TTC AUDIT COMMITTEE
REPORT NO.

MEETING DATE: May 24, 2013

SUBJECT: DRAFT CONSOLIDATED FINANCIAL STATEMENTS OF TORONTO TRANSIT COMMISSION FOR THE YEAR ENDED DECEMBER 31, 2012

ACTION ITEM

RECOMMENDATION

It is recommended that the Board:

1) Approve the draft consolidated financial statements of the Toronto Transit Commission for the year ended December 31, 2012; and

2) Forward a copy of the approved consolidated financial statements to City Council for information through the Audit Committee of the City of Toronto,

BACKGROUND

The Board's Audit Committee reviewed the consolidated financial statements of the TTC at its meeting on April 25, 2013. After due consideration and discussion with the auditors, PricewaterhouseCoopers LLP, the Audit Committee approved the submission of the consolidated financial statements for the year ended December 31, 2012 to a regular Board meeting for approval.

DISCUSSION

The draft consolidated financial statements of the Toronto Transit Commission for the year ended December 31, 2012 have been prepared by management. They have been audited by PricewaterhouseCoopers LLP ("PWC"), as indicated by the Auditor's 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 (PSAS).

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 2012 operating budgets surplus. The Commission had an operating budget surplus of $41.0M for conventional transit and $1.7M 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**
2012 Operating Revenue	1,087.2	5.6	1,092.8
2012 Operating Expenses[1]	1,457.2	100.7	1,557.9
Current Operating Subsidy Required	370.0	95.1	465.1
Current Operating Surplus Available	411.0	96.8	507.8
Operating Budget Surplus	**$41.0**	**$1.7**	**$42.7**

[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 expenses in excess of required contributions; environmental expenses funded through capital subsidy; 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 budget for operating subsidy on the consolidated statement of operations is $533M and the actual operating subsidy recognized is $480.6M. The difference between these amounts and the information presented in the table above relate to the portion of environmental expenses funded through capital subsidy as well as accident claims and employee benefits that are funded through the long-term receivable. These expenses were $9.7M under 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	1,216.0M
Depreciation expense for assets that were funded through capital subsidy	(262.0M)
Pension Fund Society expense in excess of required contributions	(84.9M)
Entities under the control of TTC	(0.4M)
Other expenses funded through capital subsidy	(3.2M)
Total	**865.5M**

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

Capital Subsidy Revenue and Depreciation Expense: $954.0M (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 2012, the Commission recognized $1,216.0M 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 2012, the Commission recorded $262.0M of depreciation expense which is an estimate of the decline in value of Commission's assets in 2012 due to age and use.

The difference between the capital subsidy revenue ($1,216.0M) noted above and the depreciation expense for subsidized assets ($262.0M), is the source of $954.0M of the accounting surplus, however this amount does not represent surplus funds. The full $1,216.0M 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 Expense 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 expense being included in the Commission's financial statements in 2012, even though the cash contributions percentage required remained unchanged.

Entities Under the Control of TTC: ($0.4M) (net deficit)
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 (i.e. combined) basis. Therefore the results for all entities controlled by the Commission are reported in aggregate. As a result, the $487K deficit reported by the Toronto Coach Terminal Inc. and the $1K surplus 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.

Other Expenses Funded Through Capital Subsidy: ($3.2M)
The Conventional Transit Service expenses include $3.2M of environmental expenses that were funded through the capital subsidy noted above.

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 2012.

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Attachment: Draft 2012 Consolidated Toronto Transit Commission Financial Statements

Consolidated Financial Statements of
TORONTO TRANSIT COMMISSION
Year ended December 31, 2012

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Independent Auditor's Report

To the Members of the Board of the Toronto Transit Commission

We have audited the accompanying consolidated financial statements of Toronto Transit Commission, which comprise the consolidated statement of financial position as at December 31, 2012 and the consolidated statements of operations and accumulated surplus, change in net debt and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these 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 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 consolidated 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 in our audit 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 Toronto Transit Commission as at December 31, 2012, and the results of its operations, change in net debt and cash flows for the years then ended in accordance with Canadian Public Sector Accounting Standards.

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

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Other matter

The accompanying consolidated financial statements schedule as at and for the year ended December 31, 2012 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
April @@, 2013
Toronto, Canada

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Consolidated Statement of Financial Position
As at

	December 31, 2012	December 31, 2011
	($000s)	($000s)
Financial Assets		
Cash and Cash Equivalents (Note 3)	104,271	60,375
Subsidies Receivable (Note 4)	795,351	711,372
Accounts Receivable	84,084	74,692
Portfolio Investments (Note 5)	2,541	2,547
Total Financial Assets	**986,247**	**848,986**
Liabilities		
Accounts Payable and Accrued	512,013	438,817
Deferred Passenger Revenue	77,000	76,150
Unsettled Accident Claims (Note 6)	169,821	157,833
Future Employee Benefits (Note 7)	448,066	399,911
Environmental liabilities (Note 8)	15,275	13,400
Total Liabilities	**1,222,175**	**1,086,111**
Net Debt	**(235,928)**	**(237,125)**
Non-Financial Assets		
Tangible Capital Assets (Note 9)	6,460,217	5,515,064
Spare Parts and Supplies Inventory	107,803	101,605
Prepaid Expense	2,821	5,021
Accrued Pension Benefit Asset (Note 7)	-	84,884
Total Non-Financial Assets	**6,570,841**	**5,706,574**
Accumulated Surplus (Note 10)	**6,334,913**	**5,469,449**

See accompanying notes to the consolidated financial statements

Approved: ______________________________
Commissioner

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Commissioner

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

	2012 Budget ($000s) (Note 14)	2012 ($000s)	2011 ($000s)
Operating Revenue			
Passenger Services	1,008,924	1,023,423	976,015
Advertising	25,250	26,097	15,815
Outside City Services	18,784	17,722	17,813
Property Rental	21,677	20,512	19,339
Miscellaneous	6,239	7,758	7,700
Total Operating Revenue	**1,080,874**	**1,095,512**	**1,036,682**
Subsidy Revenue			
Operating Subsidies (Note 11)	532,965	480,571	523,436
Capital Subsidies (Note 12)	1,765,240	1,216,022	918,484
Total Subsidy Revenue	**2,298,205**	**1,696,593**	**1,441,920**
Total Revenue	**3,379,079**	**2,792,105**	**2,478,602**
EXPENSES			
Conventional Transit Service	1,841,713	1,811,854	1,663,268
Wheel-Trans	113,638	111,524	103,411
Other Functions	4,715	3,263	4,817
Total Expenses (Note 13)	**1,960,066**	**1,926,641**	**1,771,496**
Surplus for the year	**1,419,013**	**865,464**	**707,106**
Accumulated surplus, beginning of the year		5,469,449	4,762,343
Accumulated surplus, end of the year		**6,334,913**	**5,469,449**

See accompanying notes to the consolidated financial statements

Consolidated Statement of Net Debt
For the year ended December 31

	2012 Budget ($000)	2012 Actual ($000)	2011 Actual ($000)
Surplus for the year	1,419,013	865,464	707,106
Change in capital assets			
Acquisitions	(1,786,652)	(1,234,362)	(937,945)
Amortization	289,662	289,159	312,265
Loss (Gain) on disposal	-	(1,907)	6,935
Proceeds on sale	-	1,957	485
Total Change in Capital Assets	(1,496,990)	(945,153)	(618,260)
Change in Pension Benefit Asset	84,884	84,884	(84,884)
Change in Spare Parts and Supplies	-	(6,198)	(5,537)
Change in Prepaid Expenses	-	2,200	(3,165)
Change in Net Debt	6,907	1,197	(4,740)
Net Debt, beginning of year	(228,623)	(237,125)	(232,385)
Net Debt, end of year	(221,716)	(235,928)	(237,125)

See accompanying notes to the consolidated financial statements

Consolidated Statement of Cash Flows
For the year ended December 31

	2012	2011
	($000)	($000)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from passenger services	1,024,273	988,313
Operating subsidies received	450,089	450,211
Non-passenger revenue received	73,355	63,338
Cash paid for wages, salaries and benefits	(1,110,197)	(1,088,200)
Cash paid to suppliers	(296,461)	(348,618)
Cash paid for accident claims	(24,578)	(34,445)
Cash provided by operating activities	116,481	30,599
CASH FLOWS FROM CAPITAL ACTIVITIES		
Capital asset acquisitions	(1,138,528)	(785,844)
Capital subsidies received	1,065,943	749,384
Cash (used in) capital activities	(36,460)	(36,460)
Increase (decrease) in cash and cash equivalents during the year	43,896	(5,861)
Cash and cash equivalents, beginning of the year	60,375	66,236
Cash and cash equivalents, end of the year	104,271	60,375

See accompanying notes to the consolidated financial statements

Notes to the Consolidated Financial Statements
for the Year Ended December 31, 2012

1. NATURE OF OPERATIONS

The Toronto Transit Commission (the "TTC" or 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 11 and 12). 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 TTC Sick Benefit Association is controlled by the Commission, its results are also consolidated. The Commission, which 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. SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation

These consolidated financial statements are prepared by the TTC 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 TTC 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, future employee benefits and the accrued pension benefit asset are subject to the assumptions described in note 7 and other contingencies are described in note 16a. Depreciation expense is based on the asset lives described in note 2h and accident claims liabilities are subject to assumptions on discount rates and amounts reserved for incurred but not reported claims as described in note 6. Deferred revenue is based on estimated value of fare media sold, but not yet used before year end. Actual results could differ from the amounts estimated.

d. **Subsidy Revenue**

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. **Operating Revenue and Deferred Passenger 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 year of the depreciation expense 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.

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 future 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 (December 31, 2011 – 10 years) and for long-term disability benefits, the amortization period is 12.25 years (December 31, 2011 – 9.93 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. The amortization period for the pension plan, post-retirement medical and post-retirement dental plans, varies from 10.9 to 12.1 years (December 31, 2011 – 11.7 to 12.7 years) and for the supplemental funded pension plan, the amortization period is 3 years (December 31, 2011 – 3 years). The amortization of the actuarial gain or loss begins in the year after the gain or loss arises for all post-retirement plans except the TTC pension plan. Amortization begins in the year of the actuarial gain or loss for the TTC pension plan. This policy is expected to reduce the long term expense 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 or gains are offset by net actuarial gains or losses, if any, as of the end of the calendar year in which the prior service costs or gains arise. Unamortized amounts that remain after offsetting with prior period service costs or gains 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.

3. CASH AND CASH EQUIVALENTS

In connection with the City guarantee referred to in note 6, 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 as at December 31, 2012 (December 31, 2011 - $3.0 million).

4. SUBSIDIES RECEIVABLE

Subsidies from the City of Toronto consist of operating subsidies as described in note 11 and capital subsidies as described in note 12. Subsidies receivable as at December 31 comprise the following amounts, all of which are due from the City of Toronto:

	2012	2011
		($000s)
Subsidies to be collected within one year		
Capital Subsidy Receivable	356,241	332,302
Operating Subsidy Receivable	116,329	104,830
Total subsidies to be collected within one year	**472,570**	**437,132**
Other recoverable amounts		
Employee Benefits	183,994	159,618
Accident Claims Expenses	57,742	63,135
Construction Holdbacks	67,170	39,487
Future Environmental Costs (note 8)	13,875	12,000
Total Other Recoverable amounts	**322,781**	**274,240**
Total Subsidies Receivable	**795,351**	**711,372**

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.

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.

5. PORTFOLIO INVESTMENTS

Portfolio investments as at December 31 consist of two bonds, as follows:

	2012	**2011**
		($000s)
Bank of Nova Scotia Notes (2.25%; May 8, 2015 maturity)	1,995	-
City of Toronto bond (8.65%; June 8, 2015 maturity)	546	546
Province of Ontario bond (5.375%; December 2, 2012 maturity)	-	2,001
Total portfolio investments	**2,541**	**2,547**

At December 31, 2012, the fair value of the bonds is $2.6 million (December 31, 2011 - $2.7 million).

6. 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, 2012, $154.7 million (December 31, 2011 - $144.8 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, $15.1 million, (December 31, 2011 - $13.0 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**
				($000s)
As at December 31, 2012	164,358	(9,870)	15,333	169,821
As at December 31, 2011	149,649	(6,205)	14,389	157,833

As at December 31, 2012, the interest rate used to determine the time value of money was 1.95% and reflected the market yield (December 31, 2011 – 1.35%).

7. 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, 2012 for the WSI plan and November 30, 2012 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, 2013 for the WSI plan and November 30, 2013 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 with a pension from the TTC Pension plan. 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, 2012. 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, 2015.

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 51% (December 31, 2011 – 50%) cash and equity index pooled funds which are carried at market and 49% (December 31, 2011 – 50%) 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, 2012. 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, 2012.

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 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 credited service and best four years of pensionable earnings up to a base year. 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, 2012, the base year for the TTC pension plan and the funded supplemental pension plans was updated to December 31, 2008 from December 31, 2007. In addition, a 1% (December 31, 2011 - 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, 2012. The next required actuarial valuation for funding purposes will be performed as at January 1, 2015. The effective date of the most recent valuation for accounting purposes was December 31, 2012.

The continuity of the change in the employee **benefit liabilities/(asset)** including expenses recognized in 2012 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	181,486	217,687	738	**399,911**	**(84,884)**
Current service cost	33,551	14,678	39	**48,268**	**64,485**
Interest cost	5,790	11,470	620	**17,880**	**1,153**
Amortization of actuarial (gains)/losses:	1,797	7,276	(1,129)[1]	**7,944**[1]	**(47,097)**[2]
Plan amendments	2,644	-	745	**3,389**	**31,280**
Change in valuation allowance	-	-	-	**-**	**133,013**
Total Expenses	43,782	33,424	275	**77,481**	**182,834**
Benefits paid	(22,960)	(6,099)	(184)	**(29,243)**	**-**
Employer contributions	-	-	(83)	**(83)**	**(97,950)**
Accrued benefit liability (asset)balance, end of the year	202,308	245,012	746	**448,066**	**-**

[1] Includes recognition of net unamortized gain of $745 applied against the cost of the plan amendments.
[2] Includes recognition of net unamortized gain of $31,280 applied against the cost of the plan amendments.

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 Expense/(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.

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

($000s)	2012	2011
Cost of TTC Pension Fund contributions	97,950	92,055
TTC Pension accounting expense/ (income) in excess of contributions	84,884	(84,884)
Net cost of TTC Pension	182,834	7,171
Cost of other benefit plans	77,481	57,741
Total cost of plans	260,315	64,912
Less: costs allocated to capital assets	(18,752)	(14,519)
Total costs included in the consolidated Statement of Operatio	**241,563**	**50,393**

As shown in the table below, the gross cost of the employee benefits in 2012 was $175,431,000 (December 31, 2011 - $149,796,000). Of this amount, $18,752,000 (December 31, 2011 – $14,519,000) was charged to capital assets in accordance with the Commission's capitalization policies. The impact of the TTC Pension Fund accounting expense of $84,884,000 (December 31, 2011 – income of $84,884,000) was added/(deducted) for a net total employee future benefit cost of $241,563,000 (December 31, 2011 – $50,393,000).

The following table summarizes the employee future benefit costs as included in note 13, expenditure by object.

($000s)	2012	2011
Cost of TTC Pension Fund contributions	97,950	92,055
Cost of other benefit plans	77,481	57,741
Gross cost of employee benefits	175,431	149,796
Less: Portion of benefit costs charged to tangible capital assets	(18,752)	(14,519)
Employee future benefit costs included in *Wage, Salaries and Benefits* in note 13	156,679	135,277
Employee future benefit costs / (income) included in *Pension Fund accounting expense (income) in excess of contributions* in note 13	84,884	(84,884)
Total costs included in the consolidated Statement of Operations	**241,563**	**50,393**

The Commission's portion of the assets in the TTC Pension Fund is 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 either the value of the net unamortized actuarial losses (if any) or to fund surplus less net unamortized gains. As shown in the following table, in 2012 a valuation allowance of $159.8 million (December 31, 2011 - $26.7 million) was required which was equal to the plan surplus of $219.2 million less net unamortized gains of $59.4 million.

Reconciliation of funded status to the employee benefit liabilities and asset as at December 31, 2012 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	-	-	6,286	**6,286**	**2,135,795**
Accrued benefit obligations	179,807	323,377	6,939	**510,123**	**1,916,632**
Funded status–(deficit)/ surplus	(179,807)	(323,377)	(653)	**(503,837)**	**219,163**
Unamortized (gains)/losses	(22,501)	78,365	(92)	**55,772**	**(59,405)**
Accrued benefit (liability)/ asset	(202,308)	(245,012)	(745)	**(448,065)**	**159,758**
Valuation Allowance					**(159,758)**
Employee benefit liability	(202,308)	(245,012)	(745)	**(448,065)**	**0**

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**

The continuity of the change in the **accrued benefit** obligation including costs recognized in 2012 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	198,261	281,336	6,633	**486,230**	**1,885,744**
Current service cost	33,551	14,678	39	**48,268**	**64,485**
Interest cost	5,790	11,470	862	**18,122**	**111,230**
Loss/(gain) on the obligation	(37,479)	(1,560)	(985)	**(40,024)**	**(81,947)**
Valuation adjustment	-	23,552	-	**23,552**	**-**
Employee contributions	-	-	84	**84**	**-**
Benefits paid	(22,960)	(6,099)	(439)	**(29,498)**	**(94,160)**
Plan amendments	2,644	-	745	**3,389**	**31,280**
Balance, end of the year	179,807	323,377	6,939	**510,123**	**1,916,632**

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 plan assets for the pension plans in 2012 is as follows: There are no plan assets for the post-employment and post-retirement plans.

($000s)	Supplemental Pension Plans	**Total Employee Benefit Liabilities**	**TTC Pension Fund**
Balance, beginning of the year	6,068	6,068	**1,912,489**
Employee contributions	84	84	**-**
Employer contributions	84	84	**97,950**
Expected return on plan assets	241	241	**110,077**
Excess (shortfall) on return on plan assets	64	64	**109,439**
Benefits paid	(255)	(255)	**(94,160)**
Balance, end of the year	6,286	6,286	**2,135,795**

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)	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**

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

	2012	2011
Accrued benefit obligations as at December 31:		
Discount rate for post-employment plans	3.1%	3.1%
Discount rate for post-retirement, non-pension plans	3.8%	3.8%
Discount rate for supplemental pension plans	3.8% to 4.25%	3.8% to 4.0%
Discount rate for TTC Pension Fund	5.75%	5.75%
Rate of increase in earnings	2.0% to 3.25%	3.0% to 3.75%
Benefit costs for the years ended 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%	3.8% to 4.0%
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%
Expected rate of return on assets, supplemental pension plan	4.0%	4.0%
Actual rate of return on assets, supplemental pension plan	5.1%	(2.9%)
Expected rate of return on assets, TTC Pension Fund	5.75%	6.0%
Actual rate of return on assets, TTC Pension Fund	11.5%	2.9%

The Commission's annual rate of growth for post-retirement drug costs was estimated at 14.4% for males and 12% for females. These rates consist of a drug trend rate of 7% per annum (decreasing to 4.5% per annum over 15 years - 2011 - 3% per annum) and an aging factor of 6.9% for males and 4.7% for females (up to age 65). The annual rate of growth for post retirement dental costs was estimated at 4.0% per annum.

Total financial status of the TTC Pension Fund as at December 31 is as follows:

($000s)	2012	2011
Fair value of plan assets	4,271,590	3,824,978
Accrued benefit obligations	3,833,264	3,771,488
Funded status– surplus	438,326	53,490

8. 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, monitoring and containing 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.

9. TANGIBLE CAPITAL ASSETS

The cost of tangible capital assets is as follows:

($000s)	Cost December 31, 2012			
	Beginning	**Additions**	**Disposals**	**Ending**
Subways	2,313,731	52,348	-	2,366,079
Buildings & Structures	1,113,437	32,714	-	1,146,151
Rolling Stock	1,518,944	219,028	(41,762)	1,696,210
Buses	1,397,178	67,490	(16,715)	1,447,953
Trackwork	1,499,363	47,624	-	1,546,987
Other Equipment	650,296	53,104	(3,396)	700,004
Traction Power Distribution	340,030	20,317	-	360,347
Land	12,854	-	-	12,854
Construction in Progress	1,799,424	741,737	-	2,541,161
Total	**10,645,257**	**1,234,362**	**(61,873)**	**11,817,746**

($000s)	Cost December 31, 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**

The accumulated amortization for tangible capital assets is:

($000s)	Accumulated Amortization December 31, 2012			
	Beginning	**Amortization**	**Disposals**	**Ending**
Subways	1,084,578	43,584	-	1,128,162
Buildings & Structures	409,993	32,676	-	442,669
Rolling Stock	960,758	51,584	(41,762)	970,580
Buses	844,226	62,883	(16,715)	890,394
Trackwork	1,106,143	40,294	-	1,146,437
Other Equipment	471,421	52,990	(3,346)	521,065
Traction Power Distribution	253,074	5,148	-	258,222
Total	**5,130,193**	**289,159**	**(61,823)**	**5,357,529**

($000s)	Accumulated Amortization December 31, 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**

Based on above, net book value as at December 31 is:

($000s)	**Net Book Value 2012**	**Net Book Value**
Subways	1,237,917	1,229,153
Buildings & Structures	703,482	703,444
Rolling Stock	725,630	558,186
Buses	557,559	552,952
Trackwork	400,550	393,220
Other Equipment	178,939	178,875
Traction Power Distribution	102,125	86,956
Land	12,854	12,854
Construction in Progress	2,541,161	1,799,424
Total	**6,460,217**	**5,515,064**

These costs include the capitalization of certain internal costs as described in note 2h. At June 1, 2012, the insured value of all of the Commission's assets, not including land, was approximately $11.4 billion (June 1, 2011 - $10.9 billion).

10. ACCUMULATED SURPLUS

Accumulated Surplus as at December 31 consists of:

	2012	**2011**
Invested in Tangible Capital Assets	6,324,811	5,373,977
Pension Benefit Asset (Note 7)	-	84,884
Accumulated surplus (deficit) from Commission subsidiaries	**(4,039)**	**(3,553)**
Accumulated surplus generated through operating budget	14,141	14,141
Total	**6,334,913**	**5,469,449**

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 9, ($135,406 (2011 - $141,087)) represents the net book value of capital assets that have been funded by the Commission. Of this, $130,451 (2011 - $135,518) will be recovered through future operating subsidies. The remaining $4,955 (2011- $5,569) represents the net book value of capital assets used for the operation of the Toronto Coach Terminal.

11. OPERATING SUBSIDIES

The sources of operating subsidies for the year ended December 31 are as follows:

		2012		**2011**
	Conventional	Wheel-Trans	Total	Total
- Province of Ontario				($000s)
Gas tax (note 12(b))	91,600	-	91,600	91,600
- City of Toronto	293,514	95,457	388,971	431,836
Total operating subsidies (for Commission's consolidated financial statements)	**385,114**	**95,457**	**480,571**	**523,436**

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 (2011 - $91.6 million) from the provincial gas tax (see note 12(b)).

City of Toronto subsidy
(for information only)

			2012	2011
	Conventional	Wheel-Trans	Total	Total
				($000s)
Operating subsidy from the City of Toronto (see above)	293,514	95,457	388,971	431,836
City special costs	3,474	-	3,474	3,377
Future Recoverable amounts				
Accident Claims	4,664	729	5,393	(14,969)
Employee Benefits	(23,256)	(1,120)	(24,376)	(13,737)
Total City operating subsidies (in accounts of the City of Toronto)	278,396	95,066	373,462	406,507

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 4).

12. CAPITAL SUBSIDIES

Capital subsidies for the year ended December 31 are as follows:

	2012	2011
Source of capital subsidies:		($000s)
- City of Toronto	771,261	527,859
- Province of Ontario	243,467	180,169
- Federal Government of Canada	163,256	178,412
- Other	38,038	32,044
Total capital subsidies	**1,216,022**	**918,484**

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 2012 capital subsidy of $1,178.0 million (2011 - $886.4 million). Amounts claimed from the City do not include a $0.4 million expenditure (2011 – $1.1 million recovery) for property purchased and owned by the City but for the jurisdictional use of the Commission. Other funding of $38.0 million (2011 - $27.5 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 bank 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 2012, $422.6 million (2011 - $280.6 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 $2.6 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 for the year ended December 31 are as follows:

	2012	**2011**
Source of capital subsidies:		($000s)
- Metrolinx Quick Wins	106,611	47,422
- Gas Tax	74,988	69,162
- LRT Car Project	36,735	45,687
- Vehicle funding programs	13,180	7.978
- Canada Strategic Infrastructure Fund	8,770	8,811
- Transit Technology Infrastructure Program	3,183	1,109
Total provincial capital subsidies	**243,467**	**180,169**

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 $279.1 million has been recognized by the Commission for the eligible expenditures to date, including $106.6 million applied to capital projects in 2012 (2011 - $47.4 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 $66.7 million has been drawn through the City for 2012 expenditures (2011 - $81.5 million) for costs incurred by the Commission in 2012 and the eligible expenditures to date are $254.3 million on the approved lines. Since Metrolinx will retain ownership of the assets, these amounts along with any associated capital assets, have not been recognized on the consolidated financial statements.

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 $162.2 million (2011 - $165.8 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 11) with the remainder of $70.6 million (2011 - $69.2 million) of the approved reserve amount applied to capital needs. In addition, in 2012, the $4.4 million of unapplied funds in reserve (from 2011 gas tax) was applied to additions in 2012 and recognized as capital subsidies revenue for the year ended December 31, 2012.

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. In 2012 the Province drafted the Transfer Payment Agreement and is subject to review and approval. Funding of $124.2 million has been recognized against the project to date including $36.7 million for 2012 (2011 - $45.7 million).

Vehicle Funding Programs

In 2007, the Province provided funding of $150 million to address the Commission's unique rolling stock requirement which was paid 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 $13.2 million was recognized in 2012 (2011 - $8.0 million).

Canada Strategic Infrastructure Fund

Provincial funding under the Canada Strategic Infrastructure Fund ("CSIF") was originally $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 of $46.7 million) 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 $300.9 million has been recognized by the Commission for the eligible expenditures to date, including $8.8 million for 2012 (2011 - $8.8 million). In 2012, Metrolinx assumed ownership of the GTA Farecard Project and the GTA Farecard portion of $46.7 million was allocated to them.

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 $3.2 million was recognized by the Commission for eligible project expenditures in 2012 (2011 - $1.1 million) thus fully exhausting this reserve as at December 31, 2012.

c. Federal Government of Canada

Capital subsidies claimed under the various federal programs for the year ended December 31 are as follows:

	2012	**2011**
Source of capital subsidies:		($000s)
- Gas tax funding	154,367	154,367
- Canada Strategic Infrastructure Fund	8,889	12,785
- Infrastructure Stimulus Fund	-	11,260
Total federal capital subsidies	**163,256**	**178,412**

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 2012 (2011 – $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. This has since been extended to March 31, 2014. To date, federal funding for the eligible expenditures incurred amounts to $293.3 million, of which $8.9 million has been accrued but not yet received in 2012 (2011 - $12.8 million). Metrolinx has assumed ownership of the GTA Farecard project and therefore $46.5 million of the original $350 million will be allocated to Metrolinx.

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. Extensions for 16 projects to October 31, 2011 were subsequently granted. Funding of $44.2 million was recognized by the Commission for the eligible expenditures incurred during the program including $11.3 million in 2011.

13. EXPENDITURES BY OBJECT

Expenditures by object for the year ended December 31 comprise the following:

	2012	2011
Wages, salaries and benefits	1,158,352	1,141,026
Materials, services and supplies	178,414	178,047
Vehicle fuel	93,529	92,284
Accident claims	36,566	49,394
Electric traction power	35,286	34,653
Wheel-Trans contract services	32,728	30,557
Utilities	17,723	18,154
Depreciation (Operating Budget)	27,194	20,042
Depreciation (Assets funded through capital subsidy)	261,965	292,223
Pension Fund Society (Income) in excess of employer contributions	84,884	(84,884)
Total Expenditures	**1,926,641**	**1,771,496**

14. BUDGET DATA

Budget data presented in these consolidated financial statements is based upon the 2012 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 an accrual basis of accounting. The chart below reconciles the approved budget with the budget figures as presented in these consolidated financial statements.

	Convention	Wheel-Trans	Other	Total
Total expenses, per approved current year budget	1,477,684	102,148	4,715	1,584,547
Expenses funded through future recovery	27,680	990	-	28,670
TTC Pension Fund	84,884		-	84,884
Depreciation of previously subsidized assets	251,465	10,500	-	261,965
Total budgeted expenses per consolidated financial statements	**1,841,713**	**113,638**	**4,715**	**1,960,066**

The expenses funded through the future recoverable are certain non-cash employee benefits and accident claim expenses (see note 4). The approved current year budgets include the TTC Pension Fund required contributions. The amount reflected above represents the expense related to the TTC Pension Fund that is in excess of the required Commission contributions.

15. 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. Six of these Reserve Funds and one Reserve have been established specifically for matters related to 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 2012, the average interest rate applicable to Reserve Funds was 0.82% (2011 – 0.94%).

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)			**2012**	**2011**
	Stabilization	Land Acquisition	Total	Total
Balance, beginning of the	24,666	650	25,316	28,281
Draws	-	-	-	(2,971)
Interest earned	-	2	2	6
Balance, end of the year	**24,666**	**652**	**25,318**	**25,316**

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.

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

($000s)						**2012**	**2011**
	CSIF	ORSIF	PGT	TTIP	MO2020	**Total**	**Total**
Balance, beginning of year	27,25 6	13,072	4,370	3,157	294,903	342,758	399,745
Provincial contributions	-	-	-	-	-	-	165,771
Draws	(8,770	(13,180)	(4,370)	(3,183)	(106,611	(136,114	(226,081
Interest earned	230	108	-	26	2,461	2,825	3,962
Balance, end of year	**18,71**	**-**	**-**	**-**	**190,753**	**209,469**	**343,997**

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, $272.4 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 2012 (2011 - $8.8 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. As at December 31, 2012, there was no remaining balance in this reserve fund.

Provincial Gas Tax (PGT) Reserve Fund

In 2012, the $4.4 million of available provincial gas tax funding was applied and, as at December 31, 2012, there was no remaining balance in this reserve fund.

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. As at December 31, 2012, there was no remaining balance in this reserve fund.

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, $279.1 million has been applied to accumulated funding recognized by the Commission to date for capital expenditures, including $106.6 million drawn from the reserve fund in 2012 (2011 - $47.4 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 2012.

16. 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 $755.6 million. At December 31, 2012, 694 hybrid and 395 diesel buses had been delivered at a cost of $716.9 million and no further commitment remains (December 31, 2011 - $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 $1,145.6 million. At December 31, 2012, 28 trainsets had been delivered at a cost of $960.4 million (included in construction in progress - note 9) and the outstanding commitment is $185.2 million.

d. In October 2008 and September 2010, the Commission approved the awarding of contracts to American Bus Products Inc. for the supply of 198 Wheel-Trans low-floor para-transit buses. In November, 2011, five 2009 chassis buses were added to the order as agreed by American Bus Products Inc. to replace two 2011 buses bringing the total supply to 201 buses for a total contract cost of $71.1 million. At December 31, 2012, 201 buses had been delivered at a cost of $66.5 million and no further commitment remains.

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., as of December 2012 the total cost of this contract is $992.6 million. Delivery of LRV's has been rescheduled to 2013 with all 204 cars expected to be delivered by 2018. One LRV prototype was delivered for testing in 2012. At December 31, 2012, the Commission had incurred costs of $396.6 million (included in construction in progress – note 9) and the outstanding commitment is $596.0 million.

f. On January 17, 2012 the Commission approved the award of a contract to Nova Bus, a Division of Volvo Group Canada in the amount of $24.4M for the purchase of 27 60-foot Articulated Low Floor Clean Diesel Buses for delivery in 2013.

g. The Commission has contracts for the construction and implementation of various capital projects. At December 31, 2012, these contractual commitments are approximately $1,375.6 million (2011– $1,353.6 million). Of this amount, contractual commitments of $924.9 million (2011 – $1,048.2 million) relate to the Toronto York Spadina Subway Extension project, $51.8 million relate to the Toronto Water Front projects and $398.9 million relate to various TTC construction projects.

h. The Commission could be exposed to significant or material contractual cancellation penalties if any of its commenced capital projects do not continue as planned.

i. The Commission leases certain premises under operating lease agreements. The approximate future minimum annual lease payments are as follows:

	($000s)
2013	14,274
2014	12,623
2015	10,789
2016	8,760
2017 and thereafter	8,085

17. COMPARATIVE AMOUNTS

The comparative consolidated financial statements have been regrouped from statements previously presented to conform with the presentation adopted in 2012.

Supplementary Schedules

Year ended December 31, 2012

TORONTO TRANSIT COMMISSION

CONSOLIDATED FINANCIAL STATEMENTS -- As at and for the Year ended December 31, 2012.

($000s)	TORONTO TRANSIT COMMISSION (TTC)	WHEEL-TRANS (WT)	TORONTO TRANSIT INFRASTRUCTURE LIMITED (TTIL)
STATEMENT OF OPERATIONS			
REVENUE			
Passenger services	1,017,856	5,567	-
Advertising	26,097	-	-
Outside City Services	17,722	-	-
Property rental	19,310	-	-
Miscellaneous	6,278	-	1
Total Operating Revenue	1,087,263	5,567	1
SUBSIDIES			
Operating Subsidy	385,114	95,457	-
Capital Subsidy	1,216,022	-	-
Total Subsidy Revenue	1,601,136	95,457	-
EXPENSES			
Wages, salaries and benefits	1,102,986	53,293	-
Materials, services and supplies	167,822	10,107	-
Vehicle fuel	89,815	3,714	-
Accident Claims	35,766	761	-
Electric traction power	35,286	-	-
Wheel-Trans contract services	-	32,728	-
Utilities	17,302	421	-
Depreciation (Operating Budget)	26,623	-	-
Depreciation subsidized assets	261,965	-	-
PFS (Income)	84,884	-	-
Total Expenses	1,822,449	101,024	-
Surplus (deficit) for the year	865,950	-	1
Accumulated surplus (deficit), beginning of the year	5,473,001	-	1
Accumulated Surplus (deficit), end of the Year	6,338,951	-	1
Not on TTC Financial Statements			
Operating subsidies from the City (as above)	385,114	95,457	-
Operating subsidy - long-term payable for accident claims	4,664	729	-
Operating subsidy - long-term payable for employee	(23,256)	(1,120)	-
City special costs	3,474	-	-
Total City Operating Subsidy - Current	369,996	95,066	-
Statement of Financial Position			
Financial Assets			
Cash and cash equivalents	100,158	-	1
Subsidies Receivable	795,351	-	-
Accounts Receivable	83,979	-	-
Portfolio Investments	2,541	-	-
Advances to and investment in subsidiary	13,055	-	-
Indemnity receivable from the TTC	-	-	-
Total Financial Assets	995,084	-	1
Liabilities			
Accounts payable and accrued liabilities	511,857	-	-
Deferred passenger revenue	77,000	-	-
Future Employee Benefit Liabilities	448,066	-	-
Unsettled accident claims	169,821	-	-
Environmental Liabilities	15,275	-	-
Due to parent	-	-	-
Total Liabilities	1,222,019	-	-
Net Debt	(226,935)	-	1
Non-Financial Assets			
Tangible Capital Assets	6,455,262	-	-
Spare parts and supplies inventory	107,803	-	-
Prepaid Expenses	2,821	-	-
Accrued Pension Benefit Asset	-	-	-
Total Non-Financial Assets	6,565,886	-	-
Capital Stock			
Accumulated Surplus (deficit)	6,338,951	-	1

TORONTO TRANSIT COMMISSION

TORONTO COACH TERMINAL INC. CONSOLIDATED (TCTI)	SICK BENEFIT ASSOCIATION (SBA)	TOTAL BEFORE INTERCOMPANY ELIMINATIONS	INTERCOMPANY ELIMINATIONS	CONSOLIDATED FINANCIAL STATEMENTS
-	-	1,023,423	-	1,023,423
-	-	26,097	-	26,097
-	-	17,722	-	17,722
1,269	-	20,579	(67)	20,512
2,003	28,910	37,192	(29,434)	7,758
3,272	28,910	1,125,013	(29,501)	1,095,512
-	-	480,571	-	480,571
-	-	1,216,022	-	1,216,022
-	-	1,696,593	-	1,696,593
2,159	28,910	1,187,348	(28,996)	1,158,352
1,029	-	178,958	(544)	178,414
-	-	93,529	-	93,529
-	-	36,527	39	36,566
-	-	35,286	-	35,286
-	-	32,728	-	32,728
-	-	17,723	-	17,723
571	-	27,194	-	27,194
-	-	261,965	-	261,965
-	-	84,884	-	84,884
3,759	28,910	1,956,142	(29,501)	1,926,641
(487)	-	865,464	-	865,464
(3,645)	92	5,469,449	-	5,469,449
(4,132)	92	6,334,913	-	6,334,913
-	-	480,571	-	-
-	-	5,393	-	-
-	-	(24,376)	-	-
-	-	3,474	-	-
-	-	465,062	-	-
4,249	(137)	104,271	-	104,271
-	-	795,351	-	795,351
5	3,275	87,259	(3,176)	84,084
-	-	2,541	-	2,541
-	-	13,055	(13,055)	-
154,746	-	154,746	(154,746)	-
159,000	3,138	1,157,223	(170,977)	986,247
377	3,046	515,280	(3,267)	512,013
-	-	77,000	-	77,000
-	-	448,066	-	448,066
154,746	-	324,567	(154,746)	169,821
-	-	15,275	-	15,275
11,964	-	11,964	(11,964)	-
167,087	3,046	1,392,152	(169,977)	1,222,175
(8,087)	92	(234,929)	(1,000)	(235,928)
4,955	-	6,460,217	-	6,460,217
-	-	107,803	-	107,803
-	-	2,821	-	2,821
-	-	-	-	-
4,955	-	6,570,841	-	6,570,841
1,000		1,000	(1,000)	
(4,132)	92	6,334,913	-	6,334,913