Ontario Northland Transportation Commission

Consolidated Financial Statements

For the year ended March 31, 2020

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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 26, 2020

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, 2020, 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, 2020 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 related 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	Bonnie Lysyk, MBA, FCPA, FCA, LPA
June 26, 2020	Auditor General

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

March 31		**2020**		2019
Assets				
Current				
Cash and cash equivalents	**$**	**11,919**	$	9,051
Accounts receivable (Net of allowance - $391; 2019 - $342)		**15,932**		20,366
Inventory		**13,962**		15,045
Prepaid expenses		**1,151**		782
		42,964		45,244
Restricted cash (Notes 3 and 7)		**2,290**		2,247
Capital assets (Note 4)		**473,597**		442,093
	$	**518,851**	$	489,584
Liabilities and Net Assets				
Current				
Operating line of credit (Note 6)	**$**	**-**	$	5,000
Accounts payable and accrued liabilities		**25,006**		30,087
Current portion of long-term debt (Note 9)		**96**		389
Deferred revenue		**7,040**		284
		32,142		35,760
Deferred government contributions (Note 7)		**2,290**		2,247
Deferred government capital contributions (Note 8)		**389,053**		350,966
Long-term debt (Note 9)		**1,245**		1,341
Accrued pension benefit obligation (Note 5a)		**-**		2,905
Accrued non-pension benefit obligation (Note 5b)		**85,141**		84,456
Liability for contaminated sites (Note 10)		**6,675**		6,675
		516,546		484,350
Net assets				
Unrestricted		**2,305**		5,234
	$	**518,851**	$	489,584

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

Approved on behalf of the Commission:

Chair

Chore

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	2020	2019
Unrestricted Net Assets		
Balance, beginning of year	$ **5,234**	$ 53,819
Transfer from Reserve for Self Insurance (Note 11)	**-**	87
Deficiency of revenues over expenses for the year	**(2,929)**	(48,672)
Balance, end of year	$ **2,305**	$ 5,234

Internally Restricted - Reserve for Self Insurance (Note 11)		
Balance, beginning of year	$ **-**	$ 87
Transfers from Unrestricted Net Assets	**-**	(87)
Balance, end of year	$ **-**	$ -

Total Net Assets	$ **2,305**	$ 5,234

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		**2020**		2019
Revenues				
Sales and other (Note 13)	**$**	**72,673**	$	63,063
Expenses (Note 13)				
Labour and fringe benefits		**51,099**		49,900
Materials and parts		**17,770**		16,824
Services		**7,196**		7,323
Supplies and equipment		**4,264**		4,144
Other (Note 17)		**16,297**		16,100
Interest on long-term debt (Note 9)		**74**		105
Loss (gain) on sale of capital assets		**520**		(1,505)
Amortization of capital assets		**19,728**		19,144
Employee future benefits (Note 5)		**18,435**		57,766
		135,383		169,801
Deficiency of revenues over expenses before government funding		**(62,710)**		(106,738)
Government Operating Contributions (Note 12)		**45,729**		45,569
Amortization of deferred capital contributions (Note 8)		**14,052**		12,497
Deficiency of revenues over expenses for the year	**$**	**(2,929)**	$	(48,672)

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		2020		2019
Cash provided by (used in)				
Operating activities				
Deficiency excess of revenues over expenses for the year	$	**(2,929)**	$	(48,672)
Items not affecting cash				
Amortization of capital assets		**19,728**		19,144
Amortization of deferred capital contributions		**(14,052)**		(12,497)
Loss (gain) on disposal of capital assets		**520**		(1,505)
Employee future benefit expense		**18,435**		57,766
		21,702		14,236
Changes in non-cash working capital balances				
Accounts receivable		**4,434**		(2,780)
Inventory		**1,083**		1,434
Prepaid expenses		**(369)**		140
Accounts payable and accrued liabilities		**(5,081)**		7,246
Deferred government contributions and deferred revenue		**6,799**		217
		28,568		20,493
Capital activities				
Purchase of capital assets		**(53,291)**		(61,602)
Proceeds from sale of capital assets		**387**		1,574
		(52,904)		(60,028)
Financing activities				
Operating line of credit		**(5,000)**		5,000
Principal repayment of long-term debt		**(389)**		(428)
Deferred capital contributions		**53,291**		61,602
Pension contributions paid		**(12,511)**		(16,068)
Non-pension benefits paid		**(3,625)**		(4,014)
Settlement of pension plans		**(4,519)**		-
		27,247		46,092
Increase in cash and cash equivalents during the year		**2,911**		6,557
Cash and cash equivalents, beginning of year		**11,298**		4,741
Cash and cash equivalents, end of year	$	**14,209**	$	11,298
Represented by				
Cash and cash equivalents	$	**11,919**	$	9,051
Restricted cash (Note 3)		**2,290**		2,247
	$	**14,209**	$	11,298

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 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 subsidiary, 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 subsidiary, 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)

Revenue Recognition (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 100 years
Buildings	20 to 50 years
Equipment	3 to 40 years
Coaches	10 years

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

Employee Future Benefits

Pension Plans – Effective May 1, 2018, eligible Commission employees are members of the Public Service Pension Plan (PSPP) and the Public Service Supplementary Benefits Account (PSSBA). The Commission accounts for its participation in the PSPP 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 the Commission’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 Commission. Therefore, the Commission’s contributions are accounted for as if the plans were defined contribution plans with contributions being expensed in the period they come due.

2. Significant Accounting Policies (continued)

Employee Future Benefits (continued)

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.

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).

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. The coronavirus ("COVID-19") pandemic has added to the Commission's measurement uncertainty primarily due to a reduction of available information with which to make significant assumptions related to critical estimates as compared to those estimates reported at March 31, 2019.

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.

Accounts receivable are subject to measurement uncertainty due to the Commission's exposure to credit risk from individual customers (also see Note 19). Due to the COVID-19 pandemic, additional measurement uncertainty exists around potential collection delays from customers due to the economic slowdown brought on by emergency measures to combat the spread of COVID-19. 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

		2020		2019
Externally restricted – Deferred Contributions (Note 7)	**$**	**2,290**	$	2,247
	$	**2,290**	$	2,247

4. Capital Assets

		2020						2019
		Cost		**Accumulated Amortization**		**Net Book Value**		Net Book Value
Rail Services								
Roadway	**$**	**524,972**	**$**	**188,341**	**$**	**336,631**	$	315,092
Buildings		**58,376**		**26,717**		**31,659**		30,641
Equipment		**134,871**		**65,414**		**69,457**		59,611
Under construction		**14,048**		**-**		**14,048**		14,734
Motor Coach Services								
Buildings		**3,437**		**823**		**2,614**		2,292
Coaches		**20,419**		**6,025**		**14,394**		14,959
Equipment		**453**		**226**		**227**		33
Under construction		**-**		**-**		**-**		1
Remanufacturing and Repair Services								
Buildings		**5,551**		**1,564**		**3,987**		4,099
Equipment		**1,230**		**650**		**580**		631
	$	**763,357**	**$**	**289,760**	**$**	**473,597**	$	442,093

5. Employee Future Benefits

Plan Merger and Curtailment

Effective May 1, 2018, the Commission's Pension Plan was merged with the Public Service Pension Plan (PSPP) and ONTC's Supplementary Employee Retirement Plan (SERP) was merged with the Public Service Supplementary Benefits Account (PSSBA), (collectively, the "Merger").

The PSPP and PSSBA are contributory defined benefit plans. PSPP members receive benefits based on length of service and the average annualized earnings during the five consecutive years that provide the highest earnings prior to retirement, termination or death. The PSPP is funded by contributions from participating employers and members, and by the investment earnings from the Public Service Pension Fund. Contributions from members and employers are remitted to the Ontario Pension Board (OPB). The portion of these contributions that exceeds Income Tax Act (Canada) limits is transferred to the PSSBA.

The Commission's full time employees participate in the PSPP which is a defined benefit pension plans for employees of the Province and many provincial agencies. The Commission's annual payments of $4,079 (2019 - $3,234) are included in employee future benefits expenses.

As a result of the Merger, the Commission's Pension and SERP plans have been curtailed to cease member contributions and freeze credited service effective May 1, 2018. The Commission was given consent by the Financial Services Regulatory Authority of Ontario to transfer all defined benefit assets and liabilities to the PSPP and PSSBA on September 27, 2019.

Under the transfer agreement, the Commission was required to pay any shortfall from the changes in asset value between May 1, 2018 (effective date of the merger) to the date of consent of asset transfer (September 27, 2019) for both the Pension Plan and the SERP Plan. There was no shortfall in the Pension Plan. The shortfall in the SERP Plan of $4,519 million was subsidized by the Ministry of Energy, Northern Development and Mines and paid to PSSBA.

In addition, contributions were made to the Pension Plan to fund the solvency deficit. Solvency deficit contributions to the Plan ceased as of September 27, 2019, date of consent. All assets of the Pension Plan were transferred to PSPP and PSSBA as of December 18, 2019.

Post-employment benefits plan

The Commission offers non-pension post-employment benefits such as group life, health care and long-term disability to employees through defined benefit plans. The accrued 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 report for accounting purposes for the non-pension post-employment benefit plan was December 31, 2019.

Information about the Commission's pension and other benefit plans is presented in the following tables.

(dollars in thousands)

5. Employee Future Benefits (continued):

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

Pension Plans:

	Pension	SERP	2020 Total	2019 Actual
Accrued benefit obligation	$ -	$ -	$ -	$ (554,290)
Plan assets at fair value	-	-	-	556,854
Funded status - plan surplus	-	-	-	2,564
Unamortized net actuarial loss	-	-	-	(4,920)
Valuation allowance	-	-	-	(549)
Accrued benefit liability net of valuation allowance, end of year	$ -	$ -	$ -	$ (2,905)

	Pension	SERP	2020 Total	2019 Actual
Accrued benefit (liability) asset, beginning of year	$ -	$ (2,905)	$ (2,905)	$ 38,181
Employee future benefit expense	4,430	(335)	4,095	(36,654)
Funding contributions	8,260	172	8,432	12,834
Settlement payments	-	4,519	4,519	-
Settlement/Curtailment loss	(12,690)	(1,451)	(14,141)	(16,717)
Accrued benefit liability, end of year	$ -	$ -	$ -	$ (2,356)
Valuation allowance	-	-	-	(549)
Accrued benefit (liability) net of valuation allowance, end of year	$ -	$ -	$ -	$ (2,905)

(dollars in thousands)

5. Employee Future Benefits (continued):

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

Non-Pension Benefit Plans:

		2020		2019
Accrued benefit obligation, end of year	**$**	**(92,070)**	$	(81,546)
Unamortized net actuarial (gain) loss		**6,929**		(2,910)
Accrued benefit liability, end of year	**$**	**(85,141)**	$	(84,456)

		2020		2019
Accrued benefit liability, beginning of year	**$**	**(84,456)**	$	(87,858)
Benefit expense		**(4,310)**		(612)
Benefits paid		**3,625**		4,014
Accrued benefit liability, end of year	**$**	**(85,141)**	$	(84,456)

Included in the accrued non-pension benefit liability are workers' compensation benefits in the amount of $11,676 (2019 - $12,035). This amount has been determined from the most recent available actuarial calculations provided by the Workplace Safety and Insurance Board as at December 31, 2019.

c. Components of Net Periodic Pension Benefit Expense

		2020		2019
Current service cost less employee contributions	**$**	**4,079**	$	4,893
Interest on accrued benefit obligation		**27,011**		28,114
Expected return on plan assets		**(25,637)**		(26,555)
Amortization of net actuarial (gain)/loss		**(4,920)**		33,436
Settlement/Curtailment loss		**14,141**		16,717
Change in valuation allowance		**(549)**		549
	$	**14,125**	$	57,154

(dollars in thousands)

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

d. Components of Net Periodic Non-Pension Benefit Expense

	2020	2019
Current service cost	**$ 1,483**	$ 417
Interest on accrued benefit obligation	**2,473**	2,490
Amortization and immediate recognition of net actuarial (gains) losses	**354**	(2,295)
	$ 4,310	$ 612

Total pension and non-pension benefit expense included in Employee future benefits on the Statement of Operations is $18,435 (2019 - $57,766).

e. Weighted Average Assumptions

	2020	2019
Discount rate - pension	**5.00%**	5.00%
Discount rate - non pension	**2.94%**	3.43%
Discount rate – long-term disability	**2.94%**	3.43%
Discount rate - WSIB	**4.75%**	4.75%
Expected long-term rate of return on plan assets	**-**	5.00%
Rate of compensation increase		
2019 to 2020	**2.00%**	2.00%
2021	**2.00%**	2.50%
2022 & thereafter	**2.00%**	3.00%
Average remaining service period (years)	**-**	1.17
Drug cost increases	**5.00%**	5.50%
Medical and hospital cost increases	**5.00%**	5.00%
Dental cost increases	**4.50%**	4.50%
Vision care cost increases	**0.00%**	0.00%

(dollars in thousands)

6. Credit Facilities

The Commission holds an operating line of credit with the Ontario Financing Authority (OFA) in the amount of $5 million, of which no amount was being utilized as at March 31, 2020 (2019 - $5,000). 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:

	2020	2019
Balance, beginning of year	**$ 2,247**	$ 2,209
Interest income	**43**	38
Balance, end of year	**$ 2,290**	$ 2,247

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:

	2020	2019
Balance, beginning of year	**$ 350,966**	$ 301,863
Contributions from the Province (Note 12)	**53,291**	61,602
Amortization to revenue	**(14,052)**	(12,497)
Retirements, transfers and adjustments	**(1,152)**	(2)
Balance, end of year	**$ 389,053**	$ 350,966

(dollars in thousands)

9. Long-term Debt

		2020		2019
Loan from Ontario Financing Authority, repaid during the year	**$**	**-**	$	298
Loan from Ontario Financing Authority, bearing interest at 4.90% per annum, repayable in blended monthly payments of $13 for 25 years beginning February 1, 2006.		**1,341**		1,432
		1,341		1,730
Less current portion		**96**		389
Long-term debt	**$**	**1,245**	$	1,341

Interest on long-term debt was $74 (2019 - $105).

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

2020-2021	$	96
2021-2022		101
2022-2023		106
2023-2024		111
2024-2025		117
Thereafter		810
	$	1,341

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)**:**

		2020		2019
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 last year.

12. Government Contributions

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

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

		2020		2019
Commission operational funding	**$**	**30,933**	$	31,019
Special Funding – Pension deficit funding		**6,188**		12,376
Special Funding – Pension benefit guarantee fund		**1,488**		702
Special Funding – Pension/SERP settlement		**4,617**		-
Special Funding – Derailment		**2,503**		1,472
Current year's operations		**45,729**		45,569
Capital contributions (Note 8)		**53,291**		61,602
Total Government contributions	**$**	**99,020**	$	107,171

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 Northern 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	**2020 Total**
Revenues	47,005	7,469	13,316	4,704	179	-	**72,673**
Expenses							
Labour and fringe benefits	23,186	12,462	7,004	1,565	6,882	-	**51,099**
Materials and parts	8,875	4,030	3,426	1,276	163	-	**17,770**
Services	2,586	1,325	2,297	100	888	-	**7,196**
Supplies and equipment	1,905	1,464	613	36	246	-	**4,264**
Other	4,864	1,261	1,684	883	2,679	-	**11,371**
	41,416	20,542	15,024	3,860	10,858	-	**91,700**
Excess (deficiency) revenues over expenses before items below:	5,589	(13,073)	(1,708)	844	(10,679)	-	**(19,027)**
Derailments	2,503	-	-	-	-	-	**2,503**
Inventory write-offs	2,245	-	-	-	-	-	**2,245**
Pension benefit guarantee fund	671	361	201	47	208	-	**1,488**
Interest on long-term debt	6	-	68	-	-		**74**
Loss (gain) on sale of capital assets	521	-	1	-	(2)		**520**
Foreign exchange (gain)	(1,310)	-	-	-	-	-	**(1,310)**
Amortization of capital assets	7,207	9,392	1,604	724	801	-	**19,728**
Employee future benefits	5,836	5,773	2,260	523	4,043	-	**18,435**
Deficiency of revenues over expenses before government funding	(12,090)	(28,599)	(5,842)	(450)	(15,729)	-	**(62,710)**
Provincial government operating contributions	-	-	-	-	-	45,729	**45,729**
Amortization of deferred capital contributions	2,410	8,917	1,550	486	689	-	**14,052**
Excess (deficiency) of revenues over expenses	(9,680)	(19,682)	(4,292)	36	(15,040)	45,729	**(2,929)**

Note i) Administration employee future benefits includes $1,705 in long-term disability expenses for the entire organization.

(dollars in thousands)

Year ended March 31, 2020

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	21,514	12,903	7,399	1,168	6,916	-	49,900
Materials and parts	8,403	3,739	3,535	1,019	128	-	16,824
Services	2,245	1,361	2,102	167	1,448	-	7,323
Supplies and equipment	1,656	1,543	625	10	310	-	4,144
Other	3,220	1,268	2,003	53	3,205	-	9,749
	37,038	20,814	15,664	2,417	12,007	-	87,940
Excess (deficiency) revenues over expenses before items below:	2,185	(14,205)	(2,768)	1,757	(11,846)	-	(24,877)
Derailments	675	2,503	-	-	-	-	3,178
Inventory write-offs	1,798	-	-	-	-	-	1,798
Environmental assessment – Ontera towers	-	-	-	-	6	-	6
Pension benefit guarantee fund	345	181	94	17	65	-	702
Interest on long-term debt	32	-	73	-	-	-	105
(Gain) 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	26,696	17,152	7,815	1,408	4,695	-	57,766
Deficiency of revenues over expenses before government funding	(34,686)	(43,536)	(11,513)	(85)	(16,918)	-	(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	(32,796)	(34,597)	(10,722)	80	(16,206)	45,569	(48,672)

Note i) Administration employee future benefits includes a credit of $755 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 78% (2019 – 73%) 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 $11,371 (2019 - $ 9,755) include items such as insurance, property taxes, software fees, rail freight car rental, travel and training.

ii. During the year the Commission incurred $2,503 (2019 - $3,178) related to derailments 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. During the year the Commission expensed $2,245 (2019 - $1,798) for obsolete, slow moving and revalued inventory.

iv. Pension Benefit Guarantee Fund payment was made in the amount of $1,488 (2019 - $702), which will not be a recurring expense in future periods due to the pension merger described in Note 5.

v. Foreign exchange gain of $1,310 (2019 – loss of $667) was experienced in the year.

18. 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.

			2020
	Fair Value	**Amortized Cost**	**Total**
Cash and cash equivalents	**$ 11,919**	**$ -**	**$ 11,919**
Accounts receivable	**-**	**15,932**	**15,932**
Accounts payable and accrued liabilities	**-**	**25,006**	**25,006**
Long-term debt	**-**	**1,341**	**1,341**
	$ 11,919	**$ 42,279**	**$ 54,198**

(dollars in thousands)

18. Financial Instrument Classification (continued)

			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

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).

				2020
	Level 1	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	**$ 11,919**	**$ -**	**$ -**	**$ 11,919**

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

There were no transfers between Level 1 and 2 for the years ended March 31, 2020 and 2019. There were no transfers in or out of Level 3.

(dollars in thousands)

19. 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 (2019 - $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, 2020				**Past Due**	
	Total	**Current**	**1-30 days**	**31-60 days**	**over 61 days**
Government receivables	**$ 2,088**	**$ 1,059**	**$ 1,029**	**$ -**	**$ -**
Customer receivables	**14,235**	**11,124**	**2,018**	**509**	**584**
Gross receivables	**16,323**	**12,183**	**3,047**	**509**	**584**
Less: impairment allowances	**(391)**	**-**	**-**	**-**	**(391)**
Net receivables	**$ 15,932**	**$ 12,183**	**$ 3,047**	**$ 509**	**$ 193**

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

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.

19. 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)

19. Financial Instrument Risk Management (continued)

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

				2020
	Within 6 months	**6 months to 1 year**	**1-5 years**	**> 5 years**
Accounts payable	**$ 25,006**	**$ -**	**$ -**	**$ -**
Long-term debt	**48**	**48**	**435**	**810**
Total	**$ 25,054**	**$ 48**	**$ 435**	**$ 810**

				2019
	Within 6 months	6 months to 1 year	1-5 years	> 5 years
Accounts payable	$ 30,087	$ -	$ -	$ -
Long-term debt	45	46	415	1,224
Total	$ 30,132	$ 46	$ 415	$ 1,224

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. Subsequent Events

On April 1, 2019, the Commission's oversight has been transferred from the Ministry of Energy, Northern Development and Mines to the Ministry of Transportation. With the oversight change, the funds in the restricted cash account related to Deferred Contributions (Note 7) were returned to the Province in April 2020.

20. Subsequent Events (continued)

Due to emergency government measures introduced to respond to the COVID-19 pandemic, the Commission's results of operations have been affected by the following events subsequent to the fiscal period

- Rail traffic has decreased in freight carloads
- Motor coach service was reduced effective March 25, 2020 with further schedule reductions effective on April 26, 2020
- The Cochrane Station Inn hotel was temporarily closed effective March 25, 2020
- The Polar Bear Express passenger train was temporarily suspended effective April 7, 2020
- Increased operating costs due to sanitation and social distancing protocols

These events have reduced the Commission's revenue or increased operating expenses from ongoing operations subsequent to March 31, 2020. The shortfall caused by these factors are expected to be funded, in part or in full, by the Ministry (see Note 16).

As the events described above are considered non-adjusting subsequent events, the financial position and results of operations as at and for the year ended March 31, 2020 were not adjusted to reflect their impact. It is not possible to reliably estimate the duration and severity of the consequences of COVID-19, as well as the impact on the financial position and results of the Commission for future periods.

21. Comparative Figures

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