

Financial Statements of

LONDON TRANSIT COMMISSION

Year ended December 31, 2018

INDEPENDENT AUDITORS' REPORT

To the Commissioners, Members of Council, Inhabitants and Ratepayers of the Corporation of the City of London

Opinion

We have audited the accompanying financial statements of the London Transit Commission ("the Entity"), which comprise:

- the statement of financial position as at December 31, 2018
- the statement of operations for the year then ended
- the statement of changes in net financial assets for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2018, and its results of operations, its changes in net assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

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

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

LONDON TRANSIT COMMISSION

Statement of Financial Position

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December 31, 2018, with comparative information for 2017

| | 2018 | 2017 |
|---|-----------------------|-----------------------|
| Financial Assets | | |
| Cash and cash equivalents | \$ 23,801,178 | \$ 30,543,394 |
| Investments | 12,806,655 | 11,912,292 |
| Accounts receivable | 4,838,786 | 5,908,019 |
| Due from The City of London | 526,129 | 431,154 |
| | <u>41,972,748</u> | <u>48,794,859</u> |
| Financial Liabilities | | |
| Accounts payable and accrued liabilities | 10,154,843 | 10,753,030 |
| Due to The City of London | 24,784 | 128,712 |
| Accrued liability insurance claims (note 7) | 2,316,305 | 2,413,646 |
| Employee future benefits (note 6) | 4,412,000 | 3,978,000 |
| Deferred fare media | 4,549,677 | 4,088,635 |
| Deferred revenue (note 10) | 16,947,157 | 22,538,650 |
| | <u>38,404,766</u> | <u>43,900,673</u> |
| Net financial assets | 3,567,982 | 4,894,186 |
| Non - Financial Assets | | |
| Inventories (note 2) | 2,276,955 | 2,237,572 |
| Tangible capital assets (note 9) | 100,330,370 | 98,243,186 |
| Prepaid expenses | 902,621 | 948,823 |
| | <u>103,509,946</u> | <u>101,429,581</u> |
| Commitments (note 8) | | |
| Accumulated surplus (note 3) | <u>\$ 107,077,928</u> | <u>\$ 106,323,767</u> |

See accompanying notes to financial statements.

LONDON TRANSIT COMMISSION

Statement of Operations

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Year ended December 31, 2018, with comparative information for 2017

| | Budget | 2018 | 2017 |
|--------------------------------------|----------------------|----------------------|----------------------|
| Revenue: | | | |
| Grants: | | | |
| The City of London (note 4) | \$ 37,480,200 | \$ 37,567,077 | \$ 40,156,975 |
| Province of Ontario (note 4) | 15,372,300 | 15,590,125 | 15,707,974 |
| Government of Canada (note 4) | - | 3,696,878 | 5,033,446 |
| | <u>52,852,500</u> | <u>56,854,080</u> | <u>60,898,395</u> |
| User charges, conventional transit: | | | |
| Cash fares | 3,823,700 | 3,580,159 | 3,671,615 |
| Ticket fares | 10,087,000 | 9,627,074 | 9,614,287 |
| Pass fares | 18,600,700 | 19,290,210 | 18,014,822 |
| Contract service | - | 2,556 | 1,973 |
| Other transportation revenue | 1,863,300 | 128,466 | 431,711 |
| | <u>34,374,700</u> | <u>32,628,465</u> | <u>31,734,408</u> |
| Other revenue, conventional transit: | | | |
| Advertising | 608,200 | 605,759 | 595,255 |
| Interest and discounts | 670,000 | 821,395 | 708,852 |
| Rent | 2,500 | 2,513 | 2,676 |
| Gain on disposal of capital assets | 48,000 | 29,819 | 94,930 |
| Miscellaneous | 55,000 | 25,065 | 20,521 |
| | <u>1,383,700</u> | <u>1,484,551</u> | <u>1,422,234</u> |
| User charges, specialized transit: | | | |
| Cash fares | 19,300 | 19,607 | 13,452 |
| Ticket fares | 420,800 | 339,445 | 329,427 |
| Pass fares | 204,800 | 198,759 | 193,772 |
| | <u>644,900</u> | <u>557,811</u> | <u>536,651</u> |
| Total revenue | \$ 89,255,800 | \$ 91,524,907 | \$ 94,591,688 |

See accompanying notes to financial statements.

LONDON TRANSIT COMMISSION

Statement of Operations

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Year ended December 31, 2018, with comparative information for 2017

| | Budget | 2018 | 2017 |
|--|-----------------------|-----------------------|-----------------------|
| Expenses: | | | |
| Salaries, wages and benefits: | | | |
| Transportation | \$ 35,708,834 | 36,300,852 | 33,668,268 |
| Vehicle maintenance | 8,914,374 | 9,070,149 | 8,490,540 |
| Facility | 485,003 | 437,791 | 481,790 |
| Planning, marketing and general administration | 3,479,289 | 3,529,582 | 3,237,130 |
| | <u>48,587,500</u> | <u>49,338,374</u> | <u>45,877,728</u> |
| Materials, supplies, utilities and services: | | | |
| Transportation | 2,593,500 | 2,677,135 | 2,560,463 |
| Vehicle maintenance | 5,833,900 | 5,585,738 | 5,780,794 |
| Facility | 3,261,500 | 2,949,588 | 2,863,096 |
| Planning, marketing and general administration | 1,537,500 | 1,539,972 | 1,509,299 |
| Fuel | 7,089,100 | 7,428,781 | 6,141,449 |
| Amortization | - | 12,746,775 | 12,130,730 |
| | <u>20,315,500</u> | <u>32,927,989</u> | <u>30,985,831</u> |
| Current operations, specialized transit: | | | |
| Administration: | | | |
| Salaries and benefits | 924,600 | 1,023,482 | 948,032 |
| Materials and supplies | 134,700 | 249,191 | 136,646 |
| | <u>1,059,300</u> | <u>1,272,673</u> | <u>1,084,678</u> |
| Contracted service delivery | 6,903,900 | 7,231,710 | 5,749,974 |
| | <u>7,963,200</u> | <u>8,504,383</u> | <u>6,834,652</u> |
| Total expenses | <u>76,866,200</u> | <u>90,770,746</u> | <u>83,698,211</u> |
| Annual surplus (note 11) | \$ 12,389,600 | 754,161 | 10,893,477 |
| Accumulated surplus, beginning of year | 106,323,767 | 106,323,767 | 95,430,290 |
| Accumulated surplus, end of year | <u>\$ 118,713,367</u> | <u>\$ 107,077,928</u> | <u>\$ 106,323,767</u> |

See accompanying notes to financial statements.

LONDON TRANSIT COMMISSION

Statement of Change in Net Financial Assets

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Year ended December 31, 2018, with comparative information for 2017

| | 2018 | 2017 |
|---|--------------|---------------|
| Annual surplus | \$ 754,161 | \$ 10,893,477 |
| Acquisition of tangible capital assets | (14,833,959) | (23,782,153) |
| Amortization of tangible capital assets | 12,746,775 | 12,130,730 |
| Gain on disposal of tangible capital assets | (29,819) | (94,930) |
| Proceeds on sale of tangible capital assets | 29,819 | 94,930 |
| | (1,333,023) | (757,946) |
| Inventories | (39,383) | (111,365) |
| Prepaid expenses | 46,202 | (183,558) |
| | 6,819 | (294,923) |
| Change in net financial assets | (1,326,204) | (1,052,869) |
| Net financial assets, beginning of year | 4,894,186 | 5,947,055 |
| Net financial assets, end of year | \$ 3,567,982 | \$ 4,894,186 |

See accompanying notes to financial statements.

LONDON TRANSIT COMMISSION

Statement of Cash Flows

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Year ended December 31, 2018, with comparative information for 2017

| | 2018 | 2017 |
|--|---------------|---------------|
| Cash provided by (used in): | | |
| Operating activities: | | |
| Annual surplus | \$ 754,161 | \$ 10,893,477 |
| Items not involving cash: | | |
| Amortization | 12,746,775 | 12,130,730 |
| Gain on disposal of tangible capital assets | (29,819) | (94,930) |
| Change in employee future benefit liability | 434,000 | 24,000 |
| Changes in non-cash assets and liabilities: | | |
| Accounts receivable | 1,069,233 | (5,281,402) |
| Due from The City of London | (94,975) | (26,190) |
| Inventories | (39,383) | (111,365) |
| Prepaid expenses | 46,202 | (183,558) |
| Investments | (894,363) | 8,090,454 |
| Accounts payable and accrued liabilities | (598,187) | 844,912 |
| Due to The City of London | (103,928) | 35,788 |
| Accrued liability insurance claims | (97,341) | 130,273 |
| Deferred fare media | 461,042 | (147,981) |
| Deferred revenue | (5,591,493) | (6,351,082) |
| Net change in cash from operating activities | 8,061,924 | 19,953,126 |
| Capital activities: | | |
| Proceeds on sale of tangible capital assets | 29,819 | 94,930 |
| Cash used to acquire tangible capital assets | (14,833,959) | (23,782,153) |
| Net change in cash from capital activities | (14,804,140) | (23,687,223) |
| Net change in cash and cash equivalents | (6,742,216) | (3,734,097) |
| Cash and cash equivalents, beginning of year | 30,543,394 | 34,277,491 |
| Cash and cash equivalents, end of year | \$ 23,801,178 | \$ 30,543,394 |
| Cash | \$ 10,130,566 | \$ 7,747,626 |
| Cash equivalents | 13,670,612 | 22,795,768 |
| Cash and cash equivalents, end of year | \$ 23,801,178 | \$ 30,543,394 |

See accompanying notes to financial statements.

LONDON TRANSIT COMMISSION

Notes to Financial Statements

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Year ended December 31, 2018

1. Significant accounting policies:

The financial statements of the London Transit Commission (the "Commission"), a local commission of the Corporation of the City of London (the "City of London"), are the representation of management prepared in accordance with Canadian generally accepted accounting principles as defined in the Chartered Professional Accountants Canada Public Sector Accounting Handbook.

(a) Basis of accounting:

The Commission follows the accrual method of accounting for revenues and expenses. Revenues are normally recognized in the year in which they are earned and measurable. Expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and/or the creation of a legal obligation to pay.

(b) Cash and cash equivalents:

The balances reported for cash and cash equivalents in these financial statements include both funds for current purposes and balances held for reserve funds.

Cash and cash equivalents include amounts held in banks and highly liquid investments with maturities at time of purchase of three months or less.

(c) Deferred fare media and revenue:

The Commission receives contributions pursuant to legislation, regulations or agreement that may only be used for certain programs or in the completion of specific work. In addition, certain user charges and fees are collected for which the related services have yet to be performed. These amounts are recognized as revenue in the fiscal year the related expenditures are incurred or the services performed.

Government transfer payments from the City of London are recognized in the financial statements in the year in which the payment is authorized and the events giving rise to the transfer occur, performance criteria are met, and a reasonable estimate of the amount can be made. Funding that is stipulated to be used for specific purposes is only recognized as revenue in the fiscal year that the related expenses are incurred or services performed. If the funding is received for which the related expenses have not yet been incurred or services performed, these amounts are recorded as deferred revenue at year end.

(d) Post-employment benefits liability:

The Commission provides defined retirement and other future benefits to specified employee groups. These benefits include pension, health, dental, life insurance, compensated absences, and workers' compensation benefits. The Commission has adopted the following policies with respect to accounting for these benefits:

- (i) The cost of employee future benefit plans are actuarially determined using management's best estimate of salary escalation, insurance and health care cost trends, long-term inflation rates and discount rates.
- (ii) The cost of multi-employer defined benefit pension plan, such as the Ontario Municipal Employees Retirement System ("OMERS") pensions, are the employer's contributions to the plan in the period. OMERS provides benefits for employees of Ontario municipalities, local boards, public utilities and school boards. As this is a multi employer plan, no liability is recorded on the Commission's books.

LONDON TRANSIT COMMISSION

Notes to Financial Statements (continued)

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Year ended December 31, 2018

1. Significant accounting policies (continued):

(e) Tangible capital assets:

Tangible capital assets are recorded at cost which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets, excluding land, are amortized on a straight-line basis over their estimated useful lives as follows:

| Asset | Useful life - years |
|------------------------------------|---------------------|
| Site work | 25 |
| Buildings | 10 - 60 |
| Shelters, pads, and terminals | 10 |
| Rolling stock | 12 |
| Fare and data collection equipment | 15 |
| Radio/communication equipment | 15 |
| Bike racks on buses | 5 |
| Service fleet | 3 |
| Shop equipment | 5 |
| Small tools | 3 |
| Computer hardware | 3 |
| Computer software | 3 |

Tangible capital assets which are under construction are not amortized until the tangible capital assets are ready for productive use.

(f) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

LONDON TRANSIT COMMISSION

Notes to Financial Statements (continued)

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Year ended December 31, 2018

1. Significant accounting policies (continued):

(g) Adoption of new accounting policies:

(i) Related Party Disclosures

The Commission adopted Public Sector Accounting Board Standard PS 2200 Related Party Transactions effective for fiscal periods beginning on or after April 1, 2017. The standard defines related party and provides disclosure requirements. Disclosure is only required when the transactions or events between related parties occur at a value different from what would have been recorded if they were not related and the transactions could have a material financial impact on the financial statements. The standard also requires disclosure of related party transactions that have occurred where no amounts have been recognized. The Commission adopted this standard on a prospective basis and there were no adjustments as a result of the adoption of this standard.

(ii) Inter-entity Transactions

The Commission adopted Public Sector Accounting Board Standard PS 3420 Inter-entity Transactions effective for fiscal periods beginning on or after April 1, 2017. The standard specifies how to account for transactions between public sector entities within the government reporting entity.

Transactions undertaken on similar terms and conditions to those adopted if the entities were dealing at arm's length are recorded at the exchange amount. Transfers of an asset or liability at nominal or no consideration is recorded by the provider at the carrying amount and the recipient has the choice of using either the carrying amount or fair value. Cost allocations are reported using the exchange amount and revenues and expenses are reported on a gross basis. Unallocated costs for the provision of goods or services may be recorded by the recipient at the carrying amount or fair value unless otherwise dictated by policy, accountability structure or budget practice.

All other transactions are measured at the carrying amount.

The Commission adopted this standard on a prospective basis and there were no adjustments as a result of the adoption of this standard.

LONDON TRANSIT COMMISSION

Notes to Financial Statements (continued)

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Year ended December 31, 2018

2. Inventories:

| | 2018 | 2017 |
|-------------|--------------|--------------|
| Spare parts | \$ 2,276,955 | \$ 2,237,572 |

3. Accumulated surplus:

Accumulated surplus consists of individual fund surpluses, reserves and reserve funds as follows:

| | 2018 | 2017 |
|--|----------------|----------------|
| Surplus: | | |
| Invested in tangible capital assets | \$ 100,330,370 | \$ 98,243,186 |
| To be recovered from public liability insurance reserve fund | (2,316,305) | (2,413,646) |
| Unfunded: | | |
| Employee future benefits liability | (4,412,000) | (3,978,000) |
| Vacation pay earned and accrued payroll | (2,809,799) | (2,717,998) |
| Total surplus | 90,792,266 | 89,133,542 |
| Reserves set aside for specific purposes of the Commission (note 10): | | |
| Energy management reserve | 3,203,250 | 3,203,250 |
| General operating reserve | 3,399,865 | 3,444,665 |
| Health care management reserve | 2,363,180 | 2,594,716 |
| Total reserves | 8,966,295 | 9,242,631 |
| Reserve funds set aside for specific purposes by the Commission (note 10): | | |
| Capital program reserve fund | 4,307,742 | 4,548,809 |
| Public liability insurance reserve fund | 3,011,625 | 3,398,785 |
| Total reserve funds | 7,319,367 | 7,947,594 |
| | \$ 107,077,928 | \$ 106,323,767 |

LONDON TRANSIT COMMISSION

Notes to Financial Statements (continued)

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Year ended December 31, 2018

4. Grants:

(a) The City of London:

Grants from The City of London for current and capital operations for conventional transit and specialized transit are as follows:

| | 2018 | 2017 |
|---|---------------|---------------|
| Operating grants: | | |
| Specialized transit | \$ 5,212,800 | \$ 5,061,700 |
| Conventional transit | 26,034,775 | 24,737,575 |
| | 31,247,575 | 29,799,275 |
| Capital grants: | | |
| Capital levy and debentures | 6,319,502 | 10,357,700 |
| Total grants received from The City of London | \$ 37,567,077 | \$ 40,156,975 |

In addition, The City of London sponsors certain groups using both conventional and specialized public transit. These groups receive reduced fares or free fares. The Commission receives grants, on behalf of the respective groups, as fare offsets and are shown as such on the Statement of Operations as part of the ticket and pass fares. Particulars of the grants are as follows:

| | 2018 | 2017 |
|--|--------------|------------|
| Equalization grant, seniors (reduced fares) | \$ - | \$ 376,048 |
| Equalization grant, income related (reduced fares) | 413,511 | - |
| Equalization grant, youth (reduced fares) | 63,758 | - |
| Free transportation, blind | 160,303 | 164,871 |
| Free transportation, children | 422,802 | - |
| | \$ 1,060,374 | \$ 540,919 |

(b) Province of Ontario:

Provincial grants recognized as revenue during the year ended December 31, for capital and operating programs are as follows:

| | 2018 | 2017 |
|-------------------|---------------|---------------|
| Capital grants: | | |
| Gas tax program | \$ 3,893,071 | \$ 7,135,751 |
| Operating grants: | | |
| Gas tax program | 11,697,054 | 8,572,223 |
| | \$ 15,590,125 | \$ 15,707,974 |

LONDON TRANSIT COMMISSION

Notes to Financial Statements (continued)

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Year ended December 31, 2018

4. Grants (continued):

(c) Government of Canada:

| | 2018 | 2017 |
|--|---------------------|---------------------|
| Capital grants: | | |
| Public Transit Infrastructure Funding | \$ 3,696,878 | \$ 5,033,446 |
| Total Government of Canada grants | \$ 3,696,878 | \$ 5,033,446 |

5. Pension agreement:

Effective February 1, 1989, the London Transit Commission commenced participation in the Ontario Municipal Employees Retirement System (OMERS) which is a multi employer plan, for all active employees at that date as well as for all new employees. As of December 31, 2018 there were 552 (2017 - 540) active employees. The plan is a contributory defined benefit plan which specifies the amount of retirement benefit to be received by the employees based on their length of service and rates of pay. Changes by OMERS to the plan, since February 1, 1989, apply to service after February 1, 1989. For pre-February 1, 1989 service, the Commission provides pension benefits, as determined by the pension plan document.

Employer contributions to OMERS for 2018 were \$3,043,547 (2017 - \$2,842,229).

The London Transit Commission continues to sponsor a pre-February 1, 1989, contributory defined benefit pension plan for employees on long term disability at February 1, 1989 that are not likely to return to active employment.

LONDON TRANSIT COMMISSION

Notes to Financial Statements (continued)

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Year ended December 31, 2018

6. Employee future benefits:

The Commission provides benefits to retirees until they reach sixty-five years of age and provides certain benefits to employees on long-term disability. The employee future benefit liability has been estimated based on an actuarial valuation which was completed at December 31, 2018.

| | 2018 | 2017 |
|--|--------------|--------------|
| Employee future benefits liability as of December 31 | \$ 4,412,000 | \$ 3,978,000 |

Retirement and other future benefit expenses included in total expenditures consist of the following:

| | 2018 | 2017 |
|--|------------|------------|
| Current year benefit cost | \$ 233,000 | \$ 224,000 |
| Interest on accrued benefit obligation | 103,000 | 100,000 |
| Amortized gain | 346,000 | (80,000) |
| Benefits paid | (248,000) | (220,000) |
| | \$ 434,000 | \$ 24,000 |

Significant assumptions are as follows:

| | 2018 | 2017 |
|-------------------------------|-------|-------|
| Discount rate | 3.25% | 3.25% |
| Rate of compensation increase | 2.00% | 1.90% |
| Healthcare cost current | 5.84% | 5.83% |
| Healthcare cost ultimate | 4.00% | 4.50% |

LONDON TRANSIT COMMISSION

Notes to Financial Statements (continued)

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Year ended December 31, 2018

7. Public liability insurance:

At December 31, 2018, there were 155 liability claims and 3 accident benefits claims outstanding that may result in payment under the insurance deductible provisions. The estimated cost to the Commission is \$2,294,805 and \$21,500 (2017 - \$2,249,111 and \$164,535) respectively for a total of \$2,316,305 (2017 - \$2,413,646) to be funded from the public liability reserve fund.

8. Commitments:

(a) Lease obligation:

The Commission rents a portion of a property located at 150 Dundas Street for an information office and sales outlet. The lease expires August 31, 2019. The annual base lease amount is \$19,808 plus an approximate additional amount of \$8,848 for taxes and common area maintenance. Lease payments until the expiry of the lease total \$19,104.

(b) Bus procurement:

The Commission has approved the awarding of contracts with New Flyer Industries for the purchase of nine buses (\$5.1 million). It is anticipated that these buses will arrive from August to December 2019.

LONDON TRANSIT COMMISSION

Notes to Financial Statements (continued)

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Year ended December 31, 2018

9. Tangible capital assets:

The historical cost, accumulated amortization and net book value of tangible capital assets employed by the Commission at December 31 is as follows:

| Cost | Balance | | Balance | |
|------------------------------------|-------------------|---------------|----------------|-------------------|
| | December 31, 2017 | Additions | Disposals | December 31, 2018 |
| Land | \$ 2,804,632 | \$ - | \$ - | \$ 2,804,632 |
| Site work | 2,973,024 | - | - | 2,973,024 |
| Buildings | 45,370,812 | 640,899 | (59,152) | 45,952,559 |
| Shelters, pads, and terminals | 2,274,310 | 1,300,285 | (230,070) | 3,344,525 |
| Rolling stock | 113,693,383 | 11,909,426 | (6,799,165) | 118,803,644 |
| Fare and data collection equipment | 6,331,166 | 153,487 | - | 6,484,653 |
| Radio/communication equipment | 8,964,254 | 301,895 | - | 9,266,149 |
| Bike racks on buses | 158,878 | - | - | 158,878 |
| Service fleet | 351,497 | 33,971 | (3,478) | 381,990 |
| Shop equipment | 3,652,354 | 27,986 | (168,000) | 3,512,340 |
| Small tools | 229,079 | 103,930 | (51,843) | 281,166 |
| Computer hardware | 669,507 | 294,177 | - | 963,684 |
| Computer software | 1,859,368 | 67,903 | - | 1,927,271 |
| | \$ 189,332,264 | \$ 14,833,959 | \$ (7,311,708) | \$ 196,854,515 |

| Accumulated amortization | Balance | | Balance | |
|------------------------------------|-------------------|----------------|---------------|-------------------|
| | December 31, 2017 | Disposals | Amortization | December 31, 2018 |
| Land | \$ - | \$ - | \$ - | \$ - |
| Site work | 1,225,507 | - | 118,921 | 1,344,428 |
| Buildings | 15,352,270 | (59,152) | 1,480,945 | 16,774,063 |
| Shelters, pads, and terminals | 1,016,706 | (230,070) | 296,660 | 1,083,296 |
| Rolling stock | 60,362,115 | (6,799,165) | 8,938,423 | 62,501,373 |
| Fare and data collection equipment | 2,708,698 | - | 424,318 | 3,133,016 |
| Radio/communication equipment | 5,123,053 | - | 617,743 | 5,740,796 |
| Bike racks on buses | 158,878 | - | - | 158,878 |
| Service fleet | 302,015 | (3,478) | 48,367 | 346,904 |
| Shop equipment | 2,963,333 | (168,000) | 212,744 | 3,008,077 |
| Small tools | 131,899 | (51,843) | 93,722 | 173,778 |
| Computer hardware | 600,246 | - | 142,412 | 742,658 |
| Computer software | 1,144,358 | - | 372,520 | 1,516,878 |
| | \$ 91,089,078 | \$ (7,311,708) | \$ 12,746,775 | \$ 96,524,145 |

| Net book value | Balance | | Balance | |
|------------------------------------|-------------------|--|---------|-------------------|
| | December 31, 2017 | | | December 31, 2018 |
| Land | \$ 2,804,632 | | \$ | 2,804,632 |
| Site work | 1,747,517 | | | 1,628,596 |
| Buildings | 30,018,542 | | | 29,178,496 |
| Shelters, pads, and terminals | 1,257,604 | | | 2,261,229 |
| Rolling stock | 53,331,268 | | | 56,302,271 |
| Fare and data collection equipment | 3,622,468 | | | 3,351,637 |
| Radio/communication equipment | 3,841,201 | | | 3,525,353 |
| Bike racks on buses | - | | | - |
| Service fleet | 49,482 | | | 35,086 |
| Shop equipment | 689,021 | | | 504,263 |
| Small tools | 97,180 | | | 107,388 |
| Computer hardware | 69,261 | | | 221,026 |
| Computer software | 715,010 | | | 410,393 |
| | \$ 98,243,186 | | \$ | 100,330,370 |

LONDON TRANSIT COMMISSION

Notes to Financial Statements (continued)

DRAFT

Year ended December 31, 2018

10. Analysis of reserves, reserve funds, and deferred revenues:

| | Energy management reserve | General operating reserve | Health care management reserve | 2018 Total | 2017 Total |
|---------------------------------------|---------------------------------|---------------------------------|--------------------------------------|---------------|---------------|
| Reserves: | | | | | |
| Balance, beginning of year | \$ 3,203,250 | \$ 3,444,665 | \$ 2,594,716 | \$ 9,242,631 | \$ 9,154,150 |
| Contributions from current operations | - | - | 79,338 | 79,338 | 375,776 |
| Appropriations to current operations | - | (44,800) | (310,874) | (355,674) | (287,295) |
| | \$ 3,203,250 | \$ 3,399,865 | \$ 2,363,180 | \$ 8,966,295 | \$ 9,242,631 |

| | Capital program | Public liability insurance | 2018 Total | 2017 Total |
|---------------------------------------|--------------------|----------------------------------|---------------|---------------|
| Reserve funds: | | | | |
| Balance, beginning of year | \$ 4,548,809 | \$ 3,398,785 | \$ 7,947,594 | \$ 8,752,798 |
| Interest earned | 87,346 | 67,322 | 154,668 | 102,792 |
| Contributions from current operations | 279,819 | 400,000 | 679,819 | 719,930 |
| | 4,915,974 | 3,866,107 | 8,782,081 | 9,575,520 |
| Expenditures: | | | | |
| Appropriations to current operations | - | (854,482) | (854,482) | (644,518) |
| Appropriations to capital LTC | (608,232) | - | (608,232) | (983,408) |
| | (608,232) | (854,482) | (1,462,714) | (1,627,926) |
| Balance, end of year | \$ 4,307,742 | \$ 3,011,625 | \$ 7,319,367 | \$ 7,947,594 |

| Provincial gas tax program | 2018 Total | 2017 Total |
|--------------------------------------|---------------|---------------|
| Deferred revenues: | | |
| Balance, beginning of year | \$ 22,538,650 | \$ 28,889,732 |
| Interest earned | 519,266 | 442,590 |
| Contributions | 9,998,632 | 9,356,892 |
| | 33,056,548 | 38,689,214 |
| Expenditures: | | |
| Appropriations to current operations | (11,697,054) | (8,572,223) |
| Appropriations to capital LTC | (4,412,337) | (7,578,341) |
| | (16,109,391) | (16,150,564) |
| Balance, end of year | \$ 16,947,157 | \$ 22,538,650 |

LONDON TRANSIT COMMISSION

Notes to Financial Statements (continued)

DRAFT

Year ended December 31, 2018

11. Reconciliation of annual surplus to Commission approved operating surplus:

The Commission's annual operating and capital budget programs are fully funded with actual to budget performance expected to be in a balanced position, that is the Commission does not budget for a surplus or deficit.

PSAB requirements impact how and where revenue and expenditure items are reported and on what financial statement. This results in the reporting of a 2018 budget surplus, a 2018 actual surplus and a 2017 actual surplus.

These reported surplus and deficits, budgeted and actual, are reconciled to the balanced position in the following table:

| | Budget | 2018 | 2017 |
|---|---------------|--------------|---------------|
| Annual surplus | \$ 12,389,600 | \$ 754,161 | \$ 10,893,477 |
| Capital expenditures | (12,341,200) | (14,833,959) | (23,782,153) |
| Transfers from reserves and reserve funds | 1,407,000 | 1,818,388 | 1,915,221 |
| Contributions to reserves and reserve funds | (1,455,400) | (913,825) | (1,198,498) |
| Amortization of tangible capital assets | - | 12,746,775 | 12,130,730 |
| Increase in employee future benefits | - | 434,000 | 24,000 |
| Other | - | (5,540) | 17,223 |
| Commission approved surplus | \$ - | \$ - | \$ - |