

Fund Financial Statements of

**THE LONDON TRANSIT COMMISSION
EMPLOYEES' PENSION PLAN**

And Independent Auditors' Report thereon

Year ended December 31, 2023



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INDEPENDENT AUDITORS' REPORT

To the Administrator

Opinion

We have audited the fund financial statements of The London Transit Commission Employees' Pension Plan (the Plan), which comprise:

- the statement of net assets available for benefits as at December 31, 2023,
- the statement of changes in net assets available for benefits 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 net assets available for benefits of the Plan as at December 31, 2023, and its changes in net assets available for benefits for the year then ended in accordance with the financial reporting provisions of Section 76 of Regulation 909 of the Pension Benefits Act (Ontario).

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 Plan in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical 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.

Emphasis of Matter – Financial Reporting Framework

We draw attention to Note 2(a) in the financial statements, which describes the applicable financial reporting framework and the purpose of the financial statements.



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The financial statements are prepared to assist the Administrator of the Plan to meet the requirements of Section 76 of Regulation 909 of the Pension Benefits Act (Ontario).

As a result, the financial statements may not be suitable for another purpose.

Our opinion is not modified in respect of this matter.

Emphasis of Matter – Comparative Information

We draw attention to Note 9 in the financial statements, which explains that certain comparative information presented for the year ended December 31, 2022 has been restated.

Note 9 explains the reason for the restatement and also explains the adjustments that were applied to restate certain comparative information.

Our opinion is not modified in respect to this matter.

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 the financial reporting provisions of Section 76 of Regulation 909 of the Pension Benefits Act (Ontario), 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 Plan'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 Plan or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Plan'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 considered 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.



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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 Plan'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 Plan'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 Plan 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

September 18, 2024

THE LONDON TRANSIT COMMISSION EMPLOYEES' PENSION PLAN

Statement of Changes in Net Assets Available for Benefits

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December 31, 2023, with comparative information for 2022

	2023	2022
		(restated - note 9)
Assets		
Annuity contracts (note 4)	\$ 4,429,000	\$ 4,439,600
Investment in segregated fund (note 5)	6,691,625	6,030,322
	11,120,625	10,469,922
Liabilities		
Accrued liabilities	58,902	67,705
Net assets available for benefits	\$ 11,061,723	\$ 10,402,217

See accompanying notes to financial statements.

THE LONDON TRANSIT COMMISSION EMPLOYEES' PENSION PLAN

Statement of Changes in Net Assets Available for Benefits

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December 31, 2023, with comparative information for 2022

	2023	2022
		(restated - note 9)
Increase in net assets:		
Net realized gain on sales of investments	\$ 86,951	\$ 344,995
Investment income	208,500	135,300
Change in fair value of annuity	102,331	-
Change in net unrealized gain on investments	707,554	-
	<u>1,105,336</u>	<u>480,295</u>
Decrease in net assets:		
Administrative expenses (note 6)	59,630	78,048
Retirement and termination payments	386,200	391,700
Change in fair value of annuity	-	810,145
Change in net unrealized gain on investments	-	837,350
	<u>445,830</u>	<u>2,117,243</u>
Increase (decrease) in net assets	659,506	(1,636,948)
Net assets available for benefits, beginning of year	10,402,217	12,039,165
Net assets available for benefits, end of year	<u>\$ 11,061,723</u>	<u>\$ 10,402,217</u>

See accompanying notes to financial statements.

THE LONDON TRANSIT COMMISSION EMPLOYEES' PENSION PLAN

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December 31, 2023, with comparative information for 2022

1. Description of plan:

The financial statements present the activity of the fund of The London Transit Commission Employees' Pension Plan (the "Plan"). The following description of the Plan is a summary only. For more complete information reference should be made to the Pension Plan agreement registered as a defined benefit plan under the Pension Benefits Act of Ontario, registration number 269753.

The Plan, as amended February 1, 1989, provides defined benefits in respect of services rendered on or after January 1, 1987, up to and including January 31, 1989, by employees of the London Transit Commission (the "Sponsor"). Pension benefits accrued to December 31, 1986 are covered under a fully insured group annuity policy with the value of the annuity contract reflected in these financial statements. The benefits to be provided include the liability relating to the provisions of a 60% surviving spouse option.

Post January 31, 1989, pension benefits for active members are provided by the Ontario Municipal Employee Retirement System. The liability and related assets are not reflected in these financial statements.

For disabled employees, the Plan in effect prior to February 1, 1989, remains in force. The respective assets relating to services provided on or after January 1, 1987, for these members, are reflected in these financial statements. Pre January 1, 1987, pension benefits are provided under a fully insured group annuity policy and the liability and related assets are not reflected in these financial statements. The benefits to be provided include the liability relating to the provision of the surviving spouse option.

2. Basis of preparation:

(a) Basis of presentation:

As permitted under Section 76 of the Regulation to the Pension Benefits Act (Ontario), the Plan may prepare financial statements in accordance with Canadian accounting standards for pension plans or in accordance with Canadian accounting standards for pension plans excluding pension obligations and any resulting surplus or deficit. The Plan has prepared these financial statements in accordance with Canadian accounting standards for pension plans excluding pension obligations and any resulting surplus or deficit.

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Statement of Changes in Net Assets Available for Benefits

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December 31, 2023, with comparative information for 2022

2. Basis of preparation (continued):

(a) Basis of presentation (continued):

In selecting or changing accounting policies that do not relate to its investment portfolio or pension obligations, Canadian accounting standards for pension plans require the Plan to comply (on a consistent basis) with either International Financial Reporting Standards ("IFRS") in Part I of The Canadian Institute of Chartered Accountants' ("CICA") Handbook - Accounting or Canadian accounting standards for private enterprises ("ASPE") in Part II of the CICA Handbook - Accounting. The Plan has chosen to comply on a consistent basis with ASPE.

These financial statements of the Plan do not purport to show the adequacy of the Plan's assets to meet its pension obligation. Such an assessment requires additional information, such as the Plan's actuarial reports and information about the Commission's financial health.

These financial statements have been prepared to assist the Administrator of The London Transit Commission Employees' Pension Plan meet the requirements of the Financial Services Regulatory Authority ("FSRA") of Ontario. As a result, these financial statements may not be suitable for another purpose.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis, except for investments which are measured at fair value through the statement of changes in net assets available for benefits.

(c) Use of estimates and judgements

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of financial assets and financial liabilities at the date of the financial statements and the reported amounts of changes in net assets available for benefits during the year. Actual results could differ from these estimates.

THE LONDON TRANSIT COMMISSION EMPLOYEES' PENSION PLAN

Statement of Changes in Net Assets Available for Benefits

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December 31, 2023, with comparative information for 2022

3. Significant accounting policies:

(a) Financial assets and financial liabilities:

Investment transactions are recognized initially on the trade date, which is the date that the Plan becomes a party to the contractual provisions of the instrument.

Investment in segregated fund is stated at fair value. In determining fair values, adjustments have not been made for transaction costs, as they are not considered to be significant. The change in the difference between the fair value and cost of investments at the beginning and end of each year is reflected in the statement of changes in net assets available for benefits as change in net unrealized gain (loss) on investments.

Annuity contracts in which the timing and amount of cash flows match the timing and amount of cash flows for the Plan's benefit obligation are recorded at a value equal to the related benefit obligation.

Accrued liabilities are measured at amortized cost.

(b) Net realized gain or loss on sale of investments:

The net realized gain or loss on sales of investments is the difference between proceeds received and the average cost of investments sold.

(c) Investment income:

Investment income, which is recorded on an accrual basis, includes segregated fund distributions and interest returns from annuity contracts.

(d) Fair value measurement:

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

In determining fair value, the Plan follows the guidance in IFRS 13, Fair Value Measurement ("IFRS 13"), in Part I of the CICA Handbook¹. As allowed under IFRS 13, if an asset or a liability measured at fair value has a bid and an ask price, the price within the bid-ask spread that is the most representative of fair value in the circumstances shall be used to measure fair value. The Plan uses closing market price as a practical expedient for fair value measurement for investments other than Annuity contracts.

When available, the Plan measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

THE LONDON TRANSIT COMMISSION EMPLOYEES' PENSION PLAN

Statement of Changes in Net Assets Available for Benefits

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December 31, 2023, with comparative information for 2022

3. Significant accounting policies (continued):

(d) Fair value measurement (continued):

If a market for a financial instrument is not active, then the Plan establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognized in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Fair values of investments and annuity contracts are determined as follows:

Segregated funds are valued at the unit values supplied by the segregated fund administrator, which represent the Plan's proportionate share of underlying net assets at fair values determined using closing market prices.

The fair value of the annuity contract is actuarially determined based on the timing and amount of cash flows that match the related defined benefit obligation using actuarial assumptions, as published by the Canadian Institute of Actuaries for purposes of calculating the cost of purchasing annuities.

(e) Income taxes:

The Plan is a Registered Pension Trust as defined under the Income Tax Act (Canada) and is not subject to income taxes.

(f) Capital disclosure:

The main objective of the Plan is to sustain a certain level of net assets in order to meet the pension obligations of the Plan, which are not presented or discussed in these specified-purpose financial statements. The Plan fulfils its primary objective by adhering to specific investment policies outlined in its Statement of Investment Policies and Procedures (the "SIPP"), which is reviewed annually by the Plan. The Plan manages net assets by engaging knowledgeable investment managers who are charged with the responsibility of investing existing funds and any new funds in accordance with the approved SIPP.

Although there are no regulatory requirements relating to the level of net assets the funding to be maintained by the Plan is determined through tri-annual actuarial valuations. The Plan is required to file financial statements with FSRA.

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December 31, 2023, with comparative information for 2022

4. Annuity contracts:

The Sponsor acquires buy-out annuity contracts through Manufacturers Life Insurance Company ("Insurer") for retirees under the Plan. Since the Sponsor has not secured a discharge for these annuities, which were purchased under Section 43 of the Pension Benefits Act, the annuity contracts are considered an investment of the Plan. These annuity contracts are recorded at a value equal to the defined benefit obligations in respect of those members.

The Plan has total outstanding annuity contracts with a market value of \$4,429,000 (2022 - \$4,439,000) at December 31, 2023. The valuation over the contract annuities was performed by the Insurer and the actuarial assumptions used represent the assumptions published by the Canadian Institute of Actuaries for purposes of calculating the cost of purchasing annuities.

5. Investments:

The following summary of investments includes information in respect of individual investments with a cost or fair value in excess of 1% of the cost or market value of the Plan, as required by the Ontario Pension Benefits Act.

Fund name	Fund operator	Nature of investments held	Market 2023	Market 2022
ML MIM Diversified Fund	Standard Life Assurance Co.	Diversified	\$ 6,691,625	\$ 6,030,322

Fund name	Fund operator	Nature of investments held	Cost 2023	Cost 2022
ML MIM Diversified Fund	Standard Life Assurance Co.	Diversified	\$ 2,170,025	\$ 2,216,277

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December 31, 2023, with comparative information for 2022

6. Administrative expenses:

	2023		2022
Investment management fees	\$ 35,964	\$	32,252
Actuarial consulting fees	1,576		20,295
Administration	13,139		14,200
Audit fees	8,950		11,301
	\$ 59,629	\$	78,048

7. Actuarial valuations:

Actuarial valuations are prepared and filed as required by the FSRA, and the provisions of the Income Tax Act (Canada) and regulations thereto, to estimate the surplus or deficit for the Plan and to determine required contributions. The last triannual actuarial valuation, performed by The Manufacturers Life Insurance Company, the Sponsor's actuary, prepared on January 1, 2022 indicated that, on a solvency basis using the accrued benefit method, the Plan had an actuarial surplus estimated at \$5,599,000 and, accordingly, no employer contributions are required.

As required by FSRA, the solvency estimate above includes the impact of adding the value of retirees insured pensions in both the assets and pension liabilities.

8. Financial instruments:

(a) Fair values:

The fair values of investments and annuity contracts are described in note 3(d). The fair values of other financial assets and liabilities, being accrued liabilities, approximate their carrying values due to the short-term nature of these instruments.

Fair value measurements recognized in the statement of net assets available for benefits are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values:

- (i) Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities;
- (ii) Level 2 - inputs other than quoted prices included in Level 1 that are observable for the assets and liability, either directly or indirectly; and
- (iii) Level 3 - inputs for assets and liabilities that are not based on observable market data.

The Plan investment in the segregated fund is categorized as Level 2 and the annuity contracts are Level 3. There were no transfers of investments between classifications during the year.

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Statement of Changes in Net Assets Available for Benefits

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December 31, 2023, with comparative information for 2022

8. Financial instruments (continued):

(b) Associated risks:

(i) Market price risk:

Market price risk is the risk that value of an instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issue or all other factors affecting all instruments traded in the market.

As all of the Plan's financial instruments are carried at fair value with fair value changes recognized in the statement of changes in net assets available for benefits, all changes in market conditions will directly affect the change in net assets available for benefits.

Market price risk is managed by the Administrator through the Fund operator's construction of a diversified portfolio of instruments traded on various markets and across various industries.

As at December 31, 2023, had the value of the equity portfolio increased or decreased by 10% with all other variables remaining unchanged, net assets of the Plan would have increased or decreased respectively, by approximately \$402,702 (2022 - \$364,654)

(ii) Foreign currency risk:

Foreign currency risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency rates. The Plan invests in financial instruments and enters into transactions denominated in U.S. dollars. Consequently, the Plan is exposed to risks that the exchange rate of the foreign currency may change in a manner that has an adverse affect on the value of the portion of the Plan's assets or liabilities denominated in currencies other than Canadian dollars.

The Plan's overall currency positions and exposures are monitored on a regular basis by the Fund operator who reports quarterly to the Administrator.

As at December 31, 2023, if the Canadian dollar had strengthened or weakened by 5% in relation to foreign currencies held by the Plan, with all other variables held constant, net assets of the Plan would have decreased or increased respectively, by approximately \$110,245 (2022 - \$96,515).

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Statement of Changes in Net Assets Available for Benefits

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December 31, 2023, with comparative information for 2022

8. Financial instruments (continued):

(b) Associated risks (continued):

(iii) Liquidity risk:

Liquidity risk is the risk that the Plan will not be able to meet its obligations as they fall due. The Plan is principally responsible for funding of the benefit payments as they are due. The Plan maintains an investment policy, as approved by the Administrator, which contains asset mix guidelines which help to ensure the Plan is able to liquidate investments to meet its pension benefit or other obligations.

(iv) Interest rate risk:

Interest rate risk refers to the adverse consequences of interest rate changes on the Plan's net assets and changes in net assets available for plan benefits. The value of the Plan's assets is affected by changes in interest rates and equity markets. Interest rate changes directly impact the value of fixed income securities held within the segregated fund and the value of the annuity contracts.

At December 31, 2023, had the prevailing interest rates increased or decreased by 1% with all other variables held constant, net assets of the Plan would have decreased or increased respectively, by approximately \$225,207 (2022 - \$214,281).

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December 31, 2023, with comparative information for 2022

9. Restatement:

As employees retire, a buy-out annuity is purchased by the Plan to support the lifetime pension of the retiree, the value of which had been excluded from the assets of the Plan. Where a buy-out annuity has been purchased under Section 43 of the Pension Benefits Act (PBA), and the administrator has not obtained a discharge, the value of the annuity should be included as an asset of the Plan. As a result, the value of the outstanding annuities, together with the cost of administering the related pension benefits to the annuitants, has been recorded in the financial statements. This correction has been applied on a retroactive basis with a restatement of comparative information as follows:

	As reported	Adjustment	As restated
Statement of Net Assets:			
Annuity contracts	\$ -	\$ 4,439,600	\$ 4,439,600
Net assets available for benefits	5,962,617	4,439,600	10,402,217
Statement of Changes in Net Assets Available for Benefits:			
Increase in net assets:			
Transfer from group annuity contract	251,111	(251,111)	-
Investment income	-	135,300	135,300
Decrease in net assets:			
Pension annuities purchased	355,956	(355,956)	-
Retirement and termination payments	-	391,700	391,700
Change in fair value of annuity contracts	-	810,145	810,145
Net assets available for benefits, beginning of year	6,637,865	5,401,300	12,039,165
Net assets available for benefits, end of year	5,962,617	4,439,600	10,402,217