Ontario Northland

An Agency of the Government of Ontario

Ontario Northland Transportation Commission

Annual Report 2018-2019

Ontario

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Message from the Chair

I was honoured to continue as Chair of the Ontario Northland Transportation Commission in 2018-19. The Commission and the senior management team have continued efforts to meet and exceed expectations for our customers, passengers and stakeholders.

In 2018-19 Ontario Northland seized opportunities, increased service levels and overcame challenges while progressing its business plan based around continuous improvement and innovation. The agency safely operated rail and motor coach services in northern Ontario through harsh weather conditions, effectively dealt with rising operational costs, mitigated a decline in rail volumes and existing customers and improved its emergency preparedness following an unfortunate derailment of the Polar Bear Express passenger train, its first significant derailment in thirty-five years.

The business plan was successfully executed while reacting to market and economic factors. Unexpected customer shutdowns, fuel price volatility, derailment expenses, delays to pension merger activity and a pause in work for a refurbishment customer all had material impacts to operations. Despite these significant challenges, Ontario Northland finished 2018-19 right on budget.

This is an incredible accomplishment for the agency. An aggressive agenda to drive efficiencies was achieved, despite a significant increase in expenses and the need to react to unforeseen market fluctuations and risk events that were beyond control. The agency expanded its motor coach service and delivered on its budget promise, while dealing with the pressure of expiring labour contracts, aging equipment and infrastructure, and a diverse set of expectations from multiple stakeholder groups.

Within this report, you will see many examples of how Ontario Northland's culture of innovation is having a positive impact on northeastern Ontario. This is largely due to the contributions of over 760 talented employees who provide safe and reliable transportation for passengers and goods and enhance transportation equipment through repair services.

Our clear vision at Ontario Northland is to find sustainable solutions to improve transportation in northern Ontario and deliver these services at the highest quality. With the support of the Provincial Government we will continue to improve, most importantly through our strong capital program which is focused on returning and maintaining our capital assets in an acceptable state of good repair.

I am grateful to our loyal customers who use and promote our services. We have a deep sense of responsibility toward the communities, businesses and people that we serve and connect. This is engrained into our culture through a century of dedicated employees who are extremely proud of our impact. We know that by working together we can continue to deliver transportation solutions that improve the economy and the lives of northerners for many years to come.

On behalf of the Commission, thank you for your interest in Ontario Northland.

Tom Laughren
Chair, Ontario Northland Transportation Commission

Highlights

MOVING PEOPLE

51,189 passenger trips were fulfilled on the Polar Bear Express passenger train between Cochrane and Moosonee
311,080 passenger trips fulfilled on Ontario Northland motor coaches

MOVING GOODS

33,739 carloads moved
4.8 million kilograms of express freight shipments were delivered between Moosonee and Cochrane
3,251 vehicles transported between Moosonee and Cochrane

EQUIPMENT AND INFRASTRUCTURE

24 active locomotives
35 in-service buses
854 miles of track maintained (1,374 kms)
675 miles of mainline track (1,086 kms)
450 rail crossings
90 rail bridges
508 switches

ECONOMIC IMPACT*

Ontario Northland generated approximately $125.24M of GDP in various communities in northeastern Ontario in 2017.

Ontario Northland added approximately $225M to output (sales) in Ontario in 2017. This is equal to ~1/4 of the output from Ontario's Forestry and logging sector.

EMPLOYEES

763 employees
20% women
4% of employees identified themselves as Indigenous
Ontario Northland's female participation rate (20%) is 6% higher than the Rail Transportation industries' female participation rate (13%) and 7% higher than the Truck Transportation industries' female participation rate (12%).

* Source: Ontario Northland Economic and Social Impact Study, EY, 2018

Company Overview

The Ontario Northland Transportation Commission (ONTC or Ontario Northland), an agency of the Province of Ontario, provides reliable and efficient transportation services throughout northeastern Ontario.

Our Services

Headquartered in North Bay and operating primarily in northeastern Ontario, Ontario Northland's services include:

- The Polar Bear Express passenger rail service (providing the only all-season land link between Cochrane and Moosonee);
- Rail freight services;
- Rail mechanical and remanufacturing services; and
- Motor Coach services throughout northern Ontario connecting to Toronto, Sault Ste. Marie and Ottawa

Vision

Efficient and valued transportation solutions for the next 100 years.

Ontario Northland will be the transportation leader in northern Ontario, providing efficient, valued and vital transportation solutions, including rail passenger and rail freight services, motor coach services, the Cochrane Station Inn, and rail mechanical and remanufacturing services for passenger cars, freight cars and locomotives.

Our focus will be on business and employee excellence, innovation and collaboration. We will establish cost-effective business practices, transform to a culture of continuous improvement and operate more efficiently and effectively enabling a sustainable Ontario Northland.

As employees we will take pride in our work and our workplace. We will promote a culture of open communication, fairness, diversity and creativity that will move us forward as a secure and valued workforce.

Values

By choosing to live the following values, Ontario Northland employees share accountability for helping achieve efficient and valued transportation solutions for the next 100 years:

- Accountability
- Customer Satisfaction
- Positive Team/Work Environment
- Safety
- Continuous Improvement

Corporate Governance

ONTC is an agency of the Government of Ontario. It was established by government in 1902 under the *Ontario Northland Transportation Commission Act*.

ONTC is accountable to the Minister of Energy, Northern Development and Mines (ENDM) for fulfilling its legislative obligations, the management of the resources it uses, and its standards for any services it provides. Commission members are appointed by the Lieutenant Governor in Council and go through an application process established through the Public Appointments Secretariat.

ONTC and ENDM have a Memorandum of Understanding (MOU) that was updated in November 2016. The purpose of the MOU is to set out the mandate of the agency and the accountability relationship between the ONTC and ENDM. It also defines the responsibilities of the Minister, Deputy Minister, Chair of the Ontario Northland Transportation Commission, Commissioners and the CEO.

Mandate

On November 4, 2016 the Province of Ontario approved a new mandate for the ONTC, and directed that ONTC continue to provide and ensure efficient, safe and reliable transportation services including rail freight, motor coach services, the Cochrane Station Inn and other real estate, the Polar Bear Express passenger train and remanufacturing and repair services for ONTC rail freight, Polar Bear Express and external customers.

The mandate of the ONTC is to:

a) continue to provide and ensure efficient, safe and reliable services in northern Ontario to support long term sustainability through transformation efforts, as directed by the Province of Ontario through the Minister from time to time; and

b) ensure the remanufacturing and repair services provided to external customers will be at full cost recovery and will not adversely affect the provision of the other services.

A mandate letter was provided in October 2017 further directing ONTC to:

- Continue transformation initiatives in order to achieve long-term sustainability;
- Work with ENDM to implement the findings of the Accountability Framework and Mandate Reviews, including overarching initiatives, such as clarification of socio-economic and transformation objectives and the modernization of the *Ontario Northland Transportation Commission Act*;
- Further develop ONTC's Ten-Year Capital Plan, including performance measures and prioritization strategies that ensure infrastructure is maintained in a state of good repair and that transportation services are safe, efficient and reliable; and
- Continue to support government initiatives, such as climate change and inter-community bus modernization.

These expectations were fulfilled in 2018-19. Highlights include expanding bus services, growth of bus ridership, effort towards a pension plan merger to help achieve long-term sustainability, and improved state of good repair of capital assets with all projects completed on budget and on time per the Ten-Year Capital Plan. Other performance highlights are listed throughout this document.

Reporting Structure

The President and CEO reports to the ONTC, comprised of a Chair and Commission members, each of whom have been appointed by the Province of Ontario. The Commission, in turn, reports to the Minister of Energy, Northern Development and Mines, the ministry responsible for overseeing the ONTC.

Commission Members

Thomas Laughren, Timmins, Chair
(appointment March 11, 2018 for a three-year term)

Steven Carmichael, North Bay
(appointment March 11, 2018 for a one-year term)

Ewen Cornick, North Bay
(appointment March 11, 2018 for a two-year term)

Gaétan Malette, Timmins
(appointment March 11, 2018 for a three-year term)

Debra Sikora, Guelph
(appointment May 18, 2017 for a three-year term)

Lillian Trapper, South Porcupine
(appointment March 7, 2018 for a three-year term)

Ila Watson, Sault Ste. Marie
(appointment March 11, 2018 for a three-year term)

The combined amount of remuneration for all appointees was $11,850 for this fiscal year.

Principal Officers – Ontario Northland

Corina Moore – President and Chief Executive Officer
Grant Bailey – Vice President of Transportation
Chad Evans – Vice President of Corporate Services
Dennis Higgs – Vice President of Rail Mechanical and Remanufacturing
Donna Jaques – Legal Counsel

Employees

Ontario Northland employs 763 individuals, who live and work in northern Ontario and northwestern Quebec.

2018-2019 in Review

Passenger Services

Motor Coach Services:

Scheduled and chartered motor coach services injected $13 million of revenue into the company, which was an 18% increase from the previous year and a 16% increase over target due to increase in ridership from expanded and regular routes. Operating expenses increased 39% due to an additional 1,109,166 kms added to motor coach services within sparsely populated communities in northern Ontario, increasing salaries by hiring operators and mechanics and fringe benefits, as well as additional one-time costs for expansion of routes.

Tasked by the Province of Ontario, ONTC continued with the expansion of inter-community motor coach services in 2018-19. In April of 2018, motor coach services were introduced to Manitoulin Island, and 2018-2019 marked a full year of operating on the new Sault Ste. Marie and White River route. New routes, increased marketing activities and seamless connections resulted in an additional 53,058 passenger trips - an increase of 21% over the previous year.

Passenger Numbers:	**2018-2019**	**2017-2018**	**2016-2017**
Motor Coach	311,080	258,022	243,482

Polar Bear Express:

The Polar Bear Express contributed $6.6 million in revenue to the organization, which was a decrease of 12% compared to the previous year, as well as an 11% decrease from target. Various reasons for the decrease include a prolonged winter road season that runs parallel to the rail line which decreased ridership, as well as decreased freight traffic from Cochrane to Moosonee. Operating expenses totaled $21.7 million which was an increase of 18% from the previous year due to increased fuel costs and increased mechanical expenses related to harsh winter conditions and aging equipment.

Polar Bear Express freight express shipments, comprising smaller goods increased by 600,000 kilograms, as did revenue for this service by over $0.2 million from the previous fiscal year.

Polar Bear Express ridership saw a decrease of 7% this year in part due to a decline in construction freight to James Bay coast communities and the prolonged winter road season. The Polar Bear Express on-time arrival performance was 88%, a decline of 10%. The reduction in on-time arrival performance is attributed to slow orders put in place during track construction and maintenance.

Passenger Numbers:

	2018-2019	**2017-2018**	**2016-2017**
Polar Bear Express	51,189	54,895	57,131

The Polar Bear Express passenger train experienced its first derailment in over 35 years of operation in May 2018. This unfortunate event resulted in unforeseen expenses totaling $2.5 million. Since this derailment, ONTC has updated and practiced an emergency response plan including new on-board equipment to ensure added safety.

Cochrane Station Inn:

The Station Inn's occupancy rate for this fiscal period was 51%, a decrease of 2% from the previous year.

The decrease is primarily attributed to the large snowfalls in the southern region resulting in a reduction in snowmobile tourism traffic in the north. Cochrane has historically experienced larger amounts of snowfall than its southern counterparts - drawing snowmobile enthusiasts to the region. In 2018, North Bay experienced record high snowfall measurements; doubling in comparison to 2017 which has drawn snowmobilers to the surrounding area and consequently reduced occupancy levels at the Inn.

Capital Investment:

Passenger Services' capital expenditure totaled $18.6 million. Inter-community bus expansion continued with the introduction of an additional four buses to Ontario Northland's fleet, including its first mini-bus. The Polar Bear Express refurbishment project continued with the completed rehabilitation of three passenger cars and the near completion of a new dining car expected to be released in Spring of 2019. A renewed auto carrier provided an improved method for transporting vehicles on the Polar Bear Express. Improvements were also made to the Timmins and North Bay bus garages, and both the North Bay and Cochrane stations. Technological advancements were made with the introduction of bus camera surveillance system, electronic log system, new bus parcel system and improvements to the Cochrane Station Inn point-of-sale system.

Performance Highlights:

- Motor Coach services were expanded to provide connectivity along the east and west Trans-Canada highway corridor, from Ottawa through Sudbury and Sault Ste Marie to White River, providing essential transportation services to many smaller communities.
- Pricing for passenger services, including ticketing, food pricing, auto carrier and express freight tariffs were adjusted to keep pace with inflation.
- The emergency response plan for the Polar Bear Express passenger train was updated and incident preparedness was enhanced with the addition of winter emergency equipment placed on the train.
- The amount of warranty recovery work and claims to motor coach vendors was increased, reducing parts and labour maintenance expenses.
- A bus ticket scanning mobile application was launched for accepting and tracking interline bus tickets to improve capacity planning and ridership business intelligence.
- A year-long marketing campaign for motor coach services promoted new routes and destinations resulting in increased awareness and growth in ridership on all routes by 21%.
- Baggage policies were updated increasing rates for additional checked baggage.
- A successful partnership with Metrolinx was established on a new multi-modal connecting service to connect passengers from GO Transit to ONTC motor coach services through a seamless ticket to the Muskoka region, while adding the GO Transit 407 stop to connect ONTC passengers to Pearson Airport.

Rail Services

Rail freight revenues totalled $39.2 million, an increase of $2.5 million (7%) over the previous year. Despite this, revenue came in below target due to the unforeseen shutdown by one of Ontario Northland's largest rail freight customers, resulting in lower rail car traffic, and an estimated $1M in revenue shortfall.

Operating expenses for Rail Services totalled $39 million, a slight decrease from the prior year of $0.4M even though fuel prices increased significantly (between 13 to 25% increase throughout the year). The total amount spent on fuel this past fiscal was $9.7 million

33,739 freight car loads were shipped during this period, a decrease from previous years, due to a downturn in switching business and various unplanned temporary shutdowns affecting the output of a major customer.

Carloads Shipped:

2018-2019	2017-2018	2016-2017
33,739	37,500	38,903

In October 2018, a freight train travelling from Hearst derailed resulting in $0.7 million in unforeseen expenses.

Capital Investment:

Rail Services' capital expenditure totaled $36.4 million. These funds were utilized to continue Ontario Northland's aggressive rail maintenance schedule. Capital rehabilitation work included6 bridges, 20 culverts, 29 crossings, 631,808 feet of track surface, 43,962 ties, and 16 miles of rail replaced.

Performance Highlights:

- Freight tariffs and pricing were adjusted through negotiated contract terms and by alignment with comparable rail freight tariffs and alternatives such as trucking; also updated and implemented new ancillary charge.
- The Rail Safety Management System (RSMS) was further operationalized through training and evaluation of day-to-day operations.
- An action plan was implemented and continued to increase our safety culture based on the positive and constructive feedback from Transport Canada's 2018 audit of RSMS.
- A "used-rail tie" disposal program was implemented following a policy of one-for-one tie disposal, meaning one tie is disposed for each new tie installed.
- Rail continued with the implementation of the multi-year grade crossing upgrade program.
- A new Tabular General Bulletin Order software system for rail traffic control was installed that enhances the safety and accuracy of operating bulletins for train crews.
- Aggressive scrap rail and obsolete asset sales resulted in proceeds of $1.6 million.

Remanufacturing and Repair

The Remanufacturing and Repair Centre (RRC) met its mandate in 2018-19, supporting the Rail Services Division and delivering all external customer work at full cost recovery. RRC contributed $4.2 million in revenue from external rail freight and passenger car repair and locomotive work this fiscal year. During the year a major refurbishment customer suspended work which resulted in revenues coming in under budget. Furthermore, there was an increased requirement on internal capital works resulting in less capacity for external contract work.

A key strategy of the agency's transformation plan is to commercialize repair services in the North Bay shops. In 2018-19 this strategy continued to deliver positive results. External work has allowed Ontario Northland to attract and train skilled trade workers in addition to increasing goods and services purchased from regional suppliers.

Operating expenses were $2.5 million, a large decrease over the prior year, which allowed the division to have $1.7M in excess revenues over expenses before other items. Every dollar of excess revenue generated by the RRC helped offset the overall agency subsidy requirement by mitigating financial pressures to the overall budget.

To align with business demands and the cyclical nature of remanufacturing work, the RRC reduced its workforce by 24 in October 2018. Additional initiatives were put in place to reduce operating expenses, some of which included managing labour and overtime costs and new processes to enhance operational efficiencies.

Capital Investment:

RRC's capital expenditure totaled $6.6 million in fiscal year 2018-19. Upgrades to multiple buildings were performed, including a new shelter for rehabilitating freight cars in the winter months for increased efficiency. Twenty-one freight rail cars were rehabilitated, two locomotive overhauls were completed, and two new auxiliary power units were acquired and are expected to increase fuel efficiency. This centre also completed the Polar Bear Express rehabilitation program within the Passenger Services capital expenditure, completing two passenger coaches and substantial completion of one dining car.

Performance Highlights:

- Secured a contract with a major tanker car supplier and provided modifications to 123 tanker cars.
- Obtained Positive Train Control (PTC) installation and maintenance certification and attracted new external business, resulting in 23 completed PTC installs for a Class 1 railway.
- Expanded rolling stock asset rehabilitation services to take place at Rouyn shops, completing 12 freight car upgrades for one of Ontario Northland's major customers.
- Refurbished three Polar Bear Express passenger coaches.
- Partnered with local community college which resulted in an innovative passenger car door brace that can be used to improve emergency response / preparedness on the Polar Bear Express.
- Installed diesel heating units in locomotives to reduce idling time in cold temperatures.
- Reduced engine block cleaning time, supporting both internal locomotive and external customer locomotive overhauls, from eight days to four hours.
- Reduced dwell time for engine overhauls through acquisition of a line boring machine.
- Installed new air filtering system in car shop which improves health and safety for employees.
- Automated locomotive inspection reports allowing workers to use a tablet to submit reports electronically instead of on paper.

Corporate Services

Corporate services at Ontario Northland provide leadership and management oversight of the development and execution of the organization's overall business strategy. It provides expertise for business transformation initiatives, fulfillment of agency requirements and reporting to the Ministry and the Commission, and continuously evaluates and establishes the conditions to drive the agency's financial capability, innovation, employee excellence, collaboration and culture.

Corporate services expenses increased by $2.3 million year over year to include organization restructuring, succession planning, consulting engagements for transformation initiatives and capital program administration and support for strategic initiatives including the pension plan merger. Additional resources were hired to ensure best practices in provincial reporting directives, analyses, project management, and realty and land inventory which resulted in better reporting, compliance and agency efficiency.

Corporate Services delivered on its planned objectives, implementing efficiencies and continuing its transformation agenda, coming in $3.7 million under target for the year.

Performance Highlights:

- A 5-year labour agreement with Unifor, ONTC's largest union representing over 350 employees, provided a significant competitive advantage and labour stability for employees.
- Capital improvements to 20 buildings worth an estimated value of $4.6 million.
- Financial services support to 59 capital projects with an annual budget of $61.6 million.
- New multi-user budgeting and forecasting software rolled out to all managers.
- Issued approximately 5,000 purchase orders, 3,700 requisitions and 40 tenders worth over $60 million.
- Extended terms of reference for Audit & Finance Committee of the Board to include risk management, officially renamed to the Audit, Finance & Risk Management Committee.
- Launched Ontario Vendor of Record Program for fleet management, fuel and maintenance services
- Established roadmap for the transformation of internal supply chain, including strategic procurement practices, materials management, warehousing and staging of parts and materials.
- Christmas Train fundraising event raised over $5,500 for local charities throughout northeastern Ontario.
- Responded to over 150 media inquiries during the fiscal year.
- Doubled social media followers and had over 173,000 page views on the corporate website that lead to increased ridership, awareness and impact.

Risks and Mitigation:

The Corporate Services division leads the organization's efforts to manage risk effectively, identify innovative opportunities within risk and develop its strategic plan, goals and organizational objectives. With several staff trained in Ontario Public Service risk management, Ontario Northland positioned itself as a resource for emerging Enterprise Risk Management (ERM) best practices, having led discussions at renowned risk conferences.

Significant risk events that took place this fiscal include:

- Significant increase in fuel prices which had a material impact on the budget as fuel is the largest variable cost for train and motor coach operations. On average, fuel costs have increased 25% over the last two years; due to increased prices fuel was over budget by $560,000.

- The May 2018 Polar Bear Express derailment resulted in higher than expected operating and capital costs for response, recovery and repair, as well as loss in revenue from ticket sales while repairs were being completed.
- Pension solvency expenses for the Ontario Northland Pension Plan were higher than budget due to delays resulting from the complexity of the merger with Ontario Pension Board's Public Service Pension Plan.
- Ontario Northland's largest rail freight customer implemented an unplanned shutdown in fall 2018 which had a negative impact to projected revenues by approximately $1 million, while rail freight expenses were largely fixed.
- Major refurbishment customer paused further work resulting in $4.1 million lower than projected revenue, which was offset by a similar reduction in expenses for that work, as well as attracting new freight car repair and diesel locomotive work.
- The 2018-19 winter season included record amounts of snow and cold temperatures, which resulted in increased operating expenses for labour, snow clearing, maintenance, parts and repairs.

These events resulted in budget pressures which were mitigated by adjusting rail freight service plans, reducing or canceling planned consulting engagements, freezing hiring (except for jobs with direct health and safety responsibility), workforce layoffs and a focus to increase rail freight transload activity. Based on a culture of accountability and strong business acuity, Ontario Northland continued to make decisions that ensured fiscal responsibility and appropriate use of tax payer dollars while continuing to provide necessary connectivity through transportation solutions in northern Ontario.

Public Performance Measures

Performance measures provide year over year comparison of the effectiveness of Ontario Northland's delivery of transportation services.

In 2018-19 the organization continued to be above target at 80% for cost recovery ratio (excluding PBX essential services). Ontario Northland continues to maintain a relatively high cost recovery ratio compared to other transportation agencies across North America, where it is not uncommon for cost recovery ratios to be at or below 50%. Additional funding provided to increase and expand inter-community bus service to 49 new communities resulted in increased costs with less revenue due to low population density in some communities; however, the motor coach division remained above target as it put in many efficiencies to help curb costs.

Polar Bear Express customer satisfaction and Cochrane Station Inn occupancy rate fell below their targets. The customer satisfaction survey participation remained low and the overall satisfaction was below target due to a number of variables directly affecting the overall satisfaction of customers with the PBX service such as; a derailment, rate increases, new parking policy and old equipment.

In order to improve Polar Bear Express customer satisfaction, Passenger Services will address suggestions and feedback gathered in customers surveys and work to increase the number of survey respondents.

The Cochrane Station Inn occupancy experienced an average year although remained below target due to a decrease in economic activity and a reduced snowmobile season due to greater than average snowfall in southern regions.

The employee lost time injury frequency increase was attributed in part to an increase in reporting and a more diligent tracking system as compared to previous years. In order to address this, training of the internal responsibility system will continue with all members of the organization to improve how hazards are reported and controlled, ensuring we are on target for next fiscal.

	2016-2017	2017-2018	2018-2019	Target
Cost Recovery Ratio for Ontario Northland excluding the Polar Bear Express Essential Service	89%	83%	80%	76%
Polar Bear Express Passenger Train Customer Satisfaction	70%	71%	62%	75%
Polar Bear Express Passenger Train On-time Performance	99%	97%	88%	90%
Cochrane Station Inn Occupancy Rate	49%	53%	51%	55%
Employee Lost Time Injury Frequency	3.65	2.15	5.68	3.00
Cost Recovery Ratio for Ontario Northland	75%	72%	69%	67%

Ontario Northland Transportation Commission
Consolidated Financial Statements
For the year ended March 31, 2019

Ontario Northland Transportation Commission
Consolidated Financial Statements

For the year ended March 31, 2019

Contents

Management's Responsibility

The Ontario Northland Transportation Commission's management is responsible for the integrity and fair presentation of the consolidated financial statements and other information included in the annual report. The consolidated financial statements have been prepared in accordance with Canadian public sector accounting standards. The preparation of consolidated financial statements necessarily involves the use of management's judgment and best estimates, particularly when transactions affecting the current accounting period cannot be determined with certainty until future periods. All financial information in the annual report is consistent with the consolidated financial statements.

The Commission maintains systems of internal accounting controls designed to provide reasonable assurance that the financial information is accurate and reliable and that the Commission's assets and liabilities are adequately accounted for and assets safeguarded.

The Commission is responsible for ensuring that management fulfils its responsibilities for internal control and financial reporting. The Commission meets with management and external auditors to satisfy itself that each group has met its responsibilities. These consolidated financial statements have been reviewed and approved by the Commission.

These consolidated financial statements have been audited by the Auditor General of Ontario, whose responsibility is to express an opinion on whether they are fairly presented in accordance with Canadian public sector accounting standards. The Independent Auditor's Report which follows, outlines the scope of the Auditor's examination and opinion.

T. Laughren
Chair

C. Moore
President and CEO

North Bay, Ontario
June 21, 2019

Office of the Auditor General of Ontario
Bureau de la vérificatrice générale de l'Ontario

Independent Auditor's Report

To the Ontario Northland Transportation Commission

Opinion

I have audited the consolidated financial statements of the Ontario Northland Transportation Commission (Commission), which comprise the consolidated statement of financial position as at March 31, 2019, and the consolidated statements of operations, changes in net assets and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Commission as at March 31, 2019 and the consolidated results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of my report. I am independent of the Commission in accordance with the ethical requirements that are relevant to my audit of the consolidated financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

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

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

My objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my 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 these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 my 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 Commission'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 Commission's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Commission to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I 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 I identify during my audit.

Toronto, Ontario
June 21, 2019

Bonnie Lysyk, MBA, FCPA, FCA, LPA
Auditor General

Ontario Northland Transportation Commission
Consolidated Statement of Financial Position
(dollars in thousands)

March 31		2019		2018
Assets				
Current				
Cash and cash equivalents	**$**	**9,051**	$	2,445
Accounts receivable (Net of allowance - $342; 2018 - $84)		**20,366**		17,586
Inventory		**15,045**		16,479
Prepaid expenses		**782**		922
		45,244		37,432
Restricted cash (Notes 3 and 7)		**2,247**		2,296
Capital assets (Note 4)		**442,093**		399,706
Accrued pension benefit asset (Note 5a)		**-**		38,181
	$	**489,584**	$	477,615
Liabilities and Net Assets				
Current				
Operating line of credit (Note 6)	**$**	**5,000**	$	-
Accounts payable and accrued liabilities		**30,087**		22,841
Current portion of long-term debt (Note 9)		**389**		427
Deferred revenue		**284**		105
		35,760		23,373
Deferred government contributions (Note 3 and 7)		**2,247**		2,209
Deferred government capital contributions (Note 8)		**350,966**		301,863
Long-term debt (Note 9)		**1,341**		1,731
Accrued pension benefit obligation (Note 5a)		**2,905**		-
Accrued non-pension benefit obligation (Note 5b)		**84,456**		87,858
Liability for contaminated sites (Note 10)		**6,675**		6,675
		484,350		423,709
Net assets				
Unrestricted		**5,234**		53,819
Internally restricted – Reserve for Self Insurance (Note 3 and 11)		**-**		87
		5,234		53,906
	$	**489,584**	$	477,615

Contingencies (Note 14) / **Commitments** (Note 15)

Approved on behalf of the Commission:

____________________________ Chair

____________________________ President and CEO

The accompanying notes are an integral part of these consolidated financial statements.

Ontario Northland Transportation Commission
Consolidated Statement of Changes in Net Assets
(dollars in thousands)

For the year ended March 31	2019	2018
Unrestricted Net Assets		
Balance, beginning of year	**$ 53,819**	$ 72,237
Transfer from (to) Reserve for Self Insurance (Note 11)	**87**	(1)
Deficiency of revenues over expenses for the year	**(48,672)**	(18,417)
Balance, end of year	**$ 5,234**	$ 53,819
Internally Restricted - Reserve for Self Insurance (Note 11)		
Balance, beginning of year	**$ 87**	$ 86
Transfers (to) from Unrestricted Net Assets	**(87)**	1
Balance, end of year	**$ -**	$ 87
Total Net Assets	**$ 5,234**	$ 53,906

The accompanying notes are an integral part of these consolidated financial statements.

Ontario Northland Transportation Commission
Consolidated Statement of Operations
(dollars in thousands)

For the year ended March 31		2019		2018
Revenues				
Sales and other (Note 13)	**$**	**63,063**	$	60,599
Expenses (Note 13)				
Labour and fringe benefits		**53,134**		49,411
Materials and Parts		**16,824**		16,051
Services		**8,025**		6,916
Supplies and Equipment		**4,144**		4,002
Other (Note 17)		**15,398**		13,238
Interest on long-term debt (Note 9)		**105**		119
Gain on sale of capital assets		**(1,505)**		(195)
Amortization of capital assets		**19,144**		15,653
Employee future benefits (Note 5)		**54,532**		19,960
		169,801		125,155
Deficiency of revenues over expenses before government funding		**(106,738)**		(64,556)
Government Operating Contributions (Note 12)		**45,569**		36,739
Amortization of deferred capital contributions (Note 8)		**12,497**		9,400
Deficiency of revenues over expenses for the year	**$**	**(48,672)**	$	(18,417)

The accompanying notes are an integral part of these consolidated financial statements.

Ontario Northland Transportation Commission
Consolidated Statement of Cash Flows
(dollars in thousands)

Year ended March 31		**2019**		2018
Cash provided by (used in)				
Operating activities				
Deficiency excess of revenues over expenses for the year	**$**	**(48,672)**	$	(18,417)
Items not affecting cash				
Amortization of capital assets		**19,144**		15,653
Amortization of deferred capital contributions		**(12,497)**		(9,400)
Gain on disposal of capital assets		**(1,505)**		(195)
Employee future benefit expense		**54,532**		19,960
		11,002		7,601
Changes in non-cash working capital balances				
Accounts receivable		**(2,780)**		4,413
Inventory		**1,434**		1,150
Prepaid expenses		**140**		(463)
Accounts payable and accrued liabilities		**7,246**		(353)
Deferred government contributions and deferred revenue		**217**		64
		17,259		12,412
Capital activities				
Purchase of capital assets		**(61,602)**		(43,679)
Proceeds from sale of capital assets		**1,574**		295
		(60,028)		(43,384)
Financing activities				
Operating line of credit		**5,000**		-
Principal repayment of long-term debt		**(428)**		(406)
Deferred capital contributions		**61,602**		46,934
Pension contributions paid		**(12,834)**		(13,171)
Non-pension benefits paid		**(4,014)**		(4,098)
Increase in liability for contaminated sites		**-**		3,175
		49,326		32,434
Increase in cash and cash equivalents during the year		**6,557**		1,462
Cash and cash equivalents, beginning of year		**4,741**		3,279
Cash and cash equivalents, end of year	**$**	**11,298**	$	4,741
Represented by				
Cash and cash equivalents	**$**	**9,051**	$	2,445
Restricted cash and cash equivalents (Note 3)		**2,247**		2,296
	$	**11,298**	$	4,741

The accompanying notes are an integral part of these consolidated financial statements.

1. Nature of Organization

The Ontario Northland Transportation Commission (the “Commission”) is a Crown agency, reporting to the Minister of Energy, Northern Development and Mines (ENDM.) The Commission delivers a variety of services, including rail freight, passenger rail, motor coach, and remanufacturing and repair primarily in Northern Ontario.

The Commission generates revenues from the provision of transportation services. The Commission also receives an annual operational subsidy as well as capital subsidy from the Province of Ontario. The ability of the Commission to continue to offer its services and fulfill its mandate is dependent on the ongoing subsidies it receives from the Province.

As a not-for-profit Crown agency of the Province, the Commission is exempt from income taxes. This exemption extends to its wholly-owned subsidiaries, and accordingly no tax provision is recorded in these financial statements.

2. Significant Accounting Policies

These consolidated financial statements are prepared in accordance with the standards applicable for government not-for-profit organizations found in the Public Sector Accounting Handbook. They include the accounts of the Commission and its wholly-owned subsidiaries, Ontario Northland International Consulting Services Inc. and Nipissing Central Railway Company.

Revenue Recognition

Revenue from all sources is recognized when all of the following conditions are met:

a) services are provided or products delivered to customers
b) there is clear evidence that an arrangement exists, and
c) collection is reasonably assured.

Contract revenues are generally recorded on a percentage of completion basis as work reaches predetermined project milestones.

2. Significant Accounting Policies (continued)

The Commission accounts for provincial contributions under the deferral method of accounting as follows:

- Unrestricted contributions are recognized as revenue when received or receivable if the amounts can be reasonably estimated and collection is reasonably assured.
- Externally restricted contributions related to operating expenditures are recognized as revenue when the related expenditures are incurred.
- The Province reimburses the Commission for the cost of certain capital assets purchased for use in operations. The Commission records the contributions as deferred capital contributions. Deferred capital contributions are amortized to revenue on a straight-line basis at rates corresponding to those of the related capital assets.

Capital Assets

Capital assets are stated at acquisition cost less accumulated amortization. Amortization is provided using the straight-line method over the estimated useful lives of the assets.

The estimated useful lives for principal categories of capital assets are as follows:

Land	No amortization
Roadway	20 to 50 years
Buildings	50 years
Equipment	3 to 33 years
Coaches	10 years

No amortization is provided on assets under construction until they are placed in use.

Employee Future Benefits

Pension Plans – For all employee service up to May 2018 the Commission accrued its obligations under employee defined benefit plans and the related costs, net of plan assets. The following accounting policies have been adopted:

1. The cost of pension benefits and a Supplementary Employee Retirement Plan (SERP) is determined by independent actuaries based on management's best estimate assumptions using the projected benefits method prorated on service. The plans are not indexed; however, there have been a variety of ad hoc increases made to pensioners.

2. Past service costs and any transitional asset or obligation are amortized over the expected average remaining service period of active plan members.

3. Actuarial gains and losses are recognized and amortized over the expected average remaining service period of active plan members.

4. The expected return on plan assets is based on the fair value of plan assets.

2. Significant Accounting Policies (continued)

Employee Future Benefits (continued)

Effective May 1 2018, eligible ONTC employees are members of the Public Sector Pension Plan (PSPP) and the Public Service Supplementary Benefits Account (PSSBA). ONTC accounts for its participation in the PSSP and PSSBA, which are multi-employer defined benefit pension plans, as defined contribution plans.

The Province of Ontario, who is the sole sponsor of the PSPP and PSSBA, determines ONTC's annual payments to the Plans and is responsible for ensuring that the pension funds are financially viable. Any surplus or unfunded liabilities arising from statutory actuarial funding valuations are not assets or obligations of the ONTC. Therefore, ONTC's contributions are accounted for as if the plans were defined contribution plans with ONTC's contributions being expenses in the period they come due.

Non-Pension Benefit Plans - The Commission offers non-pension post retirement benefits such as group life, health care and long-term disability to employees through defined benefit plans. The costs associated with these future benefits are actuarially determined using the projected benefits method prorated on service and best estimate assumptions. In addition, as a Schedule 2 employer under the Workplace Safety and Insurance Board (WSIB), the Commission recognizes workers compensation benefits on an accrual basis using actuarial calculations provided by the WSIB for benefits in force, benefits not yet awarded and administrative loading costs.

Both Pension and Non-Pension expenses consist of current service costs, interest and adjustments arising from plan amendments, changes in assumptions and net actuarial gains or losses. These expenses are recorded in the year in which employees render services to the Commission. Event driven gains and losses are recognized immediately as revenues or expenses (WSIB and long term disability). Actuarial gains and losses are amortized on a straight line basis over the Expected Average Remaining Service Life (EARSL) of the employees covered by the plans (approximately 1.17 years).

Inventory

Materials and supplies are valued at the lower of cost and net realizable value by using the weighted-average costing methodology. The Commission uses the same cost formulas for all inventories having a similar nature and use to the Commission. The Commission periodically reviews the value of items in inventory and records write-downs or write-offs based on its assessment of slow moving or obsolete inventory. When net realizable value is less than carrying cost, inventory is written down accordingly. When circumstances which previously caused inventories to be written down no longer exist, that previous impairment is reversed.

2. Significant Accounting Policies (continued)

Impairment of Capital Assets

Capital assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the capital asset may not contribute to the Commission's ability to deliver services. Recoverability is measured by a comparison of the carrying amount to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, both the asset and any related deferred capital contributions are written down by the amount by which the carrying amount of the asset exceeds the fair value of the asset. When quoted market prices are not available, the Commission uses the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset as an estimate of fair value.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated at the prevailing rates of exchange at the Consolidated Statement of Financial Position date. Revenues and expenses are translated at the rates of exchange in effect at the transaction date. Realized and unrealized gains and losses are included in the determination of excess of revenue over expenses.

Accounting Estimates

The preparation of the consolidated financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the useful lives of capital assets, valuation allowances for accounts receivable and inventory, liability for contaminated sites, and obligations for pension and non-pension post employment benefits. By their nature, these estimates are subject to measurement uncertainty. The effect of changes in such estimates on the consolidated financial statements in future periods could be significant. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in the consolidated statement of operations in the year in which they become known.

Cash and Cash Equivalents

Cash includes cash on hand, balances with banks, and internally restricted cash.

2. Significant Accounting Policies (continued)

Financial Instruments

The Commission classifies its financial instruments as either fair value or amortized cost. The accounting policy for each category is as follows:

Fair value

This category includes cash and cash equivalents which is initially recognized at cost and subsequently carried at fair value.

Transaction costs related to financial instruments in the fair value category are expensed as incurred.

Amortized cost

This category includes accounts receivable, accounts payable and accrued liabilities and long-term debt. They are initially recognized at cost and subsequently carried at amortized cost using the effective interest rate method, less any impairment losses on financial assets, except for contributions, which are initially recognized at fair value.

Transaction costs related to financial instruments in the amortized cost category are added to the carrying value of the instrument.

Writedowns on financial assets in the amortized cost category are recognized when the amount of a loss is known with sufficient precision, and there is no realistic prospect of recovery. Financial assets are then written down to net recoverable value with the writedown being recognized in the statement of operations.

Liabilities for Contaminated Sites

A contaminated site is a site at which substances occur in concentrations that exceed the maximum acceptable amounts under an environmental standard. Sites that are currently in productive use are only considered a contaminated site if an unexpected event results in contamination. A liability for remediation of contaminated sites is recognized when the Commission is directly responsible or accepts responsibility; it is expected that future economic benefits will be given up; and a reasonable estimate of the amount can be made. The liability includes all costs directly attributable to remediation activities including post remediation operations, maintenance and monitoring. The liability is recorded net of any expected recoveries.

(dollars in thousands)

3. Restricted Cash

	2019	2018
Externally restricted – Deferred Contributions (Note 7)	**$ 2,247**	$ 2,209
Internally restricted – Reserve for Self Insurance (Note 11)	**-**	87
	$ 2,247	$ 2,296

4. Capital Assets

	2019			2018
	Cost	**Accumulated Amortization**	**Net Book Value**	Net Book Value
Rail Services				
Roadway	**$ 499,259**	**$ 184,167**	**$ 315,092**	$ 296,032
Buildings	**56,752**	**26,111**	**30,641**	28,274
Equipment	**121,837**	**62,226**	**59,611**	47,515
Under construction	**14,734**	**-**	**14,734**	11,718
Motor Coach Services				
Buildings	**3,048**	**756**	**2,292**	2,231
Coaches	**18,948**	**3,989**	**14,959**	9,872
Equipment	**224**	**191**	**33**	10
Under construction	**1**	**-**	**1**	3
Remanufacturing and Repair Services				
Buildings	**5,551**	**1,452**	**4,099**	3,108
Equipment	**1,230**	**599**	**631**	943
	$ 721,584	**$ 279,491**	**$ 442,093**	$ 399,706

(dollars in thousands)

5. Employee Future Benefits

The Commission is the administrator of its own contributory pension plan which covers all permanent staff. The pension fund assets primarily include marketable securities, real estate and corporate and government bonds, which are invested by professional investment managers. The Commission's pension plans have an annual measurement date of March 31st.

The accrued pension and non-pension benefit obligation and expenses are determined annually by independent actuaries in accordance with accepted actuarial practices and Canadian public sector accounting standards using management's best estimates. In accordance with existing pension regulations, annual valuations will be completed for the Commission's pension plans. The date of the most recent actuarial valuation for the contributory pension plans for funding purposes was January 1, 2017. The date of the most recent report for accounting purposes for the non-pension post employment benefit plan was December 31, 2018.

In March 2018, the Province entered into agreement to merge the Ontario Northland Transportation Commission Contributory Pension Plan with the Public Service Pension Plan ("PSPP") and its Supplementary Employee Retirement Plan with the Public Service Supplementary Benefits Plan ("PSSBP"), effective May 1, 2018, (collectively, the "Merger"). Approval is required by the Financial Service Commission of Ontario and then the assets will be transferred to the Ontario Pension Board ("OPB").

As a result of the Merger, ONTC's pension and SERP plans have been curtailed to cease member contributions and freeze credited service effective May 1, 2018. The impact of this curtailment is the immediate recognition of previously unrecognized net actuarial losses of $33,436 through pension expense as well as a curtailment loss of $16,717 and change in valuation allowance of $549.

Ontario Northland Transportation Commission employees began contributing to the PSPP on May 1, 2018 and the Ontario Northland Transportation Commission Contributory Pension Plan will continue to pay pensioners and earn investment income until the assets are transferred to OPB.

Pending regulatory approval of the Merger and transfer of ONTC Pension Plan assets to PSPP and PSSBP, the ONTC continues to account for its obligations under the pension and SERP as defined benefit pension plan and the related costs, net of plan assets for all employee services up to May 1, 2018. Upon approval of the Merger and transfer of ONTC Pension plan assets, the pension and SERP will be fully settled and therefore, cease to exist.

Contributions to PSPP and PSSBP made during the year by ONTC on behalf of its employees amounted to $3,234 (2018 – $0) and are included in labour and fringe benefits expenses.

The pension plan's asset target percentage allocation and average asset allocation as at March 31, 2019, by category are as follows:

		Target	**2019**	2018
Equity securities	– Domestic	10% - 20%	**10.3%**	13.7%
	– Foreign	15% - 35%	**27.7%**	25.5%
Debt securities		40% - 60%	**58.4%**	57.8%
Real estate		0% - 15%	**1.9%**	2.0%
Short-term and other		0% - 15%	**1.7%**	1.0%
Total			**100%**	100%

Target percentages have been adjusted to conform to the revised investment policy.

(dollars in thousands)

5. Employee Future Benefits (continued):

a. Reconciliation of accrued benefit obligation to accrued benefit asset (liability):

Pension Plans:

	Pension	**SERP**	**2019 Total**	2018 Actual
Accrued benefit obligation	**$ (551,200)**	**$ (3,090)**	**$ (554,290)**	$ (582,775)
Plan assets at fair value	**556,854**	**-**	**556,854**	548,330
Funded status - plan (deficit) surplus	**5,654**	**(3,090)**	**2,564**	(34,445)
Unamortized net actuarial (gain) loss	**(5,105)**	**185**	**(4,920)**	72,626
Valuation allowance	**(549)**	**-**	**(549)**	-
Accrued benefit asset (liability) net of valuation allowance, end of year	**$ -**	**$ (2,905)**	**$ (2,905)**	$ 38,181

	Pension	**SERP**	**2019 Total**	2018 Actual
Accrued benefit asset, beginning of year	**$ 40,555**	**$ (2,374)**	**$ 38,181**	$ 39,197
Employee future benefit expense	**(35,909)**	**(745)**	**(36,654)**	(14,187)
Funding contributions	**12,605**	**229**	**12,834**	13,171
Curtailment loss	**(16,702)**	**(15)**	**(16,717)**	-
Accrued benefit asset (liability), end of year	**$ 549**	**$ (2,905)**	**$ (2,356)**	$ 38,181
Valuation allowance	**(549)**	**-**	**(549)**	-
Accrued benefit asset (liability) net of valuation allowance, end of year	**$ -**	**$ (2,905)**	**$ (2,905)**	$ 38,181

(dollars in thousands)

5. Employee Future Benefits (continued):

b. Reconciliation of accrued benefit obligation to accrued benefit asset (liability)

Non-Pension Benefit Plans:

		2019		2018
Accrued benefit obligation, end of year	**$**	**(81,546)**	$	(87,540)
Unamortized net actuarial (gain) loss		**(2,910)**		(318)
Accrued benefit liability, end of year	**$**	**(84,456)**	$	(87,858)

		2019		2018
Accrued benefit liability, beginning of year	**$**	**(87,858)**	$	(86,183)
Benefit expense		**(612)**		(5,773)
Benefits paid		**4,014**		4,098
Accrued benefit liability, end of year	**$**	**(84,456)**	$	(87,858)

Included in the accrued non-pension benefit liability are workers' compensation benefits in the amount of $12,035 (2018 - $13,849). This amount has been determined from the most recent available actuarial calculations provided by the Workplace Safety and Insurance Board as at December 31, 2018.

c. Components of Net Periodic Pension Benefit Expense

		2019		2018
Current service cost less employee contributions	**$**	**1,659**	$	6,188
Interest on accrued benefit obligation		**28,114**		28,741
Expected return on plan assets		**(26,555)**		(26,805)
Amortization of net actuarial loss		**33,436**		6,063
Curtailment Loss		**16,717**		-
Change in valuation allowance		**549**		-
	$	**53,920**	$	14,187

(dollars in thousands)

5. Employee Future Benefits (continued)**:**

d. Components of Net Periodic Non-Pension Benefit Expense

	2019	2018
Current service cost	**$ 417**	$ 520
Interest on accrued benefit obligation	**2,490**	2,605
Amortization and immediate recognition of net actuarial (gains) losses	**(2,295)**	2,648
	$ 612	$ 5,773

Total pension and non-pension benefit expense included in Employee future benefits on the Statement of Operations is $54,532 (2018 - $19,960).

e. Weighted Average Assumptions

	2019	2018
Discount rate - pension	**5.0%**	5.25%
Discount rate - non pension	**3.43%**	3.61%
Discount rate – long-term disability	**3.43%**	3.61%
Discount rate - WSIB	**4.75%**	4.50%
Expected long-term rate of return on plan assets	**5.00%**	5.00%
Rate of compensation increase		
2018 to 2019	**2.0 %**	2.0%
2020	**2.5 %**	2.5%
2021 & thereafter	**3.0%**	3.0%
Average remaining service period (years)	**1.17**	12
Drug cost increases (grading down to 5% in 2020)	**6.00%**	6.00%
Medical and hospital cost increases	**5.00%**	5.00%
Dental cost increases	**4.50%**	4.50%
Vision care cost increases	**0%**	0%

(dollars in thousands)

6. Credit Facilities

In March 2018, the Commission secured an operating line of credit with the Ontario Financing Authority (OFA) in the amount of $5 million, of which $5 million was being utilized as at March 31, 2019 (2018 - $0). The line of credit bears interest at the Province of Ontario's cost of borrowing for a 30-day term plus 2.5 basis points.

7. Deferred Contributions

Deferred contributions are restricted funds received from the Province to be used only on future expenditures relating to refurbishment bids for new contracts. These contributions will be recognized as revenue in the fiscal year the related expenditures are incurred.

The change in the deferred contributions balance is as follows:

	2019	2018
Balance, beginning of year	**$ 2,209**	$ 2,185
Interest income	**38**	24
Balance, end of year	**$ 2,247**	$ 2,209

8. Deferred Capital Contributions

Deferred capital contributions represent the unamortized capital contributions received from the Province to fund the acquisition of capital assets. The amortization of deferred capital contributions is recorded as revenue in the consolidated statement of operations using rates similar to those used to amortize the related assets acquired.

The changes in the unamortized deferred capital contributions balance are as follows:

	2019	2018
Balance, beginning of year	**$ 301,863**	$ 265,139
Contributions from the Province (Note 12)	**61,602**	46,934
Amortization to revenue	**(12,497)**	(9,400)
Retirements, transfers and adjustments	**(2)**	(810)
Balance, end of year	**$ 350,966**	$ 301,863

(dollars in thousands)

9. Long-term Debt

	2019	2018
Loan from Ontario Financing Authority, bearing interest at 5.22 % per annum, repayable in blended monthly payments of $30 for 15 years beginning February 1, 2005	**$ 298**	$ 638
Loan from Ontario Financing Authority, bearing interest at 4.90% per annum, repayable in blended monthly payments of $13 for 25 years beginning February 1, 2006.	**1,432**	1,520
	1,730	2,158
Less current portion	**389**	427
Long-term debt	**$ 1,341**	$ 1,731

Interest on long-term debt was $105 (2018 - $119).

Principal payments required in the next five years and thereafter are as follows:

2019-2020	$ 389
2020-2021	96
2021-2022	101
2022-2023	106
2023-2024	111
Thereafter	927
	$ 1,730

10. Contaminated sites

The liability for contaminated sites is comprised of costs expected to be incurred on a former transloading property and former telecommunications sites, identified in the prior years. The estimated costs have been determined with the assistance of consulting engineering firms and historical experience with remediation activities. The liability includes all costs anticipated to be incurred on these properties and there are no anticipated recoveries expected.

(dollars in thousands)

10. Contaminated sites (continued):

		2019		2018
Former transloading property	**$**	**3,500**	$	3,500
Former tower sites		**3,175**		3,175
Contaminated sites liability	**$**	**6,675**	$	6,675

11. Internally Restricted Net Assets – Reserve for Self Insurance

The Commission no longer follows the policy of self-insuring for damages from rolling stock derailments and for cargo damage and the Reserve was fully depleted this year.

12. Government Contributions

Under the terms of a Memorandum of Understanding with the Minister of Energy, Northern Development and Mines, Ontario Northland receives both operational and capital funding from the Province of Ontario.

Details of Government contributions received during the year are as follows:

		2019		2018
Ministry of Energy, Northern Development and Mines:				
Rail and Other Operations	**$**	**33,193**	$	28,334
Pension deficit funding pressure		**12,376**		7,483
	$	**45,569**	$	35,817
Special Operating – Ontera towers		**-**		459
Current year's operations		**45,569**		36,276
Capital contributions (Note 8)		**61,602**		46,934
Total from Ministry of Energy, Northern Development and Mines		**107,171**		83,210
National Transportation Agency of Canada:				
Rail Operations		**-**		463
Total Government contributions	**$**	**107,171**	$	83,673

13. Segmented Information Disclosures

The Commission is a diversified Crown agency of the Province of Ontario that provides a wide range of services to its customers in Northern Ontario such as rail freight and passenger services, motor coach services, and remanufacturing and repair services. Distinguishable functional segments have been separately disclosed in the segmented information. The nature of the segments and the activities they encompass are as follows:

Rail Services

Rail services relates to providing logistics and transportation solutions and the shipment of large quantities of products to and from Northeastern Ontario.

Polar Bear Services

Polar Bear Services relates to providing passenger transportation and shipping solutions between Cochrane and Moosonee.

Motor Coach Services

Motor coach services provides shipping solutions and passenger transportation to connect communities throughout Northern Ontario.

Remanufacturing and Repair Services

The Remanufacturing and Repair team is responsible for the repair and rehabilitation of railway rolling stock from customers spanning North America.

Administration

This relates to the expenses for the operations of the Commission itself and cannot be directly attributed to specific segments. It also includes some rental of properties to external customers in order to reduce overall costs.

(dollars in thousands)

13. Segmented Information Disclosures (continued)

	Rail Services	Polar Bear Services	Motor Coach Services	Remanufacturing and Repair	Administration Note i)	Provincial Government Operating Contributions	**2019 Total**
Revenues	39,223	6,609	12,896	4,174	161	-	63,063
Expenses							
Labour and fringe benefits	23,053	13,787	7,831	1,246	7,217	-	53,134
Materials and parts	8,403	3,739	3,535	1,019	128	-	16,824
Services	2,245	1,361	2,102	167	2,150	-	8,025
Supplies and equipment	1,656	1,543	625	10	310	-	4,144
Other	3,220	1,268	2,003	53	3,205	-	9,749
	38,577	21,698	16,096	2,495	13,010	-	91,876
Excess (deficiency) revenues over expenses before items below:	646	(15,089)	(3,200)	1,679	(12,849)	-	(28,813)
Derailments	675	2,503	-	-	-	-	3,178
Inventory write-offs	1,798	-	-	-	-	-	1,798
Environmental assessment – Ontera towers	-	-	-	-	6	-	6
Interest on long-term debt	32	-	73	-	-		105
(Gain) loss on sale of capital assets	(906)	-	(81)	-	(518)		(1,505)
Foreign Exchange loss	667	-	-	-	-	-	667
Amortization of capital assets	7,564	9,495	844	417	824	-	19,144
Employee future benefits	25,888	15,537	7,383	1,330	4,394	-	54,532
Deficiency of revenues over expenses before government funding	(35,072)	(42,624)	(11,419)	(68)	(17,555)	-	(106,738)
Provincial government operating contributions	-	-	-	-	-	45,569	45,569
Amortization of deferred capital contributions	1,890	8,939	791	165	712	-	12,497
Excess (deficiency) of revenues over expenses	(33,182)	(33,685)	(10,628)	97	(16,843)	45,569	(48,672)

Note i) Administration employee future benefits includes a credit of $755 in long-term disability expenses for the entire organization.

(dollars in thousands)

Year ended March 31, 2019

13. Segmented Information Disclosures (continued)

	Rail Services	Polar Bear Services	Motor Coach Services	Remanufacturing and Repair	Administration Note i)	Provincial Government Operating Contributions	**2018 Total**
Revenues	36,713	7,537	10,963	5,182	204	-	60,599
Expenses							
Labour and fringe benefits	23,190	11,379	5,790	2,700	6,352	-	49,411
Materials and parts	8,228	3,160	2,543	1,992	128	-	16,051
Services	2,230	1,459	1,488	89	1,650	-	6,916
Supplies and equipment	1,761	1,395	458	66	322	-	4,002
Other	3,617	1,022	1,337	65	2,227	-	8,268
	39,026	18,415	11,616	4,912	10,679	-	84,648
Excess (deficiency) revenues over expenses before items below:	(2,313)	(10,878)	(653)	270	(10,475)	-	(24,049)
Derailments	195	-	-	-	-	-	195
Inventory write-offs	1,142	-	-	-	-	-	1,142
Environmental assessment – Ontera towers	-	-	-	-	459	-	459
Contamination – Ontera towers	-	-	-	-	3,175	-	3,175
Interest on long-term debt	43	-	76	-	-		119
(Gain) loss on sale of capital assets	(145)	-	-	-	(50)		(195)
Investment income	-	-	-	-	(1)	-	(1)
Amortization of capital assets	10,052	3,421	1,022	442	716	-	15,653
Employee future benefits	6,883	4,724	1,811	882	5,660	-	19,960
Deficiency of revenues over expenses before government funding	(20,483)	(19,023)	(3,562)	(1,054)	(20,434)	-	(64,556)
Federal government operating contributions	463	-	-	-	-	-	463
Provincial government operating contributions	-	-	-	-	459	35,817	36,276
Amortization of deferred capital contributions	4,865	2,847	971	113	604	-	9,400
Excess (deficiency) of revenues over expenses	(15,155)	(16,176)	(2,591)	(941)	(19,371)	35,817	(18,417)

Note i) Administration employee future benefits includes $3,108 in long-term disability expenses for the entire organization.

14. Contingencies

In the normal course of its operations, various statements of claim have been issued against the Commission claiming damages for personal injury, property damages, environmental actions and employment-related issues. Damages, that have not already been accrued, cannot be estimated at this time and in any event the Commission is of the opinion that these claims are unfounded or covered by insurance after application of a $2,000 deductible. Should any loss result, it would be charged to the consolidated statement of operations when the amount is ascertained.

15. Commitments

The Commission is also obligated to certain job guarantee agreements with a significant number of its unionized employees. To the extent of any actual claims under these agreements, the Commission would maintain provisions for such items. Due to the nature of these agreements, the exposure for future payments may be material. However, such exposure would be based on certain actions of the Commission that have not occurred and as such no provision has been made as at the year-end date.

16. Economic Dependence

i. Customers:
The Rail Services Division derives substantially all of its revenue from four major customers.

ii. Province:
The Commission generates revenues from rail and motor coach services as well as remanufacturing and repair services. In addition, the Commission receives operating and capital grants from the Provincial government. The ability to continue to offer and grow its services and meet its obligations are dependent on the ongoing grants it receives from the Province of Ontario.

(dollars in thousands)

17. Other Expenses

i. Regular operating expenses of $ 9,749 (2018 - $ 8,268) include items such as insurance, property taxes, software fees, rail freight car rental, travel and training.

ii. During the year the Commission incurred $3,178 related to a derailment that occurred along its rail line. These costs include labour, benefits, materials and third party costs. The costs were incurred to clean up, do environmental testing, and perform track repairs.

iii. The Commission incurred $6 in costs related to the environmental assessments of the land of six former communication tower sites in northern Ontario.

iv. During the year the Commission expensed $1,798 for obsolete and revalued inventory.

v. Foreign exchange loss of $667 was experienced in the year.

18. Subsequent Events

On April 1, 2019, Ontario Northland freight train derailed on the Temagami Subdivision. The train consisted of two locomotives, 22 loaded cars and 6 empty cars of which 11 cars derailed and caused damaged to 390 feet of track. There were no injuries reported. The cause of derailment has been established as a broken rail which is under further investigation. Estimated costs are $1,600.

19. Financial Instrument Classification

The following table provides cost and fair value information of financial instruments by category. The maximum exposure to credit risk would be the carrying value as shown below.

			2019
	Fair Value	**Amortized Cost**	**Total**
Cash and cash equivalents	**$ 9,051**	**$ -**	**$ 9,051**
Accounts receivable	**-**	**20,366**	**20,366**
Operating line of credit	-	**5,000**	**5,000**
Accounts payable and accrued liabilities	**-**	**30,087**	**30,087**
Long-term debt	**-**	**1,730**	**1,730**
	$ 9,051	**$ 57,183**	**$ 66,234**

(dollars in thousands)

19. Financial Instrument Classification (continued)

	2018		
	Fair Value	Amortized Cost	Total
Cash and cash equivalents	$ 2,445	$ -	$ 2,445
Accounts receivable	-	17,586	17,586
Operating line of credit	- -	-	-
Accounts payable and accrued liabilities	-	22,841	22,841
Long-term debt	-	2,158	2,158
	$ 2,445	$ 42,585	$ 45,030

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities using the last bid price;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

				2019
	Level 1	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	**$ 9,051**	**$ -**	**$ -**	**$ 9,051**

				2018
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 2,445	$ -	$ -	$ 2,445

There were no transfers between Level 1 and 2 for the years ended March 31, 2019 and 2018. There were no transfers in or out of Level 3.

(dollars in thousands)

20. Financial Instrument Risk Management

Credit risk

Credit risk is the risk of financial loss to the Commission if a debtor fails to make payments of interest and principal when due. The Commission is exposed to this risk relating to its cash and accounts receivable. The Commission holds its cash accounts with federally regulated chartered banks who are insured by the Canadian Deposit Insurance Corporation. In the event of default, the Commission's cash accounts are insured up $400,000 (2018 - $400,000).

Accounts receivable are due from customers and the Province of Ontario. Credit risk is mitigated by financial approval processes before a customer is granted credit. The Commission measures its exposure to credit risk based on how long the amounts have been outstanding. An impairment allowance is set up based on the Commission's historical experience regarding collections. The amounts outstanding at year end were as follows:

March 31, 2019					**Past Due**
	Total	**Current**	**1-30 days**	**31-60 days**	**over 61 days**
Government receivables	**$ 10,045**	**$ 10,045**	**$ -**	**$ -**	**$ -**
Customer receivables	**10,663**	**9,460**	**243**	**150**	**810**
Gross receivables	**20,708**	**19,505**	**243**	**150**	**810**
Less: impairment allowances	**(342)**	**-**	**-**	**-**	**(342)**
Net receivables	**$ 20,366**	**$ 19,505**	**$ 243**	**$ 150**	**$ 468**

March 31, 2018					Past Due
	Total	Current	1-30 days	31-60 days	over 61 days
Government receivables	$ 4,968	$ 1,665	$ 3,303	$ -	$ -
Customer receivables	12,702	10,354	1,427	141	780
Gross receivables	17,670	12,019	4,730	141	780
Less: impairment allowances	(84)	-	-	-	(84)
Net receivables	$ 17,586	$ 12,019	$ 4,730	$ 141	$ 696

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

20. Financial Instrument Risk Management (continued)

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: currency risk, interest rate risk and equity risk.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Currency risk

Currency risk relates to the Commission operating in different currencies and converting non-Canadian earnings at different points in time when adverse changes in foreign currency rates occur. The Commission maintains a USD bank account to receive USD from customers and to pay USD to suppliers and other carriers. There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Interest rate risk

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates. The Commission is exposed to this risk through its interest bearing long-term debt.

The Commission's long-term debt as described in Note 9 would not be impacted as the inherent rate of the debt has been fixed.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Equity risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Commission is not exposed to this risk.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Liquidity risk

Liquidity risk is the risk that the Commission will not be able to meet all cash outflow obligations as they come due. The Commission mitigates this risk by monitoring cash activities and expected outflows through extensive budgeting and regular reports to the Province of Ontario.

(dollars in thousands)

20. Financial Instrument Risk Management (continued)

The following table sets out the contractual maturities (representing undiscounted contractual cash-flows of financial liabilities):

				2019
	Within 6 months	**6 months to 1 year**	**1-5 years**	**> 5 years**
Accounts payable	**$ 30,087**	**$ -**	**$ -**	**$ -**
Long-term debt	**222**	**167**	**532**	**809**
Total	**$ 30,309**	**$ 167**	**$ 532**	**$ 809**

				2018
	Within 6 months	6 months to 1 year	1-5 years	> 5 years
Accounts payable	$ 22,841	$ -	$ -	$ -
Long-term debt	213	214	693	1,038
Total	$ 23 054	$ 214	$ 693	$ 1,038

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

21. Comparative Figures

Prior year's figures have been reclassified where necessary to conform to the current year's financial statement presentation.

2018-2019 Annual Report
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