Item 6 **AU6.9g**

For Action

Draft Consolidated Financial Statements of Toronto Transit Commission for the Year Ended December 31, 2019

Date: June 17, 2020
To: TTC Board

Summary

This item was considered by the TTC Audit & Risk Management Committee on June 3, 2020 and was adopted without amendments.

Contact

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For Action

Draft Consolidated Financial Statements of Toronto Transit Commission for the Year Ended December 31, 2019

Date: June 3, 2020
To: TTC Audit & Risk Management Committee
From: Interim Chief Financial Officer

Summary

The TTC is required to prepare audited annual financial statements under Public Sector Accounting Standards and to forward them to the City.

The 2019 accounting surplus is $485.6 million and is comprised mainly of the value of capital asset additions, partially offset by depreciation of assets in use and the loss recorded on the Provincial Expansion Project upload. Operating activities do not generally contribute to the accounting surplus or shortfall as the operating expenses are funded in full by operating revenues and subsidies received.

Recommendations

It is recommended that the TTC Audit and Risk Management Committee:

1. Approve this report; and

2. Forward a copy of this report to the TTC Board and to the City Clerk for submission to the next City Audit Committee meeting.

Implementation Points

This report requires approval at the June 3, 2020 TTC Audit & Risk Management Committee Meeting to ensure timely submission to the June 17, 2020 TTC Board Meeting and then to the City Audit Committee Meeting of the City of Toronto.

Financial Summary

There are no financial implications resulting from the adoption of this report.

Equity/Accessibility Matters

This report and its recommendations have no accessibility or equity issues or impacts

Decision History

The City of Toronto Act (2006) section 233 (1) requires the TTC to complete an annual financial statement audit. In addition, 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.

At its meeting on February 9, 2017, the TTC Audit & Risk Management Committee approved that the terms of reference of the Audit & Risk Management Committee include a requirement to "review with management and the external auditors the annual financial statements, and consider whether they are complete, consistent with information known to Committee members, and reflect appropriate accounting principles."

https://www.ttc.ca/About_the_TTC/Commission_reports_and_information/Committee_meetings/Audit_Risk_Management/2017/February_9/Reports/2_TTC_Audit_%20and_Risk_Management_Committee_Terms_Of_Referenc.pdf

Issue Background

The report presents the consolidated financial statements of the TTC for the fiscal year December 31, 2019.

The draft consolidated financial statements of the Toronto Transit Commission for the year ended December 31, 2019 have been prepared by Management. They have been audited by PricewaterhouseCoopers LLP ("PwC"), as indicated by the draft Auditor's Report 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 & Risk Management Committee and Board, and PwC completes its file documentation, the draft unqualified opinion will be finalized on PwC letterhead.

Comments

2019 Accounting Surplus – As Reported in the Consolidated Financial Statements

The Consolidated Statement of Operations results in an accounting surplus of $485.6 million for the year ended 2019. The accounting surplus is derived primarily from the capital subsidy revenue of less the depreciation expense for subsidized assets; however, the net amount does not represent surplus funds. The full $1,338.4M was spent on the capital assets acquired or constructed in 2019.

The key components of the accounting surplus as well as the explanations of these items and the year-over-year change are summarized in the following table:

2019 Accounting Surplus Comparison to 2018

Item ($ Millions)	2019	2018	Variance
Loss on Provincial Expansion Project Upload	(239.3)	-	(239.3)
Depreciation Expense for Assets funded through Capital Subsidy	(622.0)	(553.2)	(68.8)
Capital Subsidy Revenue	1,338.4	1,352.8	(14.4)
Other Expenses Funded through Capital Subsidy	(8.9)	(4.4)	(4.5)
Pension Income / (Expense) in Excess of Employer Contributions	16.6	-	16.6
Entities under the control of TTC	0.8	0.5	0.3
Total	**485.6**	**795.7**	**(310.1)**

The 2019 Accounting Surplus decreased by $310.1 million on a year-over-year basis, driven by the following key changes:

Loss on Provincial Expansion Project Upload:

On July 23, 2019, the Ontario Government enacted O. Reg. 248/19 which designated the following projects as rapid transit projects and stated they were the sole responsibility of Metrolinx:

(1) the Relief Line (now the Ontario Line);

(2) the Scarborough Subway Extension; and

(3) the Yonge North Subway Extension (together, the “Projects”)

Under Public Sector Accounting Standards (PSAS), TTC lost accounting control of the Projects when the regulation was enacted. Therefore, costs previously recorded as construction in progress within capital assets were derecognized and a loss of $239.3 million was recorded in the 2019 financial statements.

Depreciation Expense for Assets funded through Capital Subsidy:

The cost of capital assets is not immediately recorded as an expense as the assets serve the TTC for several years. Instead, a depreciation expense is recorded in the Consolidated Statement of Operations over several years based on their respective lifecycles and as the assets are used over their term. The increase in depreciation expense is primarily due to $960 million of completed fixed assets that were put into service in 2019 (e.g. LRV & Bus deliveries).

Capital Subsidy Revenue:

Capital subsidy revenue is 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. The $14.4M decrease in capital subsidy revenue is primarily due to capital additions funded by PTIF Phase 1 as the program is winding down and projects are completed.

Other Expenses Funded through Capital Subsidy

Expenses funded through capital program include environmental program expenses and materials, services and supplies that were funded through liquidated damages. The $4.5 million increase in expense is primarily due to accrued expenses related to noise abatement at the Davisville and Russell Yards.

Pension (Expense)/Income in Excess of Employer Contributions:

In 2019, the TTC Pension Fund Society incurred a net unamortized actuarial loss on its pension obligation. As a joint defined benefit plan, PSAS requires the TTC to create an asset equal to the value of the unamortized actuarial loss and record it as accounting income in TTC's consolidated financial statements. The accounting asset and pension income are established even though the rate of required employer contributions remained unchanged and there was no exchange of cash. This increased TTC's accounting surplus by $16.6 million.

Entities Under the Control of TTC

Budgets and periodic financial reports are presented separately for the Toronto Coach Terminal Inc. (TCTI), TTC Insurance Company Ltd. and the TTC Sick Benefit Association. However, PSAS requires the financial statements to be presented on a consolidated (i.e. combined) basis. This amount represents the accounting surplus generated by the entities under the control of TTC.

Reconciliation of Operating Subsidy in Consolidated Financial Statements to the Budgeted (Shortfall)/Surplus

The accounting surplus in the consolidated financial statements is unrelated to the 2019 operating budget subsidy requirements (i.e. budget shortfall). The table on the following page reconciles the operating subsidy in the financial statements to the 2019 Budget shortfall reported in the 2019 year-end financial results reported to the TTC Board at its meeting of May 13, 2020.

2019 Operating Subsidy Revenue vs 2019 Budgetary Year-End Results Reconciliation

$ Millions	2019	2018
Operating Subsidy Revenue per Financial Statements	804.9	710.8
(Draw)/ Contribution from Long-term Liability Reserve	(7.0)	12.6
(Draw)/ Contribution from Stabilization Reserve	(15.7)	6.9
City Special Costs	3.5	5.1
Adjustments for Future Recoverable Amounts:		
Post-Retirement Benefits	(25.7)	(31.4)
Accident Claims	3.7	11.9
Rounding	0.0	0.1
Current Operating Subsidy Required	**763.7**	**716.0**
Current Operating Subsidy Available	762.9	740.9
Budget (Shortfall) / Surplus*	**(0.8)**	**24.9**

***Comprised of:**

$ Millions	TTC Conventional Transit	Wheel-Trans	Total
2019 Operating Expenses	1,900.5	151.5	2,052.0
2019 Operating Revenue	1,279.3	9.0	1,288.3
Current Operating Subsidy Required	621.2	142.5	763.7
Current Operating Subsidy Available	622.0	140.9	762.9
Budget (Shortfall) / Surplus	**(0.8)**	**1.6**	**(0.8)**

In 2019, the TTC had a budgetary surplus of $0.8M for Conventional Transit and a budget shortfall of $1.6M for Wheel-Trans service. The net shortfall of $0.8M represents the amount by which the operating subsidy required from the City of Toronto exceeded the amount that was budgeted.

The above information provides some context to the amounts presented in the attached consolidated financial statements. Staff and PwC auditors would be pleased to answer any further questions that you may have.

Contact

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Signature

Josie La Vita
Chief Financial Officer (Interim)

Attachments

Attachment 1 - Draft TTC Consolidated Financial Statements for the Year-Ended December 31, 2019

Consolidated Financial Statements of
Toronto Transit Commission

Year ended December 31, 2019

Management's Statement

The accompanying consolidated financial statements of the Toronto Transit Commission (TTC) have been prepared in accordance with Canadian public sector accounting standards recommended by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada and are the responsibility of management.

Management is also responsible for all of the notes to the consolidated financial statements and schedules, and for ensuring that this information is consistent with the consolidated financial statements. A summary of the significant accounting policies is described in Note 2 to the consolidated financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

The management of the TTC is also responsible for the integrity, objectivity and accuracy of the financial information. To meet its responsibility, management maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities.

The Board of Directors oversees management's responsibilities for financial reporting through the Audit and Risk Management Committee. The Audit and Risk Management Committee reviews and approves the consolidated financial statements and recommends them to the Board of Directors for approval. In addition, the Auditor General is informed of all significant audit issues through participation in closing meetings held between the external auditors and management.

The consolidated financial statements have been audited by TTC's external auditors, PricewaterhouseCoopers LLP, and their report precedes the consolidated financial statements. The Auditor's responsibility is to express an opinion on whether the consolidated financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's report outlines their responsibilities, the scope of the Auditor's examination and their opinion on the consolidated financial statements.

Josie La Vita

Josie La Vita

Chief Financial Officer (Interim), June 17, 2020

Independent auditor's report

To the Board of Directors of Toronto Transit Commission

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Toronto Transit Commission and its subsidiaries (together, the Entity) as at December 31, 2019 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

What we have audited
The Entity's consolidated financial statements comprise:

- the consolidated statement of financial position as at December 31, 2019;
- the consolidated statement of operations and accumulated surplus for the year then ended;
- the consolidated statement of remeasurement gains and losses for the year then ended;
- the consolidated statement of net debt for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

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

Other information

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Entity to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
June 17, 2020

TORONTO TRANSIT COMMISSION
Consolidated Statement of Financial Position
As at December 31

$000s	2019	2018
Financial assets		
Cash and cash equivalents (note 4)	141,716	102,778
Subsidies receivable (note 5)	1,023,386	1,136,231
Accounts receivable	123,094	81,802
Portfolio investments (note 6)	2,278	2,273
Derivative assets (note 7)	1,629	-
Total financial assets	**1,292,103**	**1,323,084**
Liabilities		
Accounts payable and accrued liabilities	596,967	658,983
Deferred passenger revenue	48,225	53,905
Employee future benefits liabilities (note 9)	745,004	720,090
Unsettled accident claims (note 8)	140,973	144,696
Environmental liabilities (note 10)	12,200	7,144
Derivative liabilities (note 7)	-	4,592
Total liabilities	**1,543,369**	**1,589,410**
Net debt	**(251,266)**	**(266,326)**
Non-financial assets		
Tangible capital assets (note 11)	12,130,417	11,647,678
Spare parts and supplies inventory	135,409	142,885
Prepaid expenses	29,550	44,512
Accrued pension benefit asset	16,551	-
Total non-financial assets	**12,311,927**	**11,835,075**
Accumulated surplus	**12,060,661**	**11,568,749**
Accumulated surplus is comprised of:		
Accumulated operating surplus (note 12)	12,059,032	11,573,341
Accumulated remeasurement gains/(losses)	1,629	(4,592)
	12,060,661	**11,568,749**

See accompanying notes to the consolidated financial statements

Approved:

Jaye Robinson
Commissioner

Commissioner

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

$000s	2019 Budget (note 16)	2019	2018
Operating revenue			
Passenger services	1,203,911	1,193,739	1,169,797
Advertising	28,375	28,405	28,380
Property rental	26,007	23,225	21,962
Outside city services	7,847	6,963	6,817
Miscellaneous	4,722	11,755	7,833
Total operating revenue	**1,270,862**	**1,264,087**	**1,234,789**
Operating subsidies (note 13)	825,329	804,880	710,767
Capital subsidies (note 14)	1,802,284	1,338,422	1,352,831
Total subsidy revenue	**2,627,613**	**2,143,302**	**2,063,598**
Total revenue	**3,898,475**	**3,407,389**	**3,298,387**
Conventional transit service	2,557,276	2,759,701	2,351,655
Wheel-Trans	159,679	161,491	150,263
Other functions	415	506	738
Total expenses (note 15)	**2,717,370**	**2,921,698**	**2,502,656**
Surplus for the year	**1,181,105**	**485,691**	**795,731**
Accumulated surplus, beginning of the year		11,573,341	10,777,610
Accumulated surplus, end of the year		**12,059,032**	**11,573,341**

See accompanying notes to the consolidated financial statements

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

$000s	**2019**	**2018**
Accumulated remeasurement gains/(losses), beginning of the year	(4,592)	9,838
Unrealized gains/(losses) in the current year (note 7)	5,206	(623)
Realized amounts reclassified to Consolidated Statement of Operations and Accumulated Surplus	1,015	(13,807)
Accumulated remeasurement gains/(losses), end of the year	**1,629**	**(4,592)**

See accompanying notes to the consolidated financial statements

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

$000s	**2019 Budget** (note 16)	**2019**	**2018**
Surplus for the year	1,181,105	485,691	795,731
Change in tangible capital assets (note 11)			
Acquisition	(1,802,284)	(1,369,880)	(1,340,928)
Amortization	647,524	647,524	578,664
Net book value of disposals	-	239,617	93
Writedowns	-	-	1,351
Total change in tangible capital assets	**(1,154,760)**	**(482,739)**	**(760,820)**
Change in spare parts and supplies	-	7,476	(4,118)
Change in prepaid expenses	-	14,962	(35,563)
Change in remeasurement gains/(losses) for the year	-	6,221	(14,430)
Change in accrued pension benefit asset	-	(16,551)	-
Change in net debt	**26,345**	**15,060**	**(19,200)**
Net debt, beginning of the year		(266,326)	(247,126)
Net debt, end of the year		**(251,266)**	**(266,326)**

See accompanying notes to the consolidated financial statements

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

$000s	**2019**	**2018**
Operating activities		
Surplus of the year	485,691	795,731
Add (deduct) items not involving cash:		
Amortization of tangible capital assets	647,524	578,664
Net loss on disposal of tangible capital assets	238,315	603
Recognition of revenue from capital subsidies	(1,338,422)	(1,352,831)
Change in accrued pension benefit income	(16,551)	-
Changes in non-cash assets and liabilities related to operations:		
(Increase)/decrease in operating subsidy receivable	721	(82,008)
(Increase)/decrease in operating accounts receivable	(8,649)	21,057
(Increase)/decrease in portfolio investments	(5)	(5)
(Increase)/decrease in spare parts and supplies inventory	7,476	(4,118)
(Increase)/decrease in operating prepaid expense	(6,471)	(563)
(Decrease)/increase in operating accounts payable and accrued liabilities	(55,144)	(31,622)
(Decrease)/increase in deferred passenger revenue	(5,680)	(21,487)
(Decrease)/increase in employee future benefits liabilities	24,914	32,919
(Decrease)/increase in unsettled accident claims	(3,723)	(11,937)
(Decrease)/increase in environmental liabilities	5,056	(981)
Cash used in operating activities	**(24,948)**	**(76,578)**
Capital activities		
Tangible capital asset acquisitions	(1,354,966)	(1,455,261)
Tangible asset disposal proceeds	949	109
Cash used in capital activities	**(1,354,017)**	**(1,455,152)**
Financing activities		
Capital subsidies received	1,417,903	1,406,655
Cash provided by financing activities	**1,417,903**	**1,406,655**
Change in cash and cash equivalents during the year	38,938	(125,075)
Cash and cash equivalents, beginning of the year	102,778	227,853
Cash and cash equivalents, end of the year	**141,716**	**102,778**

See accompanying notes to the consolidated financial statements

Notes to the Consolidated Financial Statements

Year ended December 31, 2019

1. NATURE OF OPERATIONS

The Toronto Transit Commission (the “TTC”) was established on January 1, 1954 to consolidate and co-ordinate all forms of local transportation within the City of Toronto (the “City”), except railways and taxis. As outlined in the City of Toronto Act (2006), the TTC has exclusive authority to establish, operate or maintain a local passenger transportation system within the City. From a funding perspective, the TTC functions as one of the boards of the City and is dependent upon the City for both operating and capital subsidies (notes 13 and 14). The TTC also operates Wheel-Trans, a paratransit service for people with disabilities (which is also subsidized by the City), the Toronto Coach Terminal Inc. and its subsidiary, the TTC Insurance Company Limited. The TTC controls the TTC Sick Benefit Association, which was incorporated to adjudicate and pay benefit claims to eligible Members of Association unable to work due to illness or disability. The TTC, which is not subject to income and capital taxes, receives an 11.24% rebate for the Harmonized Sales Tax and receives exemption from certain property taxes.

2. SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation

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

b. Basis of consolidation

The consolidated financial statements include the operations of Wheel-Trans and the financial results of the TTC’s subsidiaries, the Toronto Coach Terminal Inc. (“TCTI”) and TCTI’s subsidiary, the TTC Insurance Company Limited (the “Insurance Co.”). The results of the TTC Sick Benefit Association (“SBA”), which is controlled by the TTC, have also been consolidated. The consolidation schedule is disclosed in Appendix 1.

c. Measurement uncertainty

The preparation of the consolidated financial statements in conformity with public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Specifically, employee future benefits are subject to the assumptions described in note 9 and other contingencies are described in note 18a. Also, management makes their best estimate on the fair value of certain pension investments described in note 9 as the final audited fair values are not available at the time of preparation of the financial statements. Amortization expense is based on the asset lives described in note 2h. Accident claims liabilities are subject to assumptions on discount rates and amounts reserved for incurred, but not reported claims as described in note 8. Deferred revenue is based on estimated value of fare media sold, but not yet used before year end. Actual results could differ from the amounts estimated.

d. Subsidy revenue

Operating subsidies are authorized by the City after the TTC’s operating budget has been approved. Operating subsidy revenue is recognized by the TTC in the period to the extent that net operating costs are incurred. Capital subsidies are recognized in revenue when the City authorizes the capital subsidy and the cost is incurred. The eligibility criteria and related stipulations must also have been met except when and to the extent that the transfer gives rise to an obligation that meets the definition of a liability, which can be influenced by a number of factors, including stipulations of the transfer.

e. Operating revenue and deferred passenger revenue

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

f. Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and funds on deposit with a major financial institution.

g. Spare parts and supplies inventory

Spare parts and supplies inventory 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 and structures	20-40
Rolling stock	6-30
Buses	3-13
Trackwork	15-30
Other equipment	5-26
Traction power distribution system	24-25

Capital assets are amortized from the date that they enter service. One-half year of the amortization expense is recorded in the year of acquisition and assets under construction are not depreciated until the asset is substantially complete and available for productive use. A substantial amount of land that the TTC requires for operations is not recorded in these consolidated financial statements and is recorded in the financial statements of the City.

i. Portfolio investments

Portfolio investments consist of bonds that are recorded at amortized 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. Where quoted market prices are not available, estimated market values are determined using independent appraisals or discounted cash flows based on current market yields or appropriate industry valuation models.

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 8.9 years (December 31, 2018 – 9.8 years) and for long-term disability benefits, the amortization period is 7.3 years (December 31, 2018 – 7.1 years). The amortization of the gain/loss begins in the year after the actuarial gain/loss arises.

A post-retirement benefit plan actuarial gain or loss is deferred and amortized over the expected average remaining service life of the employees unless there is a plan amendment or curtailment. The amortization period for the pension plan is 14.2 years (December 31, 2018 – 13.8 years), for the post-retirement medical and post-retirement dental plans the amortization period is 15.1 years (December 31, 2018 – 15.1 years) and for the supplemental funded pension plan, the amortization period is 5.6 years (December 31, 2018 – 7.2 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. Past service costs are offset by the oldest net unamortized actuarial gains, if any, as of the end of the calendar year in which the past service costs arise. If the plan amendment results in reducing the accrued benefit obligation, if net unamortized actuarial losses exist, the oldest net unamortized actuarial losses are recognized immediately, to a maximum of the decrease in the accrued benefit obligation. Unamortized amounts that remain after offsetting plan amendments 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 liabilities

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

m. Financial instruments

The TTC has designated its financial instruments as follows:

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

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 (note 5) cannot be determined since there are no fixed terms of repayment.

PSAS Section 3450, 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.

The 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, 2019, the TTC's credit risk exposure consists mainly of the carrying amounts of cash and cash equivalents, portfolio investments, accounts receivable and subsidies receivable.

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

Of the TTC's accounts receivable, $56.8 million is past due (i.e. outstanding 30 days or more since the due date) and of this total, approximately 94% is due from government entities. The TTC deems all of these amounts as collectible.

Approximately 41.5% of the TTC's accounts receivable (December 31, 2018 – 10.4%) and 100% of subsidies receivable (December 31, 2018 – 100%), is due from the City of Toronto and its related entities. Impairment risk on this receivable is low since the TTC is controlled by the City.

The remaining 58.5% (December 31,2018 – 89.6%) is comprised of:

- Federal government: 36.0% (December 31, 2018 – 51.7%)
- Provincial government: 7.6% (December 31, 2018 – 5.2%)
- Other government entities: 8.0% (December 31, 2018 – 10.2%)
- Non-government entities: 6.9% (December 31, 2018 – 22.5%)

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

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

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

Currency risk

Currency risk is the risk that the fair value or 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 the 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 consolidated statement of financial position date, the TTC has $2.4 million in U.S. dollar financial liabilities (December 31, 2018 – $2.0 million), which is offset by the TTC's U.S. dollar cash balance of $6.1 million (December 31, 2018 – $1.8 million). Therefore, the 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. The TTC's accounts payable and accrued liabilities amount to $597.0 million (December 31, 2018 – $659.0 million) and, excluding non-financial liabilities, $309.5 million is due within one year or less (December 31, 2018 – $356.4 million). The TTC has a combination of cash on hand and receivables from governments and government organizations, including the City of Toronto, as described above within the statement of credit risk, which will be sufficient to satisfy these liabilities. Construction holdbacks of $61.6 million (December 31, 2018 – $53.5 million) are also excluded from the $309.5 million (December 31, 2018 – $356.4 million) due within a year. They are fully recoverable from the City of Toronto, as referred to in note 5. Therefore, the 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. The 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, the TTC enters into fuel swap contracts with financial institutions (note 7).

4. CASH AND CASH EQUIVALENTS

In connection with the City guarantee referred to in note 8, the Insurance Co., 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, 2019 (December 31, 2018 – $2.3 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	2019	2018
Subsidies to be collected within one year:		
Capital subsidy receivable	319,999	428,043
Operating subsidy receivable	112,130	134,837
Total subsidies to be collected within one year	**432,129**	**562,880**
Other recoverable amounts:		
Employee benefits	423,316	397,607
Accident claims expenses	29,138	32,861
Construction related	129,957	138,679
Future environmental costs (note 10)	8,846	4,204
Total other recoverable amounts	**591,257**	**573,351**
Total subsidies receivable	**1,023,386**	**1,136,231**

The amount related to non-cash employee benefits and accident claim expenses represents the delayed payment of operating subsidy for the non-cash portion of these expenses.

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

6. PORTFOLIO INVESTMENTS

Portfolio investments as at December 31 consist of the following:

$000s	2019	2018
Municipality of Metropolitan Toronto Bond (2.45%; February 6, 2025 maturity)	2,278	2,273
Total portfolio investments	**2,278**	**2,273**

At December 31, 2019, the fair value of the bond is $2.3 million (December 31, 2018 – $2.3 million).

7. FINANCIAL DERIVATIVES

The TTC's financial derivatives consist of heating fuel swaps with financial institutions which help manage the 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 the 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, 2019. Derivative instruments are required to be measured at fair value on the consolidated statement of financial position and changes in the fair value of the derivative instruments are recognized in the consolidated statement of remeasurement gains and losses. As of December 31, 2019, the accumulated remeasurement gains from these fuel swaps are $1.6 million (December 31, 2018 – $4.6 million of accumulated remeasurement losses). The fair value of these contracts is primarily derived using the quoted price of heating oil on the New York Mercantile Exchange (NYMEX) as of December 31, 2019. As of December 31, 2019, approximately 48.2% of diesel fuel requirement has been traded using the fuel swap agreements (December 31, 2018 – 56.5%) with a notional quantity of 12.4 million gallons to be settled within January 2021.

8. UNSETTLED ACCIDENT CLAIMS

The Insurance Co. was established in 1994 in order to provide insurance coverage for compulsory automobile personal injury and accident benefit claims for the TTC. At December 31, 2019, $128.0 million (December 31, 2018 – $131.8 million) of the unsettled accident claims liability is related to the Insurance Co.'s payable for all automobile claims incurred. This portion of the TTC's accident claim liability is guaranteed by the City. The TTC has purchased insurance from third-party insurers to cover tort claims in excess of $5.0 million on any one accident. The remainder of the unsettled accident claims liability, $12.9 million (December 31, 2018 – $12.9 million), relates to general liability claims of $16.3 million (December 31, 2018 – $16.1 million), less $3.4 million (December 31, 2018 – $3.2 million) of expected HST rebates.

The ultimate cost of these liabilities will vary from the best estimate made by management for a variety of reasons including additional information with respect to the facts and circumstances of the claims incurred. The settlement of claims will occur over periods extending beyond one year. 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 included as recommended by standard actuarial practice. Assumptions regarding the anticipated timing of future payments and an appropriate discount rate are made by management. As uncertainty exists with respect to the determination of these discounted estimates, an explicit PFAD is made for potential claims development. A PFAD is selected based on guidance developed by the Canadian Institute of Actuaries.

The following table summarizes the effects of the time value of money and PFAD on the liability for unpaid claims and claims adjustment costs.

Unpaid claims and claims adjustment costs	Undiscounted	Time value of money	Discounted (before PFAD)	PFAD	Discounted
$000s					
As at December 31, 2019	139,842	(11,530)	128,312	12,661	140,973
As at December 31, 2018	139,387	(6,614)	132,773	11,923	144,696

As at December 31, 2019, the interest rate used to determine the time value of money was 1.69% and reflected the market yield (December 31, 2018 – 1.85%).

9. EMPLOYEE FUTURE BENEFITS

Description of benefit plans

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

Post-employment benefit plans

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

For the post-employment benefit plans, the effective date of the most recent actuarial valuation was September 30, 2019. 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, 2020.

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 10 years of service and with a pension from the TTC Pension plan. Dental benefits are limited to employees retiring on or after January 1, 2003.

For the post-retirement benefit plans, the effective date of the most recent actuarial valuation was January 1, 2018. This valuation was used to project the accrued benefit obligations and costs for the current year end. The next actuarial valuation for the post-retirement benefit plans is expected to be performed as at January 1, 2021.

Supplemental pension plans

The TTC and plan members participate in supplemental pension plans. These plans provide pension benefits which the TTC pension plan cannot provide because of the limits imposed by the Income Tax Act (Canada). 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 57% (December 31, 2018 – 55%) cash and equity index pooled funds which are carried at market and 43% (December 31, 2018 – 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, 2019. The next actuarial valuation for funding purposes is expected to be performed as at January 1, 2020. The effective date of the most recent valuation for accounting purposes was December 31, 2019.

TTC Pension Fund

The TTC participates in a defined benefit pension plan (the "TTC Pension Fund"). The TTC Pension Fund is administered by the Toronto Transit Commission Pension Fund Society (the "Society"), a separate legal entity. The Board of Directors of the Society consists of 10 voting members, five of whom are appointed from the Toronto Transit Commission and five are appointed from the Amalgamated Transit Union Local 113 ("ATU"). Pursuant to the Sponsors Agreement between the ATU and the TTC, the TTC Pension Fund was registered as a Jointly Sponsored Pension Plan ("JSPP") effective January 1, 2011.

The plan is accounted for as a joint defined benefit plan as the TTC and its employees jointly share the risks in the plan and share control of decisions related to the plan administration and to the level of benefits and contributions on an ongoing basis. The TTC is required to account for its portion of the plan (i.e. 50%) and has therefore, recognized 50% of the pension expense incurred during the year and 50% of the plan's assets and obligation.

Effective January 1, 2019, in lieu of the TTC paying the administrative expenses of the TTC Pension Fund Society directly, the TTC and the Society agreed to have the TTC make a fixed contribution to the Society each January. The fixed contribution is adjusted annually based on the Toronto consumer price index. Along with the change, the former TTC employees of the Society became employees of the Society itself (as an employer). The contribution to administrative costs and the increase in the service cost have been reflected in the schedules below.

The plan covers substantially all employees of the TTC (and the Society) who have completed six months of continuous service. Under the Plan, contributions are made by the plan members and matched by the TTC (or the Society, as an employer). 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 Agreement between the ATU and the TTC.

The plan provides pensions to members, based on a formula that factors in the length of credited service and best four years of pensionable earnings up to a base year. A formula exists that sets a target for pensioner increases. The Board of Directors of the Society makes 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, 2019, the base year for the TTC pension plan and the funded supplemental pension plans was updated to December 31, 2018 from December 31, 2017. In addition, the survivor benefit date was updated to January 1, 2019 (from January 1, 2018) and an ad hoc increase of up to 2.16% (December 31, 2018 – 1.56%) 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 and Accumulated Surplus.

The effective date of the most recent actuarial valuation for funding purposes for the TTC Pension Fund was January 1, 2019. The next required actuarial valuation for funding purposes will be performed as at January 1, 2022. The effective date of the most recent valuation for accounting purposes was December 31, 2019.

The continuity of the change in the employee benefit liabilities/(assets) including expenses recognized in 2019 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	231,737	490,036	(1,683)	**720,090**	**-**
Current service cost	31,312	26,045	45	**57,402**	**82,115**
Interest cost	5,344	16,091	295	**21,730**	**(32,334)**
Amortization of actuarial (gains)/losses:	(7,168)	43	673	**(6,452)**	**(7,236)**
Plan amendments	-	-	1,024	**1,024**	**47,055**
Change in valuation allowance	-	-	-	-	**22,368**
Total expenses	29,488	42,179	2,037	**73,704**	**111,968**
Benefits paid	(33,834)	(12,567)	(188)	**(46,589)**	**-**
Employer contributions	-	-	(2,201)	**(2,201)**	**(128,519)**
Accrued benefit liability (asset) balance, end of the year	227,391	519,648	(2,035)	**745,004**	**(16,551)**

The continuity of the change in the employee benefit liabilities/(asset) including expenses recognized in 2018 is as follows:

$000s	Post-Employment Plans	Post-Retirement Non-Pension Plans	Supplemental Pension Plans	**Total employee benefit liabilities**	**TTC Pension Fund**
Accrued benefit liability (asset) balance, beginning of the year	234,086	453,676	(591)	**687,171**	**-**
Current service cost	25,403	25,442	87	**50,932**	**80,565**
Interest cost	4,985	14,233	(18)	**19,200**	**(37,528)**
Amortization of actuarial (gains)/losses:[1]	(13,189)	6,443	296	**(6,450)**	**(48,981)**
Plan amendments	7,595	1,869	755	**10,219**	**39,708**
Change in valuation allowance	-	-	-	-	**86,162**
Total expenses	24,794	47,987	1,120	**73,901**	**119,926**
Benefits paid	(27,143)	(11,627)	(179)	**(38,949)**	**-**
Employer contributions	-	-	(2,033)	**(2,033)**	**(119,926)**
Accrued benefit liability (asset) balance, end of the year	231,737	490,036	(1,683)	**720,090**	**-**

[1]Post-employment plans ($13,189) included recognition of an unamortized gain of $7,595 applied against the cost of the plan amendments.

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

[1]TTC Pension Fund ($48,981) included recognition of an unamortized gain of $39,708 applied against the cost of the plan amendments.

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

$000s	**2019**	**2018**
Cost of TTC Pension Fund contributions	128,519	119,926
TTC Pension (income) in excess of contributions	(16,551)	-
Net cost of TTC Pension Fund	111,968	119,926
Cost of other employee benefits	73,704	73,901
Total cost of employee future benefits	185,672	193,827
Less: Costs allocated to capital assets	(26,288)	(25,158)
Total employee future benefit costs included in the Consolidated Statement of Operations and Accumulated Surplus	159,384	168,669

The following table summarizes how the employee future benefit costs are included in note 15, expenditure by object:

$000s	**2019**	**2018**
Gross cost of employee benefits	202,223	193,827
Less: Portion of benefit costs charged to tangible capital assets	(26,288)	(25,158)
Employee future benefit costs included in *Wages, salaries and benefits*	175,935	168,669
Employee future benefit income included in *Pension income in excess of contributions* (note 15)	(16,551)	-
Total employee future benefit costs included in the Consolidated Statement of Operations and Accumulated Surplus	159,384	168,669

Reconciliation of funded status to the employee benefit liabilities and assets as at December 31, 2019 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	-	-	19,363	**19,363**	**3,657,861**
Accrued benefit obligations	213,243	568,908	18,524	**800,675**	**3,073,951**
Funded status – (deficit)/ surplus	(213,243)	(568,908)	839	**(781,312)**	**583,910**
Unamortized (gains)/losses	(14,148)	49,260	1,196	**36,308**	**16,551**
Accrued benefit (liability)/ asset	(227,391)	(519,648)	2,035	**(745,004)**	**600,461** [1]
Valuation allowance	-	-	-	**-**	**(583,910)**
Employee benefit (liability)/asset	**(227,391)**	**(519,648)**	**2,035**	**(745,004)**	**16,551**

Reconciliation of funded status to the employee benefit liabilities and assets as at December 31, 2018 is as follows:

$000s	Post-Employment Plans	Post-Retirement Non-Pension Plans	Supplemental Pension Plans	**Total employee benefit liabilities**	**TTC Pension Fund**
Fair value of plan assets	-	-	16,108	**16,108**	**3,268,203**
Accrued benefit obligations	193,034	479,858	17,642	**690,534**	**2,687,053**
Funded status – (deficit)/ surplus	(193,034)	(479,858)	(1,534)	**(674,426)**	**581,150**
Unamortized (gains)/losses	(38,703)	(10,178)	3,217	**(45,664)**	**(19,608)**
Accrued benefit (liability)/ asset	(231,737)	(490,036)	1,683	**(720,090)**	**561,542** [1]
Valuation allowance	-	-	-	**-**	**(561,542)**
Employee benefit (liability)/asset	**(231,737)**	**(490,036)**	**1,683**	**(720,090)**	**-**

[1]The TTC's portion of the assets in the TTC Pension Fund is carried at market value. As the TTC cannot withdraw the surplus to reduce its contributions, the expected benefit of a surplus is nil and, therefore, a valuation allowance of $583.9 million (December 31, 2018 – $561.5 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.

The continuity of the change in the accrued benefit obligation including costs recognized in 2019 is as follows:

$000s	Post-Employment Plans	Post-Retirement Non-Pension Plans	Supplemental Pension Plans	**Total employee benefit liabilities**	**TTC Pension Fund**
Balance, beginning of the year	193,034	479,858	17,642	**690,534**	**2,687,053**
Current service cost	31,312	26,045	45	**57,402**	**79,919**
Interest cost	5,344	16,091	847	**22,282**	**170,415**
Loss/(gain) on the obligation	17,387	59,481	(294)	**76,574**	**264,272**
Employee contributions	-	-	145	**145**	**-**
Benefits paid	(33,834)	(12,567)	(885)	**(47,286)**	**(174,763)**
Plan amendments	-	-	1,024	**1,024**	**47,055**
Balance, end of the year	**213,243**	**568,908**	**18,524**	**800,675**	**3,073,951**

The continuity of the change in the accrued benefit obligation including costs recognized in 2018 is as follows:

$000s	Post-Employment Plans	Post-Retirement Non-Pension Plans	Supplemental Pension Plans	**Total employee benefit liabilities**	**TTC Pension Fund**
Balance, beginning of the year	188,110	579,557	15,061	**782,728**	**2,637,360**
Current service cost	25,403	25,442	87	**50,932**	**80,565**
Interest cost	4,985	14,233	525	**19,743**	**160,650**
Loss/(gain) on the obligation	(5,916)	(129,616)	1,898	**(133,634)**	**(70,973)**
Employee contributions	-	-	131	**131**	**-**
Benefits paid	(27,143)	(11,627)	(815)	**(39,585)**	**(160,257)**
Plan amendments	7,595	1,869	755	**10,219**	**39,708**
Balance, end of the year	**193,034**	**479,858**	**17,642**	**690,534**	**2,687,053**

The continuity of the plan assets for the funded pension plans in 2019 is as follows:

$000s	Supplemental Pension Plan	TTC Pension Fund
Balance, beginning of the year	16,109	3,268,203
Employee contributions	145	-
Employer contributions	2,201	128,519
Expected return on plan assets	551	202,749
Excess on return on plan assets	1,054	235,349
TTC's portion of TTC Pension Fund administrative	-	(2,196)
Benefits paid	(697)	(174,763)
Balance, end of the year	**19,363**	**3,657,861**

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

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

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

	2019	2018
Accrued benefit obligations as at December 31:		
Discount rate for post-employment plans	2.4% to 2.5%	2.9% to 3.1%
Discount rate for post-retirement, non-pension plans	2.80%	3.40%
Discount rate for supplemental pension plans	2.45% to 3.5%	3.1% to 3.5%
Discount rate for TTC Pension Fund	5.50%	6.25%
Rate of increase in earnings	0.7% to 3.25%	1.75% to 3.25%
Benefit costs for the years ended December 31:		
Discount rate for post-employment plans	2.9% to 3.1%	2.8% to 3.0%
Discount rate for post-retirement, non-pension plans	3.40%	3.20%
Discount rate for supplemental pension plans	3.1% to 3.5%	2.9% to 3.75%
Discount rate for TTC Pension Fund	6.25%	5.50%
Rate of increase in earnings	1.75% to 3.25%	3.21% to 3.25%
Expected rate of return on assets, supplemental pension plan	3.50%	3.75%
Actual rate of return on assets, supplemental pension plan	9.50%	-1.70%
Expected rate of return on assets, TTC Pension Fund	6.25%	5.50%
Actual rate of return on assets, TTC Pension Fund	13.90%	-0.40%

The TTC's annual rate of growth for post-retirement drug costs as of December 31, 2019 was estimated between 8.4% and 10.5%, depending on the member's age (down from a range of 8.6% to 10.7% as of December 31, 2018). These rates consist of a drug trend rate of 6.2% (down from 6.4% as of December 31, 2018), grading down linearly to 4.0% per annum in 2040 and aging factors that vary between 4.3% at age 50 to 2.2% at age 64. The annual rate of growth for post-retirement dental costs was estimated at 4.0% per annum (unchanged from December 31, 2018).

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

$000s	2019	2018
Fair value of plan assets	7,315,721	6,536,405
Accrued benefit obligations	6,147,902	5,374,106
Funded status – surplus	**1,167,819**	**1,162,299**

10. ENVIRONMENTAL LIABILITIES

As an operator of diesel buses that are refuelled on property and an enterprise that repairs and rebuilds buses and other rolling stock, the TTC and its subsidiaries are subject to various federal, provincial and municipal laws and regulations related to the environment. The TTC is also subject to health and safety legislation, including maintenance of facilities where asbestos has been applied. Environmental advisors and specialists are retained to support the TTC's investigative and remedial efforts.

The amount accrued represents the estimated costs of remediating, monitoring and containing known contamination, including airborne contamination on sites for which the TTC is responsible as well as noise abatement activities. The estimate of environmental liabilities is based on a number of factors, such as the site conditions, type of contaminants and the anticipated results of monitoring and therefore the actual costs may vary. The estimate varies based on the scope of work to be completed.

The estimated amounts of future costs are reviewed regularly, based on available information and governing legislation.

11. TANGIBLE CAPITAL ASSETS

The cost of tangible capital assets is as follows:

$000s	Cost as at December 31, 2019				
	Beginning	**Additions, net of transfers**	**Disposals**	**Write downs**	**Ending**
Subways	3,789,191	279,472	-	-	4,068,663
Buildings and structures	3,886,917	166,020	-	-	4,052,937
Rolling stock	3,074,680	512,554	(278,046)	-	3,309,188
Buses	2,010,811	282,803	(155,497)	-	2,138,117
Trackwork	2,091,660	57,319	-	-	2,148,979
Other equipment	1,198,247	66,839	(5,198)	-	1,259,888
Traction power distribution	672,971	34,252	-	-	707,223
Land	12,854	-	-	-	12,854
Construction in progress	2,012,692	(29,379)	(239,561)	-	1,743,752
Total	**18,750,023**	**1,369,880**	**(678,302)**	**-**	**19,441,601**

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

The accumulated amortization for tangible capital assets is:

$000s	Accumulated amortization as at December 31, 2019			
	Beginning	**Amortization**	**Disposals**	**Ending**
Subways	1,427,693	70,434	-	1,498,127
Buildings and structures	803,137	114,018	-	917,155
Rolling stock	1,265,014	161,268	(278,046)	1,148,236
Buses	1,073,977	157,914	(155,441)	1,076,450
Trackwork	1,429,729	53,479	-	1,483,208
Other equipment	777,978	71,149	(5,198)	843,929
Traction power distribution	324,817	19,262	-	344,079
Total	**7,102,345**	**647,524**	**(438,685)**	**7,311,184**

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

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

$000s	**Net book value 2019**	**Net book value 2018**
Subways	2,570,536	2,361,498
Buildings and structures	3,135,782	3,083,780
Rolling stock	2,160,952	1,809,666
Buses	1,061,667	936,834
Trackwork	665,771	661,931
Other equipment	415,959	420,269
Traction power distribution	363,144	348,154
Land	12,854	12,854
Construction in progress	1,743,752	2,012,692
Total	**12,130,417**	**11,647,678**

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

On June 4, 2019, the Province of Ontario's (the "Province") government passed Bill 107, Getting Ontario Moving Act (Transportation Statute Law Amendment), 2019. Schedule 3 of that Act amends the Metrolinx Act, 2006, such that the Lieutenant Governor in Council may prescribe a rapid transit design, development or construction project as the sole responsibility of Metrolinx.

On July 23, 2019, the Province filed Ontario Regulation O248/19, which came into force on the day it was filed. The regulation designated the Relief Line/Ontario Line, Scarborough Subway Extension/Line 2 East Extension and Yonge Subway Extension as being the sole responsibility of the Province.

As a result, the City and its agencies are prohibited to design, develop, construct or work on the projects designated by Regulation O248/19 unless directed by the Province. In 2019, the TTC reassigned consultant contracts related to the three transit expansion projects to Metrolinx and derecognized $239 million from construction in progress, which represents costs incurred related to the projects, and included in the Conventional transit service costs in the Consolidated Statement of Operations and Accumulated Surplus.

12. ACCUMULATED OPERATING SURPLUS

Accumulated operating surplus as at December 31 consists of:

$000s	**2019**	**2018**
Invested in tangible capital asset	12,029,101	11,560,799
Accumulated deficit from TTC Subsidiaries	(761)	(1,599)
Accumulated surplus generated through operating budget	14,141	14,141
Accumulated surplus generated through accrued pension benefit asset	16,551	-
Total	**12,059,032**	**11,573,341**

The amount reported in the table regarding tangible capital assets represents the net book value of capital assets that have been funded through past capital subsidy and contributions to capital from operating sources. The variance between this amount and the amount reported in note 11, i.e. $101.3 million (2018 – $86.9 million) primarily represents the net book value of capital assets that have been internally funded by the TTC.

13. OPERATING SUBSIDIES

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

$000s			**2019**	**2018**
	Conventional	Wheel-Trans	Total	Total
- Provincial Gas Tax (note 14b)	91,600	-	91,600	91,600
- City of Toronto	571,267	142,013	713,280	619,167
Total operating subsidies	**662,867**	**142,013**	**804,880**	**710,767**

The total City operating subsidy amount is established as part of the City's annual budget process. The City allocated $91.6 million (2018 – $91.6 million) to the TTC's operating budget from the Provincial Gas Tax (see note 14b).

City of Toronto subsidy

$000s			**2019**	**2018**
	Conventional	Wheel-Trans	Total	Total
Operating subsidy from the City of Toronto (see above)	571,267	142,013	713,280	619,167
City special costs	3,497	-	3,497	5,136
Future recoverable amounts				
Reduction in accident claims	3,682	41	3,723	11,937
Post-retirement benefit liabilities	(24,563)	(1,146)	(25,709)	(31,394)
	553,883	140,908	694,791	604,846
Net contributions to/(draws from):				
TTC Stabilization Reserve Fund	(7,000)	-	(7,000)	6,900
Long Term Liability Reserve Fund	(15,691)	-	(15,691)	12,609
Total operating subsidy per City of Toronto	**531,192**	**140,908**	**672,100**	**624,355**

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 costs associated with certain subsidized passengers and rents and taxes on commuter parking lots and revenues and expenses associated with a property held by the City for the jurisdictional use of the TTC.

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

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

14. CAPITAL SUBSIDIES

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

$000s	2019	2018
Source of capital subsidies:		
- City of Toronto	806,555	830,755
- Province of Ontario	186,148	128,488
- Federal Government of Canada	343,573	393,573
- Other	2,146	15
Total capital subsidies	**1,338,422**	**1,352,831**

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 2019 capital subsidy of $1,336.3 million (2018 – $1,352.8 million). Amounts claimed from the City do not include a $5.9 million expenditure (2018 – $49.8 million) for property purchased and owned by the City, but for the jurisdictional use of the TTC.

The following disclosures regarding subsidy claims from the Provincial and Federal governments are based on the City's and the TTC's understanding of the various agreements and commitments.

Toronto - York Spadina Extension Project

The City acts as the bank for the Toronto-York Spadina Subway Extension ("TYSSE") project, under a joint funding relationship with the Province through the Move Ontario Trust ("MOT"), the Federal Government under the Building Canada Funding program and the municipalities of the City of Toronto and the Region of York. In 2019, $77.3 million (2018 – $149.7 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	2019	2018
Source of capital subsidies:		
- Provincial Gas Tax (PGT)	109,948	70,050
- LRV Car Project	76,200	58,438
Total provincial capital subsidies	**186,148**	**128,488**

Provincial Gas Tax (PGT)

In October 2004, the Province introduced gas tax funding to municipalities for public transit. Commencing at 1¢/litre, the funding is based on a province-wide 70% ridership and 30% population allocation base, updated annually. The funding rate increased to 1.5¢/litre, effective October 2005, and then to 2¢/litre, effective October 2006. Of the $182.4 million (2018 – $184.2 million) in PGT funding available in 2019, the City has directed $91.6 million (2018 – $91.6 million) toward the TTC's operating needs (note 13) and $90.8 million (2018 – $70.0 million) applied to capital needs. The additional PGT funding of $19.1 million was withdrawn in 2019 from the PGT reserve fund (2018 – $22.6 million contribution). See note 17, City of Toronto Reserves and Reserve Funds.

LRV Car Project

On June 19, 2009, the Province confirmed that it would provide one-third funding for the 204 LRV Car Project (up to $417 million) and this funding is expected to flow on the basis of contract milestone payments. A Transfer Payment Agreement between the Province, City of Toronto and the TTC was signed in January 2013. Funding of $340.7 million (2018 – $ 264.5 million) has been recognized against the project to date including $76.2 million for 2019 (2018 – $58.4 million).

Metrolinx (Transit Expansion)

On April 1, 2009, the Province announced funding for the following Transit Expansion lines: Finch West LRT ($1.2 billion) and Eglinton Crosstown LRT ($4.6 billion). Subsequently, on May 15, 2009, the Province and the Government of Canada announced $950 million in funding for the Sheppard East LRT. Under this agreement, the TTC initially incurs the costs relating to the construction of the asset on behalf of Metrolinx, and full recovery of costs from Metrolinx occurs through the City. Funding of $5.1 million has been drawn through the City for 2019 expenditures (2018 – $19.7 million) for costs incurred on the Eglinton Crosstown and Finch West LRT lines by the TTC in 2019 and the eligible expenditures to date are $331.7 million. Since Metrolinx will retain ownership of the assets, these amounts, along with any associated capital assets, have not been recognized on the consolidated financial statements.

c. Federal Government of Canada

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

$000s	2019	2018
Source of capital subsidies:		
- Federal Gas Tax	169,379	167,421
- Public Transit Infrastructure Fund (PTIF)	174,194	226,152
Total federal capital subsidies	**343,573**	**393,573**

Federal Gas Tax

In June 2005, a joint announcement by the Federal, Provincial, and City of Toronto governments and the Association of Municipalities of Ontario was made in connection with the signing of two federal gas tax funding agreements under the "New Deal for Cities and Communities". The gas tax funding is allocated on a per capita basis for environmentally sustainable municipal infrastructure, growing from 2.5¢/litre in 2008 to 5¢/litre in 2009. In 2008, the Federal government announced that gas tax funding had been made a permanent measure and in 2009 an extended framework agreement was signed for the 4-year period 2010-2013 (based on updated 2006 Census population). In 2014, a new and permanent agreement for the 10-year period 2014-2023 was signed and 2014–2018 allocations are based on the updated 2011 Census population. Allocations from 2019–2023 will be updated to reflect the 2016 Census data. Ontario's allocation of this funding to municipalities is based on population and the City received $169.4 million in 2019 (2018 – $167.4 million) under this program. This amount was allocated to the TTC.

Public Transit Infrastructure Fund (PTIF)

In March 2016, the federal government announced an investment of $11.9 billion in transit infrastructure across Canada over five years to upgrade and improve public transit systems. Phase I of the PTIF, spanning 3 years, commits approximately $3.4 billion across Canada to be distributed based on a nation-wide 70% ridership and 30% population allocation base. The total Phase I Federal PTIF allocation announced for the City of Toronto is in the order of $1.712 billion of which funding will be split equally (50%/50%) between the Federal government and the City of Toronto. The TTC was allocated $1.363 billion ($681 million federal PTIF share). Through revisions to the TTC/City's PTIF project lists in 2018, the TTC's PTIF funding allocation was increased to $1.619 billion ($784 million PTIF Federal share). To date, federal funding for the eligible expenditures incurred amounts to $698.8 million (2018 – $530 million), of which $174.2 million has been accrued in 2019 (2018 – $226.1 million).

d. Other

Other funding of $2.1 million (2018 – $0.02 million) includes specific purpose third-party agreements with organizations such as Waterfront Toronto.

15. EXPENSES BY OBJECT

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

$000s	**2019**	**2018**
Wages, salaries and benefits	1,459,106	1,397,379
Materials, services and supplies	329,664	292,110
Vehicle fuel	84,063	79,502
Electric traction power	58,761	52,144
Utilities	26,599	25,630
Accident claims and insurance	23,133	16,011
Amortization (operating budget)	25,541	25,446
Amortization (assets funded through capital)	621,983	553,218
Loss on Provincial Expansion Project Upload	239,263	-
Wheel-Trans contract services	70,136	61,216
Pension expense/(income) in excess of employer contributions	(16,551)	-
Total expenses	**2,921,698**	**2,502,656**

16. BUDGET DATA

Budget data presented in these consolidated financial statements is based upon the 2019 operating and capital budgets approved by the TTC Board and the Board of the Toronto Coach Terminal Inc. Adjustments are required to provide comparative budget values for the year-end actual results based on an accrual basis of accounting. The chart below reconciles the approved budget with the budget figures as presented in these consolidated financial statements.

$000s	Conventional	Wheel-Trans	Other	**Total**
Total expenses, per approved current year	1,901,331	149,019	415	2,050,765
Other recoverable expenses	42,892	1,730	-	44,622
Amortization of previously subsidized assets	613,053	8,930	-	621,983
Total budgeted expenses per consolidated financial statements	**2,557,276**	**159,679**	**415**	**2,717,370**

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

17. CITY OF TORONTO RESERVES AND RESERVE FUNDS

In its accounts, the City maintains interest bearing Reserve Funds, and non-interest bearing Reserves comprised of funds set aside by City Council for specific purposes. Included in these Reserves and Reserve Funds are amounts which the City has received from the Province, which are earmarked for TTC projects. Contributions to and draws from these Reserves and Reserve Funds are made by the TTC, or the City, upon approval by City Council. As a result, contributions to and draws from the Reserves and Reserve Funds do not necessarily correspond to the year in which the related expenditure was incurred by the TTC. In order for the TTC to draw on these Reserves and Reserve Funds, they are required to incur the related expenditures. In 2019, the average interest rate applicable to Reserve Funds was approximately 1.6% (2018 – 1.1%).

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

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

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

$000s	Stabilization Reserve	Land Acquisition	Long Term Liability	**2019 Total**	**2018 Total**
Balance, beginning of the year	22,291	672	38,363	61,326	41,535
Net contributions/(draws)	(15,691)	-	(7,000)	(22,691)	19,510
Interest earned	-	11	608	619	281
Balance, end of the year	**6,600**	**683**	**31,971**	**39,254**	**61,326**

Stabilization Reserve

The Stabilization Reserve was created to stabilize the funding of the 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. Consistent with the 2019 budget, the amount withdrawn for this purpose was $15.4 million.

In 2018, City Council authorized a one-time contribution of $6.9 million to the Stabilization Reserve Fund based on a one-time recovery from Metrolinx to cover for future TTC operating costs, with the $0.3 million to be withdrawn annually over a 15-year period starting in 2019.

The combined amount withdrawn in 2019 was $15.7 million (2018– $nil).

Land Acquisition Reserve Fund

The Land Acquisition Reserve Fund was created to fund future land acquisitions by the City for the TTC's use. No draws or contributions were made in 2019 and 2018.

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.

Through the approved budget in 2019, City Council authorized a contribution of up to $25.6 million (2018 – $31.0 million) and a draw of up to $7.0 million (2018 – $nil) from the Long Term Liability Reserve Fund, to support actual accident claim payments at the time of the settlement (2018 – $12.6 million contribution).

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

$000s	PGT	CSIF	Quickwins	**2019 Total**	**2018 Total**
Balance, beginning of the year	39,794	15,890	57,678	113,362	88,616
Provincial contributions	182,421	-	-	182,421	184,222
Draws	(201,548)	-	-	(201,548)	(161,650)
Interest earned	787	262	930	1,979	2,174
Balance, end of the year	**21,454**	**16,152**	**58,608**	**96,214**	**113,362**

PGT

Of the $182.4 million (2018 – $184.2 million) in PGT funding available in 2019, the City has directed $91.6 million (2018 – $91.6 million) toward the TTC's operating needs (note 13) with the remainder of $90.8 million (2018 – $70.0 million) applied to capital needs. An additional amount of $19.1 was withdrawn from the reserve fund for capital needs in 2019. The year-end reserve fund balance of $21.5 million (2018 - $39.8 million) will be applied to future needs.

Canada Strategic Infrastructure Reserve Fund (CSIF)

$303.3 million was received from the CSIF program to fund the TTC's strategic capital projects. Over the life of the program, $304.4 million has been applied to various projects. The $16.2 million is comprised of accumulated interest. No funds were withdrawn from this reserve fund in 2019 and 2018.

MoveOntario 2020 Reserve Fund (Quickwins)

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 $23.2 million, $415.9 million has been applied to accumulated funding recognized by the TTC to date for capital expenditures, including $nil drawn from the reserve fund in 2019 and 2018. The amount of $58.6 million remaining in the reserve fund includes $57.0 million in Capital Reserve funding, which was received for 2009 capital expenditures but, based on direction from the City, is planned to be applied against the cost of capital debt until 2020 and therefore remains unapplied at the end of 2019.

18. COMMITMENTS AND CONTINGENCIES

a. In the normal course of its operations, labour relations and completion of capital projects, the TTC and its subsidiaries are subject to various arbitrations, litigations and claims. Where the potential liability is determinable, management believes that the ultimate disposition of the matters will not materially exceed the amounts recorded in the accounts. In other cases, the ultimate outcome of the claims cannot be determined at this time. Any additional losses related to claims will be recorded in the period during which the liability is determinable. Amounts recorded in the accounts have not been disclosed in the consolidated financial statements as disclosure may adversely impact the outcome. Management's estimate is based on an analysis of specific claims and historical experience with similar construction-related claims.

b. The TTC has contracts for the construction and implementation of various capital projects. As at December 31, 2019, these contractual commitments total approximately $457.4 million (2018 – $585.1 million). Of this amount, $115.2 million (2018 – $156.9 million) was established as multi-component shared projects for the TYSSE project; $11.9 million (2018 – $26.1 million) relates to the TYSSE project; and $330.3 million (2018 – $402.1 million) relates to various TTC construction projects.

c. In April 2009, the Board approved the design and supply of 204 light rail vehicles (LRV). In June 2009, the contract was awarded to Bombardier Transportation Canada Inc. As of December 31, 2019, the contract value is in total $1,138.0 million with 202 LRV's delivered to the TTC, costs incurred to date $1,097.9 million, and the outstanding commitment is $40.1 million.

d. As of January 2012, the Board has authorized various low floor clean diesel bus procurements to meet the TTC ridership requirements. Contracts were awarded to Nova, a Division of Volvo Group Canada. As of December 31, 2019, the contract values are in total $754.5 million with 1,073 buses delivered to the TTC and costs incurred to date total $751.1 million. The outstanding commitment is $3.4 million and is expected to be extinguished in 2020.

e. On November 13, 2017, the Board approved the procurement of 200 hybrid electric buses and the contract was awarded to Nova, a Division of Volvo Group Canada. As of December 31, 2019, the contract value is in total $204.1 million with a total delivery of 200 buses in 2019, costs incurred to date $197.1 million and the outstanding commitment is $7.0 million.

f. In March 2017, and September 2017, Creative Carriage Ltd. was awarded contracts for the purchase of 128 low floor Wheel-Trans mini buses. As of December 31, 2019, the contract value for Creative Carriage Ltd. totals $23.6 million and all 128 buses were delivered to the TTC. Costs incurred to date total $21.3 million and the outstanding commitment is $2.3 million.

g. On November 13, 2017, the Board approved the TTC's recommendation to exercise green technology contract options for the procurement of 30 battery electric buses. In 2018, contracts were awarded to New Flyer Industries and BYD Canada for 30 buses in total. In March 2019, Proterra Inc. was awarded the contract for the purchase of 20 buses, and in May 2019, an additional 5 buses were added to the New Flyer contract, increasing total bus requirement to 55 buses. As of December 31, 2019, the contract values total $79.0 million with a delivery of 20 buses. The costs incurred to date total $29.9 million and the outstanding commitment is $49.1 million.

h. In August 2006, the Board approved purchasing 234 subway cars or 39 trainsets from Bombardier Transportation Canada Inc. and the contract was awarded on December 21, 2006. Additional trainset purchases were approved by the Board in May 2010 and March 2014, and in June 2015, the Board authorized modification of four 6-car trainsets into six 4-car trainsets to support the conversion to ATC, bringing the total delivery requirement to 82 trainsets. As of December 31, 2019, the contract value is in total $1,517.7 million with 82 trainsets delivered to the TTC, costs incurred to date $1,473.5 million, and the outstanding commitment is $44.2 million.

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

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

	$000s
2020	25,415
2021	23,494
2022	23,622
2023	20,594
2024	20,040
Thereafter	127,428
Total	**240,593**

19. SUBSEQUENT EVENTS

Since December 31, 2019, the outbreak of the coronavirus disease 2019 ("COVID-19") pandemic has resulted in governments worldwide enacting emergency measures to control the spread of the virus. Due to the COVID- 19 pandemic, the TTC experienced a significant decline in ridership which had material impact on passenger revenue starting in March 2020. Management is partially mitigating the financial impact through cost containment measures which include pausing all salary increases for non-unionized employees, deferring recruitment of non-essential positions, service adjustments to align capacity with demand and deferrals of non-essential capital projects. The City of Toronto is providing emergency funding in addition to normal subsidies.

The TTC has determined that these events are non-adjusting subsequent events. Accordingly, the consolidated financial position and consolidated results of operations as of and for the year ended December 31, 2019 have not been adjusted. The duration and impact of the COVID-19 pandemic remains unknown at this time and it is therefore not possible to reliably estimate the future period impact on the consolidated financial statements.

Appendix 1: Consolidation Schedule as at and for the Year ended December 31, 2019

$000s

	TORONTO TRANSIT COMMISSION (TTC)	WHEEL-TRANS (WT)	TORONTO COACH TERMINAL INC. (Consolidated)
Statement of Financial Position			
Financial assets			
Cash and cash equivalents	138,224	-	3,426
Subsidies receivable	1,023,386	-	-
Accounts receivable	123,094	-	-
Investment in subsidiary	5,325	-	-
Portfolio investments	2,278	-	-
Derivative assets	1,629	-	-
Indemnity receivable from the TTC	-	-	128,036
Total financial assets	**1,293,936**	**-**	**131,462**
Liabilities			
Accounts payable and accrued liabilities	593,855	-	256
Deferred passenger revenue	48,225	-	-
Employee future benefits	745,004	-	-
Unsettled accident claims	140,973	-	128,036
Environmental liabilities	12,200	-	-
Due to parent	-	-	4,325
Intercompany AR/AP	2,891	-	(13)
Total liabilities	**1,543,148**	**-**	**132,604**
Net debt	(249,212)	-	(1,142)
Non-financial assets			
Tangible capital assets	12,129,124	-	1,293
Spare parts and supplies inventory	135,409	-	-
Prepaid expense	29,550	-	-
Accrued pension benefit asset	16,551	-	-
Total non-financial assets	**12,310,634**	**-**	**1,293**
Capital stock	-	-	1,000
Accumulated surplus	**12,061,422**	**-**	**(849)**
Statement of Operations and Accumulated Surplus			
Operating revenue			
Passenger services	1,184,762	8,977	-
Advertising	28,405	-	-
Outside city services	6,963	-	-
Property rental	21,867	-	1,358
Miscellaneous	11,875	-	97
Total operating revenue	**1,253,872**	**8,977**	**1,455**
Subsidies			
Operating subsidies	662,867	142,013	-
Capital subsidies	1,338,422	-	-
Total subsidy revenue	**2,001,289**	**142,013**	**-**
Expenses			
Wages, salaries and benefits	1,395,171	64,109	5
Materials, services and supplies	315,830	13,654	290
Vehicle fuel	80,870	3,193	-
Electric traction power	58,761	-	-
Utilities	25,955	644	-
Accident claims	22,236	825	-
Amortization (operating budget)	25,220	-	321
Amortization (assets funded through capital)	613,053	8,930	-
Loss on provincial project upload	239,263	-	-
Wheel-Trans contract services	-	70,136	-
Pension expense/(income)	(16,551)	-	-
Total expenses	**2,759,808**	**161,491**	**616**
Surplus (deficit) for the year	495,353	(10,501)	839
Wheel-Trans Deficit due to Amortization (assets funded through capital)	(1,571)	1,571	-
Wheel-Trans Deficit due to Funding Shortfall	(8,930)	8,930	-
Accumulated operating surplus (deficit), beginning of the year	11,574,941	-	(1,688)
Accumulated operating surplus (deficit), end of the year	**12,059,793**	**-**	**(849)**
Accumulated remeasurement gains/(losses), beginning of the year	(4,592)	-	-
Unrealized gains/(losses) in the current year	5,206	-	-
Amount reclassified to Statement of Operations and Accumulated Surplus	1,015	-	-
Accumulated remeasurement gains/(losses), ending of the year	**1,629**	**-**	**-**
Accumulated surplus is comprised of:			
Accumulated operating surplus	12,059,793	-	(849)
Accumulated remeasurement gains/(losses)	1,629	-	-
Accumulated surplus	**12,061,422**	**-**	**(849)**
Not on TTC financial statements:			
Operating subsidy from the City (as above)	662,867	142,013	-
Operating subsidy – long-term receivable for accident claims	3,682	41	-
Operating subsidy – long-term receivable for employee	(24,563)	(1,146)	-
City special costs	3,497	-	-
Draw from the City's TTC stabilization fund	(15,691)	-	-
Draw from the City's long-term liability reserve fund	(7,000)	-	-
Total city operating subsidy current	**622,792**	**140,908**	**-**

TTC SICK BENEFIT ASSOCIATION (SBA)	TOTAL BEFORE INTERCOMPANY ELIMINATIONS	INTERCOMPANY ELIMINATIONS	CONSOLIDATED FINANCIAL STATEMENTS
66	141,716	-	141,716
-	1,023,386	-	1,023,386
-	123,094	-	123,094
-	5,325	(5,325)	-
-	2,278	-	2,278
-	1,629	-	1,629
-	128,036	(128,036)	-
66	**1,425,464**	**(133,361)**	**1,292,103**
2,856	596,967	-	596,967
-	48,225	-	48,225
-	745,004	-	745,004
-	269,009	(128,036)	140,973
-	12,200	-	12,200
-	4,325	(4,325)	-
(2,878)	-	-	-
(22)	**1,675,730**	**(132,361)**	**1,543,369**
88	(250,266)	(1,000)	(251,266)
-	12,130,417	-	12,130,417
-	135,409	-	135,409
-	29,550	-	29,550
-	16,551	-	16,551
-	**12,311,927**	**-**	**12,311,927**
-	**1,000**	**(1,000)**	**-**
88	**12,060,661**	**-**	**12,060,661**
-	1,193,739	-	1,193,739
-	28,405	-	28,405
-	6,963	-	6,963
-	23,225	-	23,225
179	12,151	(396)	11,755
179	**1,264,483**	**(396)**	**1,264,087**
-	804,880	-	804,880
-	1,338,422	-	1,338,422
-	**2,143,302**	**-**	**2,143,302**
-	1,459,285	(179)	1,459,106
179	329,953	(289)	329,664
-	84,063	-	84,063
-	58,761	-	58,761
-	26,599	-	26,599
-	23,061	72	23,133
-	25,541	-	25,541
-	621,983	-	621,983
-	239,263	-	239,263
-	70,136	-	70,136
-	(16,551)	-	(16,551)
179	**2,922,094**	**(396)**	**2,921,698**
-	485,691	-	485,691
-	-	-	-
-	-	-	-
88	11,573,341	-	11,573,341
88	**12,059,032**	**-**	**12,059,032**
-	(4,592)	-	(4,592)
-	5,206	-	5,206
-	1,015	-	1,015
-	**1,629**	**-**	**1,629**
88	12,059,032	-	12,059,032
-	1,629	-	1,629
88	**12,060,661**	**-**	**12,060,661**
-	804,880	-	-
-	3,723	-	-
-	(25,709)	-	-
-	3,497	-	-
-	(15,691)	-	-
-	(7,000)	-	-
-	**763,700**	**-**	**-**

Supplementary Schedules (Unaudited)

Year ended December 31, 2019

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

	2019	2018	2017
OPERATING STATISTICS (regular service inside City)			
Revenue Passenger Trips (Millions)	525.5	521.4	533.2
Basic Adult Token/PRESTO Fare (at December 31) ($)	3.10	3.00	3.00
Average Number of Employees (including TCTI)	15,251	14,812	14,389
Hourly Base Wage Rate & Benefits per Operator ($)	53.50	51.65	51.68
Kilometres Operated (Millions)			
Bus	145.1	143.2	142.0
Subway Car	93.5	92.6	82.9
Streetcar	11.9	11.4	11.5
Scarborough RT	3.5	3.4	3.4
Total Kilometres Operated	**254.0**	**250.6**	**239.8**
OPERATING REVENUE STATISTICS			
Operating Revenue - including property rental, etc. ($ Millions)	1,253.9	1,226.2	1,234.5
Operating Revenue per Passenger Trip ($)	2.39	2.35	2.32
Operating Revenue per Kilometre ($)	4.94	4.89	5.15
OPERATING EXPENSE STATISTICS[1]			
Operating Expenses ($ Millions)	1,918.2	1,803.1	1,696.2
Operating Expense per Passenger Trip ($)	3.65	3.46	3.18
Operating Expense per Kilometre ($)	7.55	7.20	7.07
OPERATING SUBSIDY STATISTICS			
Operating Subsidy ($ Millions)	661.3 [11]	576.9 [10]	461.8 [9]
Operating Subsidy per Passenger Trip ($)	1.26	1.11	0.86
Operating Subsidy per Kilometre ($)	2.62	2.30	1.92
REVENUE/COST RATIO	65.4%	68.0%	72.8%
PASSENGER VEHICLE FLEET			
(Conventional & Wheel-Trans, owned and in service December 31)			
Buses	2,096	2,010	1,920
Subway Cars	848	848	848
Streetcars (CLRV & ALRV)	0	128	184
Streetcars (LFLRV)	198	117	57
Scarborough RT Cars	28	28	28
Wheel-Trans Buses	266	263	212
Total Vehicle Fleet	**3,436**	**3,394**	**3,249**

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

2016	2015	2014	2013	2012	2011	2010
538.1	537.6	534.8	525.2	514.0	500.2	477.4
2.90	2.80	2.70	2.65	2.60	2.50	2.50
14,095	13,651	13,209	12,920	12,739	12,674	12,553
50.81	50.33	49.01	47.94	47.35	46.07 [12]	44.74 [12]
138.6	131.6	131.3	129.6	125.0	123.6	124.0
83.0	82.2	80.8	79.3	78.6	76.1	75.7
13.1	13.9	12.8	12.5	12.6	13.1	12.7
3.5	3.4	3.5	3.5	3.1	3.3	3.3
238.2	**231.1**	**228.4**	**224.9**	**219.3**	**216.1**	**215.7**
1,196.3	1,179.1	1,157.5	1,120.2	1,087.3	1,026.4	987.5
2.22	2.19	2.16	2.13	2.11	2.05	2.07
5.02	5.10	5.07	4.98	4.96	4.75	4.58
1,712.6	1,695.7	1,589.5	1,491.7	1,472.4	1,460.0	1,385.9
3.18	3.15	2.97	2.84	2.86	2.92	2.90
7.19	7.34	6.96	6.63	6.71	6.76	6.43
516.3 [8]	516.6 [7]	432.0 [6]	371.5 [5]	385.1 [4]	433.6 [3]	398.4 [2]
0.96	0.96	0.81	0.71	0.75	0.87	0.83
2.17	2.24	1.89	1.65	1.76	2.01	1.85
69.9%	69.5%	72.8%	75.1%	73.8%	70.3%	71.3%
1,926	1,861	1,869	1,851	1,857	1,819	1,811
840	796	724	704	708	712	676
219	235	247	247	247	247	247
30	13	3	0	0	0	0
28	28	28	28	28	28	28
199	205	221	221	246	217	227
3,242	**3,138**	**3,092**	**3,051**	**3,086**	**3,023**	**2,989**

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

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

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

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

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

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

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

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

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

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

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

11. In 2019, the calculated subsidy of $664.3 million is reduced to $661.3 million in the 10 Year Non-consolidated Financial Statistics to reflect expenses funded by liquidated damages. This amount is further reduced by $91.6 million to reflect the provincial subsidy allocated to the operating budget to total of $569.7 million.

    The total conventional system funding provided by the City was $529.6 million, consisting of $569.7 million for the operating subsidy, $3.5 million for the City special costs, $3.7 million long-term payable for accident claims, less a $7.0 million draw from the TTC Stabilization Reserve, less a $15.7 million draw from Long-Term Liability Reserve and less $24.6 million increase in long-term payable for employee benefits.

    The WT deficit of $1.5 million is added to the $661.3 million to total $662.8 million as the reported subsidy in the consolidated financial statements.

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