TTC AUDIT COMMITTEE
REPORT NO.

MEETING DATE January 23, 2012

SUBJECT Adoption of Public Sector Accounting Standards

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 for the 2011 audited consolidated financial statements.

BACKGROUND

At its meeting on April 19, 2011, the Audit Committee received a report outlining the differences between the previous accounting standards and the new accounting standards. This report provides further details on the changes in the financial statement presentation.

DISCUSSION

Why the Commission's Accounting Standards are changing

As noted in the April 19, 2011 Audit Committee report, the Canadian Institute of Chartered Accountants ("CICA") provides guidance on the appropriate accounting standards to be used by all Canadian organizations including the Commission. The CICA reviews standards on an ongoing basis and recommends appropriate changes. As a result, the Commission is required to adopt Public Sector Accounting Standards ("PSAS") for the 2011 year-end financial statements. 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. Comparative 2010 information will also be restated to comply with PSAS. The Commission's external auditors PricewaterhouseCoopers LLP will ensure that the Commission has complied with all requirements of the PSAS.

Impact on the Commission's Presentation of Financial Results

Accounting standards provide guidance when making accounting estimates, recording transactions and presenting financial results. The April 19, 2011 report highlighted some of the significant differences in the determination of accounting estimates, in particular, differences related to the accounting for employee future benefits. The attachments to this report highlight some of the key differences in the presentation of financial results on the Statement of Financial

Position (formerly referred to as the Balance Sheet) and the Statement of Operations.

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Attachments: Key Differences between CICA Handbook and PSAS Financial Statement Presentation.
CICA Financial Statement Templates
PSAS Financial Statement Templates

KEY DIFFERENCES BETWEEN THE CICA HANDBOOK and PSAS FINANCIAL STATEMENT PRESENTATION

ITEM	Former Standards – CICA HB	New Standards - PSAS	Impact on TTC Financial Statements.
Presentation of Assets on Balance Sheet – (Now called Statement of Financial Position)	Assets were categorized as either 'current' or 'long-term'. Current assets were comprised of assets that would be converted to cash (e.g. accounts receivable) or fully used (e.g. prepaid expenses), within one year. Long-Term assets were expected to be held for more than one year (e.g. capital assets such as buses and the operating subsidy receivable related to certain long-term employee benefits). All assets were presented on the balance sheet first, followed by the liabilities. Assets minus liabilities represented the accumulated equity (surplus) of the TTC.	Assets will be categorized as either 'financial' or 'non-financial'. Financial assets will eventually be converted to cash. Therefore, both trade receivables with payment due within 30 days and the long-term subsidy receivable, (which may take several years to convert to cash) are both considered financial assets. Non-Financial assets will be used in the provision of services and are not converted to cash in the ordinary course of operations. Examples include spare parts inventory, capital assets and prepaid expenses. Financial assets are presented first, followed by liabilities. Financial assets minus liabilities results in the new 'net debt' line. Non-financial assets are presented next, which when net debt is subtracted, result in the accumulated surplus balance of the TTC.	The former classification was focused on evaluating short-term liquidity, by comparing current assets with current liabilities. The new classification shifts the focus from short-term liquidity to assessing the Commission's ability to pay liabilities over time by comparing all financial assets to all liabilities. Non-financial assets that will be used to deliver services rather than pay liabilities are kept separate. The new statement of financial position will show that TTC will have a net debt balance. This will occur because the Commission does not receive subsidy upon acquisition of certain non-financial assets (e.g. inventory, and unfunded/partially unfunded capital assets), but instead receives subsidy as these assets are used.
Net capital contributions liability	Capital subsidies received were deferred and recognized in income over the life of the asset. This $4.7 billion balance used to offset the value of the capital assets on the balance sheet. The Commission was able to match and offset depreciation expense incurred as the asset was used, with the gradual recognition into income of the capital subsidy.	Assuming eligibility criteria or stipulations related to the capital subsidy have been met, deferred capital subsidies do not qualify as a liability under PSAS. Instead capital subsidies received are recognized as revenue when construction work on the capital asset is performed or as assets are acquired.	Substantially all of the previously reported deferred capital contributions balance will be presented in accumulated surplus under PSAS. Accumulated surplus will increase by over $4.7 billion, representing the net book value of the assets which have been previously funded through capital subsidy.

Employee Future Benefits – TTC Pension	Since the Pension Fund Society is a multi-employer plan, the TTC followed defined contribution plan accounting. Only the current year contributions were reflected in the financial statements.	The Commission is required to account for one-half of the plan in a manner similar to a defined benefit plan. Plan actuarial gains and losses and changes in plan assumptions can now have an impact on the TTC accounting expense and will result, for the first time, in a corresponding asset or liability on the statement of financial position.	Increased complexity in note disclosure and a greater likelihood of accounting expense volatility for the TTC pension. A corresponding asset or liability may be presented on the statement of financial position, even though the only circumstance under which the Commission's obligation could differ from normal annual contributions would be the unlikely event of a plan wind-up.

Employee Future Benefit Liability. (Post retirement medical and dental, WSIB and LTD)	Certain actuarial losses related to employee future benefits were amortized into income over the average remaining service life of employees. Certain medical post-retirement liabilities were being amortized over 14 years. (14 years was the average service life remaining of employees in 2000 when the additional obligation was identified). At the end of 2009, these unamortized amounts totalled $49 million and were not included in the employee benefit liability.	Upon transition to Public Sector Standards, all unamortized amounts are incorporated into the liability. Moreover, the discount rate used in determining this liability is no longer based on high quality corporate bonds but will now reflect the City's cost of borrowing.	As a result of these changes, the employee future benefits liability as presented on the balance sheet (statement of financial position) increases by approximately $50 million upon transition to PSAS.
Operating Subsidy presentation	Sources of operating revenue were presented first on the statement of operations, followed by operating expenses. The result was a net operating costs line. Operating Subsidy was presented after the net operating costs line.	All sources of revenue must be shown first on the revised statement of operations. Operating revenue will be shown first, followed by operating and capital subsidy to yield a total revenue line. The total revenue line represents a combination of TTC-generated revenues plus all the operating and capital subsidies.	The previous statement of operations effectively represented the combined TTC and Wheel-Trans operations actual results. With the inclusion of capital subsidy, the new statement of operations will now report a higher surplus because of the changes to capital subsidy presentation mentioned below.

Capital Subsidy presentation	Capital subsidies received were deferred and recognized in income over the life of the asset. This amortization offset the depreciation expense related to the subsidized asset, such that there is no net effect on the statement of operations related to funding or use of fully funded capital assets. Focus was on matching the capital subsidy received with the accounting expense recorded as the asset is used. The amount of capital subsidy earned in a year was only reflected in the notes to the financial statements.	Capital subsidies are recognized in revenue when requirements of funding agreement are achieved (e.g. acquisition of a vehicle) and this amount will be presented on the statement of operations in the year earned as a source of revenue. Accounting for depreciation expense is unchanged. The amount by which the capital funding for new assets in a year exceeds the accounting (non-cash) expense for asset life used in a year, will comprise the largest portion of the annual surplus presented on the statement of operations.	Total revenue will increase by approximately $900 million, reflecting the inclusion of capital subsidy received in the year. Total expenses will increase by approximately $500 million. Previously, recognition of capital subsidy as the asset was used would directly offset the depreciation expense. The annual surplus will largely reflect the amount by which the annual capital subsidy exceeds the depreciation expense.
Statement of Operations Categorization of Expenses	The Statement of Operations reports both current year and prior year actual results. Expense captions are based on the expense object (e.g. wages, materials, etc.)	The revised Statement of Operations will include current year budget information. Expense captions are based on the expense function (e.g. Conventional Transit, Wheel-Trans and Coach Terminal.) A list of expenditures by object (e.g. wages, materials, etc.) will be available in the financial statement notes.	The appearance of the Commission's statement of operations will bear more resemblance to the City's.

TORONTO TRANSIT COMMISSION

Consolidated Balance Sheet - old CICA Handbook Template

	2010	2009
		($000s)
ASSETS		
Current		
Cash and cash equivalents		
Accounts receivable		
City of Toronto		
Other		
Prepaid expenses		
Long-term		
Net capital assets		
Spare Parts		
Long-Term Receivable from City of Toronto		
Portfolio Investments		
Total Assets		
LIABILITIES AND ACCUMULATED EQUITY		
Current		
Accounts payable and accrued liabilities		
Deferred passenger revenue		
Unsettled accident claims		
Long-term		
Net capital contributions		
Employee benefits		
Unsettled accident claims		
Environmental and other liabilities		
Accumulated equity		
Total Liabilities and Accumulated Equity		

TORONTO TRANSIT COMMISSION

Consolidated Statement of Operations and Accumulated Equity - old CICA Template

	2010	2009
		($000s)
REVENUE		
Passenger services		
Advertising		
Outside City services		
Property rental		
Miscellaneous		
Total revenue		
EXPENSES		
Wages, salaries and benefits		
Depreciation		
Amortization of capital contributions		
Materials, services and supplies		
Vehicle fuel		
Accident claims		
Electric traction power		
Wheel-Trans contract services		
Utilities		
Total expenses		
Net operating costs		
Operating subsidies		
Net operating surplus/(shortfall)		
Accumulated equity, beginning of the year		
Accumulated equity, end of the year		

See accompanying notes to the consolidated financial statements

TORONTO TRANSIT COMMISSION

Consolidated Statement of Financial Position - New PSAS Template (formerly referred to as balance sheet)

	2011	2010
		($000s)
		(restated)
Financial Assets		
Cash and cash equivalents		
Subsidies Receivable		
Accounts Receivable		
Total Financial Assets		
Liabilities		
Accounts payable and accrued liabilities		
Deferred passenger revenue		
Unsettled Accident Claims		
Employee Future Benefits Liability		
Environmental Liability		
Total Liabilities		
Net Debt		
Non-Financial Asset		
Tangible Capital Assets		
Spare Parts		
Prepaid expenses		
Total Non-Financial Assets		
Accumulated Surplus		

TORONTO TRANSIT COMMISSION

Consolidated Statement of Operations and Accumulated Surplus - New PSAS Template

	2011 Budget	2011 Actual	2010 Actual (restated)
REVENUE			
Passenger services			
Advertising			
Outside City services			
Property rental			
Miscellaneous			
Total Operating Revenue			
Subsidies			
Operating Subsidy			
Capital Subsidy			
Total Subsidy Revenue			
Total Revenue			
EXPENSES			
Conventional Transit Service			
Wheel-Trans			
Other Functions			
Total Expenses			
Surplus for the Year			
Accumulated surplus, beginning of the year			
Accumulated surplus, end of the year			