Toronto Transit Commission
1900 Yonge Street, Toronto, ON M4S 1Z2
416-393-4000

June 20, 2023

John Elvidge
City Clerk
Toronto City Hall
100 Queen Street West
Toronto, ON M5H 2N2

Dear John Elvidge:

At its meeting on Monday, June 12, 2023 the TTC Board considered the attached report titled, "Draft Consolidated Financial Statements of Toronto Transit Commission for the Year Ended December 31, 2022".

In doing so, the TTC Board:

1. Approved the Draft Consolidated Financial Statements of Toronto Transit Commission for the Year Ended December 31, 2022; and

2. Authorized forwarding a copy of this report to the City Clerk for submission to the City of Toronto Audit Committee.

The foregoing is submitted to the Audit Committee for consideration.

Sincerely,

Chrisanne Finnerty
Director - Commission Services

1-17
Attachment

For Action

Draft Consolidated Financial Statements of Toronto Transit Commission for the Year Ended December 31, 2022

Date: June 12, 2023
To: TTC Board

Summary

The subject report was reviewed by the TTC Audit & Risk Management Committee on June 1, 2023 and is forwarded to the TTC Board for its consideration.

Recommendations

It is recommended that the TTC Board:

1. Approve the Draft Consolidated Financial Statements of Toronto Transit Commission for the Year Ended December 31, 2022.

2. Forward a copy of this report to the City Clerk for submission to the City of Toronto Audit Committee

Attachments

Attachment 1 – Draft Consolidated Financial Statements of Toronto Transit Commission for the Year Ended December 31, 2022

For Action

Draft Consolidated Financial Statements of Toronto Transit Commission for the Year Ended December 31, 2022

Date: June 1, 2023
To: TTC Audit and Risk Management Committee
From: Chief Financial Officer

Summary

The TTC is required to prepare audited annual financial statements under Public Sector Accounting Standards and to forward them to City Council for information through the City's Audit Committee.

The 2022 accounting surplus is $166.7 million, an increase of $24.1 million over 2021 and is comprised mainly of the value of subsidy revenue earned on capital asset additions, partially offset by the depreciation of assets in use and other expenses funded through capital programs. 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. Receive the appended Draft Consolidated Financial Statements of Toronto Transit Commission for the year ended December 31, 2022; and

2. Forward this report and the appended Draft TTC Consolidated Financial Statements for approval at the June 12, 2023 Board meeting and subsequently to the City Clerk for submission to the next City Audit Committee meeting.

Implementation Points

This report requires consideration at the June 1, 2023 TTC Audit and Risk Management Committee meeting to ensure timely submission to the June 12, 2023 TTC Board meeting and then to the July 7, 2023 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 has 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 and Risk Management Committee approved that the terms of reference of the Audit and 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://ttc-cdn.azureedge.net/-/media/Project/TTC/DevProto/Documents/Home/Public-Meetings/Audit-and-Risk-Management/2017/Feb-9/2_TTC_Audit_-and_Risk_Management_Committee_Terms_Of_Referenc.pdf?rev=40d4ed703a344b1e8d1816787cd3cabc&hash=F50FB7E52C62C3CFEE7A8D3A1AEB2758

Issue Background

This report presents the consolidated financial statements of the TTC for the fiscal year December 31, 2022.

The draft consolidated financial statements of the Toronto Transit Commission for the year ended December 31, 2022 have been prepared by Management and audited by KPMG LLP (KPMG).

The Auditor's Report provides an opinion on whether the consolidated financial statements are presented fairly, in all material respects, and the financial position of the TTC has been established in accordance with Canadian Public Sector Accounting Standards (PSAS).

After the financial statements are approved by the Audit and Risk Management Committee and the TTC Board, and KPMG completes its file documentation, the draft unqualified opinion will be finalized on KPMG letterhead.

Comments

2022 Accounting Surplus as Reported in the Consolidated Financial Statements

The Consolidated Statement of Operations results in an accounting surplus of $166.7 million for the year ended 2022. The accounting surplus is derived primarily from the capital subsidy revenue of $903.0 million less the depreciation expense for subsidized assets. However, the net amount does not represent surplus funds. The full $903.0 million was spent on capital assets acquired or constructed in 2022.

The key components of the accounting surplus as well as the explanations of these items and the year-over-year change are summarized in Table 1:

TABLE 1: 2022 Accounting Surplus Comparison to 2021

Item ($ Millions)	2022	2021	Variance
Capital Subsidy Revenue	903.0	855.7	47.3
Depreciation Expense for Assets funded through Capital Subsidy	(727.5)	(699.6)	(27.9)
Other Expenses Funded through Capital Subsidy	(8.9)	(17.4)	8.5
Entities under control of TTC	0.1	3.9	(3.8)
Total	**166.7**	**142.6**	**24.1**

The 2022 accounting surplus increased by $24.1 million on a year-over-year basis, driven by the following key changes:

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 $47.3-million increase in capital subsidy revenue is primarily due to increased spending on capital works for Bloor-Yonge Capacity Improvements, Lines 1 and 2 Capacity Enhancements, Easier Access and Surface Track Replacement and Signal Systems as well as for the purchase of TTC Hybrid Buses and Wheel-Trans Buses.

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, depreciation expense is recorded in the Consolidated Statement of Operations over several years based on the assets' respective lifecycles and as the assets are used over their term. The increase in depreciation expense is primarily due to new assets placed into service in 2022 due to the completion of capital works for the following capital projects and programs: TR/T1 Rail Yard Accommodation, Wilson Garage Ventilation Upgrade, Easier Access Phase III, which included Landsdowne Station becoming fully accessible in 2022, YUS ATC Resignalling, Tunnel and Structures Rehabilitation and On-Grade Paving Rehabilitation.

Other Expenses Funded through Capital Subsidy
Expenses funded through the TTC's capital program include environmental program expenses; the write-down of capital projects; and materials, services and supplies that were funded by liquidated damages. The $8.5-million decrease in expenses funded through capital subsidy is primarily driven by lower costs for environmental program expenses.

Entities Under the Control of TTC
Budgets and periodic financial reports are presented separately for the Toronto Coach Terminal Inc. (TCTI); the 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 the TTC.

The $3.8-million decrease in accounting surplus attributable to entities under the control of the TTC is primarily the result of a one-time transaction recognized for TCTI in fiscal 2021. In 2021, the TCTI Board approved the transfer of operational management of the Coach Terminal Properties to the City in exchange for $4.2 million. As the historical book value of the land was $0.9 million, a resulting net gain (increase in accounting surplus) of $3.3 million was recognized in 2021.

Reconciliation of Operating Subsidy in Consolidated Financial Statements to the Budgeted Funding Surplus
The accounting surplus in the consolidated financial statements is unrelated to the 2022 Operating Budget surplus. Table 2 on the next page reconciles the operating subsidy in the financial statements to the 2022 Combined Net City Funding presented in the 2022 Financial Update for the Period Ended December 31, 2022 report considered by the TTC Board at its April 13, 2023 meeting, and provided as a reference in the link below.

https://ttc-cdn.azureedge.net/-/media/Project/TTC/DevProto/Documents/Home/Public-Meetings/Board/2023/April-13/7_Financial_and_MP_Update_for_the_Year_Ended_December_31_2022.pdf?rev=cce73199a0334a94a75329dc01041eed&hash=380E5EA6D46042197872270C39BDDCAC

TABLE 2: Operating Subsidy Revenue vs Budgetary Year-End Results

($ Millions)	2022	2021
Operating Subsidy Revenue per Financial Statements	**1,418.2**	**1,539.5**
Contribution to TTC Long-term Liability Reserve	7.5	3.3
Contribution to TTC Stabilization Reserve		93.3
City Special Costs	4.5	0.1
Adjustments for Future Recoverable Amounts:		
Increase in Post-Retirement Benefits	(36.5)	(40.3)
Decrease in Accident Claims	0.5	7.8
Current TTC Operating Funding Required	**1,394.2**	**1,603.7**
Budgeted Operating Funding Sources		
Base Operating Funding[1]	905.7	807.3
COVID Relief Funding	561.1	796.4
Budgeted Operating Funding Available	**1,466.8**	**1,603.7**
Reduced Operating Funding Requirement (Budget Surplus)	**(72.6)**	**-**
Comprised of		
COVID Relief Funding [2]	(17.1)	-
Base Operating Funding[3]	(55.5)	-

[1] Budgeted Operating Funding for both 2022 and 2021 includes $91.6 million sourced from Provincial Gas Tax.
[2] Represents a favourable variance of $17.1 million as compared to the anticipated COVID Relief Funding from the 2022 Operating Budget ($544 million actual vs $561.1 million budget).
[3] The amount of $55.5 million represents the amount by which the base operating funding available from the City exceeded the amount that was actually required and used by the TTC ($850.2 million actual vs $905.7 million budget).

Contact

John Montagnese, Executive Director – Finance
416-393-3654
john.montagnese@ttc.ca

Signature

Josie La Vita
Chief Financial Officer

Attachments

Attachment 1 – Draft TTC Consolidated Financial Statements for the Year-Ended December 31, 2022

Consolidated Financial Statements of
Toronto Transit Commission
For the year ended December 31, 2022

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

$000s	2022	2021
Financial assets		
Cash and cash equivalents (note 4)	109,443	200,298
Subsidies receivable (note 5)	1,207,255	1,094,382
Accounts receivable	113,976	73,354
Portfolio investments (note 6)	2,291	2,287
Derivative assets (note 7)	1,136	1,212
Indemnity receivable from the City of Toronto (note 8)	7,432	-
Total financial assets	**1,441,533**	**1,371,533**
Liabilities		
Accounts payable and accrued liabilities	627,269	578,252
Deferred revenue (note 11)	42,595	45,703
Employee future benefits liabilities (note 9)	911,534	850,575
Unsettled accident claims (note 8)	145,824	138,859
Environmental liabilities (note 10)	27,989	30,360
Total liabilities	**1,755,211**	**1,643,749**
Net debt	**(313,678)**	**(272,216)**
Non-financial assets		
Tangible capital assets (note 12)	12,610,377	12,433,324
Spare parts and supplies inventory	182,695	151,543
Prepaid expenses	24,668	24,506
Total non-financial assets	**12,817,740**	**12,609,373**
Accumulated surplus	**12,504,062**	**12,337,157**
Accumulated surplus is comprised of:		
Accumulated operating surplus (note 13)	12,502,597	12,335,945
Accumulated remeasurement gains	1,465	1,212
	12,504,062	**12,337,157**

See accompanying notes to the consolidated financial statements

Approved:

Commissioner

Commissioner

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

$000s	2022 Budget (note 17)	2022	2021
Operating revenue			
Passenger services	747,002	743,223	456,230
Advertising	19,400	17,481	13,080
Property rental	16,786	14,741	12,642
Outside city services	7,844	7,945	7,601
Miscellaneous	2,158	14,100	31,365
Total operating revenue	**793,190**	**797,490**	**520,918**
Operating subsidies (note 14)	1,531,718	1,418,232	1,539,542
Capital subsidies (note 15)	1,433,990	902,992	855,701
Total subsidy revenue	**2,965,708**	**2,321,224**	**2,395,243**
Total revenue	**3,758,897**	**3,118,714**	**2,916,161**
Conventional transit service	2,902,388	2,816,158	2,663,441
Wheel-Trans	149,973	135,904	109,805
Other functions	7	-	292
Total expenses (note 16)	**3,052,368**	**2,952,062**	**2,773,538**
Surplus for the year	**706,530**	**166,652**	**142,623**
Accumulated surplus, beginning of the year		12,335,945	12,193,322
Accumulated surplus, end of the year		**12,502,597**	**12,335,945**

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	**2022**	**2021**
Accumulated remeasurement gains/(losses), beginning of the year	1,212	(1,290)
Unrealized gains in the current year attributable to financial derivatives (note 7)	5,931	3,650
Unrealized gains in the current year attributable to foreign exchange revaluation	329	-
Realized amounts reclassified to Consolidated Statement of Operations and Accumulated Surplus	(6,007)	(1,148)
Accumulated remeasurement gains, end of the year	**1,465**	**1,212**

See accompanying notes to the consolidated financial statements

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

$000s	**2022 Budget** (note 17)	**2022**	**2021**
Surplus for the year	706,530	166,652	142,623
Change in tangible capital assets (note 12)			
Acquisition	(1,433,990)	(931,810)	(865,083)
Amortization	751,711	748,967	722,974
Net book value of disposals	-	-	886
Writedowns	-	5,790	1,725
Total change in tangible capital assets	**(682,279)**	**(177,053)**	**(139,498)**
Change in spare parts and supplies	-	(31,152)	(4,074)
Change in prepaid expenses	-	(162)	4,181
Change in remeasurement gains for the year	-	253	2,502
Change in net debt	**24,251**	**(41,462)**	**5,734**
Net debt, beginning of the year		(272,216)	(277,950)
Net debt, end of the year		**(313,678)**	**(272,216)**

See accompanying notes to the consolidated financial statements

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

$000s	2022	2021
Operating activities		
Surplus of the year	166,652	142,623
Add (deduct) items not involving cash:		
Amortization of tangible capital assets	748,967	722,974
Net loss/(gain) on disposal of tangible capital assets	5,401	(2,051)
Recognition of revenue from capital subsidies	(902,992)	(855,701)
Change in foreign exchange revaluation	329	-
Non-cash operating expenses	917	828
Changes in non-cash assets and liabilities related to operations:		
Increase in operating subsidy receivable	(67,236)	(36,241)
Increase in operating accounts receivable	(40,626)	(12,037)
Increase in indemnity receivable from the City	(7,432)	-
Increase in spare parts and supplies inventory	(32,069)	(4,911)
(Increase)/decrease in operating prepaid expense	(162)	569
Increase in operating accounts payable and accrued liabilities	2,007	61,485
Decrease in operating deferred revenue	(3,108)	(2,976)
Increase in employee future benefits liabilities	60,959	66,438
Increase/(decrease) in unsettled accident claims	6,965	(7,846)
(Decrease)/increase in environmental liabilities	(2,371)	6,766
Cash (used in) provided by operating activities	**(63,799)**	**79,920**
Capital activities		
Tangible capital asset acquisitions	(884,800)	(836,639)
Tangible asset disposal proceeds	389	462
Cash used in capital activities	**(884,411)**	**(836,177)**
Financing activities		
Capital subsidies received	857,355	804,339
Cash provided by financing activities	**857,355**	**804,339**
Change in cash and cash equivalents during the year	(90,855)	48,082
Cash and cash equivalents, beginning of the year	200,298	152,216
Cash and cash equivalents, end of the year	**109,443**	**200,298**

See accompanying notes to the consolidated financial statements

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

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 14 and 15). The TTC also operates Wheel-Trans, a paratransit service for people with disabilities (which is also subsidized by the City), and owns 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 19a. 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 budgets have 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 revenue

Operating revenue from passenger services is recognized when cash, tickets, tokens, PRESTO cards and PRESTO Tickets 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 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 for TTC related claims and the City's historical experience for City related claims. The provision for estimated future expenditures includes expected internal and external adjustment expenses, an estimate of claims incurred but not reported and a provision for adverse deviations.

k. Employee future benefit plans

The TTC's employee benefits plans include post-employment plans (workplace safety and insurance benefit plan and long-term disability benefit plan), post-retirement plans (medical and dental benefits) and pension plans.

The costs of the post-employment benefit plans are recognized when the event that obligates the TTC occurs. Costs include projected future income replacement payments, health care continuation costs, taxes and fees paid to independent administrators, calculated on a present value basis.

The costs and obligations of the post-retirement benefit plans and pension plans are calculated using the projected benefits prorated on service method and management's best estimates of retirement ages of employees, future salary levels, expected health care cost escalations and plan investment performance.

The net asset or liability related to each employee future benefit plan reflects the year-end difference between the value of the accrued benefit obligation and the value of the plan assets (if funded), net of unamortized gains and losses and the valuation allowance. Plan assets are valued using year-end fair market values.

Accrued benefit obligations and costs are determined using discount rates that are consistent with the City's long-term borrowing rates for the post-employment and post-retirement plans. For the TTC's funded pension plans, the discount rate is the plan's expected rate of return on assets.

Actuarial gains and losses arise from changes in actuarial assumptions or when actual experience differs from what was assumed. For post-employment benefit plans, the net actuarial gain or loss is deferred and amortized on a straight-line basis over the average expected period during which benefits will be paid unless there is a related plan amendment or curtailment. For workplace safety insurance benefits, the amortization period is 9.2 years (December 31, 2021 – 8.9 years) and for long-term disability benefits, the amortization period is 7.5 years (December 31, 2021 – 7.3 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 14.4 years (December 31, 2021 – 14.6 years), for the post-retirement medical and post-retirement dental plans the amortization period is 16.0 years (December 31, 2021 – 16.0 years) and for the supplemental funded pension plan, the amortization period is 7.6 years (December 31, 2021 – 5.7 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 are recognized at the end of the calendar year in which the past service costs arise. Prior service costs or gains are offset by net actuarial gains or losses, if any, as of the end of the calendar year in which the prior service costs or gains arise. Unamortized amounts that remain after offsetting 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) Indemnity receivable from the City of Toronto
v) Portfolio investments, in bonds
vi) Accounts payable and certain accrued liabilities
vii) 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, indemnity 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.

n. Future accounting pronouncements

The TTC continues to assess the impact on its consolidated financial statements of the following upcoming changes to PSAS. The TTC has not adopted any new accounting standards for the year ended on December 31, 2022.

(i) Standard applicable for fiscal years beginning on or after April 1, 2022 (the TTC's December 31, 2023 year-end):

PS 3280, Asset Retirement Obligations, addresses the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets either in productive use or no longer in productive use.

(ii) Standards applicable for fiscal years beginning on or after April 1, 2023 (the TTC's December 31, 2024 year-end):

PS 3400, Revenue, establishes a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement.

PS 3160 - Public Private Partnerships ("P3s"), identifies requirements on how to account for and disclose transactions in which public sector entities procure major infrastructure assets and/or services from private sector entities. Recognition of assets arising from P3 arrangements is ultimately dependent on whether public sector entities control the purpose and use of the assets, access to the future economic benefits and exposure to the risks associated with the assets, and significant residual interest in the asset, if any, at the end of the term of P3s. Measurement of the asset and related liability will also be dependent on the overall model used to compensate the private sector entity.

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, 2022, the TTC's credit risk exposure consists mainly of the carrying amounts of cash and cash equivalents, portfolio investments, accounts receivable, subsidies receivable and indemnity 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 TTC's accounts receivable, $46.3 million is past due (i.e. outstanding 30 days or more since the due date) and of this total, approximately 95% is due from government entities. TTC deems all of these amounts as collectible.

Approximately 18.7% of TTC's accounts receivable (December 31, 2021 – 23.3%) and 100% of subsidies receivable (December 31, 2021 – 100%), and 100% of indemnity receivable (December 31, 2021 - nil), is due from the City of Toronto. Impairment risk on this receivable is low since the TTC is controlled by the City.

The remaining 81.3% (December 31, 2021 - 76.7%) is comprised of:

Federal government: 36.2% (December 31, 2021 - 37.7%)

Provincial government: 35.6% (December 31, 2021 - 28.3%)

Other government entity: 1.7% (December 31, 2021 - 3.0%)

Non government entity: 7.8% (December 31, 2021 - 7.7%)

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 of future cash flows of a financial instrument will fluctuate because of changes in currency or foreign exchange rates. The TTC has limited foreign currency risk with respect to its financial instruments as substantially all of TTC's financial assets and financial liabilities are denominated in Canadian dollars. The TTC is exposed to some foreign currency risk as some contracts for the future purchase of supplies and capital assets are denominated in U.S. dollars. As of the balance sheet date, TTC has $2.0 million in U.S. dollar financial liabilities (December 31, 2021 – $5.5 million), which is offset by TTC's U.S. dollar cash balance of $1.9 million (December 31, 2021 – $6.4 million). Therefore, TTC's currency risk is low and there are no notable concentrations of risk.

Liquidity risk

Liquidity risk is the risk that the TTC will encounter difficulty in meeting obligations associated with its financial liabilities and other contractual obligations. TTC's accounts payables and accrued liabilities amount to $627.3 million (December 31, 2021 – $578.3 million) and, excluding non-financial liabilities, $333.3 million is due within one year or less (December 31, 2021 – $325.3 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 $42.7 million (December 31, 2021 – $30.2 million) are also excluded from the $333.3 million (December 31, 2021 – $325.3 million) due within a year; however, they are fully recoverable from the City of Toronto as referred to in note 5. Therefore TTC's liquidity risk is low and there are no notable concentrations of risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. 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 are expected to 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 $1.6 million as at December 31, 2022 (December 31, 2021 – $1.7 million).

5. SUBSIDIES RECEIVABLE

Subsidies from the City of Toronto consist of operating subsidies as described in note 14 and capital subsidies as described in note 15. Subsidies receivable as at December 31 comprise the following amounts, all of which are due from the City of Toronto:

$000s	2022	2021
Subsidies to be collected within one year:		
Capital subsidy receivable	244,076	212,875
Operating subsidy receivable	261,742	230,592
Total subsidies to be collected within one year	**505,818**	**443,467**
Other recoverable amounts:		
Employee benefits	534,937	498,384
Accident claims expenses	26,557	27,024
Construction related	116,430	99,416
Future environmental costs (note 10)	23,513	26,091
Total other recoverable amounts	**701,437**	**650,915**
Total subsidies receivable	**1,207,255**	**1,094,382**

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	2022	2021
Municipality of Metropolitan Toronto Bond (2.45%; February 6, 2025 maturity)	2,291	2,287
Total portfolio investments	**2,291**	**2,287**

At December 31, 2022, the fair value of the bond is $2.2 million (December 31, 2021 – $2.4 million).

7. **FINANCIAL DERIVATIVES**

TTC's financial derivatives consist of heating fuel swaps with financial institutions which help manage TTC's exposure to fluctuating fuel prices by setting a fixed price for a future purchase of a fixed quantity of fuel. Heating fuel swaps are used because they are an openly traded commodity that most closely relates to the diesel fuel consumed by TTC. The TTC does not purchase or hold any derivative financial instrument for speculative purposes. Several derivative agreements were in place and used throughout the year and continue to exist as of December 31, 2022. Derivative instruments are required to be measured at fair value on initial recognition and changes in the fair value of the derivative instruments are recognized in the statement of remeasurement gains and losses. As of December 31, 2022, the accumulated remeasurement gains from these fuel swaps are $1.1 million (December 31, 2021 - $1.2 million of accumulated remeasurement gains). The derivative contracts are included in the statement of financial position on a present value basis. The fair value of these contracts are primarily derived using the quoted price of heating oil on the New York Mercantile Exchange (NYMEX) as of December 31, 2022. As of December 31, 2022, approximately 16.7% of TTC's diesel fuel requirement has been hedged using the fuel swap agreements (December 31, 2021 – 15.6%) with a notional quantity of 3 million gallons to be settled by January 2024.

8. **INDEMNITY RECEIVABLE AND 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. On June 1, 2021, the Insurance Co.'s licence was amended to allow the Insurance Co. to provide insurance coverage to the City for claims arising on or after January 1, 2022. An indemnity agreement was entered into between the City and Insurance Co., whereby Insurance Co. is to be reimbursed by the City for all current and future costs and expenditures including all claims under the City's policies. An indemnity receivable from the City of $7.4 million (December 31, 2021 - nil) was recognized as part of the indemnity agreement, the amount of which corresponds with the unsettled accident claims for the City's automobiles.

At December 31, 2022, $133 million (December 31, 2021– $126.1 million) of the unsettled accident claims liability is related to the Insurance Co.'s payable for all automobile claims incurred, including $7.4 million (December 31, 2021 – $nil) from assuming the City's automobile risks. This portion of the TTC's and the City's accident claims liability is guaranteed by the City. The TTC and the City have 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, $12.8 million (December 31, 2021 – $12.8 million), relates to general liability claims of $15.7 million (December 31, 2021 – $15.8 million), less $2.9 million (December 31, 2021 – $3 million) of expected HST rebates.

The ultimate cost of these liabilities will vary from the best estimate made by management for a variety of reasons including additional information with respect to the facts and circumstances of the claims incurred. The liability includes a reserve established for each file as well as an incurred but not reported ("IBNR") provision to account for the fact that full information on case files may not be available at the valuation date, or losses have been incurred but are not yet reported. Therefore, the TTC relies upon historical information and statistical models to estimate the IBNR liability. The TTC also uses reported claims trends, claims severity, exposure growth and other factors in estimating its IBNR reserve. The time required to learn of and settle claims is an important consideration in establishing the TTC's reserves. The TTC revises these reserves as additional information becomes available.

This provision is discounted to take into account the time value of money and a provision for adverse deviation ("PFAD") is added as recommended by standard actuarial practice. Assumptions regarding the anticipated timing of future payments and an appropriate discount rate are made by management. As uncertainty exists with respect to the determination of these discounted estimates, an explicit PFAD is made for potential claims development. A PFAD is selected based on guidance developed by the Canadian Institute of Actuaries.

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

Unpaid claims and claims adjustment costs	**Undiscounted**	**Time value of money**	**Discounted (before PFAD)**	**PFAD**	**Discounted**
$000s					
As at December 31, 2022	148,609	(15,761)	132,848	12,976	**145,824**
As at December 31, 2021	132,135	(5,676)	126,459	12,400	**138,859**

As at December 31, 2022, the interest rate used to determine the time value of money was 3.4% and reflected the market yield (December 31, 2021 – 1.28%).

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, 2022. 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, 2023.

Post-retirement, non-pension benefit plans

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

For the post-retirement benefit plans, the effective date of the most recent actuarial valuation was January 1, 2021. 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, 2024.

Supplemental pension plans

The TTC and plan members participate in supplemental pension plans. These plans provide pension benefits which the TTC pension plan cannot provide because of the limits imposed by the Income Tax Act**.** These pension benefits automatically reflect changes that are made to the TTC Pension plan.

The funded supplemental pension plan has been accounted for as a defined benefit plan and the TTC has recognized 100% of the plan's pension expense, assets and obligation. The funded supplemental pension plan's assets consist of 50.1% (December 31, 2021 – 61%) cash and equity index pooled funds which are carried at market and 49.9% (December 31, 2021 – 39%) 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, 2022. The next actuarial valuation for funding purposes is expected to be performed as at January 1, 2023. The effective date of the most recent valuation for accounting purposes was December 31, 2022.

TTC Pension Fund Society

The TTC participates in the TTC Pension Fund Society (TTCPFS), a defined benefit pension plan. In 2021, the TTCPFS rebranded and is now referred to as the TTC Pension Plan (TTCPP). The TTCPP is a separate legal entity and is governed by a Board of Directors consisting 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 TTCPP 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 TTC paying the administrative expenses of the TTCPP directly, the TTC and the TTCPP agreed to have TTC make a fixed fee contribution to the TTCPP each January. The fixed fee contribution will be adjusted annually based on the consumer price index. Along with this change, the former TTC employees of the TTCPP became employees of the TTCPP 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 TTCPP) 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 TTCPP, 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 Agreements between the ATU and the TTC.

The plan provides pensions to members, based on a formula that factors in the length of credited service and best four years of pensionable earnings up to a base year. A formula exists that sets a target for pensioner increases. The Board of Directors of the TTCPP make decisions with respect to affordable pension formula updates, pension indexing and plan improvements based on the results of the most recent funding valuation and the priorities set out in the plan's by-laws and funding policy.

Effective January 1, 2022, the base year for the TTC pension plan and the funded supplemental pension plans was updated to December 31, 2021 (from December 31, 2020). In addition, the survivor benefit date was updated to January 1, 2022 (from January 1, 2021) and an ad hoc increase of up to 2.41% (December 31, 2021 – 1.03%) was granted to all pensioners. The TTC's share of the prior service cost of these plan amendments have been reflected in the consolidated statement of operations.

The effective date of the most recent actuarial valuation for funding purposes for the TTC Pension Fund was January 1, 2022. The next required actuarial valuation for funding purposes will be performed as at January 1, 2024. The effective date of the most recent valuation for accounting purposes was December 31, 2022.

The continuity of the change in the employee benefit liabilities/(assets) including expenses recognized in 2022 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	248,091	606,275	(3,791)	**850,575**	**-**
Current service cost:	70,664	36,114	125	**106,903**	**83,332**
Interest cost	6,259	16,526	(396)	**22,389**	**(71,213)**
Amortization of actuarial (gains)/losses:[1]	(1,723)	3,850	57	**2,184**	**(68,339)**
Plan amendments	-	-	733	**733**	**52,322**
Change in valuation allowance	-	-	-	-	**139,288**
Total expenses	75,200	56,490	519	**132,209**	**135,390**
Benefits paid	(54,346)	(14,678)	(186)	**(69,210)**	**-**
Employer contributions	-	-	(2,040)	**(2,040)**	**(135,390)**
Accrued benefit liability (asset) balance, end of the year	**268,945**	**648,087**	**(5,498)**	**911,534**	**-**

[1]TTC Pension Fund ($68,339) amortization included recognition of net unamortized gains of $52,322 which were applied to the cost of the plan amendments.

The continuity of the change in the employee benefit liabilities/(asset) including expenses recognized in 2021 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	227,388	559,557	(2,808)	**784,137**	**-**
Current service cost	46,000	39,907	30	**85,937**	**98,657**
Interest cost	3,558	13,988	(108)	**17,438**	**(32,282)**
Amortization of actuarial losses/(gains):[1]	3,783	6,672	337	**10,792**	**(70,726)**
Plan amendments	14,573	-	712	**15,285**	**36,227**
Change in valuation allowance	-	-	-	-	**99,422**
Total expenses	67,914	60,567	971	**129,452**	**131,298**
Benefits paid	(47,211)	(13,849)	(186)	**(61,246)**	**-**
Employer contributions	-	-	(1,768)	**(1,768)**	**(131,298)**
Accrued benefit liability (asset) balance, end of the year	**248,091**	**606,275**	**(3,791)**	**850,575**	**-**

[1]TTC Pension Fund ($70,726) included recognition of net unamortized gains of $36,227 which were applied to 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	2022	2021
Cost of TTC Pension Fund contributions	135,390	131,298
TTC Pension expense in excess of contributions	-	-
Net cost of TTC Pension Fund	135,390	131,298
Cost of other future employee benefits	132,209	129,452
Total cost of employee future benefits	267,599	260,750
Less: Costs allocated to capital assets	(31,787)	(34,168)
Total employee future benefit costs included in the Consolidated Statement of Operations and Accumulated Surplus	**235,812**	**226,582**

The following table summarizes how the employee future benefit costs are included in note 16, expenditure by object:

$000s	2022	2021
Employee future benefit costs included in Wages, salaries and benefits (note 16)	235,812	226,582
Total employee future benefit costs included in the Consolidated Statement of Operations and Accumulated Surplus	**235,812**	**226,582**

Reconciliation of funded status to the employee benefit liabilities and assets as at December 31, 2022 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	-	-	25,204	**25,204**	**3,897,636**
Accrued benefit obligations	317,586	457,064	20,932	**795,582**	**2,877,458**
Funded status – (deficit)/ surplus	(317,586)	(457,064)	4,272	**(770,378)**	**1,020,178**
Unamortized (gains)/losses	48,641	(191,023)	1,226	**(141,156)**	**(110,291)**
Accrued benefit (liability)/ asset	(268,945)	(648,087)	5,498	**(911,534)**	**909,887**
Valuation allowance	-	-	-	**-**	**(909,887)**
Employee benefit (liability)/asset	**(268,945)**	**(648,087)**	**5,498**	**(911,534)**	**-**

Reconciliation of funded status to the employee benefit liabilities and assets as at December 31, 2021 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	-	-	25,292	**25,292**	**4,267,400**
Accrued benefit obligations	318,231	620,353	21,612	**960,196**	**3,052,033**
Funded status – (deficit)/ surplus	(318,231)	(620,353)	3,680	**(934,904)**	**1,215,367**
Unamortized losses/(gains)	70,140	14,078	111	**84,329**	**(444,768)**
Accrued benefit (liability)/ asset	(248,091)	(606,275)	3,791	**(850,575)**	**770,599**
Valuation allowance	-	-	-	**-**	**(770,599)**
Employee benefit (liability)/asset	**(248,091)**	**(606,275)**	**3,791**	**(850,575)**	**-**

[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 $909.9 million (December 31, 2021 – $770.6 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 2022 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	318,231	620,353	21,612	**960,196**	**3,052,033**
Current service cost:	70,664	36,114	125	**106,903**	**80,957**
Interest cost	6,259	16,526	396	**23,181**	**190,861**
Gain on the obligation:	(23,222)	(201,251)	(778)	**(225,251)**	**(284,897)**
Employee contributions	-	-	99	**99**	**-**
Benefits paid	(54,346)	(14,678)	(1,256)	**(70,280)**	**(213,818)**
Plan amendments	-	-	733	**733**	**52,322**
Balance, end of the year	**317,586**	**457,064**	**20,931**	**795,581**	**2,877,458**

The continuity of the change in the accrued benefit obligation including costs recognized in 2021 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	289,135	677,458	20,753	**987,346**	**3,304,351**
Current service cost	46,000	39,907	30	**85,937**	**96,357**
Interest cost	3,558	13,988	585	**18,131**	**175,253**
(Gain)/loss on the obligation	12,176	(97,151)	502	**(84,473)**	**(362,596)**
Employee contributions	-	-	132	**132**	**-**
Benefits paid	(47,211)	(13,849)	(1,102)	**(62,162)**	**(197,559)**
Plan amendments	14,573	-	712	**15,285**	**36,227**
Balance, end of the year	**318,231**	**620,353**	**21,612**	**960,196**	**3,052,033**

The continuity of the plan assets for the funded pension plans in 2022 is as follows:

$000s	Supplemental Pension Plan	TTC Pension Fund
Balance, beginning of the year	25,292	4,267,400
Employee contributions	99	-
Employer contributions	2,040	135,390
Expected return on plan assets	792	262,074
Excess on return on plan assets	(1,949)	(551,035)
TTC's portion of TTC Pension Fund administrative expenses	-	(2,375)
Benefits paid	(1,070)	(213,818)
Balance, end of the year	**25,204**	**3,897,636**

The continuity of the plan assets for the funded pension plans in 2021 is as follows:

$000s	Supplemental Pension Plan	TTC Pension Fund
Balance, beginning of the year	21,782	3,987,330
Employee contributions	132	-
Employer contributions	1,768	131,298
Expected return on plan assets	693	207,535
Excess on return on plan assets	1,833	141,096
TTC's portion of TTC Pension Fund administrative expenses	-	(2,300)
Benefits paid	(916)	(197,559)
Balance, end of the year	**25,292**	**4,267,400**

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

	2022	2021
Accrued benefit obligations as at December 31:		
Discount rate for post-employment plans	4.10% to 4.20%	2.0% to 2.3%
Discount rate for post-retirement, non-pension plans	4.70%	2.70%
Discount rate for supplemental pension plans	3.60% to 4.20%	2.15% to 3.20%
Discount rate for TTC Pension Fund	7.10%	6.20%
Rate of increase in earnings	2.50% to 3.50%	1.25% to 3.25%
Benefit costs for the years ended December 31:		
Discount rate for post-employment plans	2.00% to 2.30%	1.20% to 1.50%
Discount rate for post-retirement, non-pension plans	2.70%	2.20%
Discount rate for supplemental pension plans	2.15% to 3.20%	1.45% to 3.25%
Discount rate for TTC Pension Fund	6.20%	5.25%
Rate of increase in earnings	1.25% to 3.25%	1.25% to 3.25%
Expected rate of return on assets, supplemental pension plan	3.20%	3.25%
Actual rate of return on assets, supplemental pension plan	-4.50%	11.30%
Expected rate of return on assets, TTC Pension Fund	6.20%	5.25%
Actual rate of return on assets, TTC Pension Fund	-6.50%	9.20%

The TTC's annual rate of growth for post-retirement drug costs as of December 31, 2022 was estimated between 8.1% and 10.2%, depending on the member's age (down from a range of 8.2% to 10.3% as of December 31, 2021). These rates consist of a drug trend rate of 5.9% (down from 6.0% as of December 31, 2021), 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, 2021).

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

$000s	2022	2021
Fair value of plan assets	7,795,272	8,534,800
Accrued benefit obligations	5,754,916	6,104,066
Funded status – surplus	**2,040,356**	**2,430,734**

10. ENVIRONMENTAL LIABILITIES

As an operator of diesel buses that are refueled 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. DEFERRED REVENUE

Deferred revenue as at December 31 consists of the following:

$000s	2022	2021
Deferred passenger revenue	36,366	36,046
Deferred credits	6,229	9,657
Total	**42,595**	**45,703**

12. TANGIBLE CAPITAL ASSETS

The cost of tangible capital assets is as follows:

$000s	Cost as at December 31, 2022				
	Beginning	**Additions, net of transfers**	**Disposals**	**Write downs**	**Ending**
Subways	4,769,822	152,733	-	-	4,922,555
Buildings and structures	4,603,583	274,515	-	-	4,878,098
Rolling stock	3,435,923	107,068	(12)	-	3,542,979
Buses	2,216,449	67,420	(34,244)	-	2,249,625
Trackwork	2,289,551	85,684	-	-	2,375,235
Other equipment	1,425,666	80,497	(4,340)	-	1,501,823
Traction power distribution	804,901	38,109	-	-	843,010
Land	11,946	-	-	-	11,946
Construction in progress	1,388,991	125,784	-	(5,790)	1,508,985
Total	**20,946,832**	**931,810**	**(38,596)**	**(5,790)**	**21,834,256**

$000s	Cost as at December 31, 2021				
	Beginning	**Additions, net of transfers**	**Disposals**	**Write downs**	**Ending**
Subways	4,547,201	222,621	-	-	4,769,822
Buildings and structures	4,471,446	147,251	(15,114) [1]	-	4,603,583
Rolling stock	3,381,048	54,875	-	-	3,435,923
Buses	2,190,112	61,702	(35,365)	-	2,216,449
Trackwork	2,242,079	47,472	-	-	2,289,551
Other equipment	1,277,721	154,445	(6,500)	-	1,425,666
Traction power distribution	765,581	39,320	-	-	804,901
Land	12,832	-	(886) [1]	-	11,946
Construction in progress	1,253,319	137,397	-	(1,725)	1,388,991
Total	**20,141,339**	**865,083**	**(57,865)**	**(1,725)**	**20,946,832**

The accumulated amortization for tangible capital assets is:

$000s	Accumulated amortization as at December 31, 2022			
	Beginning	**Amortization**	**Disposals**	**Ending**
Subways	1,686,516	107,077	-	1,793,593
Buildings and structures	1,161,313	141,245	-	1,302,558
Rolling stock	1,424,156	162,004	(12)	1,586,148
Buses	1,307,410	158,594	(34,244)	1,431,760
Trackwork	1,606,753	66,605	-	1,673,358
Other equipment	938,796	88,624	(4,340)	1,023,080
Traction power distribution	388,564	24,818	-	413,382
Total	**8,513,508**	**748,967**	**(38,596)**	**9,223,879**

$000s	Accumulated amortization as at December 31, 2021			
	Beginning	Amortization	Disposals	Ending
Subways	1,584,257	102,259	-	1,686,516
Buildings and structures	1,040,945	135,482	(15,114) [1]	1,161,313
Rolling stock	1,273,527	150,629	-	1,424,156
Buses	1,180,647	162,128	(35,365)	1,307,410
Trackwork	1,540,249	66,504	-	1,606,753
Other equipment	862,656	82,640	(6,500)	938,796
Traction power distribution	365,232	23,332	-	388,564
Total	**7,847,513**	**722,974**	**(56,979)**	**8,513,508**

[1] On June 16, 2021, the Board of the Toronto Coach Terminal Inc. approved the transfer of operational management of the Coach Terminal Properties ("the Properties") to the City. Effective July 8, 2021, the City took over management of the Properties which resulted in a tangible capital asset disposition of the related land and buildings as noted in the tables above.

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

$000s	Net book value 2022	Net book value 2021
Subways	3,128,962	3,083,306
Buildings and structures	3,575,540	3,442,270
Rolling stock	1,956,831	2,011,767
Buses	817,865	909,039
Trackwork	701,877	682,798
Other equipment	478,743	486,870
Traction power distribution	429,628	416,337
Land	11,946	11,946
Construction in progress	1,508,985	1,388,991
Total	**12,610,377**	**12,433,324**

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

13. ACCUMULATED OPERATING SURPLUS

Accumulated operating surplus as at December 31 consists of:

$000s	2022	2021
Invested in tangible capital assets	12,484,275	12,317,686
Accumulated surplus from TTC Subsidiaries	4,181	4,118
Accumulated surplus generated through operating budget	14,141	14,141
Total	**12,502,597**	**12,335,945**

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 12, i.e. $126.1 million (2021 – $115.6 million) primarily represents the net book value of capital assets that have been internally funded by the TTC.

14. OPERATING SUBSIDIES

The City of Toronto is responsible for providing TTC operating funding, including base operating funding to support regular transit operations and relief funding to offset the impact of passenger and ancillary revenue losses as well as incremental expenses due to the impact of COVID-19. The sources of operating funding for the year ended December 31 are as follows:

$000s			2022	2021
	Conventional	Wheel-Trans	Total	Total
Base Operating Funding				
- City of Toronto	642,061	116,575	758,636	715,752
- Provincial Gas Tax (note 15b)	91,600	-	91,600	91,600
	733,661	116,575	850,236	807,352
Relief Funding				
- Safe Restart Agreement - Transit Stream	452,185	428	452,613	796,400
- City of Toronto	91,273	87	91,360	-
	543,458	515	543,973	796,400
Total operating funding	**1,277,119**	**117,090**	**1,394,209**	**1,603,752**

Base Operating Funding
As part of the City's annual budget process, $91.6 million (2021 – $91.6 million) of the TTC's Conventional operating budget is ultimately sourced from the Provincial Gas Tax (see note 15b).

Relief Funding
The Safe Restart Agreement – Transit Stream ("SRA"), is jointly funded by the Provincial and Federal governments to respond to municipal transit costs and lost revenues due to COVID-19. The program was initially announced in August 2020, with top-up funding announced in March 2021 and December 2022. The SRA has provided up to $2.15 billion in emergency assistance to support Ontario municipal transit systems in various Phases from April 1, 2020 to December 31, 2022. Of this total, TTC via the City of Toronto has received and recognized $452.6 million for 2022 and $796.4 million for 2021. Since the initial announcement, a total of $1.839 billion has been received by TTC via the City to address financial pressures due to COVID-19. The remaining COVID-19 impacts not covered by the SRA will be addressed by the City.

Total operating subsidies received and accrued in the financial statements from the City includes certain future non-recoverable amounts and excludes other adjustments related to City reserve contributions as well as City special costs, as outlined in the following table:

Operating subsidies

$000s			2022	2021
	Conventional	Wheel-Trans	Total	Total
Operating funding received through the City (see above)	1,277,119	117,090	1,394,209	1,603,752
City special costs	(4,522)	-	(4,522)	(123)
Future recoverable amounts (note 5)				
Reduction in accident claims	(323)	(144)	(467)	(7,846)
Increase in post-retirement benefit liabilities	35,084	1,468	36,552	40,327
	1,307,358	118,414	1,425,772	1,636,110
Net contributions to (note 18)				
TTC Stabilization Reserve Fund	-	-	-	(93,308)
Long Term Liability Reserve Fund	(7,301)	(239)	(7,540)	(3,260)
Total operating subsidies	**1,300,057**	**118,175**	**1,418,232**	**1,539,542**

City special costs represent subsidies reflected in the City's budget that are not included in the TTC's financial statements but relate to the TTC. They include costs associated with certain subsidized passengers, 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 contributions to and draws from the reserve funds, see note 18, City of Toronto Reserves and Reserve Funds.

15. CAPITAL SUBSIDIES

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

$000s	2022	2021
Source of capital subsidies:		
- City of Toronto	440,309	522,290
- Province of Ontario	105,743	123,759
- Federal Government of Canada	354,585	203,445
- Other	2,355	6,207
Total capital subsidies	**902,992**	**855,701**

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 2022 capital subsidy of $900.6 million (2021 – $849.5 million). Amounts claimed from the City do not include a $254.9 million expenditure (2021 – $3.8 million) for property purchased in the year 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 2022, $20.2 million (2021 – $15.6 million) was recognized as subsidy with respect to this project and the amount is presented in the above table as a City of Toronto subsidy. It is expected that 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 quarter 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.

b. Province of Ontario

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

$000s	2022	2021
Source of capital subsidies:		
- Provincial Gas Tax (PGT)	93,601	93,395
- Streetcar Program	8,403	26,560
- Investing in Canada Infrastructure Program (ICIP)	1,930	-
- LRV Car Project	1,809	3,804
Total provincial capital subsidies	**105,743**	**123,759**

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. For 2022, the City directed $91.6 million (2021 – $91.6 million) toward the TTC's operating needs (note 14) and $93.6 million (2021 - $93.4 million) was used to support the acquisition of TTC Capital assets.

Streetcar Program

On May 12, 2021, the provincial government announced a $180 million contribution towards the total estimated cost of $568 million for the TTC Streetcar Program, which includes the procurement of 60 new streetcars and supporting infrastructure required at Hillcrest Facility. To date, provincial funding for the eligible expenditures incurred amounts to $35 million and has been accrued, including $8.4 million in 2022 (2021 - $26.6 million).

Investing in Canada Infrastructure Program (ICIP)

In a joint announcement with the Government of Canada and the City of Toronto in December 2022, the Province of Ontario confirmed its commitment to contribute up to $449.2 million towards the Bloor-Yonge Capacity Improvements project. The funding will flow through the Public Transit Infrastructure Stream of the Investing in Canada Infrastructure Program (ICIP). To date, provincial funding for the eligible expenditures incurred amounts to $1.9 million and has been accrued in 2022 (2021 - $nil).

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 flows 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 $354 million (2021 – $352.2 million) has been recognized against the project to date including $1.8 million for 2022 (2021 – $3.8 million).

c. Federal Government of Canada

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

$000s	**2022**	**2021**
Source of capital subsidies:		
- Canada Community-Based Fund (CCBF)	341,556	174,135
- Streetcar Program	3,335	26,560
- Public Transit Infrastructure Fund (PTIF)	7,764	2,750
- Investing in Canada Infrastructure Program (ICIP)	1,930	-
Total federal capital subsidies	**354,585**	**203,445**

Canada Community-Building Fund (Formerly 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. In 2014, a new and permanent agreement for the 10-year period 2014-2023 was signed and 2014–2019 allocations are based on the updated 2011 Census population, with allocations from 2020–2024 based on 2016 Census data. As of June 2021, the Federal Gas Tax Fund has been renamed the Canada Community-Building Fund (CCBF) to better reflect the program's evolution over time and will not alter or modify the objectives or requirements of the program. Ontario's allocation of this funding to municipalities is based on population and the City allocated $341.6 million in 2022, which includes a $174.1 million allocation for 2022 (2021 – $174.1 million) and a one-time top up amount of $167.5 million received in 2019 under this program. This amount was allocated to the TTC in 2022.

Streetcar Program

On May 12, 2021, the federal government announced that it would provide up to 43% of the total eligible costs, to a maximum contribution of $180 million, to the TTC Streetcar Program, which includes the procurement of 60 new streetcars and supporting infrastructure required at Hillcrest Facility. To date, federal funding for the eligible expenditures incurred amounts to $29.9 million and has been accrued, including $3.3 million in 2022 (2021 - $26.6 million).

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 PTIF program has since been extended to December 31, 2022. The total Phase I Federal PTIF allocation announced for the City of Toronto was $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 the end of 2022, federal funding for the eligible expenditures incurred amounts to $772.9 million (2021 – $765.1 million), of which $7.8 million has been accrued in 2022 (2021 – $2.8 million).

Investing in Canada Infrastructure Program (ICIP)
Under the ICIP, the federal government is investing more than $180 billion over 12 years in public transit projects, green infrastructure, social infrastructure, trade and transportation routes, and Canada's rural and northern communities. Through the Public Transit Infrastructure Stream of the ICIP, the Government of Canada announced an investment of up to $500 million for the Bloor-Yonge Capacity Improvements project in December 2022. This represents the Government of Canada's formal commitment to the funding first announced in August 2019. To date, federal funding for the eligible expenditures incurred amounts to $1.9 million and has been accrued in 2022 (2021 - $nil).

d. Other

Other funding of $2.4 million (2021 – $6.2 million) includes specific purpose third-party agreements.

16. EXPENSES BY OBJECT

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

$000s	**2022**	**2021**
Wages, salaries and benefits	1,608,625	1,534,119
Materials, services and supplies	345,745	331,151
Vehicle fuel	115,593	73,457
Electric traction power	45,387	47,678
Utilities	26,641	25,545
Accident claims and insurance	22,134	14,802
Amortization (operating budget)	21,496	23,411
Amortization (assets funded through capital)	727,471	699,563
Wheel-Trans contract services	38,970	23,812
Total expenses	**2,952,062**	**2,773,538**

17. BUDGET DATA

Budget data presented in these consolidated financial statements is based upon the 2022 operating and capital budgets approved by the TTC Board ("the Board"), the Board of the Toronto Coach Terminal Incorporated and Toronto City Council ("City Council"). The 2022 operating and capital budget was approved by the Board on December 20, 2021. Amendments to the 2022 operating budget were subsequently approved by City Council on February 17, 2022 and July 19, 2022. Amendments to the 2022 capital budget were approved by the Board on June 23, 2022 and City Council on December 14, 2022. The Board of the Toronto Coach Terminal Inc. approved the 2022 budget on February 10, 2022. 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 budget	2,140,222	135,448	7	2,275,677
Other recoverable expenses	47,431	1,789	-	49,220
Amortization of previously subsidized assets	714,735	12,736	-	727,471
Total budgeted expenses per consolidated financial statements	**2,902,388**	**149,973**	**7**	**3,052,368**

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

18. 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. In order for the TTC to draw on these Reserves and Reserve Funds, they are required to incur the related expenditures. In 2022, the average interest rate applicable to Reserve Funds was approximately 0.4% (December 31, 2021 – 0.3%).

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	**2022 Total**	**2021 Total**
Balance, beginning of the year	99,908	733	35,814	136,455	39,780
Net contributions/(draws)	-	(653)	7,540	6,887	96,568
Interest earned	-	19	130	149	107
Balance, end of the year	**99,908**	**99**	**43,484**	**143,491**	**136,455**

Stabilization Reserve

The Stabilization Reserve was created to stabilize the funding of TTC's operating expenditures over time. Any operating deficits, to the limit of the reserve balance and after approval from City Council, may be covered by a draw from this reserve. In 2022 and 2021, no amount was withdrawn for this purpose.

In 2022, no contributions were made to the Stabilization Reserve.

In 2021, City Council authorized a special contribution to the TTC Stabilization Reserve Fund equal to the proceeds received from the settlement with Metrolinx to provide a funding source for Light Rail Transit construction disruption service. In addition, in 2021 City Council also provided authority to allocate any projected savings from TTC Conventional and TTC Wheel-Trans combined net underspending to the TTC Stabilization reserve to offset continued COVID-19 transit impacts expected in 2022. The combined amount contributed in 2021 related to these two authorities was $93.3 million.

Land Acquisition Reserve Fund

The Land Acquisition Reserve Fund was created to fund future land acquisitions by the City for the TTC's use. In 2022, a draw of $0.7 million was made to partially fund the City's acquisition of 800 Kipling Avenue for the jurisdictional use of the TTC. No draws or contributions were made in 2021.

Long Term Liability Reserve Fund

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

Through the approved budget in 2022, City Council authorized a contribution of up to $20.6 million (2021 – $17.7 million) and a draw equal to the amount contributed from the Long Term Liability Reserve Fund, to support actual accident claim payments at the time of the settlement. An amount of $20.6 million was contributed and $13.1 million withdrawn, resulting in a net contribution of $7.5 million (2021 – $3.3 million).

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

$000s	PGT	CSIF	Quickwins	**2022 Total**	**2021 Total**
Balance, beginning of the year	172	775	1,884	2,831	2,634
Provincial contributions	185,467	-	-	185,467	185,155
Draws	(185,201)	-	-	(185,201)	(184,995)
Interest earned	-	3	7	10	37
Balance, end of the year	**438**	**778**	**1,891**	**3,107**	**2,831**

PGT

Of the $185.6 million (2021 – $185.2 million) in Provincial Gas Tax available, the City has directed $91.6 million for 2022 (2021 – $91.6 million) toward the TTC's operating needs (note 14) and $93.6 million (2021 – $93.4) was used to support the acquisition of TTC Capital assets (note 15). There is an amount of $0.4 million remaining in the reserve fund.

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. In 2022, there were no funds withdrawn from this reserve fund (note 15) and $nil was withdrawn in 2021. There is an amount of $0.8 million remaining in the reserve fund.

MoveOntario 2020 Reserve Fund (Quickwins)

Provincial payments totaling $452.5 million were received in March 2008 in support of the Metrolinx approved Quick Wins projects. Of the total payment received, plus accumulated interest of $24.1 million, $474.8 million has been applied to accumulated funding recognized by the TTC to date for capital expenditures, no funding was applied in 2022 (note 15) and no funding drawn from the reserve fund in 2021. There is an amount of $1.9 million remaining in the reserve fund.

19. COMMITMENTS, CONTINGENCIES AND CONTRACTUAL RIGHTS

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 claims.

b. The TTC has contracts for the construction and implementation of various capital projects. As at December 31, 2022, these contractual commitments total approximately $497.4 million (December 31, 2021 – $415.3 million) for significant programs such as, but not limited to, Easier Access III, Fire Ventilation Upgrade and Second Exits, Toronto Rocket/T1 Rail Yard Accommodation, Bus Hoists, e-Bus Charging System Purchase, Russell Yard and Car House Modifications, Station Finish Renewal, Vision-CAD/AVL System, Faregates, Warden Station Redevelopment, and Line 1 Capacity Enhancement.

c. In April 2009, the Board approved the design and supply of 204 low floor light rail vehicles (LFLRV). In June 2009, the contract was awarded to Bombardier Transportation Canada Inc. In March 2021, and May 2021, an additional 60 LRVS were added to the contract bringing the total delivery requirement to 264 vehicles. As of December 31, 2022, the contract value is in total $1,481.1 million with 204 LRV's delivered to the TTC, costs incurred to date total $1,167.4 million, and the outstanding commitment is $313.7 million.

d. In May 2021 Creative Carriage was awarded a contract for the purchase of 110 low floor Wheel-Trans buses and in March 2022, an additional 27 low floor Wheel-Trans buses were added to the contract. In June 2022, Creative Carriage was awarded an additional contract for 23 low floor Wheel-Trans buses increasing the total requirement to 160 buses. As of December 31, 2022, the contract values total $40.1 million with 61 buses delivered to the TTC. Costs incurred to date total $15.1 million and the outstanding commitment is $25 million.

e. In October 2020, the Board approved approximately 300 Hybrid Electric Buses and in February 2022, contracts were awarded to Nova Bus Inc. and New Flyer Industries for a total of 336 buses. As of December 31, 2022, the contract values total $373.4 million with deliveries expected to the TTC in 2023 and 2024. Costs incurred to date are $121.7 million, and the outstanding commitment is $251.7 million.

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

g. The TTC entered into a revolving credit facility agreement with a Canadian chartered bank. Under this agreement, the TTC has issued a standby letter of credit to be used to support its bus electrification project in the amount of $1.2 million (2021 - $1.2 million). The amount drawn of this letter of credit as at December 31, 2022 was $nil (2021 - $nil).

h. In consideration for services associated with the PRESTO fare payment system, TTC is obligated to pay a commission fee equivalent to 5.25%, inclusive of HST, of the gross receipts of passenger revenue received through the PRESTO system until 2027.

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

	$000s
2023	18,720
2024	16,705
2025	15,844
2026	12,168
2027	11,344
Thereafter	75,803
Total	**150,584**

j. In 2022, the TTC extended its vehicle and station advertising agreement with Pattison to December 31, 2033. Over the remaining term of the agreement the minimum guaranteed annual fee payable to the TTC is expected to be at least $311.1 million, based on assumed ridership between 70-80% of pre-pandemic levels. The actual annual amounts payable over the term of the agreement may be higher based on the TTC's actual ridership levels and other factors.

20. PANDEMIC RESPONSE

On March 11, 2020, the Word Health Organization characterized the outbreak of a strain of the novel coronavirus (“COVID-19”) as a pandemic, which 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 a material impact on passenger revenues since March 2020.

In 2022, TTC experienced gradual ridership recovery throughout the year and reached 68% of pre-pandemic levels at year-end. The financial impact of COVID-19 for the year ended December 31, 2022 was $544.0 million (2021 - $796.4 million). To address these financial impacts, COVID relief funding was received as described in note 14.

Looking forward, COVID-19 is expected to continue to have an ongoing financial impact on the TTC, due to the continuation of hybrid work arrangements which are constraining ridership recovery from reaching pre-pandemic levels. As a result, financial impacts of $366.4 million, are expected for 2023. The TTC anticipates receiving emergency funding to offset the projected 2023 COVID financial impacts.