

Financial Statements of

LONDON TRANSIT COMMISSION

Year ended December 31, 2016



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INDEPENDENT AUDITORS' REPORT

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

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, 2016 and the statements of operations, change in net financial assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Entity's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

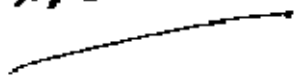
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the London Transit Commission as at December 31, 2016, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slanted style. Below the signature is a long, horizontal, slightly curved line that tapers at both ends, serving as a decorative underline.

Chartered Professional Accountants, Licensed Public Accountants

March 29, 2017

London, Canada

LONDON TRANSIT COMMISSION

Statement of Financial Position

December 31, 2016, with comparative information for 2015

	2016	2015
Financial Assets		
Cash and cash equivalents	\$ 34,277,491	\$ 32,883,164
Investments	20,002,746	19,002,214
Accounts receivable	626,617	884,179
Due from The City of London	404,964	352,156
	<u>55,311,818</u>	<u>53,121,713</u>
Financial Liabilities		
Accounts payable and accrued liabilities	9,908,118	8,596,631
Due to The City of London	92,924	15,951
Accrued liability insurance claims (note 8)	2,283,373	1,670,544
Employee future benefits (note 7)	3,954,000	4,077,000
Deferred fare media	4,236,616	3,994,995
Deferred revenue (note 4 and note 11)	28,889,732	28,478,802
	<u>49,364,763</u>	<u>46,833,923</u>
Net financial assets	5,947,055	6,287,790
Non - Financial Assets		
Inventories (note 2)	2,126,207	2,098,388
Tangible capital assets (note 10)	86,591,763	87,388,491
Prepays	765,265	734,536
	<u>89,483,235</u>	<u>90,221,415</u>
Commitments (note 9)		
Accumulated surplus (note 3)	<u>\$ 95,430,290</u>	<u>\$ 96,509,205</u>

See accompanying notes to financial statements.

LONDON TRANSIT COMMISSION

Statement of Operations

Year ended December 31, 2016, with comparative information for 2015

	Budget	2016	2015
Revenue:			
Grants:			
The City of London (note 5)	\$ 34,907,000	\$ 34,664,236	\$ 33,980,734
Province of Ontario (note 5)	13,593,000	9,283,552	8,426,404
	<u>48,500,000</u>	<u>43,947,788</u>	<u>42,407,138</u>
User charges, conventional transit:			
Cash fares	4,235,200	3,973,362	4,212,009
Ticket fares	10,143,800	9,837,169	9,896,544
Pass fares	16,924,800	17,123,947	16,488,680
Contract service	30,000	440	28,243
Other transportation revenue	572,700	356,113	52,069
	<u>31,906,500</u>	<u>31,291,031</u>	<u>30,677,545</u>
Other revenue, conventional transit:			
Advertising	588,200	634,076	578,200
Interest and discounts	760,000	681,911	735,239
Rent	2,500	2,818	2,534
Gain on disposal of capital assets	48,000	12,465	59,223
Miscellaneous	55,000	22,805	45,019
	<u>1,453,700</u>	<u>1,354,075</u>	<u>1,420,215</u>
User charges, specialized transit:			
Cash fares	17,700	14,427	14,960
Ticket fares	385,700	315,556	316,297
Pass fares	179,200	177,641	162,145
	<u>582,600</u>	<u>507,624</u>	<u>493,402</u>
Total revenue	\$ 82,442,800	\$ 77,100,518	\$ 74,998,300

See accompanying notes to financial statements.

LONDON TRANSIT COMMISSION

Statement of Operations

Year ended December 31, 2016, with comparative information for 2015

	Budget	2016	2015
Expenses:			
Salaries, wages and benefits:			
Transportation	\$ 31,899,007	\$ 31,943,713	\$ 30,322,546
Vehicle maintenance	8,271,727	8,091,793	7,827,530
Facility	456,654	476,484	465,214
Planning, marketing and general administration	2,974,512	2,958,041	2,853,855
	<u>43,601,900</u>	<u>43,470,031</u>	<u>41,469,145</u>
Materials, supplies, utilities and services:			
Transportation	2,426,500	3,069,592	2,205,811
Vehicle maintenance	4,882,900	5,195,628	4,488,242
Facility	2,966,900	2,789,582	2,729,955
Planning, marketing and general administration	1,506,800	1,643,844	1,638,705
Fuel	6,337,800	5,270,393	5,944,733
Amortization	-	10,554,169	10,453,942
	<u>18,120,900</u>	<u>28,523,208</u>	<u>27,461,388</u>
Current operations, specialized transit:			
Administration:			
Salaries and benefits	827,500	923,494	825,140
Materials and supplies	124,400	114,280	121,341
	<u>951,900</u>	<u>1,037,774</u>	<u>946,481</u>
Contracted service delivery	5,597,000	5,148,420	4,825,455
	<u>6,548,900</u>	<u>6,186,194</u>	<u>5,771,936</u>
Total expenses	<u>68,271,700</u>	<u>78,179,433</u>	<u>74,702,469</u>
Annual surplus (deficit) (note 12)	\$ 14,171,100	(1,078,915)	295,831
Accumulated surplus, beginning of year		96,509,205	96,213,374
Accumulated surplus, end of year		<u>\$ 95,430,290</u>	<u>\$ 96,509,205</u>

See accompanying notes to financial statements.

LONDON TRANSIT COMMISSION

Statement of Change in Net Financial Assets

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Annual surplus (deficit)	\$ (1,078,915)	\$ 295,831
Acquisition of tangible capital assets	(9,757,441)	(10,942,204)
Amortization of tangible capital assets	10,554,169	10,453,942
Gain on disposal of tangible capital assets	(12,465)	(59,223)
Proceeds on sale of tangible capital assets	12,465	59,223
	(282,187)	(192,431)
Inventories	(27,819)	(300,576)
Prepaid expenses	(30,729)	30,209
	(58,548)	(270,367)
Change in net financial assets	(340,735)	(462,798)
Net financial assets, beginning of year	6,287,790	6,750,588
Net financial assets, end of year	\$ 5,947,055	\$ 6,287,790

See accompanying notes to financial statements.

LONDON TRANSIT COMMISSION

Statement of Cash Flows

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Operating activities:		
Annual surplus (deficit)	\$ (1,078,915)	\$ 295,831
Items not involving cash:		
Amortization	10,554,169	10,453,942
Gain on disposal of tangible capital assets	(12,465)	(59,223)
Change in employee future benefit liability	(123,000)	(61,000)
Changes in non-cash assets and liabilities:		
Accounts receivable	257,562	(266,559)
Due from The City of London	(52,808)	(295,413)
Inventories	(27,819)	(300,576)
Prepays	(30,729)	30,209
Investments	(1,000,532)	(358,563)
Accounts payable and accrued liabilities	1,311,487	272,251
Due to The City of London	76,973	(45,331)
Accrued liability insurance claims	612,829	15,947
Deferred fare media	241,621	(138,082)
Deferred revenue	410,930	996,036
Net change in cash from operating activities	11,139,303	10,539,469
Capital activities:		
Proceeds on sale of tangible capital assets	12,465	59,223
Cash used to acquire tangible capital assets	(9,757,441)	(10,942,204)
Net change in cash from capital activities	(9,744,976)	(10,882,981)
Net change in cash and cash equivalents	1,394,327	(343,512)
Cash and cash equivalents, beginning of year	32,883,164	33,226,676
Cash and cash equivalents, end of year	\$ 34,277,491	\$ 32,883,164

See accompanying notes to financial statements.

LONDON TRANSIT COMMISSION

Notes to Financial Statements

Year ended December 31, 2016

1. Significant accounting policies:

The financial statements of the London Transit Commission (the "Commission") are the representation of management prepared in accordance with Canadian generally accepted accounting principles as defined in the CPA 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 be only 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)

Year ended December 31, 2016

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)

Year ended December 31, 2016

2. Inventories:

	2016	2015
Spare parts	\$ 2,126,207	\$ 2,098,388

3. Accumulated surplus:

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

	2016	2015
Surplus:		
Invested in tangible capital assets	\$ 86,591,763	\$ 87,388,491
To be recovered from public liability insurance reserve fund	(2,283,373)	(1,670,544)
Unfunded:		
Employee future benefits liability	(3,954,000)	(4,077,000)
Vacation pay earned and accrued payroll	(2,831,048)	(2,805,969)
Total surplus	77,523,342	78,834,978
Reserve set aside for specific purposes of the Commission (note 11):		
Energy management reserve	3,203,250	3,203,250
General operating reserve	3,282,165	3,275,765
Health care management reserve	2,668,735	2,647,488
Total reserves	9,154,150	9,126,503
Reserve funds set aside for specific purposes by the Commission (note 11):		
Capital program reserve fund	5,154,473	4,658,384
Public liability insurance reserve fund	3,598,325	3,889,340
Total reserve funds	8,752,798	8,547,724
	\$ 95,430,290	\$ 96,509,205

4. Deferred revenue:

	2016	2015
Provincial gas tax	\$ 28,889,732	\$ 28,471,566
The City of London capital funding	-	7,236
	\$ 28,889,732	\$ 28,478,802

LONDON TRANSIT COMMISSION

Notes to Financial Statements (continued)

Year ended December 31, 2016

5. 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:

	2016	2015
Operating grants:		
Specialized transit	\$ 4,676,300	\$ 4,160,800
Conventional transit	23,613,600	22,881,400
	28,289,900	27,042,200
Capital grants:		
Capital levy and debentures	6,374,336	6,480,164
Development	-	458,370
	6,374,336	6,938,534
Total grants received from The City of London	\$ 34,664,236	\$ 33,980,734

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:

	2016	2015
Equalization grant, seniors (reduced fares)	\$ 376,391	\$ 355,786
Free transportation, blind	163,105	164,289
	\$ 539,496	\$ 520,075

(b) Province of Ontario:

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

	2016	2015
Capital grants:		
Gas tax program	\$ 2,674,152	\$ 3,109,895
Operating grants:		
Gas tax program	6,609,400	5,316,509
	\$ 9,283,552	\$ 8,426,404

LONDON TRANSIT COMMISSION

Notes to Financial Statements (continued)

Year ended December 31, 2016

6. 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, 2016 there were 517 (509 for 2015) 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 2016 were \$2,773,485 (2015 - \$2,703,475).

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.

7. 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, 2015.

	2016	2015
Employee future benefits liability as of December 31	\$ 3,954,000	\$ 4,077,000

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

	2016	2015
Current year benefit cost	\$ 214,000	\$ 225,000
Interest on accrued benefit obligation	97,000	136,000
Amortized gain	(228,000)	(39,000)
Benefits paid	(206,000)	(383,000)
	\$ (123,000)	\$ (61,000)

Significant assumptions are as follows:

Discount rate	3.25%
Rate of compensation increase	1.90%
Healthcare cost current	6.03%
Healthcare cost ultimate	4.50%

LONDON TRANSIT COMMISSION

Notes to Financial Statements (continued)

Year ended December 31, 2016

8. Public liability insurance:

At December 31, 2016, there were 133 liability claims and 12 accident benefits claims outstanding that may result in payment under the insurance deductible provisions. The estimated cost to the Commission is \$2,137,895 and \$145,478 (2015 - \$1,476,375 and \$194,169) respectively for a total of \$2,283,373 (2015 - \$1,670,544) to be funded from the public liability reserve fund.

9. 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, 2017. The annual base lease amount is \$19,189 plus an approximate additional amount of \$8,400 for taxes and common area maintenance. Lease payments until the expiry of the lease total \$18,361.

(b) Bus procurement:

The Commission has approved the awarding of contracts with New Flyer Industries for the purchase of twenty eight buses (\$15.4 million). All buses are anticipated to be on site by the end of July 2017.

LONDON TRANSIT COMMISSION

Notes to Financial Statements (continued)

Year ended December 31, 2016

10. 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		Disposals	Balance	
	December 31, 2015	Additions		December 31, 2016	2016
Land	\$ 2,804,632	\$ -	\$ -	\$ 2,804,632	
Site work	2,651,986	51,805	-	2,703,791	
Buildings	43,377,894	235,571	-	43,613,465	
Shelters, pads, and terminals	1,078,856	22,360	-	1,101,216	
Rolling stock	102,070,362	8,554,345	(1,034,170)	109,590,537	
Fare and data collection equipment	5,441,726	92,434	-	5,534,160	
Radio/communication equipment	8,096,119	163,392	-	8,259,511	
Bike racks on buses	158,878	-	-	158,878	
Service fleet	342,734	73,817	-	416,551	
Shop equipment	2,885,297	147,883	-	3,033,180	
Small tools	165,526	62,927	(55,233)	173,220	
Computer hardware	568,018	26,767	-	594,785	
Computer software	846,028	326,140	-	1,172,168	
	\$ 170,488,056	\$ 9,757,441	\$ (1,089,403)	\$ 179,156,094	

Accumulated amortization	Balance		Disposals	Amortization	Balance	
	December 31, 2015				December 31, 2016	2016
Land	\$ -	\$ -	\$ -	\$ -	\$ -	
Site work	998,434	-	-	108,152	1,106,586	
Buildings	12,505,296	-	-	1,407,138	13,912,434	
Shelters, pads, and terminals	782,515	-	-	60,307	842,822	
Rolling stock	58,382,629	(1,034,170)	-	7,781,569	65,130,028	
Fare and data collection equipment	1,933,660	-	-	360,952	2,294,612	
Radio/communication equipment	3,974,802	-	-	550,634	4,525,436	
Bike racks on buses	158,878	-	-	-	158,878	
Service fleet	311,690	-	-	45,171	356,861	
Shop equipment	2,630,362	-	-	135,828	2,766,190	
Small tools	111,482	(55,233)	-	57,740	113,989	
Computer hardware	534,972	-	-	29,962	564,934	
Computer software	774,845	-	-	16,716	791,561	
	\$ 83,099,565	\$ (1,089,403)	\$ 10,554,169	\$ 92,564,331		

Net book value	Balance		Balance	
	December 31, 2015		December 31, 2016	2016
Land	\$ 2,804,632		\$ 2,804,632	
Site work	1,653,552		1,597,205	
Buildings	30,872,598		29,701,031	
Shelters, pads, and terminals	296,341		258,394	
Rolling stock	43,687,733		44,460,509	
Fare and data collection equipment	3,508,066		3,239,548	
Radio/communication equipment	4,121,317		3,734,075	
Bike racks on buses	-		-	
Service fleet	31,044		59,690	
Shop equipment	254,935		266,990	
Small tools	54,044		59,231	
Computer hardware	33,046		29,851	
Computer software	71,183		380,607	
	\$ 87,388,491		\$ 86,591,763	

LONDON TRANSIT COMMISSION

Notes to Financial Statements (continued)

Year ended December 31, 2016

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

	Energy management reserve	General operating reserve	Health care management reserve	2016 Total	2015 Total
Reserves:					
Balance, beginning of year	\$ 3,203,250	\$ 3,275,765	\$ 2,647,488	\$ 9,126,503	\$ 9,087,452
Contributions from current operations	-	6,400	387,435	393,835	286,666
Appropriations to current operations	-	-	(366,188)	(366,188)	(247,615)
	\$ 3,203,250	\$ 3,282,165	\$ 2,668,735	\$ 9,154,150	\$ 9,126,503

	Capital program	Public liability insurance	2016 Total	2015 Total
Reserve funds:				
Balance, beginning of year	\$ 4,658,384	\$ 3,889,340	\$ 8,547,724	\$ 8,744,099
Interest earned	42,936	35,896	78,832	83,725
Contributions from current operations	719,457	400,000	1,119,457	639,233
	5,420,777	4,325,236	9,746,013	9,467,057
Expenditures:				
Appropriations (to) current				
Appropriations to current operations	-	(726,911)	(726,911)	(521,705)
Appropriations to capital LTC	(266,304)	-	(266,304)	(397,628)
	(266,304)	(726,911)	(993,215)	(919,333)
Balance, end of year	\$ 5,154,473	\$ 3,598,325	\$ 8,752,798	\$ 8,547,724

	City of London	Provincial gas tax program	2016 Total	2015 Total
Deferred revenues:				
Balance, beginning of year	\$ 7,236	\$ 28,471,566	\$ 28,478,802	\$ 27,482,766
Interest earned	-	442,648	442,648	496,146
Contributions	-	9,701,719	9,701,719	9,422,440
	7,236	38,615,933	38,623,169	37,401,352
Expenditures:				
Appropriations to current operations	-	(6,609,400)	(6,609,400)	(5,316,509)
Appropriations to capital LTC	(7,236)	(3,116,801)	(3,124,037)	(3,606,041)
	(7,236)	(9,726,201)	(9,733,437)	(8,922,550)
Balance, end of year	\$ -	\$ 28,889,732	\$ 28,889,732	\$ 28,478,802

LONDON TRANSIT COMMISSION

Notes to Financial Statements (continued)

Year ended December 31, 2016

12. 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 2016 paper budget surplus, a 2016 actual deficit and a 2015 actual surplus.

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

	Budget	2016	2015
Annual surplus	\$ 14,171,100	\$ (1,078,915)	\$ 295,831
Capital expenditures	(14,286,700)	(9,757,441)	(10,942,203)
Transfers from reserves and reserve funds	1,611,000	1,359,404	1,166,947
Contributions to reserves and reserve funds	(1,495,400)	(1,585,725)	(1,177,724)
Amortization of tangible capital assets	-	10,554,169	10,453,942
Other	-	508,508	203,207
Commission approved surplus	\$ -	\$ -	\$ -