



STAFF REPORT ACTION REQUIRED

Draft Consolidated Financial Statements of Toronto Transit Commission for the Year Ended December 31, 2014

| | |
|--------------|-------------------------|
| Date: | May 27, 2015 |
| To: | TTC Board |
| From: | Chief Executive Officer |

Summary

The TTC is required to prepare annual financial statements, to arrange for them to be audited by external auditors and, to forward them to the City.

TTC's 2014 consolidated financial statements present TTC's 2014 financial results and financial position as of December 31, 2014.

Recommendations

It is recommended that the Board

1. Approve the report; and,
2. Approve forwarding a copy of the approved consolidated financial statements to the City Clerk for appropriate handling.

Implementation Points

The Board's Audit Committee will review the consolidated financial statements of the TTC at its meeting on May 27, 2015.

This report must be approved at the May 27, 2015 TTC Board meeting to then ensure timely submission to the June 26, 2015 Audit Committee meeting of the City of Toronto.

Financial Summary

The recommendations in this report have no funding implications.

Accessibility/Equity Matters

This report and its recommendations have no accessibility issues or impact.

Decision History

TTC's Corporate Policy 6.2.0 *Financial Reporting to the Board*, paragraph 4.1 states that annual audited financial statements must be included in the TTC's Annual Report.

Comments

The draft consolidated financial statements of the Toronto Transit Commission for the year ended December 31, 2014 have been prepared by Management. They have been audited by PricewaterhouseCoopers LLP ("PWC"), as indicated by the draft Auditor's Report (or 'Opinion') included with the attached statements. The Auditor's Report provides an opinion that the consolidated financial statements present fairly, in all material respects, the financial position of the TTC in accordance with Canadian Public Sector Accounting Standards (PSAS). After the financial statements are approved by the Audit Committee and Board, and PWC completes its file documentation, the draft unqualified opinion will be finalized on PWC letterhead.

Key Components of the Consolidated Financial Statements

The attached consolidated financial statements consist of five main statements and 18 notes that provide context to the numbers that are presented on the statements. The five statements presented are:

1) Consolidated Statement of Financial Position

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

2) Consolidated Statement of Operations and Accumulated Surplus

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

3) Consolidated Statement of Remeasurement Gains and Losses

The Consolidated Statement of Remeasurement Gains and Losses outlines the changes in fair value of financial instruments designated to the fair value category (i.e. derivatives) and, of these financial instruments measured at fair value, the amounts settled and reclassified to the Statement of Operations.

4) Consolidated Statement of Change in Net Debt

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

5) Consolidated Statement of Cash Flows

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

Accounting Surplus – As Reported in the Consolidated Financial Statements

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

| Item | \$ Millions |
|--|--------------------|
| Capital subsidy revenue | 1,181.7 |
| Depreciation expense for assets that were funded through capital subsidy | (304.4) |
| Entities under the control of TTC | 0.3 |
| Other expenses funded through capital subsidy | (9.0) |
| Rounding | 0.1 |
| Total | 868.7 |

Reconciliation of Accounting Surplus in Consolidated Financial Statements to Reduced Operating Subsidy Requirement

The table below reconciles the accounting surplus to the reduced operating subsidy requirement.

| \$ Millions | 2014 |
|--|--------------|
| Surplus per Consolidated Financial Statements | 868.7 |
| Adjustments for Non-Operating: | |
| Capital Subsidy Revenue Net of Amortization | (877.3) |
| Other Expenses funded through Capital Subsidy | 9.0 |
| Other Entities Under Control of TTC | (0.3) |
| Rounding | (0.3) |
| Operating Subsidy Revenue per Financial Statements | (537.6) |
| City Special Costs | (3.6) |
| Adjustments for Future Recoverable Amounts: | |
| Post Retirement Benefits | 31.3 |
| Accident Claims | 13.9 |
| Operating Subsidy Required | (496.2) |
| Operating Subsidy Available | 546.9 |
| Reduced Operating Subsidy Requirement | 50.7 |

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

1) Capital Subsidy Revenue and Depreciation Expense: \$877.3M (net)

Capital subsidies are used to acquire or construct capital assets. Under PSAS, these subsidies must be recognized as revenue, in the year that the TTC qualified for the funding (i.e. the year in which the capital asset was acquired or constructed). In 2014, the TTC recognized \$1,181.7M in capital subsidy revenue.

The cost of these capital assets, however, is not immediately recorded as an expense as the assets will serve the TTC for several years. Instead, a depreciation expense is recorded in the Consolidated Statement of Operations over several years as the assets are used and gradually wear out. In 2014, the TTC recorded \$304.4M of depreciation expense which is an estimate of the decline in value of TTC's assets in 2014 due to age and use.

The difference between the capital subsidy revenue (\$1,181.7M) noted above and the depreciation expense for subsidized assets (\$304.4M), is the source of \$877.3M of the accounting surplus, however this amount does not represent surplus funds. The full \$1,181.7M was spent on the capital assets acquired or constructed this year.

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

2) Entities Under the Control of TTC: (\$0.3M) (net surplus)

Budgets and periodic financial reports are presented separately for the TTC conventional transit system, Wheel-Trans operations, Toronto Coach Terminal Inc., TTC Insurance Company Ltd. and the TTC Sick Benefit Association. However PSAS requires these financial statements to be presented on a consolidated (i.e. combined) basis. Therefore the results for all entities controlled by the TTC are reported in aggregate. As a result, the \$0.3M surplus reported by the Toronto Coach Terminal Inc. is reported in these consolidated financial statements and form part of the TTC's consolidated surplus for the year.

3) Other Expenses Funded Through Capital Subsidy: (\$9.0M)

The Conventional Transit Service expenses include \$0.6M of environmental expenses that were funded through the capital subsidy noted above and \$8.4M in write-down of capital projects that were funded through capital subsidy in the year originally acquired or constructed.

The above information provides some context to the amount presented in the attached consolidated financial statements. Staff would be pleased to answer any further questions that you may have about the financial statements for 2014.

Reduced Operating Subsidy Requirements for the Year

It is important to note that the accounting surplus presented on the consolidated financial statements is unrelated to the 2014 operating budgets reduced subsidy requirements (i.e. non-required budgeted subsidy). The TTC had reduced operating subsidy requirements of \$47.0M for conventional transit and \$3.7M for Wheel-Trans. This represented the amount by which the operating subsidy available from the City of Toronto exceeded the amount that was actually required and used by the TTC. This is summarized as follows:

| \$ Millions | TTC Conventional Transit | Wheel- Trans | Total |
|--|--------------------------------|-----------------|-------------|
| 2014 Operating Expenses ¹ | 1,549.7 | 108.8 | 1,658.5 |
| 2014 Operating Revenue | 1,156.6 | 5.7 | 1,162.3 |
| Current Operating Subsidy Required | 393.1 | 103.1 | 496.2 |
| Current Operating Subsidy Available | 440.1 | 106.8 | 546.9 |
| Reduced Operating Subsidy Requirement | 47.0 | 3.7 | 50.7 |

Contact

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Attachments

Draft TTC Consolidated Financial Statements for the Year Ended December 31, 2014

¹ When compared to the amount reported on the Consolidated Statement of Operations, this amount excludes: depreciation related to subsidized capital assets; environmental expenses funded through capital subsidy; write-down of capital projects previously funded through capital subsidy; the costs of certain employee post-retirement benefits and accident claims that are funded through the long-term receivable but includes the City's Special Costs (details can be found on the Consolidated Financial Statements Schedule at the end of the Financial Statements).

**Consolidated Financial Statements of
TORONTO TRANSIT COMMISSION
Year ended December 31, 2014**



May 27, 2015

Independent Auditor's Report

To the Members of the Board of the Toronto Transit Commission

We have audited the accompanying consolidated financial statements of the Toronto Transit Commission, which comprise the consolidated statement of financial position as at December 31, 2014 and the consolidated statement of operations and accumulated surplus, remeasurement gains and losses, net debt and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

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



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Toronto Transit Commission as at December 31, 2014 and the results of its operations, remeasurement gains and losses, net debt and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Other matter

The accompanying consolidated financial statements schedule as at and for the year ended December 31, 2014 is presented as supplementary information only and is not a required part of the basic consolidated financial statements. The information in this schedule has been subject to audit procedures only to the extent necessary to express an opinion on the consolidated financial statements of the Toronto Transit Commission.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

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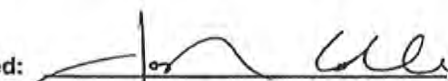
Consolidated Statement of Financial Position
As at

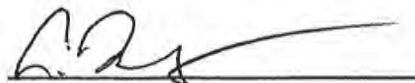
| \$000s | December 31, 2014 | December 31, 2013 |
|--|-------------------|-------------------|
| Financial Assets | | |
| Cash and Cash Equivalents (note 4) | 86,315 | 105,587 |
| Subsidies Receivable (note 5) | 909,710 | 836,729 |
| Accounts Receivable | 99,040 | 75,399 |
| Portfolio Investments (note 6) | 2,521 | 2,531 |
| Derivatives (note 7) | - | 3,887 |
| Total Financial Assets | 1,097,586 | 1,024,133 |
| Liabilities | | |
| Accounts Payable and Accrued Liabilities | 555,415 | 525,405 |
| Deferred Passenger Revenue | 78,190 | 79,295 |
| Unsettled Accident Claims (note 8) | 170,329 | 156,437 |
| Employee Future Benefits (note 9) | 526,655 | 485,978 |
| Environmental Liabilities (note 10) | 6,750 | 14,500 |
| Derivatives (note 7) | 17,037 | - |
| Total Liabilities | 1,354,376 | 1,261,615 |
| Net Debt | (256,790) | (237,482) |
| Non-Financial Assets | | |
| Tangible Capital Assets (note 11) | 8,052,088 | 7,188,262 |
| Spare Parts and Supplies Inventory | 123,564 | 120,080 |
| Prepaid Expense | 1,517 | 1,752 |
| Total Non-Financial Assets | 8,177,169 | 7,310,094 |
| Accumulated Surplus | 7,920,379 | 7,072,612 |
| Accumulated Surplus is comprised of: | | |
| Accumulated Operating Surplus (note 12) | 7,937,416 | 7,068,725 |
| Accumulated Remeasurement Gains / (Losses) | (17,037) | 3,887 |
| | 7,920,379 | 7,072,612 |

Commitments and contingencies (note 18)

See accompanying notes to the consolidated financial statements

Approved:


Commissioner


Commissioner

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

| \$000s | 2014 Budget (note 16) | 2014 | 2013 |
|---|--------------------------|------------------|------------------|
| Operating Revenue | | | |
| Passenger Services | 1,106,739 | 1,092,495 | 1,056,423 |
| Advertising | 26,053 | 26,083 | 25,992 |
| Outside City Services | 17,364 | 17,091 | 16,851 |
| Property Rental | 21,383 | 21,971 | 20,451 |
| Miscellaneous | 1,733 | 6,580 | 6,937 |
| Total Operating Revenue | 1,173,272 | 1,164,220 | 1,126,654 |
| Subsidy Revenue | | | |
| Operating Subsidies (note 13) | 568,451 | 537,599 | 467,732 |
| Capital Subsidies (note 14) | 1,625,982 | 1,181,745 | 1,054,467 |
| Total Subsidy Revenue | 2,194,433 | 1,719,344 | 1,522,199 |
| Total Revenue | 3,367,705 | 2,883,564 | 2,648,853 |
| EXPENSES | | | |
| Conventional Transit Service | 1,918,970 | 1,890,458 | 1,799,791 |
| Wheel-Trans | 126,280 | 123,718 | 114,550 |
| Other Functions | 562 | 697 | 700 |
| Total Expenses (note 15) | 2,045,812 | 2,014,873 | 1,915,041 |
| Surplus for the year | 1,321,893 | 868,691 | 733,812 |
| Accumulated surplus, beginning of the year | | 7,068,725 | 6,334,913 |
| Accumulated surplus, end of the year | | 7,937,416 | 7,068,725 |

See accompanying notes to the consolidated financial statements

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

| \$000s | 2014 | 2013 |
|--|----------|---------|
| Accumulated Remeasurement Gains / (Losses), beginning of year | 3,887 | - |
| Transition Remeasurements | - | 869 |
| Accumulated Remeasurement Gains (Jan 1) | 3,887 | 869 |
| Unrealized gains / (losses) in the current year (note 7) | (18,652) | 4,900 |
| Amounts reclassified to Statement of Operations | (2,272) | (1,882) |
| Accumulated Remeasurement Gains / (Losses), end of year | (17,037) | 3,887 |

See accompanying notes to the consolidated financial statements

Consolidated Statement of Net Debt
For the year ended December 31

| \$000s | 2014 Budget (note 16) | 2014 Actual | 2013 Actual |
|--|--------------------------|-------------|-------------|
| Surplus for the year | 1,321,893 | 868,691 | 733,812 |
| Change in capital assets | | | |
| Acquisitions | (1,651,401) | (1,206,524) | (1,075,309) |
| Amortization | 336,877 | 334,248 | 318,793 |
| Disposals | - | 8,248 | 8,633 |
| Write-downs | - | 202 | 19,838 |
| Total Change in Capital Assets | (1,314,524) | (863,826) | (728,045) |
| Change in Spare Parts and Supplies | - | (3,484) | (12,277) |
| Change in Prepaid Expenses | - | 235 | 1,069 |
| Change in remeasurement gains / (losses) for the year | - | (20,924) | 3,887 |
| Change in Net Debt | 7,369 | (19,308) | (1,554) |
| Net Debt, beginning of year | | (237,482) | (235,928) |
| Net Debt, end of year | | (256,790) | (237,482) |

See accompanying notes to the consolidated financial statements

Consolidated Statement of Cash Flows
For the year ended December 31

| \$000s | 2014 | 2013 |
|--|-----------------|-----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from passenger services | 1,091,390 | 1,058,717 |
| Operating subsidies received | 480,251 | 491,298 |
| Non-passenger revenue received | 72,291 | 67,013 |
| Cash paid for wages, salaries and benefits | (1,183,071) | (1,144,022) |
| Cash paid to suppliers | (445,326) | (385,294) |
| Cash paid for accident claims | (22,679) | (35,944) |
| Cash (used in) provided by operating activities | (7,144) | 51,768 |
| CASH FLOWS FROM CAPITAL ACTIVITIES | | |
| Capital asset acquisitions | (1,161,444) | (1,038,184) |
| Capital asset disposal proceeds | 947 | 1,764 |
| Capital subsidies received | 1,148,369 | 985,968 |
| Cash used in capital activities | (12,128) | (50,452) |
| Increase / (decrease) in cash and cash equivalents during the year | (19,272) | 1,316 |
| Cash and cash equivalents, beginning of the year | 105,587 | 104,271 |
| Cash and cash equivalents, end of the year | 86,315 | 105,587 |

See accompanying notes to the consolidated financial statements

**Notes to the Consolidated Financial Statements
for the Year Ended December 31, 2014**

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 shall plan for the future development of local passenger transportation so as to best serve its inhabitants and the City, and City Council is not entitled to exercise a power related to local transportation, except as it relates to the Toronto Islands. However, from a funding perspective, the TTC functions as one of the agencies and commissions 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 TTC's subsidiaries include the Toronto Transit Infrastructure Limited, Toronto Coach Terminal Inc. and its subsidiary, the TTC Insurance Company Limited. Since the TTC Sick Benefit Association is controlled by the TTC, its results are also consolidated. 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

These consolidated financial statements are prepared by the TTC in accordance with the standards applicable for other government organizations found in the Chartered Professional Accountants (CPA) Public Sector Accounting Handbook.

b. Basis of consolidation

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

c. Measurement uncertainty

The preparation of the consolidated financial statements in conformity with public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Specifically, future employee benefits 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 and 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, through the regular billing process, and the eligibility criteria and related stipulations has 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 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. 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 money market instruments, such as bankers' acceptances, which have original maturities at acquisition of three months or less and are readily convertible to cash on short notice.

g. Spare Parts and Supplies Inventory

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

h. Tangible Capital Assets and 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 | 6-18 |
| Trackwork | 15-30 |
| Other Equipment | 4-26 |
| Traction Power Distribution System | 24-25 |

Capital assets are amortized from the date that they enter service. One-half year of the 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. Land purchased directly by the City, for the TTC's use, is accounted for in the City's records.

i. Portfolio Investments

Portfolio investments consist of bonds that are recorded at cost. Discounts or premiums on investments are amortized on 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. 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.

k. 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 10 years (December 31, 2013 – 10 years) and for long-term disability benefits, the amortization period is 12.4 years (December 31, 2013 – 12.8 years). The amortization of the gain/loss begins in the year after the actuarial gain/loss arises.

A post-retirement benefit plan actuarial gain or loss is deferred and amortized over the expected average remaining service life of the employees unless there is a plan amendment or curtailment. The amortization period for the pension plan, post-retirement medical and post-retirement dental plans, varies from 10.9 to 13.2 years (December 31, 2013 – 10.9 to 13.6 years) and for the supplemental funded pension plan, the amortization period is 6.3 years (December 31, 2013 – 6.0 years). The amortization of the actuarial gain or loss begins in the year after the gain or loss arises for all post-retirement plans except the TTC pension plan. Amortization begins in the year of the actuarial gain or loss for the TTC pension plan. This policy is expected to reduce the long term expense volatility that results from the accounting requirement to defer and amortize actuarial losses.

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

l. Environmental provision

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

m. 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, 2014, 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 in place with major financial institutions and the federal and provincial governments and are therefore assessed as low risk.

14 percent of TTC's Accounts Receivable and 100% of Subsidies Receivable are due from the City of Toronto (December 31, 2013 – 2% and 100%, respectively). Of the other Accounts Receivable, which total \$85.4 million (December 31, 2013 - \$73.8 million), \$58.8 million is due from federal and provincial governments, other municipalities and transit agencies (December 31, 2013 - \$48.8 million). Impairment risk on receivables from these governments and government organizations is low. Of the remaining \$26.6 million (December 31, 2013 - \$25.0 million), receivables due from non-governments and non-government organizations, \$3.4 million is past due (December 31, 2013 - \$4.9 million).

Although past due, the \$3.4 million is deemed collectible and has the following aging:

1-30 days past due: \$2.1 million (December 31, 2013 - \$1.0 million)

31-60 days past due: \$nil (December 31, 2013 - \$1.6 million)

61-90 days past due: \$0.2 million (December 31, 2013 - \$1.3 million)

90+ days past due: \$1.1 million (December 31, 2013 - \$1.0 million)

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 therefore 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 \$3.2 million in U.S. dollar financial liabilities (December 31, 2013 - \$2.4 million), which is more than offset by TTC's U.S. dollar cash balance of \$5.3 million (December 31, 2013 - \$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 non-derivative financial liabilities amount to \$555.4 million (December 31, 2013 - \$525.4 million) and, of this amount, \$222.3 million is due within one year or less (December 31, 2013 - \$235.1 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 \$150.1 million (December 31, 2013 - \$106 million) are excluded from the \$222.3 million in financial liabilities due within a year (December 31, 2013 - \$235.1 million); 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). As of December 31, 2014, approximately 86% of 2015's diesel fuel requirement has been hedged using the fuel swap agreements (December 31, 2013 – 45%).

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 \$2.1 million as at December 31, 2014 (December 31, 2013 – \$3.0 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 | 2014 | 2013 |
|--|----------------|----------------|
| Subsidies to be collected within one year | | |
| Capital Subsidy Receivable | 362,328 | 383,088 |
| Operating Subsidy Receivable | 93,772 | 81,569 |
| Total subsidies to be collected within one year | 456,100 | 464,657 |
| Other recoverable amounts | | |
| Employee Benefits | 239,581 | 208,328 |
| Accident Claims Expenses | 58,494 | 44,602 |
| Construction Holdbacks | 150,085 | 106,042 |
| Future Environmental Costs (note 10) | 5,450 | 13,100 |
| Total Other Recoverable amounts | 453,610 | 372,072 |
| Total Subsidies Receivable | 909,710 | 836,729 |

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 holdbacks will be collected in the year that the holdback is released to the vendor. 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 two bonds, as follows:

| \$000s | 2014 | 2013 |
|---|--------------|--------------|
| Bank of Nova Scotia Notes (2.25%; May 8, 2015 maturity) | 1,975 | 1,985 |
| City of Toronto bond (8.65%; June 8, 2015 maturity) | 546 | 546 |
| Total Portfolio Investments | 2,521 | 2,531 |

At December 31, 2014, the fair value of the bonds is \$2.5 million (December 31, 2013 – \$2.6 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, 2014. 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. The derivative contracts are included in the statement of financial position on a present value basis. As heating oil is an openly traded commodity, the fair value of these derivatives is primarily derived using the quoted price of heating oil on the New York Mercantile Exchange (NYMEX) as of December 31, 2014.

8. UNSETTLED ACCIDENT CLAIMS

The TTC Insurance Company Limited ("Insurance Co.") was established in 1994 in order to provide insurance coverage for compulsory automobile personal injury and accident benefit claims for the TTC. At December 31, 2014, \$155.4 million (December 31, 2013 – \$141.5 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, \$14.9 million, (December 31, 2013 – \$14.9 million) relates to general liability claims, net of expected HST rebates.

The ultimate cost of these liabilities will vary from the best estimate made by management for a variety of reasons, including additional information with respect to the facts and circumstances of the claims incurred. The liability includes a reserve established for each file as well as an incurred but not reported ("IBNR") provision to account for the fact that full information on case files may not be available at the valuation date, or losses have

been incurred but are not yet reported. Therefore, the 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 | PFAD | Discounted |
|--|--------------|---------------------|--------|------------|
| \$000s | | | | |
| As at December 31, 2014 | 161,710 | (7,487) | 16,106 | 170,329 |
| As at December 31, 2013 | 153,886 | (11,591) | 14,142 | 156,437 |

As at December 31, 2014, the interest rate used to determine the time value of money was 1.4% and reflected the market yield (December 31, 2013 – 2.33%).

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 long-term disability 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, 2014 for the WSI plan and November 30, 2014 for the LTD plan. These valuations were used to project the accrued benefit obligations and costs for the current year end. The next actuarial valuation for the post-employment benefit plans is expected to be performed as at September 30, 2015 for the WSI plan and November 30, 2015 for the LTD plan.

Post-retirement, non-pension benefit plans

Post-retirement benefits, consisting of basic health care and dental coverage, are available to employees retiring from the 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, 2012. This valuation was used to project the accrued benefit obligations and costs for the current year end. The next actuarial valuation for the post-retirement benefit plans is expected to be performed as at January 1, 2015.

Supplemental pension plans

The 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, 2013 – 55%) cash and -quity index pooled funds which are carried at market and 45% (December 31, 2013 – 45%) 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, 2014. The next actuarial valuation for funding purposes is expected to be performed as at January 1, 2015. The effective date of the most recent valuation for accounting purposes was December 31, 2014.

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 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 TTC and the ATU.

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, 2014, the base year for the TTC pension plan and the funded supplemental pension plans was updated to December 31, 2013 from December 31, 2010. In addition, an adhoc increase of up to 2% (December 31, 2013 - 2%) 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, 2014. The next required actuarial valuation for funding purposes will be performed as at January 1, 2017. The effective date of the most recent valuation for accounting purposes was December 31, 2014.

The continuity of the change in the employee benefit liabilities/(asset) including expenses recognized in 2014 is as follows:

| (\$000s) | Post- Employment Plans | Post- Retiremen. Non-Pension Plans | Supplemental Pension Plans | Total Employee Benefit Liabilities | TTC Pension Fund |
|---|------------------------------|---|-------------------------------|---|-----------------------|
| Accrued benefit liability (asset) balance, beginning of the year | 213,219 | 272,665 | 94 | 485,978 | - |
| Current service cost | 25,997 | 17,085 | (1) | 43,081 | 64,625 |
| Interest cost | 6,092 | 15,796 | 564 | 22,452 | (22,920) |
| Amortization of actuarial (gains)/losses: | (2,906) ² | 8,878 | 203 | 6,175 | (94,411) ¹ |
| Plan amendments | (38) | 1,358 | 1,117 | 2,437 | 74,375 |
| Change in valuation allowance | - | - | - | - | 82,636 |
| Total Expenses | 29,145 | 43,117 | 1,883 | 74,145 | 104,305 |
| Benefits paid | (23,659) | (7,603) | (206) | (31,468) | - |
| Employer contributions | - | - | (2,000) | (2,000) | (104,305) |
| Accrued benefit liability (asset) balance, end of the year | 218,705 | 308,179 | (229) | 526,655 | - |

¹ Includes recognition of an unamortized gain of \$74,375 applied against the cost of the plan amendments.

² Includes recognition of an unamortized loss of \$38 applied against the plan amendment savings.

The continuity of the change in the employee benefit liabilities/(asset) including expenses recognized in 2013 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 | 202,308 | 245,012 | 746 | 448,066 | - |
| Current service cost | 30,922 | 15,238 | (25) | 46,135 | 64,326 |
| Interest cost | 5,211 | 12,158 | 277 | 17,646 | (8,339) |
| Amortization of actuarial (gains)/losses: | (1,822) | 7,133 | (93) | 5,218 | (80,167) ¹ |
| Plan amendments | - | - | 520 | 520 | 60,852 |
| Change in valuation allowance | - | - | - | - | 65,405 |
| Total Expenses | 34,311 | 34,529 | 679 | 69,519 | 102,077 |
| Benefits paid | (23,400) | (6,876) | (201) | (30,477) | - |
| Employer contributions | - | - | (1,130) | (1,130) | (102,077) |
| Accrued benefit liability (asset) balance, end of the year | 213,219 | 272,665 | 94 | 485,978 | - |

¹ Includes recognition of an unamortized gain of \$60,852 applied against the cost of the plan amendments.

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

| (\$000s) | 2014 | 2013 |
|--|----------------|----------------|
| Cost of TTC Pension Fund contributions | 104,305 | 102,077 |
| TTC Pension accounting expense in excess of contributions | - | - |
| Net cost of TTC Pension | 104,305 | 102,077 |
| Cost of other benefit plans | 74,145 | 69,519 |
| Total cost of plans | 178,450 | 171,596 |
| Less: costs allocated to capital assets | (21,382) | (20,561) |
| Total employee future benefit costs included Wage, Salaries and Benefits in Note 15 and in the consolidated Statement of Operations | 157,068 | 151,035 |

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 valua:

allowance of \$307.8 million (December 31, 2013 - \$225.2 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, 2014 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 | - | - | 10,209 | 10,209 | 2,749,268 |
| Accrued benefit obligations | 192,422 | 463,216 | 11,260 | 666,898 | 2,297,967 |
| Funded status—(deficit)/ surplus | (192,422) | (463,216) | (1,051) | (656,689) | 451,301 |
| Unamortized (gains)/losses | (26,283) | 155,037 | 1,280 | 130,034 | (143,502) |
| Accrued benefit (liability)/ asset | (218,705) | (308,179) | 229 | (526,655) | 307,799 |
| Valuation Allowance | - | - | - | - | (307,799) |
| Employee benefit (liability) | (218,705) | (308,179) | 229 | (526,655) | - |

Reconciliation of funded status to the employee benefit liabilities and asset as at December 31, 2013 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 | - | - | 7,947 | 7,947 | 2,452,060 |
| Accrued benefit obligations | 181,061 | 362,824 | 9,260 | 553,145 | 1,998,497 |
| Funded status—(deficit)/ surplus | (181,061) | (362,824) | (1,313) | (545,198) | 453,563 |
| Unamortized (gains)/losses | (32,158) | 90,159 | 1,219 | 59,220 | (228,400) |
| Accrued benefit (liability)/ asset | (213,219) | (272,665) | (94) | (485,978) | 225,163 |
| Valuation Allowance | - | - | - | - | (225,163) |
| Employee benefit (liability) | (213,219) | (272,665) | (94) | (485,978) | - |

The continuity of the change in the accrued benefit obligation including costs recognized in 2014 is as follows:

| (\$000s) | Post- Employment Plans | Post- Retirement Non-Pension Plans | Supplement al Pension Plans | Total Employee Benefit Liabilities | TTC Pension Fund |
|--------------------------------|------------------------------|---|-----------------------------------|---|---------------------|
| Balance, beginning of the year | 181,061 | 362,824 | 9,260 | 553,145 | 1,998,497 |
| Current service cost | 25,997 | 17,085 | (1) | 43,081 | 64,625 |
| Interest cost | 6,092 | 15,796 | 895 | 22,783 | 130,216 |
| Loss/(gain) on the obligation | 2,969 | 73,756 | 416 | 77,141 | 138,340 |
| Employee contributions | - | - | 128 | 128 | - |
| Benefits paid | (23,659) | (7,603) | (555) | (31,817) | (108,086) |
| Plan amendments | (38) | 1,358 | 1,117 | 2,437 | 74,375 |
| Balance, end of the year | 192,422 | 463,216 | 11,260 | 666,898 | 2,297,967 |

The continuity of the change in the accrued benefit obligation including costs recognized in 2013 is as follows:

| (\$000s) | Post- Employment Plans | Post- Retirement Non-Pension Plans | Supplement al Pension Plans | Total Employee Benefit Liabilities | TTC Pension Fund |
|--------------------------------|------------------------------|---|-----------------------------------|---|---------------------|
| Balance, beginning of the year | 179,807 | 323,377 | 6,939 | 510,123 | 1,916,632 |
| Current service cost | 30,922 | 15,238 | (25) | 46,135 | 64,326 |
| Interest cost | 5,211 | 12,158 | 563 | 17,932 | 114,533 |
| Loss/(gain) on the obligation | (11,479) | 18,927 | 1,701 | 9,149 | (57,973) |
| Employee contributions | - | - | 96 | 96 | - |
| Benefits paid | (23,400) | (6,876) | (534) | (30,810) | (99,873) |
| Plan amendments | - | - | 520 | 520 | 60,852 |
| Balance, end of the year | 181,061 | 362,824 | 9,260 | 553,145 | 1,998,497 |

The continuity of the plan assets for the funded pension plans in 2014 is as follows:

| (\$000s) | Supplemental Pension Plan | TTC Pension Fund |
|---|---------------------------|------------------|
| Balance, beginning of the year | 7,947 | 2,452,060 |
| Employee contributions | 128 | - |
| Employer contributions | 2,000 | 104,305 |
| Expected return on plan assets | 330 | 153,136 |
| Excess (shortfall) on return on plan assets | 153 | 147,853 |
| Benefits paid | (349) | (108,086) |
| Balance, end of the year | 10,209 | 2,749,268 |

The continuity of the plan assets for the funded pension plans in 2013 is as follows:

| (\$000s) | Supplemental Pension Plan | TTC Pension Fund |
|---|---------------------------|------------------|
| Balance, beginning of the year | 6,286 | 2,135,795 |
| Employee contributions | 96 | - |
| Employer contributions | 1,130 | 102,077 |
| Expected return on plan assets | 286 | 122,872 |
| Excess (shortfall) on return on plan assets | 482 | 191,189 |
| Benefits paid | (333) | (99,873) |
| Balance, end of the year | 7,947 | 2,452,060 |

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

| | 2014 | 2013 |
|--|----------------|---------------|
| Accrued benefit obligations as at December 31: | | |
| Discount rate for post-employment plans | 2.8% | 3.6% |
| Discount rate for post-retirement, non-pension plans | 3.4% | 4.4% |
| Discount rate for supplemental pension plans | 3.4% to 4% | 4.25% to 4.4% |
| Discount rate for TTC Pension Fund | 5.75% | 6.25% |
| Rate of increase in earnings | 1.18% to 3.25% | 2% to 3.25% |
| Benefit costs for the years ended December 31: | | |
| Discount rate for post-employment plans | 3.6% | 3.1% |
| Discount rate for post-retirement, non-pension plans | 4.4% | 3.8% |
| Discount rate for supplemental pension plans | 4.25% to 4.4% | 3.8% to 4.25% |
| Discount rate for TTC Pension Fund | 6.25% | 5.75% |
| Rate of increase in earnings | 2.0% to 3.25% | 2.0% to 3.25% |
| Expected rate of return on assets, supplemental pension plan | 4.25% | 4.25% |
| Actual rate of return on assets, supplemental pension plan | 5.5% | 11.4% |
| Expected rate of return on assets, TTC Pension Fund | 6.25% | 5.75% |
| Actual rate of return on assets, TTC Pension Fund | 12.3% | 14.8% |

The TTC's annual rate of growth for post-retirement drug costs was estimated at 14% for males and 12% for females. These rates consist of a drug trend rate of 7% per annum (decreasing to 4.5% per annum over 15 years) and an aging factor of 6.9% for males and 4.7% for females (up to age 65). The annual rate of growth for post retirement dental costs was estimated at 4.0% per annum.

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

| (\$000s) | 2014 | 2013 |
|-----------------------------|-----------|-----------|
| Fair value of plan assets | 5,498,535 | 4,904,119 |
| Accrued benefit obligations | 4,595,935 | 3,996,993 |
| Funded status - surplus | 902,600 | 907,126 |

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. Environmental advisors and specialists are retained to support the TTC's investigative and remedial efforts.

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

11. TANGIBLE CAPITAL ASSETS

The cost of tangible capital assets is as follows:

| \$000s | Cost December 31, 2014 | | | | |
|--------------------------|------------------------|------------------|------------------|--------------|-------------------|
| | Beginning | Additions | Disposals | Write-downs | Ending |
| Subways | 2,420,009 | 63,674 | - | - | 2,483,683 |
| Buildings & Structures | 1,231,325 | 124,017 | - | - | 1,355,342 |
| Rolling Stock | 1,953,778 | 219,052 | (115,570) | - | 2,057,260 |
| Buses | 1,478,969 | 159,968 | (35,119) | - | 1,603,818 |
| Trackwork | 1,589,727 | 48,154 | - | - | 1,637,881 |
| Other Equipment | 752,683 | 53,292 | (1,183) | - | 804,792 |
| Traction Power | 399,007 | 36,684 | - | - | 435,691 |
| Land | 12,854 | - | - | - | 12,854 |
| Construction in Progress | 2,953,738 | 501,683 | - | (202) | 3,455,219 |
| Total | 12,792,090 | 1,206,524 | (151,872) | (202) | 13,846,540 |

| \$000s | Cost December 31, 2013 | | | | |
|--------------------------|------------------------|------------------|-----------------|-----------------|-------------------|
| | Beginning | Additions | Disposals | Write-downs | Ending |
| Subways | 2,366,079 | 53,930 | - | - | 2,420,009 |
| Buildings & Structures | 1,146,151 | 85,174 | - | - | 1,231,325 |
| Rolling Stock | 1,696,210 | 338,676 | (81,108) | - | 1,953,778 |
| Buses | 1,447,953 | 36,397 | (5,381) | - | 1,478,969 |
| Trackwork | 1,546,987 | 42,740 | - | - | 1,589,727 |
| Other Equipment | 700,004 | 54,048 | (1,369) | - | 752,683 |
| Traction Power | 360,347 | 38,660 | - | - | 399,007 |
| Land | 12,854 | - | - | - | 12,854 |
| Construction in Progress | 2,541,161 | 425,684 | - | (13,107) | 2,953,738 |
| Total | 11,817,746 | 1,075,309 | (87,858) | (13,107) | 12,792,090 |

The accumulated amortization for tangible capital assets is:

| \$000s | Accumulated Amortization December 31, 2014 | | | | |
|------------------------|--|----------------|------------------|-------------|------------------|
| | Beginning | Amortization | Disposals | Write-downs | Ending |
| Subways | 1,173,087 | 46,342 | - | - | 1,219,429 |
| Buildings & Structures | 477,420 | 38,763 | - | - | 516,183 |
| Rolling Stock | 970,243 | 72,977 | (107,322) | - | 935,898 |
| Buses | 949,577 | 74,974 | (35,119) | - | 989,432 |
| Trackwork | 1,188,426 | 42,245 | - | - | 1,230,671 |
| Other Equipment | 580,600 | 51,262 | (1,183) | - | 630,679 |
| Traction Power | 264,475 | 7,685 | - | - | 272,160 |
| Total | 5,603,828 | 334,248 | (143,624) | - | 5,794,452 |

| \$000s | Accumulated Amortization December 31, 2013 | | | | |
|------------------------|--|----------------|-----------------|--------------|------------------|
| | Beginning | Amortization | Disposals | Write-downs | Ending |
| Subways | 1,128,162 | 44,925 | - | - | 1,173,087 |
| Buildings & Structures | 442,669 | 34,751 | - | - | 477,420 |
| Rolling Stock | 970,580 | 65,407 | (72,475) | 6,731 | 970,243 |
| Buses | 890,394 | 64,564 | (5,381) | - | 949,577 |
| Trackwork | 1,146,437 | 41,989 | - | - | 1,188,426 |
| Other Equipment | 521,065 | 60,904 | (1,369) | - | 580,600 |
| Traction Power | 258,222 | 6,253 | - | - | 264,475 |
| Total | 5,357,529 | 318,793 | (79,225) | 6,731 | 5,603,828 |

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

| \$000s | Net Book Value 2014 | Net Book Value 2013 |
|-----------------------------|---------------------|---------------------|
| Subways | 1,264,254 | 1,246,922 |
| Buildings & Structures | 839,159 | 753,905 |
| Rolling Stock | 1,121,362 | 983,535 |
| Buses | 614,386 | 529,392 |
| Trackwork | 407,210 | 401,301 |
| Other Equipment | 174,113 | 172,083 |
| Traction Power Distribution | 163,531 | 134,532 |
| Land | 12,854 | 12,854 |
| Construction in Progress | 3,455,219 | 2,953,738 |
| Total | 8,052,088 | 7,188,262 |

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 | 2014 | 2013 |
|--|------------------|------------------|
| Invested in Tangible Capital Assets | 7,926,685 | 7,058,330 |
| Accumulated surplus (deficit) from TTC subsidiaries | (3,410) | (3,746) |
| Accumulated surplus generated through operating budget | 14,141 | 14,141 |
| Total | 7,937,416 | 7,068,725 |

The amount reported in the table regarding tangible capital assets represents the net book value of capital assets, that have been funded through past capital subsidy. The variance between this amount and the amount reported in note 11, (\$125.4 million (2013 – \$129.9 million)) represents the net book value of capital assets that have been funded by the TTC. Of this, \$121.6 million (2013 – \$125.5 million) will be recovered through future operating subsidies. The remaining \$3.8 million (2013 – \$4.4 million) represents the net book value of capital assets used for the operation of the Toronto Coach Terminal.

13. OPERATING SUBSIDIES

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

| \$000s | 2014 | | | 2013 |
|---|----------------|----------------|----------------|----------------|
| | Conventional | Wheel-Trans | Total | Total |
| - Province of Ontario Gas tax (note 14(b)) | 91,600 | - | 91,600 | 91,600 |
| - City of Toronto | 340,383 | 105,616 | 445,999 | 376,132 |
| Total operating subsidies | 431,983 | 105,616 | 537,599 | 467,732 |

The total City operating subsidy amount is established as part of the City's annual budget process. The City allocated to the TTC's budget \$91.6 million (2013 – \$91.6 million) from the provincial gas tax (see note 14(b)).

| City of Toronto subsidy | | | | |
|--|----------------|----------------|----------------|----------------|
| \$000s | 2014 | | | 2013 |
| | Conventional | Wheel-Trans | Total | Total |
| Operating subsidy from the City of Toronto (see above) | 340,383 | 105,616 | 445,999 | 376,132 |
| City special costs | 3,596 | - | 3,596 | 3,549 |
| Future Recoverable amounts | | | | |
| Accident Claims | (12,761) | (1,131) | (13,892) | 13,140 |
| Employee Benefits | (29,832) | (1,421) | (31,253) | (24,335) |
| Total City operating subsidies | 301,386 | 103,064 | 404,450 | 368,486 |
| (in accounts of the City of Toronto) | | | | |

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).

14. CAPITAL SUBSIDIES

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

| \$000s | 2014 | 2013 |
|--------------------------------|------------------|------------------|
| Source of capital subsidies: | | |
| - City of Toronto | 893,367 | 710,846 |
| - Province of Ontario | 110,440 | 155,377 |
| - Federal Government of Canada | 154,263 | 157,839 |
| - Other | 23,675 | 30,405 |
| Total capital subsidies | 1,181,745 | 1,054,467 |

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 2014 capital subsidy of \$1,158.1 million (2013 – \$1,024.1 million). Amounts claimed from the City do not include a \$0.3 million expenditure (2013 – \$2.5 million) for property purchased and owned by the City, but for the jurisdictional use of the TTC. Other funding of \$23.7 million (2013 – \$30.4 million) includes specific purpose third-party agreements with organizations such as Waterfront Toronto.

The following disclosures regarding subsidy claims from the Provincial and Federal governments are based on the City's and the 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, which is being constructed into York Region under a joint funding relationship with the Province through the Move Ontario Trust ("MOT"), the Federal Government under the Building Canada Funding program and the municipalities of the City of Toronto and the Region of York. In 2014, \$280.4 million (2013 – \$366.6 million) was recognized as subsidy with respect to this project and the amount is presented in the above table as a City of Toronto subsidy. The City will recover these funds from the project's funding partners.

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

The 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 | 2014 | 2013 |
|---|----------------|----------------|
| Source of capital subsidies: | | |
| - Metrolinx Quick Wins | 32,380 | 58,648 |
| - Gas Tax | 72,089 | 71,617 |
| - LRT Car Project | 5,971 | 21,548 |
| - Canada Strategic Infrastructure Fund | - | 3,564 |
| Total provincial capital subsidies | 110,440 | 155,377 |

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 \$370.1 million has been recognized by the TTC for the eligible expenditures to date, including \$32.4 million applied to capital projects in 2014 (2013 – \$58.6 million), with the remaining funds attributable to the subway capacity projects.

Metrolinx (Transit Expansion)

On April 1, 2009, the Province of Ontario announced funding for the following Transit Expansion lines: SRT (\$1.4 billion), Finch West LRT (\$1.2 billion), and Eglinton Crosstown LRT (\$4.6 billion). Subsequently, on May 15, 2009, the Province of Ontario and the Government of Canada announced \$950 million in funding for the Sheppard East LRT. It was intended that the City would not be required to contribute toward the cost of these lines. Discussions with Metrolinx had resulted in consensus at the staff level in mid-2010 with respect to the development of a series of agreements required to confirm the timing, scope, magnitude, and governance issues associated with each of these lines and to set out the TTC's responsibilities for program and project management. Full recovery of costs from Metrolinx will continue to occur through the City of Toronto. Project funding of \$10.2 million has been drawn through the City for 2014 expenditures (2013 – \$0.6 million) for costs incurred by the TTC in 2014 and the eligible expenditures to date are \$265.1 million on the approved lines. Since Metrolinx will retain ownership of the assets, these amounts along with any associated capital assets, have not been recognized on consolidated financial statements.

Provincial Gas Tax

In October 2004, the Province introduced gas tax funding to municipalities for public transit. Commencing at 1¢/litre, the funding is based on a province-wide 70% ridership and 30% population allocation base, updated annually. The funding rate increased to 1½¢/litre, effective October 2005, and then to 2¢/litre, effective October 2006. Of the anticipated \$163.7 million (2013 – \$163.6 million) in Provincial Gas Tax funding available, the City has directed \$91.6 million for 2014 (2013 – \$91.6 million) toward the TTC's operating needs (note 13) with the remainder of \$72.1 million (2013 – \$71.6 million) (including \$0.4 million in reserve from 2013) applied to capital needs.

LRT Car Project

On June 19, 2009 the Province of Ontario confirmed that it would provide one-third funding for the 204 LRT Car Project (up to \$417 million) and this funding is expected to flow on the basis of contract milestone payments. In 2012 the Province drafted the Transfer Payment Agreement and was approved and signed in January 2013. Funding of \$151.8 million has been recognized against the project to date including \$6.0 million for 2014 (2013 – \$21.5 million).

Canada Strategic Infrastructure Fund

On March 30, 2004, the Federal and Provincial governments and the City of Toronto jointly announced funding of \$1.050 billion (\$350 million each) under the Canada Strategic Infrastructure Fund (CSIF). Provincial funding under CSIF was originally \$350 million in total for the years 2004 to 2014 and included \$46.7 million for the GTA Farecard project. In 2012, Metrolinx assumed ownership of the GTA Farecard Project through Presto and the GTA Farecard portion was allocated to them. The Provincial share of \$303.3 million CSIF commitment (net of the GTA Farecard Project share of \$46.7 million) was paid in full to the City. Funds were placed in the City's CSIF Reserve Fund to be applied to eligible CSIF expenditures over the term of the agreement. Funding of \$304.4 million has been recognized by the TTC for the eligible expenditures to date, of which \$nil was drawn in 2014 (2013 - \$3.6 million) (see note 17).

c. Federal Government of Canada

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

| \$000s | 2014 | 2013 |
|--|----------------|----------------|
| Source of capital subsidies: | | |
| - Gas tax funding | 152,201 | 154,367 |
| - Canada Strategic Infrastructure Fund | 2,062 | 3,472 |
| Total federal capital subsidies | 154,263 | 157,839 |

Federal Gas Tax

In June 2005, a joint announcement by the Federal, Provincial, and City of Toronto governments and the Association of Municipalities of Ontario was made in connection with the signing of two federal gas tax funding agreements under the "New Deal for Cities and Communities". The gas tax funding is allocated on a per capita basis for environmentally sustainable municipal infrastructure, growing from 2½¢/litre in 2008 to 5¢/litre in 2009. In 2008 the Federal Government announced that gas tax funding had been made a permanent measure and in 2009 an extended framework agreement for the 4-year period 2010-2013 was based on updated 2006 Census population. 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 to municipalities is based on population and the City was allocated \$152.2 million in 2014 (2013 - \$154.4 million) under this program. This amount was allocated to the TTC.

Canada Strategic Infrastructure Fund

On March 30, 2004, the Federal and Provincial governments and the City of Toronto jointly announced funding of \$1.050 billion (\$350 million each including \$46.7 million for the GTA Farecard Project) under CSIF, to fund strategic capital project requirements during the period March 2004 to 2012. This has since been extended to March 31, 2016. In 2012, Metrolinx assumed ownership of the GTA Farecard project

and therefore \$46.5 million of the original \$350 million was allocated to Metrolinx. To date, federal funding for the eligible expenditures incurred amounts to \$298.9 million, of which \$2.1 million has been accrued in 2014 (2013 - \$3.5 million).

15. EXPENDITURES BY OBJECT

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

| \$000s | 2014 | 2013 |
|--|------------------|------------------|
| Wages, salaries and benefits | 1,223,395 | 1,171,560 |
| Materials, services and supplies | 220,439 | 213,880 |
| Vehicle fuel | 98,182 | 95,457 |
| Accident claims | 36,571 | 22,560 |
| Electric traction power | 42,993 | 40,220 |
| Wheel-Trans contract services | 38,106 | 34,337 |
| Utilities | 20,939 | 18,234 |
| Amortization (Operating Budget) | 29,835 | 28,846 |
| Amortization (Assets funded through capital subsidy) | 304,413 | 289,947 |
| Total Expenditures | 2,014,873 | 1,915,041 |

16. BUDGET DATA

Budget data presented in these consolidated financial statements is based upon the 2014 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.

| | Conventional | Wheel-Trans | Other | Total |
|--|------------------|----------------|------------|------------------|
| Total expenses, per approved current year budget | 1,603,161 | 112,562 | 562 | 1,716,285 |
| Other Recoverable Expenses | 23,720 | 1,394 | - | 25,114 |
| Amortization of previously subsidized assets | 292,089 | 12,324 | - | 304,413 |
| Total budgeted expenses per consolidated financial statements | 1,918,970 | 126,280 | 562 | 2,045,812 |

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. 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 2014, the average interest rate applicable to Reserve Funds was 0.9% (2013 – 0.9%).

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.

Reserve and Reserve Fund originating from TTC operating surpluses or operating subsidies

| \$000s | Stabilization Reserve | Land Acquisition | Long Term Liability | 2014 Total | 2013 Total |
|---------------------------------|-----------------------|------------------|---------------------|---------------|--------------|
| Balance, beginning of the year | 24,666 | 662 | - | 25,328 | 25,32 |
| Contributions | - | - | 10,812 | 10,812 | |
| Draws | - | - | - | - | |
| Interest earned | - | 5 | 12 | 17 | |
| Balance, end of the year | 24,666 | 667 | 10,824 | 36,157 | 25,32 |

Stabilization Reserve

The Stabilization Reserve 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.

Land Acquisition Reserve Fund

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

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.

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

| \$000s | PGT | CSIF | MO2020 | 2014 Total | 2013 Total |
|----------------------------|-----------|--------|----------|---------------|---------------|
| Balance, beginning of year | 408 | 15,330 | 133,939 | 149,677 | 209,469 |
| Provincial contributions | 163,281 | - | - | 163,281 | 163,625 |
| Draws | (163,689) | - | (32,379) | (196,068) | (225,429) |
| Interest earned | - | 140 | 1,255 | 1,395 | 2,012 |
| Balance, end of year | - | 15,470 | 102,815 | 118,285 | 149,677 |

Provincial Gas Tax

Of \$163.7 million (2013 – \$163.6 million) in Provincial Gas Tax available, the City has directed \$91.6 million for 2014 (2013 – \$91.6 million) toward the TTC’s operating needs (note 13) with the remainder of \$72.1 million (2013 – \$72.0 million) (including \$0.4 million in reserve from 2013) applied to capital needs (note 14).

Canada Strategic Infrastructure (CSIF) Reserve Fund

A provincial commitment of \$303.3 million was received for the CSIF program to fund TTC strategic capital projects. Of the total payment received in 2007, \$210.1 million was allocated to the CSIF reserve fund. Over the life of the program, of the total payment received plus accumulated interest of \$15.8 million, \$304.4 million been applied to accumulated funding recognized by the TTC to date, of which \$nil was drawn from the reserve fund in 2014 (2013 – \$3.6 million). The amount of \$15.5 million remaining in the reserve fund is planned to be applied in 2016.

MoveOntario 2020 (MO2020) Reserve Fund

Provincial payments totalling \$452.5 million were received in March 2008 in support of the Metrolinx approved Quick Wins projects. Of the total payment received, plus accumulated interest of \$20.5 million, \$370.2 million has been applied to accumulated funding recognized by the TTC to date for capital expenditures, including \$32.4 million drawn from the reserve fund in 2014 (2013 - \$58.6 million). The amount of \$102.8 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 in 2016 and therefore remains unapplied at the end of 2014.

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.

- b. In February 2005, December 2007, December 2008 and October 2009 the Board approved the awarding of contracts for the purchase of low-floor buses from DaimlerChrysler Commercial Buses North America Ltd. The delivery requirement is, in total 694 diesel-electric hybrid buses and 395 diesel buses at a total value of \$718.2 million. At December 31, 2013, 694 hybrid and 395 diesel buses had been delivered at a cost of \$717.3 million which remained consistent as at December 31, 2014. The outstanding commitment continues to remain at \$0.9 million for 2014 and is expected to be extinguished in 2015.
- c. In August 2006, the Board approved purchasing 234 subway cars or 39 trainsets from Bombardier Transportation Canada Inc. In September 2006, City Council approved proceeding with this procurement and the contract was awarded on December 21, 2006. In May 2010, the Board approved purchasing an additional 10 subway trainsets for the Toronto-York Spadina Subway line extension and an additional 21 trainsets to replace H6 trainsets. In March 2014, the Board approved a further purchase of 10 trainsets for future ridership growth bringing the total delivery requirement to 80 trainsets. At December 31st 2014, the contract value is in total, \$1,402.7 million with 59 trainsets delivered to TTC at a cost of \$1,132.7 million and the outstanding commitment is \$270.0 million.
- d. On April 27, 2009, the Board approved the award for 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, 2014 the total cost of the contract is \$1,009.3 million. As of December 31, 2014, five LRV's have been delivered to TTC, two prototypes for testing which will be retrofitted and returned to TTC for revenue services and three revenue service vehicles. The balance of deliveries will continue in 2015 with all 204 cars scheduled for delivery by 2019. At December 31, 2014, the TTC had incurred costs of \$488.2 million, and the outstanding commitment is \$521.1 million.
- e. On January 17, 2012 the City approved funding for the purchase of 27-60 foot articulated low floor clean diesel buses. In July, 2012 the Board approved proceeding with this procurement and the contract was awarded to Nova, a Division of Volvo Group Canada. In March, 2013 the Board approved an amendment to the contract authorizing the purchase of an additional 126 60-foot articulated low floor clean diesel buses and on April 30, 2014 a subsequent contract was awarded to Nova for 55 40-foot low floor clean diesel buses anticipated for delivery in 2015, bringing the total delivery requirement to 208 buses. At December 31, 2014 the contract values total \$171.7 million with 152 buses delivered at a cost of \$132.9 million. The outstanding commitment is \$38.8 million.
- f. The TTC has contracts for the construction and implementation of various capital projects. At December 31, 2014, these contractual commitments are approximately \$1,788.8 million (2013 - \$1,122.8 million). Of this amount, \$196.4 million was established as multi-component shared projects for Toronto Waterfront, Toronto-York Spadina Subway Extension project (TYSSE) and TTC; \$428.4 million (2013 - \$676.4 million) relate to the TYSSE project and \$1,164.0 million (2013- \$402.6 million) relate to various TTC construction projects.
- g. The TTC could be exposed to significant or material contractual cancellation penalties if any of its commenced capital projects do not continue as planned.

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

| | \$000s |
|------------|---------------|
| 2015 | 13,921 |
| 2016 | 11,863 |
| 2017 | 8,540 |
| 2018 | 5,033 |
| 2019 | 1,585 |
| Thereafter | 17 |
| Total | <u>40,959</u> |

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Supplementary Schedules
Year ended December 31, 2014

CONSOLIDATED FINANCIAL STATEMENTS – As at and for the Year ended December 31, 2014

| \$000s | TORONTO TRANSIT COMMISSION (TTC) | WHEEL-TRANS (WT) | TORONTO TRAN INFRASTRUCTURE LIMIT (T) |
|---|---|---------------------|--|
| STATEMENT OF OPERATIONS | | | |
| REVENUE | | | |
| Passenger services | 1,086,717 | 5,778 | |
| Advertising | 26,083 | - | |
| Outside City Services | 17,091 | - | |
| Property rental | 20,771 | - | |
| Miscellaneous | 6,838 | - | |
| Total Operating Revenue | 1,157,500 | 5,778 | |
| SUBSIDIES | | | |
| Operating Subsidy | 431,983 | 105,616 | |
| Capital Subsidy | 1,181,745 | - | |
| Total Subsidy Revenue | 1,613,728 | 105,616 | |
| EXPENSES | | | |
| Wages, salaries and benefits | 1,167,713 | 55,812 | |
| Materials, services and supplies | 208,537 | 11,766 | |
| Vehicle fuel | 94,431 | 3,751 | |
| Accident Claims | 34,985 | 1,543 | |
| Electric traction power | 42,993 | - | |
| Wheel-Trans contract services | - | 38,106 | |
| Utilities | 20,523 | 416 | |
| Depreciation (Operating Budget) | 29,278 | - | |
| Depreciation subsidized assets | 304,413 | - | |
| PFS (Income) | - | - | |
| Total Expenses | 1,902,873 | 111,394 | |
| Surplus (deficit) for the year | 868,355 | - | |
| Accumulated surplus (deficit), beginning of the year | 7,072,471 | - | 1 |
| Accumulated Surplus (deficit), end of the Year | 7,940,826 | - | 1 |
| Not on TTC Financial Statements | | | |
| Operating subsidies from the City (as above) | 431,983 | 105,616 | |
| Operating subsidy - long-term payable for accident claims | (12,761) | (1,131) | |
| Operating subsidy - long-term payable for employee | (29,832) | (1,421) | |
| City special costs | 3,596 | - | |
| Total City Operating Subsidy - Current | 392,986 | 103,064 | |
| Statement of Financial Position | | | |
| Financial Assets | | | |
| Cash and cash equivalents | 82,666 | - | 1 |
| Subsidies Receivable | 909,710 | - | - |
| Accounts Receivable | 98,946 | - | - |
| Portfolio Investments | 2,521 | - | - |
| Advances to and investment in subsidiary | 10,744 | - | - |
| Indemnity receivable from the TTC | - | - | - |
| Total Financial Assets | 1,104,587 | - | 1 |
| Liabilities | | | |
| Accounts payable and accrued liabilities | 555,161 | - | - |
| Deferred passenger revenue | 78,190 | - | - |
| Future Employee Benefit Liabilities | 526,655 | - | - |
| Unsettled accident claims | 170,329 | - | - |
| Environmental Liabilities | 6,750 | - | - |
| Due to parent | - | - | - |
| Derivative Investments | 17,037 | - | - |
| Total Liabilities | 1,354,122 | - | - |
| Net Debt | | | |
| Non-Financial Assets | (249,535) | - | 1 |
| Tangible Capital Assets | 8,048,243 | - | - |
| Spare parts and supplies inventory | 123,564 | - | - |
| Prepaid Expenses | 1,517 | - | - |
| Accrued Pension Benefit Asset | - | - | - |
| Total Non-Financial Assets | 8,173,324 | - | - |
| Capital Stock | | | |
| Accumulated Surplus (deficit) | 7,923,789 | - | 1 |

| TORONTO COACH TERMINAL INC. CONSOLIDATED (TCTI) | SICK BENEFIT ASSOCIATION (SBA) | TOTAL BEFORE INTERCOMPANY ELIMINATIONS | INTERCOMPANY ELIMINATIONS | CONSOLIDATED FINANCIAL STATEMENTS |
|--|---|---|------------------------------|---|
| - | - | 1,092,495 | - | 1,092,495 |
| - | - | 26,083 | - | 26,083 |
| 1,200 | - | 17,091 | - | 17,091 |
| 69 | 135 | 21,971 | - | 21,971 |
| 1,269 | 135 | 7,042 | (462) | 6,580 |
| | | 1,164,682 | (462) | 1,164,220 |
| - | - | 537,599 | - | 537,599 |
| - | - | 1,181,745 | - | 1,181,745 |
| - | - | 1,719,344 | - | 1,719,344 |
| 4 | - | 1,223,529 | (134) | 1,223,395 |
| 372 | 135 | 220,810 | (371) | 220,439 |
| - | - | 98,182 | - | 98,182 |
| - | - | 36,528 | 43 | 36,571 |
| - | - | 42,993 | - | 42,993 |
| - | - | 38,106 | - | 38,106 |
| - | - | 20,939 | - | 20,939 |
| 557 | - | 29,835 | - | 29,835 |
| - | - | 304,413 | - | 304,413 |
| 933 | 135 | 2,015,335 | (462) | 2,014,873 |
| 336 | - | 868,691 | - | 868,691 |
| (3,839) | 92 | 7,068,725 | - | 7,068,725 |
| (3,503) | 92 | 7,937,416 | - | 7,937,416 |
| - | - | 537,599 | - | - |
| - | - | (13,892) | - | - |
| - | - | (31,253) | - | - |
| - | - | 3,596 | - | - |
| - | - | 496,050 | - | - |
| 3,582 | 66 | 86,315 | - | 86,315 |
| - | - | 909,710 | - | 909,710 |
| 37 | 2,636 | 101,619 | (2,579) | 99,040 |
| - | - | 2,521 | - | 2,521 |
| - | - | 10,744 | (10,744) | - |
| 155,419 | - | 155,419 | (155,419) | - |
| 159,038 | 2,702 | 1,266,328 | (168,742) | 1,097,586 |
| 284 | 2,610 | 558,055 | (2,640) | 555,415 |
| - | - | 78,190 | - | 78,190 |
| - | - | 526,655 | - | 526,655 |
| 155,419 | - | 325,748 | (155,419) | 170,329 |
| - | - | 6,750 | - | 6,750 |
| 9,683 | - | 9,683 | (9,683) | - |
| - | - | 17,037 | - | 17,037 |
| 165,386 | 2,610 | 1,522,118 | (167,742) | 1,354,376 |
| (6,348) | 92 | (255,790) | (1,000) | (256,790) |
| 3,845 | - | 8,052,088 | - | 8,052,088 |
| - | - | 123,564 | - | 123,564 |
| - | - | 1,517 | - | 1,517 |
| 3,845 | - | 8,177,169 | - | 8,177,169 |
| 1,000 | - | 1,000 | (1,000) | - |
| (3,503) | 92 | 7,920,379 | - | 7,920,379 |



STAFF SUMMARY SHEET

14

CORPORATE SERVICES GROUP

17349 BF

PREPARED BY: Elizabeth Thomas

SECTION: Finance

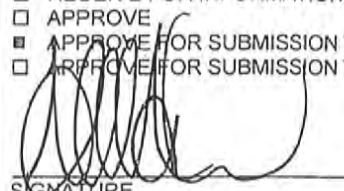
EXTENSION: 3299

HEAD: Michael A. Roche

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CHIEF: Vincent Rodo

BOARD REPORT: Draft Consolidated Financial Statements of Toronto Transit Commission for the Year Ended December 31, 2014

| # | ROUTING | CONCUR | NON-CONCUR | DATE | ATTACHMENT(S) |
|---|-------------------------------------|----------|------------|-----------|--|
| | CHIEF CAPITAL OFFICER | | | | - Report to the Board - Draft Toronto Transit Commission 2014 Consolidated Financial Statements |
| | DEPUTY CEO & CHIEF CUSTOMER OFFICER | | | | |
| 2 | CHIEF FINANCIAL & ADMIN OFFICER | WR | | May 12/15 | |
| | CHIEF OPERATING OFFICER | | | | |
| | CHIEF SERVICE OFFICER | | | | ACTION REQUIRED BY CHIEF EXECUTIVE OFFICER |
| 1 | HEAD OF FINANCE & TREASURER | DR | | May 14/15 | <input type="checkbox"/> SIGN AGREEMENT <input type="checkbox"/> RECEIVE FOR INFORMATION <input type="checkbox"/> APPROVE <input checked="" type="checkbox"/> APPROVE FOR SUBMISSION TO BOARD <input type="checkbox"/> APPROVE FOR SUBMISSION TO CHAIR |
| | HEAD OF HUMAN RESOURCES | | | | |
| | HEAD OF LEGAL | | | | |
| | HEAD OF M&P | | | | |
| 3 | EXEC DIR CORP COMMUNICATIONS | A per BR | | May 15 |  SIGNATURE DATE May 20, 2015 |
| | CHIEF OF STAFF | | | | |