TTC INSURANCE COMPANY LIMITED
REPORT NO.

MEETING DATE: June 21, 2012

SUBJECT: DRAFT FINANCIAL STATEMENTS OF TTC INSURANCE COMPANY LIMITED FOR THE YEAR ENDED DECEMBER 31, 2011

ACTION ITEM

RECOMMENDATION

It is recommended that the Board of Directors:

1. Approve the attached draft financial statements of TTC Insurance Company Limited for the year ended December 31, 2011; and

2. Forward the approved financial statements to the Shareholders for information.

DISCUSSION

The draft financial statements for the year ended December 31, 2011 are attached. Upon approval by the Board, signified by the signature on the balance sheet by two Directors, the financial statements will be submitted to the Shareholders for information.

42.35
Attachment

DRAFT

Financial Statements of

TTC INSURANCE COMPANY LIMITED

Year ended December 31, 2011

February 22, 2012

Independent Auditor's Report

To the Shareholders of
TTC Insurance Company Limited

We have audited the accompanying financial statements of TTC Insurance Company Limited, which comprise the statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010 and the statements of operations and accumulated surplus and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audits evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of TTC Insurance Company Limited as at December 31, 2011, December 31, 2010 and January 1, 2010 and the results of its operations and its cash flows for the years then ended in accordance with Canadian public sector accounting standards.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

TTC INSURANCE COMPANY LIMITED

Statement of Financial Position
As at

	December 31 2011	December 31 2010	January 1 2010
	($)	($)	($)
FINANCIAL ASSETS			
Cash and cash equivalents (note 5)	3,003,526	2,600,000	2,600,000
Interest Receivable	3,309	6,621	1,836
Indemnity receivable from the Toronto Transit Commission (note 4c and 7)	144,772,000	127,442,000	110,953,000
Total Financial Assets	147,778,835	130,048,621	113,554,836
LIABILITIES			
Accounts Payable	6,835	6,621	1,836
Insurance Liabilities (note 4c and 6)	144,772,000	127,442,000	110,953,000
Advance from Toronto Coach Terminal Inc. (note 7 and 8)	2,900,000	2,500,000	2,500,000
Total Liabilities	147,678,835	129,948,621	113,454,836
Net Assets	100,000	100,000	100,000
Accumulated Surplus (note 9)	100,000	100,000	100,000

See accompanying notes to the financial statements

On behalf of the Board:

______________________ Director

______________________ Director

TTC INSURANCE COMPANY LIMITED

Statement of Operations and Accumulated Surplus
Year ended December 31

	(Unaudited) 2011 Budget	2011 Actual	2010
	($)	($)	($)
REVENUE			
Premium from the Toronto Transit Commission	2	2	2
Investment income	26,000	31,326	16,058
Total Revenue	26,002	31,328	16,060
EXPENSES			
Assessment fee to the Financial Services Commission of Ontario	1,000	1,000	1,000
Management fee to the Toronto Transit Commission (note 11)	25,002	30,328	15,060
Total Expenses	26,002	31,328	16,060
Surplus for the Year	-	-	-
Accumulated Surplus - Beginning of Year	100,000	100,000	100,000
Accumulated Surplus - End of Year	100,000	100,000	100,000

See accompanying notes to the financial statements

TTC INSURANCE COMPANY LIMITED

Statement of Cash Flows
Year ended December 31

	2011	2010
	($)	($)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from investments, bank interest and premium	34,640	11,275
Cash paid for management fee	(30,114)	(10,275)
Cash paid for Financial Services Commission assessment	(1,000)	(1,000)
Net cash flow from operating activities	3,526	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Advance received from Toronto Coach Terminal Inc.	400,000	-
Increase in cash and cash equivalents during year	400,000	-
Cash and cash equivalents, beginning of the year	2,600,000	2,600,000
Cash and cash equivalents, end of the year	3,003,526	2,600,000

See accompanying notes to the financial statements

1. NATURE OF OPERATIONS

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. ADOPTION OF AND TRANSITION TO PUBLIC SECTOR ACCOUNTING STANDARDS

In December 2009, the Canadian Institute of Chartered Accountants ("CICA") amended the Public Sector Accounting Standards. Under the new standards, the Company is now an "other government organization" and given the nature of its operations and the consent of the Financial Services Commission of Ontario, has elected to adopt Public Sector Accounting Standards. These financial statements are the first financial statements prepared in accordance with Public Sector Accounting Standards (PSAS). In accordance with PS 2125 – First-Time Adoption by Government Organizations, the updated accounting policies have been applied retroactively, with a transition date of January 1, 2010. None of the optional exemptions available under PS 2125 were elected by, nor applicable to, the Company. The adoption of Public Sector Accounting Standards had no impact on the Statement of Operations and Accumulated Surplus as at January 1, 2010 and December 31, 2010. There was also no impact on the surplus or on the statement of cash flows for the year ended December 31, 2010.

The Company adopted the recommendations of Section PS 1201 - Financial Statement Presentation. Financial statement presentation for assets and liabilities is now based on the concept of net debt. Under this model, the Balance Sheet, has been replaced with a Statement of Financial Position.

A Statement of Change in Net Debt has not been presented as the Company does not have any non-financial assets and does not generate a surplus or deficit. Therefore, the presentation of a Statement of Change in Net Debt would not provide any information that could not be obtained from the Statement of Financial Position or the Statement of Operations and Accumulated Surplus. 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.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

These financial statements are prepared in accordance with the Public Sector Accounting Handbook. The Company has 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.

(b) Measurement Uncertainty

Insurance liabilities are subject to measurement uncertainty. The recognized amounts of such items are based on the Company's best information and judgment. 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.

(c) Cash and Cash Equivalents

Cash and Cash equivalents consist of funds on deposit with a chartered bank or money market instruments, such as treasury bills and bankers' acceptances, which are readily convertible to cash on short notice.

(d) Insurance Contracts

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk arises when the Company agrees to compensate a policyholder if a specified uncertain future event adversely affects the policyholder. Significant risk is defined as the possibility of having to pay significantly more in a scenario where the insured event occurs than when it does not occur. Due to the indemnity agreement received from the TTC (see note 4), the contract issued by the company does not in substance transfer any risk. Accordingly, the contract is recorded on the Statement of Financial Position and not reflected on the Statement of Operations and Accumulated Surplus.

(e) 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.

(f) Revenue Recognition

Interest earned from funds on deposit or investments is recorded as investment income on an accrual basis.

(g) 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.

4. LICENCE AND INDEMNITY RECEIVABLE

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.

As a result of the indemnity agreement and the City guarantee, the Company has negligible insurance risk, as any change in the company’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.

5. CASH AND CASH EQUIVALENTS

Pursuant to the guarantee agreement with the City described in note 4(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 $3,000,000 (2010 - $2,600,000).

6. 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:	Undiscounted	Time Value of Money	PFAD	Discounted
As at December 31, 2011	137,331,000	(5,605,000)	13,046,000	144,772,000
As at December 31, 2010	123,171,000	(7,094,000)	11,365,000	127,442,000
As at January 1, 2010	106,605,000	(5,621,000)	9,969,000	110,953,000

As at December 31, 2011, the interest rate used to determine the time value of money was 1.35% (December 31 2010 – 2.15%, January 1, 2010 – 1.9%) and reflected the market yield.

Measurement Uncertainty and Assumption Sensitivity

Significant measurement uncertainty exists with respect to the undiscounted and discounted balances as a significant number of assumptions are necessary to determine such estimates as described above. 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.

Given the diversity and number of the assumptions involved, quantifying the individual assumptions that are more likely than others to have a significant impact on the measurement of the Company's insurance liabilities is impractical.

Claims Development

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, 2011 and 2010 were as follows:

	2011	2010
Insurance liabilities, beginning of year	127,442,000	110,953,000
Net claims and claims adjustment costs		
Incurred related to current year	39,847,000	39,345,000
Incurred related to prior years	9,314,000	3,934,000
Settled related to current year	(3,436,000)	(5,919,000)
Settled related to prior years	(28,395,000)	(20,871,000)
Insurance liabilities, end of year	**144,772,000**	**127,442,000**

Based on the indemnity agreement described in note 4(c), there is no net impact on the Company as a result of the claims development as any adverse claims development, would be offset by an increase in the indemnity receivable. As a result, a claims development table is not presented in these financial statements.

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 insurance liabilities. This receivable arose from the indemnity agreement described in note 4(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 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.

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. ACCUMULATED SURPLUS

The accumulated surplus consists of 1,000 common shares with a par value of $100 each.

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 $30,328 (2010 - $15,060) and this has been reflected in the statement of operations and accumulated surplus.

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.