doubtful accounts. Normal credit terms for amounts due from customers call for payment within 30 days or in accordance with a negotiated payment schedule. An insignificant amount of these receivables were past due as at December 31, 2009.

Liquidity risk

Liquidity risk is the risk that the Commission will not be able to meet its financial obligations as they become due. The Commission is the recipient of an operating subsidy from the City of St. John's. This subsidy assists the Commission in meeting its current obligations.

Further the City has guaranteed the Commission's credit facility, as disclosed in Note 10.

Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates, and price risk will affect the Commission's excess of expenses over revenues or the value of its financial instruments. The Commission is not subject to price risk and believes that foreign exchange risk is not significant.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rate. As the Commission's debt is in the form of a credit facility with the Royal Bank of Canada, it is exposed to interest rate risk.

10. CREDIT FACILITY

The Commission has access to a \$7,500,000 credit facility which is guaranteed by the City of St. John's for capital expenditures. Under the terms of its arrangements with the bank, the Commission issues banker's acceptance notes. At December 31, 2009 the outstanding banker's acceptance notes bear interest at 0.79714% and mature on January 20, 2010. The credit facility, which was renewed on January 20, 2010, bears interest at 1.41786% and will expire on April 21, 2010.

ST. JOHN'S TRANSPORTATION COMMISSION

Notes to the Financial Statements

December 31, 2009

11. CHANGE IN NON-CASH OPERATING WORKING CAPITAL

	2009	2008
	\$	\$
Accounts receivable	53,863	145,465
Parts, supplies and accessories	(64,871)	26,000
Prepaid expenses	57,545	51,208
Accounts payable and accrued liabilities	238,164	(184,964)
Employee benefits payable	39,733	38,180
	<u>324,434</u>	<u>75,889</u>
Interest paid	60,984	214,582

12. COMMITMENTS

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

	\$
2010	33,170
2011	18,494
2012	10,463

At December 31, 2009 the Commission also has a commitment for the purchase of one new bus totalling \$407,125.

13. CONTINGENCIES

The Commission is contingently liable for claims below \$50,000 which are not covered under its current fleet insurance policy. Management believes that adequate provisions have been recorded in the accounts where required.

14. 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 that is currently being held in trust, with accumulated interest of \$712,797, for the Commission, and will be used for the purposes of public transit infrastructure of the Commission. At December 31, 2009, there is a balance outstanding of \$25,142,681.

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, 2009

15. ECONOMIC DEPENDENCE

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

16. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

SCHEDULE 1

ST. JOHN'S TRANSPORTATION COMMISSION
Schedules of Expenses

Year ended December 31, 2009

	2009	2008
	\$	\$
Operations		
Operators' salaries	3,654,951	3,569,299
Operations' salaries	818,509	744,363
Diesel fuel	1,460,756	2,095,248
Company vehicles	22,896	22,967
Licenses	41,529	41,189
Communication equipment	33,700	36,832
Miscellaneous	6,366	9,148
Uniforms and clothing	74,403	73,954
Advertising	71,998	49,647
Bus charter	53,816	62,802
Promotions	144,589	60,509
Registration and memberships	16,939	15,650
Schedules and transfers	14,638	14,615
Transit advertising	79,230	91,092
	6,494,320	6,887,315

SCHEDULE 2

Maintenance		
Garage salaries	1,395,535	1,352,079
Wash salaries	220,595	213,687
Shop tools and equipment	22,019	13,914
Stock parts	523,921	494,317
Garage	74,900	84,361
Bus lubricants	92,578	87,670
Tires	89,549	91,799
Body shop supplies	16,253	18,996
Bus wash	4,802	5,291
Building and yards	82,456	72,875
Utilities	75,793	76,854
Furnace fuel	105,068	171,953
Maintenance vehicles	29,293	26,676
Bus stops and shelters	35,258	36,359
Janitorial and sanitation	23,175	20,373
Farebox repairs	6,407	17,060
	2,797,602	2,784,264

ST. JOHN'S TRANSPORTATION COMMISSION**Schedules of Expenses**

Year ended December 31, 2009

	2009	2008
	\$	\$
Finance and administration		
Administrative and commissioners' salaries	596,693	577,501
Employer's payroll taxes	141,842	133,753
Sick leave	203,718	222,019
Workers' compensation	153,449	167,761
Employment insurance	136,516	128,804
Group insurance	463,812	466,125
Pension	951,118	913,716
Professional fees	96,272	53,566
Telephone	45,414	49,057
Computer	81,050	71,057
Office	122,293	102,876
Travel	16,571	14,728
Training	24,431	18,449
Fleet insurance	536,464	370,567
General insurance	25,221	26,499
Miscellaneous	46,387	44,282
Bad debts (recovery)	(12,995)	61,582
Gain on disposal of capital assets	(520)	(371)
	3,627,736	3,421,971

