TTC AUDIT COMMITTEE
REPORT NO.

MEETING DATE April 19, 2011

SUBJECT Adoption of Public Sector Accounting Standards Effective January 1, 2011

INFORMATION ITEM

RECOMMENDATION

It is recommended that the Audit Committee receive, for information, the following report on the accounting standards that will be applicable to the Commission in 2011.

BACKGROUND

At its meeting on February 4, 2011, the Audit Committee requested a report outlining the differences between the previous accounting standards and the new accounting standards. This report responds to that request.

DISCUSSION

Why the Commission's Accounting Standards are changing

The Canadian Institute of Chartered Accountants ("CICA") provides guidance on the appropriate accounting standards to be used by all Canadian organizations including the Commission. Accounting standards provide guidance when making estimates, recording transactions and presenting balances.

The CICA reviews standards on an ongoing basis and recommends appropriate changes. Once stakeholder feedback is considered, the changes are finalized. In 2011, changes are being made to the accounting standards applicable to all Canadian organizations. The standards currently used by the Commission (i.e. the CICA Handbook) are being replaced by accounting standards that are more specific to an organization's accountability structure (e.g. publicly traded, private company or government organization). As a result, the Commission will be required to adopt Public Sector Accounting Standards ("PSAS"). PSAS are the same accounting standards currently used by the City of Toronto. In the past, PSAS was only applicable to federal, provincial and municipal governments but effective January 1, 2011, the CICA is extending PSAS to government organizations like the Commission.

Impact on the Commission's Financial Reporting

The move to these new standards will entail a number of significant changes including the disclosure of budget information in the financial statements, the immediate recognition of the cost of employee benefits plan amendments as they are made, transitional impacts upon adoption of these standards, and, most significantly, a change to the classification of the pension fund from a defined contribution to a defined benefit plan which will affect how the TTC reports its pension obligations in its financial statements. The TTC may be obliged to disclose the pension solvency liability. Staff are continuing with their assessment of the impact of these new accounting standards on the 2011 expenses and financial statements.

While not exhaustive, the appended chart highlights some of the key changes that are expected as a result of the adoption of PSAS.

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Attachment: Key Differences between CICA Handbook and PSAS.

KEY DIFFERENCES BETWEEN THE CICA HANDBOOK and PSAS.

ITEM	2010 STANDARDS – CICA	2011 STANDARDS - PSAS	IMPACT ON TTC FINANCIAL STATEMENTS
Income Statement (Statement of Operations)	The Income Statement reports both current year and prior year actual results and expense captions are based on the expense object (e.g. wages, materials etc.).	Income Statement will be renamed to a Statement of Operations and will include current year budget information. The expense captions are based on the expense function (e.g. transportation, maintenance etc.).	The appearance of the Commission's statement of operations will bear more resemblance to the City's.
Balance Sheet (Statement of Financial Position)	Assets and Liabilities on the Commission's Balance Sheet are currently segregated between current and long-term. A current asset or liability is one that will likely be converted to cash or completely used in one year or less.	The Balance Sheet will be renamed – Statement of Financial Position and assets will be segregated between financial and non-financial assets. Liabilities will be presented as one group in between financial and non-financial assets.	The revised statement will present a net financial liability position. This will occur because the Commission does not receive subsidy for certain non-financial assets (inventory and unfunded capital) at time of acquisition but rather as these assets are used and expensed.
Amortization of Capital Contributions	Capital subsidies received are deferred and recognized in income over the life of the asset. This amortization offsets the depreciation expense related to the subsidized asset, such that there is no net effect on the income statement.	Capital subsidies are recognized in revenue when capital subsidy/funding agreement requirements are fulfilled (e.g. acquisition of a vehicle). Accounting for depreciation expense is unchanged.	Most of the 2010 deferred capital contributions balance will be presented in accumulated surplus in 2011. For accounting purposes, there will be a surplus in the years in which the capital subsidies received exceed depreciation expense and a deficit when the opposite occurs.
Employee Future Benefits – TTC Pension Fund Society (PFS)	As a multi-employer plan, the TTC accounts for the PFS as a defined contribution plan (i.e. only the current year contributions are expensed in the financial statements).	As a joint defined benefit plan, actuarial gains and losses can now have an impact on TTC accounting expense.	Increased complexity in note disclosure and greater chance of accounting expense volatility.
Employee Future Benefits – Plan Amendments (with Past Service Costs)	The cost of plan amendments is amortized over the average remaining service life of employees.	The past service cost of a plan amendment is recognized in full in the year the amendment is approved.	Significant accounting expense impact in the year of a plan amendment.