

Financial Statements of

LONDON TRANSIT COMMISSION

And Independent Auditors' Report thereon

Year ended December 31, 2019

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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, 2019
- 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, 2019, 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.

Chartered Professional Accountants, Licensed Public Accountants

London, Canada

XXXX XX, 2020

LONDON TRANSIT COMMISSION

Statement of Financial Position

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December 31, 2019, with comparative information for 2018

	2019	2018
Financial Assets		
Cash and cash equivalents	\$ 32,489,209	\$ 23,801,178
Investments	-	12,806,655
Accounts receivable	4,553,692	4,838,786
Due from The City of London	607,580	526,129
	<u>37,650,481</u>	<u>41,972,748</u>
Financial Liabilities		
Accounts payable and accrued liabilities	9,748,606	10,154,843
Due to The City of London	50,662	24,784
Accrued liability insurance claims (note 7)	1,674,284	2,316,305
Employee future benefits (note 6)	4,354,000	4,412,000
Deferred fare media	4,355,715	4,549,677
Deferred revenue (note 10)	11,393,505	16,947,157
	<u>31,576,772</u>	<u>38,404,766</u>
Net financial assets	6,073,709	3,567,982
Non - Financial Assets		
Inventories (note 2)	2,313,168	2,276,955
Tangible capital assets (note 9)	93,886,751	100,330,370
Prepaid expenses	1,042,339	902,621
	<u>97,242,258</u>	<u>103,509,946</u>
Commitments (note 8)		
Subsequent event and contingencies (note 12)		
Accumulated surplus (note 3)	<u>\$ 103,315,967</u>	<u>\$ 107,077,928</u>

See accompanying notes to financial statements.

LONDON TRANSIT COMMISSION

Statement of Operations

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Year ended December 31, 2019, with comparative information for 2018

	Budget	2019	2018
Revenue:			
Grants:			
The City of London (note 4)	\$ 38,459,100	\$ 36,771,416	\$ 37,567,077
Province of Ontario (note 4)	16,886,000	15,895,194	15,590,125
Government of Canada (note 4)	-	84,266	3,696,878
	<u>55,345,100</u>	<u>52,750,876</u>	<u>56,854,080</u>
User charges, conventional transit:			
Cash fares	3,483,800	3,446,028	3,580,159
Ticket fares	9,613,100	9,538,896	9,627,074
Pass fares	20,400,200	20,925,266	19,290,210
Contract service	-	2,538	2,556
Other transportation revenue	2,480,500	58,182	128,466
	<u>35,977,600</u>	<u>33,970,910</u>	<u>32,628,465</u>
Other revenue, conventional transit:			
Advertising	627,400	672,432	605,759
Interest and discounts	720,000	821,923	821,395
Rent	2,500	2,676	2,513
Gain on disposal of capital assets	48,000	65,283	29,819
Miscellaneous	55,000	18,185	25,065
	<u>1,452,900</u>	<u>1,580,499</u>	<u>1,484,551</u>
User charges, specialized transit:			
Cash fares	20,700	16,504	19,607
Ticket fares	361,000	346,141	339,445
Pass fares	234,400	208,007	198,759
	<u>616,100</u>	<u>570,652</u>	<u>557,811</u>
Total revenue	\$ 93,391,700	\$ 88,872,937	\$ 91,524,907

See accompanying notes to financial statements.

LONDON TRANSIT COMMISSION

Statement of Operations

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Year ended December 31, 2019, with comparative information for 2018

	Budget	2019	2018
Expenses:			
Salaries, wages and benefits:			
Transportation	\$ 37,625,993	\$ 36,698,989	\$ 36,300,852
Vehicle maintenance	9,335,854	9,001,025	9,070,149
Facility	488,202	483,992	437,791
Planning, marketing and general administration	3,596,851	3,495,841	3,529,582
	<u>51,046,900</u>	<u>49,679,847</u>	<u>49,338,374</u>
Materials, supplies, utilities and services:			
Transportation	2,568,000	2,131,472	2,677,135
Vehicle maintenance	5,979,300	6,670,410	5,585,738
Facility	3,327,400	3,002,316	2,949,588
Planning, marketing and general administration	1,750,200	1,891,485	1,539,972
Fuel	8,511,200	6,907,440	7,428,781
Amortization	-	13,154,922	12,746,775
	<u>22,136,100</u>	<u>33,758,045</u>	<u>32,927,989</u>
Current operations, specialized transit:			
Administration:			
Salaries and benefits	1,016,100	1,052,646	1,023,482
Materials and supplies	215,800	274,148	249,191
	<u>1,231,900</u>	<u>1,326,794</u>	<u>1,272,673</u>
Contracted service delivery	8,049,900	7,870,212	7,231,710
	<u>9,281,800</u>	<u>9,197,006</u>	<u>8,504,383</u>
Total expenses	<u>82,464,800</u>	<u>92,634,898</u>	<u>90,770,746</u>
Annual surplus (deficit) (note 11)	\$ 10,926,900	\$ (3,761,961)	\$ 754,161
Accumulated surplus, beginning of year	107,077,928	107,077,928	106,323,767
Accumulated surplus, end of year	<u>\$ 118,004,828</u>	<u>\$ 103,315,967</u>	<u>\$ 107,077,928</u>

See accompanying notes to financial statements.

LONDON TRANSIT COMMISSION

Statement of Changes in Net Financial Assets

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Year ended December 31, 2019, with comparative information for 2018

	Budget	2019	2018
Annual surplus (deficit)	\$ 10,926,900	\$ (3,761,961)	\$ 754,161
Acquisition of tangible capital assets	(10,868,500)	(6,711,303)	(14,833,959)
Amortization of tangible capital assets	-	13,154,922	12,746,775
Gain on disposal of tangible capital assets	(48,000)	(65,283)	(29,819)
Proceeds on sale of tangible capital assets	48,000	65,283	29,819
	58,400	2,681,658	(1,333,023)
Inventories	-	(36,213)	(39,383)
Prepaid expenses	-	(139,718)	46,202
	-	(175,931)	6,819
Change in net financial assets	58,400	2,505,727	(1,326,204)
Net financial assets, beginning of year	3,567,982	3,567,982	4,894,186
Net financial assets, end of year	\$ 3,626,382	\$ 6,073,709	\$ 3,567,982

See accompanying notes to financial statements.

LONDON TRANSIT COMMISSION

Statement of Cash Flows

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Year ended December 31, 2019, with comparative information for 2018

	2019	2018
Cash provided by (used in):		
Operating activities:		
Annual surplus (deficit)	\$ (3,761,961)	\$ 754,161
Items not involving cash:		
Amortization	13,154,922	12,746,775
Gain on disposal of tangible capital assets	(65,283)	(29,819)
Change in employee future benefit liability	(58,000)	434,000
Changes in non-cash assets and liabilities:		
Accounts receivable	285,094	1,069,233
Due from The City of London	(81,451)	(94,975)
Inventories	(36,213)	(39,383)
Prepaid expenses	(139,718)	46,202
Investments	12,806,655	(894,363)
Accounts payable and accrued liabilities	(406,237)	(598,187)
Due to The City of London	25,878	(103,928)
Accrued liability insurance claims	(642,021)	(97,341)
Deferred fare media	(193,962)	461,042
Deferred revenue	(5,553,652)	(5,591,493)
Net change in cash from operating activities	15,334,051	8,061,924
Capital activities:		
Proceeds on sale of tangible capital assets	65,283	29,819
Cash used to acquire tangible capital assets	(6,711,303)	(14,833,959)
Net change in cash from capital activities	(6,646,020)	(14,804,140)
Net change in cash and cash equivalents	8,688,031	(6,742,216)
Cash and cash equivalents, beginning of year	23,801,178	30,543,394
Cash and cash equivalents, end of year	\$ 32,489,209	\$ 23,801,178
Cash		
	\$ 8,856,210	\$ 10,130,566
Cash equivalents		
	23,632,999	13,670,612
Cash and cash equivalents, end of year	\$ 32,489,209	\$ 23,801,178

See accompanying notes to financial statements.

LONDON TRANSIT COMMISSION

Notes to Financial Statements

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Year ended December 31, 2019

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

- (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, 2019

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, 2019

2. Inventories:

	2019	2018
Spare parts	\$ 2,313,168	\$ 2,276,955

3. Accumulated surplus:

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

	2019	2018
Surplus:		
Invested in tangible capital assets	\$ 93,886,751	\$ 100,330,370
To be recovered from public liability insurance reserve fund	(1,674,284)	(2,316,305)
Unfunded:		
Employee future benefits liability	(4,354,000)	(4,412,000)
Vacation pay earned and accrued payroll	(2,785,300)	(2,809,799)
Total surplus	85,073,167	90,792,266
Reserves set aside for specific purposes of the Commission (note 10):		
Energy management reserve	2,403,250	3,203,250
General operating reserve	3,407,362	3,399,865
Health care management reserve	3,403,063	2,363,180
Total reserves	9,213,675	8,966,295
Reserve funds set aside for specific purposes by the Commission (note 10):		
Capital program reserve fund	5,228,416	4,307,742
Public liability insurance reserve fund	3,800,709	3,011,625
Total reserve funds	9,029,125	7,319,367
	\$ 103,315,967	\$ 107,077,928

LONDON TRANSIT COMMISSION

Notes to Financial Statements (continued)

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Year ended December 31, 2019

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:

	2019	2018
Operating grants:		
Specialized transit	\$ 5,518,200	\$ 5,212,800
Conventional transit	26,788,985	26,034,775
	32,307,185	31,247,575
Capital grants:		
Capital levy and debentures	4,464,231	6,319,502
Total grants received from The City of London	\$ 36,771,416	\$ 37,567,077

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:

	2019	2018
Equalization grant, seniors (reduced fares)	\$ 163,533	\$ -
Equalization grant, income related (reduced fares)	367,140	413,511
Equalization grant, youth (reduced fares)	194,469	63,758
Free transportation, blind	156,395	160,303
Free transportation, children	359,748	422,802
	\$ 1,241,285	\$ 1,060,374

(b) Province of Ontario:

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

	2019	2018
Capital grants:		
Gas tax program	\$ 1,244,718	\$ 3,893,071
Operating grants:		
Gas tax program	14,650,476	11,697,054
	\$ 15,895,194	\$ 15,590,125

LONDON TRANSIT COMMISSION

Notes to Financial Statements (continued)

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Year ended December 31, 2019

4. Grants (continued):

(c) Government of Canada:

	2019		2018	
Capital grants:				
Public Transit Infrastructure Funding	\$	84,266	\$	3,696,878
Total Government of Canada grants	\$	84,266	\$	3,696,878

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, 2019 there were 574 (2018 - 552) 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.

At December 31, 2019, the OMERS plan is in an actuarial deficit position, which is being addressed through rate contributions and benefit reductions. Depending on an individual's normal retirement age and pensionable earnings, 2019 contribution rates were 9.0% and 14.6% (2018 - 9.0% and 14.6%). Total employer contributions to OMERS for 2019 were \$3,235,574 (2018 - \$3,043,547), and are recorded in the statement of operations.

The last available report for the OMERS plan was on December 31, 2019. At that time, the plan reported a \$3.4 billion actuarial deficit (2018 - \$4.2 billion), based on actuarial liabilities for \$107.7 billion (2018 - \$99 billion) and actuarial assets for \$104.3 billion (2018 - \$95 billion). If actuarial surpluses are not available to offset the existing deficit and subsidize future contributions, increases in contributions will be required in the future.

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, 2019

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.

	2019	2018
Employee future benefits liability as of December 31	\$ 4,354,000	\$ 4,412,000

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

	2019	2018
Current year benefit cost	\$ 248,000	\$ 233,000
Interest on accrued benefit obligation	104,000	103,000
Amortized loss (gain)	(108,000)	346,000
Benefits paid	(302,000)	(248,000)
	\$ (58,000)	\$ 434,000

Significant assumptions are as follows:

	2019	2018
Discount rate	3.25%	3.25%
Rate of compensation increase	2.00%	2.00%
Healthcare cost current	5.77%	5.84%
Healthcare cost ultimate	4.00%	4.00%

LONDON TRANSIT COMMISSION

Notes to Financial Statements (continued)

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Year ended December 31, 2019

7. Public liability insurance:

At December 31, 2019, there were 95 liability claims (2018- 155) and 8 accident benefits claims (2018- 3) outstanding that may result in payment under the insurance deductible provisions. The estimated cost to the Commission is \$1,570,967 and \$103,318 (2018 - \$2,294,805 and \$21,500) respectively for a total of \$1,674,284 (2018 - \$2,316,305) 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, 2020. The annual base lease amount is \$20,427 plus an approximate additional amount of \$8,858 for taxes and common area maintenance. Lease payments until the expiry of the lease total \$19,524.

(b) Bus procurement:

The Commission has approved the awarding of contracts with New Flyer Industries for the purchase of sixteen buses (\$9 million). It is anticipated that these buses will arrive from July to October 2020.

LONDON TRANSIT COMMISSION

Notes to Financial Statements (continued)

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Year ended December 31, 2019

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 December 31, 2018	Additions	Disposals	Balance December 31, 2019
Land	\$ 2,804,632	\$ -	\$ -	\$ 2,804,632
Site work	2,973,024	106,549	-	3,079,573
Buildings	45,952,559	282,808	-	46,235,367
Shelters, pads, and terminals	3,344,525	320,516	-	3,665,041
Rolling stock	118,803,644	5,303,303	(5,049,057)	119,057,890
Fare and data collection equipment	6,484,653	191,868	-	6,676,521
Radio/communication equipment	9,266,149	113,890	-	9,380,039
Bike racks on buses	158,878	-	-	158,878
Service fleet	381,990	37,795	(60,832)	358,953
Shop equipment	3,512,340	167,197	(10,341)	3,669,196
Small tools	281,166	93,705	(62,927)	311,944
Computer hardware	963,684	93,672	-	1,057,356
Computer software	1,927,271	-	-	1,927,271
	\$ 196,854,515	\$ 6,711,303	\$ (5,183,157)	\$ 198,382,661

Accumulated amortization	Balance December 31, 2018	Disposals	Amortization	Balance December 31, 2019
Land	\$ -	\$ -	\$ -	\$ -
Site work	1,344,428	-	123,183	1,467,611
Buildings	16,774,063	-	1,464,767	18,238,830
Shelters, pads, and terminals	1,083,296	-	321,649	1,404,945
Rolling stock	62,501,373	(5,049,057)	9,380,364	66,832,680
Fare and data collection equipment	3,133,016	-	320,603	3,453,619
Radio/communication equipment	5,740,796	-	625,336	6,366,132
Bike racks on buses	158,878	-	-	158,878
Service fleet	346,904	(60,832)	36,360	322,432
Shop equipment	3,008,077	(10,341)	229,333	3,227,069
Small tools	173,778	(62,927)	103,982	214,833
Computer hardware	742,658	-	154,191	896,849
Computer software	1,516,878	-	395,154	1,912,032
	\$ 96,524,145	\$ (5,183,157)	\$ 13,154,922	\$ 104,495,910

Net book value	Balance December 31, 2018		Balance December 31, 2019
Land	\$ 2,804,632		\$ 2,804,632
Site work	1,628,596		1,611,962
Buildings	29,178,496		27,996,537
Shelters, pads, and terminals	2,261,229		2,260,096
Rolling stock	56,302,271		52,225,210
Fare and data collection equipment	3,351,637		3,222,902
Radio/communication equipment	3,525,353		3,013,907
Bike racks on buses	-		-
Service fleet	35,086		36,521
Shop equipment	504,263		442,127
Small tools	107,388		97,111
Computer hardware	221,026		160,507
Computer software	410,393		15,239
	\$ 100,330,370		\$ 93,886,751

LONDON TRANSIT COMMISSION

Notes to Financial Statements (continued)

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Year ended December 31, 2019

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

	Energy management reserve	General operating reserve	Health care management reserve	2019 Total	2018 Total
Reserves:					
Balance, beginning of year	\$ 3,203,250	\$ 3,399,865	\$ 2,363,180	\$ 8,966,295	\$ 9,242,631
Contributions from current operations		7,497	1,039,883	1,047,380	79,338
Appropriations to current operations	(800,000)	-	-	(800,000)	(355,674)
	\$ 2,403,250	\$ 3,407,362	\$ 3,403,063	\$ 9,213,675	\$ 8,966,295

	Capital program	Public liability insurance	2019 Total	2018 Total
Reserve funds:				
Balance, beginning of year	\$ 4,307,742	\$ 3,011,625	\$ 7,319,367	\$ 7,947,594
Interest earned	99,671	72,455	172,126	154,668
Contributions from current operations	1,315,283	1,400,000	2,715,283	679,819
	5,722,696	4,484,080	10,206,776	8,782,081
Expenditures:				
Appropriations to current operations	-	(683,371)	(683,371)	(854,482)
Appropriations to capital LTC	(494,280)	-	(494,280)	(608,232)
	(494,280)	(683,371)	(1,177,651)	(1,462,714)
Balance, end of year	\$ 5,228,416	\$ 3,800,709	\$ 9,029,125	\$ 7,319,367

Provincial gas tax program

	2019 Total	2018 Total
Deferred revenues:		
Balance, beginning of year	\$ 16,947,157	\$ 22,538,650
Interest earned	423,807	519,266
Contributions	10,341,542	9,998,632
	27,712,506	33,056,548
Expenditures:		
Appropriations to current operations	(14,650,476)	(11,697,054)
Appropriations to capital LTC	(1,668,525)	(4,412,337)
	(16,319,001)	(16,109,391)
Balance, end of year	\$ 11,393,505	\$ 16,947,157

LONDON TRANSIT COMMISSION

Notes to Financial Statements (continued)

DRAFT

Year ended December 31, 2019

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 2019 budget surplus, a 2019 actual deficit and a 2018 actual surplus.

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

	Budget	2019	2018
Annual surplus (deficit)	\$ 10,926,900	\$ (3,761,961)	\$ 754,161
Capital expenditures	(10,868,500)	(6,711,303)	(14,833,959)
Transfers from reserves and reserve funds	1,447,000	1,970,154	1,818,388
Contributions to reserves and reserve funds	(1,505,400)	(3,927,292)	(913,825)
Amortization of tangible capital assets	-	13,154,922	12,746,775
Increase (decrease) in employee future benefits	-	(58,000)	434,000
Decrease in liability for insurance claims	-	(642,021)	(97,341)
Other	-	(24,499)	91,801
Commission approved surplus	\$ -	\$ -	\$ -

12. Subsequent event and contingencies:

Subsequent to December 31, 2019, the COVID-19 outbreak was declared a pandemic by the World Health Organization and has had a significant financial, market and social dislocating impact.

At the time of approval of these financial statements, the commission has experienced the following indicators of financial implications and undertaken the following activities in relation to the COVID-19 pandemic.

- Suspension of fare collection starting March 20, 2020 to allow for adequate social distancing
- Significant reductions in service provided starting March 20, 2020 due to lower service demand and reduced availability of operator labour

At this time these factors present uncertainty over future cash flows, may cause significant changes to the assets or liabilities and may have a significant impact on future operations. An estimate of the financial effect is not practicable at this time.