Ontario Northland

Ontario Northland Transportation Commission
2017-2018 Annual Report

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Message from the Chair

I've been honoured to serve as Chair of the Ontario Northland Transportation Commission for the past three years. As the year progressed, I was joined by new Commission members, Deborah Sikora and Lillian Trapper, who like me, are inspired by Ontario Northland's recent transformation, its passion for progressing transportation services and significant impact to Northern Ontario.

This year the Province of Ontario showed its confidence in Ontario Northland by investing in our rail infrastructure and the expansion of motor coach services to serve Sault Ste. Marie, Wawa and White River. The expansion has added 760 kilometers to the existing 10,000 kilometers of scheduled routes and provides vital transportation to an additional 20 communities. This brings the total amount of communities served by Ontario Northland to 125!

In 2017-2018 the organization responsibly fulfilled its mandate by focusing on cost containment, attracting new customers and establishing a culture of continuous improvement. Highlights include adding over 100 employees to our team, including 75 skilled trades and professionals for financial and business oversight roles. The remanufacturing division continued to attract new railway customers, including CN and Bombardier for locomotive and passenger car work. Adding and promoting rail transload facilities has diversified our freight traffic base and attracted new customers by providing first and last mile connections via truck to the North American rail network.

Ontario Northland was recognized by a number of awards this year. President and CEO, Corina Moore was recognized by Railway Age as one of ten women who are visionaries in the rail industry in North America. The Remanufacturing and Repair Centre was also recognized with a Business of the Year award from the North Bay and District Chamber of Commerce for job creation resulting in positive economic growth.

Our operations between Cochrane and Moosonee were showcased internationally this year as Ontario Northland was featured alongside Canadian Pacific Railway in the television series Rocky Mountain Railroad. The Discovery Channel program shows the complexity of our day-to-day operations and the unbelievable impact of our services to the communities on the James Bay Coast.

A large initiative to ensure the financial health of the company was undertaken this year, which will provide employees with greater stability as members of a larger public sector pension plan. After consultation with multiple stakeholders and planning, the organization received approval to merge the Ontario Northland Pension Plan with the Ontario Pension Board's Public Service Pension Plan. The transition to the new pension plan will begin in May of Fiscal 2018-2019 with outreach to current employees and retirees taking place until the merger is complete.

Expense targets were met in spite of the rising cost of fuel which has a significant impact on rail and motor coach operations. Budget performance for fiscal 2018 was incredible, finishing within 1% of operating forecast and under-budget by 2% for capital.

Moving forward, the agency will continue to focus on business and employee excellence, innovation and establishing a continuous improvement culture while containing expenses and attracting even more diverse customers.

Ontario Northland is vital to the people of Northern Ontario. We deliver strong, reliable and environmentally friendly transportation services that connect people and businesses. We increase road safety, contribute to tourism, generate economic activity and development and truly make the North strong. This year's report showcases the results of another very successful year for Ontario Northland.

Tom Laughren
Chair, Ontario Northland Transportation Commission

Highlights

MOVING PEOPLE

54,895 passengers travelled on the Polar Bear Express passenger train between Cochrane and Moosonee
258,022 passengers travelled on Ontario Northland's motor coaches

MOVING GOODS

37,500 carloads moved
165,061 express freight shipments between Moosonee and Cochrane weighing over 4.2 million kilograms
3,620 vehicles transported between Moosonee and Cochrane

EQUIPMENT AND INFRASTRUCTURE

24 active locomotives
37 buses
854 miles of track maintained (675 mainline track)
450 crossings
90 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

770 employees
20% women
4% of employees identified themselves as Indigenous

* 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 northeastern Ontario connecting to Toronto 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 these 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 through legislation (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 the Energy, Northern Development and Mines 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 the 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) that 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.

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 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)

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 over 770 individuals, who live and work in Northern Ontario and Northwestern Quebec.

2017-2018 in Review

Passenger Services

Motor Coach Services:

Scheduled and charter motor coach services provided $11M of revenue to the company, which was a slight increase from the previous year (1%). Operating Expenses increased a mere 1.75% that can be attributed to the increase in service to 20 new communities.

The Province of Ontario announced the expansion of intercity buses this past fiscal. Motor coach services were introduced to Sault Ste. Marie and White River, resulting in an additional 15,000 passengers when compared to the previous year.

Passenger Numbers:	2017-2018	2016-2017	2015-2016
Motor Coach	258,022	243,482	235,277

Polar Bear Express:

The Polar Bear Express contributed $7.5M in revenue to the organization, which was a decrease of 8% compared to the previous year due to a prolonged ice road decreasing ridership. Operating expenses totaled $18.4M which was an 8%reduction from the previous year. The reduction in expenses is attributed to the implementation of controls with a focus on cost containment of food costs, and a reduction in overtime costs.

Polar Bear Express freight express shipments, smaller goods that are less than a carload, increased by 127,675 KG, as did the revenue by over $98K from previous fiscal.

Polar Bear Express ridership saw a decrease of 3% this year. A spike in ridership in the previous year was attributed to an increase in construction and rail work along the railway. The prolonged ice road season resulted in a decline in ridership although ridership levels are returning to normal when compared to 2015-2016. The Polar Bear Express on-time arrival performance is now measured on a more stringent 15 minute arrival time tolerance for this reporting period, making this past fiscal's on-time arrival performance 97% at either Moosonee or Cochrane over the reporting period.

Passenger Numbers:	2017-2018	2016-2017	2015-2016
Polar Bear Express	54,895	57,131	55,396

Cochrane Station Inn:

The Station Inn's occupancy rate for this fiscal period was 53%, an increase of 4% from the previous year. Some of the increase is attributed to an extended snowmobile season in the region and a marketing campaign developed by the Cochrane economic development team to position Northeast Ontario as the world's best snowmobiling destination.

Rail Services

Rail freight revenues decreased slightly compared to last year totalling $36.7M.

Operating expenses for Rail Services totalled $39M, fuel prices increased significantly, ranging between 15 to 25% higher throughout the year.

Over 37,500 freight car loads were shipped during this period, a slight decrease from previous years due to an unexpected and prolonged maintenance shutdown to three of our major customers. Despite the decrease, we did experience growth with new customers using transload facilities. Transload facilities provide a space to load and unload rail cars including containers and equipment to support moving products from trucks to rail cars and vice-versa.

Carloads Shipped*

2017-2018	2016-2017	2015-2016
37,500	38,903	34,088

Capital Investment
An investment total of $41.8M of capital was made to maintain rail infrastructure and equipment, $19.3M of this was dedicated to track work while $6.8M dedicated to bridges. The large multi-year Moose River Bridge project continues to progress while five other bridges were renewed.

*Carloads shipped includes revenue cars handle such as switching and haulage, a change from previous years reporting.

Remanufacturing and Repair

The division contributed $5.2M in revenue from external rail car repair and locomotive work this fiscal year, which was an increase of 21% from the previous year. This is largely attributed to new Bombardier paint work and CN locomotive repair work.

The division was on target with its operating expenses meeting its $4.9M target.

Three cars were delivered for the Polar Bear Express, renewing the company's passenger train equipment and improving the passenger and employee experience on the train. Two additional cars were delivered for Systra's Rocky Mountaineer luxury passenger rail car refurbishment project.

The increased activity in the division and vacancies due to retirements resulted in approximately 75 new skilled trade hires in North Bay.

Capital investments included shop building upgrades, most notably roof replacement project.

Corporate Services

Corporate Services provides organization wide support to internal and occasional external customers and business partners in the areas of Finance, Human Resources, Information Technology, Project Management, Risk Management, Facilities Management and Marketing and Communications. This year, Corporate Services expenses increased to help enable expanding bus service to 20 new communities. In addition, Corporate Services added project and process subject matter expertise to help achieve transformation objectives across all divisions. Through the expertise provided by the Corporate Services team, the operational divisions were better able to attain their goals.

Performance Highlights:

- Pension merger analysis, approval and communication program
- Development and evaluation of 10 year capital program
- Social and Economic Impact Study
- Aligning financial reporting and analysis capabilities to meet current requirements
- Restructure of Finance department
- Restructure of Human Resource department into a full-service department that includes labour and employee relations, health and safety, disability management, recruitment and retention services
- Implementation of Harvard Business School’s Management Mentor online leadership development program
- Canadian Management Centre (CMC) Leadership Development training for all Managers
- Kronos timekeeping solution to improve accuracy, timeliness and employee and project performance
- Commission approval of 2017-2018 business/transformation plan
- Job fairs resulting in close to a thousand applications for 75 skilled trades and various jobs throughout the organization
- Production of professional rail agriculture and mining videos
- Successful community outreach events including Spike Driving Competition and Christmas Train events in 13 communities
- Eight media releases, four internal newsletters and hundreds of social media posts successfully enhanced the organization’s image
- Launch of Discovery Channel ‘Rocky Mountain Railroad’ co-featuring Ontario Northland services related to the Polar Bear Express
- Rationalization and review of agency realty and land inventory

Public Performance Measures

Performance measures provide year over year comparison of the effectiveness of Ontario Northland's delivery of transportation services. The organization made significant progress on Employee Lost Time Injury frequency, while the Cost Recovery Ratio has declined over the past three years due to a decline in ridership (on Polar Bear Express Essential Services) and a slight decrease in freight revenue with increased fuel costs, overall, ONTC was still on target. ONTC did see Polar Bear Express Customer Satisfaction and Cochrane Station Inn Occupancy Rate fall below their targets.

In order to improve Polar Bear Express customer satisfaction, Passenger Services will address suggestions and feedback gathered in customers surveys. Additional marketing and promotion of the Cochrane Station Inn will take place next fiscal to address occupancy rates.

	2015-2016	2016-2017	2017-2018	Target
Polar Bear Express Passenger Train Customer Satisfaction	77%	70%	71%	75%
Polar Bear Express Passenger Train On-time Performance	99%	99%	97%	90%
Cochrane Station Inn Occupancy Rate	60%	49%	53%	55%
Employee Lost Time Injury Frequency	3.65	3.28	2.15	3.00
Cost Recovery Ratio for Ontario Northland	76%	75%	72%	70%
Cost Recovery Ratio for Ontario Northland excluding the Polar Bear Express Essential Service	95%	89%	83%	84%

Ontario Northland Transportation Commission

Consolidated Financial Statements

For the year ended March 31, 2018

Ontario Northland Transportation Commission
Consolidated Financial Statements
For the year ended March 31, 2018

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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 27, 2018

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

I have audited the accompanying consolidated financial statements of the Ontario Northland Transportation Commission, which comprise the consolidated statement of financial position as at March 31, 2018, and the consolidated statements of changes in net assets, operations, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Ontario Northland Transportation Commission as at March 31, 2018 and the results of its consolidated operations and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Toronto, Ontario
June 27, 2018

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

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

March 31	2018	2017
Assets		
Current		
Cash and cash equivalents	$ 2,445	$ 1,008
Accounts receivable (Net of allowance - $84; 2017 - $73)	17,586	21,999
Inventory	16,479	17,629
Prepaid expenses	922	459
	37,432	41,095
Restricted cash (Note 4, 8 and 12)	2,296	2,271
Capital assets (Note 5)	399,706	372,591
Accrued pension benefit asset (Note 6a)	38,181	39,197
	$ 477,615	$ 455,154
Liabilities and Net Assets		
Current		
Accounts payable and accrued liabilities	$ 22,841	$ 23,194
Current portion of long-term debt (Note 10)	427	406
Deferred revenue	105	65
	23,373	23,665
Deferred government contributions (Note 4 and 8)	2,209	2,185
Deferred government capital contributions (Note 9)	301,863	265,139
Long-term debt (Note 10)	1,731	2,159
Accrued non-pension benefit obligation (Note 6b)	87,858	86,183
Liability for contaminated sites (Note 11)	6,675	3,500
	423,709	382,831
Net assets		
Unrestricted	53,819	72,237
Internally restricted – Reserve for Self Insurance (Note 4 and 12)	87	86
	53,906	72,323
	$ 477,615	$ 455,154

Contingencies (Note 15) / **Commitments** (Note 16)

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	2018	2017
Unrestricted Net Assets		
Balance, beginning of year	**$ 72,237**	$ 81,875
Transfer from (to) Reserve for Self Insurance (Note 12)	**(1)**	4,619
Deficiency of revenues over expenses for the year	**(18,417)**	(14,257)
Balance, end of year	**$ 53,819**	$ 72,237
Internally Restricted - Reserve for Self Insurance (Note 12)		
Balance, beginning of year	**$ 86**	$ 4,705
Transfers (to) from Unrestricted Net Assets	**1**	(4,619)
Balance, end of year	**$ 87**	$ 86
Total Net Assets	**$ 53,906**	$ 72,323

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		2018		2017
Revenues				
Sales and other (Note 14)	$	**60,599**	$	61,435
Expenses (Note 14)				
Labour and Benefits (Note 6)		**69,371**		60,659
Materials and Parts		**16,051**		15,516
Services		**6,916**		7,998
Supplies and Equipment		**4,002**		4,475
Other (Note 18)		**13,239**		14,254
Interest on long-term debt (Note 10)		**119**		140
Loss (gain) on sale of capital assets		**(195)**		1,466
Investment income		**(1)**		(35)
Amortization of capital assets		**15,653**		14,109
		125,155		118,582
Deficiency of revenues over expenses before government funding		**(64,556)**		(57,147)
Government Operating Contributions (Note 13)		**36,739**		35,224
Amortization of deferred capital contributions (Note 9)		**9,400**		7,666
Deficiency of revenues over expenses for the year	**$**	**(18,417)**	$	(14,257)

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	**2018**	2017
Cash provided by (used in)		
Operating activities		
Deficiency excess of revenues over expenses for the year	**$ (18,417)**	$ (14,257)
Items not affecting cash		
Amortization of capital assets	**15,653**	14,109
Amortization of deferred capital contributions	**(9,400)**	(7,666)
Loss (gain) on disposal of capital assets	**(195)**	1,466
Employee future benefit expense	**19,960**	14,807
	7,601	8,459
Changes in non-cash working capital balances		
Accounts receivable	**4,413**	24,280
Inventory	**1,150**	(5,558)
Prepaid expenses	**(463)**	(92)
Accounts payable and accrued liabilities	**(353)**	(11,744)
Deferred government contributions and deferred revenue	**64**	15
	12,412	15,360
Capital activities		
Purchase of capital assets	**(43,679)**	(52,624)
Proceeds from sale of capital assets	**295**	589
	(43,384)	(52,035)
Financing activities		
Principal repayment of long-term debt	**(406)**	(386)
Deferred capital contributions	**46,934**	48,753
Pension contributions paid	**(13,171)**	(11,063)
Non-pension benefits paid	**(4,098)**	(4,107)
Increase in liability for contaminated sites	**3,175**	-
	32,434	33,197
Increase (decrease) in cash and cash equivalents during the year	**1,462**	(3,478)
Cash and cash equivalents, beginning of year	**3,279**	6,757
Cash and cash equivalents, end of year	**$ 4,741**	$ 3,279
Represented by		
Cash and cash equivalents	**$ 2,445**	$ 1,008
Restricted cash and cash equivalents (Note 4)	**2,296**	2,271
	$ 4,741	$ 3,279

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 Northern Development and Mines (MNDM.) 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.

Rail services revenues are generally recognized on completion of movements, with interline movements being treated as complete when the shipment is turned over to the connecting carrier.

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 to 12 years

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

Employee Future Benefits

Pension Plans - The Commission maintains a contributory defined benefit pension plan for its employees. It provides for pensions based on years of service and average pensionable earnings and is generally applicable from the first day of the month following employment. A Supplementary Employee Retirement Plan (SERP) also exists for employees who earn a lifetime pension amount in excess of the Canadian Income Tax Act's maximum. The obligations under the plan are determined using the accrued benefit method reflecting projected benefits for services rendered to date. The plans are not indexed; however, there have been a variety of ad hoc increases made to pensioners.

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.

2. Significant Accounting Policies (continued)

Employee Future Benefits (continued)

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 12 years). Past service costs are recognized in the period of plan amendment.

Pension fund assets are valued using current market values.

Inventory

Materials and supplies, with the exception of used rail and wheel-sets, are valued at the lower of cost and net realizable value by using the weighted-average costing methodology. Wheel-sets are valued at standard cost. 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.

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.

2. Significant Accounting Policies (continued)

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.

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.

(dollars in thousands)

2. Significant Accounting Policies (continued)

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.

3. Inventory

The cost of inventory expensed to operations and used in capital projects for 2018 was $12,096 (2017 - $12,357).

4. Restricted Cash

	2018	2017
Externally restricted – Deferred Contributions (Note 8)	**$ 2,209**	$ 2,185
Internally restricted – Reserve for Self Insurance (Note 12)	**87**	86
	$ 2,296	$ 2,271

(dollars in thousands)

5. Capital Assets

	2018			2017
	Cost	**Accumulated Amortization**	**Net Book Value**	Net Book Value
Rail Services				
Roadway	**$ 469,371**	**$ 173,339**	**$ 296,032**	$ 280,381
Buildings	**53,734**	**25,460**	**28,274**	26,660
Equipment	**110,409**	**62,894**	**47,515**	31,651
Under construction	**11,718**	**-**	**11,718**	18,313
Motor Coach Services				
Buildings	**2,998**	**757**	**2,241**	2,224
Coaches	**12,140**	**2,268**	**9,872**	9,352
Under construction	**3**	**-**	**3**	-
Refurbishment				
Buildings	**4,033**	**925**	**3,108**	3,152
Equipment	**1,183**	**240**	**943**	858
	$ 665,589	**$ 265,883**	**$ 399,706**	$ 372,591

(dollars in thousands)

6. Employee Future Benefits

The Commission is the administrator of its 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 December 31st.

The accrued pension benefit asset 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. The date of the most recent actuarial valuation for the contributory pension plans for funding purposes was January 1, 2017. 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, 2017.

The pension plan's asset target percentage allocation and average asset allocation as at March 31, 2018, by category are as follows:

		Target	**2018**	2017
Equity securities	– Domestic	10% - 20%	**13.7%**	26.7%
	– Foreign	15% - 35%	**25.5%**	20.7%
Debt securities		40% - 60%	**57.8%**	49.1%
Real estate		0% - 15%	**2.0%**	1.8%
Short-term and other		0% - 15%	**1.0%**	1.7%
Total			**100%**	100%

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

(dollars in thousands)

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

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

Pension Plans:

	Pension	SERP	2018 Total	2017 Actual
Accrued benefit obligation	$ (579,262)	$ (3,513)	$ (582,775)	$ (556,716)
Plan assets at fair value	548,330	-	548,330	523,157
Funded status - plan (deficit) surplus	(30,932)	(3,513)	(34,445)	(33,559)
Unamortized net actuarial loss	71,487	1,139	72,626	72,756
Accrued benefit asset (liability) net of valuation allowance, end of year	$ 40,555	$ (2,374)	$ 38,181	$ 39,197

	Pension	SERP	2018 Total	2017 Actual
Accrued benefit asset, beginning of year	$ 41,509	$ (2,312)	$ 39,197	$ 39,303
Employee future benefit expense	(13,885)	(302)	(14,187)	(11,169)
Funding contributions	12,931	240	13,171	11,063
Accrued benefit asset, end of year	$ 40,555	$ (2,374)	$ 38,181	$ 39,197

(dollars in thousands)

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

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

Non-Pension Benefit Plans:

	2018	2017
Accrued benefit obligation, end of year	**$ (87,540)**	$ (88,246)
Unamortized net actuarial (gain) loss	**(318)**	2,063
Accrued benefit liability, end of year	**$ (87,858)**	$ (86,183)

	2018	2017
Accrued benefit liability, beginning of year	**$ (86,183)**	$ (86,652)
Benefit expense	**(5,773)**	(3,638)
Benefits paid	**4,098**	4,107
Accrued benefit liability, end of year	**$ (87,858)**	$ (86,183)

Included in the accrued non-pension benefit liability are workers' compensation benefits in the amount of $ 13,849 (2017 - $15,296). This amount has been determined from the most recent available actuarial calculations provided by the Workplace Safety and Insurance Board as at December 31, 2017.

c. Components of Net Periodic Pension Benefit Expense

	2018	2017
Current service cost less employee contributions	**$ 6,188**	$ 5,581
Interest on accrued benefit obligation	**28,741**	29,137
Expected return on plan assets	**(26,805)**	(28,107)
Amortization of net actuarial loss	**6,063**	4,558
	$ 14,187	$ 11,169

(dollars in thousands)

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

d. Components of Net Periodic Non-Pension Benefit Expense

	2018	2017
Current service cost	**$ 520**	$ 2,334
Interest on accrued benefit obligation	**2,605**	2,662
Amortization and immediate recognition of net actuarial (gains) losses	**2,648**	(1,358)
	$ 5,773	$ 3,638

Total pension and non-pension benefit expense included in Labour and Benefits on the Statement of Operations is $19,960 (2017 - $14,807).

e. Weighted Average Assumptions

Discount rate - pension	**5.25%**	5.50%
Discount rate - non pension	**3.61%**	3.76%
Discount rate – long-term disability	**3.61%**	3.76%
Discount rate - WSIB	**4.50%**	4.50%
Expected long-term rate of return on plan assets	**5.00%**	5.25%
Rate of compensation increase		
2017 to 2019	**2.0 %**	2.0%
2020	**2.5 %**	2.5%
2021 & thereafter	**3.0%**	3.0%
Average remaining service period (years)	**12**	12
Drug cost increases (grading down to 5% in 2020)	**6.00%**	6.50%
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)

7. 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 zero was being utilized as at March 31, 2018. 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.

8. 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:

	2018	2017
Balance, beginning of year	**$ 2,185**	$ 2,169
Interest income	**24**	16
Balance, end of year	**$ 2,209**	$ 2,185

9. 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:

	2018	2017
Balance, beginning of year	**$ 265,139**	$ 227,383
Contributions from the Province	**46,934**	48,753
Amortization to revenue	**(9,400)**	(7,666)
Retirements and transfers	**(810)**	(3,331)
Balance, end of year	**$ 301,863**	$ 265,139

(dollars in thousands)

10. Long-term Debt

	2018	2017
Loan from Ontario Financing Authority, bearing interest at 5.22 % per annum, repayable in blended monthly payments of $30 for 15 years beginning February 1, 2005	**$ 638**	$ 962
Loan from Ontario Financing Authority, bearing interest at 4.90% per annum, repayable in blended monthly payments of $13 for 25 years beginning February 1, 2006.	**1,520**	1,603
	2,158	2,565
Less current portion	**427**	406
Long-term debt	**$ 1,731**	$ 2,159

Interest on long-term debt was $119 (2017 - $140).

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

2018-2019	$ 427
2019-2020	390
2020-2021	96
2021-2022	101
2022-2023	106
Thereafter	1,038
	$ 2,158

11. Contaminated sites

The liability for contaminated sites is comprised of costs expected to be incurred on a former transloading property, identified in prior years, and former telecommunications sites, identified in the current year. 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)

11. Contaminated sites (continued):

		2018		2017
Former transloading property	$	**3,500**	$	3,500
Former tower sites		**3,175**		-
Contaminated sites liability	**$**	**6,675**	$	3,500

12. Internally Restricted Net Assets – Reserve for Self Insurance

The Commission follows the policy of self-insuring for damages from rolling stock derailments and for cargo damage. Annually the Commission gives consideration to transferring funds from its' unrestricted net assets to the Reserve for Self Insurance (the "Reserve") to finance such costs. Interest earned on the reserve balance and claims expensed in the reserve balance are recorded as revenue and expenses in the consolidated statement of operations then transferred to/from the Reserve.

The Reserve was significantly depleted in the previous year. The Commission and the Province continue to work on an implementation plan to deal with the self insurance fund and any related funding.

13. Government Contributions

A Memorandum of Understanding between the Commission and the Minister of Northern Development and Mines dated June 29, 2017, defines the amount of operating and capital contributions provided each fiscal year.

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

		2018		2017
Ministry of Northern Development and Mines:				
Rail - Passenger Service and Moosonee Branch	**$**	**16,176**	$	17,144
Rail and Other System Operations		**12,158**		11,448
Pension deficit funding pressure		**7,483**		5,852
	$	**35,817**	$	34,444
Special Operating – Ontera towers (Note 18)		**459**		780
Current year's operations		**36,276**		35,224
Capital contributions (Note 9)		**46,934**		48,753
Total from Ministry of Northern Development and Mines		**83,210**		83,977
National Transportation Agency of Canada:				
Current year's operations		**463**		-
Total Government contributions	**$**	**83,673**	$	83,977

(dollars in thousands)

13. **Government Contributions (continued):**

In summary:

		2018		2017
Total Operating contributions:				
Ministry of Northern Development and Mines	$	**36,276**	$	35,224
National Transportation Agency of Canada		**463**		-
	$	**36,739**	$	35,224
Capital contributions (Note 9)		**46,934**		48,753
Total contributions	$	**83,673**	$	83,977

14. 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 Northeastern Ontario such as rail and motor coach transportation, refurbishment and freight 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

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)

Year ended March 31, 2018

14. 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.

(dollars in thousands)

Year ended March 31, 2018

14. Segmented Information Disclosures (continued)

	Rail Services	Polar Bear Services	Motor Coach Services	Remanufacturing and Repair	Administration (Note i)	Provincial Government Operating Contributions	**2017 Total**
Revenues	37,977	8,198	10,809	4,130	321	-	61,435
Expenses							
Labour and fringe benefits	21,340	11,443	5,461	2,154	5,454	-	45,852
Materials and parts	7,547	4,049	2,193	1,582	145	-	15,516
Services	2,743	1,651	2,040	188	1,376	-	7,998
Supplies and equipment	1,972	1,454	553	129	367	-	4,475
Other	2,973	1,453	1,152	84	2,710	-	8,372
	36,575	20,050	11,399	4,137	10,052	-	82,213
Excess (deficiency) revenues over expenses before items below:	1,402	(11,852)	(590)	(7)	(9,731)	-	(20,778)
Derailments	5,102	-	-	-	-	-	5,102
Demolition – Ontera towers	-	-	-	-	780	-	780
Interest on long-term debt	59	-	81	-	-	-	140
(Gain) loss on sale of capital assets	(316)	1,059	(35)	-	758	-	1,466
Investment income	-	-	-	-	(35)	-	(35)
Amortization of capital assets	9,571	2,942	788	362	446	-	14,109
Employee future benefits	6,945	3,723	1,677	124	2,338	-	14,807
Deficiency of revenues over expenses before government funding	(19,959)	(19,576)	(3,101)	(493)	(14,018)	-	(57,147)
Provincial government operating contributions	-	-	-	-	780	34,444	35,224
Amortization of deferred capital contributions	4,122	2,432	738	49	325	-	7,666
Excess (deficiency) of revenues over expenses	(15,837)	(17,144)	(2,363)	(444)	(12,913)	34,444	(14,257)

Note i) Administration employee future benefits includes $253 in long-term disability expenses for the entire organization.

15. 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, if any, 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.

16. 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.

17. 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.

18. Other Expenses

Included in Other expenses for the year are the following:

i. During the year the Commission incurred $458 in costs for environmental assessments of the land of six former communication towers in northern Ontario. These towers were originally sold as part of the Ontera disposition in fiscal 2015, however they were transferred back to the Commission in fiscal 2017.

ii. As result of the environmental assessments of the former Ontera tower sites, a contamination expense was recorded for $3,175 for the three northern sites located along the James Bay coast.

iii. During the year the Commission expensed $1,142 for inventory usage, and obsolete, and revalued inventory.

19. Settlement Expenses

In connection with the cancellation of the Northlander passenger train operation in 2012, a wage settlement agreement was negotiated with the United Steelworkers, the bargaining agent for those employees. The agreement was signed in August 2013 and resulted in wage continuation and maintenance of basic rates payments extending into August 2017 amounting to $616. In the current fiscal year $181 was paid out relating to this obligation.

20. Subsequent Events

In March 2018, the Province approved in principle the merger of the Ontario Northland Transportation Commission Contributory Pension Plan with the Public Service Pension Plan ("PSPP") effective May 1, 2018. Approval is required by the Financial Service Commission of Ontario and then the assets will be transferred to the Ontario Pension Board ("OPB"). No agreement is in place yet but is expected later in 2018. Ontario Northland Transportation Commission employees will begin contributing to the PSPP beginning 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. These financial statements do not recognize the impact of this merger of pension plans.

On May 30, 2018, the Polar Bear Express passenger train derailed 24 miles south of Moosonee with passengers and crew onboard. No serious injuries were reported. The cause and estimate of costs of the derailment are unknown at this time.

(dollars in thousands)

21. 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.

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

			2017
	Fair Value	Amortized Cost	Total
Cash and cash equivalents	$ 1,008	$ -	$ 1,008
Accounts receivable	-	21,999	21,999
Accounts payable and accrued liabilities	-	23,194	23,194
Long-term debt	-	2,565	2,565
	$ 1,008	$ 47,758	$ 48,766

(dollars in thousands)

21. Financial Instrument Classification (continued)

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).

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

				2017
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 1,008	$ -	$ -	$ 1,008

There were no transfers between Level 1 and 2 for the years ended March 31, 2018 and 2017. There were no transfers in or out of Level 3.

(dollars in thousands)

22. 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 (2017 - $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, 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**

March 31, 2017				Past Due	
	Total	Current	1-30 days	31-60 days	over 61 days
Government receivables	$ 11,713	$ 7,624	$ 4,089	$ -	$ -
Customer receivables	10,359	5,793	2,008	289	2,269
Gross receivables	22,072	13,417	6,097	289	2,269
Less: impairment allowances	(73)	-	-	-	(73)
Net receivables	$ 21,999	$ 13,417	$ 6,097	$ 289	$ 2,196

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.

22. 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 8 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)

22. Financial Instrument Risk Management (continued)

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

				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**

				2017
	Within 6 months	6 months to 1 year	1-5 years	> 5 years
Accounts payable	$ 23,194	$ -	$ -	$ -
Long-term debt	203	203	1,120	1,039
Total	$ 23 397	$ 203	$ 1,120	$ 1,039

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.

23. Comparative Figures

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

2017-2018 Annual Report
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