Consolidated Financial Statements of

TORONTO TRANSIT COMMISSION

Year ended December 31, 2006

(TORONTO TRANSIT COMMISSION

Consolidated Balance Sheet
As at December 31

	2006	2005
	($000s)	($000s)
ASSETS		
Current		
Cash and cash equivalents	41,661	20,445
Accounts receivable		
City of Toronto (note 4)	224,226	210,499
Other	28,515	13,935
Spare parts and supplies inventory	74,636	70,688
Prepaid expenses	7,852	4,060
	376,890	319,627
Long-term		
Net capital assets (note 5)	3,948,879	3,728,232
Other assets (note 6)	26,335	8,980
	4,352,104	4,056,839
LIABILITIES AND ACCUMULATED EQUITY		
Current		
Accounts payable and accrued liabilities (note 7)	195,712	151,383
Deferred passenger revenue	41,730	34,500
Unsettled accident claims (note 8)	17,670	16,381
	255,112	202,264
Long-term		
Net capital contributions (note 9)	3,832,167	3,622,247
Employee benefits (note 10)	205,089	176,085
Unsettled accident claims (note 8)	37,338	34,119
Environmental and other liabilities (note 7)	6,934	6,989
	4,336,640	4,041,704
Commitments and contingencies (note 14)		
Accumulated equity	15,464	15,135
	4,352,104	4,056,839

See accompanying notes to the consolidated financial statements

Approved: ______________________________
Commissioner

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Commissioner

TORONTO TRANSIT COMMISSION

Consolidated Statement of Operations and Accumulated Equity
Years ended December 31

	2006 ($000s)	2005 ($000s)
REVENUE		
Passenger services	740,510	714,509
Advertising	14,851	14,515
Outside City services	13,738	12,678
Property rental	11,546	11,727
Miscellaneous	10,062	7,804
Total revenue	790,707	761,233
EXPENSES		
Wages, salaries and benefits (note 10)	824,090	773,191
Depreciation	296,667	234,381
Amortization of capital contributions (note 9)	(282,371)	(220,149)
Materials, services and supplies	126,591	115,383
Vehicle fuel	54,185	35,972
Electric traction power	27,878	28,455
Accident claims	21,546	16,030
Wheel-Trans contract services	17,269	15,730
Utilities	15,992	14,718
Property taxes	8,586	7,597
Total expenses	1,110,433	1,021,308
Net operating costs	(319,726)	(260,075)
Operating subsidies (note 11)	320,055	260,013
Net operating surplus/(deficit)	329	(62)
Accumulated equity, beginning of the year	15,135	15,197
Accumulated equity, end of the year	15,464	15,135

See accompanying notes to the consolidated financial statements

TORONTO TRANSIT COMMISSION

Consolidated Statement of Cash Flows
Years ended December 31

	2006 ($000s)	2005 ($000s)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from passenger services	747,740	720,869
Other cash received	35,617	48,711
Cash paid to employees	(782,868)	(737,271)
Cash paid to suppliers	(213,578)	(253,442)
Cash paid for accident claims	(17,038)	(14,330)
Net cash used in operating activities	(230,127)	(235,463)
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital asset acquisitions	(512,626)	(378,207)
CASH FLOWS FROM FINANCING ACTIVITIES		
Operating subsidies received	296,792	291,603
Capital subsidies received	467,177	317,215
Cash provided by financing activities	763,969	608,818
Increase/(decrease) in cash and cash equivalents during the year	21,216	(4,852)
Cash and cash equivalents, beginning of the year	20,445	25,297
Cash and cash equivalents, end of the year	41,661	20,445

See accompanying notes to the consolidated financial statements

1. NATURE OF OPERATIONS

The Toronto Transit Commission (the "Commission") was established on January 1, 1954 to consolidate and co-ordinate all forms of local transportation within the City of Toronto ("the City"), except railways and taxis. As confirmed in the City of Toronto Act (1997), the Commission shall plan for the future development of local passenger transportation so as to best serve its inhabitants and the City and council are not entitled to exercise a power related to local transportation, except as it relates to Toronto Islands. However, from a funding perspective, the Commission functions as one of the agencies, boards, and commissions of the City and is dependent upon the City for both operating and capital subsidies (notes 11 and 12). The Commission also operates Wheel-Trans, a transit service for people with disabilities, which is also subsidized by the City. The Commission is not subject to income and capital taxes, receives a full rebate for the goods and services tax ("GST"), and receives exemption from certain property taxes.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation
These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles for profit oriented organizations, unless otherwise directed to specific accounting recommendations of the Public Sector Accounting Board.

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

(c) Measurement uncertainty
The preparation of the consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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

(e) Passenger services revenue
Revenue is recognized when cash, tickets and tokens are used by the passenger to secure a ride. An estimate of tickets and tokens sold, which will be used after the year-end, is included in deferred passenger revenue.

Revenue from passes is recognized in the period in which the passes are valid. An estimated value of passes sold, but only valid after year-end, is included in deferred passenger revenue.

(f) Cash and cash equivalents
Cash and cash equivalents consist of cash on hand and money market instruments, such as treasury bills and bankers' acceptances, which have original maturities at acquisition of three months or less and are readily convertible to cash on short notice. The investments are held by the City, on behalf of the Commission.

(g) Spare parts and supplies inventory
Spare parts and supplies inventory is valued at weighted-average cost, net of allowance for obsolete and excess inventory.

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

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

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

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

(i) Long-term investments
Long-term investments are recorded at cost and written down for declines in value that are other than temporary.

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

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

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

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

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

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

For the supplemental pension and post-retirement benefit plans, the excess of the net actuarial gain or loss over 10% of the greater of the benefit obligation and the fair value for plan assets, is amortized over the average remaining service period of active employees. The average remaining service periods of active employees are 10 years (2005 – 9 years) for the supplemental pension plans and 11 years (2005

– 11 years) for the post-retirement benefit plans. The net actuarial gain or loss for post-employment benefits are amortized on a straight-line basis over the average expected period during which benefits will be paid, which are 10 years (2005 – 10 years) for workplace safety insurance benefits and 7 years (2005 – 11 years) for long-term disability benefits.

Past service costs arising from a plan amendment or plan initiation are amortized on a straight-line basis over the average remaining service life of active employees, as of the effective date of the amendment or initiation.

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

(l) Environmental provision

The Commission includes in its liabilities a provision for the cost of compliance with environmental legislation. Those conditions that have been clearly identified as being in non-compliance with environmental legislation and with costs that can be reasonably determined have been accrued. The estimated amounts of future restoration costs are reviewed regularly, based on available information and governing legislation.

3. FINANCIAL INSTRUMENTS

The main categories of financial instruments held by the Commission are cash and cash equivalents, accounts receivable, long-term investments, and accounts payable and accrued liabilities. The fair values of these items approximate their book values.

4. RECEIVABLE FROM CITY OF TORONTO AND RELATED PARTY TRANSACTIONS

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

The current receivable from the City is as follows:

	2006	2005
	($000s)	
Subsidies receivable	241,761	210,740
Other current receivables	9,624	16,782
Other current payables	(27,159)	(17,023)
Total current receivable	224,226	210,499

In addition to the above current receivables, a long-term receivable from the City, for non-cash employee benefit expenses, is included in other assets (note 6).

Transactions with the City and its related entities, other than the subsidies (which are disclosed in notes 11 and

12), include the purchase of hydro, services and supplies in the amount of $61.8 million (2005 - $94.0 million).

5. NET CAPITAL ASSETS

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

	2006	2005
	($000s)	
Subway	2,410,141	2,405,197
Rolling stock	1,514,027	1,498,078
Buses	927,338	788,928
Buildings	630,233	605,836
Other equipment	516,920	476,506
Trackwork	475,660	455,603
Power distribution system	166,265	161,252
Construction in progress	354,835	152,162
Land	20,205	13,081
	7,015,624	6,556,643
Less accumulated depreciation	3,066,745	2,828,411
Net capital assets	3,948,879	3,728,232

These costs include the capitalization of certain internal costs. Land purchased directly by the City for the Commission's use, is accounted for in the City's records. At June 1, 2006, the insured value of all of the Commission’s assets, not including land, was $9.8 billion (2005 - $9.6 billion).

6. OTHER ASSETS

The other assets are two bonds and a long-term receivable, as follows:

	2006	2005
	($000s)	
City of Toronto bond [8.65% yield with 08JUN15 maturity]	546	546
Province of Ontario bond [5.375% yield with 02DEC12 maturity]	2,006	2,006
Long-term receivable from the City of Toronto (note 11)	23,783	6,428
Total other assets	26,335	8,980

At December 31, 2006, the fair value of the bonds is $2.8 million (2005 - $2.9 million). The long-term, non-interest bearing, receivable from the City for $23.8 million (2005 - $6.4 million) includes the delayed payment of subsidy for the non-cash portion of the post-retirement dental and medical benefit expenses. In 2006, the delayed payments of subsidy for the non-cash portion of the post-retirement medical benefit expenses and the post-retirement medical and dental benefit expenses for Wheel-Trans were added to the long-term receivable. The long-term subsidy receivable will decrease in years when the cash flows for these employee benefits exceed the accounting expense.

7. ENVIRONMENTAL LIABILITIES

As an operator of diesel buses that are refuelled on property and an enterprise that repairs and rebuilds buses and other rolling stock, the Commission and its subsidiaries are subject to various federal, provincial, and municipal laws and regulations related to the environment. In 1996, an exhaustive environmental audit was conducted for the Commission by an external consultant. Although some remedial work had been undertaken prior to that audit, more comprehensive remedial and pro-active programs were then established and much work has been completed. However, the garage subsurface remediation program is still active.

The Commission expects that expenditures of approximately $0.9 million will be paid during 2007 and therefore this amount is included in accounts payable and accrued liabilities (2005 - $0.7 million). In addition, the consolidated balance sheet includes a long-term provision for environmental costs of $6.5 million (2005 - $6.5 million) to cover the estimated costs of remediating sites with known contamination for which the Commission is responsible. Nevertheless, given that the estimate of environmental liabilities is based on a number of assumptions, actual expenses may vary. The estimated amounts of future restoration costs are reviewed regularly, based on available information and governing legislation.

8. UNSETTLED ACCIDENT CLAIMS

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

At December 31, 2006, $44.8 million (2005 - $40.3 million) of the unsettled accident claims liability is related to the Insurance Co.'s payable for all automobile claims incurred. This payable is guaranteed by the City.

9. NET CAPITAL CONTRIBUTIONS

The net capital contributions are as follows:

	2006	2005
	($000s)	
Balance, beginning of year	3,622,247	3,497,383
Capital subsidies (note 12)	492,291	345,013
Amortization	(282,371)	(220,149)
Balance, end of year	3,832,167	3,622,247
Accumulated amortization recorded to date	2,730,664	2,499,147

10. EMPLOYEE BENEFITS

Description of benefit plans

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

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

(Canada).

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

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

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

For the supplemental pension plan, the effective date of the most recent actuarial valuation for funding purposes was January 1, 2006.

For the post-retirement and post-employment benefit plans, the effective date of the most recent actuarial valuation for accounting purposes was January 1, 2004. This valuation was used to project the accrued benefit obligations and costs for the current year end. The next accounting valuation is expected to be performed as at January 1, 2007.

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

	Defined Benefit Supplemental Pension Plans	Post-Retirement Plans	Post-Employment Plans	**2006** Total
		($000s)		
Accrued benefit obligations	7,792	161,163	107,715	276,670
Fair value of plan assets	(5,937)	-	-	(5,937)
Funded status – plan deficit	1,855	161,163	107,715	270,733
Balance of unamortized amounts:				
Actuarial gains/(losses)	1,863	(32,082)	(269)	(30,488)
Past service costs	(190)	(11,900)	-	(12,090)
Transitional obligation	(301)	(19,210)	(3,555)	(23,066)
Accrued benefit liability	3,227	97,971	103,891	205,089

	Defined Benefit Supplemental Pension Plans	Post-Retirement Plans	Post-Employment Plans	**2005** Total
		($000s)		
Accrued benefit obligations	7,710	156,351	101,157	265,218
Fair value of plan assets	(5,238)	-	-	(5,238)
Funded status – plan deficit	2,472	156,351	101,157	259,980
Balance of unamortized amounts:				
Actuarial gains/(losses)	1,164	(39,913)	(2,237)	(40,986)
Past service costs	(233)	(15,600)	-	(15,833)
Transitional obligation	(376)	(21,960)	(4,740)	(27,076)
Accrued benefit liability	3,027	78,878	94,180	176,085

The defined benefit supplemental pension plan assets consist of 56% (2005 – 48%) equity index pooled funds and 44% (2005 - 52%) deposit in a Canada Revenue Agency non-interest bearing refundable tax account.

Costs recognized in the year

	2006	**2005**
	($000s)	
Multi-employer defined benefit/defined contribution hybrid pension plan	51,269	45,033
Defined benefit supplemental pension plans	485	775
Post-retirement plans	23,847	21,131
Post-employment plans	25,845	23,688
Total costs	101,446	90,627

Approximately 91.3% (2005 – 91.4%) of the total costs is included in wages, salaries and benefits on the consolidated statement of operations and accumulated equity. The remaining 8.7% (2005 – 8.6%) has been charged to capital assets, in accordance with the Commission's capitalization policies.

Cash payments made in the year

	2006	**2005**
	($000s)	
Multi-employer defined benefit/defined contribution hybrid pension plan	51,269	45,033

Defined benefit supplemental pension plans	286	272
Post-retirement plans	4,754	3,958
Post-employment plans	16,133	14,933
Total cash payments	72,442	64,196

Cash payments to the pension plans consist of contributions to the Society to meet the minimum funding requirements, in accordance with pension legislation, and to provide for the amortization of any unfunded liability over 15 years. The members and the Commission each made required contributions of $49 million in 2006 (2005 - $43 million), which represented 6.75% (2005 - 6.25%) of members' covered earnings up to the Canada Pension Plan yearly maximum pensionable earnings of $42,100 in 2006 (2005 - $41,100) and 8.35% (2005 - 7.85%) of covered earnings in excess of this amount. In addition, the Commission contributed $2.3 million in 2006 (2005 - $2.0 million) for an early retirement provision.

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

Significant assumptions used in accounting for employee future benefits

	2006	**2005**
Accrued benefit obligations as at December 31:		
Discount rate	5.3%	5.0%
Rate of increase in earnings	3.7%	3.6%
Benefit costs for the years ended December 31:		
Discount rate	5.0%	6.0%
Rate of increase in earnings	3.6%	4.0%
Rate of return on assets	4.1%	4.1%

The Commission's rate of growth for health care costs, primarily drug costs, was estimated at 9% (2005 – 10%) and was assumed to decrease gradually to 5% in 2011 and remain at that level thereafter.

Sensitivity analysis

Health care cost trend rate assumptions have a significant effect on the amounts reported for the health care related plans. A one-percentage-point change in the assumed health care cost trend rates would have the following effects for 2006:

	Increase	Decrease
	($000s)	
Total costs	3,400	(2,700)
Accrued benefit obligations	28,800	(23,400)

11. OPERATING SUBSIDIES

The operating subsidies are:

($000s)		2006		2005
	Conventional	Wheel-Trans	Total	Total
Net operating costs	259,674	60,381	320,055	260,013
Source of operating subsidies:				
- Province of Ontario				
gas tax (note 12(b))	91,600	-	91,600	90,955

- City of Toronto	168,074	60,381	228,455	169,058
Total operating subsidy (for Commission's consolidated financial statements)	259,674	60,381	320,055	260,013

Between 1971 and 1980, the City and the Province of Ontario covered the Commission's operating shortfalls on a shared basis. From 1981 until 1993, a more formalized "Users' Fair Share" formula was used, with the Commission establishing its fares each year to cover 68% of total estimated operating expenses (as defined for provincial subsidy purposes). The City provided an operating subsidy equal to the remaining expenses. The City in turn obtained a subsidy from the Province equal to 16% of eligible expenses, plus additional subsidies for certain specified costs. Between 1994 and 1997, modified "flat-line" subsidies were provided by the City and the Province. However, between January 1, 1998 and December 31, 2003, the Province did not provide operating subsidies for public transit. Subsequent to 2003, the City allocated to the Commission's budget an amount of Provincial subsidy from the gas tax (see note 12(b)). In 2006, the amount allocated was $91.6 million (2005 - $91.0 million). Currently, the total City operating subsidy amount is established as part of the City's annual budget process.

City of Toronto subsidy
(for information only)

($000s)	2006			2005
	Conventional	Wheel-Trans	Total	Total
Operating subsidy from the City (see above)	168,074	60,381	228,455	169,058
City special costs	2,714	-	2,714	2,042
Long-term receivable (note 6)	(16,572)	(783)	(17,355)	(6,428)
Contributions to/(draws from) City Reserve Funds (note 13):				
TTC Stabilization Reserve Fund	116,624	-	116,624	24,885[1]
TTC Land Acquisition Reserve Fund[1]	1,704	-	1,704	1,704[1]
Total City operating subsidy (in accounts of the City of Toronto)	272,544	59,598	332,142	191,261

[1]See details in Note 13

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

The long-term receivable reflects the delayed payment of subsidy for the non-cash portion of the post-retirement medical and dental benefit expenses (note 6).

For details related to the City Reserve Funds, see note 13.

12. CAPITAL SUBSIDIES

Capital subsidies, which are recorded as net capital contributions (note 9), are as follows:

	2006	2005
Source of capital subsidies:	($000s)	
- City of Toronto	180,655	112,547
- Province of Ontario	145,367	68,924
- Federal Government of Canada	166,269	163,542
Total capital subsidies	492,291	345,013

(a) City of Toronto

The City is responsible for funding 100% of the Commission's capital program. In accordance with the Municipal Act, any funding for the Commission's capital program from other governments flows through the City. As such, the Commission has claimed from the City for the total 2006 capital subsidy of $492.3

million (2005 - $345.0 million). The following disclosures regarding subsidy claims from the Provincial and Federal Governments are based on the City's and the Commission's understanding of the various agreements and commitments.

(b) Province of Ontario

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

	2006		**2005**
Source of capital subsidies:		($000s)	
- Vehicle Funding Programs	67,239		32,538
- CSIF	34,236		34,004
- TTIP/GTIP	5,174		2,382
- Gas Tax	38,718		-
Total Provincial capital subsidies	145,367		68,924

Until 1996, the Commission received a 100% subsidy from the City for subway, light-rail additions and improvements, and certain other capital works projects. The City then recovered 75% of the subsidy from the Province. The Commission also received a 75% subsidy from the City for most of its other capital asset additions and the City in turn recovered the subsidy from the Province. This process was modified by the Province in 1996. A tripartite Capital Subsidy Agreement ("CSA") was signed in 1996 by the Commission, the City, and the Province to cover capital subsidies over the period 1996 to 2000. However, in 1998, the Province provided a lump sum payment in settlement of its commitments under the CSA and then terminated all capital subsidies, for a period of three years.

Since 2002, the Province has introduced a number of programs to address funding for revenue vehicles. On February 20, 2002, the Province announced the creation of the Ontario Transit Renewal Program ("OTRP"), subsequently renamed the Ontario Transit Vehicle Program ("OTVP"), to assist municipalities in replacing and refurbishing their existing transit fleets. The OTVP was cancelled in the March 2006 Provincial budget. Payments were made in 2006 to address the Commission's existing bus commitments ($33.3 million for 2006) and a new Ontario Bus Replacement Program ("OBRP") will be implemented commencing in 2007. In addition, funding of $150 million over the years 2006-2008 was announced to address the Commission's unique rolling stock requirements and funds of $33.9 million were accrued in 2006 for eligible vehicle expenditures.

Provincial funding under the Canada Strategic Infrastructure Fund ("CSIF") program will amount to $350 million in total for the years 2004 to 2012 (see note 12 (c)). Funding in the amount of $26.9 million for buses delivered during 2004 and 2005 was addressed under previous OTVP funding. Provincial funding accrued for the 2006 eligible expenditures amounted to $34.2 million (2005 - $34.0 million).

The Province had announced funding commitments totalling $33.7 million in August 2002 and June 2003, through the SuperBuild's Golden Horseshoe Transit Investment Partnership ("GTIP") program, on the basis of proceeding with a specified list of projects. This GTIP commitment will be addressed under the Transit Technology Infrastructure Program ("TTIP"), however, an agreement has not yet been finalized and no funding has yet been received by the City. In 2006, the Commission claimed from the City costs incurred of $5.2 million (2005 - $2.4 million) in connection with approved projects.

In October 2004, the Province introduced gas tax funding to municipalities for public transit. Commencing at 1¢/litre, the funding is based on a province-wide 70% ridership and 30% population allocation base, updated annually. The funding rate increased to 1½¢/litre, effective October 2005 and then to 2¢/litre effective October 2006. Of the $130.3 million (2005 - $91.0 million) in Provincial gas tax funding, the City has directed $91.6 million for 2006 (2005 - $91.0 million) toward the Commissions' operating needs (note 11) with the remainder of $38.7 million (2005 - $0) to be applied to capital needs.

(c) Federal Government of Canada

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

	2006	**2005**

Source of capital subsidies:	($000s)	
- CSIF	43,031	16,248
- Base Gas Tax funding	48,868	48,868
- Public Transit Capital Trust	74,151	98,426
- Transit-Secure	219	-
Total Federal capital subsidies	166,269	163,542

In April 2002, the Federal Minister of Transport announced funding of $76 million for the Commission's capital modernization and improvement program. The final instalment of this funding was received in 2003 from the Federal Government through the Canada-Ontario Infrastructure Program ("COIP").

In February 2004, the Federal Government announced that it would provide a full rebate to municipalities for GST paid. Legislation was enacted in May 2004 and this additional 3/7ths rebate has resulted in reduced Commission capital expenditures since early 2004.

On March 30, 2004, the Federal and Provincial Governments jointly announced funding of $1.050 billion, under CSIF which will fund strategic capital project requirements during the period March 2004 to 2012. This total is to be funded equally, in the amounts of $350 million, by each of the three levels of government. In December 2004, the CSIF Memorandum of Understanding was signed by the City, outlining the parameters for funding of specific projects, including subway and streetcar systems, transit improvements and a GTA farecard project. The business case was approved by Federal Treasury Board in December 2006 and a Contribution Agreement is being finalized with all parties to allow funds to flow to the City on eligible projects. Federal funding for the eligible expenditures incurred has been accrued in 2006 of $43.0 million (2005 - $16.2 million).

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 Base Gas Tax funding agreement is expected to result in some $1.86 billion being passed to Ontario over five years for environmentally sustainable municipal infrastructure. It is based on population and will grow from 1½¢/litre to 5¢/litre in 2009. The City was paid $48.9 million in 2006 (2005 – $48.9 million) under this program.

An agreement in principle was also signed in June 2005 outlining the parameters for a transfer of $310.3 million in federal funds over two years for public transit infrastructure in Ontario. In March 2006, an agreement was signed for transfer of the first $155.2 million to Ontario municipalities based on transit ridership, of which $98.4 million was paid to the City for 2005. This amount was accrued in the 2005 financial statements. In the subsequent Federal May 2006 budget, the Federal government announced the creation of a Public Transit Capital Trust which increased Ontario's share to $351.5 million over the years 2006-2008. The City share of this funding based on the intended transit ridership allocation amounts to $74.2 million which has been accrued in 2006. The Province is expected to release this payment to the City in early 2007.

In June 2006, the Federal government announced measures to bolster Canada's transportation security infrastructure with funding of $80 million available for high-risk passenger rail and security operations under the Passenger Rail and Transportation Security Program ("Transit-Secure"). Funding of $1.5 million was announced November 2006 (Round 1) for TTC capital security projects. A contribution agreement must be executed before the funding will flow to the City. Federal funding of $0.2 million for the eligible expenditures incurred has been accrued in 2006.

13. CITY RESERVE FUNDS

The City maintains in its accounts interest bearing Reserve Funds, comprised of funds set aside for specific purposes by City Council. A number of these Reserve Funds have been created specifically for matters related to the Commission such as the Stabilization and the Land Acquisition Reserve Funds. Contributions to and draws from these Reserve Funds are made by the Commission, or the City, upon approval by City Council.

In prior years, the Commission reported, in the following table, estimated amounts and City Council approval was obtained the following year. To facilitate the reconciliation to the City's balances, only those contributions and withdrawals that have been approved by City Council as of the date of the financial statements are reported in the table this year.

The balances and transactions related to the Reserve Funds are presented below.

($000s)		**2006**		**2005**
	Stabilization[1]	Land Acquisition[2]	Total	Total[1,2]
Balance, beginning of year, [1,2]	24,885	3,961	28,846	8,033
Commission contributions	-	-	-	26,589
Commission draws	(12,624)	-	(12,624)	(6,261)
City contributions[2]	100,000	3,571	103,571	400
Interest earned	4,363	311	4,674	85
Balance, end of year	116,624	7,843	124,467	28,846

[1] The $24,885 opening balance in the Stabilization Reserve Fund was reported by the City as a Commission contribution in 2006.
[2] Included in the opening balance of the Land Acquisition Reserve Fund is a $1,704 Commission contribution that was reported by the City in 2006. Also, the City contribution of $3,571 to the Land Acquisition Reserve Fund was reported by the City as a contribution in the City's 2005 financial statements.

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

In 2006, City Council approved the contribution of $24.9 million (note 11) to the Stabilization Reserve Fund to fund 2006 operating expenditures (the Commission draw of $12.6 million) and an employee benefit provision ($12.3 million). This contribution was recorded by the Commission as an addition to the Stabilization Reserve Fund in the 2005 City reserve funds continuity table. The Commission obtained approval in the 2006 preliminary year-end operating variance report to City Council to fund an additional $4.0 million of the employee benefit provision (for a cumulative total of $16.3 million). A $4.0 million contribution to the Stabilization Reserve Fund will therefore be reflected in next year's financial statements. Finally, in its 2006 Budget, the Province announced a one-time $200 million grant to the City for the Commission's existing subway operations for the years 2006 and 2007. From this grant, $100 million was contributed by the City to the Stabilization Reserve Fund in 2006.

The Land Acquisition Reserve Fund was created to fund future land acquisitions by the City for the Commission's use. In 2006, the City contributed the remaining proceeds of $3.6 million from the sale of a portion of the Commission's Tapscott property.

The Commission obtained approval in the 2006 preliminary year-end operating variance report to City Council to contribute the net gain of $2.9 million, from assessing liquidated damages against its supplier of buses to the City's Capital Financing Reserve Fund, in order to help fund the future acquisition of buses in 2008. This $2.9 million contribution will be disclosed in next year's continuity table of City reserve funds.

14. COMMITMENTS AND CONTINGENCIES

(a) In the normal course of its operations, labour relations, and completion of capital projects, the Commission and its subsidiaries are subject to various arbitrations, litigations, and claims. Where the potential liability is determinable, management believes that the ultimate disposition of the matters will not materially exceed the amounts recorded in the accounts. In other cases, the ultimate outcome of the claims cannot be determined at this time. Any additional losses related to claims will be recorded in the year during which the liability is determinable.

(b) A class action claiming $500 million in damages, plus interest and costs, was served on the Commission on November 30, 2001. The claim is based on alleged exposure by workers to asbestos during construction work at the Sheppard Subway Station. The claim also names the Ministry of Labour and an environmental consultant company as defendants and alleges various violations of the *Occupational Health and Safety Act* and its regulations. Management believes that the ultimate disposition of this matter will not materially exceed the amount recorded in the accounts. Any additional losses related to this claim will be recorded in the year during which the liability is determinable.

(c) Pursuant to an arbitrator's ruling, the Commission is currently involved with settling a labour-related grievance. The outcome of the action is uncertain and any resulting potential liability cannot be determined. The impact of this claim will be recorded in the year in which the liability is determinable.

(d) In February 2005, the Commission and City Council approved the awarding of a contract for the purchase of 330 low-floor buses from DaimlerChrysler Commercial Buses North America Ltd. ("DaimlerChrysler", formerly Orion), at a total cost of $208.1 million. The order consisted of 150 diesel-electric hybrid buses (hybrids), all of which were to be delivered in 2006, and 180 diesel buses, of which 80 were to be delivered in 2006 and the remaining 100 in 2007. Subsequent to this award, on July 19 and August 30, 2006, the Commission approved contract amendments for an additional 220 hybrids to be delivered in 2007 and 140 hybrids to be delivered in 2008. In addition, 4 hybrids (to be delivered in early 2008) were added to the contract in lieu of DaimlerChrysler being assessed liquidated damages. The delivery requirement is, in total, 694 buses and the revised contract value is $487 million. At December 31, 2006, 150 diesel-electric hybrid buses and 80 diesel buses had been delivered at a cost of $153.9 million and the remaining outstanding commitment is $333.1 million.

(e) In August 2006, the Commission approved purchasing 234 subway cars or 39 trainsets from Bombardier Inc., Bombardier Transportation at a total cost of $674.8 million. In September 2006, City Council approved proceeding with this procurement and the contract was awarded on December 21, 2006. As of December 2006, the Commission had incurred costs of $110.5 million (included in construction in progress – note 5) which represented the initial notice to proceed payment reflected in the terms of payment for the contract. The first trainset is scheduled for delivery in September 2009. At December 31, 2006, the outstanding commitment is $564.3 million.

(f) The Commission has contracts for the construction and implementation of various capital projects. At December 31, 2006, these contractual commitments are approximately $84.0 million (2005 - $63.6 million).

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

2007	$1,500,000
2008	2,200,000
2009	2,200,000
2010	2,200,000
2011	2,300,000
Thereafter	$4,300,000

15. PUBLIC SECTOR SALARY DISCLOSURE ACT 1996

The *Public Sector Salary Disclosure Act, 1996* (the "Act") requires the disclosure of the salaries and benefits of employees in the public sector who are paid a salary of $100,000 or more in a year. The Commission complies with the Act by providing the required information to the City, at its request. The City, in turn, forwards the Commission's submission to the Ontario Ministry of Municipal Affairs and Housing for disclosure on the public website at www.fin.gov.on.ca.