2018
Annual Report
Toronto Transit Commission

Contents

The TTC's Corporate Plan includes critical paths outlining areas of focus for the next five years to set ourselves up for the next 25 years.

Chair's Letter

An astounding 85 percent of all local transit trips in the Greater Toronto Area are taken on the TTC.

To: Mayor John Tory and Councillors of the City of Toronto

It is my privilege to submit the 2018 Annual Report for the Toronto Transit Commission.

The TTC carried more than 521 million riders and operated over 250 million kilometres of service in 2018. An astounding 85 percent of all local transit trips in the Greater Toronto Area are taken on the TTC.

The TTC moves more people daily on its streetcar network alone than any other transit system in the Greater Toronto and Hamilton Area.

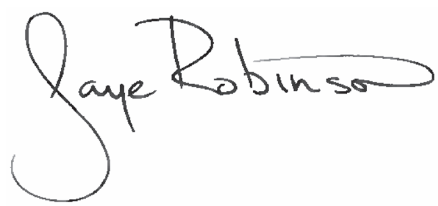
We have a committed team of talented and dedicated employees working 24/7 to ensure the system runs safely and effectively. Moving 1.7 million customers every business day is no small feat and it is with a great sense of achievement that we plan to welcome our 32 billionth rider in 2019.

We are fortunate to have Rick Leary at the helm as the TTC's newest Chief Executive Officer. In 2018, the TTC Board unanimously recommended Rick for the permanent position of CEO following a very thorough process that included a long list of national and international candidates. The appointment became official last July and Rick stepped into the top job immediately, after serving as acting CEO since December 2017.

The TTC, with its professional and dedicated workforce, remains one of the most visible and vital public service organizations in all of the GTHA.

I would like to thank Mayor Tory and Toronto City Council for their continued support for the TTC and public transit in Toronto. I would also like to thank my fellow Commissioners who began the new term with me in December 2018: Vice-Chair Alan Heisey Q.C.; Councillor/Deputy Mayor Denzil Minnan-Wong (Ward 16 Don Valley East); and Councillors Shelley Carroll (Ward 17 Don Valley North), Brad Bradford (Ward 19 Beaches-East York), Jim Karygiannis (Ward 22 Scarborough-Agincourt), Jennifer McKelvie (Ward 25 Scarborough-Rouge Park), and citizen Commissioners Ron Lalonde and Joanne De Laurentiis. We all had the pleasure of welcoming our newest citizen Commissioner, Julie Osborne, to the TTC Board in April 2019.

Sincerely,



Jaye Robinson
TTC Chair
April 2019

The TTC Board

As at December 2018

Jaye Robinson
Chair

Alan Heisey Q.C.
Vice-Chair

Commissioners

Joanne De Laurentiis

Shelly Carroll

Brad Bradford

Jennifer McKelvie

Jim Karygiannis

Ron Lalonde

Denzil Minnan-Wong

The TTC's Capital Investment Plan provides a full and clear view of what is required to keep transit in Toronto moving.

CEO's Statement

Our new Plan is organized into five Critical Paths, with safety and security as a cornerstone of everything we do.

To: TTC Chair and Commissioners, Mayor John Tory and Councillors of the City of Toronto

On January 25, 2018, the TTC Board unanimously approved the new TTC Corporate Plan 2018-2022. This Plan builds on the foundation laid by the inaugural blueprint introduced in 2013.

Its development was a direct result of listening to the needs of our employees, customers and partners. It reflects the direction of the Board and aligns with the City's Official Plan.

Our new Plan is organized into five Critical Paths, with safety and security as a cornerstone of everything we do. These Critical Paths are the areas we are focusing on over the next five years to set ourselves up for the next 25 years:

- Transform for financial sustainability.
- Enable our employees to succeed.
- Move more customers more reliably.
- Make taking public transit seamless.
- Innovate for the long-term.

We continue to build on the service improvements we've made over the past couple of years, improvements that have had real benefits to our customers, such as:

- Two-Hour Transfer
- Capacity Improvement Initiatives
- Kids Ride Free
- 10-Minute Network
- Expanded Express Bus and Night Bus Networks

In addition, at the beginning of 2019, we released "Making Headway," the TTC Capital Investment Plan 2019-2033, a 15-year look-ahead at the organization's capital needs.

Similar to the Corporate Plan, we engaged every part of the organization to put this Plan together, and the result is a clear overview of the state-of-good-repair and growth investments that the TTC needs to make over the next 15 years in the areas of subway, streetcar, bus, stations and Wheel-Trans, with the cornerstones of accessibility, safety and security, and sustainability.

On behalf of the TTC Executive Team, my sincere thanks to our new Chair, Jaye Robinson, and the TTC Board, which began its new term last December. We are looking forward to working with you to provide the citizens of Toronto with the level of fast, frequent and friendly transit service our great city needs and deserves to flourish in the future.

Sincerely,

Richard J. Leary
Chief Executive Officer
April 2019

Executive Team

Rick Leary
Chief Executive Officer

Kirsten Watson
Deputy Chief Executive Officer – Operations

Gary Downie
Chief Transit Expansion Officer (Acting)

Collie Greenwood
Chief Service Officer

Brian Leck
Head of Legal & General Counsel

Kathleen Llewelyn-Thomas
Chief Customer Officer (Acting)

Megan MacRae
Executive Director, Human Resources

Fortunato Monaco
Chief Infrastructure & Engineering Officer

John O'Grady
Chief Safety Officer, Safety & Environment

Gemma Piemontese
Chief People Officer

Executive Team

Susan Sperling
Executive Director, Corporate Communications (Acting)

Susan Reed Tanaka
Chief Capital Officer

Jim Ross
Chief Operating Officer

Joan Taylor
Chief of Staff

Rich Wong
Chief Vehicles Officer (Acting)

Dan Wright
Chief Financial Officer

Consolidated Financial Statements of
Toronto Transit Commission

Year ended December 31, 2018

Independent auditor's report

To the Members of the Board of Directors of Toronto Transit Commission

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Toronto Transit Commission and its subsidiaries (together, the Entity) as at December 31, 2018 and the results of its operations, changes in its net debt, its remeasurement gains and losses and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

What we have audited

The Entity's consolidated financial statements comprise:

- the consolidated statement of financial position as at December 31, 2018;
- the consolidated statement of operations and accumulated surplus for the year then ended;
- the consolidated statement of remeasurement gains and losses for the year then ended;
- the consolidated statement of net debt for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215

Other information

Management is responsible for the other information. The other information comprises the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Entity to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
June 13, 2019

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TORONTO TRANSIT COMMISSION
Consolidated Statement of Financial Position
For the year ended December 31

$000s	2018	2017
Financial assets		
Cash and cash equivalents (note 4)	102,778	227,853
Subsidies receivable (note 5)	1,136,231	1,107,850
Accounts receivable	81,802	103,056
Portfolio investments (note 6)	2,273	2,268
Derivative assets (note 7)	-	9,838
Total financial assets	**1,323,084**	**1,450,865**
Liabilities		
Accounts payable and accrued liabilities	658,983	770,670
Deferred passenger revenue	53,905	75,392
Unsettled accident claims (note 8)	144,696	156,633
Employee future benefits (note 9)	720,090	687,171
Environmental liabilities (note 10)	7,144	8,125
Derivative liabilities (note 7)	4,592	-
Total liabilities	**1,589,410**	**1,697,991**
Net debt	**(266,326)**	**(247,126)**
Non-financial assets		
Tangible capital assets (note 11)	11,647,678	10,886,858
Spare parts and supplies inventory	142,885	138,767
Prepaid expense	44,512	8,949
Total non-financial assets	**11,835,075**	**11,034,574**
Accumulated surplus	**11,568,749**	**10,787,448**
Accumulated surplus is comprised of:		
Accumulated operating surplus (note 12)	11,573,341	10,777,610
Accumulated remeasurement gains/ (losses)	(4,592)	9,838
	11,568,749	**10,787,448**

See accompanying notes to the consolidated financial statements

Approved:

Jaye Robinson
Commissioner

Commissioner

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

$000s	2018 Budget	2018	2017
	(note 16)		
Operating Revenue			
Passenger services	1,178,891	1,169,797	1,171,580
Advertising	28,350	28,380	28,322
Property rental	22,748	21,962	22,690
Outside city services	7,574	6,817	15,383
Miscellaneous	9,261	7,833	5,227
Total operating revenue	**1,246,824**	**1,234,789**	**1,243,202**
Operating subsidies (note 13)	801,289	710,767	588,304
Capital subsidies (note 14)	1,992,427	1,352,831	1,385,195
Total subsidy revenue	**2,793,716**	**2,063,598**	**1,973,499**
Total revenue	**4,040,540**	**3,298,387**	**3,216,701**
Conventional transit service	2,436,281	2,351,655	2,166,742
Wheel-Trans	163,905	150,263	141,478
Other functions	594	738	707
Total expenses (note 15)	**2,600,780**	**2,502,656**	**2,308,927**
Surplus for the year	**1,439,760**	**795,731**	**907,774**
Accumulated surplus, beginning of the year		10,777,610	9,869,836
Accumulated surplus, end of the year		**11,573,341**	**10,777,610**

See accompanying notes to the consolidated financial statements

TORONTO TRANSIT COMMISSION
Consolidated Statement of Remeasurement Gains and Losses
For the year ended December 31

$000s	2018	2017
Accumulated remeasurement gains/(losses), beginning of the year	9,838	3,094
Unrealized hedge gains/(losses) in the current year (note 7)	(623)	6,270
Amounts reclassified to statement of operations	(13,807)	474
Accumulated remeasurement gains/(losses), end of the year	**(4,592)**	**9,838**

See accompanying notes to the consolidated financial statements

TORONTO TRANSIT COMMISSION
Consolidated Statement of Net Debt
For the year ended December 31

$000s	2018 Budget (note 16)	2018	2017
Surplus for the year	1,439,760	795,731	907,774
Change in tangible capital assets			
Acquisition	(1,992,427)	(1,340,928)	(1,402,031)
Amortization	553,218	578,664	494,859
Disposals	-	93	-
Writedowns	-	1,351	3,873
Total change in capital assets	**(1,439,209)**	**(760,820)**	**(903,299)**
Change in spare parts and supplies	-	(4,118)	349
Change in prepaid expenses	-	(35,563)	(1,943)
Change in remeasurement gains for the year	-	(14,430)	6,744
Change in net debt	**551**	**(19,200)**	**9,625**
Net debt, beginning of the year		(247,126)	(256,751)
Net debt, end of the year		**(266,326)**	**(247,126)**

See accompanying notes to the consolidated financial statements

TORONTO TRANSIT COMMISSION
Consolidated Statement of Cash Flows
For the year ended December 31

$000s	2018	2017
Operating activities		
Surplus of the year	795,731	907,774
Add (deduct) items not involving cash:		
Amortization of tangible capital assets	578,664	494,859
Loss on disposal of tangible capital assets	603	3,231
Recognition of revenue from capital subsidies	(1,352,831)	(1,385,195)
Change in employee future benefits	32,919	53,768
Changes in non-cash assets and liabilities related to operations:		
(Increase)/ decrease in operating subsidy receivable	(82,008)	3,560
(Increase)/ decrease in operating accounts receivable	21,057	(21,532)
(Increase)/ decrease in portfolio investments	(5)	(4)
(Increase)/ decrease in spare parts and supplies inventory	(4,118)	349
(Increase)/ decrease in operating prepaid expense	(563)	(1,943)
(Decrease)/ increase in operating accounts payable and accrued liabilities	(31,622)	112,463
(Decrease)/ increase in deferred passenger revenue	(21,487)	(8,988)
(Decrease)/ increase in unsettled accident claims	(11,937)	(35,620)
(Decrease)/ increase in environmental liabilities	(981)	2,793
Cash (used in)/ provided by operating activities	**(76,578)**	**125,515**
Capital activities		
Capital asset acquisitions	(1,420,261)	(1,424,975)
Capital asset disposal proceeds	109	642
Cash used in capital activities	**(1,420,152)**	**(1,424,333)**
Financing activities		
Capital subsidies received	1,371,655	1,396,481
Cash provided by financing activities	**1,371,655**	**1,396,481**
Increase/ (decrease) in cash and cash equivalents, during the year	(125,075)	97,663
Cash and cash equivalents, beginning of the year	227,853	130,190
Cash and cash equivalents, end of the year	**102,778**	**227,853**

See accompanying notes to the consolidated financial statements

Notes to the Consolidated Financial Statements
Year ended December 31, 2018

1. NATURE OF OPERATIONS

The Toronto Transit Commission (the "TTC") 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 outlined in the City of Toronto Act (2006), the TTC has exclusive authority to establish, operate or maintain a local passenger transportation system within the City. From a funding perspective, the TTC functions as one of the boards of the City and is dependent upon the City for both operating and capital subsidies (notes 13 and 14). The TTC also operates Wheel-Trans, a paratransit service for people with disabilities (which is also subsidized by the City). The Toronto Coach Terminal Inc. and its subsidiary, the TTC Insurance Company Limited. The TTC controls the TTC Sick Benefit Association which was incorporated to adjudicate and pay benefit claims to eligible Members of Association unable to work due to illness or disability. The TTC, 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

The consolidated financial statements are prepared by the TTC in accordance with Canadian public sector accounting standards recommended by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada (CPA Canada).

b. Basis of consolidation

The consolidated financial statements include the operations of Wheel-Trans and the financial results of the TTC's subsidiaries, the 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 TTC, have also been consolidated. The consolidation schedule is disclosed in Appendix 1.

c. Measurement uncertainty

The preparation of the consolidated financial statements in conformity with public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Specifically, employee future benefits are subject to the assumptions described in note 9 and other contingencies are described in note 18a. Also, management makes their best estimate on the fair value of certain pension investments described in note 9 as the final audited fair values are not available at the time of preparation of the financial statements. Amortization expense is based on the asset lives described in note 2h. Accident claims liabilities are subject to assumptions on discount rates and amounts reserved for incurred, but not reported claims as described in note 8. 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 TTC's operating budget has been approved. Operating subsidy revenue is recognized by the TTC 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 cost is incurred. The eligibility criteria and related stipulations must also have been met except when and to the extent that the transfer gives rise to an obligation that meets the definition of a liability, which can be influenced by a number of factors, including stipulations of the transfer.

e. Operating revenue and deferred passenger revenue

Operating revenue from passenger services is recognized when cash, tickets, tokens and Presto cards are used by the passenger to secure a ride. Revenue from passes is recognized in the period in which they are valid. An estimate of tickets and tokens sold which will be used after the year end and an estimate of passes sold but only valid after year end are included in deferred passenger revenue. All 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 funds on deposit with a major financial institution.

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 amortization

Tangible capital assets are recorded at cost less accumulated amortization. In addition to direct costs attributable to capital projects, the TTC capitalizes certain internal costs, which are directly related to the acquisition, construction, betterment, or development of those related capital assets. Amortization 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	3-13
Trackwork	15-30
Other equipment	5-26
Traction power distribution system	24-25

Capital assets are amortized from the date that they enter service. One-half year of the amortization 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. A substantial amount of land that the TTC requires access to for operations is not recorded in these financial statements and is recorded in the financial statements of the City.

i. Portfolio investments

Portfolio investments consist of bonds that are recorded at cost. Discounts or premiums on investments are amortized on an effective interest rate method until maturity of the investment to which this item is related. Investment income is reported as revenue in the period earned.

j. Adoption of new accounting standards

On January 1, 2018, the TTC adopted Public Sector Accounting Standards 3210 – Assets, 3320 – Contingent Assets, 3380 – Contractual Rights, 2200 – Related Party Disclosures and 3420 – Inter-entity Transactions. The adoption of these standards has not resulted in any significant changes in the financial statements.

k. Unsettled accident claims

The TTC 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 TTC'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.

l. Employee future benefit plans

The TTC's employee benefits plans include 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 TTC 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 TTC'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 9.8 years (December 31, 2017 – 11.1 years) and for long-term disability benefits, the amortization period is 7.1 years (December 31, 2017 – 7.4 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 is 13.8 years (December 31, 2017 – 13.7 years), for the post-retirement medical and post-retirement dental plans the amortization period is 15.1 years (December 31, 2017 – 14.2 years) and for the supplemental funded pension plan, the amortization period is 7.2 years (December 31, 2017 – 6.9 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.

m. Environmental liabilities

An environmental liability is recognized when a site has been identified as being non-compliant with environmental legislation, the TTC accepts responsibility, it is expected that future economic benefits will be given up and a reasonable estimate of costs can be determined. The estimated amounts of future costs are reviewed regularly, based on available information and governing legislation.

n. Financial instruments

The TTC has designated its financial instruments as follows:

i) Cash and cash equivalents (note 4)
ii) Subsidies receivable from the City of Toronto (note 5)
iii) Accounts receivable
iv) Portfolio investments, in bonds (note 6)
v) Accounts payable and certain accrued liabilities
vi) Financial derivatives (note 7)

Cash and cash equivalents are recorded at cost which approximates fair market value. Financial derivatives are recorded at fair value. All other financial instruments are recorded at amortized cost. The fair values of the accounts receivable, operating and capital portions of the subsidies 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 other recoverable amounts within subsidies receivable from the City of Toronto cannot be determined since there are no fixed terms of repayment. The fair value of Portfolio Investments is described in note 6.

PS3450, Financial instruments, requires disclosure of a three-level hierarchy for fair value measurement based on the transparency of inputs to the valuation of a financial asset or financial liability as at the financial statement date. The three levels are defined as follows:

Level 1 – fair value is based on quoted market prices in markets for identical financial assets or financial liabilities. Level 1 financial assets generally include equity investments traded in an active market.

Level 2 – fair value is based on observable inputs, either directly or indirectly, other than quoted prices included within Level 1.

Level 3 – fair value is based on non-observable market data inputs.

TTC's financial derivatives are the only financial instruments recorded at fair value and they are classified as Level 2.

3. FINANCIAL RISK MANAGEMENT

Credit risk

Credit risk is the risk of loss due to a counterparty's inability to meet its obligations. As at December 31, 2018, TTC's credit risk exposure consists mainly of the carrying amounts of cash and cash equivalents, portfolio investments, accounts receivable and subsidies receivable.

Cash and cash equivalents and portfolio investments are invested with the City of Toronto or a major financial institution and are therefore assessed as low risk.

Approximately 8.5% of TTC's accounts receivable (December 31, 2017 – 10.4%) and 100% of subsidies receivable (December 31, 2017 – 100%), is due from the City of Toronto. Impairment risk on this receivable is low since the TTC is controlled by the City.

The remaining 91.5% (December 31,2017 - 89.6%) is comprised of:

Federal government: 54.8% (December 31, 2017- 51.7%)

Provincial government: 10.4% (December 31, 2017- 5.2%)

Other government entity: 12.0% (December 31, 2017- 10.2%)

Non government entity: 14.3% (December 31, 2017- 22.5%)

Impairment risk on receivables from the Federal government is low as it is mainly comprised of HST receivable.

Credit risk is further lowered as TTC's best practice is to obtain an advance deposit or letter of credit when entering a significant agreement with a non-government entity. Furthermore, past due receivables are routinely monitored and subject to collection action.

To assess and manage its exposure to credit risk, TTC reviews and reports impairment balances annually. TTC believes that its credit risk is low and there are no notable concentrations of risk.

Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in currency or foreign exchange rates. The TTC has limited foreign currency risk with respect to its financial instruments as substantially all of TTC's financial assets and financial liabilities are denominated in Canadian dollars. The TTC 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. As of the balance sheet date, TTC has $2.0 million in U.S. dollar financial liabilities (December 31, 2017 – $2.0 million), which is offset by TTC's U.S. dollar cash balance of $1.8 million (December 31, 2017 – $2.8 million). Therefore, TTC's currency risk is low and there are no notable concentrations of risk.

Liquidity risk

Liquidity risk is the risk that the TTC will encounter difficulty in meeting obligations associated with its financial liabilities and other contractual obligations. TTC's accounts payables and accrued liabilities amount to $659.0 million (December 31, 2017 – $770.7 million) and, excluding non-financial liabilities, $356.4 million is due within one year or less (December 31, 2017 – $324.4 million). The TTC has a combination of cash on hand and receivables from governments and government organizations, including the City of Toronto, as described above within the statement of credit risk, which will be sufficient to satisfy these liabilities. Construction holdbacks of $53.5 million (December 31, 2017 – $51.4 million) are also excluded from the $356.4 million (December 31, 2017 – $324.4 million) due within a year; however, they are fully recoverable from the City of Toronto as referred to in note 5. Therefore TTC's liquidity risk is low and there are no notable concentrations of risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. TTC's interest rate risk is low as the TTC does not hold debt and all portfolio investments have fixed interest rates (note 6) and will be held to maturity.

Other price risk

The TTC is exposed to fuel price risk arising from fluctuations in fuel costs. To manage its exposure to fuel prices, TTC enters into fuel swap contracts with financial institutions (note 7).

4. CASH AND CASH EQUIVALENTS

In connection with the City guarantee referred to in note 8, 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 approximately $2.3 million as at December 31, 2018 (December 31, 2017 - $1.9 million).

5. SUBSIDIES RECEIVABLE

Subsidies from the City of Toronto consist of operating subsidies as described in note 13 and capital subsidies as described in note 14. Subsidies receivable as at December 31 comprise the following amounts, all of which are due from the City of Toronto:

$000s	**2018**	**2017**
Subsidies to be collected within one year		
Capital subsidy receivable	428,043	389,575
Operating subsidy receivable	134,837	72,286
Total subsidies to be collected within one year	**562,880**	**461,861**
Other recoverable amounts		
Employee benefits	397,607	366,213
Accident claims expenses	32,861	44,798
Construction related	138,679	229,576
Future environmental costs (note 10)	4,204	5,402
Total other recoverable amounts	**573,351**	**645,989**
Total subsidies receivable	**1,136,231**	**1,107,850**

The TTC 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 receivable related to construction will be collected in the year the vendors are paid. Subsidy receivable for future environmental costs will be collected in the year in which the related work is performed.

6. PORTFOLIO INVESTMENTS

Portfolio investments as at December 31 consist of the following:

$000s	2018	2017
Municipality of Metropolitan Toronto Bond (2.45%; February 6, 2025 maturity)	2,273	2,268
Total portfolio investments	**2,273**	**2,268**

At December 31, 2018, the fair value of the bonds is $2.3 million (December 31, 2017 – $2.3 million).

7. FINANCIAL DERIVATIVES

TTC's financial derivatives consist of heating fuel swaps with financial institutions which help manage TTC's exposure to fluctuating fuel prices by setting a fixed price for a future purchase of a fixed quantity of fuel. Heating fuel swaps are used because they are an openly traded commodity that most closely relates to the diesel fuel consumed by TTC. The TTC does not purchase or hold any derivative financial instrument for speculative purposes. Several derivative agreements were in place and used throughout the year and continue to exist as of December 31, 2018. Derivative instruments are required to be measured at fair value on initial recognition and changes in the fair value of the derivative instruments are recognized in the statement of remeasurement gains and losses. As of December 31, 2018, the accumulated remeasurement losses from these fuel swaps are ($4.6) million (December 31, 2017 – accumulated remeasurement gains $9.8 million). The derivative contracts are included in the statement of financial position on a present value basis. The fair value of these contracts are primarily derived using the quoted price of heating oil on the New York Mercantile Exchange (NYMEX) as of December 31, 2018. As of December 31, 2018, approximately 56.5% of 2019 diesel fuel requirement has been hedged using the fuel swap agreements (December 31, 2017 – 84.2%).

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 TTC. At December 31, 2018, $131.8 million (December 31, 2017– $141.4 million) of the unsettled accident claims liability is related to the Insurance Co.'s payable for all automobile claims incurred. This portion of the TTC's accident claim liability is guaranteed by the City. The TTC has purchased insurance from third-party insurers to cover tort claims in excess of $5.0 million on any one accident. The remainder of the unsettled accident claims liability, $12.9 million (December 31, 2017 – $15.2 million), relates to general liability claims of $16.1 million (December 31, 2017 – $18.5 million), less $3.2 million (December 31, 2017 – $3.3 million) 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 TTC relies upon historical information and statistical models to estimate the IBNR liability. The TTC 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 TTC's reserves. The TTC 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	Discounted (before PFAD)	PFAD	Discounted
$000s					
As at December 31, 2018	139,387	(6,614)	132,773	11,923	144,696
As at December 31, 2017	150,046	(6,439)	143,607	13,026	156,633

As at December 31, 2018, the interest rate used to determine the time value of money was 1.85% and reflected the market yield (December 31, 2017 – 1.75%).

9. EMPLOYEE FUTURE BENEFITS

Description of benefit plans

The TTC 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 LTD plan is self-insured by the TTC and is administered by an independent insurance carrier. As a Schedule 2 employer under the Ontario Workplace Safety and Insurance Act, the TTC fully finances its WSI costs.

For the post-employment benefit plans, the effective date of the most recent actuarial valuation was September 30, 2018. 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, 2019.

Post-retirement, non-pension benefit plans

Post-retirement benefits, consisting of basic health care and dental coverage, are available to employees retiring from the TTC 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, 2018. 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, 2021.

Supplemental pension plans

The TTC 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 TTC has recognized 100% of the plan's pension expense, assets and obligation. The funded supplemental pension plan's assets consist of 55% (December 31, 2017 – 58%) cash and equity index pooled funds which are carried at market and 45% (December 31, 2017 – 42%) 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, 2018. The next actuarial valuation for funding purposes is expected to be performed as at January 1, 2019. The effective date of the most recent valuation for accounting purposes was December 31, 2018.

TTC Pension Fund

The TTC 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 the ATU and the TTC, the TTC Pension Fund was 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 TTC 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 TTC 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 TTC. 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 ATU and the TTC.

The 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. The Board of Directors of the Society make decisions with respect to affordable pension formula updates, pension indexing and plan improvements based on the results of the most recent funding valuation and the priorities set out in the plan's by-laws and funding policy.

Effective January 1, 2018, the base year for the TTC pension plan and the funded supplemental pension plans was updated to December 31, 2017 from December 31, 2016. In addition, an ad hoc increase of up to 1.56% (December 31, 2017 – 1.35%) was granted to all pensioners. The TTC'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, 2018. The next required actuarial valuation for funding purposes will be performed as at January 1, 2021. The effective date of the most recent valuation for accounting purposes was December 31, 2018.

The continuity of the change in the employee benefit liabilities/(asset) including expenses recognized in 2018 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	234,086	453,676	(591)	**687,171**	**-**
Current service cost	25,403	25,442	87	**50,932**	**80,565**
Interest cost	4,985	14,233	(18)	**19,200**	**(37,528)**
Amortization of actuarial (gains)/losses:*	(13,189)	6,443	296	**(6,450)**	**(48,981)**
Plan amendments	7,595	1,869	755	**10,219**	**39,708**
Change in valuation allowance	-	-	-	**-**	**86,162**
Total expenses	24,794	47,987	1,120	**73,901**	**119,926**
Benefits paid	(27,143)	(11,627)	(179)	**(38,949)**	**-**
Employer contributions	-	-	(2,033)	**(2,033)**	**(119,926)**
Accrued benefit liability (asset) balance, end of the year	231,737	490,036	(1,683)	**720,090**	**-**

*Post employment plans ($13,189) includes recognition of an unamortized gain of $7,595 applied against the cost of the plan amendments.

*Post retirement non-pension plans $6,443 includes recognition of an unamortized gain of $1,869 applied against the cost of the plan amendments.

*TTC Pension Fund ($48,981) includes of an unamortized gain of $39,708 applied against the cost of the plan amendments.

The continuity of the change in the employee benefit liabilities/(asset) including expenses recognized in 2017 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	229,359	404,454	(410)	**633,403**	**-**
Current service cost	28,318	26,302	91	**54,711**	**87,252**
Interest cost	5,215	17,875	92	**23,182**	**(18,739)**
Amortization of actuarial (gains)/losses:*	(3,732)	14,877	277	**11,422**	**(57,429)**
Plan amendments	-	-	796	**796**	**37,880**
Change in valuation allowance	-	-	-	**-**	**68,070**
Total expenses	29,801	59,054	1,256	**90,111**	**117,034**
Benefits paid	(25,074)	(9,832)	(186)	**(35,092)**	**-**
Employer contributions	-	-	(1,251)	**(1,251)**	**(117,034)**
Accrued benefit liability (asset) balance, end of the year	234,086	453,676	(591)	**687,171**	**-**

*TTC Pension Fund ($57,429) includes recognition of an unamortized gain of $37,880 applied against the cost of the plan amendments.

The following table summarizes the employee future benefit costs included in the Consolidated Statement of Operations and Accumulated Surplus:

$000s	**2018**	**2017**
Cost of TTC Pension Fund contributions	119,926	117,034
Net cost of TTC Pension	119,926	117,034
Cost of other benefit plans	73,901	90,111
Total cost of plans	193,827	207,145
Less: costs allocated to capital assets	(25,158)	(26,893)
Total employee future benefit costs includes wages, salaries and benefits in note 15 and in the Consolidated Statement of Operations and Accumulated Surplus	**168,669**	**180,252**

The TTC's portion of the assets in the TTC Pension Fund is carried at market value. As the TTC cannot withdraw the surplus to reduce its contributions, the expected benefit of a surplus is nil and therefore, a valuation allowance of $561.5 million (December 31, 2017 - $475.4 million) is required to reduce the accrued benefit asset to either the value of the net unamortized actuarial losses (if any) or to the value of the fund surplus less net unamortized gains.

Reconciliation of funded status to the employee benefit liabilities and asset as at December 31, 2018 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	-	-	16,108	**16,108**	**3,268,203**
Accrued benefit obligations	193,034	479,858	17,642	**690,534**	**2,687,053**
Funded status–(deficit)/ surplus	(193,034)	(479,858)	(1,534)	**(674,426)**	**581,150**
Unamortized (gains)/losses	(38,703)	(10,178)	3,217	**(45,664)**	**(19,608)**
Accrued benefit (liability)/ asset	(231,737)	(490,036)	1,683	**(720,090)**	**561,542**
Valuation allowance	-	-	-	**-**	**(561,542)**
Employee benefit (liability)/ asset	**(231,737)**	**(490,036)**	**1,683**	**(720,090)**	**-**

Reconciliation of funded status to the employee benefit liabilities and asset as at December 31, 2017 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	-	-	14,852	**14,852**	**3,323,139**
Accrued benefit obligations	188,110	579,557	15,061	**782,728**	**2,637,360**
Funded status–(deficit)/ surplus	(188,110)	(579,557)	(209)	**(767,876)**	**685,779**
Unamortized (gains)/losses	(45,976)	125,881	800	**80,705**	**(210,399)**
Accrued benefit (liability)/ asset	(234,086)	(453,676)	591	**(687,171)**	**475,380**
Valuation allowance	-	-	-	**-**	**(475,380)**
Employee benefit (liability)/ asset	**(234,086)**	**(453,676)**	**591**	**(687,171)**	**-**

The continuity of the change in the accrued benefit obligation including costs recognized in 2018 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	188,110	579,557	15,061	**782,728**	**2,637,360**
Current service cost	25,403	25,442	87	**50,932**	**80,565**
Interest cost	4,985	14,233	525	**19,743**	**160,650**
Loss/(gain) on the obligation	(5,916)	(129,616)	1,898	**(133,634)**	**(70,973)**
Employee contributions	-	-	131	**131**	**-**
Benefits paid	(27,143)	(11,627)	(815)	**(39,585)**	**(160,257)**
Plan amendments	7,595	1,869	755	**10,219**	**39,708**
Balance, end of the year	**193,034**	**479,858**	**17,642**	**690,534**	**2,687,053**

The continuity of the change in the accrued benefit obligation including costs recognized in 2017 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	196,245	517,022	13,800	**727,067**	**2,660,589**
Current service cost	28,318	26,302	91	**54,711**	**87,252**
Interest cost	5,215	17,875	577	**23,667**	**149,216**
Loss/(gain) on the obligation	(16,594)	28,190	544	**12,140**	**(152,183)**
Employee contributions	-	-	125	**125**	**-**
Benefits paid	(25,074)	(9,832)	(872)	**(35,778)**	**(145,394)**
Plan amendments	-	-	796	**796**	**37,880**
Balance, end of the year	**188,110**	**579,557**	**15,061**	**782,728**	**2,637,360**

The continuity of the plan assets for the funded pension plans in 2018 is as follows:

$000s	Supplemental Pension Plan	TTC Pension Fund
Balance, beginning of the year	14,852	3,323,139
Employee contributions	131	-
Employer contributions	2 ,033	119 ,926
Expected return on plan assets	545	198,178
Excess (shortfall) on return on plan assets	(816)	(212,783)
Benefits paid	(636)	(160,257)
Balance, end of the year	**16,109**	**3,268,203**

The continuity of the plan assets for the funded pension plans in 2017 is as follows:

$000s	Supplemental Pension Plan	TTC Pension Fund
Balance, beginning of the year	13,266	3,067,899
Employee contributions	125	-
Employer contributions	1,251	117,034
Expected return on plan assets	485	167,955
Excess (shortfall) on return on plan assets	411	115,645
Benefits paid	(686)	(145,394)
Balance, end of the year	**14,852**	**3,323,139**

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

	2018	**2017**
Accrued benefit obligations as at December 31:		
Discount rate for post-employment plans	2.9% to 3.1%	2.8% to 3.0%
Discount rate for post-retirement, non-pension plans	3.40%	3.20%
Discount rate for supplemental pension plans	3.1% to 3.75%	2.9% to 3.75%
Discount rate for TTC Pension Fund	6.00%	5.50%
Rate of increase in earnings	1.75% to 3.25%	3.21% to 3.25%
Benefit costs for the years ended December 31:		
Discount rate for post-employment plans	2.8% to 3.0%	2.7% to 3.1%
Discount rate for post-retirement, non-pension plans	3.20%	3.50%
Discount rate for supplemental pension plans	2.9% to 3.75%	3.1% to 3.75%
Discount rate for TTC Pension Fund	5.50%	5.50%
Rate of increase in earnings	3.21% to 3.25%	2.25% to 3.25%
Expected rate of return on assets, supplemental pension plans	3.75%	3.75%
Actual rate of return on assets, supplemental pension plans	-1.70%	6.60%
Expected rate of return on assets, TTC Pension Fund	6.00%	5.50%
Actual rate of return on assets, TTC Pension Fund	-0.40%	8.90%

The TTC's annual rate of growth for post-retirement drug costs was estimated between 8.7% and 10.8% depending on the member's age, for both males and females (December 31, 2017 – 13.6% for males and 11.4% for females). These rates consist of a drug trend rate of 6.5% (December 31, 2017 - 6.7%) per annum grading down to 4.0% per annum (December 31, 2017 – 4.5%) in 2040 (December 31, 2017 – 2030) and aging factors that vary between 4.3% at age 50 to 2.2% at age 64 – for both males and females (December 31, 2017 – 6.9% for males and 4.7% for females at all ages up to age 65). The annual rate of growth for post-retirement dental costs was estimated at 4.0% per annum (December 31, 2017 – 4.0%).

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

$000s	2018	2017
Fair value of plan assets	6,536,405	6,646,278
Accrued benefit obligations	5,374,106	5,274,719
Funded status – surplus	**1,162,299**	**1,371,559**

10. 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 TTC and its subsidiaries are subject to various federal, provincial and municipal laws and regulations related to the environment. The TTC is also subject to health and safety legislation, including maintenance of facilities where asbestos has been applied. 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 known contamination, including airborne contamination on sites for which the TTC is responsible. The estimate of environmental liabilities is based on a number of factors, such as the site conditions, type of contaminants and the anticipated results of monitoring and therefore the actual costs may vary. The estimated amounts of future costs are reviewed regularly, based on available information and governing legislation.

11. TANGIBLE CAPITAL ASSETS

The cost of tangible capital assets is as follows:

$000s	Cost December 31, 2018				
	Beginning	**Additions, net of transfers**	**Disposals**	**Write-downs**	**Ending**
Subways	3,689,944	99,247	-	-	3,789,191
Buildings & structures	3,490,060	396,857	-	-	3,886,917
Rolling stock	2,807,388	317,295	(50,003)	-	3,074,680
Buses	1,915,278	302,763	(207,230)	-	2,010,811
Trackwork	2,022,418	69,242	-	-	2,091,660
Other equipment	1,070,737	129,688	(2,178)	-	1,198,247
Traction power distribution	608,732	64,239	-	-	672,971
Land	12,854	-	-	-	12,854
Construction in progress	2,052,446	(38,403)	-	(1,351)	2,012,692
Total	**17,669,857**	**1,340,928**	**(259,411)**	**(1,351)**	**18,750,023**

$000s	Cost December 31, 2017				
	Beginning	**Additions, net of transfers**	**Disposals**	**Write-downs**	**Ending**
Subways	2,767,977	921,967	-	-	3,689,944
Buildings & structures	2,052,586	1,437,474	-	-	3,490,060
Rolling stock	2,575,672	238,710	(6,994)	-	2,807,388
Buses	1,775,523	243,354	(103,599)	-	1,915,278
Trackwork	1,866,992	155,426	-	-	2,022,418
Other equipment	926,636	146,836	(2,735)	-	1,070,737
Traction power distribution	514,384	94,348	-	-	608,732
Land	12,854	-	-	-	12,854
Construction in progress	3,888,842	(1,836,084)	-	(312)	2,052,446
Total	**16,381,466**	**1,402,031**	**(113,328)**	**(312)**	**17,669,857**

The accumulated amortization for tangible capital assets is:

$000s	Accumulated amortization December 31, 2018			
	Beginning	**Amortization**	**Disposals**	**Ending**
Subways	1,364,603	63,090	-	1,427,693
Buildings & structures	697,550	105,587	-	803,137
Rolling stock	1,194,581	120,436	(50,003)	1,265,014
Buses	1,120,471	160,643	(207,137)	1,073,977
Trackwork	1,379,023	50,706	-	1,429,729
Other equipment	719,190	60,966	(2,178)	777,978
Traction power distribution	307,581	17,236	-	324,817
Total	**6,782,999**	**578,664**	**(259,318)**	**7,102,345**

$000s	Accumulated amortization December 31, 2017			
	Beginning	**Amortization**	**Disposals**	**Ending**
Subways	1,311,751	52,852	-	1,364,603
Buildings & structures	618,002	79,548	-	697,550
Rolling stock	1,098,033	103,542	(6,994)	1,194,581
Buses	1,077,640	142,869	(100,038)	1,120,471
Trackwork	1,325,538	53,485	-	1,379,023
Other equipment	673,335	48,590	(2,735)	719,190
Traction power distribution	293,608	13,973	-	307,581
Total	**6,397,907**	**494,859**	**(109,767)**	**6,782,999**

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

$000s	**Net book value 2018**	**Net book value 2017**
Subways	2,361,498	2,325,341
Buildings & structures	3,083,780	2,792,510
Rolling stock	1,809,666	1,612,807
Buses	936,834	794,807
Trackwork	661,931	643,395
Other equipment	420,269	351,547
Traction power distribution	348,154	301,151
Land	12,854	12,854
Construction in progress	2,012,692	2,052,446
Total	**11,647,678**	**10,886,858**

These costs include the capitalization of certain internal costs as described in note 2h.

12. ACCUMULATED OPERATING SURPLUS

Accumulated operating surplus as at December 31 consists of:

$000s	**2018**	**2017**
Invested in tangible capital asset	11,560,799	10,765,607
Accumulated surplus (deficit) from TTC Subsidiaries	(1,599)	(2,138)
Accumulated surplus generated through operating budget	14,141	14,141
Total	**11,573,341**	**10,777,610**

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 and contributions to capital from operating sources. The variance between this amount and the amount reported in note 11, $86.9 million (2017 – $121.2 million) primarily represents the net book value of capital assets that have been funded by the TTC. Of this, $85.3 million (2017 – $119.1 million) will be recovered through future subsidies. The remaining $1.6 million (2017 – $2.1 million) represents the net book value of capital assets used for the operation of the Toronto Coach Terminal Inc.

13. OPERATING SUBSIDIES

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

$000s			**2018**	**2017**
	Conventional	Wheel-Trans	Total	Total
- Provincial Gas Tax (note 14b)	91,600	-	91,600	91,600
- City of Toronto	485,340	133,827	619,167	496,704
Total operating subsidies	**576,940**	**133,827**	**710,767**	**588,304**

The total City operating subsidy amount is established as part of the City's annual budget process. The City allocated $91.6 million (2017 – $91.6 million) to the TTC's operating budget from the provincial gas tax (see note 14b).

City of Toronto subsidy

$000s			**2018**	**2017**
	Conventional	Wheel-Trans	Total	Total
Operating subsidy from the City of Toronto	485,340	133,827	619,167	496,704
City special costs	5,136	-	5,136	4,747
Future recoverable amounts				
Reduction in accident claims	11,827	110	11,937	35,620
Post-retirement benefit liabilities	(29,972)	(1,422)	(31,394)	(42,331)
	472,331	132,515	604,846	494,740
Net contributions to/(draws from):				
TTC Stabilization Reserve Fund	6,900	-	6,900	-
Long Term Liability Reserve Fund	12,425	184	12,609	14,488
Total City of Toronto operating (in accounts of the City of Toronto)	**491,656**	**132,699**	**624,355**	**509,228**

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

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

For details related to the TTC Long Term Liability Reserve Fund, see note 17 City of Toronto Reserves and Reserve Funds.

14. CAPITAL SUBSIDIES

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

$000s	**2018**	**2017**
Source of capital subsidies:		
- City of Toronto	830,755	900,196
- Province of Ontario	128,488	101,661
- Federal Government of Canada	393,573	381,565
- Other	15	1,773
Total capital subsidies	**1,352,831**	**1,385,195**

a. City of Toronto

The City is responsible for ensuring full funding of the TTC's capital program. In accordance with the Municipal Act, any funding for the TTC's capital program from other governments flows through the City. As such, the TTC has claimed from the City a total 2018 capital subsidy of $1,352.8 million (2017 – $1,385.2 million). Amounts claimed from the City do not include a $49.6 million expenditure (2017 – $7.0 million) for property purchased and owned by the City, but for the jurisdictional use of the TTC.

The following disclosures regarding subsidy claims from the Provincial and Federal governments are based on the City's and the TTC'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, 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 2018, $149.7 million (2017 – $375.4 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 TTC 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 TTC.

b. Province of Ontario

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

$000s	**2018**	**2017**
Source of capital subsidies:		
- Provincial Gas Tax (PGT)	70,050	75,224
- LRV Car Project	58,438	25,517
- Metrolinx (Quick Wins)	-	920
Total provincial capital subsidies	**128,488**	**101,661**

Provincial Gas Tax (PGT)

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 1.5¢/litre, effective October 2005, and then to 2¢/litre, effective October 2006. Of the anticipated $184.2 million (2017 – $179.1 million) in Provincial Gas Tax funding available in 2018, the City has directed $91.6 million (2017 – $91.6 million) toward the TTC's operating needs (note 13) and $70.0 million (2017 – $75.2 million) applied to capital needs. The remaining PGT funding of $22.6 million (2017 - $12.3 million) is contributed to the PGT reserve fund (note 17).

LRV Car Project

On June 19, 2009 the Province of Ontario confirmed that it would provide one-third funding for the 204 LRV Car Project (up to $417 million) and this funding flows on the basis of contract milestone payments. A Transfer Payment Agreement between the Province, City of Toronto and TTC was signed in January 2013. Funding of $264.5 million (2017 - $206.1 million) has been recognized against the project to date including $58.4 million for 2018 (2017 – $25.5 million).

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 $415.9 million has been recognized by the TTC for the eligible expenditures to date, including $nil applied to capital projects in 2018 (2017 – $0.9 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. Under this arrangement, TTC initially incurs the costs relating to the construction of the asset on behalf of Metrolinx, and full recovery of costs from Metrolinx occurs through the City of Toronto. Project funding of $19.7 million has been drawn through the City for 2018 expenditures (2017 – $18.2 million) for costs incurred by the TTC in 2018 and the eligible expenditures to date are $326.6 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 in the consolidated financial statements.

c. Federal Government of Canada

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

$000s	**2018**	**2017**
Source of capital subsidies:		
- Federal Gas Tax	167,421	159,811
- Public Transit Infrastructure Fund	226,152	221,754
Total federal capital subsidies	**393,573**	**381,565**

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 2.5¢/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 was signed for the 4-year period 2010-2013 (based on updated 2006 Census population). In 2014, a new, permanent agreement for the 10-year period 2014-2023 was signed and 2014–2018 allocations are based on the updated 2011 Census population. Allocations from 2019–2023 will be updated to reflect the 2016 Census data. Ontario's allocation of this funding to municipalities is based on population and the City received $167.4 million in 2018 (2017 – $159.8 million) under this program. This amount was allocated to the TTC.

Public Transit Infrastructure Fund (PTIF)

In March 2016, the federal government announced an investment of $11.9 billion in transit infrastructure across Canada over five years to upgrade and improve public transit systems. Phase I of the PTIF, spanning 3 years, commits approximately $3.4 billion across Canada to be distributed based on a nation-wide 70% ridership and 30% population allocation base. The total Phase I Federal PTIF allocation announced for the City of Toronto is in the order of $1.712 billion of which funding will be split equally (50%/50%) between the Federal government and City of Toronto. The Toronto Transit Commission was allocated $1.363 billion ($681 million federal PTIF share). Through revisions to the TTC/City's PTIF project lists in 2018, the TTC's PTIF funding allocation was increased to $1.619 billion ($784 million PTIF Federal share). To date, federal funding for the eligible expenditures incurred amounts to $530 million (2017 - $304.8), of which $226.1 million has been accrued in 2018 (2017 – $221.8 million).

d. Other

Other funding of $0.02 million (2017 – $1.8 million) includes specific purpose third-party agreements with various organizations.

15. EXPENSES BY OBJECT

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

$000s	2018	2017
Wages, salaries and benefits	1,397,379	1,356,000
Materials, services and supplies	292,110	252,172
Vehicle fuel	79,502	80,871
Wheel-Trans contract services	61,216	59,362
Electric traction power	52,144	50,492
Utilities	25,630	26,351
Accident claims & insurance	16,011	(11,180)
Amortization (operating budget)	25,446	26,006
Amortization (assets funded through capital)	553,218	468,853
Total expenses	**2,502,656**	**2,308,927**

16. BUDGET DATA

Budget data presented in these consolidated financial statements is based upon the 2018 operating and capital budgets approved by the TTC Board 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.

$000s	Conventional	Wheel-Trans	Other	Total
Total expenses, per approved current year	1,843,053	152,855	594	1,996,502
Other recoverable expenses	49,010	2,050	-	51,060
Amortization of previously subsidized	544,218	9,000	-	553,218
Total budgeted expenses per consolidated financial statements	**2,436,281**	**163,905**	**594**	**2,600,780**

Other recoverable expenses are certain non-cash employee benefits and accident claim expenses that will be funded in the future (see note 5).

17. 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. Included in these Reserves and Reserve Funds are amounts which the City has received from the Province of Ontario which are earmarked for TTC projects. Contributions to and draws from these Reserves and Reserve Funds are made by the TTC, 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 TTC. In order for the TTC to draw on these Reserves and Reserve Funds, they are required to incur the related expenditures. In 2018, the average interest rate applicable to Reserve Funds was approximately 1.1% (2017 – 0.5%).

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

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

Reserves and Reserve Funds originating from TTC operating surpluses or operating subsidies

$000s	Stabilization Reserve	Land Acquisition	Long Term Liability	**2018 Total**	**2017 Total**
Balance, beginning of the year	15,391	665	25,479	41,535	26,991
Net contributions	6,900	-	12,610	19,510	14,489
Interest earned	-	7	274	281	55
Balance, end of the year	**22,291**	**672**	**38,363**	**61,326**	**41,535**

Stabilization Reserve

The Stabilization Reserve Fund was created to stabilize the funding of TTC'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. There were no draws made in 2018 and 2017.

In 2018, City Council authorized a one time contribution of $6.9 million to the Stabilization Reserve Fund based on a one time recovery from Metrolinx to cover for future TTC operating costs, with the funds to be withdrawn annually over a 15 year period starting in 2019.

Land Acquisition Reserve Fund

The Land Acquisition Reserve Fund was created to fund future land acquisitions by the City for TTC's use. No draws were made in 2018 and 2017.

Long Term Liability Reserve Fund

The Long Term Liability Reserve Fund was created in 2014 to ensure funding for the TTC's long-term liability for unsettled accident claims.

In 2018, City Council authorized a contribution up to $31.0 million (2017 – $34.1 million) to the Long Term Liability Reserve Fund, to support actual accident claim payments at the time of the settlement. The amount contributed, net of the amounts required for payments was $12.6 million (2017 – $14.5 million).

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

$000s	PGT	CSIF	Quickwins	2018 Total	2017 Total
Balance, beginning of the year	15,891	15,708	57,017	88,616	76,875
Provincial contributions	184,222	-	-	184,222	179,133
Draws	(161,650)	-	-	(161,650)	(167,744)
Interest earned	1,331	182	661	2,174	352
Balance, end of the year	**39,794**	**15,890**	**57,678**	**113,362**	**88,616**

Provincial Gas Tax (PGT)

Of the $184.2 million (2017 – $179.1 million) in Provincial Gas Tax funding available in 2018, the City has directed $91.6 million (2017 – $91.6 million) toward the TTC's operating needs (note 13) with $70 million (2017 – $75.2 million) applied to capital needs. The year-end reserve fund balance of $39.8 million (2017 – $15.9 million) will be applied to future needs.

Canada Strategic Infrastructure Reserve Fund (CSIF)

$303.3 million was received from the CSIF program to fund TTC strategic capital projects. Over the life of the program, $304.4 million has been applied to various projects. The $15.9 million balance is compromised of accumulated interest. No funds were was drawn from this reserve fund in 2018 and 2017.

MoveOntario 2020 Reserve Fund (Quickwins)

Provincial payments totaling $452.5 million were received in March 2008 in support of the Metrolinx approved Quick Wins projects. Of the total payment received, plus accumulated interest of $22.3 million, $415.9 million has been applied to accumulated funding recognized by the TTC to date for capital expenditures, including $nil drawn from the reserve fund in 2018 (2017 - $0.9 million). The amount of $57.7 million remaining in the reserve fund includes $57.0 million in Capital Reserve funding which was received for 2009 capital expenditures but, based on direction from the City, is planned to be applied against the cost of capital debt until 2020 and therefore remains unapplied at the end of 2018.

18. COMMITMENTS AND CONTINGENCIES

a. In the normal course of its operations, labour relations, and completion of capital projects, the TTC 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. Amounts recorded in the accounts have not been disclosed in the financial statements as disclosure may adversely impact the outcome. Management's estimate is based on an analysis of specific claims and historical experience with similar construction-related claims.

b. In August 2006, the Board approved purchasing 234 subway cars or 39 trainsets from Bombardier Transportation Canada Inc., the contract was awarded on December 21, 2006. Additional trainset purchases were approved by the Board in May 2010, and March 2014, and in June 2015 the Board authorized modification of four 6-car trainsets into six 4-car trainsets to support the conversion to ATC bringing the total delivery requirement to 82 trainsets. At December 31, 2018, the contract value is in total, $1,512.4 million and 82 trainsets have been delivered. Costs incurred to date are $1,467.3 million and the outstanding commitment is $45.1 million.

c. On April 2009, the Board approved the design and supply of 204 light rail vehicles (LRV). In June 2009, the contract was awarded to Bombardier Transportation Canada Inc. As of December 31, 2018, the contract value is in total, $1,020.2 million and 126 LRV's have been delivered. Costs incurred to date are $845.0 million, and the outstanding commitment is $175.2 million.

d. Between July 2012 and September 2017, the Board has authorized the purchase of a total of 1,073 low floor clean diesel buses. Contracts were awarded to Nova, a Division of Volvo Group Canada. At December 31, 2018, the contract values are in total $753.0 million and 1,073 buses have been delivered. Costs incurred to date are $737.5 million and the outstanding commitment is $15.5 million.

e. In July 2018, the Board approved the procurement of 200 hybrid electric buses, the contract was awarded to Nova, a Division of Volvo Group Canada. At December 31, 2018, the contract value is in total $201.5 million, for delivery of 200 buses in 2020, no costs have been incurred to date and the outstanding commitment is $201.5 million.

f. In March 2017, and September 2017, Creative Carriage Ltd. was awarded contracts for the purchase of 128 low floor Wheel-Trans mini buses. As of December 31, 2018, contract values for Creative Carriage are in total $23.6 million and 80 buses have been delivered. Costs incurred to date are $13.2 million and the outstanding commitment is $10.4 million.

g. On November 13, 2017, the Board approved TTC's recommendation to exercise green technology contract options for the procurement of 30 battery electric buses and in June 2018, the quantity increased to 60 buses. In 2018, contracts were awarded to New Flyer Industries and BYD Canada for 30 buses in total. At December 31, 2018, contract values are in total $39.4 million for delivery of 30 buses in 2019.Costs incurred to date are $1.1 million and the outstanding commitment is $38.3 million for the first 30 buses. Remaining procurement of 30 buses is anticipated in 2019.

h. The TTC has contracts for the construction and implementation of various capital projects. At December 31, 2018, these contractual commitments are approximately $588.5 million (2017 – $643.2 million). Of this amount, $156.9 million (2017 – $172.7 million) was established as multi- component shared projects for Toronto-York Spadina Subway Extension project (TYSSE) and TTC; $3.4 million relate to Scarborough Subway Extension (SSE), $26.1 million (2017 – $42.0 million) relate to the TYSSE project and $402.1 million (2017 – $428.5 million) relate to various TTC construction projects.

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

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

	$000s
2019	22,625
2020	25,661
2021	23,818
2022	23,996
2023	20,786
Thereafter	152,410
Total	**269,296**

19. COMPARATIVE AMOUNTS

The comparative consolidated financial statements have been regrouped from statements previously presented to conform with the presentation adopted in 2018.

20. SUBSEQUENT EVENT

On June 4, 2019, Ontario's government passed Bill 107, Getting Ontario Moving Act (Transportation Statute Law Amendment), 2019. Schedule 3 amends the Metrolinx Act, 2006, wherein the Lieutenant Governor in Council may prescribe that a rapid transit design, development or construction project is the sole responsibility of Metrolinx. If a rapid transit project is the sole responsibility of Metrolinx, the City of Toronto and its agencies, including the TTC cannot take further action on that project. Further, the Lieutenant Governor in Council may, by order, transfer to Metrolinx, with or without compensation, all or some of the City of Toronto’s and its agencies’ assets, liabilities, rights and obligations with respect to a project prescribed as a rapid transit project. TTC continues to work with provincial and municipal governments to determine the impact on existing construction in progress for expansion related projects.

Appendix 1: Consolidation schedule as at and for the year ended December 31, 2018

$000s	TORONTO TRANSIT COMMISSION (TTC)	WHEEL-TRANS (WT)	TORONTO COACH TERMINAL INC. Consolidated (TCTI)
STATEMENT OF FINANCIAL POSITION			
FINANCIAL ASSETS			
Cash and cash equivalents	99,253	-	3,460
Subsidies receivable	1,136,231	-	-
Accounts receivable	81,761	-	41
Investment in subsidiary	6,507	-	-
Portfolio investments	2,273	-	-
Derivative assets	-	-	-
Indemnity receivable from the TTC	-	-	131,759
Total financial assets	**1,326,025**	**-**	**135,260**
LIABILITIES			
Accounts payable and accrued liabilities	655,533	-	255
Deferred passenger revenue	53,905	-	-
Employee future benefits	720,090	-	-
Unsettled accident claims	144,696	-	131,759
Environmental liabilities	7,144	-	-
Due to parent	-	-	5,507
Derivative liabilities	4,592	-	-
Intercompany AR/AP	3,177	-	41
Total liabilities	**1,589,137**	**-**	**137,562**
NET DEBT	(263,112)	-	(2,302)
NON-FINANCIAL ASSETS			
Tangible capital assets	11,646,064	-	1,614
Spare parts and supplies inventory	142,885	-	-
Prepaid expense	44,512	-	-
Total non-financial assets	**11,833,461**	**-**	**1,614**
Capital stock	-	-	1,000
Accumulated surplus	**11,570,349**	**-**	**(1,688)**
STATEMENT OF OPERATIONS			
OPERATING REVENUE			
Passenger services	1,162,361	7,436	-
Advertising	28,380	-	-
Outside city services	6,817	-	-
Property rental	20,640	-	1,322
Miscellaneous	7,992	-	77
Total operating revenue	**1,226,190**	**7,436**	**1,399**
SUBSIDIES			
Operating subsidies	576,940	133,827	-
Capital subsidies	1,352,831	-	-
Total subsidy revenue	**1,929,771**	**133,827**	**-**
EXPENSES			
Wages, salaries and benefits	1,335,352	62,198	2
Materials, services and supplies	278,070	13,862	298
Vehicle fuel	76,591	2,911	-
Electric traction power	52,144	-	-
Utilities	25,131	499	-
Accident claims	15,373	577	-
Amortization (operating budget)	24,888	-	558
Amortization (assets funded through capital)	544,218	9,000	-
Wheel-Trans contract services	-	61,216	-
Total expenses	**2,351,767**	**150,263**	**858**
Surplus (deficit) for the year	804,194	(9,000)	541
Wheel-Trans Deficit	(9,000)	9,000	
Accumulated operating surplus, beginning of the year	10,779,747	-	(2,229)
Surplus (deficit) for the year	795,194	-	541
Accumulated operating surplus, end of the year	**11,574,941**	**-**	**(1,688)**
Accumulated remeasurement gains/ (losses) , beginning balance	9,838	-	-
Unrealized hedge gains/(losses) in the current year	(623)	-	-
Amounts reclassified to statement of operations	(13,807)	-	
Accumulated remeasurement gains/ (losses), ending balance	**(4,592)**	**-**	**-**
Accumulated surplus is comprised of:			
Accumulated operating surplus	11,574,941	-	(1,688)
Accumulated remeasurement gains/ (losses)	(4,592)	-	-
Accumulated surplus	**11,570,349**	**-**	**(1,688)**
Not on TTC financial statements			
Operating subsidy from the City (as above)	576,940	133,827	-
Operating subsidy - long term payable for accident claims	11,827	110	-
Operating subsidy - long term payable for employee benefits	(29,972)	(1,422)	-
City special costs	5,136	-	-
Contributions to the City's TTC stabilization fund	6,900	-	-
Contributions to the City's long term liability reserve fund	12,425	184	-
Total city operating subsidy current	**583,256**	**132,699**	**-**

TTC SICK BENEFIT ASSOCIATION (SBA)	TOTAL BEFORE INTERCOMPANY ELIMINATIONS	INTERCOMPANY ELIMINATIONS	CONSOLIDATED FINANCIAL STATEMENTS
65	102,778	-	102,778
-	1,136,231	-	1,136,231
-	81,802	-	81,802
-	6,507	(6,507)	-
-	2,273	-	2,273
-	-	-	-
-	131,759	(131,759)	-
65	**1,461,350**	**(138,266)**	**1,323,084**
3,195	658,983	-	658,983
-	53,905	-	53,905
-	720,090	-	720,090
-	276,455	(131,759)	144,696
-	7,144	-	7,144
-	5,507	(5,507)	-
-	4,592	-	4,592
(3,218)	-	-	-
(23)	**1,726,676**	**(137,266)**	**1,589,410**
88	(265,326)	(1,000)	(266,326)
-	11,647,678	-	11,647,678
-	142,885	-	142,885
-	44,512	-	44,512
-	**11,835,075**	**-**	**11,835,075**
-	1,000	(1,000)	-
88	**11,568,749**	**-**	**11,568,749**
-	1,169,797	-	1,169,797
-	28,380	-	28,380
-	6,817	-	6,817
-	21,962	-	21,962
173	8,242	(409)	7,833
173	**1,235,198**	**(409)**	**1,234,789**
-	710,767	-	710,767
-	1,352,831	-	1,352,831
-	**2,063,598**	**-**	**2,063,598**
-	1,397,552	(173)	1,397,379
177	292,407	(297)	292,110
-	79,502	-	79,502
-	52,144	-	52,144
-	25,630	-	25,630
-	15,950	61	16,011
-	25,446	-	25,446
-	553,218	-	553,218
-	61,216	-	61,216
177	**2,503,065**	**(409)**	**2,502,656**
(4)	795,731	-	795,731
-	-	-	-
92	10,777,610	-	10,777,610
(4)	795,731	-	795,731
88	**11,573,341**	**-**	**11,573,341**
-	9,838	-	9,838
-	(623)	-	(623)
-	(13,807)	-	(13,807)
-	**(4,592)**	**-**	**(4,592)**
88	11,573,341	-	11,573,341
-	(4,592)	-	(4,592)
88	**11,568,749**	**-**	**11,568,749**
-	710,767		
-	11,937		
-	(31,394)		
-	5,136		
-	6,900		
-	12,609		
-	**715,955**		

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Supplementary Schedules (Unaudited)

Year ended December 31, 2018

CONVENTIONAL SYSTEM - 10 YEAR NON-CONSOLIDATED FINANCIAL & OPERATING STATISTICS (UNAUDITED)

	2018	2017	2016
OPERATING STATISTICS (regular service inside City)			
Revenue Passenger Trips (Millions)	521.4	533.2	538.1
Basic Adult Token Fare (at December 31) ($)	3.00	3.00	2.90
Average Number of Employees (including TCTI)	14,812	14,389	14,095
Hourly Base Wage Rate & Benefits per Operator ($)	51.65	51.68	50.81
Kilometres Operated (Millions)			
Bus	143.2	142.0	138.6
Subway Car	92.6	82.9	83.0
Streetcar	11.4	11.5	13.1
Scarborough RT	3.4	3.4	3.5
Total Kilometres Operated	**250.6**	**239.8**	**238.2**
OPERATING REVENUE STATISTICS			
Operating Revenue - including property rental, etc. ($ Millions)	1,226.2	1,234.5	1,196.3
Operating Revenue per Passenger Trip ($)	2.35	2.32	2.22
Operating Revenue per Kilometre ($)	4.89	5.15	5.02
OPERATING EXPENSE STATISTICS[1]			
Operating Expenses ($ Millions)	1,803.1	1,696.2	1,712.6
Operating Expense per Passenger Trip ($)	3.46	3.18	3.18
Operating Expense per Kilometre ($)	7.20	7.07	7.19
OPERATING SUBSIDY STATISTICS			
Operating Subsidy ($ Millions)	576.9 [11]	461.8 [10]	516.3 [9]
Operating Subsidy per Passenger Trip ($)	1.11	0.86	0.96
Operating Subsidy per Kilometre ($)	2.30	1.92	2.17
REVENUE/COST RATIO	68.0%	72.8%	69.9%
PASSENGER VEHICLE FLEET			
(Conventional & Wheel-Trans, owned or leased and in service December 31)			
Buses	2,010	1,920	1,926
Subway Cars	848	848	840
Streetcars (CLRV & ALRV)	128	184	219
Streetcars (LFLRV)	117	57	30
Scarborough RT Cars	28	28	28
Wheel-Trans Buses	263	212	199
Total Vehicle Fleet	**3,394**	**3,249**	**3,242**

See accompanying notes for conventional system - 10 Year Non-Consolidated Financial & Operating Statistics (Unaudited)

2015	2014	2013	2012	2011	2010	2009
537.6	534.8	525.2	514.0	500.2	477.4	471.2
2.80	2.70	2.65	2.60	2.50	2.50	2.25
13,651	13,209	12,920	12,739	12,674	12,553	12,324
50.33	49.01	47.94	47.35	46.07 [12]	44.74 [12]	43.27
131.6	131.3	129.6	125.0	123.6	124.0	123.7
82.2	80.8	79.3	78.6	76.1	75.7	75.5
13.9	12.8	12.5	12.6	13.1	12.7	12.3
3.4	3.5	3.5	3.1	3.3	3.3	3.3
231.1	**228.4**	**224.9**	**219.3**	**216.1**	**215.7**	**214.8**
1,179.1	1,157.5	1,120.2	1,087.3	1,026.4	987.5	886.4
2.19	2.16	2.13	2.11	2.05	2.07	1.88
5.10	5.07	4.98	4.96	4.75	4.58	4.13
1,695.7	1,589.5	1,491.7	1,472.4	1,460.0	1,385.9	1,328.7
3.15	2.97	2.84	2.86	2.92	2.90	2.82
7.34	6.96	6.63	6.71	6.76	6.43	6.19
516.6 [8]	432.0 [7]	371.5 [6]	385.1 [5]	433.6 [4]	398.4 [3]	442.3 [2]
0.96	0.81	0.71	0.75	0.87	0.83	0.94
2.24	1.89	1.65	1.76	2.01	1.85	2.06
69.5%	72.8%	75.1%	73.8%	70.3%	71.3%	66.7%
1,861	1,869	1,851	1,857	1,819	1,811	1,782
796	724	704	708	712	676	678
235	247	247	247	247	247	248
13	3	0	0	0	0	0
28	28	28	28	28	28	28
205	221	221	246	217	227	188
3,138	**3,092**	**3,051**	**3,086**	**3,023**	**2,989**	**2,924**

NOTES for CONVENTIONAL SYSTEM - 10 Year Non-Consolidated Financial & Operating Statistics (Unaudited)

1. In 2011, the TTC adopted Public Sector Accounting Standards (PSAS) for its financial reporting. Prior to the adoption of PSAS, depreciation expense on subsidized assets was completely offset by the related capital subsidy and the accounting expense for the TTC Pension Fund was equal to the TTC's cash contributions. To maintain consistency with both the pre-2011 presentation in this schedule and the TTC's operating budget, beginning in 2011 the operating expenses exclude depreciation on subsidized assets, the TTC Pension Fund expense or income that is in excess of the TTC's cash contributions, and capital project write downs and environmental expenses that are funded through capital subsidy.

2. In 2009, the total subsidy paid by the City was $302.7 million, consisting of $350.7 million for the operating subsidy, $3.0 million for the City special costs, less a $30.4 million long-term payable for accident claims and a $20.6 million long-term payable for employee benefits. The City allocated $91.6 million of Provincial subsidy to the operating budget.

3. In 2010, the total subsidy paid by the City was $278.2 million, consisting of $306.8 million for the operating subsidy, $3.0 million for the City special costs, less a $17.3 million long-term payable for accident claims and a $14.3 million long-term payable for employee benefits. The City allocated $91.6 million of Provincial subsidy to the operating budget.

4. In 2011, the total subsidy paid by the City was $317.7 million, consisting of $342.0 million for the operating subsidy, $3.4 million for the City special costs, less a $14.6 million long-term payable for accident claims and a $13.1 million long-term payable for employee benefits. The City allocated $91.6 million of Provincial subsidy to the operating budget.

5. In 2012, the total subsidy paid by the City was $278.4 million, consisting of $293.5 million for the operating subsidy, $3.5 million for the City special costs, less $18.6 million long-term payable (employee benefits of $23.3 million less accident claims of $4.7 million). The City allocated $91.6 million of Provincial subsidy to the operating budget.

6. In 2013, the total subsidy paid by the City was $273.4 million, consisting of $279.9 million for the operating subsidy, $3.6 million for the City special costs, $13.1 million for accident claims and less a $23.2 million long-term payable for employee benefits. The City allocated $91.6 million of Provincial subsidy to the operating budget.

7. In 2014, the total subsidy paid by the City was $301.4 million, consisting of $340.4 million for the operating subsidy, $3.6 million for the City special costs, less $42.6 million long-term payable (employee benefits of $29.8 million less accident claims of $12.8 million). The City allocated $91.6 million of Provincial subsidy to the operating budget.

8. In 2015, the total subsidy paid by the City was $373.8 million, consisting of $427.0 million for the operating subsidy, $19.2 million for capital from current, $3.6 million for the City special costs, less $26.6 million long-term payable for accident claims and $40.1 million long-term payable for employee benefits, less $9.0 million draw from the TTC Stabilization Reserve Fund and $0.3 million draw from the City Tax Rate Stabilization Reserve. The $427.0 million for operating subsidy includes $2.0 million in funding for the Wheel-Trans deficit. The City allocated $91.6 million of Provincial subsidy to the operating budget.

9. In 2016, the total subsidy paid by the City was $396.0 million, consisting of $426.4 million for the operating subsidy, $3.7 million for the City special costs, $6.3 million long-term payable for accident claims and less a $40.4 million long-term payable for employee benefits. The $426.4 million for operating subsidy includes $1.7 million in funding for the Wheel-Trans deficit. The City allocated $91.6 million of Provincial subsidy to the operating budget.

10. In 2017, the total subsidy paid by the City was $383.5 million, consisting of $370.2 million for the operating subsidy, $14.2 million for contributions to Long-Term Liability Reserve, $4.7 million for the City special costs, $34.8 million long-term payable for accident claims and less a $40.4 million long-term payable for employee benefits. The City allocated $91.6 million of Provincial subsidy to the operating budget.

11. In 2018, the total subsidy paid by the City was $491.6 million, consisting of $485.3 million for the operating subsidy, $6.9 million contribution to the TTC Stabilization Reserve, $12.4 million for contributions to Long-Term Liability Reserve, $5.1 million for the City special costs, and an $11.8 million reduction in the long-term payable for accident claims and less a $29.9 million increase in the long-term payable for employee benefits. The City allocated $91.6 million of Provincial subsidy to the operating budget.

12. The 2011 and 2010 average hourly wages & benefits per operator amounts previously reported (2011 - $45.05 and 2010 - $44.50) have been updated to reflect negotiated improvements that were applied retroactively.

Management Directory May 2019

Executive Team

Richard J. Leary
Chief Executive Officer

Kirsten Watson
Deputy Chief Executive Officer – Operations

Gary Downie
Chief Transit Expansion Officer (Acting)

Collie Greenwood
Chief Service Officer

Brian Leck
Head of Legal & General Counsel

Kathleen Llewelyn-Thomas
Chief Customer Officer (Acting)

Megan MacRae
Executive Director, Human Resources

Fortunato Monaco
Chief Infrastructure & Engineering Officer

John O'Grady
Chief Safety Officer, Safety & Environment

Gemma Piemontese
Chief People Officer

Susan Sperling
Executive Director, Corporate Communications (Acting)

Susan Reed Tanaka
Chief Capital Officer

James Ross
Chief Operating Officer

Joan Taylor
Chief of Staff

Rich Wong
Chief Vehicles Officer (Acting)

Dan Wright
Chief Financial Officer

Senior Management and Department Heads

Sedat Akkaya
Head, Project Management Office

Valerie Albanese
Head, Diversity & Human Rights

Michael Atlas
Associate General Counsel, Legal

Tony Baik
Deputy Chief Project Manager, Spadina Subway Extension

Tara Bal
Head, Audit, Risk & Compliance

Pat Borrelli
Head, Streetcar Maintenance & Infrastructure (Acting)

Deborah Brown
Head, Customer Communications

Glen Buchberger
Head, Plant Maintenance

Alan Cakebread
Head, Transit Enforcement

Bem Case
Head, Vehicle Programs

Salvatore Castiglione
Head, Operations Financial Control

Stephen Conforti
Head of Finance & Treasurer

Andrew Dixon
Head, Operations Training Centre

Silvano Florindi
Project Head, Yonge Subway Extension

Allan Foster
Head, Farecard Team

Sean Fuller
Head, Light Rail Transit Operations

Dwayne Geddes
Head, Wheel-Trans (Acting)

Dan Guna
Head, Information Technology Services

Claudio Caschera
Head, Subway Transportation (Acting)

Christine Jeffries
Director, Talent Management

Orest Kobylansky
Executive Director – Operations

Pam Kraft
Head, Property, Planning & Development

Pierre Laurin
Head, Engineering

Kevin Lee
Head, Commission Services

Malcolm Mackay
Project Head, Relief Line

Sean Milloy
Director, Employee Relations

Sue Motahedin
Head, Customer Service Centre

Jane Murray
Chief Project Manager, Construction

Harpreet Nagi
Head, Rail Cars & Shops

Luigi Narduzzo
Head, Subway Infrastructure (Acting)

Albert Oliver
Head, Transit Control (Acting)

Mike Piemontese
Head, Materials & Procurement (Acting)

Allan Pritchard
Head, Bus Maintenance & Shops

Christopher Salvador
Head, Revenue Operations

Susan Selfe
Head, Service Delivery Control

Robert Smith
Head, Bus Transportation

Ellen Stassen
Head, Stations

Chad Townsend
Litigation Counsel, Legal

Erin Wemyss
Head, Streetcar Transportation (Acting)


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