

# TORONTO TRANSIT COMMISSION REPORT NO.

**MEETING DATE** May 6, 2010

**SUBJECT** Draft Consolidated Financial Statements of Toronto Transit  
Commission for the Year Ended December 31, 2009

## **ACTION ITEM**

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### **RECOMMENDATION**

It is recommended that the Commission:

- 1) approve the draft consolidated financial statements of the Toronto Transit Commission for the year ended December 31, 2009; and
- 2) forward a copy of the approved consolidated financial statements to the Audit Committee of the City of Toronto, for information.

### **BACKGROUND**

The Commission's Audit Committee reviewed the consolidated financial statements of the Commission at its meeting on April 13, 2010. After due consideration and discussion with the auditors, Ernst & Young LLP, the Audit Committee approved the submission of the consolidated financial statements for the year ended December 31, 2009 to a regular Commission meeting for approval.

### **DISCUSSION**

The consolidated financial statements of the Toronto Transit Commission for the year ended December 31, 2009 are hereby submitted for approval. Following the Commission's approval of these statements, two Commissioners will sign off on the consolidated balance sheet and the signed Auditors' Report (i.e. Opinion) will be inserted.

In accordance with the City of Toronto Act, 2006, the Commission's consolidated financial statements should be routed to Council, through the City's Audit Committee.

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15-Apr-10  
42-129

Attachment: Draft 2009 Consolidated Toronto Transit Commission Financial Statements

**DRAFT**

Consolidated Financial Statements of

**TORONTO TRANSIT COMMISSION**

Year ended December 31, 2009

## **AUDITORS' REPORT**

To the Chair and Members of  
**Toronto Transit Commission**

We have audited the consolidated balance sheet of **Toronto Transit Commission** as at December 31, 2009 and the consolidated statements of operations and accumulated equity and cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Commission as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

We have also audited the consolidated financial statements schedule as at and for the year ended December 31, 2009 that is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. In our opinion, this schedule presents fairly the information contained therein in all respects material to the consolidated financial statements.

Toronto, Canada,  
March 25, 2010.

Chartered Accountants  
Licensed Public Accountants

# TORONTO TRANSIT COMMISSION

Consolidated Balance Sheet  
As at December 31

	2009	2008
	(\$000s)	(\$000s)
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	52,767	55,904
Accounts receivable		
City of Toronto (note 5)	338,446	302,780
Other	34,645	33,223
Prepaid expenses	3,429	5,431
	429,287	397,338
<b>Long-term</b>		
Net capital assets (note 6)	4,505,552	4,368,611
Spare parts	91,104	85,787
Receivable from City of Toronto (note 5)	117,168	64,883
Other assets (note 7)	2,549	2,550
	5,145,660	4,919,169
<b>LIABILITIES AND ACCUMULATED EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (note 8)	267,111	249,778
Deferred passenger revenue	66,010	52,890
Unsettled accident claims (note 8)	33,395	24,863
	366,516	327,531
<b>Long-term</b>		
Net capital contributions (note 10)	4,374,099	4,241,396
Employee benefits (note 11)	296,690	263,755
Unsettled accident claims (note 8)	92,299	69,941
Environmental liabilities (note 9)	6,485	6,540
	5,136,089	4,909,163
Commitments and contingencies (note 15)		
<b>Accumulated equity</b>	9,571	10,006
	5,145,660	4,919,169

See accompanying notes to the consolidated financial statements

Approved: \_\_\_\_\_  
                    Commissioner

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                    Commissioner

# TORONTO TRANSIT COMMISSION

Consolidated Statement of Operations and Accumulated Equity  
Year ended December 31

	2009	2008
	(\$000s)	(\$000s)
<b>REVENUE</b>		
Passenger services	839,327	840,888
Advertising	15,717	20,415
Outside city services	18,176	16,665
Property rental	16,649	12,091
Miscellaneous	5,464	10,172
<b>Total revenue</b>	<b>895,333</b>	<b>900,231</b>
<b>EXPENSES</b>		
Wages, salaries and benefits (note 11)	1,021,240	948,312
Depreciation	632,786	384,523
Amortization of capital contributions (note 10)	(609,276)	(365,860)
Materials, services and supplies	157,689	135,398
Vehicle fuel	80,527	69,227
Accident claims	55,908	49,177
Electric traction power	32,168	29,811
Wheel-Trans contract services	27,864	22,034
Utilities	16,244	16,286
<b>Total expenses</b>	<b>1,415,150</b>	<b>1,288,908</b>
<b>Net operating costs</b>	<b>(519,817)</b>	<b>(388,677)</b>
Operating subsidies (note 12)	519,382	388,349
<b>Net operating deficit</b>	<b>(435)</b>	<b>(328)</b>
Accumulated equity, beginning of year	10,006	10,334
<b>Accumulated equity, end of year</b>	<b>9,571</b>	<b>10,006</b>

See accompanying notes to the consolidated financial statements

# TORONTO TRANSIT COMMISSION

Consolidated Statement of Cash Flows  
Year ended December 31

	2009	2008
	(\$000s)	(\$000s)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from passenger services	852,447	842,108
Operating subsidies received	482,380	331,451
Other cash received	57,764	55,528
Cash paid for wages, salaries and benefits	(1,003,262)	(901,247)
Cash paid to suppliers	(313,452)	(299,370)
Cash paid for accident claims	(25,018)	(28,286)
<b>Cash provided by operating activities</b>	<b>50,859</b>	<b>184</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital asset acquisitions	(715,479)	(666,828)
<b>Cash used in investing activities</b>	<b>(715,479)</b>	<b>(666,828)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Capital subsidies received	661,483	671,239
<b>Cash provided by financing activities</b>	<b>661,483</b>	<b>671,239</b>
Increase (decrease) in cash and cash equivalents during the year	(3,137)	4,595
Cash and cash equivalents, beginning of the year	55,904	51,309
<b>Cash and cash equivalents, end of the year</b>	<b>52,767</b>	<b>55,904</b>

See accompanying notes to the consolidated financial statements

# TORONTO TRANSIT COMMISSION

Notes to the Consolidated Financial Statements, page 1

Year ended December 31, 2009

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## 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 (1997), 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 is not subject to income and capital taxes, receives a full rebate for the Goods and Services Tax, and receives exemption from certain property taxes.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of presentation

These consolidated financial statements are prepared in accordance with the standards applicable to government business type organizations found in the Canadian Institute of Chartered Accountants ("CICA") Handbook, unless otherwise directed to specific accounting standards of the Public Sector Accounting Board.

### (b) Basis of consolidation

The consolidated financial statements include the operations of Wheel-Trans and the financial statements of the Commission's subsidiaries, Toronto Transit Consultants Limited ("TTCL") and Toronto Coach Terminal Inc. ("TCTI") and TCTI's subsidiary, TTC Insurance Company Limited (the "Insurance Co.").

### (c) Measurement uncertainty

The preparation of the consolidated financial statements in conformity with Canadian generally accepted accounting principles 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. Actual results could differ from those estimates.

### (d) Subsidies

Operating subsidies are based on the operating budget approved by the City and are recognized in the period to the extent that net operating costs are incurred. Contributions provided for the purchase of capital assets are amortized on the same basis as the related assets.

### (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 treasury bills and bankers' acceptances, which have original maturities at acquisition of three months or less and are readily convertible to cash on short notice.

# TORONTO TRANSIT COMMISSION

Notes to the Consolidated Financial Statements, page 2

Year ended December 31, 2009

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**(g) Spare parts**

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

**(h) Capital assets and depreciation**

Capital assets are recorded at cost less accumulated depreciation. Depreciation is calculated using the straight-line method, based on the estimated useful lives of major assets, as follows:

Asset	Years
Subway	20-65
Rolling stock	20-30
Buses	8-18
Buildings	20-40
Other equipment	3-25
Trackwork	10-25
Power distribution system	25-30

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

In addition to direct costs attributable to capital projects, the Commission capitalizes certain internal costs which are related to the acquisition, construction, major rehabilitation, or development of those related capital assets.

**(i) Long-term investments**

Long-term investments classified as held to maturity are recorded at amortized cost based on the effective interest rate method and written down for declines in value that are other than temporary.

**(j) Unsettled accident claims**

The Commission has a self-insurance program for automobile and general liability claims. When the claims are reported, the case reserves are initially estimated on an individual basis by adjusters and lawyers employed by the Commission. A provision is made, on a present value basis, for claims incurred, for claims incurred-but-not-reported, and for internal and external adjustment expenses.

**(k) Employee future benefit plans**

The Commission's contributions to a multi-employer, defined benefit/defined contribution hybrid pension plan are expensed when contributions are due. As such, the accounting policies described in the remaining portion of this section do not apply to the pension plan.

The projected benefits method prorated on service is used to determine the accrued benefit obligations of the Commission's defined benefit supplemental pension and post-retirement benefit plans because these benefits are affected by future salary levels and health care cost escalations. Management's best estimates of retirement ages of employees, future salary levels, expected health care cost escalations, and plan investment performance are used in the valuation.

The accrued benefit obligations of the post-employment benefit plans are recognized when the event that obligates the Commission occurs. The obligations include income replacement, health and dental benefit claims, and fees and taxes paid to independent administrators of these plans, all calculated on a present value basis.

Accrued benefit obligations and costs are determined using discount rates that are consistent with the market rates of high quality debt instruments, with cash flows that match the expected benefit payments.



# TORONTO TRANSIT COMMISSION

Notes to the Consolidated Financial Statements, page 3

Year ended December 31, 2009

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The expected return on assets is based on the fair value of the assets for the supplemental pension plan.

For the supplemental pension and post-retirement benefit plans, the excess of the net actuarial gain or loss over 10% of the greater of the benefit obligation and the fair value for plan assets, is amortized over the average remaining service period of active employees. The average remaining service periods of active employees are 9 years (2008 – 9 years) for the supplemental pension plans and 13 years (2008 – 11 years) for the post-retirement benefit plans.

The net actuarial gain or loss for post-employment benefits arising from changes in actuarial assumptions are amortized on a straight-line basis over the average expected period during which benefits will be paid, which are 10 years (2008 – 10 years) for workplace safety insurance benefits and 9 years (2008 – 7 years) for long-term disability benefits. Experience gains and losses related to post-employment benefits are recognized immediately and are included in the plan's current service cost.

Past service costs arising from a plan amendment or plan initiation are amortized on a straight-line basis over 7 to 11 years (2008 – 7 to 11 years), which represents the average remaining service life of active employees as of the effective date of the amendment or initiation.

On January 1, 2000, the Commission adopted the new accounting standard of the CICA Handbook Section 3461, using the prospective application method. The transitional obligation, arising from the changes in accounting policies, is amortized on a straight-line basis over 11 to 14 years, which represents the expected average remaining service life of the employee groups covered by the benefit plans at the date of the change.

**(l) Environmental provision**

The Commission includes in its liabilities a provision for the cost of compliance with environmental legislation. 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 restoration costs are reviewed regularly, based on available information and governing legislation.

**(m) Financial instruments**

The Commission has designated its financial instruments as follows:

- i) Cash and cash equivalents as held for trading.
- ii) Current accounts receivable and the long-term receivable from the City of Toronto as loans and receivables.
- iii) The City of Toronto and Province of Ontario bonds (included in other assets – see note 7) as held to maturity.
- iv) Accounts payable and accrued liabilities as other liabilities.

Cash and cash equivalents are recorded at cost which approximates fair market value. All of the other financial instruments are recorded at amortized cost.

### 3. FINANCIAL INSTRUMENTS

**Fair value**

The main categories of financial instruments held by the Commission include cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. The fair values of the current accounts receivable and accounts payable and accrued liabilities approximate their carrying values due to the relatively short time period to maturity of these instruments. The fair value of the long-term receivable from the City of Toronto cannot be determined since there are no fixed terms of repayment. The fair value of other assets is described in note 7.

# TORONTO TRANSIT COMMISSION

Notes to the Consolidated Financial Statements, page 4

Year ended December 31, 2009

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## Risk management

### Credit risk

91% (2008 – 90%) of the Commission's current accounts receivable are due from the City of Toronto. Of the other current accounts receivable, which total \$34.6 million (2008 - \$33.2 million), \$16.9 million (2008 – \$13 million) is due from federal and provincial government entities, other municipalities and transit agencies. Management therefore believes that the Commission's credit risk is low.

### Currency risk

The Commission has limited foreign currency risk with respect to its financial instruments as substantially all of the Commission's financial assets and financial liabilities are denominated in Canadian dollars. The Commission is exposed to some foreign currency risk as some contracts for the future purchase of supplies and capital assets are denominated in U.S. dollars. The Commission does not have a policy of hedging future foreign currency payments.

### Liquidity risk

The Commission has \$267.1 million (2008 - \$249.8 million) of financial liabilities that are due within one year or less. The Commission has a combination of cash on hand and receivables from the City of Toronto that will be sufficient to satisfy these liabilities.

## 4. CAPITAL DISCLOSURES

In managing capital, the Commission focuses on ensuring the availability of sufficient liquid assets to fund its operations and capital program. The need for sufficient liquid resources is considered in the preparation of an annual budget and in the monitoring of cash flows and actual results compared to the budget. As at December 31, 2009, the Commission had met its objective of having sufficient liquid assets available to meet its current obligations.

## 5. RECEIVABLE FROM CITY OF TORONTO AND RELATED PARTY TRANSACTIONS

The Commission is related to the City and its agencies, boards, and commissions in terms of the City's ability to affect the operating, investing, and financing policies of these entities. The Commission enters into transactions with these related parties in the normal course of business. The accounts receivable from the City and its related entities primarily consist of subsidy billings. In order to simplify the reconciliation of the Commission's accounts to those of the City, the total receivable is presented net of certain accounts payable to the City.

The current receivable from the City is as follows:

	2009	2008
		(\$000s)
Subsidies receivable	369,915	305,822
Other current receivables	5,759	7,880
Other current payables	(37,228)	(10,922)
Total current receivable	338,446	302,780

# TORONTO TRANSIT COMMISSION

Notes to the Consolidated Financial Statements, page 5

Year ended December 31, 2009

In addition to the above current receivables, the Commission has a long-term receivable from the City which relates to the funding of the following items:

	2009	2008
		(\$000s)
Non-cash employee benefits	79,830	58,343
Non-cash accident claims expenses	30,853	-
Future environmental costs (note 9)	6,485	6,540
Total long-term receivable	117,168	64,883

The non-cash employee benefits receivable represents the delayed payment of operating subsidy for the non-cash portion of the post-retirement dental and medical benefit expenses. The non-cash accident claims receivable represents the delayed payment of operating subsidy for the non-cash portion of the accident claim expenses incurred since January 1, 2009, net of cash payments. All of the long-term receivables are non-interest bearing and these receivables will decrease in years when the cash outflow for these items exceeds the accounting expense.

Transactions with the City and its related entities, other than the subsidies (which are disclosed in notes 12 and 13), include the purchase of hydro, services, supplies and payment of property taxes in the amount of \$98.6 million (2008 - \$62.4 million).

## 6. NET CAPITAL ASSETS

The cost of capital assets, net of accumulated depreciation, is as follows:

	2009	2008
		(\$000s)
Subway	2,585,294	2,534,442
Rolling stock	1,594,704	1,572,155
Buses	1,346,280	1,238,749
Buildings	934,840	825,441
Other equipment	654,451	606,018
Trackwork	600,973	558,702
Power distribution system	198,060	187,037
Construction in progress	883,798	542,961
Land	20,205	20,205
	8,818,605	8,085,710
Less accumulated depreciation	4,313,053	3,717,099
Net capital assets	4,505,552	4,368,611

These costs include the capitalization of certain internal costs (note 11). Land purchased directly by the City for the Commission's use is accounted for in the City's records. At June 1, 2009, the insured value of all of the Commission's assets, not including land, was approximately \$10.5 billion (2008 - \$10.1 billion).

# TORONTO TRANSIT COMMISSION

Notes to the Consolidated Financial Statements, page 6

Year ended December 31, 2009

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## 7. OTHER ASSETS

Other assets consist of two bonds, as follows:

	2009	2008
		(\$000s)
City of Toronto bond (8.65%; June 8, 2015 maturity)	546	546
Province of Ontario bond (5.375%; December 2, 2012 maturity)	2,003	2,004
Total other assets	2,549	2,550

At December 31, 2009, the fair value of the bonds is \$2.9 million (2008 - \$2.9 million).

## 8. UNSETTLED ACCIDENT CLAIMS

The Insurance Co. was established in 1994 in order to provide insurance coverage for compulsory automobile personal injury and accident benefit claims for the Commission. The Commission has purchased insurance from third-party insurers to cover claims in excess of \$5 million on any one accident.

At December 31, 2009, \$111.0 million (2008 - \$82.4 million) of the unsettled accident claims liability is related to the Insurance Co.'s payable for all automobile claims incurred. This payable is guaranteed by the City.

## 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. In 1996, an exhaustive environmental audit was conducted for the Commission by an external consultant. Although some remedial work had been undertaken prior to that audit, more comprehensive remedial and pro-active programs were then established and much work has been completed. However, the garage subsurface remediation program is still active.

The Commission expects that expenditures of approximately \$1.9 million will be paid during 2010 (2008 - \$1.1 million) and therefore this amount is included in accounts payable and accrued liabilities. In addition, the consolidated balance sheet includes a long-term provision for environmental costs of \$6.5 million (2008 - \$6.5 million) to cover 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 assumptions, actual costs may vary. The estimated amounts of future restoration costs are reviewed regularly, based on available information and governing legislation.

# TORONTO TRANSIT COMMISSION

Notes to the Consolidated Financial Statements, page 7

Year ended December 31, 2009

## 10. NET CAPITAL CONTRIBUTIONS

The net capital contributions are as follows:

	2009	2008
		(\$000s)
Balance, beginning of year	4,241,396	3,969,643
Capital subsidies (note 13)	741,979	637,613
Amortization	(609,276)	(365,860)
Balance, end of year	4,374,099	4,241,396
Accumulated amortization recorded to date	3,942,045	3,359,375

## 11. EMPLOYEE FUTURE BENEFITS

### Description of benefit plans

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

The Commission participates in a multi-employer, defined benefit/defined contribution hybrid pension plan (the "hybrid pension plan") that covers substantially all of its employees. The pension plan is operated by the Toronto Transit Commission Pension Fund Society (the "Society"), a separate legal entity. The Society provides pensions to members, based on the length of service and average base year (pensionable) earnings. The Society also administers defined benefit supplemental plans designed to pay employees and executives the difference between their earned pension under the by-laws of the Society and the maximum allowable pension under the Income Tax Act (Canada).

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 Society. Dental benefits are limited to employees retiring on or after January 1, 2003.

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.

### Measurement dates and dates of actuarial valuations

The accrued benefit obligations and the fair value of assets are measured as at December 31 of each year.

For the supplemental pension plan, the effective date of the most recent actuarial valuation for funding purposes was January 1, 2009. The next actuarial valuation for funding purposes is expected to be performed as at January 1, 2012. The effective date of the most recent valuation for accounting purposes was December 31, 2009.

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.

# TORONTO TRANSIT COMMISSION

Notes to the Consolidated Financial Statements, page 8

Year ended December 31, 2009

For the post-employment benefit plans, the effective date of the most recent actuarial valuation was September 30, 2009 for the WSI plan and November 30, 2009 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, 2010 for the WSI plan and November 30, 2010 for the LTD plan.

## Reconciliation of funded status to the liability recorded in the consolidated financial statements:

	Defined Benefit Supplemental Pension Plans	Post- Retirement Plans	Post- Employment Plans	2009 Total
			(\$000s)	
Accrued benefit obligations	9,060	191,298	150,990	351,348
Fair value of plan assets	(5,825)	-	-	(5,825)
Funded status – plan deficit	3,235	191,298	150,990	345,523
Balance of unamortized amounts:				
Actuarial gains/(losses)	439	(19,583)	(17,148)	(36,292)
Past service costs	(64)	(800)	(641)	(1,505)
Transitional obligation	(76)	(10,960)	-	(11,036)
Accrued benefit liability	3,534	159,955	133,201	296,690

	Defined Benefit Supplemental Pension Plans	Post- Retirement Plans	Post- Employment Plans	2008 Total
			(\$000s)	
Accrued benefit obligations	7,105	164,646	111,056	282,807
Fair value of plan assets	(5,261)	-	-	(5,261)
Funded status – plan deficit	1,844	164,646	111,056	277,546
Balance of unamortized amounts:				
Actuarial gains/(losses)	1,801	(10,285)	15,079	6,595
Past service costs	(106)	(4,500)	(734)	(5,340)
Transitional obligation	(151)	(13,710)	(1,185)	(15,046)
Accrued benefit liability	3,388	136,151	124,216	263,755

The defined benefit supplemental pension plan assets consist of 47% (2008 – 43%) equity index pooled funds and 53% (2008 – 57%) deposit in a Canada Revenue Agency non-interest bearing refundable tax account.

The assets in the defined benefit supplemental pension earned a return of \$0.4 million in 2009 (\$0.9 million loss in 2008) which compares to an expected return of \$0.2 million (\$0.3 million for 2008). The difference of \$0.2 million in 2009 (\$1.2 million in 2008) has been included in the actuarial gains/losses for the year. The interest cost for the defined benefit supplemental pension plan in the following table is shown net of the expected return.

# TORONTO TRANSIT COMMISSION

Notes to the Consolidated Financial Statements, page 9

Year ended December 31, 2009

## Reconciliation of the change in the employee future benefit liabilities including costs recognized in the year:

	Defined Benefit Supplemental Pension Plans	Post- Retirement Plans	Post- Employment Plans	Hybrid Pension Plan	2009 Total
Accrued benefit liability:			(\$000s)		
Balance, beginning of the year	3,388	136,151	124,216	-	263,755
Current service cost	99	4,811	24,031	76,398	105,339
Interest cost	338	11,232	7,563	-	19,133
Amortization:					
Actuarial (gains)/losses	(137)	6,805	(2,400)	-	4,268
Past service costs	42	3,700	93	-	3,835
Transitional obligation	75	2,750	1,185	-	4,010
Cash payments	(271)	(5,494)	(21,487)	(76,398)	(103,650)
Balance, end of the year	3,534	159,955	133,201	-	296,690

	Defined Benefit Supplemental Pension Plans	Post- Retirement Plans	Post- Employment Plans	Hybrid Pension Plan	2008 Total
Accrued benefit liability:			(\$000s)		
Balance, beginning of the year	3,336	117,090	111,644	-	232,070
Current service cost	177	7,710	24,966	69,043	101,896
Interest cost	45	8,993	5,691	-	14,729
Amortization:					
Actuarial (gains)/losses	-	1,123	(528)	-	595
Past service costs	42	3,700	21	-	3,763
Transitional obligation	75	2,750	1,185	-	4,010
Cash payments	(287)	(5,215)	(18,763)	(69,043)	(93,308)
Balance, end of the year	3,388	136,151	124,216	-	263,755

The total cost for the above benefits, including the hybrid pension plan, is \$136,585 (2008 - \$124,993). Approximately \$123,700 or 90.6% (2008 - \$113,500 or 90.8%) of the total cost is included in wages, salaries and benefits on the consolidated statement of operations and accumulated equity. The remaining \$12,885 or 9.4% (2008 - \$11,493 or 9.2%) has been charged to capital assets, in accordance with the Commission's capitalization policies.

Cash payments include contributions to the supplemental and hybrid pension plans. The cash payment to the hybrid pension plan includes contributions to meet the minimum funding requirements, in accordance with pension legislation. The members and the Commission each made required contributions of \$74.3 million in 2009 (2008 - \$66.7 million), which represented 8.25% (2008 - 8.25%) of members' covered earnings up to the Canada Pension Plan yearly maximum pensionable earnings of \$46,300 in 2009 (2008 - \$44,900) and 9.85% (2008 - 9.85%) of covered earnings in excess of this amount. In addition, the Commission contributed \$2.1 million in 2009 (2008 - \$2.4 million) for an early retirement provision.

Cash payments to the post-retirement and post-employment plans consist of income replacement, health and dental benefit claims, and administration fees and related taxes paid to the various administrators of these plans.

# TORONTO TRANSIT COMMISSION

Notes to the Consolidated Financial Statements, page 10

Year ended December 31, 2009

## Significant assumptions used in accounting for employee future benefits

	2009	2008
Accrued benefit obligations as at December 31:		
Discount rate for Post-Retirement Plans	6.25%	7.40%
Discount rate for Post-Employment Plans	5.00%	7.40%
Rate of increase in earnings	3.50%	3.50%
Benefit costs for the years ended December 31:		
Discount rate for Post-Retirement Plans	7.40%	5.50%
Discount rate for Post-Employment Plans	7.40%	5.50%
Rate of increase in earnings	3.50%	3.75%
Rate of return on assets	4.20%	4.30%

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 12%, decreasing to 5% in 20 years, was used to estimate drug costs for the post-employment plan. In 2008, a rate of 7%, decreasing by 1% per annum to 5%, was used for both benefit plans.

### Sensitivity analysis

Health care cost trend rate assumptions have a significant effect on the amounts reported for the health care related plans. A one-percentage-point change in the assumed health care cost trend rates would have the following effects for 2009:

	Increase	(Decrease)
		(\$000s)
Total costs	4,000	(3,100)
Accrued benefit obligations	31,200	(25,700)

## 12. OPERATING SUBSIDIES

The sources of operating subsidies are as follows:

	2009			2008
	Conventional	Wheel-Trans	Total	Total
- Province of Ontario				(\$000s)
Gas tax (note 13(b))	91,600	-	91,600	91,600
Other provincial funding	-	-	-	100,000
- City of Toronto	350,733	77,049	427,782	196,749
Total operating subsidies (for Commission's consolidated financial statements)	442,333	77,049	519,382	388,349

Between 1971 and 1980, the City and the Province of Ontario (the "Province") covered the Commission's operating shortfalls on a shared basis. From 1981 until 1993, a more formalized "Users' Fair Share" formula was used, with the Commission establishing its fares each year to cover 68% of total estimated operating expenses (as defined for provincial subsidy purposes). The City provided an operating subsidy equal to the remaining expenses. The City in turn obtained a subsidy from the Province equal to 16% of eligible expenses, plus additional subsidies for certain specified costs. Between 1994 and 1997, modified "flat-line" subsidies were provided by the City and the Province. However, between January 1, 1998 and December 31, 2003, the Province did not provide operating subsidies for public transit. Subsequent to 2003, the City allocated to the Commission's budget an amount of provincial subsidy from the gas tax (see note 13(b)). In 2009, the amount allocated was \$91.6 million (2008 - \$91.6 million). In 2008, \$100 million in other provincial funding was recognized in the consolidated statement of operations and accumulated equity. There



# TORONTO TRANSIT COMMISSION

Notes to the Consolidated Financial Statements, page 11

Year ended December 31, 2009

was no similar amount in 2009. Currently, the total City operating subsidy amount is established as part of the City's annual budget process.

City of Toronto subsidy (for information only)				
	2009			2008
	Conventional	Wheel-Trans	Total	Total
Operating subsidy from the				(\$000s)
City of Toronto (see above)	350,733	77,049	427,782	196,749
City special costs	3,048	-	3,048	2,770
Long-term receivable (accident claims) (note 5)	(30,450)	(403)	(30,853)	-
Long-term receivable (employee benefits) (note 5)	(20,590)	(897)	(21,487)	(17,238)
<b>Total City operating subsidies</b> (in accounts of the City of Toronto )	<b>302,741</b>	<b>75,749</b>	<b>378,490</b>	<b>182,281</b>

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. These subsidies and related expenses are not reflected in these consolidated financial statements.

The long-term receivables reflect the delayed payment of operating subsidy for the non-cash portion of the post-retirement medical and dental benefit expenses (note 5) and accident claims (note 8).

For details related to the City Reserves and Reserve Funds, see note 14.

## 13. CAPITAL SUBSIDIES

Capital subsidies, which are recorded as net capital contributions (note 10), are as follows:

	2009	2008
Source of capital subsidies:		(\$000s)
- City of Toronto	332,854	171,194
- Province of Ontario	195,065	209,512
- Federal Government of Canada	207,747	250,864
- Other	6,313	6,043
<b>Total capital subsidies</b>	<b>741,979</b>	<b>637,613</b>

### (a) 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 2009 capital subsidy of \$735.7 million (2008 - \$631.6 million). Amounts claimed from the City do not include a \$2.0 million recovery (2008 - \$3.4 million expenditure) for property purchased and owned by the City but for the jurisdictional use of the Commission. Other funding of \$6.3 million (2008 - \$6.0 million) is based on 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 TRANSIT COMMISSION

Notes to the Consolidated Financial Statements, page 12

Year ended December 31, 2009

## 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 2009, \$94.7 million (2008 - \$12.8 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.

The Province approved funding of \$870 million (March 2006 and January 2008) for the TYSSE into York Region with a project cost of \$2.634 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 first \$75 million was designated from the federal Public Transit Capital Trust ("PTCT") funds and was provided to the Province to be placed in the MOT (see note 13(c)). The remaining \$622 million federal contribution will be provided through the new Building Canada Fund under a contribution agreement executed by the parties (Canada, York and Toronto) on September 5, 2008.

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 covering two months of payments 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 of appropriate contracts and claims prepared by the Commission.

## (b) Province of Ontario

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

	2009	2008
Source of capital subsidies:		(\$000s)
- Vehicle funding programs	18,296	50,571
- Canada Strategic Infrastructure Fund	32,537	80,071
- Gas tax	72,469	69,625
- Transit Technology Infrastructure Program	650	1,432
- Metrolinx (Quick Wins)	37,803	7,813
- Metrolinx (Transit City)	21,586	-
- LRT Car Project	11,724	-
Total provincial capital subsidies	195,065	209,512

## Vehicle Funding Programs

Under the Ontario Bus Replacement Program ("OBRP") implemented in 2007, payments were received up front based on the bus contract costs and the remaining balance of these funds for 2007 contract buses was drawn from the reserve in 2008 (\$13.1 million) upon receipt of those buses. In early 2008, the Province announced changes by committing to provide up to 33.3% of conventional bus contract payments amortized over a 12 year bus life. As a result, the City had taken out debt to fund the bus expenditures (11/12ths and declining) over the amortized funding life. The OBRP obligation for 2009 contract buses delivered in 2009 is \$25.1 million (2008 - \$25.7 million). Funding of \$4.2 million (2008 - \$2.1 million) based on a 12 year amortization for the 2008 and 2009 contract buses was recognized in 2009. In its March 25, 2010 budget, the Province cancelled the OBRP program effective immediately and has committed to pay its outstanding obligations to the City for 2008 and 2009 as well as to provide funds for the 2010 bus contract commitments (\$18.7 million).

# TORONTO TRANSIT COMMISSION

Notes to the Consolidated Financial Statements, page 13

Year ended December 31, 2009

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These payments will be made 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 requirements 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 \$127.8 million has been recognized by the Commission for the eligible expenditures to date, including \$14.1 million for 2009 (2008 - \$35.3 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 2012 (see note 13(c)). Funding in the amount of \$27.7 million for buses delivered during 2004 and 2005 was addressed under previous Ontario Transit Vehicle Program funding. On March 30, 2007, the Province provided an unconditional payment of \$275.6 million to the City in full settlement of the remaining CSIF commitment, net of the GTA Farecard Project share of \$46.7 million, which will be addressed upon approval of the GTA Farecard Project. Funds received by the City were placed in the City's CSIF Reserve Fund to be applied to eligible CSIF expenditures over the term of the agreement. Funding of \$219.2 million has been recognized by the Commission for the eligible expenditures to date, including \$32.5 million for 2009 (2008 - \$80.1 million).

### ***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 \$164.1 million (2008 - \$161.2 million) in provincial gas tax funding, the City has directed \$91.6 million for 2009 (2008 - \$91.6 million) toward the Commission's operating needs (note 12) with the remainder of \$72.5 million (2008 - \$69.6 million) applied to capital needs.

### ***Transit Technology Infrastructure Program***

The Province paid out previously announced commitments under the Transit Technology Infrastructure Program ("TTIP") in full on March 30, 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 \$25.5 million has been recognized by the Commission for the eligible expenditures to date, including \$0.7 million for 2009 (2008 - \$1.4 million).

### ***Metrolinx (Quick Wins)***

In its March 2008 budget, the Province confirmed the Quick Wins funding package of projects as approved by Metrolinx in November 2007, including subway capacity and Transit City environmental assessment funding. Provincial payments totalling \$452.5 million were received by the City in March 2008 in support of the Metrolinx approved Quick Wins projects including subway capacity improvements (\$386.0 million); Transit City Plan work (\$7.1 million); Commission Bikelinx projects (\$1.2 million); and 2009 capital projects (\$57.0 million). Funding of \$45.6 million has been recognized by the Commission for the eligible expenditures to date, including \$37.8 million applied to capital projects in 2009 (2008 - \$7.8 million). Since a significant portion of the 2009 capital expenditures were deferred until 2010, the \$57 million capital reserve amount is being held to be applied to projects in 2010.

# TORONTO TRANSIT COMMISSION

Notes to the Consolidated Financial Statements, page 14

Year ended December 31, 2009

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## ***Metrolinx (Transit City)***

On June 15, 2007, the Provincial Government announced a 12-year \$17.5 billion action plan to deliver 52 rapid transit initiatives in the Greater Toronto Area ("GTA") and Hamilton. This plan is to be financed by the Province over 50 years with no municipal contribution and the Federal Government was asked to cover at least a third of the program cost. This plan included the TTC's Transit City Program (7 new light rail lines), subway extensions to York Region (Spadina and Yonge), the Yonge Bus Rapid Transit and the Scarborough Rapid Transit ("SRT") extension. This program is designed to substantially enhance transit in the City of Toronto and the GTA and is the source of funding for the TTC's Transit City Program. These programs are shown separately from the base program and will require no municipal funding.

On April 1, 2009, the Province of Ontario announced funding for the following Transit City 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 is intended that the City will not be required to contribute toward the cost of these lines and that Metrolinx will play a key role in these projects. While funding has been announced for each of the SRT, Sheppard East, Finch West and Eglinton Crosstown LRT lines, discussions are ongoing with Metrolinx with respect to the development of a series of agreements that will be 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. It appears that Metrolinx intends to retain ownership of the new lines and this restructuring is currently under discussion, with resultant project management and responsibilities for contracts and payments to be confirmed. Funding of \$21.6 million has been recognized by the Commission in 2009 for the eligible expenditures to date on the approved lines. In addition, funding of \$7.1 million was recognized in 2008 for environmental assessment work, through the Metrolinx Quick Wins funding package.

In its March 25, 2010 provincial budget, the Provincial Government announced that it would work with Metrolinx to phase the construction of transit projects which would result in approximately \$4 billion in appropriation savings and reduced borrowing over the next five years. The specific impact of this plan on the four approved Transit City lines is not determinable at this time.

## ***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 (\$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 \$11.7 million has been recognized against the project for 2009.

### **(c) Federal Government of Canada**

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

	<b>2009</b>	<b>2008</b>
Source of capital subsidies:		(\$000s)
- Canada Strategic Infrastructure Fund	33,407	91,373
- Gas tax funding	162,892	81,446
- Public Transit Capital Trust	6,186	75,685
- Transit-Secure	430	2,360
- Federal Infrastructure Stimulus	4,832	-
Total federal capital subsidies	207,747	250,864

# TORONTO TRANSIT COMMISSION

Notes to the Consolidated Financial Statements, page 15

Year ended December 31, 2009

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## ***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. 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 initial funding has flowed, additional requirements are being addressed for subsequent claims and to date, federal funding for the eligible expenditures incurred to date amounts to \$240.1 million, of which \$33.4 million has been accrued in 2009 (2008 - \$91.4 million).

## ***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". In December 2007, the Federal Government approved a permanent extension of gas tax funding which was announced in the February 2008 federal budget. 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. Ontario's allocation of this to municipalities is based on population and the City was allocated \$162.9 million in 2009 (2008 - \$81.4 million) under this program. This amount was allocated to the Commission.

## ***Public Transit Capital Trust***

The Federal Government announced the creation of the Public Transit Capital Trust ("PTCT") in its May 2006 budget. The City's share of this funding, based on a transit ridership allocation, amounted to \$222.6 million and was released by the Province in a March 30, 2007 unconditional payment which was deposited in a City reserve fund to be used for transit capital funding. Of this amount, \$75.0 million was designated as the Federal Government's initial funding towards the TYSSE; however, the Province provided a top-up payment of \$75.0 million to cover these funds diverted from the PTCT. To date, funding of \$231.0 million has been drawn from this reserve (inclusive of interest earnings), of which \$6.2 million was applied to 2009 capital projects (2008 - \$75.7 million). This reserve fund is now fully depleted.

## ***Transit-Secure***

In June 2006, the Federal Government announced measures to bolster Canada's transportation security infrastructure with funding of \$80 million available for high-risk passenger rail and security operations under the Passenger Rail and Transportation Security Program ("Transit-Secure"). Funding of \$8.8 million was announced for the Commission's capital security projects including the subway station CCTV project for the period June 23, 2006 through March 31, 2009. Funding of \$5.9 million has been claimed and paid, of which \$0.4 million was recognized in 2009 (2008 - \$2.4 million).

## ***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. Funding of \$4.8 million has been recognized by the Commission in 2009 for the eligible expenditures to date.

# TORONTO TRANSIT COMMISSION

Notes to the Consolidated Financial Statements, page 16

Year ended December 31, 2009

## 14. CITY OF TORONTO RESERVES AND RESERVE FUNDS

The City maintains in its accounts interest bearing Reserve Funds, and non-interest bearing Reserves comprised of funds set aside for specific purposes by City Council. Seven of these Reserve Funds and one Reserve have been established specifically for matters related to the Commission. In addition, \$3 million is held in the City's Capital Financing Reserve on behalf of the Commission. 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 2009, the average interest rate applicable to Reserve Funds was 0.5% (2008 – 3.66%).

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 table.

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

(\$000s)	2009			2008	
	Stabilization	Land Acquisition	City's Capital Financing	Total	Total
Balance, beginning of the year	24,666	639	2,971	28,276	33,986
Draws	-	-	-	-	(5,900)
Interest earned	-	3	-	3	190
Balance, end of the year	24,666	642	2,971	28,279	28,276

#### ***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. In 2008, the City received City Council approval to draw a further \$5.9 million related to the acquisition of the McNicoll property that was acquired by the Commission in 2005.

#### ***City's Capital Financing Reserve***

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

# TORONTO TRANSIT COMMISSION

Notes to the Consolidated Financial Statements, page 17

Year ended December 31, 2009

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

(\$000s)							2009	2008
	CSIF	PTCT	ORSIF	OBRP	TTIP	MO2020	Total	Total
Balance, beginning of the year	103,093	6,122	43,304	-	6,924	452,464	611,907	350,555
Provincial contributions	-	-	-	4,237	-	-	4,237	454,627
Draws	(32,537)	(6,186)	(14,051)	(4,245)	(650)	(37,803)	(95,472)	(215,571)
Interest earned	518	64	230	8	33	2,231	3,084	22,296
Balance, end of the year	71,074	-	29,483	-	6,307	416,892	523,756	611,907

During 2009, the City received no further payments to reserve for transit capital from the Province of Ontario (2008 - \$454.6 million).

### ***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, \$219.2 million has been applied to accumulated funding recognized by the Commission to date, of which \$32.5 million was drawn from the reserve fund in 2009 (2008 - \$80.1 million).

### ***Public Transit Capital Trust (PTCT) Reserve Fund***

A provincial payment of \$222.6 million was received in March 2007 for federal and provincial funds in support of public transit including a provincial "top-up" of \$75.0 million (see note 13(c)). The fund has been fully drawn with \$231.0 million having been applied to accumulated funding recognized by the Commission (including earned interest), of which \$6.2 million was drawn from the reserve fund in 2009 (2008 - \$75.7 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, \$127.8 million has been applied to accumulated funding recognized by the Commission to date including \$14.1 million drawn from the reserve fund in 2009 (2008 - \$35.3 million).

### ***Ontario Bus Replacement Program (OBRP) Reserve Fund***

In 2007, the City received the last payment for bus contract costs and the remaining fund balance representing interest earned was applied to bus funding in 2009. While it was anticipated that future provincial payments would be received on an annual basis to address bus contract commitments, effective from 2008, the Province began amortizing these payments over the 12-year bus life with the deferred payments covered by City debt.

### ***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, \$25.5 million has been applied to accumulated funding recognized by the Commission to date including \$0.7 million drawn from the reserve fund in 2009 (2008 - \$1.4 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, \$45.6 million has been applied to accumulated funding recognized by the Commission to date for capital expenditures, including \$37.8 million drawn from the reserve fund in 2009 (2008 - \$7.8 million).

# TORONTO TRANSIT COMMISSION

Notes to the Consolidated Financial Statements, page 18

Year ended December 31, 2009

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## 15. 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) A class-action lawsuit claiming \$100 million in damages was issued on March 24, 2010 against the City of Toronto, the Province of Ontario and the Commission. The lawsuit alleges that merchants and landlords along St. Clair Avenue West suffered business losses due to the St. Clair streetcar project. At this time, the action has not been certified and it is not possible to quantify the effect, if any, of this claim on the Commission's consolidated financial statements.
- (c) 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, 2009, 694 hybrid and 180 diesel buses had been delivered at a cost of \$593.2 million and the outstanding commitment is \$162.3 million.
- (d) 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. The total cost of the contract is \$682.3 million. At December 31, 2009, the Commission had incurred costs of \$375.2 million (included in construction in progress – note 6). The first trainset is scheduled for delivery in August 2010. At December 31, 2009, the outstanding commitment is \$307.1 million.
- (e) In October 2008, the Commission approved the award of a contract to American Bus Products Inc. for the supply of 110 Wheel-Trans low-floor para-transit buses at a total cost of \$38.8 million. At December 31, 2009, 30 buses had been delivered at a cost of \$7.2 million and the outstanding commitment is \$31.6 million.
- (f) 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., at a total cost of \$961.7 million. At December 31, 2009, the Commission had incurred costs of \$35.8 million (included in construction in progress – note 6). The first delivery of the LRVs is scheduled for 2011, and all 204 cars are to be delivered by 2018. At December 31, 2009, the outstanding commitment is \$925.9 million.
- (g) The Commission has contracts for the construction and implementation of various capital projects. At December 31, 2009, these contractual commitments are approximately \$274.8 million (2008 - \$164.0 million). Of this amount, contractual commitments of \$105.9 million relate to the Toronto York Spadina Subway Extension project.
- (h) The Commission leases certain premises under operating lease agreements. The approximate future minimum annual lease payments are as follows:

	(\$000s)
2010	7,700
2011	7,800
2012	8,000
2013	5,000
2014	2,400



# **TORONTO TRANSIT COMMISSION**

Notes to the Consolidated Financial Statements, page 19

Year ended December 31, 2009

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## **16. FUTURE ACCOUNTING CHANGES**

In September 2009, the Public Sector Accounting Board approved an amendment to the Introduction to the Public Sector Accounting Standards, whereby other government organizations including the Commission will be required to adopt either International Financial Reporting Standards or Public Sector Accounting Standards effective January 1, 2011. Management has determined that the Public Sector Accounting Standards would be most appropriate for the Commission and is currently assessing the impact that this change will have on the consolidated financial statements.

## **17. COMPARATIVE FIGURES**

Certain prior-year figures have been reclassified to conform to the current year's presentation.



**TORONTO TRANSIT COMMISSION**  
**CONSOLIDATED FINANCIAL STATEMENTS SCHEDULE**  
**AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2009**

(\$000s)	TORONTO TRANSIT COMMISSION (TTC)	WHEEL-TRANS (WT)	TORONTO TRANSIT CONSULTANTS LIMITED (TTCL)
<b>STATEMENT OF OPERATIONS AND ACCUMULATED EQUITY</b>			
<b>Revenue</b>			
Passenger services	(835,107)	(4,220)	-
Advertising	(15,717)	-	-
Outside city services	(18,176)	-	-
Property rental	(15,668)	-	-
Miscellaneous	(1,739)	-	(1)
<b>Total revenue</b>	<b>(886,407)</b>	<b>(4,220)</b>	<b>(1)</b>
<b>Expenses</b>			
Wages, salaries and benefits	975,747	42,105	-
Depreciation	632,213	-	-
Amortization of capital contributions	(609,276)	-	-
Materials, services and supplies	148,737	7,783	-
Vehicle fuel	78,095	2,432	-
Accident claims	55,196	701	-
Electric traction power	32,168	-	-
Wheel-Trans contract services	-	27,864	-
Utilities	15,860	384	-
Interest expense net	-	-	-
<b>Total expenses</b>	<b>1,328,740</b>	<b>81,269</b>	<b>-</b>
Net operating costs/(income)	442,333	77,049	(1)
Operating subsidy from the Province	(91,600)	-	-
Operating subsidy from the City	(350,733)	(77,049)	-
Net operating (surplus)/deficit	-	-	(1)
Accumulated (equity)/deficit, beginning of the year	(14,196)	-	(60)
Accumulated (equity)/deficit, end of the year	(14,196)	-	(61)
Not on the Commission's consolidated financial statements – Reconciliation to the City operating subsidy (See note 12)			
Operating subsidy from the City (as above)	350,733	77,049	-
Operating subsidies – long-term payable for accident claims	(30,450)	(403)	-
Operating subsidies – long-term payable for employee benefits	(20,590)	(897)	-
City special costs	3,048	-	-
<b>Total City operating subsidy</b>	<b>302,741</b>	<b>75,749</b>	<b>-</b>
<b>BALANCE SHEET</b>			
<b>Current Assets</b>			
Cash and cash equivalents	46,532	-	161
Accounts receivable			
City of Toronto	338,450	-	-
Other	35,053	-	-
Advances to subsidiary	-	-	-
Indemnity receivable from the Commission	-	-	-
Prepaid expenses	3,429	-	-
	423,464	-	161
<b>Long-term Assets</b>			
Net capital assets	4,498,854	-	-
Spare parts	91,104	-	-
Receivable from City of Toronto	117,168	-	-
Investment in subsidiary	15,780	-	-
Other assets	2,549	-	-
	5,148,919	-	161
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities	(265,918)	-	-
Deferred passenger revenue	(66,010)	-	-
Unsettled accident claims	(33,345)	-	-
Due to parent	-	-	-
	(365,273)	-	-
<b>Long-term Liabilities</b>			
Net capital contributions	(4,374,099)	-	-
Employee benefits	(296,690)	-	-
Unsettled accident claims	(92,176)	-	-
Environmental liabilities	(6,485)	-	-
	(5,134,723)	-	-
Capital Stock	-	-	(100)
<b>Accumulated (equity)/deficit</b>	<b>(14,196)</b>	<b>-</b>	<b>(61)</b>
	(5,148,919)	-	(161)

TORONTO COACH TERMINAL INC. (TCTI)	TTC INSURANCE COMPANY LIMITED (TTCIC)	TOTAL BEFORE INTERCOMPANY ELIMINATIONS	INTERCOMPANY ELIMINATIONS	CONSOLIDATED FINANCIAL STATEMENTS
-	-	(839,327)	-	(839,327)
-	-	(15,717)	-	(15,717)
-	-	(18,176)	-	(18,176)
(1,094)	-	(16,762)	113	(16,649)
(4,052)	(11)	(5,803)	339	(5,464)
(5,146)	(11)	(895,785)	452	(895,333)
3,388	-	1,021,240	-	1,021,240
573	-	632,786	-	632,786
-	-	(609,276)	-	(609,276)
1,282	11	157,813	(124)	157,689
-	-	80,527	-	80,527
-	-	55,897	11	55,908
-	-	32,168	-	32,168
-	-	27,864	-	27,864
-	-	16,244	-	16,244
339	-	339	(339)	-
5,582	11	1,415,602	(452)	1,415,150
436	-	519,817	-	519,817
-	-	(91,600)	-	(91,600)
-	-	(427,782)	-	(427,782)
436	-	435	-	435
4,350	-	(9,906)	(100)	(10,006)
4,786	-	(9,471)	(100)	(9,571)
-	-	427,782	-	-
-	-	(30,853)	-	-
-	-	(21,487)	-	-
-	-	3,048	-	-
-	-	378,490	-	-
3,474	2,600	52,767	-	52,767
-	-	338,450	(4)	338,446
36	2	35,091	(446)	34,645
2,500	-	2,500	(2,500)	-
-	110,953	110,953	(110,953)	-
-	-	3,429	-	3,429
6,010	113,555	543,190	(113,903)	429,287
6,698	-	4,505,552	-	4,505,552
-	-	91,104	-	91,104
-	-	117,168	-	117,168
100	-	15,880	(15,880)	-
-	-	2,549	-	2,549
12,808	113,555	5,275,443	(129,783)	5,145,660
(1,209)	(2)	(267,129)	18	(267,111)
-	-	(66,010)	-	(66,010)
(50)	(110,953)	(144,348)	110,953	(33,395)
(15,212)	(2,500)	(17,712)	17,712	-
(16,471)	(113,455)	(495,199)	128,683	(366,516)
-	-	(4,374,099)	-	(4,374,099)
-	-	(296,690)	-	(296,690)
(123)	-	(92,299)	-	(92,299)
-	-	(6,485)	-	(6,485)
(16,594)	(113,455)	(5,264,772)	128,683	(5,136,089)
(1,000)	(100)	(1,200)	1,200	-
4,786	-	(9,471)	(100)	(9,571)
(12,808)	(113,555)	(5,275,443)	129,783	(5,145,660)