



**For Action**

## **Draft Consolidated Financial Statements of Toronto Transit Commission for the Year Ended December 31, 2021**

**Date:** June 23, 2022  
**To:** TTC Board

### **Summary**

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The subject report was reviewed by the TTC Audit & Risk Management Committee on June 9, 2022 and is forwarded to the TTC Board for its consideration.

### **Recommendations**

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It is recommended that the TTC Board:

1. Approve the Draft Consolidated Financial Statements of Toronto Transit Commission for the Year Ended December 31, 2021; and
2. Forward a copy of this report to the City Clerk for submission to the City of Toronto Audit Committee

### **Attachments**

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Attachment 1 – Draft Consolidated Financial Statements of Toronto Transit Commission for the Year Ended December 31, 2021



**For Action**

## **Draft Consolidated Financial Statements of Toronto Transit Commission for the Year Ended December 31, 2021**

**Date:** June 9, 2022  
**To:** TTC Audit and Risk Management Committee  
**From:** Chief Financial Officer

### **Summary**

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

The 2021 accounting surplus is \$142.6 million and is comprised mainly of the value of subsidy revenue earned on capital asset additions, partially offset by 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**

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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 for its meeting of June 23, 2022 and subsequently to the City Clerk for submission to the next City Audit Committee meeting.

### **Implementation Points**

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This report requires approval at the June 9, 2022 TTC Audit and Risk Management Committee meeting to ensure timely submission to the June 23, 2022 TTC Board meeting and then to the Audit Committee meeting of the City of Toronto.

### **Financial Summary**

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

## **Equity/Accessibility Matters**

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

## **Decision History**

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

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This report presents the consolidated financial statements of the TTC for the fiscal year December 31, 2021.

The draft consolidated financial statements of the Toronto Transit Commission for the year ended December 31, 2021 have been prepared by Management. They have been audited by KPMG ("KPMG"), 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 and Risk Management Committee and Board, and KPMG completes its file documentation, the draft unqualified opinion will be finalized on KPMG letterhead.

## **Comments**

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### **2021 Accounting Surplus As Reported in the Consolidated Financial Statements**

The Consolidated Statement of Operations results in an accounting surplus of \$142.6 million for the year ended 2021. The accounting surplus is derived primarily from the

capital subsidy revenue of \$855.7 million less the depreciation expense for subsidized assets. However, the net amount does not represent surplus funds. The full \$855.7 million was spent on capital assets acquired or constructed in 2021.

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:

### **2021 Accounting Surplus Comparison to 2020**

<b>Item (\$ Millions)</b>	<b>2021</b>	<b>2020</b>	<b>Variance</b>
Capital Subsidy Revenue	855.7	814.5	41.2
Depreciation Expense for Assets funded through Capital Subsidy	(699.6)	(634.2)	(65.4)
Other Expenses Funded through Capital Subsidy	(17.4)	(30.4)	13.0
Pension Expense in Excess of Employer Contributions	-	(16.6)	16.6
Entities under the control of TTC	3.9	1.0	2.9
<b>Total</b>	<b>142.6</b>	<b>134.3</b>	<b>8.3</b>

The 2021 accounting surplus increased by \$8.3 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 \$41.2 million increase in capital subsidy revenue is primarily due to increased spending in the Fire Ventilation and Bus Rebuild projects as well as notice to proceed payments for the purchase of 60 Light Rail Vehicles, which are expected to be delivered between 2024 and 2025.

#### **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 life cycles and as the assets are used over their term. The increase in depreciation expense is primarily due to new assets placed into service in 2021, such as the Line 1 Automatic Train Control signalling system; Bus Overhauls; completion of work on the Easier Access Phase III program in which three stations were made fully accessible in 2021 (Yorkdale, Sherbourne and Keele); and IT Equipment and Software projects.

#### **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 \$13.0 million decrease in expenses funded through capital subsidy is primarily driven by lower costs for environmental program expenses as well as fewer write-offs of capital projects and lower expenses funded by liquidated damages.

## **Pension Expense in Excess of Employer Contributions**

As a joint defined benefit plan, PSAS requires the TTC to create an asset equal to the value of the net unamortized actuarial loss and record it as accounting income in the TTC's consolidated financial statements. In 2021, the net unamortized actuarial gains increased, and therefore, there was no incremental accounting impact to the pension expense or the required cash contributions. Whereas during 2020, the pension asset was derecognized as the TTC Pension Plan shifted from a position of net unamortized actuarial losses to gains, which resulted in a TTC accounting expense.

## **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 largest portion of the 2021 accounting surplus is attributable to TCTI. 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, the resulting net gain (increase in accounting surplus) was \$3.3 million.

## **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 2021 operating budget subsidy requirements. The table below reconciles the operating subsidy in the financial statements to the 2021 Combined Net City Funding presented in the 2021 Financial Update for the Period Ended December 31, 2021 report considered by the TTC Board at its April 14, 2022 meeting and provided as a reference in the link below.

[https://ttc-cdn.azureedge.net/-/media/Project/TTC/DevProto/Documents/Home/Public-Meetings/Board/2022/April-14/Reports/15 Financial and Major Projects Update for the Period Ended December 31 .pdf?rev=8aa3e322bdf74c27a96b5b808a991309&hash=D5F8498135D694EEDFC55248D1F21EFA](https://ttc-cdn.azureedge.net/-/media/Project/TTC/DevProto/Documents/Home/Public-Meetings/Board/2022/April-14/Reports/15_Financial_and_Major_Projects_Update_for_the_Period_Ended_December_31_.pdf?rev=8aa3e322bdf74c27a96b5b808a991309&hash=D5F8498135D694EEDFC55248D1F21EFA)

## 2021 Operating Subsidy Revenue vs 2021 Budgetary Year-End Results

(\$ Millions)	2021	2020
<b>Operating Subsidy Revenue per Financial Statements</b>	<b>1,539.5</b>	<b>1,399.4</b>
Contribution to TTC Long-term Liability Reserve	3.3	-
Contribution to TTC Stabilization Reserve	93.3	-
City Special Costs	0.1	3.1
Adjustments for Future Recoverable Amounts:		
Increase in Post-Retirement Benefits	(40.3)	(34.7)
Decrease/(Increase) in Accident Claims	7.8	(5.7)
Rounding	-	(0.1)
<b>Current TTC Operating Funding Required</b>	<b>1,603.7</b>	<b>1,362.0</b>
<b>Operating Funding Sources</b>		
Budgeted City Funding <sup>(1)</sup>	807.3	789.8
Contribution to City Land Acquisition Reserve <sup>(2)</sup>	-	(18.0)
Safe Restart Agreement Funding	796.4	590.2
<b>Total Operating Funding Sources</b>	<b>1,603.7</b>	<b>1,362.0</b>
<b>Budget Surplus/(Shortfall)</b>	<b>-</b>	<b>-</b>

(1) Included in the Budgeted City Funding for 2021 is an anticipated \$17.5 million transfer from the City's non-program budget related to the 2021 impact of the arbitrated settlement with ATU 113. In addition, both the 2021 and 2020 amounts include \$91.6 million sourced from Provincial Gas Tax.

(2) The planned 2020 contribution to the TTC Land Acquisition Reserve was redirected by City Council to the City Land Acquisition Reserve instead.

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### Contact

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### Signature

Josie La Vita  
Chief Financial Officer

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### Attachments

Attachment 1 – Draft TTC Consolidated Financial Statements for the Year-Ended December 31, 2021

**Consolidated Financial Statements of  
Toronto Transit Commission**  
Year ended December 31, 2021

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

\$000s	2021	2020
<b>Financial assets</b>		
Cash and cash equivalents (note 4)	200,298	152,216
Subsidies receivable (note 5)	1,094,382	1,006,515
Accounts receivable	73,354	57,386
Portfolio investments (note 6)	2,287	2,282
Derivative assets (note 7)	1,212	-
<b>Total financial assets</b>	<b>1,371,533</b>	<b>1,218,399</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	578,252	491,934
Deferred revenue (note 11)	45,703	48,689
Employee future benefits liabilities (note 9)	850,575	784,137
Unsettled accident claims (note 8)	138,859	146,705
Environmental liabilities (note 10)	30,360	23,594
Derivative liabilities (note 7)	-	1,290
<b>Total liabilities</b>	<b>1,643,749</b>	<b>1,496,349</b>
<b>Net debt</b>	<b>(272,216)</b>	<b>(277,950)</b>
<b>Non-financial assets</b>		
Tangible capital assets (note 12)	12,433,324	12,293,826
Spare parts and supplies inventory	151,543	147,469
Prepaid expenses	24,506	28,687
<b>Total non-financial assets</b>	<b>12,609,373</b>	<b>12,469,982</b>
<b>Accumulated surplus</b>	<b>12,337,157</b>	<b>12,192,032</b>
<b>Accumulated surplus is comprised of:</b>		
Accumulated operating surplus (note 13)	12,335,945	12,193,322
Accumulated rereasurement gains/(losses)	1,212	(1,290)
	<b>12,337,157</b>	<b>12,192,032</b>

See accompanying notes to the consolidated financial statements

Approved:

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Commissioner

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Commissioner



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

<u>\$000s</u>	<u>2021 Budget</u>	<u>2021</u>	<u>2020</u>
	(note 17)		
<b>Operating revenue</b>			
Passenger services	496,301	456,230	515,964
Advertising	25,900	13,080	22,855
Property rental	15,775	12,642	14,880
Outside city services	7,725	7,601	7,707
Miscellaneous	2,350	31,365	27,471
<b>Total operating revenue</b>	<b>548,051</b>	<b>520,918</b>	<b>588,877</b>
Operating subsidies (note 14)	1,647,433	1,539,542	1,399,364
Capital subsidies (note 15)	1,376,040	855,701	814,548
<b>Total subsidy revenue</b>	<b>3,023,473</b>	<b>2,395,243</b>	<b>2,213,912</b>
<b>Total revenue</b>	<b>3,571,524</b>	<b>2,916,161</b>	<b>2,802,789</b>
Conventional transit service	2,765,335	2,663,441	2,553,236
Wheel-Trans	129,103	109,805	114,830
Other functions	192	292	433
<b>Total expenses (note 16)</b>	<b>2,894,630</b>	<b>2,773,538</b>	<b>2,668,499</b>
<b>Surplus for the year</b>	<b>676,894</b>	<b>142,623</b>	<b>134,290</b>
Accumulated surplus, beginning of the year		12,193,322	12,059,032
<b>Accumulated surplus, end of the year</b>		<b>12,335,945</b>	<b>12,193,322</b>

See accompanying notes to the consolidated financial statements

**TORONTO TRANSIT COMMISSION**

Consolidated Statement of Remeasurement Gains and Losses

For the year ended December 31

<u>\$000s</u>	<u>2021</u>	<u>2020</u>
Accumulated remeasurement (losses)/gains, beginning of the year	(1,290)	1,629
Unrealized gains/(losses) in the current year attributable to financial derivatives (note 7)	3,650	(10,624)
Realized amounts reclassified to Consolidated Statement of Operations and Accumulated Surplus	(1,148)	7,705
<b>Accumulated remeasurement gains/(losses), end of the year</b>	<b>1,212</b>	<b>(1,290)</b>

See accompanying notes to the consolidated financial statements

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

<u>\$000s</u>	<u>2021 Budget</u> (note 17)	<u>2021</u>	<u>2020</u>
Surplus for the year	676,894	142,623	134,290
Change in tangible capital assets (note 12)			
Acquisition	(1,376,040)	(865,083)	(829,186)
Amortization	723,900	722,974	658,555
Net book value of disposals	-	886	107
Writedowns	-	1,725	7,115
<b>Total change in tangible capital assets</b>	<b>(652,140)</b>	<b>(139,498)</b>	<b>(163,409)</b>
Change in spare parts and supplies	-	(4,074)	(12,060)
Change in prepaid expenses	-	4,181	863
Change in remeasurement gains/(losses) for the year	-	2,502	(2,919)
Change in accrued pension benefit asset	-	-	16,551
<b>Change in net debt</b>	<b>24,754</b>	<b>5,734</b>	<b>(26,684)</b>
Net debt, beginning of the year		(277,950)	(251,266)
<b>Net debt, end of the year</b>		<b>(272,216)</b>	<b>(277,950)</b>

See accompanying notes to the consolidated financial statements

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

\$000s	2021	2020
<b>Operating activities</b>		
Surplus of the year	142,623	134,290
Add (deduct) items not involving cash:		
Amortization of tangible capital assets	722,974	658,555
Net gain on disposal of tangible capital assets	(2,051)	(13,725)
Recognition of revenue from capital subsidies	(855,701)	(814,548)
Change in accrued pension benefit expense	-	16,551
Non-cash operating expenses	828	4,131
Changes in non-cash assets and liabilities related to operations:		
Increase in operating subsidy receivable	(36,241)	(155,175)
(Increase)/decrease in operating accounts receivable	(12,037)	33,062
Increase in spare parts and supplies inventory	(4,911)	(12,682)
Decrease/(increase) in operating prepaid expense	569	(9,092)
Increase/(decrease) in operating accounts payable and accrued liabilities	61,485	(23,308)
Decrease in operating deferred revenue	(2,976)	(4,587)
Increase in employee future benefits liabilities	66,438	39,133
(Decrease)/increase in unsettled accident claims	(7,846)	5,732
Increase in environmental liabilities	6,766	11,394
<b>Cash provided by (used in) operating activities</b>	<b>79,920</b>	<b>(130,269)</b>
<b>Capital activities</b>		
Tangible capital asset acquisitions	(836,639)	(899,391)
Tangible asset disposal proceeds	462	20,925
<b>Cash used in capital activities</b>	<b>(836,177)</b>	<b>(878,466)</b>
<b>Financing activities</b>		
Capital subsidies received	804,339	1,019,235
<b>Cash provided by financing activities</b>	<b>804,339</b>	<b>1,019,235</b>
Change in cash and cash equivalents during the year	48,082	10,500
Cash and cash equivalents, beginning of the year	152,216	141,716
<b>Cash and cash equivalents, end of the year</b>	<b>200,298</b>	<b>152,216</b>

See accompanying notes to the consolidated financial statements

# **Notes to the Consolidated Financial Statements**

Year ended December 31, 2021

## **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:

<b>Asset</b>	<b>Years</b>
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.

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 8.9 years (December 31, 2020 – 8.5 years) and for long-term disability benefits, the amortization period is 7.3 years (December 31, 2020 – 7.2 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 14.6 years (December 31, 2020 – 14.6 years), for the post-retirement medical and post-retirement dental plans the amortization period is 16.0 years (December 31, 2020 – 15.1 years) and for the supplemental funded pension plan, the amortization period is 5.7 years (December 31, 2020 – 5.9 years). The amortization of the actuarial gain or loss begins in the year after the gain or loss arises for all post-retirement plans except the TTC pension plan. Amortization begins in the year of the actuarial gain or loss for the TTC pension plan. This policy is expected to reduce the long-term expense volatility that results from the accounting requirement to defer and amortize actuarial losses.

Past service costs arising from a plan amendment 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.

#### **I. 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.



## 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, 2021.

*(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.

Public Sector Guideline 8 Purchased Intangibles, allows public sector entities to recognize intangibles purchased through an exchange transaction.

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, 2021, 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, \$21.3 million is past due (i.e. outstanding 30 days or more since the due date) and of this total, approximately 76% is due from government entities. The TTC deems all of these amounts as collectible.

Approximately 23.3% of the TTC's accounts receivable (December 31, 2020 – 27.3%) and 100% of subsidies receivable (December 31, 2020 – 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 76.7% (December 31, 2020 – 72.7%) is comprised of:

- Federal government: 37.7% (December 31, 2020 – 33.8%)
- Provincial government: 28.3% (December 31, 2020 – 22.3%)
- Other government entities: 3.0% (December 31, 2020 – 8.9%)
- Non-government entities: 7.7% (December 31, 2020 – 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 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 \$5.5 million in U.S. dollar financial liabilities (December 31, 2020 – \$2.9 million), which is offset by the TTC's U.S. dollar cash balance of \$6.4 million (December 31, 2020 – \$3.2 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 \$578.3 million (December 31, 2020 – \$491.9 million) and, excluding non-financial liabilities, \$325.3 million is due within one year or less (December 31, 2020 – \$263.6 million). The TTC has a combination of cash and cash equivalents 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 \$30.2 million (December 31, 2020 – \$34.1 million) are also excluded from the \$325.3 million (December 31, 2020 – \$263.6 million) due within a year. These amounts are fully recoverable from the City of Toronto, as referred to in note 5, as TTC is eligible to receive related subsidy amounts upon release of the holdbacks. 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 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 \$1.7 million as at December 31, 2021 (December 31, 2020 – \$1.6 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	2021	2020
Subsidies to be collected within one year:		
Capital subsidy receivable	212,875	180,720
Operating subsidy receivable	230,592	226,832
<b>Total subsidies to be collected within one year</b>	<b>443,467</b>	<b>407,552</b>
Other recoverable amounts:		
Employee benefits	498,384	458,057
Accident claims expenses	27,024	34,870
Construction related	99,416	86,375
Future environmental costs (note 10)	26,091	19,661
<b>Total other recoverable amounts</b>	<b>650,915</b>	<b>598,963</b>
<b>Total subsidies receivable</b>	<b>1,094,382</b>	<b>1,006,515</b>

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	2021	2020
Municipality of Metropolitan Toronto Bond (2.45%; February 6, 2025 maturity)	2,287	2,282
<b>Total portfolio investments</b>	<b>2,287</b>	<b>2,282</b>

At December 31, 2021, the fair value of the bond is \$2.4 million (December 31, 2020 – \$2.5 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, 2021. 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, 2021, the accumulated remeasurement gains from these fuel swaps are \$1.2 million (December 31, 2020 – \$1.3 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, 2021. As of December 31, 2021, approximately 15.6% of anticipated diesel fuel requirement has been secured using the fuel swap agreements (December 31, 2020 – 18.6%) with a notional quantity of 3.0 million gallons to be settled by January 2023.

## 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, 2021, \$126.1 million (December 31, 2020 – \$133.5 million) of the unsettled accident claims liability is related to the Insurance Co.'s payable for all automobile claims incurred. This portion of the TTC's accident claim liability is guaranteed by the City. The TTC has purchased insurance from third-party insurers to cover tort claims in excess of \$5.0 million on any one accident. The remainder of the unsettled accident claims liability, \$12.8 million (December 31, 2020 – \$13.2 million), relates to general liability claims of \$15.8 million (December 31, 2020 – \$16.5 million), less \$3.0 million (December 31, 2020 – \$3.3 million) of expected HST rebates, related to automobile and general claims.

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.

<b>Unpaid claims and claims adjustment costs</b>	<b>Undiscounted</b>	<b>Time value of money</b>	<b>Discounted (before PFAD)</b>	<b>PFAD</b>	<b>Discounted</b>
\$000s					
As at December 31, 2021	132,135	(5,676)	126,459	12,400	138,859
As at December 31, 2020	135,873	(2,348)	133,525	13,180	146,705

As at December 31, 2021, the interest rate used to determine the time value of money was 1.28% and reflected the market yield (December 31, 2020 – 0.49%).

## 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, 2021. 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, 2022.

### 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 61% (December 31, 2020 – 58%) cash and equity index pooled funds which are carried at market and 39% (December 31, 2020 – 42%) deposit in a Canada Revenue Agency non-interest bearing refundable tax account. The effective date of the most recent actuarial valuation for funding purposes was January 1, 2021. The next actuarial valuation for funding purposes is expected to be performed as at January 1, 2022. The effective date of the most recent valuation for accounting purposes was December 31, 2021.

### 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 the TTC paying the administrative expenses of the TTCPP directly, the TTC and the TTCPP agreed to have the TTC make a fixed 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 of Directors of the TTCPP, 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 TTCPP 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, 2021, the base year for the TTC pension plan and the funded supplemental pension plans was updated to December 31, 2020 (from December 31, 2019). In addition, the survivor benefit date was updated to January 1, 2021 (from January 1, 2020) and an ad hoc increase of up to 1.03% (December 31, 2020 – 1.96%) 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, 2021. 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, 2021.

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

<sup>1</sup>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 continuity of the change in the employee benefit liabilities/(asset) including expenses recognized in 2020 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	227,391	519,648	(2,035)	<b>745,004</b>	<b>(16,551)</b>
Current service cost	41,041	31,819	89	<b>72,949</b>	<b>93,268</b>
Interest cost	4,700	15,727	275	<b>20,702</b>	<b>(27,768)</b>
Amortization of actuarial (gains)/losses:	(5,162)	3,982	229	<b>(951)</b>	<b>(57,987)</b> <sup>1</sup>
Plan amendments	-	-	965	<b>965</b>	<b>52,073</b> <sup>1</sup>
Change in valuation allowance	-	-	-	-	<b>87,267</b>
Total expenses	40,579	51,528	1,558	<b>93,665</b>	<b>146,853</b>
Benefits paid	(40,582)	(11,619)	(184)	<b>(52,385)</b>	-
Employer contributions	-	-	(2,147)	<b>(2,147)</b>	<b>(130,302)</b>
<b>Accrued benefit liability (asset) balance, end of the year</b>	<b>227,388</b>	<b>559,557</b>	<b>(2,808)</b>	<b>784,137</b>	-

<sup>1</sup>TTC Pension Fund (\$57,987) included recognition of net unamortized gains of \$52,073 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	2021	2020
Cost of TTC Pension Fund contributions	131,298	130,302
TTC Pension expense in excess of contributions	-	16,551
Net cost of TTC Pension Fund	131,298	146,853
Cost of other future employee benefits	129,452	93,665
Total cost of employee future benefits	260,750	240,518
Less: Costs allocated to capital assets	(34,168)	(29,116)
Total employee future benefit costs included in the Consolidated Statement of Operations and Accumulated Surplus	226,582	211,402

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

\$000s	2021	2020
Employee future benefit costs included in <i>Wages, salaries and benefits</i> (note 16)	226,582	194,851
Employee future benefit expense included in <i>Pension expense in excess of employer contributions</i> (note 16)	-	16,551
Total employee future benefit costs included in the Consolidated Statement of Operations and Accumulated Surplus	226,582	211,402

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 <sup>1</sup>
Valuation allowance	-	-	-	-	(770,599)
<b>Employee benefit (liability)/asset</b>	<b>(248,091)</b>	<b>(606,275)</b>	<b>3,791</b>	<b>(850,575)</b>	<b>-</b>

Reconciliation of funded status to the employee benefit liabilities and assets as at December 31, 2020 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	-	-	21,782	21,782	3,987,330
Accrued benefit obligations	289,135	677,458	20,753	987,346	3,304,351
Funded status – (deficit)/surplus	(289,135)	(677,458)	1,029	(965,564)	682,979
Unamortized losses/(gains)	61,747	117,901	1,779	181,427	(11,802)
Accrued benefit (liability)/asset	(227,388)	(559,557)	2,808	(784,137)	671,177 <sup>1</sup>
Valuation allowance	-	-	-	-	(671,177)
<b>Employee benefit (liability)/asset</b>	<b>(227,388)</b>	<b>(559,557)</b>	<b>2,808</b>	<b>(784,137)</b>	<b>-</b>

<sup>1</sup>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 \$770.6 million (December 31, 2020 – \$671.2 million) is required to reduce the accrued benefit asset to either the value of the net unamortized actuarial losses (if any) or to the value of the fund surplus less net unamortized gains.

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
<b>Balance, end of the year</b>	<b>318,231</b>	<b>620,353</b>	<b>21,612</b>	<b>960,196</b>	<b>3,052,033</b>

The continuity of the change in the accrued benefit obligation including costs recognized in 2020 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	213,243	568,908	18,524	800,675	3,073,951
Current service cost	41,041	31,819	89	72,949	90,968
Interest cost	4,700	15,727	939	21,366	171,828
Loss on the obligation	70,733	72,623	1,096	144,452	101,213
Employee contributions	-	-	123	123	-
Benefits paid	(40,582)	(11,619)	(983)	(53,184)	(185,682)
Plan amendments	-	-	965	965	52,073
<b>Balance, end of the year</b>	<b>289,135</b>	<b>677,458</b>	<b>20,753</b>	<b>987,346</b>	<b>3,304,351</b>

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)
<b>Balance, end of the year</b>	<b>25,292</b>	<b>4,267,400</b>

The continuity of the plan assets for the funded pension plans in 2020 is as follows:

\$000s	Supplemental Pension Plan	TTC Pension Fund
Balance, beginning of the year	19,363	3,657,861
Employee contributions	123	-
Employer contributions	2,147	130,302
Expected return on plan assets	664	199,596
Excess on return on plan assets	284	187,553
TTC's portion of TTC Pension Fund administrative expenses	-	(2,300)
Benefits paid	(799)	(185,682)
<b>Balance, end of the year</b>	<b>21,782</b>	<b>3,987,330</b>

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

	2021	2020
Accrued benefit obligations as at December 31:		
Discount rate for post-employment plans	2.0% to 2.3%	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%
Benefit costs for the years ended December 31:		
Discount rate for post-employment plans	1.20% to 1.50%	2.40% to 2.50%
Discount rate for post-retirement, non-pension plans	2.20%	2.80%
Discount rate for supplemental pension plans	1.45% to 3.25%	2.45% to 3.50%
Discount rate for TTC Pension Fund	5.25%	5.50%
Rate of increase in earnings	1.25% to 3.25%	2.50% to 3.25%
Expected rate of return on assets, supplemental pension plan	3.25%	3.50%
Actual rate of return on assets, supplemental pension plan	11.30%	4.70%
Expected rate of return on assets, TTC Pension Fund	5.25%	5.50%
Actual rate of return on assets, TTC Pension Fund	9.20%	11.00%

The TTC's annual rate of growth for post-retirement drug costs as of December 31, 2021 was estimated between 8.2% and 10.3%, depending on the member's age (down from a range of 8.3% to 10.4% as of December 31, 2020). These rates consist of a drug trend rate of 6.0% (down from 6.1% as of December 31, 2020), 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, 2020).

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

\$000s	2021	2020
Fair value of plan assets	8,534,800	7,974,660
Accrued benefit obligations	6,104,066	6,608,702
<b>Funded status – surplus</b>	<b>2,430,734</b>	<b>1,365,958</b>

## 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	2021	2020
Deferred passenger revenue	36,046	39,519
Deferred credits	9,657	9,170
<b>Total</b>	<b>45,703</b>	<b>48,689</b>



## 12. TANGIBLE CAPITAL ASSETS

The cost of tangible capital assets is as follows:

\$000s	Cost as at December 31, 2021				Ending
	Beginning	Additions, net of transfers	Disposals	Write downs	
Subways	4,547,201	222,621	-	-	4,769,822
Buildings and structures	4,471,446	147,251	(15,114) <sup>1</sup>	-	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) <sup>1</sup>	-	11,946
Construction in progress	1,253,319	137,397	-	(1,725)	1,388,991
<b>Total</b>	<b>20,141,339</b>	<b>865,083</b>	<b>(57,865)</b>	<b>(1,725)</b>	<b>20,946,832</b>

\$000s	Cost as at December 31, 2020				Ending
	Beginning	Additions, net of transfers	Disposals	Write downs	
Subways	4,068,663	478,538	-	-	4,547,201
Buildings and structures	4,052,937	418,509	-	-	4,471,446
Rolling stock	3,309,188	82,001	(10,141)	-	3,381,048
Buses	2,138,117	108,944	(56,949)	-	2,190,112
Trackwork	2,148,979	93,100	-	-	2,242,079
Other equipment	1,259,888	73,054	(55,221)	-	1,277,721
Traction power distribution	707,223	58,358	-	-	765,581
Land	12,854	-	(22)	-	12,832
Construction in progress	1,743,752	(483,318)	-	(7,115)	1,253,319
<b>Total</b>	<b>19,441,601</b>	<b>829,186</b>	<b>(122,333)</b>	<b>(7,115)</b>	<b>20,141,339</b>

The accumulated amortization for tangible capital assets is:

\$000s	Accumulated amortization as at December 31, 2021			Ending
	Beginning	Amortization	Disposals	
Subways	1,584,257	102,259	-	1,686,516
Buildings and structures	1,040,945	135,482	(15,114) <sup>1</sup>	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
<b>Total</b>	<b>7,847,513</b>	<b>722,974</b>	<b>(56,979)</b>	<b>8,513,508</b>

\$000s	Accumulated amortization as at December 31, 2020			
	Beginning	Amortization	Disposals	Ending
Subways	1,498,127	86,130	-	1,584,257
Buildings and structures	917,155	123,790	-	1,040,945
Rolling stock	1,148,236	135,432	(10,141)	1,273,527
Buses	1,076,450	161,114	(56,917)	1,180,647
Trackwork	1,483,208	57,041	-	1,540,249
Other equipment	843,929	73,895	(55,168)	862,656
Traction power distribution	344,079	21,153	-	365,232
<b>Total</b>	<b>7,311,184</b>	<b>658,555</b>	<b>(122,226)</b>	<b>7,847,513</b>

<sup>1</sup> 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	Net book
	value 2021	value 2020
Subways	3,083,306	2,962,944
Buildings and structures	3,442,270	3,430,501
Rolling stock	2,011,767	2,107,521
Buses	909,039	1,009,465
Trackwork	682,798	701,830
Other equipment	486,870	415,065
Traction power distribution	416,337	400,349
Land	11,946	12,832
Construction in progress	1,388,991	1,253,319
<b>Total</b>	<b>12,433,324</b>	<b>12,293,826</b>

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	2021	2020
	Invested in tangible capital asset	12,317,686
Accumulated surplus from TTC Subsidiaries	4,118	245
Accumulated surplus generated through operating budget	14,141	14,141
<b>Total</b>	<b>12,335,945</b>	<b>12,193,322</b>

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. \$115.6 million (2020 – \$114.9 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 and operating subsidy revenue is recognized to the extent that net operating costs are incurred. The sources of operating subsidies for the year ended December 31 are as follows:

\$000s			2021	2020
	Conventional	Wheel-Trans	Total	Total
- City of Toronto	553,878	97,664	651,542	717,574
- Safe Restart Agreement - Transit Stream	796,400	-	796,400	590,190
- Provincial Gas Tax (note 15b)	91,600	-	91,600	91,600
<b>Total operating subsidies</b>	<b>1,441,878</b>	<b>97,664</b>	<b>1,539,542</b>	<b>1,399,364</b>

Safe Restart Agreement – Transit Stream (“SRA”), is jointly funded by the Provincial and Federal governments and was initially announced in August 2020, with top-up funding announced in March 2021. The SRA has provided up to \$2.15 billion in emergency assistance to support Ontario municipal transit systems from April 1, 2020 and up to December 31, 2021. Of this total, TTC via the City of Toronto has received \$796.4 million for 2021 and \$590.2 million for 2020, for a total of \$1.386 billion to address financial pressures resulting from reduced revenue and new expenses due to COVID-19 for 2020 and 2021.

As part of the City’s annual budget process \$91.6 million (2020 – \$91.6 million) of the TTC’s Conventional operating budget is ultimately sourced from the Provincial Gas Tax (see note 15b).

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

Operating subsidies				
\$000s			2021	2020
	Conventional	Wheel-Trans	Total	Total
Operating subsidies (see above)	1,441,878	97,664	1,539,542	1,399,364
City special costs	123	-	123	3,149
Future recoverable amounts (note 5)				
Reduction/(Increase) in accident claims	7,297	549	7,846	(5,732)
Increase in post-retirement benefit liabilities	(38,753)	(1,574)	(40,327)	(34,741)
	1,410,545	96,639	1,507,184	1,362,040
Net contributions to (note 18)				
TTC Stabilization Reserve Fund	75,063	18,245	93,308	-
Long Term Liability Reserve Fund	3,081	179	3,260	-
<b>Total operating funding received through the City</b>	<b>1,488,689</b>	<b>115,063</b>	<b>1,603,752</b>	<b>1,362,040</b> <sup>1</sup>

<sup>1</sup> The planned 2020 contribution to the TTC Land Acquisition Reserve was redirected by City Council to the City Land Acquisition Reserve instead.

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, 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	2021	2020
Source of capital subsidies:		
- City of Toronto	522,290	502,524
- Province of Ontario	123,759	81,017
- Federal Government of Canada	203,445	230,029
- Other	6,207	978
<b>Total capital subsidies</b>	<b>855,701</b>	<b>814,548</b>

### 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 2021 capital subsidy of \$849.5 million (2020 – \$813.6 million). Amounts claimed from the City do not include a \$3.8 million expenditure (December 31, 2020 – \$1.7 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 2021, \$15.6 million (December 31, 2020 – \$40.0 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 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.

### b. Province of Ontario

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

\$000s	2021	2020
Source of capital subsidies:		
- Provincial Gas Tax (PGT)	93,395	-
- Streetcar Program	26,560	-
- LRV Car Project	3,804	7,720
- Canada Strategic Infrastructure (CSIF) Reserve (note 18)	-	15,636
- MoveOntario 2020 Reserve Fund (Quickwins) (note 18)	-	57,661
<b>Total provincial capital subsidies</b>	<b>123,759</b>	<b>81,017</b>

### **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 2021, the City directed \$91.6 million (December 31, 2020 – \$91.6 million) toward the TTC's operating needs (note 14). Another \$93.4 million was used to support the acquisition of TTC Capital assets. In 2020, the balance, including use of unallocated reserve funds from prior years of \$114.3 million, was used by the City to fund transit related debt servicing costs and is therefore not reflected in TTC Capital Subsidy revenue.

### **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 \$352.2 million (December 31, 2020 – \$348.4 million) has been recognized against the project to date including \$3.8 million for 2021 (December 31, 2020 – \$7.7 million).

### **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 \$26.6 million and has been recognized in 2021 (December 31, 2020 - \$nil).

## **c. Federal Government of Canada**

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

\$000s	2021	2020
Source of capital subsidies:		
- Canada Community-Based Fund	174,135	166,564
- Streetcar Program	26,560	-
- Public Transit Infrastructure Fund (PTIF)	2,750	63,465
<b>Total federal capital subsidies</b>	<b>203,445</b>	<b>230,029</b>

### **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 received \$174.1 million in 2021 (December 31, 2020 – \$166.6 million) under this program. This amount was allocated to the TTC.

### **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 \$26.6 million and has been recognized in 2021 (December 31, 2020 - \$nil).

### **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, 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 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 date, federal funding for the eligible expenditures incurred amounts to \$765.1 million (December 31, 2020 – \$762.3 million), of which \$2.8 million has been recognized in 2021 (December 31, 2020 – \$63.5 million).

#### **d. Other**

Other funding of \$6.2 million (December 31, 2020 – \$1.0 million) includes specific purpose third-party agreements.

### **16. EXPENSES BY OBJECT**

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

\$000s	2021	2020
Wages, salaries and benefits	1,534,119	1,468,463
Materials, services and supplies	331,151	325,008
Vehicle fuel	73,457	65,297
Electric traction power	47,678	53,340
Utilities	25,545	28,296
Accident claims and insurance	14,802	25,583
Amortization (operating budget)	23,411	24,309
Amortization (assets funded through capital)	699,563	634,246
Wheel-Trans contract services	23,812	27,406
Pension expense in excess of employer contributions	-	16,551
<b>Total expenses</b>	<b>2,773,538</b>	<b>2,668,499</b>

### **17. BUDGET DATA**

Budget data presented in these consolidated financial statements is based upon the 2021 operating and capital budgets approved by the TTC Board ("the Board") and the Board of the Toronto Coach Terminal Incorporated. The 2021 operating and capital budget was approved by the Board on December 21, 2020. Amendments to the 2021 capital budget was subsequently approved by the Board on May 25, 2021. The Board of the Toronto Coach Terminal Inc. approved the 2021 budget on February 10, 2021. 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	2,025,412	118,566	192	2,144,170
Other recoverable expenses	49,012	1,885	-	50,897
Amortization of previously subsidized assets	690,911	8,652	-	699,563
<b>Total budgeted expenses per consolidated financial statements</b>	<b>2,765,335</b>	<b>129,103</b>	<b>192</b>	<b>2,894,630</b>

Other recoverable expenses are certain non-cash employee benefits and accident claim expenses that will be funded in the future (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 2021, the average interest rate applicable to Reserve Funds was approximately 0.3% (December 31, 2020 – 1.3%).

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	2021 Total	2020 Total
Balance, beginning of the year	6,600	694	32,486	39,780	39,254
Net contributions/(draws)	93,308	-	3,260	96,568	- <sup>1</sup>
Interest earned	-	39	68	107	526
<b>Balance, end of the year</b>	<b>99,908</b>	<b>733</b>	<b>35,814</b>	<b>136,455</b>	<b>39,780</b>

<sup>1</sup> The planned 2020 contribution to the TTC Land Acquisition Reserve was redirected by City Council to the City Land Acquisition Reserve instead.

#### 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 2021 and 2020, no amount was withdrawn for this purpose.

In July 2021, City Council approved a 2020 contribution to TTC's stabilization reserve with a recommended corresponding draw in 2021. A total of \$57.0 million was contributed and withdrawn in 2021 for this purpose, resulting in a net impact of \$nil.

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. No draws or contributions were made in 2021 and 2020.

#### 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 2021, City Council authorized a contribution of up to \$17.7 million (December 31, 2020 – \$18.8 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 \$17.7 million was contributed and \$14.4 million withdrawn, resulting in a net contribution of \$3.3 million (December 31, 2020 – net \$nil).

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

\$000s	PGT	CSIF	Quickwins	2021 Total	2020 Total
Balance, beginning of the year	-	769	1,865	2,634	96,214
Provincial contributions	185,155	-	-	185,155	184,291
Draws	(184,995)	-	-	(184,995)	(279,215)
Interest earned	12	6	19	37	1,344
<b>Balance, end of the year</b>	<b>172</b>	<b>775</b>	<b>1,884</b>	<b>2,831</b>	<b>2,634</b>

### **PGT**

Of the \$185.2 million (December 31, 2020 – \$184.3 million) in Provincial Gas Tax available, the City has directed \$91.6 million for 2021 (2020 – \$91.6 million) toward the TTC's operating needs (note 14). In 2021, \$93.4 million (December 31, 2020 – \$nil) was used to support the acquisition of TTC Capital assets. In 2020, the balance, including use of unallocated reserve funds from prior years of \$114.3 million, was used by the City to fund transit related debt servicing costs and is therefore was not reflected in TTC Capital Subsidy revenue. There is an amount of \$0.2 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 2021, there were no funds withdrawn from this reserve fund (note 15) and \$15.6 was withdrawn in 2020. There is an amount of \$0.8 million remaining in the reserve fund.

### **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 \$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 2021 (note 15) and \$57.7 million was drawn from the reserve fund in 2020. There is an amount of \$1.9 million remaining in the reserve fund.

## **19. 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 claims.
- b. The TTC has contracts for the construction and implementation of various capital projects. As at December 31, 2021, these contractual commitments total approximately \$415.3 million (December 31, 2020 – \$445.1 million) for significant programs such as, but not limited to, the Toronto Rocket/T1 Rail Yard Accommodation, Fire Ventilation Upgrade & Second Exits, Easier Access Phase III, Roofing Rehabilitation, Bus Hoists, TYSSE, Automated Train Control and Turnstile Replacement.
- 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. In March 2021, and May 2021, an additional 60 LRV's were added to the contract bringing the total delivery requirement to 264 vehicles. As of December 31, 2021, the contract value is in total \$1,622.1 million with 204 LRV's delivered to the TTC, costs incurred to date \$1,260.9 million, and the outstanding commitment is \$361.2 million.
- d. In June 2020 and May 2021 Creative Carriage Ltd. was awarded contracts for the purchase of 111 low floor Wheel-Trans mini buses. As of December 31, 2021, the contract value for Creative Carriage Ltd. totals \$34.3 million with 2 buses delivered to the TTC. Costs incurred to date total \$0.5 million and the outstanding commitment is \$33.8 million.
- e. 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 2019, an additional 10 buses were added to the New Flyer and Proterra contracts, increasing total bus requirement to 60 buses. As of December 31, 2021, the contract values totalled \$88.2 million with a delivery of 60 buses. The costs incurred to date total \$87.8 million, the outstanding commitment is \$0.4 million, and it is expected to be extinguished in 2022.
- f. 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, 2021, the contract value is in total \$1,481.0 million with 82 trainsets delivered to the TTC. Costs incurred to date are \$1,478.7 million and the outstanding commitment is \$2.3 million.



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

h The TTC 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 (2020 - \$1.2 million). The amount drawn of this letter of credit as at December 31, 2021 was \$nil (2020 - \$nil).

i. 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.

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

	\$000s
2022	22,682
2023	20,047
2024	18,837
2025	17,103
2026	12,549
Thereafter	89,493
<b>Total</b>	<b>180,711</b>

## 20. PANDEMIC RESPONSE

On March 11, 2020, the World 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. To date management partially mitigated the financial impact through cost containment measures. As disclosed in note 14, in 2021, \$796.4 million (December 31, 2020 - \$590.2 million) in SRA funding from upper levels of government was applied to offset the net financial impact of COVID-19.

The duration and impact of COVID-19 remains unknown at this time and it is therefore not possible to reliably estimate the future period impact on the consolidated financial statements.

## 21. COMPARATIVE INFORMATION

The comparative consolidated financial statements have been regrouped from statements previously presented to conform with the presentation adopted in 2021.

Appendix 1: Consolidation Schedule as at and for the Year ended December 31, 2021

\$000s

	TORONTO TRANSIT COMMISSION (TTC)	WHEEL-TRANS (WT)	TORONTO COACH TERMINAL INC. (Consolidated)
<b>Statement of Financial Position</b>			
<b>Financial assets</b>			
Cash and cash equivalents	195,086	-	5,145
Subsidies receivable	1,094,382	-	-
Accounts receivable	69,154	-	4,200
Investment in subsidiary	5,201	-	-
Portfolio investments	2,287	-	-
Derivative assets	1,212	-	-
Indemnity receivable from the TTC	-	-	126,048
<b>Total financial assets</b>	<b>1,367,322</b>	<b>-</b>	<b>135,393</b>
<b>Liabilities</b>			
Accounts payable and accrued liabilities	574,972	-	116
Deferred revenue	45,703	-	-
Employee future benefits	850,575	-	-
Unsettled accident claims	138,859	-	126,048
Environmental liabilities	30,360	-	-
Due to parent	-	-	4,201
Intercompany AR/AP	3,187	-	(2)
Derivative liabilities	-	-	-
<b>Total liabilities</b>	<b>1,643,656</b>	<b>-</b>	<b>130,363</b>
<b>Net debt</b>	<b>(276,334)</b>	<b>-</b>	<b>5,030</b>
<b>Non-financial assets</b>			
Tangible capital assets	12,433,324	-	-
Spare parts and supplies inventory	151,543	-	-
Prepaid expense	24,506	-	-
<b>Total non-financial assets</b>	<b>12,609,373</b>	<b>-</b>	<b>-</b>
Capital Stock	-	-	1,000
<b>Accumulated surplus</b>	<b>12,333,039</b>	<b>-</b>	<b>4,030</b>
<b>Statement of Operations</b>			
<b>Operating revenue</b>			
Passenger services	452,741	3,489	-
Advertising	13,080	-	-
Outside city services	7,601	-	-
Property rental	11,919	-	723
Miscellaneous	28,051	-	3,370
<b>Total operating revenue</b>	<b>513,392</b>	<b>3,489</b>	<b>4,093</b>
<b>Subsidies</b>			
Operating subsidies	1,441,878	97,664	-
Capital subsidies	855,701	-	-
<b>Total subsidy revenue</b>	<b>2,297,579</b>	<b>97,664</b>	<b>-</b>
<b>Expenses</b>			
Wages, salaries and benefits	1,474,289	59,976	5
Materials, services and supplies	316,999	14,001	79
Vehicle fuel	70,830	2,627	-
Electric traction power	47,678	-	-
Utilities	24,778	767	-
Accident claims	14,809	(30)	-
Amortization (operating budget)	23,275	-	136
Amortization (assets funded through capital)	690,911	8,652	-
Wheel-Trans contract services	-	23,812	-
Pension expense/(income)	-	-	-
<b>Total expenses</b>	<b>2,663,569</b>	<b>109,805</b>	<b>220</b>
Surplus (deficit) for the year	147,402	(8,652)	3,873
Wheel-Trans Deficit due to Amortization (assets funded through capital)	(8,652)	8,652	-
Accumulated operating surplus, beginning of the year	12,193,077	-	157
<b>Accumulated operating surplus, end of the year</b>	<b>12,331,827</b>	<b>-</b>	<b>4,030</b>
Accumulated remeasurement (losses)/gains, beginning balance	(1,290)	-	-
Unrealized gains/(losses) in the current year	3,650	-	-
Amount reclassified to Statement of Operations	(1,148)	-	-
<b>Accumulated remeasurement gains/ (losses), ending balance</b>	<b>1,212</b>	<b>-</b>	<b>-</b>
Accumulated surplus is comprised of:			
Accumulated operating surplus	12,331,827	-	4,030
Accumulated remeasurement gains/ (losses)	1,212	-	-
<b>Accumulated surplus</b>	<b>12,333,039</b>	<b>-</b>	<b>4,030</b>
Not on TTC financial statements			
Operating subsidy from the City (as above)	1,441,878	97,664	-
Operating subsidy - long term receivable for accident claims	7,297	549	-
Operating subsidy - long term receivable for employee future benefits	(38,753)	(1,574)	-
City special costs	123	-	-
Contribution to the City's TTC stabilization fund	75,063	18,245	-
Net contribution to the City's TTC long-term liability fund	3,081	179	-
<b>Total city operating subsidy current</b>	<b>1,488,689</b>	<b>115,063</b>	<b>-</b>

TTC SICK BENEFIT ASSOCIATION (SBA)	TOTAL BEFORE INTERCOMPANY ELIMINATIONS	INTERCOMPANY ELIMINATIONS	CONSOLIDATED FINANCIAL STATEMENTS
	-		
67	200,298	-	200,298
-	1,094,382	-	1,094,382
-	73,354	-	73,354
-	5,201	(5,201)	-
-	2,287	-	2,287
-	1,212	-	1,212
-	126,048	(126,048)	-
<b>67</b>	<b>1,502,782</b>	<b>(131,249)</b>	<b>1,371,533</b>
3,164	578,252	-	578,252
-	45,703	-	45,703
-	850,575	-	850,575
-	264,907	(126,048)	138,859
-	30,360	-	30,360
-	4,201	(4,201)	-
(3,185)	-	-	-
-	-	-	-
<b>(21)</b>	<b>1,773,998</b>	<b>(130,249)</b>	<b>1,643,749</b>
88	(271,216)	(1,000)	(272,216)
-	12,433,324	-	12,433,324
-	151,543	-	151,543
-	24,506	-	24,506
-	<b>12,609,373</b>	-	<b>12,609,373</b>
-	<b>1,000</b>	<b>(1,000)</b>	-
<b>88</b>	<b>12,337,157</b>	-	<b>12,337,157</b>
-	456,230	-	456,230
-	13,080	-	13,080
-	7,601	-	7,601
-	12,642	-	12,642
151	31,572	(207)	31,365
<b>151</b>	<b>521,125</b>	<b>(207)</b>	<b>520,918</b>
-	1,539,542	-	1,539,542
-	855,701	-	855,701
-	<b>2,395,243</b>	-	<b>2,395,243</b>
-	1,534,270	(151)	1,534,119
151	331,230	(79)	331,151
-	73,457	-	73,457
-	47,678	-	47,678
-	25,545	-	25,545
-	14,779	23	14,802
-	23,411	-	23,411
-	699,563	-	699,563
-	23,812	-	23,812
-	-	-	-
<b>151</b>	<b>2,773,745</b>	<b>(207)</b>	<b>2,773,538</b>
-	142,623	-	142,623
-	-	-	-
88	12,193,322	-	12,193,322
<b>88</b>	<b>12,335,945</b>	-	<b>12,335,945</b>
-	(1,290)	-	(1,290)
-	3,650	-	3,650
-	(1,148)	-	(1,148)
-	<b>1,212</b>	-	<b>1,212</b>
88	12,335,945	-	12,335,945
-	1,212	-	1,212
<b>88</b>	<b>12,337,157</b>	-	<b>12,337,157</b>
-	1,539,542	-	-
-	7,846	-	-
-	(40,327)	-	-
-	123	-	-
-	93,308	-	-
-	3,260	-	-
-	<b>1,603,752</b>	-	-