

TTC AUDIT COMMITTEE REPORT NO.

MEETING DATE April 30, 2012

SUBJECT Draft Consolidated Financial Statements of Toronto Transit
Commission for the Year Ended December 31, 2011

FOR ACTION

RECOMMENDATION

It is recommended that the Audit Committee:

- 1) approve the draft consolidated financial statements of the Toronto Transit Commission for the year ended December 31, 2011; and
- 2) approve the forwarding of the consolidated financial statements to a regular meeting of the Commission for formal approval, then to City Council for information through the Audit Committee of the City of Toronto.

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...".

DISCUSSION

The draft consolidated financial statements of the Toronto Transit Commission for the year ended December 31, 2011 have been prepared by Management. They have been audited by PricewaterhouseCoopers LLP ("PWC"), as indicated by the draft Auditors' Report (or 'Opinion') included with the attached statements. The Auditor's Report provides an opinion that the consolidated financial statements present fairly, in all material respects, the financial position of the Commission in accordance with Canadian public sector accounting standards. After the financial statements are approved by the Audit Committee and PWC completes its file documentation, the draft unqualified opinion will be finalized on PWC letterhead.

Adoption of Public Sector Accounting Standards

These financial statements are presented in accordance with the requirements outlined by the Canadian Institute of Chartered Accountants (CICA). In past years, these requirements required the Commission to produce annual consolidated financial statements that looked similar to those of private sector companies. Effective January 1, 2011, the CICA changed

the requirements, and as a result, the Commission is now classified as an “other government organization” and has elected to adopt the requirements of the Public Sector Accounting Board (PSAB). These Public Sector Accounting Standards (PSAS) are the same requirements followed by the City of Toronto. The key changes that resulted from this change in accounting requirements are outlined in note 2 in the attached consolidated financial statements.

Key Components of the Consolidated Financial Statements

The attached consolidated financial statements consist of four main statements and 17 notes that provide context to the numbers that are presented on the statements. The four statements presented are:

1) Consolidated Statement of Financial Position

The Consolidated Statement of Financial Position is considered to be the equivalent of the private sector’s balance sheet. This statement focuses on the Commission’s assets (financial and non-financial) and liabilities. The difference between the liabilities and financial assets is the Commission’s net debt, which represents the net amount that will be funded from future revenue.

2) Consolidated Statement of Operations and Accumulated Surplus

The Consolidated Statement of Operations and Accumulated Surplus is considered to be the equivalent of the private sector’s Statement of Income and Retained Earnings. It provides a summary of the revenues and expenses for the year.

3) Consolidated Statement of Change in Net Debt

This statement outlines the items that have caused a change to the net debt amount that is presented on the Consolidated Statement of Financial Position.

4) Consolidated Statement of Cash Flows

This statement outlines the key cash inflows and outflows to explain the change in the cash balance on a year over year basis.

Operating Budgets Surplus for the Year

It is very important to note that the accounting surplus presented on the consolidated financial statements is unrelated to the 2011 operating budgets surplus. The Commission had an operating budget surplus of \$19.8M for conventional transit and \$2.2M for Wheel-Trans. This surplus represented the amount by which the operating subsidy available from the City of Toronto exceeded the amount that was actually required and used by the Commission. The operating budget surplus is summarized as follows:

\$ millions	TTC Conventional Transit	Wheel-Trans	Total
2011 Operating Revenue	1,026.4	5.1	1,031.5
2011 Operating Expenses ¹	1,435.7	93.9	1,529.6
Current Operating Subsidy Required	409.3	88.8	498.1
Current Operating Surplus Available	429.1	91.0	520.1
Operating Budget Surplus	\$19.8	\$2.2	\$22.0

The budget for operating subsidy on the consolidated statement of operations is \$544.9M and the actual operating subsidy recognized is \$523.4M. The difference between these amounts and the information presented in the table above relate to the portion of accident claims and employee benefits that is funded through the long-term receivable. Expenses funded through the long-term receivable were \$0.5M over budget.

Accounting Surplus – As Reported in the Consolidated Financial Statements

The accounting surplus for the year as reported in the Consolidated Statement of Operations is comprised of the following items:

Item	Amount
Capital subsidy revenue	913.9M
Depreciation expense for assets that were funded through capital subsidy	(292.2M)
Pension Fund Society income in excess of required contributions	84.9M
Entities under the control of TTC	0.5M
Total	707.1M

Explanations for the components of the accounting surplus are as follows:

Capital Subsidy Revenue and Depreciation Expense: \$621.7M (net)

Capital subsidies are used to acquire or construct capital assets. Under PSAS, these subsidies must be recognized as revenue, in the year that the Commission qualified for the funding. (i.e. the year in which the capital asset was acquired or constructed.) In 2011, the Commission recognized \$913.9M in capital subsidy revenue.

The cost of these capital assets, however, is not immediately recorded as an expense as the assets will serve the Commission for several years. Instead, a depreciation expense is recorded in the Consolidated Statement of Operations over several years as the assets are used and gradually wear out. In 2011, the Commission recorded \$292.2M of depreciation expense which is an estimate of the decline in value of Commission's assets in 2011 due to age and use.

¹ When compared to the amount reported on the Consolidated Statement of Operations, this amount excludes: depreciation related to subsidized capital assets; TTC Pension Fund income in excess of required contributions; and the costs of certain employee post-retirement benefits and accident claims that are funded through the long-term receivable but includes the City's Special Costs (details can be found on the Consolidated Financial Statements Schedule at the end of the Financial Statements).

The difference between the capital subsidy revenue (\$913.9M) noted above and the depreciation expense for subsidized assets (\$292.2M), is the source of \$621.7M of the accounting surplus, however this amount does not represent surplus funds. The full \$913.9M was spent on the capital assets acquired or constructed this year.

Typically, operating budget reports do not include the capital subsidy revenue or the depreciation expense for the related assets because these subsidies are incorporated into the capital budget process and because depreciation expense is an accounting expense that is not linked to any cash requirement.

Pension Fund Society Income in Excess of Required Contributions: \$84.9M

The Commission is required to make contributions to the TTC Pension Fund Society, as set by the TTC Pension Fund Board, subject to the funding requirements determined in the actuarial report and subject to the limitations of the Sponsorship Agreement. PSAS requires the Commission to account for the TTC Pension Fund in a manner similar to a defined benefit plan. This accounting change resulted in \$84.9M of accounting income being included in the Commission's financial statements in 2011, even though the Commission did not receive any amounts nor any benefit from the Pension Fund and the cash contributions required remained unchanged.

Entities Under the Control of TTC: \$0.5M (net)

Budgets and periodic financial reports are presented separately for the TTC conventional transit system, Wheel-Trans operations, Toronto Coach Terminal Inc., TTC Insurance Company Ltd. and the TTC Sick Benefit Association. However PSAS requires these financial statements to be presented on a consolidated (combined) basis. Therefore the results for all entities controlled by the Commission are reported in aggregate. As a result, the \$668,000 surplus reported by the Toronto Coach Terminal Inc. and the \$161,000 deficit reported by the Toronto Transit Infrastructure Limited are reported in these consolidated financial statements and form part of the Commission's consolidated surplus for the year.

The above information provides some context to the amount presented in the attached consolidated financial statements. Both staff and PWC auditors would be pleased to answer any further questions that you may have about the financial statements for 2011.

April 24, 2012

42-129

Attachment: Draft 2011 Consolidated Toronto Transit Commission Financial Statements

DRAFT April 24

Consolidated Financial Statements of

TORONTO TRANSIT COMMISSION

Year ended December 31, 2011

DRAFT – INDEPENDENT AUDITOR’S REPORT

To the Chair and Members of the Toronto Transit Commission

We have audited the accompanying consolidated financial statements of the **Toronto Transit Commission** which comprise the consolidated statement of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, the consolidated statement of net debt as at December 31, 2011 and December 31, 2010 and the consolidated statements of operations and accumulated surplus and cash flows for the years then ended, and the related notes including 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 consolidated 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 the consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Toronto Transit Commission 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.

Other matter

The accompanying consolidated financial statements schedule as at and for the year ended December 31, 2011 is presented as supplementary information only and is not a required part of the basic consolidated financial statements. The information in this schedule has been subject to audit procedures only to the extent necessary to express an opinion on the consolidated financial statements of the Toronto Transit Commission.

DRAFT

Chartered Accountants, Licensed Public Accountants

Toronto, Canada
April 30, 2012

TORONTO TRANSIT COMMISSION

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Consolidated Statement of Financial Position
As at

	December 31, 2011	December 31, 2010	January 1, 2010
	(\$000s)	(\$000s)	(\$000s)
		(restated – see note 2)	(restated – see note 2)
Financial Assets			
Cash and Cash Equivalents (Note 4)	60,375	66,236	55,576
Subsidies Receivable (Note 5)	711,372	589,127	547,422
Accounts Receivable	74,692	59,919	36,108
Portfolio Investments (Note 6)	2,547	2,548	2,549
Total Financial Assets	848,986	717,830	641,655
Liabilities			
Accounts Payable and Accrued Liabilities	438,817	363,105	303,973
Deferred Passenger Revenue	76,150	63,852	66,010
Unsettled Accident Claims (Note 7)	157,833	142,884	125,694
Future Employee Benefits (Note 8)	399,911	371,854	352,692
Environmental liabilities (Note 9)	13,400	8,520	8,367
Total Liabilities	1,086,111	950,215	856,736
Net Debt	(237,125)	(232,385)	(215,081)
Non-Financial Assets			
Tangible Capital Assets (Note 10)	5,515,064	4,896,804	4,505,552
Spare Parts and Supplies Inventory	101,605	96,068	91,104
Prepaid Expense	5,021	1,856	2,187
Accrued Pension Benefit Asset (Note 8)	84,884	-	-
Total Non-Financial Assets	5,706,574	4,994,728	4,598,843
Accumulated Surplus (Note 11)	5,469,449	4,762,343	4,383,762

See accompanying notes to the consolidated financial statements

Approved: _____
Commissioner

Commissioner

TORONTO TRANSIT COMMISSION

Consolidated Statement of Operations and Accumulated Surplus
For the year ended December 31

	2011 Budget (\$000s) (unaudited) (Note 15)	2011 (\$000s)	2010 (\$000s) (restated – see note 2)
Operating Revenue			
Passenger Services	953,661	976,015	934,889
Advertising	20,250	15,815	18,904
Outside City Services	17,740	17,813	17,679
Property Rental	19,519	19,339	18,488
Miscellaneous	6,058	7,700	7,554
Total Operating Revenue	1,017,228	1,036,682	997,514
Subsidy Revenue			
Operating Subsidies (Note 12)	544,946	523,436	477,708
Capital Subsidies (Note 13)	1,395,300	913,938	909,159
Total Subsidy Revenue	1,940,246	1,437,374	1,386,867
Total Revenue	2,957,474	2,474,056	2,384,381
EXPENSES			
Conventional Transit Service	1,658,593	1,658,722	1,901,211
Wheel-Trans	105,948	103,411	100,014
Other Functions	4,792	4,817	4,575
Total Expenses (Note 14)	1,769,333	1,766,950	2,005,800
Surplus for the year	1,188,141	707,106	378,581
Accumulated surplus, beginning of the year	4,762,343	4,762,343	4,383,762
Accumulated surplus, end of the year	5,950,484	5,469,449	4,762,343

See accompanying notes to the consolidated financial statements

TORONTO TRANSIT COMMISSION

Consolidated Statement of Net Debt
For the year ended December 31

	2011 Budget (\$000) (unaudited)	2011 Actual (\$000)	2010 Actual (\$000) (restated – see note 2)
Surplus for the year	1,188,140	707,106	378,581
Change in capital assets			
Acquisitions	(1,418,692)	(937,945)	(933,625)
Amortization	319,198	312,265	542,318
Loss (Gain) on disposal	-	7,420	55
Total Change in Capital Assets	(1,099,494)	(618,260)	(391,252)
Change in Pension Benefit Asset	(84,884)	(84,884)	-
Change in Spare Parts and Supplies Inventory	-	(5,537)	(4,964)
Change in Prepaid Expenses	-	(3,165)	331
Change in Net Debt	3,762	(4,740)	(17,304)
Net Debt, beginning of year	(232,385)	(232,385)	(215,081)
Net Debt, end of year	(228,623)	(237,125)	(232,385)

TORONTO TRANSIT COMMISSION

Consolidated Statement of Cash Flows
For the year ended December 31

	2011	2010
	(\$000)	(\$000) (restated – see note 2)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from passenger services	988,313	932,731
Operating subsidies received	450,211	491,904
Non-passenger revenue received	63,338	55,307
Cash paid for wages, salaries and benefits	(1,088,200)	(1,042,815)
Cash paid to suppliers	(348,618)	(347,443)
Cash paid for accident claims	(34,445)	(30,014)
Cash provided by operating activities	30,599	59,670
CASH FLOWS FROM CAPITAL ACTIVITIES		
Capital asset acquisitions	(894,179)	(901,132)
Capital subsidies received	857,719	852,122
Cash (used in) capital activities	(36,460)	(49,010)
Increase (decrease) in cash and cash equivalents during the year	(5,861)	10,660
Cash and cash equivalents, beginning of the year	66,236	55,576
Cash and cash equivalents, end of the year	60,375	66,236

See accompanying notes to the consolidated financial statements

TORONTO TRANSIT COMMISSION

Notes to the Consolidated Financial Statements, page 1

Year ended December 31, 2011

1. NATURE OF OPERATIONS

The Toronto Transit Commission (the "Commission") was established on January 1, 1954 to consolidate and co-ordinate all forms of local transportation within the City of Toronto (the "City"), except railways and taxis. As confirmed in the City of Toronto Act (2006), the Commission shall plan for the future development of local passenger transportation so as to best serve its inhabitants and the City, and City Council is not entitled to exercise a power related to local transportation, except as it relates to the Toronto Islands. However, from a funding perspective, the Commission functions as one of the agencies, boards, and commissions of the City and is dependent upon the City for both operating and capital subsidies (notes 12 and 13). The Commission also operates Wheel-Trans, a transit service for people with disabilities, which is also subsidized by the City. The Commission's subsidiaries include the Toronto Transit Infrastructure Limited, Toronto Coach Terminal Inc. and its subsidiary, the TTC Insurance Company Limited. Since the Sick Benefit Association is controlled by the Commission, its results are also consolidated. The Commission is not subject to income and capital taxes, receives an 11.24% rebate for the Harmonized Sales Tax, and receives exemption from certain property taxes.

2. ADOPTION OF 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 Commission is now classified as an "other government organization" and given the nature of its operations, has elected to adopt Public Sector Accounting Standards (PSAS). These consolidated financial statements are the first financial statements prepared in accordance with PSAS. In accordance with PS 2125 – First-Time Adoption by Government Organizations, the consolidated financial statements for 2010, which were originally prepared based on the accounting standards of part V of the CICA Handbook have been restated. With the exception of the permitted exemptions outlined below, the updated accounting policies have been applied retroactively, with a transition date of January 1, 2010.

Permitted exemptions taken

The Commission adopted the following optional elections which are permitted upon transition to Public Sector Accounting Standards.

(a) Employee future benefits

The Commission elected to recognize all cumulative actuarial losses, related to post-employment and post-retirement plans as of January 1, 2010, directly in accumulated surplus.

(b) Tangible capital asset impairment

The Commission elected to adopt the requirements of PS 3150 regarding tangible capital asset impairment on a prospective basis. Tangible capital asset impairments that were recognized prior to January 1, 2010 were not reassessed based on the requirements of PS 3150.

Impact of retroactive application

(a) Employee future benefits

The Commission retroactively applied the recommendations of Sections PS 3250 - Retirement Benefits and PS 3255 - Post-Employment Benefits, Compensated Absences and Termination Benefits.

TORONTO TRANSIT COMMISSION

Notes to the Consolidated Financial Statements, page 2

Year ended December 31, 2011

The Commission has a defined benefit/defined contribution hybrid pension plan that covers substantially all of its employees. Previously under CICA 3461, the Commission expensed contributions as they were due and no pension asset or liability was recognized on the Statement of Financial Position. Under PS 3250, however, the plan is described as a joint defined benefit plan and the Commission is therefore required to account for its share of the risks and rewards inherent in the plan. As a result, the Commission has accounted for half of the plan (i.e. its share) in accordance with the standards required for defined benefit plans.

For the Commission's other benefit plans, the Commission previously recorded an expense and a liability based on the recommendations of Section 3461 - Employee Future Benefits, which differ from PS 3250 and PS 3255 with respect to the following items:

- According to Section 3461, the discount rate for the calculation of the obligation is based on the return of high-quality debt instruments, the cost of the post-retirement benefits are charged to expense over the time period from the date of hire to the date of full eligibility and costs of past services are amortized over the average estimated remaining service life. According to Section PS 3250, however, the Commission uses the City's borrowing rate for its unfunded plans and the expected rate of return for its funded plans. The cost of the post-retirement benefits are charged to expense over the time period from the date of hire to the expected date of retirement and the cost of past services is immediately recognized in the period of plan amendment, but unrecognized actuarial gains can be used to offset this cost.
- Under CICA 3461, for its post-retirement plans, the Commission amortized actuarial gains and losses using the 10% corridor method. This method involved calculating, at the beginning of the year, the excess of actuarial gains and losses over 10% of the greater of the accrued benefit obligation and the fair value of plan assets and amortizing that excess over the expected average remaining employee service life (EARSL). Under PS 3250, however post-retirement actuarial gains or losses are amortized on a straight-line basis over EARSL (to the extent that they are not recognized earlier to offset prior service costs or gains).
- Under CICA 3461, for its post-employment plans, the Commission amortized actuarial gains and losses on a straight-line basis over the expected period during which benefits would be paid. Post-employment experience gains and losses were however, recognized immediately. Under PS 3255, all actuarial gains and losses, including experience gains and losses, are amortized on a straight-line basis over the expected period during which benefits will be paid.

In accordance with PS 2125, First Time Adoption by Government Organizations, the Commission has elected to recognize all cumulative actuarial gains and losses and prior service costs as of January 1, 2010 directly in accumulated surplus. This was offset by an immediate subsidy from the City and is included in subsidies receivable.

When the Commission adopted CICA 3461, the Commission was able to amortize a transitional obligation on a straight-line basis over the average remaining service period of employees. Consistent with all other adjustments arising from the adoption of Public Sector Accounting Standards, the remaining unamortized transitional obligation has been recognized in the accumulated surplus as of January 1, 2010.

TORONTO TRANSIT COMMISSION

Notes to the Consolidated Financial Statements, page 3

Year ended December 31, 2011

(b) Deferred capital contributions and capital subsidy revenue

In accordance with PS 3410 Government Transfers, subsidies for capital assets are recognized as revenue when the transfer has been authorized by the issuing government and eligibility criteria and related stipulations have been met. Previously, the Commission deferred the recognition of the subsidy revenue and amortized the capital subsidy over the expected remaining useful life of the associated assets. Consequently, the amortization of capital subsidy revenue effectively offset depreciation expense on all subsidized tangible capital assets.

(c) Transfer of Tangible Capital Assets

In accordance with PS 3410 Government Transfers, the transfer of land is recognized as an expense at its net book value in the period the transfer is authorized. Previously under part V of the CICA Handbook, the transfer of land to a related party was reflected as an adjustment to accumulated surplus in accordance with CICA 3840 Related Parties. Consequently, the net book value of land transferred by the Commission to Build Toronto in fiscal 2010 needs to be presented as an expense on the 2010 consolidated statement of operations.

(d) Consolidation of the TTC Sick Benefit Association

The TTC Sick Benefit Association (the "SBA") provides benefits to certain employees of the Commission during periods of illness. Previously under CICA 1590 Subsidiaries, consolidation was not permitted unless the Commission could control the operating policies of the SBA without the cooperation of others. Given that the Commission appoints 50% of the SBA's board members, the Commission could not control the SBA without the cooperation of others and hence the financial results of the SBA were not consolidated. Under PS 1300 Government Reporting Entity, however, indicators of control include the Commission's ability to unilaterally dissolve the SBA. If that occurred the assets and liabilities of the SBA would be transferred to the Commission. In addition, the Commission is responsible for paying the full cost of the benefits provided by the SBA. For these reasons, as defined under PSAS, the Commission has control over the SBA and therefore the SBA has been consolidated.

(e) Financial statement presentation

The Commission adopted the recommendations of Section PS 1200 - 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 and a Statement of Change in Net Debt. In addition, expenditures on the Statement of Operations have been presented by function as opposed to by object. Expenditures by object is now presented in note 14.

The Commission has restated its consolidated financial statements for the year ended December 31, 2010. The effect of this restatement on accumulated surplus, the statement of operations and the statement of financial position is shown in the following tables, with references to the changes in accounting policies, as previously explained. The restatement's only impact on cash flow was the impact resulting from the consolidation of the Sick Benefit Association.

TORONTO TRANSIT COMMISSION

Notes to the Consolidated Financial Statements, page 4

Year ended December 31, 2011

Change in Accumulated Surplus

(\$'000)	References to Impact of retrospective application	December 31, 2010	January 1, 2010
Accumulated surplus, previously presented in accordance with part V of the CICA Handbook		9,990	9,571
Deferred capital subsidies	b	4,752,261	4,374,099
Consolidation of the Sick Benefit Association	d	92	92
Accumulated surplus, restated according to public sector accounting standards.		4,762,343	4,383,762

Restatement of the Consolidated Statement of Financial Position at January 1, 2010

	Balances previously presented	References to Impact of retrospective application	Increase (decrease)	Restated balances
Financial Assets				
Cash and Cash Equivalents	53,743	d	1,833	55,576
Subsidies Receivable	491,420	a	56,002	547,422
Accounts Receivable	36,067	d	41	36,108
Portfolio Investments	2,549			2,549
Total Financial Assets	583,779		57,876	641,655
Liabilities				
Accounts Payable and Accrued Liabilities	302,919	d	1,054	303,973
Deferred Passenger Revenue	66,010			66,010
Unsettled Accident Claims	125,694			125,694
Deferred Capital Subsidy	4,374,099	b	(4,374,099)	-
Future Employee benefits	296,690	a	56,002	352,692
Environmental liabilities	8,367			8,367
Total Liabilities	5,173,779		(4,317,043)	856,736
Net Debt	(4,590,000)		4,374,919	(215,081)
Non-Financial Assets				
Tangible capital assets	4,505,552			4,505,552
Spare Parts and Supplies Inventory	91,104			91,104
Prepaid Expenses	2,915	d	(728)	2,187
	4,599,571		(728)	4,598,843
Accumulated Surplus	9,571		4,374,191	4,383,762

TORONTO TRANSIT COMMISSION

Notes to the Consolidated Financial Statements, page 5

Year ended December 31, 2011

Restatement of the Consolidated Statement of Financial Position at December 31, 2010

	Balances previously presented	References to Impact of retrospective application	Increase (decrease)	Restated balances
Financial Assets				
Cash and Cash Equivalents	63,800	d	2,436	66,236
Subsidies Receivable	537,993	a	51,134	589,127
Accounts Receivable	59,871	d	48	59,919
Portfolio Investments	2,548			2,548
Total Financial Assets	664,212		53,618	717,830
Liabilities				
Accounts Payable and Accrued Liabilities	361,842	d	1,262	363,105
Deferred Passenger Revenue	63,852			63,852
Unsettled Accident Claims	142,884			142,884
Deferred Capital Subsidy	4,752,261	b	(4,752,261)	-
Future Employee Benefits	320,721	a	51,134	371,854
Environmental liabilities	8,520			8,520
Total Liabilities	5,650,080		(4,699,865)	950,215
Net Debt	(4,985,868)		4,753,483	(232,385)
Non-Financial Assets				
Tangible Capital Assets	4,896,804			4,896,804
Spare parts and Supplies Inventory	96,068			96,068
Prepaid expenses	2,986	d	(1,130)	1,856
	4,995,858		(1,130)	4,994,728
Accumulated Surplus	9,990		4,752,353	4,762,343

TORONTO TRANSIT COMMISSION

Notes to the Consolidated Financial Statements, page 6

Year ended December 31, 2011

Restatement of the Consolidated Statement of Operations for the Year Ended December 31, 2010

	Balances initially established	References to Impact of retrospective application	Increase (decrease)	Restated balances
REVENUE				
Passenger Services	934,889			934,889
Advertising	18,904			18,904
Outside City Services	17,679			17,679
Property Rental	18,489			18,488
Miscellaneous	7,554			7,554
Total Operating Revenue	997,514			997,514
Subsidies				
Operating Subsidies	482,576	a	(4,868)	477,708
Capital Subsidies	-	b	909,159	909,159
Total Subsidy Revenue	482,576		904,291	1,386,867
Total Revenue	1,480,090		904,291	2,384,381
EXPENSES				
Conventional Transit Service	1,385,742	a	(4,868)	
		b	520,297	
		c	55	1,901,211
Wheel-Trans	89,314	b	10,700	100,014
Other Functions	4,560			4,575
Total Expenses	1,479,616		526,184	2,005,800
Surplus for the year	474		378,107	378,581

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

These consolidated financial statements are prepared in accordance with the standards applicable for other government organizations found in the Canadian Institute of Chartered Accountants ("CICA") Public Sector Accounting Handbook.

(b) Basis of consolidation

The consolidated financial statements include the operations of Wheel-Trans and the financial results of the Commission's subsidiaries, Toronto Transit Infrastructure Limited ("TTIL") and Toronto Coach Terminal Inc. ("TCTI") and TCTI's subsidiary, TTC Insurance Company Limited (the "Insurance Co."). The results of the Sick Benefit Association ("SBA"), which is controlled by the Commission, have also been consolidated.

(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 and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Specifically, employee benefit liabilities and the pension benefit asset are subject to the assumptions described in note 8 and employee related liabilities are described in note 17a. Depreciation expense is based on the asset lives described in note 2h and accident

TORONTO TRANSIT COMMISSION

Notes to the Consolidated Financial Statements, page 7

Year ended December 31, 2011

claims liabilities are subject to assumptions on discount rates and amounts reserved for incurred but not reported claims as described in note 7. Actual results could differ from the amounts estimated.

(d) Subsidies

Operating subsidies are authorized by the City after the Commission's operating budget has been approved. Operating subsidy revenue is recognized by the Commission in the period to the extent that net operating costs are incurred. Capital subsidies are recognized in revenue when the City authorizes the capital subsidy and the eligibility criteria and related stipulations have been met.

(e) Revenue

Revenue is recognized when cash, tickets and tokens are used by the passenger to secure a ride. An estimate of tickets and tokens sold, which will be used after the year end, is included in deferred passenger revenue. Revenue from passes is recognized in the period in which the passes are valid. An estimated value of passes sold, but only valid after year end, is included in deferred passenger revenue. Other revenue is recognized when the services have been provided.

(f) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and money market instruments, such as bankers' acceptances, which have original maturities at acquisition of three months or less and are readily convertible to cash on short notice.

(g) Spare parts and supplies inventory

Spare parts are valued at weighted-average cost, net of allowance for obsolete and excess parts.

(h) Tangible Capital assets and depreciation

Tangible capital assets are recorded at cost less accumulated depreciation. In addition to direct costs attributable to capital projects, the Commission capitalizes certain internal costs which are directly related to the acquisition, construction, betterment, or development of those related capital assets. Depreciation is calculated using the straight-line method, based on the estimated useful lives of major assets, as follows:

Asset	Years
Subways	20-65
Buildings & Structures	20-40
Rolling Stock	6-30
Buses	6-18
Trackwork	15-30
Other Equipment	4-26
Traction Power Distribution System	24-25

Capital assets are amortized from the date that they enter service. One-half of the depreciation is recorded in the year of acquisition and assets under construction are not depreciated until the asset is substantially complete and available for productive use.

Land purchased directly by the City, for the Commission's use, is accounted for in the City's records.

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(i) Portfolio investments

Portfolio investments consist of bonds that are recorded at cost. Discounts or premiums on investments are amortized on a straight-line basis until maturity of the investment to which this item is related. Investment income is reported as revenue in the period earned.

(j) Unsettled accident claims

The Commission has a self-insurance program for automobile and general liability claims. Estimated costs to settle automobile and general liability claims are actuarially determined, based on available loss information and projections of the present value of estimated future expenditures developed from the Commission's historical experience. The provision for estimated future expenditures includes expected internal and external adjustment expenses, an estimate of claims incurred but not reported and a provision for adverse deviations.

(k) Employee future benefit plans

The Commission's employee benefits plans include both post-employment plans (workplace safety and insurance benefit plan and long term disability benefit plan), post-retirement plans (medical and dental benefits) and pension plans.

The costs of the post-employment benefit plans are recognized when the event that obligates the Commission occurs. Costs include projected future income replacement payments, health care continuation costs, taxes and fees paid to independent administrators, calculated on a present value basis.

The costs and obligations of the post-retirement benefit plans and pension plans are calculated using the projected benefits prorated on service method and management's best estimates of retirement ages of employees, future salary levels, expected health care cost escalations, and plan investment performance.

The net asset or liability related to each employee benefit plan reflects the year-end difference between the value of the accrued benefit obligation and the value of the plan assets (if funded), net of unamortized gains and losses and the valuation allowance. Plan assets are valued using year-end fair market values.

Accrued benefit obligations and costs are determined using discount rates that are consistent with the City's long-term borrowing rates for the post-employment and post-retirement plans. For the Commission's funded pension plans, the discount rate is the plan's expected rate of return on plan assets.

Actuarial gains and losses arise from changes in actuarial assumptions or when actual experience differs from what was assumed. For post-employment benefit plans, the net actuarial gain or loss is deferred and amortized on a straight-line basis over the average expected period during which benefits will be paid unless there is a related plan amendment or curtailment. For workplace safety insurance benefits, the amortization period is 10 years (2010 – 10 years) and for long-term disability benefits, the amortization period is 9.93 years (2010 – 9.21 years). The amortization of the gain/loss begins in the year after the actuarial gain/loss arises.

A post-retirement benefit plan actuarial gain or loss is deferred and amortized over the expected average remaining service life of the employees unless there is a plan amendment or curtailment. For the pension, post-retirement medical and post-retirement dental plans, the amortization period varies from 11.7 to 12.7 years (2010 – 11.7 to 12.7 years) and for the supplemental funded pension plan, the amortization period is 3 years (2010 – 3 years). The amortization of the actuarial gain/loss begins in the year after the gain/loss arises for all post-retirement plans except the TTC pension plan. Amortization begins in the year of the actuarial gain/loss for the TTC pension plan. This policy is expected to reduce the long term expense

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volatility that results from the accounting requirement to defer and amortize actuarial losses. Past service costs arising from a plan amendment or plan initiation are recognized in the period of a plan amendment. Prior service costs / (gains) are offset by net actuarial (gains)/losses, if any, as of the end of the calendar year in which the prior service costs arise. Net gains that remain after offsetting with prior period service costs continue to be amortized in their original amount. Also, unamortized actuarial gains or losses related to settled or curtailed plans are recognized in the period of the plan settlement or curtailment.

(l) Environmental provision

Those conditions that have been clearly identified as being in non-compliance with environmental legislation and with costs that can be reasonably determined have been accrued. The estimated amounts of future remediation costs are reviewed regularly, based on available information and governing legislation.

4. CASH AND CASH EQUIVALENTS

In connection with the City guarantee referred to in note 7, the TTC Insurance Company Limited, is required to maintain cash or securities available for payment of accident claims 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 \$3.0 million (2010 - \$2.6 million).

5. SUBSIDIES RECEIVABLE

Subsidies from the City of Toronto consist of operating subsidies as described in note 12 and capital subsidies as described in note 13. Subsidies receivable comprise the following amounts, all of which are due from the City of Toronto:

	2011	2010
		(\$000s)
Subsidies to be collected within one year		
Capital Subsidy Receivable	332,302	305,568
Operating Subsidy Receivable	104,830	60,310
Total subsidies to be collected within one year	437,132	365,878
Other recoverable amounts		
Employee Benefits	159,618	145,881
Accident Claims Expenses	63,135	48,166
Construction Holdbacks	39,487	20,682
Future Environmental Costs (note 9)	12,000	8,520
Total Other Recoverable amounts	274,240	223,249
Total Subsidies Receivable	711,372	589,127

The Commission expects to collect the capital and operating subsidy receivable within one year.

The amount related to non-cash employee benefits and accident claim expenses represents the delayed payment of operating subsidy for the non-cash portion of these expenses. These amounts will be collected in years where the related cash outflow exceeds the accounting expense.

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Subsidy related to construction holdbacks will be collected in the year that the holdback is released to the vendor. Subsidy for future environmental costs will be collected in the year in which the related work is performed.

6. PORTFOLIO INVESTMENTS

Portfolio investments consist of two bonds, as follows:

	2011	2010
		(\$000s)
City of Toronto bond (8.65%; June 8, 2015 maturity)	546	546
Province of Ontario bond (5.375%; December 2, 2012 maturity)	2,001	2,002
Total portfolio investments	2,547	2,548

At December 31, 2011, the fair value of the bonds is \$2.7 million (2010 - \$2.8 million).

7. UNSETTLED ACCIDENT CLAIMS

The TTC Insurance Company Limited ("Insurance Co.") was established in 1994 in order to provide insurance coverage for compulsory automobile personal injury and accident benefit claims for the Commission. At December 31, 2011, \$144.8 million (2010 - \$127.4 million) of the unsettled accident claims liability is related to the Insurance Co.'s payable for all automobile claims incurred. This portion of the Commission's accident claim liability is guaranteed by the City. The Commission has purchased insurance from third-party insurers to cover tort claims in excess of \$5 million on any one accident. The remainder of the unsettled accident claims liability, \$13.0 million, (2010 - \$15.5 million) relates to general liability claims, net of expected HST rebates.

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. The liability includes a reserve established for each file as well as an incurred but not reported ("IBNR") provision to account for the fact that 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 Commission relies upon historical information and statistical models, to estimate the IBNR liability. The Commission 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 Commission's reserves. The Commission revises these reserves as additional information becomes available.

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, 2011	149,649	(6,205)	14,389	157,833
As at December 31, 2010	138,142	(7,965)	12,707	142,884

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

8. EMPLOYEE FUTURE BENEFITS

Description of benefit plans

The Commission has a number of benefit plans which provide employees with post-employment, post-retirement and pension benefits.

Post-employment benefit plans

Post-employment benefits are available to active employees in the form of long-term disability (“LTD”) and workplace safety insurance (“WSI”) plans. The long-term disability plan is self-insured by the Commission and is administered by an independent insurance carrier. As a Schedule 2 employer under the Ontario Workplace Safety and Insurance Act, the Commission fully finances its WSI costs.

For the post-employment benefit plans, the effective date of the most recent actuarial valuation was September 30, 2011 for the WSI plan and November 30, 2011 for the LTD plan. These valuations were used to project the accrued benefit obligations and costs for the current year end. The next actuarial valuation for the post-employment benefit plans is expected to be performed as at September 30, 2012 for the WSI plan and November 30, 2012 for the LTD plan.

Post-retirement, non-pension benefit plans

Post-retirement benefits, consisting of basic health care and dental coverage, are available to employees retiring from the Commission with at least ten years of service and receiving a pension from the TTC Pension Fund. . Dental benefits are limited to employees retiring on or after January 1, 2003.

For the post-retirement benefit plans, the effective date of the most recent actuarial valuation was January 1, 2009. This valuation was used to project the accrued benefit obligations and costs for the current year end. The next actuarial valuation for the post-retirement benefit plans is expected to be performed as at January 1, 2012.

Supplemental pension plans

The Commission and plan members participate in supplemental pension plans. These plans provide pension benefits which the TTC pension plan cannot provide because of the limits imposed by the Income Tax Act. These pension benefits automatically reflect changes that are made to the TTC Pension plan.

The funded supplemental pension plan has been accounted for as a defined benefit plan and the Commission has recognized 100% of the plan’s pension expense, assets and obligation. The funded supplemental pension plan’s assets consist of 50% (2010 – 49%) cash and equity index pooled funds which are carried at market and 50% (2010 – 51%) deposit in a Canada Revenue Agency non-interest bearing refundable tax account. The effective date of the most recent actuarial valuation for funding purposes was January 1, 2011. The next actuarial valuation for funding purposes is expected to be performed as at January 1, 2013. The effective date of the most recent valuation for accounting purposes was December 31, 2011.

TTC Pension Fund

The Commission participates in a defined benefit pension plan. (“TTC Pension Fund”). The TTC Pension Fund is administered by the Toronto Transit Commission Pension Fund Society (the “Society”), a separate legal entity. The Board of Directors of the Society consists of 10 voting members, five of whom are appointed from the Toronto Transit Commission and five are appointed from the Amalgamated Transit Union Local 113 (ATU). Pursuant to the Sponsors Agreement between ATU and the Commission, the TTC

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Pension Fund is registered as a Jointly Sponsored Pension Plan (JSPP) effective January 1, 2011.

The plan is accounted for as a joint defined benefit plan as the Commission and its employees jointly share the risks in the plan and share control of decisions related to the plan administration and to the level of benefits and contributions on an ongoing basis. The Commission is required to account for its portion of the plan (i.e. 50%) and has therefore, recognized 50% of the pension expense incurred during the year and 50% of the plan's assets and obligation.

The plan covers substantially all employees of the TTC who have completed six months of continuous service. Under the Plan, contributions are made by the Plan members and matched by the Commission. The contribution rates are set by the Board, subject to the funding requirements determined in the actuarial report and subject to the limitations in the Sponsors Agreements between the Commission and the ATU.

The TTC Pension plan provides pensions to members, based on a formula that factors in the length of service and best four years of pensionable earnings up to a base year, which is December 31, 2007 (2010 – December 31, 2004). A formula exists that sets a target for pensioner increases. Plan improvements may be adopted by the Board depending on the Plan's funded status.

Effective January 1, 2011, the base year for the TTC pension plan and the funded supplemental pension plans was updated to December 31, 2007 from December 31, 2004. In addition, a 2% ad hoc increase was granted to all pensioners. The Commission's share of the prior service cost of these plan amendments have been reflected in the consolidated statement of operations.

The effective date of the most recent actuarial valuation for funding purposes for the TTC Pension Fund was January 1, 2011. The next required actuarial valuation for funding purposes will be performed as at January 1, 2014. The effective date of the most recent valuation for accounting purposes was December 31, 2011.

The continuity of the change in the **employee benefit liabilities/(asset)** including expenses recognized in 2011 is as follows:

(\$000s)	Post-Employment Plans	Post-Retirement Non-Pension Plans	Supplemental Pension Plans	Total Employee Benefit Liabilities	TTC Pension Fund
Accrued benefit liability (asset)					
Balance, beginning of the year	166,332	202,440	3,082	371,854	0
Current service cost	31,539	9,679	18	41,236	61,171
Interest cost	6,451	10,145	282	16,878	(4,598)
Amortization of actuarial (gains)/losses:	717	1,284	(4,249) ¹	(2,248) ¹	7,437
Plan amendments			1,875	1,875	65,701
Change in valuation allowance					(122,540)
Total Expenses/(Income)	38,707	21,108	(2,074)	57,741	7,171
Benefits paid	(23,553)	(5,861)	(173)	(29,587)	-
Employer contributions			(97)	(97)	(92,055)
Accrued benefit liability (asset)					
Balance, end of the year	181,486	217,687	738	399,911	(84,884)

¹ Includes recognition of net unamortized gain of \$1,875 applied against the cost of the plan amendments.

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Year ended December 31, 2011

The continuity of the change in the **employee benefit liabilities/(asset)** including expenses recognized in 2010 is as follows:

(\$000s)	Post- Employment Plans	Post- Retirement Non-Pension Plans	Supplemental Pension Plans	Total Employee Benefit Liabilities	TTC Pension Fund
Accrued benefit liability (asset)					
Balance, beginning of the year	157,064	189,956	5,673	352,693	0
Current service cost	27,230	8,236	(38)	35,428	50,863
Interest cost	6,375	9,918	70	16,363	(6,220)
Amortization of actuarial (gains)/losses:			(2,356)	(2,356)	(5,303) ¹
Plan amendments					4,149
Change in valuation allowance					41,296
Total Expenses/ (Income)	33,605	18,154	(2,324)	49,435	84,785
Benefits paid	(24,337)	(5,670)	(170)	(30,177)	
Employer contributions			(97)	(97)	(84,785)
Balance, end of the year	166,332	202,440	3,082	371,854	0

¹ Includes recognition of net unamortized gain of \$4,149 applied against the cost of the plan amendments.

The following table summarizes the employee benefit costs included in the consolidated Statement of Operations:

(\$000s)	2011	2010
Cost of TTC Pension Fund contributions	92,055	84,785
TTC Pension expense/ (income) in excess of contributions	(84,884)	-
Net cost of TTC Pension	7,171	84,785
Cost of other benefit plans	57,741	49,435
Total cost of employee benefit plans	64,912	134,220
Less: costs charged to capital assets	(14,519)	(13,189)
Total costs included in the consolidated Statement of Operations	50,393	121,031

The gross cost of the employee benefits in 2011 was \$ \$149,796,000 (2010 - \$134,220,000). Of this amount, \$14,519,000 (2010 - \$13,189,000) was charged to capital assets, in accordance with the Commission's capitalization policies. The remaining \$135,277,000 (2010 - \$121,031,000) was reduced by the TTC Pension Fund income in excess of contributions of \$84,884,000 (2010 - \$0), for a net total cost of \$50,393,000 (2010 - 121,030,000)

The following table summarizes the employee benefit costs as included in note 14, expenditure by object.

(\$000s)	2011	2010
Gross cost of employee benefits	149,796	134,220
Less: Portion of benefit costs charged to tangible capital assets	(14,519)	(13,189)
Employee benefit costs included in <i>Wage, Salaries and Benefits</i> in note 14	135,277	121,031
Employee benefit costs / (income) included in TTC Pension Fund income in excess of contributions in note 14	(84,884)	-
Total cost included in the consolidated Statement of Operations	50,393	121,030

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The Commission's portion of the assets in the TTC Pension Fund are carried at market value. As the Commission cannot withdraw the surplus to reduce its contributions, the expected benefit of a surplus is nil and therefore, a valuation allowance is required to reduce the accrued benefit asset to equal the value of net unamortized actuarial losses, which was \$84.9 million as at December 31, 2011. The valuation allowance as at December 31, 2011 was \$26.7 million (2010 - \$149.3 million).

Reconciliation of funded status to the **employee benefit liabilities and asset** as at December 31, 2011 is as follows:

(\$000s)	Post- Employment Plans	Post- Retirement, Non-Pension Plans	Supplemental Pension Plans	Total Employee Benefit Liabilities	TTC Pension Fund
Fair value of plan assets	-	-	6,068	6,068	1,912,489
Accrued benefit obligations	198,261	281,336	6,633	486,230	1,885,744
Funded status-(deficit)/ surplus	(198,261)	(281,336)	(565)	(480,162)	26,745
Unamortized (gains)/losses	16,775	63,649	(173)	80,251	84,884
Accrued benefit (liability)/ asset	(181,486)	(217,687)	(738)	(399,911)	111,629
Valuation Allowance					(26,745)
Employee benefit (liability)/asset	(181,486)	(217,687)	(738)	(399,911)	84,884

Reconciliation of funded status to the **employee benefit liabilities and asset** as at December 31, 2010 is as follows:

(\$000s)	Post- Employment Plans	Post- Retirement Non-Pension Plans	Supplemental Pension Plans	Total Employee Benefit Liabilities	TTC Pension Fund
Fair value of plan assets	-	-	6,145	6,145	1,850,518
Accrued benefit obligations	173,063	218,772	4,463	396,298	1,693,037
Funded status- (deficit)/ surplus	(173,063)	(218,772)	1,682	(390,153)	157,481
Unamortized (gains)/losses	6,731	16,332	(4,764)	18,299	(8,196)
Accrued benefit (liability)/ asset	(166,332)	(202,440)	(3,082)	(371,854)	149,285
Valuation Allowance					(149,285)
Employee benefit (liability)/asset	(166,332)	(202,440)	(3,082)	(371,854)	0

The continuity of the change in the **accrued benefit obligation** including costs recognized in 2011 is as follows:

(\$000s)	Post- Employment Plans	Post- Retirement Non-Pension Plans	Supplemental Pension Plans	Total Employee Benefit Liabilities	TTC Pension Fund
Balance, beginning of the year	173,063	218,772	4,463	396,298	1,693,037
Current service cost	31,539	9,679	18	41,236	61,171
Interest cost	6,451	10,145	529	17,125	106,701
Loss/(gain) on the obligation	10,761	48,601	(82)	59,280	42,259
Employee contributions			97	97	
Benefits paid	(23,553)	(5,861)	(267)	(29,681)	(83,125)
Plan amendments			1,875	1,875	65,701
Balance, end of the year	198,261	281,336	6,633	486,230	1,885,744

The continuity of the change in the **accrued benefit obligation** including costs recognized in 2010 is as

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follows:

(\$000s)	Post- Employment Plans	Post- Retirement Non-Pension Plans	Supplemental Pension Plans	Total Employee Benefit Liabilities	TTC Pension Fund
Balance, beginning of the year	157,064	189,956	11,497	358,517	1,564,102
Current service cost	27,230	8,236	(38)	35,428	50,863
Interest cost	6,375	9,918	305	16,598	98,452
Loss/(gain) on the obligation	6,731	16,332	(7,069)	15,994	54,944
Employee contributions			97	97	
Benefits paid	(24,337)	(5,670)	(329)	(30,336)	(79,473)
Plan amendments					4,149
Balance, end of the year	173,063	218,772	4,463	396,298	1,693,037

The continuity of the **plan assets** for the pension plans in 2011 is as follows: There are no plan assets for the post-employment and post-retirement plans.

(\$000s)	Post- Employment Plans	Post- Retirement Non-Pension Plans	Supplemental Pension Plans	Total Employee Benefit Liabilities	TTC Pension Fund
Balance, beginning of the year			6,145	6,145	1,850,518
Employee contributions			97	97	
Employer contributions			97	97	92,055
Expected return on plan assets			247	247	111,299
Excess (shortfall) on return on plan assets			(425)	(425)	(58,258)
Benefits paid			(93)	(93)	(83,125)
Balance, end of the year			6,068	6,068	1,912,489

The continuity of the **plan assets** for the pension plans in 2010 is as follows:

(\$000s)	Post- Employment Plans	Post- Retirement Non-Pension Plans	Supplemental Pension Plans	Total Employee Benefit Liabilities	TTC Pension Fund
Balance, beginning of the year			5,825	5,825	1,672,091
Employee contributions			97	97	
Employer contributions			97	97	84,785
Expected return on plan assets			233	233	104,672
Additional return on plan assets			52	52	68,443
Benefits paid			(159)	(159)	(79,473)
Balance, end of the year			6,145	6,145	1,850,518

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Significant assumptions used in accounting for employee benefits are as follows:

	2011	2010
Accrued benefit obligations as at December 31:		
Discount rate for post-employment plans	3.1%	4.0%
Discount rate for post-retirement, non-pension plans	3.8%	4.7%
Discount rate for supplemental pension plans	3.8% to 4.0%	4.0% to 5.55%
Discount rate for TTC Pension Fund	5.75%	6.0%
Rate of increase in earnings	3.0% to 3.75%	3.0% to 3.75%
Benefit costs for the years ended December 31:		
Discount rate for post-employment plans	4.0%	4.4%
Discount rate for post-retirement, non-pension plans	4.7%	5.3%
Discount rate for supplemental pension plans	3.8% to 4.0%	4.0% to 5.55%
Discount rate for TTC Pension Fund	6.0%	6.25%
Rate of increase in earnings	3.0% to 3.75%	3.0% to 3.5%
Rate of return on assets, supplemental pension plan	4.0%	4.0%
Rate of return on assets, TTC Pension Fund	6.0%	6.25%

The Commission's annual rate of growth for post-retirement health care costs, primarily drug costs, was estimated at 10.1% for males and 7.8% for females. These rates consist of a 3% per annum drug trend rate and an aging factor of 6.9% for males and 4.7% for females (up to age 65). An annual rate of growth of 11.30% (2010 – 11.65%), decreasing to 5% in 18 years (2010 - 19 years), was used to estimate drug costs for the post-employment plans.

Total financial status of the TTC Pension Fund is as follows:

(\$000s)	2011	2010
Fair value of plan assets	3,824,978	3,701,036
Accrued benefit obligations	3,771,488	3,386,074
Funded status – surplus	53,490	314,962

9. ENVIRONMENTAL LIABILITIES

As an operator of diesel buses that are refuelled on property and an enterprise that repairs and rebuilds buses and other rolling stock, the Commission and its subsidiaries are subject to various federal, provincial, and municipal laws and regulations related to the environment. Environmental advisors and specialists are retained to support the TTC's investigative and remedial efforts.

The amount accrued represents the estimated costs of remediating sites with known contamination for which the Commission is responsible. Nevertheless, given that the estimate of environmental liabilities is based on a number of difficult to determine assumptions, such as the anticipated results of monitoring, actual costs may vary. The estimated amounts of future remediation costs are reviewed regularly, based on available information and governing legislation.

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Year ended December 31, 2011

10. TANGIBLE CAPITAL ASSETS

The cost of tangible capital assets, is as follows:

	Cost 2011			
	Beginning	Additions	Disposals	Ending
Subways	2,223,046	90,814	(129)	2,313,731
Buildings & Structures	903,965	210,062	(590)	1,113,437
Rolling Stock	1,351,384	170,999	(3,439)	1,518,944
Buses	1,385,776	20,382	(8,980)	1,397,178
Trackwork	1,456,810	42,553	-	1,499,363
Other Equipment	535,000	117,668	(2,372)	650,296
Traction Power Distribution	316,312	23,803	(85)	340,030
Land	20,150	-	(7,296)	12,854
Construction in Progress	1,537,760	261,664	-	1,799,424
Total	9,730,203	937,945	(22,891)	10,645,257

	Cost 2010			
	Beginning	Additions	Disposals	Ending
Subways	2,174,577	48,469	-	2,223,046
Buildings & Structures	841,360	62,605	-	903,965
Rolling Stock	1,332,714	21,201	(2,531)	1,351,384
Buses	1,294,804	105,719	(14,747)	1,385,776
Trackwork	1,428,843	27,967	-	1,456,810
Other Equipment	537,315	-	(2,315)	535,000
Traction Power Distribution	300,687	15,625	-	316,312
Land	20,205	-	(55)	20,150
Construction in Progress	888,100	652,039	(2,379)	1,537,760
Total	8,818,605	933,625	(22,027)	9,730,203

The accumulated amortization for tangible capital assets is:

	Accumulated Amortization 2011			
	Beginning	Amortization	Disposals	Ending
Subways	1,034,831	49,876	(129)	1,084,578
Buildings & Structures	378,264	32,319	(590)	409,993
Rolling Stock	905,717	58,480	(3,439)	960,758
Buses	778,471	74,735	(8,980)	844,226
Trackwork	1,055,970	50,173	-	1,106,143
Other Equipment	433,017	40,653	(2,249)	471,421
Traction Power Distribution	247,129	6,029	(84)	253,074
Total	4,833,399	312,265	(15,471)	5,130,193

	Accumulated Amortization 2010			
	Beginning	Amortization	Disposals	Ending
Subways	946,424	88,407	-	1,034,831
Buildings & Structures	327,365	50,899	-	378,264
Rolling Stock	809,002	99,246	(2,531)	905,717
Buses	661,619	131,599	(14,747)	778,471
Trackwork	964,009	91,961	-	1,055,970
Other Equipment	367,236	70,476	(4,695)	433,017
Traction Power Distribution	237,398	9,731	-	247,129
Total	4,313,053	542,319	(21,973)	4,833,399

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Year ended December 31, 2011

Based on above, net book value is:

	Net Book Value 2011	Net Book Value 2010
Subways	1,229,153	1,188,215
Buildings & Structures	703,444	525,701
Rolling Stock	558,186	445,667
Buses	552,952	607,305
Trackwork	393,220	400,840
Other Equipment	178,875	101,983
Traction Power Distribution	86,956	69,183
Land	12,854	20,150
Construction in Progress	1,799,424	1,537,760
Total	5,515,064	4,896,804

These costs include the capitalization of certain internal costs as described in note 2h. At June 1, 2011, the insured value of all of the Commission's assets, not including land, was approximately \$10.9 billion (2010 - \$11.2 billion).

In 2011, the Commission transferred land, with a net book value of \$7.1 million (2010 - \$0.1 million) to Build Toronto.

11. ACCUMULATED SURPLUS

Accumulated Surplus consists of:

	2011	2010	2009
Invested in Tangible Capital Assets	5,373,977	4,752,261	4,374,099
Pension Benefit Asset (Note 9)	84,884	-	-
Accumulated surplus (deficit) from Commission subsidiaries	(3,553)	(4,059)	(4,533)
Accumulated surplus generated through operating budget	14,141	14,141	14,196
Total	5,469,449	4,762,343	4,383,762

The amount reported in the table regarding tangible capital assets represents the net book value of capital assets, that have been funded through past capital subsidy. The variance between this amount and the amount reported in note 10, (\$141,087 (2010 - \$144,543)) represents the net book value of capital assets that have been funded by the Commission. Of this, \$135,518 (2010 - \$138,414) will be recovered through future operating subsidy. The remaining \$5,569 (2010- \$6,129) represents the net book value of capital assets used for the operation of the Toronto Coach Terminal.

12. OPERATING SUBSIDIES

The sources of operating subsidies are as follows:

	2011		2010	
	Conventional	Wheel-Trans	Total	Total
- Province of Ontario				(\$000s)
Gas tax (note 13(b))	91,600	-	91,600	91,600
- City of Toronto	342,038	89,798	431,836	386,108
Total operating subsidies (for Commission's consolidated financial statements)	433,638	89,798	523,436	477,708

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Year ended December 31, 2011

The total City operating subsidy amount is established as part of the City's annual budget process. The City allocated to the Commission's budget \$91.6 million (2010 - \$91.6 million) from the provincial gas tax (see note 13(b)).

City of Toronto subsidy (for information only)				
	2011			2010
	Conventional	Wheel-Trans	Total	Total
Operating subsidy from the				(\$000s)
City of Toronto (see above)	342,038	89,798	431,836	386,108
City special costs	3,377	-	3,377	2,983
Future Recoverable amounts:				
Accident Claims	(14,648)	(321)	(14,969)	(17,313)
Employee Benefits	(13,097)	(640)	(13,737)	(10,049)
Total City operating subsidies (in accounts of the City of Toronto)	317,670	88,837	406,507	361,729

City special costs represent subsidies reflected in the City's budget that are not included in the Commission's operating subsidy but relate to the Commission. They include rents and taxes on commuter parking lots and costs associated with certain subsidized passengers.

The future recoverable amounts reflect the delayed payment of operating subsidy for the non-cash portion of certain employee future benefits and accident claims (note 5).

13. CAPITAL SUBSIDIES

Capital subsidies are as follows:

	2011	2010
Source of capital subsidies:		(\$000s)
- City of Toronto	527,859	422,992
- Province of Ontario	180,169	260,640
- Federal Government of Canada	178,412	213,754
- Other	27,498	11,773
Total capital subsidies	913,938	909,159

City of Toronto

The City is responsible for ensuring full funding of the Commission's capital program. In accordance with the Municipal Act, any funding for the Commission's capital program from other governments flows through the City. As such, the Commission has claimed from the City a total 2011 capital subsidy of \$886.4 million (2010 - \$897.4 million) of which \$332.3 million is receivable at December 31, 2011 (2010 - \$305.6 million). Amounts claimed from the City do not include a \$1.1 million (2010 - \$0.2 million) for property purchased and owned by the City but for the jurisdictional use of the Commission. Other funding of \$27.5 million (2010 - \$11.8 million) includes specific purpose third-party agreements with organizations such as Waterfront Toronto.

The following disclosures regarding subsidy claims from the Provincial and Federal governments are based on the City's and the Commission's understanding of the various agreements and commitments.

Toronto York Spadina Extension Project

The City acts as the banker for the Toronto York Spadina Subway Extension ("TYSSE") project which is being constructed into York Region under a joint funding relationship with the Province through the Move Ontario Trust ("MOT"), the Federal Government under the Building Canada Funding program, and the municipalities of the City of Toronto and the Region of York. In 2011, \$280.6 million (2010 - \$185.9 million) was recognized as subsidy with respect to this project and the amount is presented in the above table as a City of Toronto subsidy. The City will recover these funds from the project's funding partners.

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Year ended December 31, 2011

The Province approved funding of \$870 million (March 2006 and January 2008) for the TYSSE into York Region with a project cost of \$2.6 billion and this funding was deposited in the MOT. On March 6, 2007, the Federal Government announced that it would contribute funding for the TYSSE into York Region with the amount capped at \$697 million for the project.

The Commission incurs project expenditures and then submits a capital billing for the full project cost to the City. Each month the Executive Task Force, which is the joint Toronto/York governing body, submits a funding request to each of the MOT and the municipalities (City of Toronto and Region of York) to claim for each party's appropriate share of project funding. The MOT is also billed for a working capital draw to ensure that sufficient funds are available to cover ongoing project cash flows. Funding claims are prepared each month to the Federal Government and payments flow to the City, upon submission and approval of appropriate contracts and claims prepared by the Commission.

(b) Province of Ontario

Capital subsidies claimed under the various provincial programs are as follows:

	2011	2010
Source of capital subsidies:		(\$000s)
- Gas tax	69,162	69,047
- Metrolinx	47,422	50,813
- LRT Car Project	45,687	30,081
- Canada Strategic Infrastructure Fund	8,811	35,619
- Vehicle funding programs	7,978	72,976
- Transit Technology Infrastructure Program	1,109	2,104
Total provincial capital subsidies	180,169	260,640

Provincial Gas Tax

In October 2004, the Province introduced gas tax funding to municipalities for public transit. Commencing at 1¢/litre, the funding is based on a province-wide 70% ridership and 30% population allocation base, updated annually. The funding rate increased to 1½¢/litre, effective October 2005, and then to 2¢/litre, effective October 2006. Of the anticipated \$165.8 million (2010 - \$160.6 million) in provincial gas tax funding available, the City has directed \$91.6 million for 2012 (2011 - \$91.6 million) toward the Commission's operating needs (note 12) with the remainder of \$69.2 million (2010 - \$69.0 million) of the approved reserve amount of \$160.8 million applied to capital needs. The balance of reserve funds \$5.0 (2010 - Nil) will be available in future years.

Metrolinx (Quick Wins)

In its March 2008 budget, the Province confirmed the Quick Wins funding package of projects as previously approved by Metrolinx in November 2007. Provincial payments totalling \$452.5 million were received by the City in March 2008 and placed in a City reserve to be applied against the approved Quick Wins projects. Funding of \$172.5 million has been recognized by the Commission for the eligible expenditures to date, including \$47.4 million applied to capital projects in 2011 (2010 - \$79.5 million), with the remaining funds attributable to the subway capacity projects.

Metrolinx (Transit Expansion)

On April 1, 2009, the Province of Ontario announced funding for the following Transit Expansion lines: SRT (\$1.4 billion), Finch West LRT (\$1.2 billion), and Eglinton Crosstown LRT (\$4.6 billion). Subsequently, on May 15, 2009, the Province of Ontario and the Government of Canada announced \$950 million in funding for the Sheppard East LRT. It was intended that the City would not be required to contribute toward the cost of these lines. Discussions with Metrolinx had resulted in consensus at the staff level in mid-2010 with respect to the development of a series of agreements required to confirm the timing, scope, magnitude, and governance issues associated with each of these lines and to set out the TTC's responsibilities for program and project management. Full recovery of costs from Metrolinx will continue to occur through the City of Toronto. Project funding of \$81.5 million has been drawn through the City for 2011 expenditures (2010 - \$77.4 million) for costs incurred by the Commission in 2011 and the eligible expenditures to date are \$167.6 million on

TORONTO TRANSIT COMMISSION

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the approved lines. Since Metrolinx will retain ownership of the asset, these amounts along with any associated capital assets, have not been recognized on the consolidated financial statements. This decision is based on the finalization of the interim funding arrangement and protocols in 2010 which detailed who would own the capital assets and how the new lines would be funded, noting that the final Master agreements have not yet been executed. The life-to-date TCP expenditures of \$167.6 million were excluded from construction in progress in 2011, of which \$106.1 million was flowed through Metrolinx in prior years.

LRT Car Project

On June 19, 2009 the Province of Ontario confirmed that it would provide one-third funding for the 204 LRT Car Project (up to \$417 million) and this funding is expected to flow on the basis of contract milestone payments. Details of the agreement have not yet been confirmed, however, funding of \$87.5 million has been recognized against the project to date including \$45.7 million for 2011 (2010 - \$30.1 million).

Canada Strategic Infrastructure Fund

Provincial funding under the Canada Strategic Infrastructure Fund ("CSIF") will amount to \$350 million in total for the years 2004 to 2014 (see note 13(c)). The Provincial share of \$303.3 million CSIF commitment (net of the GTA Farecard Project share of \$46.7 million which will be addressed upon approval of the GTA Farecard Project) was paid in full to the City. Funds were placed in the City's CSIF Reserve Fund to be applied to eligible CSIF expenditures over the term of the agreement. Funding of \$292.1 million has been recognized by the Commission for the eligible expenditures to date, including \$8.8 million for 2011 (2010 - \$35.6 million).

Vehicle Funding Programs

The Ontario Bus Replacement Program ("OBRP") was modified in early 2008, then in its March 25, 2010 budget, the Province cancelled the OBRP program effective immediately and paid its outstanding obligations to the City for 2008 (\$21.6 million) and 2009 (\$23.0 million) as well as to provide funds for the 2010 bus contract commitments (\$18.7 million). These payments were made in June 2010 upon execution of a letter of acknowledgement in full settlement of the Province's OBRP obligations to the City.

In addition, the Province provided funding of \$150 million to address the Commission's unique rolling stock requirement which was paid unconditionally to the City on March 30, 2007. These funds were placed in the Ontario Rolling Stock Infrastructure Reserve Fund ("ORSIF") to be drawn for transit vehicle requirements. Funding of \$144.5 million has been recognized by the Commission for the eligible expenditures to date, including \$8.0 million for 2011 (2010 - \$8.7 million).

Transit Technology Infrastructure Program

The Province paid out previously announced commitments under the Transit Technology Infrastructure Program ("TTIP") in full in March 2007 when the Province provided an unconditional payment to the City of \$31.1 million. These funds were placed in a City reserve fund to be applied to eligible TTIP expenditures. Funding of \$28.7 million has been recognized by the Commission for eligible project expenditures to date, including \$1.1 million for 2011 (2010 - \$2.1 million).

(c) **Federal Government of Canada**

Capital subsidies claimed under the various federal programs are as follows:

	2011	2010
Source of capital subsidies:		(\$000s)
- Gas tax funding	154,367	154,367
- Canada Strategic Infrastructure Fund	12,785	31,579
- Infrastructure Stimulus Fund	11,260	27,805
- Other (PTCT, Transit-Secure)	-	3
Total federal capital subsidies	178,412	213,754

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Year ended December 31, 2011

Federal Gas Tax

In June 2005, a joint announcement by the Federal, Provincial, and City of Toronto governments and the Association of Municipalities of Ontario was made in connection with the signing of two federal gas tax funding agreements under the "New Deal for Cities and Communities". The gas tax funding is allocated on a per capita basis for environmentally sustainable municipal infrastructure, growing from 2½¢/litre in 2008 to 5¢/litre in 2009. In 2008 the Federal Government announced that gas tax funding had been made a permanent measure and in 2009 an extended framework agreement for the 4 year period 2010-2013 was based on updated 2006 Census population. Ontario's allocation of this to municipalities is based on population and the City was allocated \$154.4 million in 2011 (2010 – \$154.4 million) under this program. This amount was allocated to the Commission.

Canada Strategic Infrastructure Fund

On March 30, 2004, the Federal and Provincial governments and the City of Toronto jointly announced funding of \$1.050 billion (\$350 million each) under CSIF, to fund strategic capital project requirements during the period March 2004 to 2012. In July 2011, a request to extend the CSIF program to 2014 was submitted to the Minister for consideration. On December 12, 2011, the Commission received confirmation that the extension request has been approved and an amendment to the Contribution Agreement is pending completion and sign off by all parties. While a CSIF memorandum of understanding was signed by the City in December 2004, the contribution agreement was not signed until March 19, 2008. While funding has been addressed for most of 2010/2011, additional requirements are being addressed for subsequent claims and to date, federal funding for the eligible expenditures incurred to date amounts to \$284.4 million, of which \$12.8 million has been accrued in 2011 (2010 - \$31.6 million). Metrolinx has assumed ownership of the GTA Farecard project and will be providing the business case for the project. The contribution agreement will require amending to remove the Presto project from the other TTC strategic projects.

Federal Infrastructure Stimulus

On September 11, 2009 the Federal Government announced Federal Infrastructure Stimulus Funding for the City of Toronto (\$190.0 million) of which \$60.4 million was approved for 19 specific TTC capital projects to March 31, 2011. Program extensions have been approved to October 31, 2011 for 16 projects with no increase in approved funding. Funding of \$44.2 million has been recognized by the Commission for the eligible expenditures incurred during the program of which \$11.3 million was claimed in 2011 (2010 \$27.8 million).

14. EXPENDITURES BY OBJECT

Expenditures by object comprise the following:

	2011	2010
Wages, salaries and benefits	1,141,026	1,095,144
Materials, services and supplies	173,501	162,185
Vehicle fuel	92,284	76,611
Accident claims	49,394	47,204
Electric traction power	34,653	33,211
Wheel-Trans contract services	30,557	32,658
Utilities	18,154	16,469
Depreciation (Operating Budget)	20,042	11,321
Depreciation (Assets funded through capital subsidy)	292,223	530,997
Pension Fund Society (Income) in excess of employer contributions	(84,884)	-
Total Expenditures	1,766,950	2,005,800

TORONTO TRANSIT COMMISSION

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Year ended December 31, 2011

15. BUDGET DATA – UNAUDITED

Budget data presented in these consolidated financial statements is based upon the 2011 operating and capital budgets approved by the Commission and the Board of the Toronto Coach Terminal Inc. Adjustments are required to provide comparative budget values for the year-end actual results based on the full accrual basis of accounting. The chart below reconciles the approved budget with the budget figures as presented in these consolidated financial statements.

	Conventional	Wheel-Trans	Other	Total
Total expenses, per approved current year budget	1,432,379	96,623	4,792	1,533,794
Expenses funded through future recoverable	27,375	825	-	28,200
TTC Pension Fund	(84,884)		-	(84,884)
Depreciation of previously subsidized assets	283,723	8,500	-	292,223
Total budgeted expenses per consolidated financial statements	1,658,593	105,948	4,792	1,769,333

The expenses funded through the future recoverable are certain non-cash employee benefits and accident claim expenses (see note 5). The approved current year budgets include the TTC Pension Fund required contributions. The amount reflected above represents the expense (income) related to the TTC Pension Fund that is in excess of the required Commission contributions.

16. CITY OF TORONTO RESERVES AND RESERVE FUNDS

In its accounts, the City maintains interest bearing Reserve Funds, and non-interest bearing Reserves comprised of funds set aside by City Council for specific purposes. Five of these Reserve Funds and one Reserve remain available specifically for matters related to the Commission's future use. In addition, in 2010, \$3 million was held in the City's Capital Financing Reserve on behalf of the Commission. This amount was withdrawn in 2011. Contributions to and draws from these Reserves and Reserve Funds are made by the Commission, or the City, upon approval by City Council. As a result, contributions to and draws from the Reserves and Reserve Funds do not necessarily correspond to the year in which the related expenditure was incurred by the Commission. In 2011, the average interest rate applicable to Reserve Funds was 0.94% (2010 – 0.35%).

In order to facilitate the reconciliation to the City's balances, only those contributions and withdrawals that had been approved by City Council as of the date of the consolidated financial statements are reported in the table.

The balances and transactions related to the Reserves and Reserve Funds are presented in the following two tables.

Reserves and Reserve Fund originating from Commission operating surpluses or operating subsidies

(\$000s)	2011			2010	
	Stabilization	Land Acquisition	City's Capital Financing	Total	Total
Balance, beginning of the year	24,666	644	2,971	28,281	28,279
Draws	-	-	(2,971)	(2,971)	-
Interest earned	-	6	-	6	2
Balance, end of the year	24,666	650	-	25,316	28,281

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Year ended December 31, 2011

Stabilization Reserve

The Stabilization Reserve was created to stabilize the funding of the Commission's operating expenditures over time. Any operating deficits, to the limit of the reserve balance and after approval from City Council, may be covered by a draw from this reserve.

Land Acquisition Reserve Fund

The Land Acquisition Reserve Fund was created to fund future land acquisitions by the City for the Commission's use.

City's Capital Financing Reserve

The \$3 million balance in the City's Capital Financing Reserve represented assessed liquidated damages against the Commission's bus supplier and were contributed to the reserve with City Council approval in July 2007. This funding was applied against buses in 2011.

Reserve funds for transit capital funding originating through the Province of Ontario

(\$000s)						2011	2010
	CSIF	ORSIF	TTIP	MO2020	PGT	Total	Total
Balance,							
beginning of the year	35,699	20,864	4,225	338,957	-	399,745	523,756
Provincial contributions	-	-	-	-	165,771	165,771	64,166
Draws	(8,811)	(7,978)	(1,109)	(47,421)	(160,762)	(226,081)	(190,201)
Interest earned	368	186	41	3,367	-	3,962	2,024
Balance, end of the year	27,256	13,072	3,157	294,903	5,009	343,997	399,745

Advance payments from Metrolinx for Transit Expansion projects of \$84.6 million offset by applications of \$38.4 million (net of \$46.2 million) are excluded from this reserve tracking as they are separately managed by the City.

Canada Strategic Infrastructure (CSIF) Reserve Fund

A provincial payment of \$275.6 million was received in March 2007 for the remaining provincial commitment under CSIF for funding of Commission strategic capital projects. Of the total payment received, \$263.6 million has been applied to accumulated funding recognized by the Commission to date, of which \$8.8 million was drawn from the reserve fund in 2011 (2010 - \$35.6 million).

Ontario Rolling Stock Infrastructure (ORSIF) Reserve Fund

A provincial payment of \$150.0 million was received in March 2007 in support of Toronto's unique rolling stock requirements. Of the total payment received, \$144.5 million has been applied to accumulated funding recognized by the Commission to date, including \$8.0 million drawn from the reserve fund in 2011 (2010 - \$8.7 million).

Transit Technology Infrastructure Program (TTIP) Reserve Fund

A provincial payment of \$31.1 million was received in March 2007 in support of inter-regional transit improvements. Of the total payment received, \$28.7 million has been applied to accumulated funding recognized by the Commission to date including \$1.1 million drawn from the reserve fund in 2011 (2010 - \$2.1 million).

MoveOntario 2020 (MO2020) Reserve Fund

Provincial payments totalling \$452.5 million were received in March 2008 in support of the Metrolinx approved Quick Wins projects. Of the total payment received, \$172.5 million has been applied to accumulated funding recognized by the Commission to date for capital expenditures, including \$47.4 million drawn from the reserve fund in 2011 (2010 - \$79.5 million). Of the amount remaining in the reserve fund, there is also \$57.0 million in Capital Reserve funding which was received for 2009 capital which, based on direction from the City, will be applied against the cost of capital debt and remains unapplied at the end of 2011.

TORONTO TRANSIT COMMISSION

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Year ended December 31, 2011

Provincial Gas Tax Reserve Fund

Of \$165.8 million (2010 - \$160.6 million) in provincial gas tax funding available, the City has directed \$91.6 million for 2011 (2010 - \$91.6 million) toward the Commission's operating needs (note 12) with the remainder of \$69.2 million (2010 - \$69.0 million) of the allocation applied to capital needs. The balance of reserve funds \$5.0 (2010 - Nil) will be applied to future years.

17. COMMITMENTS AND CONTINGENCIES

- (a) In the normal course of its operations, labour relations, and completion of capital projects, the Commission and its subsidiaries are subject to various arbitrations, litigations, and claims. Where the potential liability is determinable, management believes that the ultimate disposition of the matters will not materially exceed the amounts recorded in the accounts. In other cases, the ultimate outcome of the claims cannot be determined at this time. Any additional losses related to claims will be recorded in the period during which the liability is determinable.
- (b) In February 2005, December 2007, December 2008 and October 2009, the Commission approved the awarding of contracts for the purchase of low-floor buses from DaimlerChrysler Commercial Buses North America Ltd. The delivery requirement is, in total, 694 diesel-electric hybrid buses and 395 diesel buses at a total value of \$755.5 million. At December 31, 2011, 60 of the 395 diesel buses are still to be delivered and the outstanding commitment is \$71.1 million.
- (c) In August 2006, the Commission approved purchasing 234 subway cars or 39 trainsets from Bombardier Transportation Canada Inc. In September 2006, City Council approved proceeding with this procurement and the contract was awarded on December 21, 2006. In May 2010, the Commission approved purchasing an additional 10 subway trainsets for the Toronto-York Spadina Subway line extension and 21 H6 replacement trainsets for a total contract cost of \$1,214.3 million. The first trainset was delivered in October 2010. At December 31, 2011, 13 trainsets had been delivered to date at a cost of \$158 million. Further progress payments had been made of \$543.6 million, which is included in construction in progress, and the Commission had incurred costs to date of \$701.6 million. The outstanding commitment is \$512.7 million.
- (d) In October 2008 and September 2011, the Commission approved the award of a contract to American Bus Products Inc. for the supply of 198 Wheel-Trans low-floor para-transit buses at a total cost of \$71 million. At December 31, 2011, 110 buses had been delivered at a cost of \$36.6 million. No buses were received in 2011. The outstanding commitment is \$34.4 million.
- (e) On June 26, 2009 the Commission approved funding for the design and supply of 204 Light Rail Vehicles ("LRV") and the contract was awarded to Bombardier Transportation Canada Inc. The total cost is \$990.2 million. The first delivery of the LRVs is scheduled for 2012 and all 204 cars are to be delivered by 2018. At December 31, 2011, the Commission had incurred costs of \$280.3 million (included in construction in progress - note 10), and the outstanding commitment is \$709.9 million.
- (f) The Commission has contracts for the construction and implementation of various capital projects. At December 31, 2011, these contractual commitments are approximately \$1,353.6 million (2010 - \$604.6 million). Of this amount, contractual commitments of \$1,048.2 million (2010 - 342.9 million) relate to the Toronto York Spadina Subway Extension project and \$40.4 million (2010 - \$68.8 million) relate to Metrolinx projects.
- (g) The Commission could be exposed to contractual cancellation penalties if any of its commenced capital projects do not continue as planned.

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Year ended December 31, 2011

- (h) The Commission leases certain premises under operating lease agreements. The approximate future minimum annual lease payments are as follows:

	(\$000s)
2012	13,500
2013	9,700
2014	6,500
2015	5,200
2016 and thereafter	3,400

TORONTO TRANSIT COMMISSION
CONSOLIDATED FINANCIAL STATEMENTS SCHEDULE
AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2011

(\$000s)	TORONTO TRANSIT COMMISSION (TTC)	WHEEL-TRANS (WT)	TORONTO TRANSIT INFRASTRUCTURE LIMITED (TTIL)
STATEMENT OF OPERATIONS			
REVENUE			
Passenger services	970,902	5,113	-
Advertising	15,815	-	-
Outside City Services	17,813	-	-
Property rental	18,086	-	-
Miscellaneous	3,765	-	1
Total operating revenue	1,026,381	5,113	1
SUBSIDIES			
Operating Subsidy	433,638	89,798	-
Capital Subsidy	913,938	-	-
Total subsidy revenue	1,347,576	89,798	-
EXPENSES			
Wages, salaries and benefits	1,086,584	51,475	45
Materials, services and supplies	164,430	7,948	117
Vehicle fuel	88,616	3,668	-
Accident Claims	48,565	798	-
Electric traction power	34,653	-	-
Wheel-Trans contract services	-	30,557	-
Utilities	17,689	465	-
Depreciation (Operating Budget)	19,482	-	-
Depreciation subsidized assets	292,223	-	-
PFS (Income)	(84,884)	-	-
Total expenses	1,667,358	94,911	162
Surplus (deficit) for the year	706,599	-	(161)
Accumulated surplus (deficit), beginning of the year	4,766,402	-	162
Accumulated surplus (deficit), end of the year	5,473,001	-	1
Not on TTC Financial Statements			
Operating subsidies from the City (as above)	433,638	89,798	-
Operating subsidy - long-term payable for accident claims	(14,648)	(321)	-
Operating subsidy - long-term payable for employee benefits	(13,097)	(640)	-
City special costs	3,377	-	-
Total City operating subsidy - current	409,270	88,837	-
Statement of Financial Position			
Current Assets			
Cash and cash equivalents	49,721	-	2
Subsidies Receivable	711,372	-	-
Accounts Receivable	75,117	-	-
Portfolio Investments	2,547	-	-
Advances to and investment in subsidiary	16,617	-	-
Indemnity receivable from the TTC	-	-	-
Total Financial Assets	855,374	0	2
Liabilities			
Accounts payable and accrued liabilities	436,984	-	1
Deferred passenger revenue	76,150	-	-
Future Employee Benefit Liabilities	399,911	-	-
Unsettled accident claims	157,803	-	-
Environmental Liabilities	13,400	-	-
Due to parent	-	-	-
Total Liabilities	1,084,248	-	1
Net Debt	(228,874)	-	-
Non-Financial Assets			
Tangible Capital Assets	5,509,495	-	-
Spare parts and supplies inventory	101,605	-	-
Prepaid Expenses	5,891	-	-
Accrued Pension Benefit Asset	84,884	-	-
Total Non-Financial Assets	5,701,875	-	-
Capital Stock	-	-	-
Accumulated Surplus (deficit)	5,473,000	-	-

Note: Toronto Transit Commission surplus per above is \$706,599. This consists of capital subsidy \$913,938, pension fund income in excess of contributions of \$84,884 less subsidized asset depreciation of \$292,223. Depreciation expense relating to Wheel-Trans of \$8,500, is grouped under TTC on this schedule.

TORONTO COACH TERMINAL INC. CONSOLIDATED (TCTI)	SICK BENEFIT ASSOCIATION (SBA)	TOTAL BEFORE INTERCOMPANY ELIMINATIONS	INTERCOMPANY ELIMINATIONS	CONSOLIDATED FINANCIAL STATEMENTS
-	-	976,015	-	976,015
-	-	15,815	-	15,815
-	-	17,813	-	17,813
1,389	-	19,475	(136)	19,339
4,364	26,548	34,678	(26,978)	7,700
5,753	26,548	1,063,796	(27,114)	1,036,682
-	-	523,436	-	523,436
-	-	913,938	-	913,938
-	-	1,437,374	-	1,437,374
2,897	26,548	1,167,549	(26,523)	1,141,026
1,628	-	174,123	(622)	173,501
-	-	92,284	-	92,284
-	-	49,363	31	49,394
-	-	34,653	-	34,653
-	-	30,557	-	30,557
-	-	18,154	-	18,154
560	-	20,042	-	20,042
-	-	292,223	-	292,223
-	-	(84,884)	-	(84,884)
5,085	26,548	1,794,064	(27,114)	1,766,950
668	-	707,106	-	707,106
(4,313)	92	4,762,343	-	4,762,343
(3,645)	92	5,469,449	-	5,469,449
-	-	523,436	-	-
-	-	(14,969)	-	-
-	-	(13,737)	-	-
-	-	3,377	-	-
-	-	498,107	-	-
8,570	2,082	60,375	-	60,375
-	-	711,372	-	711,372
60	39	75,216	(524)	74,692
-	-	2,547	-	2,547
-	-	16,617	(16,617)	-
144,772	-	144,772	(144,772)	-
153,402	2,121	1,010,899	(161,913)	848,986
683	2,029	439,697	(880)	438,817
-	-	76,150	-	76,150
144,802	-	399,911	(144,772)	399,911
-	-	302,605	-	157,833
16,134	-	13,400	-	13,400
161,619	2,029	1,247,897	(161,786)	1,086,111
(8,217)	92	(236,998)	(127)	(237,125)
5,569	-	5,515,064	-	5,515,064
-	-	101,605	-	101,605
3	-	5,894	(873)	5,021
-	-	84,884	-	84,884
5,572	-	5,707,447	(873)	5,706,574
1,000	-	1,000	(1,000)	-
(3,645)	92	5,469,449	-	5,469,449