

**TTC INSURANCE COMPANY LIMITED
AUDIT COMMITTEE
REPORT NO.**

MEETING DATE: JUNE 21, 2011

SUBJECT: DRAFT FINANCIAL STATEMENTS OF TTC INSURANCE
COMPANY LIMITED FOR THE YEAR ENDED
DECEMBER 31, 2010

ACTION ITEM

RECOMMENDATION

It is recommended that the Audit Committee receive the attached draft financial statements for the year ended December 31, 2010 and forward to the Special Meeting of Directors.

BACKGROUND

Each year the Audit Committee will review the financial statements of the Company.

DISCUSSION

The audit committee will review and discuss the financial statements before forwarding to the Special Meeting of Directors.

DRAFT

Financial Statements of

TTC INSURANCE COMPANY LIMITED

Year ended December 31, 2010

TTC INSURANCE COMPANY LIMITED

Balance Sheet
As at December 31

	2010	2009
	(\$)	(\$)
ASSETS		
Cash and cash equivalents (note 5)	2,600,000	2,600,000
Interest Receivable	6,621	1,836
Indemnity receivable from the Toronto Transit Commission (note 3c and 7)	127,442,000	110,953,000
	<u>130,048,621</u>	<u>113,554,836</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Accounts Payable	6,621	1,836
Unpaid accident claims (note 3c and 6)	127,442,000	110,953,000
Advance from Toronto Coach Terminal Inc. (note 8)	2,500,000	2,500,000
	<u>129,948,621</u>	<u>113,454,836</u>
Capital stock (note 9)	100,000	100,000
	<u>130,048,621</u>	<u>113,554,836</u>

See accompanying notes to the financial statements

On behalf of the Board:

_____ Director

_____ Director

TTC INSURANCE COMPANY LIMITED

Statement of Income
Year ended December 31

	2010	2009
	(\$)	(\$)
REVENUE		
Premium from the Toronto Transit Commission	2	2
Investment income	16,058	10,740
Total revenue	16,060	10,742
EXPENSES		
Assessment fee to the Financial Services Commission of Ontario	1,000	1,000
Management fee to the Toronto Transit Commission (note 11)	15,060	9,742
Total expenses	16,060	10,742
Net income	-	-

See accompanying notes to the financial statements

TTC INSURANCE COMPANY LIMITED

Statement of Cash Flows
Year ended December 31

	2010	2009
	(\$)	(\$)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from investments, bank interest and premium	11,275	22,068
Cash paid for management fee	(10,275)	(21,068)
Cash paid for Financial Services Commission assessment	(1,000)	(1,000)
Net cash flow from operating activities	-	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Advance received from Toronto Coach Terminal Inc.	-	700,000
Increase in cash and cash equivalents during year	-	700,000
Cash and cash equivalents, beginning of the year	2,600,000	1,900,000
Cash and cash equivalents, end of the year	2,600,000	2,600,000

See accompanying notes to the financial statements

TTC INSURANCE COMPANY LIMITED

Notes to Financial Statements

Year ended December 31, 2010

1. GENERAL

TTC Insurance Company Limited (the "Company") was incorporated on March 9, 1994 under the Ontario Corporations Act and is a subsidiary of Toronto Coach Terminal Inc. ("TCTI"), with its ultimate parent company being the Toronto Transit Commission (the "TTC"). The TTC is one of the agencies, boards and commissions of the City of Toronto (the "City").

The Company provides insurance coverage for compulsory automobile personal injury and accident benefit claims for the TTC.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

These financial statements are prepared in accordance with accounting principles generally accepted in Canada, including the accounting requirements of the Financial Services Commission of Ontario, and have been applied consistently.

(b) Measurement Uncertainty

Unpaid accident claims are subject to measurement uncertainty. The recognized amounts of such items are based on the Company's best information and judgment. Any variation in the ultimate liability for unpaid accident claims incurred will be offset by a corresponding change in the indemnity receivable and recognized in the current period.

(c) Cash Equivalents

Cash equivalents consist of money market instruments, such as treasury bills and bankers' acceptances, which are readily convertible to cash on short notice. The investments are held by the City, on behalf of the Company and are available on demand. All interest income generated thereon is remitted to the Company.

(d) Liability for Unpaid Accident Claims Incurred

The liability for unpaid accident claims incurred reflects an actuarial assessment of the automobile claims liability on the basis mandated by the Financial Services Commission of Ontario. When the claims are reported, the case estimates are initially established on an individual basis, by adjusters and lawyers employed by the TTC. The liability includes an actuarially estimated provision for claims incurred but not yet reported and internal and external adjustment expenses. Claims provisions are first discounted to reflect time value of money and provisions for adverse deviations are added in accordance with accepted actuarial practice and the requirements of the Financial Services Commission of Ontario.

(e) Revenue Recognition

The Company earns premium revenue evenly over the period covered by each individual insurance contract in proportion to the insurance protection provided. Interest earned from investments is recorded as investment income on an accrual basis.

(f) Income Taxes

Pursuant to section 149(1)(d) of the Income Tax Act (Canada), the Company is exempt from federal income tax. As a result, no tax provision has been recorded in these financial statements.

TTC INSURANCE COMPANY LIMITED

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Year ended December 31, 2010

(g) Financial Instruments

Under CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement" the Company has designated the cash and cash equivalents as held for trading and the indemnity receivable from the TTC as loans and receivables. Due to the short time period to maturity the cash and cash equivalents is recorded at cost. The advance from TCTI and the accounts payable are classified as other liabilities and are thus recorded at amortized cost.

CICA Handbook Section 3862, "Financial Instruments – Disclosure," requires the company to disclose how it manages its credit risk, liquidity and interest risk. These disclosures are included in note 7.

3. LICENCE

The Company received a licence on July 12, 1994 from the Ontario Insurance Commission, now incorporated into the Financial Services Commission of Ontario, in order to transact the business of automobile insurance in the Province of Ontario. The Company initiated such transactions on July 30, 1994. By Provincial Order in Council dated July 6, 1994, the Company was granted the said license subject to the following conditions:

- (a) the Company maintain, in aggregate, a paid-up capital and unimpaired surplus of not less than \$100,000;
- (b) the Company limit exclusively its underwriting to the automobile insurance risks of the TTC under the Compulsory Automobile Insurance Act or any successor thereto;
- (c) the indemnity agreement between the TTC and the Company, whereby the Company is to be reimbursed by the TTC for all current and future costs and expenditures including all claims under the policies, continue and be in full force and effect; and
- (d) the complete and full guarantee of the TTC's liabilities and obligations under the indemnity agreement which the Company has received from the City remains in full force and effect.

4. CAPITAL DISCLOSURES

The Company manages \$100,000 (2009 - \$100,000) in equity and a \$2,500,000 (2009 - \$2,500,000) advance from the TCTI as capital. The Company's objective for its capital is to comply with the terms of its operating license as described in note 3 and by extension, its guarantee agreement with the City described in note 5. The Company is in compliance with its capital requirements as at December 31, 2010.

5. CASH AND CASH EQUIVALENTS

Pursuant to the guarantee agreement with the City described in note 3(d), the Company is required to maintain cash or securities available for payment of current liabilities equal to the greater of \$350,000 or one month's claims and operating expenses (all self-insured retention payments are processed through the TTC). The cash and cash equivalents amount restricted for this purpose is \$2,600,000 (2009 - \$2,600,000).

TTC INSURANCE COMPANY LIMITED

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Year ended December 31, 2010

6. UNPAID ACCIDENT CLAIMS

The liability for unpaid accident claims is established to reflect all liabilities associated with the insurance policies at the balance sheet date. The ultimate cost of these liabilities will vary from the best estimate made by management for a variety of reasons, including additional information with respect to the facts and circumstances of the claims incurred.

This provision is discounted to take into account the time value of money and a provision for adverse deviation ["PFAD"] is added, as recommended by standard actuarial practice. Assumptions regarding the anticipated timing of future payments and an appropriate discount rate are made by management. As uncertainty exists with respect to the determination of these discounted estimates, an explicit PFAD is made for potential claims development. A PFAD is selected based on guidance developed by the Canadian Institute of Actuaries.

The following table summarizes the effects of the time value of money and PFAD on the liability for unpaid claims and claims adjustment costs.

Unpaid claims and claims adjustment costs:	Undiscounted	Time Value of Money	PFAD	Discounted
As at December 31, 2010	123,171,000	(7,094,000)	11,365,000	127,442,000
As at December 31, 2009	106,605,000	(5,621,000)	9,969,000	110,953,000

As at December 31, 2010, the interest rate used to determine the time value of money was 2.15% and reflected the market yield. (2009 – 1.9%)

Significant measurement uncertainty exists with respect to the undiscounted and discounted balances as a significant number of assumptions are necessary to determine such estimates. Final claim payments may differ from the computed provisions, particularly when payments may not occur for several years. Any such adjustments to the provision will be reflected in the results for the year during which the adjustments are made.

The Company completes an annual evaluation of the adequacy of unpaid claims and claims adjustment costs at the end of each financial year. This evaluation includes a re-estimation of the liability for unpaid claims and claims adjustment costs relating to each preceding financial year compared to the liability that was originally established. The results of this comparison and the changes in the unpaid claims and claims adjustment costs for the years ended December 31, 2010 and 2009 were as follows:

	2010	2009
Provision, beginning of year	110,953,000	82,427,000
Net claims and claims adjustment costs		
Incurred related to current year	39,345,000	38,403,000
Incurred related to prior years	3,934,000	13,304,000
Settled related to current year	(5,919,000)	(6,191,000)
Settled related to prior years	(20,871,000)	(16,990,000)
Provision, end of year	127,442,000	110,953,000

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Year ended December 31, 2010

7. FINANCIAL INSTRUMENTS

The major financial instruments held by the Company are an indemnity receivable from the TTC and an advance from TCTI. The indemnity receivable from the TTC corresponds with the liability for automobile personal injury and accident benefit claims incurred. This receivable arose from the indemnity agreement described in note 3(c). The payment of this receivable by the TTC is also covered by a separate guarantee agreement issued by the City. The Company considers the carrying value of the indemnity receivable and the amortized cost of the advance from TCTI to be approximately equivalent to their fair value. The maturity of the Indemnity Receivable from the TTC is directly linked to the maturity of Company's accident claims liabilities, resulting in the Company having negligible liquidity and interest risk. A maturity analysis of the Company's financial liabilities has therefore not been presented. The Company has low credit risk due to the indemnity agreement between the TTC and the Company and does not face market risk, and currency risk.

All other financial assets and liabilities such as cash and cash equivalents, interest receivable and accounts payable are short-term in nature and the carrying values of these financial instruments approximate their fair value. The credit risk on cash and cash equivalents is considered negligible as it is readily convertible to cash on short notice.

8. ADVANCE FROM TORONTO COACH TERMINAL INC.

The advance from TCTI is measured at cost and is due on demand, unsecured and non-interest bearing.

9. CAPITAL STOCK

The capital stock consists of the following:

As of December 31, 2010 and 2009

Authorized:

10,000 common shares with par value of \$100 each

Issued and fully paid:

1,000 common shares

\$ 100,000

10. RETENTION LEVELS

The Company's retention levels are the minimum limits of insurance, as required by the various municipal, provincial and federal statutes, and are fully recoverable from the TTC. The TTC has purchased excess insurance to cover claims in excess of \$5,000,000, excluding no-fault claims.

11. RELATED PARTY TRANSACTIONS

The TTC provides all management and administrative services necessary to support the operations of the Company. Related party transactions are recorded at the exchange amount. The expense incurred for the year for these services was \$15,060 (2009 - \$9,742) and this has been reflected in the statement of income.

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12. CONTINGENCIES

The Company is a party to a number of legal proceedings in the ordinary course of its business. While there exists an inherent difficulty in predicting the outcome of such matters, based on current knowledge and consultation with legal counsel, management does not expect that the outcome of any of these matters, individually or in aggregate, would have a material adverse impact on the Company's financial position. In management's opinion, the Company has made adequate provision for all claims and legal proceedings.