TORONTO COACH TERMINAL INC. AUDIT COMMITTEE REPORT NO.

MEETING DATE: June 24, 2014

SUBJECT: Draft Consolidated Financial Statements of Toronto Coach Terminal Inc. for the Year Ended December 31, 2013

ACTION ITEM

RECOMMENDATION

It is recommended that the Audit Committee:

(1) approve the draft consolidated financial statements of Toronto Coach Terminal Inc. ("TCTI") for the Year Ended December 31, 2013; and

(2) approve the forwarding of the consolidated financial statements to the Special Meeting of Directors of TCTI on June 24, 2014 for formal approval; and to the City Manager, as requested by the City Council at its meeting held on May 8, 2012.

BACKGROUND

The mandate and responsibilities of the Audit Committee include a requirement to "….review the annual Financial Statements and consider whether they are complete and consistent with information known to Committee members…".

The consolidated financial statements include the results of TCTI's subsidiary, Toronto Transit Commission Insurance Company Ltd. (TTCIC) and are unaudited. As TCTI's new business model significantly reduced the number and variety of financial transactions, at the annual meeting of shareholders held June 24, 2013, the Board and the Chair, on behalf of the TTC (as shareholder), approved discontinuing the annual audit of the TCTI, effective January 1, 2013. The financial statements of TTCIC were and will continue to be audited.

DISCUSSION

The consolidated financial statements, including its subsidiary, TTCIC, for the year ended December 31, 2013 are hereby submitted for approval.

Staff would be pleased to answer any questions that you may have about the draft financial statements for 2013.

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Attachment: Draft 2013 Consolidated Toronto Coach Terminal Inc. Financial Statements

(Unaudited)
Consolidated Financial Statements of

TORONTO COACH TERMINAL INC.

Year ended December 31, 2013

TORONTO COACH TERMINAL INC.

(incorporated under the laws of the Province of Ontario)

Consolidated Statement of Financial Position (Unaudited)
As at

	Dec 31 2013	Dec 31 2012
	($000s)	($000s)
FINANCIAL ASSETS		
Cash and cash equivalents (Note 8)	3,898	4,249
Accounts receivable	5	5
Indemnity receivable from the TTC (Note 10)	141,462	154,746
Total Financial Assets	145,365	159,000
LIABILITIES		
Accounts payable and accrued liabilities	259	377
Advances from parent (Note 4)	10,885	11,964
Insurance Liabilities (Note 11)	141,462	154,746
Total Liabilities	152,606	167,087
NET DEBT	(7,241)	(8,087)
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 3)	4,402	4,955
	4,402	4,955
Capital Stock (Note 9)	1,000	1,000
Accumulated (Deficit)	(3,839)	(4,132)

See accompanying notes to the consolidated financial statements

On behalf of the Board:

________________________ Director

________________________ Director

TORONTO COACH TERMINAL INC.

(incorporated under the laws of the Province of Ontario)

Consolidated Statement of Operations and Accumulated Deficit
(Unaudited)
Years ended December 31

	2013 BUDGET	2013 ACTUAL	2012 ACTUAL
	($000s) (Note 5)	($000s)	($000s)
REVENUE			
Lease revenue	1,200	1,200	579
Commissions and fees on ticket sales	-	-	1,780
Property rental revenue	-	-	690
Miscellaneous	55	62	223
Total revenue	1,255	1,262	3,272
EXPENSES			
Customer Service and Information (Note 6b)	-	-	1,343
Terminal and Building Management (Note 6b)	929	929	2,377
Insurance Company Management	39	40	39
Total expenses	968	969	3,759
Annual Surplus/(Deficit)	287	293	(487)
Accumulated (Deficit), beginning of year	(4,132)	(4,132)	(3,645)
Accumulated (Deficit), end of year	(3,845)	(3,839)	(4,132)

See accompanying notes to the consolidated financial statements

TORONTO COACH TERMINAL INC.
(incorporated under the laws of the Province of Ontario)

Consolidated Statement of Change in Net Debt
(Unaudited)
Years ended December 31

	2013 BUDGET	2013 ACTUAL	2012 ACTUAL
	($000s) (Note 5)	($000s)	($000s)
Annual Surplus/(Deficit)	287	293	(487)
Acquisition of tangible capital assets	-	-	(7)
Amortization of tangible capital assets	557	553	571
Proceeds on disposal of tangible capital assets	-	-	50
Change due to tangible capital assets	557	553	614
Change in prepaid expenses	-	-	3
Decrease in net debt	844	846	130
Net debt - Beginning of year	(8,087)	(8,087)	(8,217)
Net debt - End of year	(7,243)	(7,241)	(8,087)

See accompanying notes to the consolidated financial statements

TORONTO COACH TERMINAL INC.
(incorporated under the laws of the Province of Ontario)

Consolidated Statement of Cash Flows (Unaudited)
Years ended December 31

	2013	2012
	($000s)	($000s)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from tenants	1,200	1,269
Cash received from commissions	-	1,780
Cash paid to employees	(60)	(2,697)
Cash paid to suppliers	(54)	(994)
Cash received for interest	62	97
Other cash received	1	181
Cash provided/(used in) by operating activities	1,149	(364)
CASH FLOWS FROM CAPITAL ACTIVITIES		
Acquisition of tangible capital assets	-	(7)
Proceeds on disposal of tangible capital assets	-	50
Cash provided by capital activities	-	43
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan repayment to parent	(1,500)	(4,000)
Cash (used in) financing activities	(1,500)	(4,000)
Increase (decrease) in cash and cash equivalents during the year	(351)	(4,321)
Cash and cash equivalents, beginning of year	4,249	8,570
Cash and cash equivalents, end of year	3,898	4,249

See accompanying notes to the consolidated financial statements

1. NATURE OF OPERATIONS

Toronto Coach Terminal Inc. (the "Company") was incorporated in Ontario by Letters Patent dated June 28, 1927. The Company is wholly owned by the Toronto Transit Commission (the "TTC"). The Company owns and, up until July 7, 2012, directly operated a coach terminal located in the City of Toronto (the "City"). Effective July 8, 2012, the Company entered into a lease agreement with Greyhound and Coach Canada Toronto Operations Ltd. (GACCTO) for the use of the entire coach terminal including the retail space, lockers, and parking facilities. The coach terminal is now operated by GACCTO.

The Company wholly owns the TTC Insurance Company Ltd. ("Insurance Co."). The Insurance Company was incorporated on March 9, 1994 under the Ontario Corporations Act and 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 by the Toronto Coach Terminal Inc. in accordance with the Public Sector Accounting Handbook. In 2011, the Company elected to early adopt PS 3450 Financial Instruments. In accordance with PS 1150 Generally Accepted Accounting Principles, and in the absence of specific guidance under PSAS, the guidance from IFRS 4, Insurance Contracts, was used for the measurement and presentation of insurance liabilities. Since the company holds all investments in the form of cash and cash equivalents, a Statement of Remeasurement Gains and Losses has not been presented.

(b) Basis of consolidation

The consolidated financial statements include the financial results of the Company's subsidiary, TTC Insurance Company Limited.

(c) Measurement uncertainty

The preparation of the consolidated financial statements in conformity with Public Sector Accounting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period.

Specifically, the recognized amounts of insurance liabilities are based on the Company's best information and judgment. These estimates and other judgments are continuously evaluated based on management's experience and expectations about future events. Any variation in the ultimate insurance liability incurred will be offset by a corresponding change in the indemnity receivable and recognized in the current period. In addition, depreciation expense is based on the asset lives described in note 2e.

(d) Cash and Cash Equivalents

Cash and cash equivalents consist of funds on deposit with a chartered bank.

(e) Tangible Capital assets and depreciation

Capital assets are recorded at cost less accumulated depreciation. Depreciation is calculated using the straight-line method at rates based on the estimated useful lives of the assets, which has been estimated at 30 years for the Buildings.

(f) Lease revenue
The Company earns lease revenue for the use of the entire coach terminal including the retail space, lockers and parking facilities.

(g) Commissions and fees on ticket sales
While the Company directly operated the terminal in 2012, commissions and fees were recognized when bus tickets were sold to passengers that secured a ride on one of the Company's tenant carrier buses.

(h) Property rental
While the Company directly operated the terminal in 2012, the Company earned rental revenue for the use of the Company's bus platforms, office and retail space and parking facilities. Revenue was recognized in accordance with the various rental agreements which were usually based on a fixed rate per month or fee per use.

(i) Miscellaneous Revenue
Miscellaneous Revenue is comprised mainly of bank interest and, in 2012, locker revenue. Locker revenue was earned through the rental of lockers to bus passengers travelling on inter-city coach services. Revenue was recognized when the lockers were used.

(j) Insurance Liabilities
Insurance liabilities reflect an actuarial assessment of the automobile claims liability on the basis mandated by the Financial Services Commission of Ontario. When a claim is reported, a case reserve is established 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 the 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.

3. TANGIBLE CAPITAL ASSETS

The cost of tangible capital assets is as follows:

(in $000s)				
		Cost Dec 31, 2013		
	Beginning	**Additions**	**Disposals**	**Ending**
Land	886	-	-	886
Buildings	15,114	-	-	15,114
Total	16,000	-	-	16,000

(in $000s)				
		Cost Dec 31, 2012		
	Beginning	**Additions**	**Disposals**	**Ending**
Land	886	-	-	886
Buildings	15,107	7	-	15,114
Furniture, Fixtures & Other Equipment	695	-	(695)	-
Total	16,688	7	(695)	16,000

The accumulated amortization for tangible capital assets is as follows:

(in $000s)				
	Accumulated Amortization Dec 31, 2013			
	Beginning	**Depreciation**	**Disposals**	**Ending**
Land	-	-	-	-
Buildings	11,045	553	-	11,598
Total	11,045	553	-	11,598

(in $000s)				
	Accumulated Amortization Dec 31, 2012			
	Beginning	**Depreciation**	**Disposals**	**Ending**
Land	-	-	-	-
Buildings	10,478	567	-	11,045
Furniture, Fixtures & Other Equipment	641	4	(645)	-
Total	11,119	571	(645)	11,045

Based on above, net book value is as follows:

(in $000s)		
	Net Book Value Dec 31, 2013	**Net Book Value Dec 31, 2012**
Land	886	886
Buildings	3,516	4,069
Furniture, Fixtures & Other Equipment	-	-
Total	4,402	4,955

4. ADVANCES FROM PARENT

The advance from parent consists of the following:

(in $000s)	Dec 31, 2013	Dec 31, 2012
Current (receivable)/payable	(31)	(90)
Accrued interest on loan payable	7,332	7,978
Demand loan payable, at prime	3,584	4,076
Total advances from parent	10,885	11,964

Interest expense on the demand loan amounted to $362,000 (2012 - $438,000).

5. BUDGET DATA

Budget data presented in these consolidated financial statements is based upon the 2013 operating budget approved by the Board of Directors of the Toronto Coach Terminal Inc.

6. SEGMENT DISCLOSURES AND EXPENDITURES BY OBJECT

(a) The following tables provide a breakdown of the consolidated statement of financial position, based upon the two segments of the Company, the Coach Terminal ("TCTI") and the Insurance Company ("TTCIC"). The figures exclude TCTI's investment of $100,000 (2012 - $100,000) in TTCIC and TCTI's advance to TTCIC of $3.3 million (2012 - $2.9 million), as they are eliminated upon consolidation.

(in $000s)	**Dec 31, 2013**	**TCTI**	**TTCIC**	**Total**
Financial Assets				
Cash		498	3,400	3,898
Accounts Receivable		1	4	5
Indemnity receivable from the TTC		-	141,462	141,462
Total Financial Assets		499	144,866	145,365
Liabilities				
Accounts payable and accrued liabilities		255	4	259
Advances from parent		10,885	-	10,885
Insurance Liabilities		-	141,462	141,462
Total Liabilities		11,140	141,466	152,606
Non-Financial Assets				
Tangible capital assets		4,402	-	4,402
Total Non-Financial Assets		4,402	-	4,402
Capital Stock		1,000	-	1,000
Accumulated (Deficit)		(3,839)	-	(3,839)

(in $000s)	**Dec 31, 2012**	**TCTI**	**TTCIC**	**Total**
Financial Assets				
Cash		1,249	3,000	4,249
Accounts Receivable		2	3	5
Indemnity receivable from the TTC		-	154,746	154,746
Total Financial Assets		1,251	157,749	159,000
Liabilities				
Accounts payable and accrued liabilities		374	3	377
Advances from parent		11,964	-	11,964
Insurance Liabilities		-	154,746	154,746
Total Liabilities		12,338	154,749	167,087
Non-Financial Assets				
Prepaid expenses		-	-	-
Tangible capital assets		4,955	-	4,955
Total Non-Financial Assets		4,955	-	4,955
Capital Stock		1,000	-	1,000
Accumulated (Deficit)		(4,132)	-	(4,132)

(b) The following tables provide a breakdown of the consolidated statement of operations and deficit by function and by expenditure object:

2013 (in $000s)	Customer Service	Terminal/Bldg. Management	TCTI Total	TTCIC Total	Consolidated Total
Revenues					
Lease revenue	-	-	1,200	-	1,200
Commissions & fees on ticket sales	-	-	-	-	-
Property rental	-	-	-	-	-
Miscellaneous	-	-	22	40	62
Total Revenue	**-**	**-**	**1,222**	**40**	**1,262**
Expenses					
Wages, salaries and benefits	-	5	5	-	5
Materials, services and supplies	-	9	9	40	49
Property taxes	-	-	-	-	-
Depreciation	-	553	553	-	553
Interest expense	-	362	362	-	362
Total Expenses	**-**	**929**	**929**	**40**	**969**
Annual profit	**-**	**-**	**293**	**-**	**293**
Accumulated (Deficit)	**-**	**-**	**(3,839)**	**-**	**(3,839)**

2012 (in $000s)	Customer Service	Terminal/Bldg. Management	TCTI Total	TTCIC Total	Consolidated Total
Revenues					
Lease revenue					
Commissions & fees on ticket sales	-	-	1,780	-	1,780
Property rental	-	-	1,269	-	1,269
Miscellaneous	-	-	184	39	223
Total Revenue	**-**	**-**	**3,233**	**39**	**3,272**
Expenses					
Wages, salaries and benefits	1,298	861	2,159	-	2,159
Materials, services and supplies	45	336	381	39	420
Property taxes	-	171	171	-	171
Depreciation	-	571	571	-	571
Interest expense	-	438	438	-	438
Total Expenses	**1,343**	**2,377**	**3,720**	**39**	**3,759**
Annual Surplus	**-**	**-**	**(487)**	**-**	**(487)**
Accumulated (Deficit)	**-**	**-**	**(4,132)**	**-**	**(4,132)**

7. FINANCIAL INSTRUMENTS

The main categories of financial instruments held by the Company include cash and cash equivalents, indemnity receivable from the TTC, advances from parent and insurance liabilities.

The indemnity receivable from the TTC corresponds with the insurance liabilities. This receivable arose from the indemnity agreement described in note 10(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 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 insurance liabilities, resulting in the Company having negligible liquidity and interest risk. The Company has low credit risk due to the guarantee agreement between the City and the Company and does not face market risk, or currency risk.

The carrying value of the advances from parent approximates its fair value as interest is accrued at the prime rate and compounded annually. The carrying values of accounts receivable and cash and cash equivalents approximate their fair values. The credit risks on these are considered negligible as they are readily convertible to cash on short notice. The company's accounts payable and accrued liabilities are all due for payment within 12 months of the consolidated balance sheet dates and approximate their fair value. The liquidity risk on accounts payable and accrued liabilities is managed through maintaining sufficient cash and cash equivalents.

8. CASH AND CASH EQUIVALENTS

Pursuant to the guarantee agreement with the City described in note 10(d), the Insurance Co. is required to maintain cash or securities available for payment of current liabilities equal to 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 $3,400,000 (Dec 31, 2012 - $3,000,000)

9. CAPITAL STOCK

The capital stock includes 10,000 common shares with a par value of $100 each.

10. LICENCE AND INDEMNITY RECEIVABLE

Insurance Co. received a license 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. Insurance Co. initiated such transactions on July 30, 1994. By Provincial Order in Council dated July 6, 1994, Insurance Co. was granted the said license subject to the following conditions:

(a) Insurance Co. maintain, in aggregate, a paid-up capital and unimpaired surplus of not less than $100,000;

(b) Insurance Co. 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 Insurance Co., whereby Insurance Co. 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 Insurance Co. has received from the City remains in full force and effect.

As a result of the indemnity agreement and the City guarantee, Insurance Co. has negligible insurance risk, as any change in Insurance Co.'s insurance liabilities would be offset by a corresponding change in the balance of the indemnity receivable. For this reason, disclosures on specific insurance risks have not been made.

11. INSURANCE LIABILITIES

Insurance liabilities are 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.

Case Reserves

Insurance liabilities are based on the case reserves set by claims adjusters for each individual claim. These specialists apply their knowledge and expertise, after taking available information regarding the circumstances of the claim into account, to set individual case reserve estimates. The Company bases such estimates on the facts available at the time the reserves are established.

Incurred But Not Reported

An incurred but not reported provision "IBNR" is then added to the case reserves as uncertainty exists on reported claims, because, for example, full information on case files may not be available at the valuation date, or losses have been incurred but are not yet reported. Therefore, the Company relies upon historical information and statistic models, to estimate the IBNR liability. The Company also uses reported claims trends, claims severity, exposure growth and other factors in estimating its IBNR reserve. The time required to learn of and settle claims is an important consideration in establishing the Company's reserves. The Company revises theses reserves as additional information becomes available.

Time Value of Money and Provision for Adverse Deviation

The 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 PFADs on the insurance liabilities and claims adjustment costs.

Unpaid claims and claims adjustment costs ($000s):	Undiscounted	Time Value of Money	Discounted (before PFAD)	PFAD	Discounted
As at December 31, 2013	139,192	(10,363)	128,829	12,633	141,462
As at December 31, 2012	149,825	(8,894)	140,931	13,815	154,746

As at December 31, 2013, the interest rate used to determine the time value of money was 2.33% (December 31, 2012 – 1.95%) and reflected the market yield.

Based on the indemnity agreement described in note 10(c), there is no net impact on the Company as a result of changes in the amount of the insurance liability as any increase would be offset by an increase in the indemnity receivable.

12. COMPARATIVE AMOUNTS

The comparative consolidated financial statements have been regrouped from statements previously presented to conform to the presentation adopted in 2013.