Special City Council
as Shareholder of Guelph Junction Railway Limited
Annual General Meeting Agenda

Monday, June 17, 2019 – 7:30 p.m.
Council Chambers, Guelph City Hall, 1 Carden Street

Please turn off or place on non-audible all electronic devices during the meeting.

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Open Meeting – 7:30 p.m.

Disclosure of Pecuniary Interest and General Nature Thereof

Authority to move into closed meeting

That the Council of the City of Guelph now hold a meeting that is closed to the public, pursuant to the Municipal Act, to consider: personal matters about an identifiable individual, including municipal or local board employees; and (f), advice that is subject to solicitor-client privilege, including communications necessary for that purpose

GJR-2019-01 **Guelph Junction Railway Limited Governance Review**
Section 239 (2) (b) and (f) personal matters about an identifiable individual, including municipal or local board employees and advice that is subject to solicitor-client privilege, including communications necessary for that purpose

Open Meeting – 8:00 p.m.

Closed Meeting Summary

Confirmation of Minutes:

That the minutes of the open Council as Shareholder of Guelph Junction Railway Limited Meeting held June 18, 2018 be confirmed as recorded and without being read.

GJR-2019-02 **Guelph Junction Railway Limited Annual Report to the Shareholder**

Presentation:
Ian Brown, Chair, GJR

Recommendation:
That the 2018 Guelph Junction Railway Limited Annual Report be received.

GJR-2019-03 **Guelph Junction Railway Limited Assessment of Business and Governance**

Recommendations:

1. That City Council in its capacity as the sole shareholder of the Guelph Junction Railway Limited directs staff to implement recommendations that are provided in Report GJR-2019-03 – ”Assessment of Business and Governance Recommendations”.

GJR-2019-04 **Chief Financial Officer Report – 2018 Guelph Junction Railway Limited Audited Financial Statements**

Recommendation:

1. That report GJR-2019-04 titled, Chief Financial Officer Report – 2018 Guelph Junction Railway Limited Audited Financial Statements be received for information.
2. That the Guelph Junction Railway Limited Audited Financial Statements for the year-ended December 31, 2018 be received for information.

GJR-2019-05 **Appointment of KPMG LLP as Auditors for 2019**

Recommendation:

That KPMG LLP be appointed as auditors for Guelph Junction Railway Limited for its 2019 fiscal year.

Special Resolutions

Adjournment

Minutes of Guelph City Council as Shareholder of Guelph Junction Railway Held in the Council Chambers, Guelph City Hall on Monday, June 18, 2018 at 5:32 p.m.

Attendance

Council:	Mayor C. Guthrie	
	Councillor P. Allt	Councillor J. Hofland
	Councillor B. Bell	Councillor M. MacKinnon
	Councillor C. Billings	Councillor L. Piper
	Councillor C. Downer	Councillor M. Salisbury
	Councillor D. Gibson	Councillor A. Van Hellemond
	Councillor J. Gordon	Councillor K. Wettstein

Staff:
Mr. D. Thomson, Chief Administrative Officer
Mr. T. Lee, Deputy CAO Corporate Services
Mr. S. Stewart, Deputy CAO of Infrastructure, Development and Enterprise Services
Mr. P. Cartwright, Interim Chief Executive Officer of Guelph Junction Railway
Mr. L. Petroczi, Manager of Guelph Junction Railway
Ms. J. Surgeoner, Manager of Financial Reporting/Accounting
Mr. S. O'Brien, City Clerk
Ms. D. Black, Council Committee Coordinator

Call to Order (5:32 p.m.)

Mayor Guthrie called the meeting to order.

Disclosure of Pecuniary Interest and General Nature Thereof

There were no disclosures.

Confirmation of Minutes

1. Moved by Councillor Hofland
Seconded by Councillor Bell

That the minutes of the June 28, 2017 Council as Shareholder of Guelph Junction Railway Annual General Meeting be confirmed as recorded and without being read.

Voting in Favour: Mayor Guthrie, Councillors Allt, Bell, Billings, Downer, Gordon, Hofland, MacKinnon, Salisbury and Wettstein (10)
Voting Against: (0)

Carried

Councillor Van Hellemond arrived at 5:33 p.m.
Councillor Gibson arrived at 5:34 p.m.
Councillor Piper arrived at 5:41 p.m.

Items for Discussion

GJR.2018.1 Guelph Junction Railway Annual Report to the City

Presentation:
Peter Cartwright, Interim Chief Executive Officer of Guelph Junction Railway, provided highlights of the Guelph Junction Railway Annual Report for 2017.

Les Petroczi, Manager of Guelph Junction Railway, provided information regarding Guelph Junction Railway assets and maintenance of the spur lines.

The motion to receive the Guelph Junction Railway Annual Report was included with the Chief Financial Officer (CFO Report – 2017 Audited Financial Statements as shown below.

GJR-2018.2 Chief Financial Officer (CFO) Report - 2017 Audited Financial Statements

2. Moved by Councillor Bell
Seconded by Councillor Downer

1. That the 2017 Guelph Junction Railway Annual Report be received.

2. That the report from the CFO in respect of the 2017 Financial Statements be received.

3. That the Audited Financial Statements of Guelph Junction Railway Limited for the year ended December 31, 2017 be received.

4. That the 2017 dividend payment in the amount of $100,000 from Guelph Junction Railway Limited to its Shareholder, The Corporation of the City of Guelph, be received.

Voting in Favour: Mayor Guthrie, Councillors Allt, Bell, Billings, Downer, Gibson, Gordon, Hofland, MacKinnon, Piper, Salisbury, Van Hellemond and Wettstein (13)
Voting Against: (0)

Carried

GJR-2018.3 Appointment of Auditor

3. Moved by Councillor Billings
Seconded by Councillor Hofland

1. That the recommendation of the Guelph Junction Railway Board of Directors regarding the appointment of the auditors for Guelph Junction Railway be received.

2. That KPMG LLP be appointed as auditors for Guelph Junction Railway Limited for its 2018 fiscal year.

Voting in Favour: Mayor Guthrie, Councillors Allt, Bell, Billings, Downer, Gibson, Gordon, Hofland, MacKinnon, Piper, Salisbury, Van Hellemond and Wettstein (13)
Voting Against: (0)

Carried

Adjournment (5:45 p.m.)

4. Moved by Councillor Bell
   Seconded by Councillor Hofland

   That the meeting be adjourned.

Carried

Minutes to be confirmed at the Guelph Junction Railway Annual General Meeting to be held in June, 2019.

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Mayor Guthrie

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Stephen O'Brien - City Clerk

GJR-2019-02

ANNUAL REPORT TO THE SHAREHOLDER FOR 2018

GUELPH JUNCTION RAILWAY LIMITED

CHAIR'S MESSAGE TO THE SHAREHOLDER:

The Board of Directors is pleased to present the 2018 Annual Report for Guelph Junction Railroad Limited.

Ian Brown
Chair, Guelph Junction Railway Ltd.

2018 was a strong year for the Guelph Junction Railway, with a continued focus on safety and fiscal responsibility.

Once again, I am pleased to report that the GJR Board of Directors has declared a dividend to the City from GJR, this year in the amount of $80 thousand. We are able to declare this dividend as an indication of GJR's value as an asset to the City, and with confidence that we are able to continue to provide safe, sustainable, and well-maintained rail service on the GJR line.

This past year GJR undertook an external service review, at the request of its shareholder, to thoroughly assess the viability of its operations and assist the City on future decisions with respect to GJR. The final report favours the retention of the railroad as a valued asset.

The GJR Board is committed to ensuring that GJR remains as an economic development tool for the City and that it continues to safely operate as a 'for profit' business, providing value to the City and its many customers.

In my fourth year as Chair, the Board of Directors has continued to confront challenges in a way that improves the tangible public benefit delivered by the City's important rail asset.

Respectfully,

Ian Brown
Chair,
Guelph Junction Railway Ltd.

OUR HISTORY:

GJR was created by a Special Act of the Federal Parliament originally passed in 1884 and began operations in 1888, but the railway has been with the City longer still, with the Grand Trunk Railway (now Canadian National Railway, CNR) having operated in the City since 1852. Guelph's business leaders attributed the city's early growth and prosperity to its access to competing rail lines and expanding markets.

By 1910, GJR's founding Act had been amended to allow the City of Guelph to become the sole shareholder. Today, GJR is unique in being wholly municipally owned, with only two others in Ontario out of a dozen across the country.

For over a century, GJR was run by Canadian Pacific Railway (CPR) under a lease agreement. Its Board met annually in order to declare a dividend. In 1998, CPR terminated its lease agreement and the City, on behalf of GJR, purchased CPR's remaining real property and track within the City of Guelph. A new contract was signed with the Ontario Southland Railway (OSR), a rail contracting company, who officially took over on January 1, 1998. OSR manages moving freight for a number of local industrial manufacturers and producers in Southwest Ontario.

Currently operating on 38.6 km of track through Campbellville, Puslinch, Arkell and Guelph, GJR remains connected on two sides to both the Canadian National and Canadian Pacific Railways.

CORPORATE STRUCTURE:

In 2015, GJR was approved for a continuance under the Federal *Canada Business Corporations Act* in order to allow for a more modern governance structure and to bring clarity to longstanding questions about GJR's place in the complex Canadian railway regulation scheme. Part of this process involved a change in the name of the corporation to Guelph Junction Railway Limited (nee Guelph Junction Railway Company).

The relationship between GJR and its sole shareholder, the City of Guelph, is governed by a shareholder declaration that was updated in 2015. Additional changes were made at this time to the Board of Directors as additional officers were appointed to support the relationship with the City, provide better support to the existing Board and GJR's general manager. These changes were in effect until end of 2018.

The Board of Directors has continued to develop a new strategic framework and direction for the corporation. An external report was requested on behalf of the Shareholder to assist with exploring further improvements to GJR's operations and structure. Once the strategic framework is finalized, GJR will be looking to further enhance its relationship with the City of Guelph by developing a human resources plan that will clarify and formalize the roles of City staff and ensure accountability. Direction from the Board and Shareholder following the external consultant's report on GJR governance recommendations is anticipated for spring 2019.

VISION, MISSION, and VALUES:

In order to better serve the City as shareholder, and follow up on changes to the corporate structure of the railroad in a favour of a more modern, business oriented approach, the GJR Board has developed the following statement of Vision, Mission and Values that was adopted in early 2017.

This statement serves as an overarching guide to the Board's decision making as it moves forward into the future.

Our Vision

- To safely capitalize on the efficiency of rail transportation while serving the City of Guelph.

Our Mission

- To focus on building an economically sustainable and socially and environmentally responsible business through safe and efficient operations and excellent customer relations.

Our Values

- Serving and adding value to our clients and community
- Creating business opportunities that increase the use of rail
- Transparency that builds trust and confidence
- Railway safety and operations consistent with best industry practices
- Collaboration with suppliers and clients

Throughout 2018, GJR has been consistent in upholding these principles. Inspections from Transport Canada have found GJR in compliance and any recommended upgrades have been implemented well before the allotted deadline required. Though no business expansion projects were initiated in 2018, GJR had ongoing negotiations with customers regarding upcoming business needs and was an integral part of helping customers with the transition of CNR's purchase of the previously Goderich Exeter Railway operated rail line.

STRATEGIC DIRECTION:

In conjunction with the statement of Mission, Vision and Values GJR's Board has adopted the following strategic directions:

1. Strengthen our organizational capacity and operational infrastructure by creating, executing and managing:
    a. A shared service agreement with the City (Completed)
    b. A staffing plan (In progress)
    c. A board succession plan, and (In progress)
    d. An asset management plan (In progress)

2. Increase and diversify revenues through creative partnerships and new sales opportunities. (On going)

3. Develop a short term business plan that aligns with shareholder priorities. (Completed)

4. Develop a long term growth plan that will be ready to manage anticipated sector, regulatory environmental change. The plan will reference (In progress)
    a. The City's future needs around rail (freight and passenger)
    b. The Province's future needs around rail (freight and passenger)
    c. Identify land within and near the City that may be available for rail development

5. Connect with our shareholder and stakeholders through strong communications.
    a. Develop a GJR Website to assist with business development and stakeholder communications. (in progress – due to be finished Q2 2019)

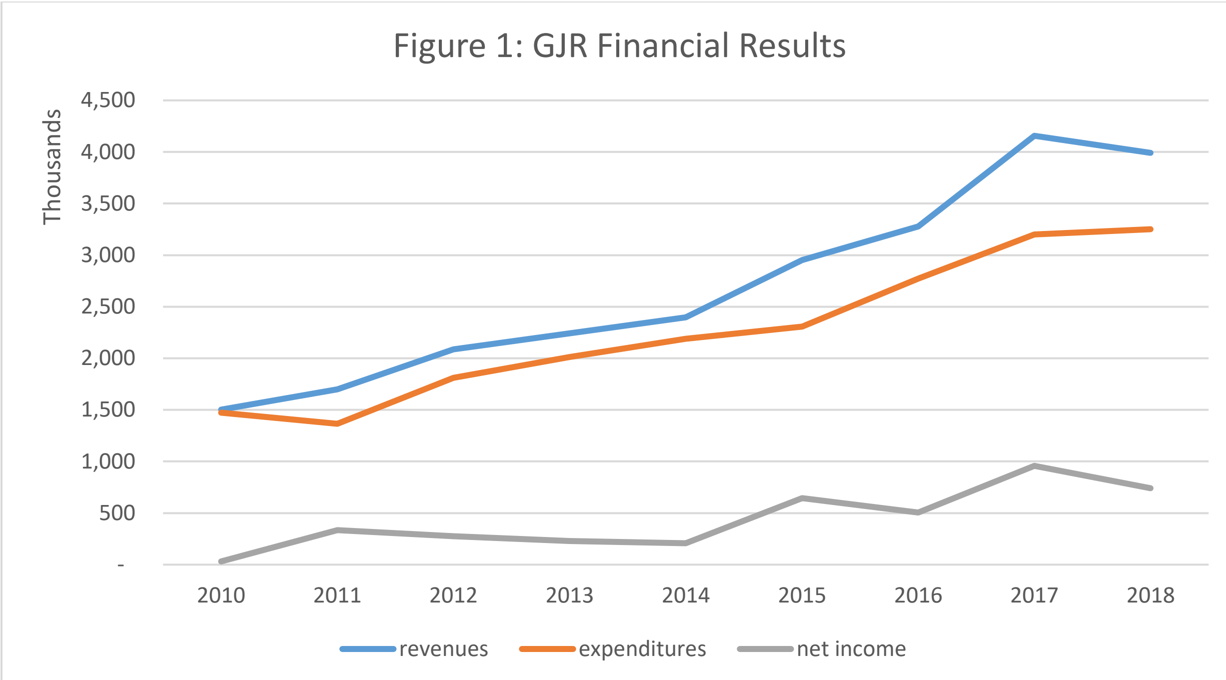
FINANCIAL UPDATE:

GJR had another strong financial year in 2018, reporting a net income of $741 thousand. The 2018 audited financial statements show a decrease in revenues for both freight and non-freight movement over the previous year. This is a decrease of $217 thousand from 2017. The decline in freight revenues was impacted by decreased car volumes relating to severe weather conditions in Canada and the US, shortage of rail cars and the loss of plastic freight volumes. The decline in net income is a combination of decreased freight revenue and increased expenses, more specifically the service review of $80 thousand as requested by the Shareholder, higher track maintenance and flagging costs, followed by an increase in OSR labour rates.

Guelph Junction Railway Limited

Statement of comprehensive income
year ended December 31, 2018

	2018	2017
	$	$
Revenue		
Freight movement	**3,211,088**	3,273,577
Non-freight movement	**731,230**	842,331
Amortization of deferred capital contributions	**49,500**	41,102
	3,991,818	4,157,010
Expense		
Freight movement	**2,126,806**	2,147,145
Track maintenance	**360,939**	386,620
Depreciation	**340,428**	322,630
Administration and office	**258,571**	246,896
Business development	**79,998**	-
Interest on long-term debt	**61,197**	74,331
Expropriation costs	**15,159**	13,762
Audit & legal	**8,168**	8,000
	3,251,266	3,199,384
Net comprehensive income for the year	**740,552**	957,626

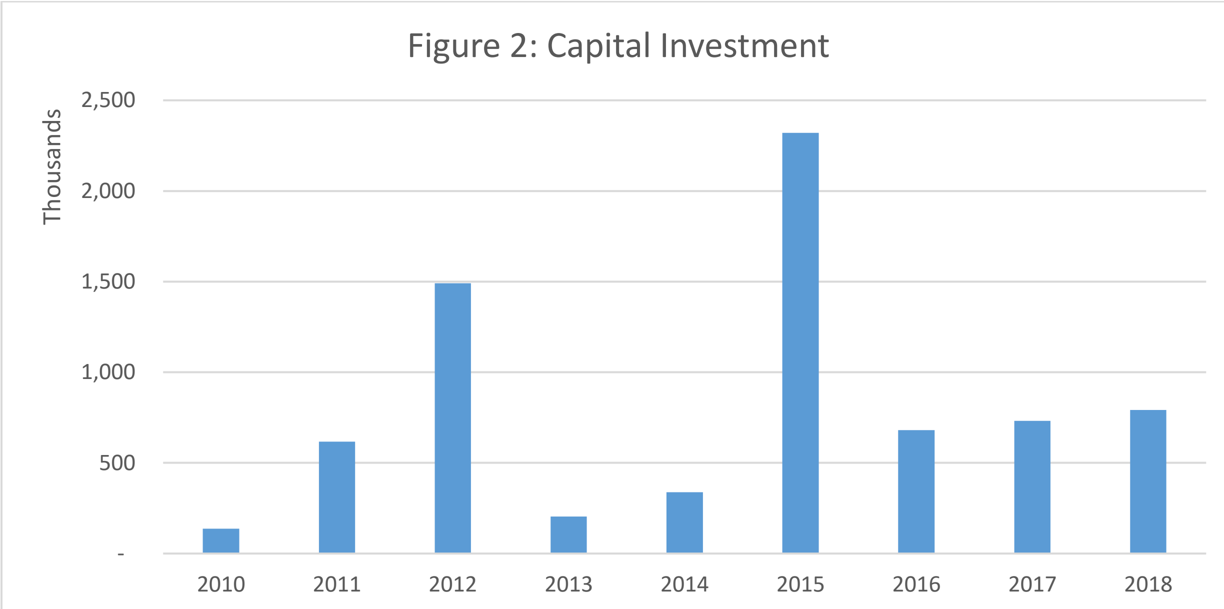


Please refer to Figure 1, which illustrates a steady upward trend in net income for GJR over the last eight years. The last 4 years in particular have been a period of significant growth in freight revenues. In addition to this, average net income in the last four years was approximately $700 thousand, compared to $200 thousand from fiscal years 2014 and prior. Freight revenues in the past four fiscal years on average were $3.6 million, compared to $2.0 million in from 2014 and prior. GJR's growth is attributed to a number of factors; however, one of the most significant being be the change in management and Board direction.

During 2018, GJR successfully paid off one of the loans facilitated through RBC. The remaining two facilities with RBC will be paid in full by mid-2019. The Board has approved to set aside excess cash to make a one-time lump sum payment towards the current loan with the City for the bridge rehabilitation.

GJR declared a dividend to the City at the March 2019 Board meeting in the amount of $80 thousand based on the 2018 financial results, which was the maximum dividend payout rate. Due to the timing of when the dividend was approved; the 2018 dividend will be reflected in the 2019 financial statements. In addition to declaring the dividend, GJR agreed to fund 100 per cent of the costs associated with the service review requested by the shareholder, of which the total cost was $90 thousand and approximately $80 thousand was absorbed in the 2018 year-end results.

The remaining cash generated in 2018 was re-invested back into the company through capital acquisitions of $791 thousand. Please refer to Figure 2 below that depicts the annual contributions to capital. In 2017, the Board of Directors approved the Capital Investment Policy that states the average capital contribution target should be above 16 per cent annually. GJR has met this target over the past five years and continues to monitor these ratios quarterly to ensure annual targets are met. GJR operates in a capital-intensive industry and management has been focusing on reinvesting in capital infrastructure in order to remain competitive in the future, meet legislative requirements, and ensure the safety of operations. The Board is pleased with the performance of GJR in 2018.



BUSINESS DEVELOPMENT:

GJR provides services to 11 customers, 3 of which provide the majority of the revenue for the corporation. GJR's only competition is Canadian National Railway (CNR), whose activities are limited to the City's Northwest Industrial Park and the connection through the Alma rail yard to the main CN line. A portion of this track used to be operated by the Goderich Exeter Railway (GEXR), however it was wholly taken over by CNR in November, 2018

GJR continues to pursue local business development as a major focus; however, no new business cases arose during 2018. As a result, GJR focused on reinvesting into capital programs along the rail line and delivering of excellent customer service to maintain existing relationships with customers in anticipation of future growth.

Despite that many short lines face difficulties in their ability to reinvest capital to increase capacity, speed, and performance; GJR is comparable to Class 1 railways in Canada in which they have a minimum capital improvement rate of 16 per cent of revenues. In the last three years, GJR implemented track upgrades that raised it from Track Class 1: 10 mph to Class 2: 25 mph, however the speeds remain low within city limits for safety precautions. Improvements to track provides GJR's customers with goods faster, more reliable service, and options for dimensional loads. All of this allows GJR to remain competitive in the rail service environment and a desirable option for businesses looking into exploring rail service as an alternative to commercial trucking.

Car counts were down from 2017 with a total loss of 194 cars. The decrease in car counts is a result of severe weather conditions in Canada and the US over the winter months, decrease in freight volume due to termination of contracts, and the loss of business to CNR.

Overall, GJR operated at -4.2% which is directly comparable with Class 1 railways operating at -4.3% for 2018. Other short lines in comparison operated at a deficit of 5.25%

GJR strives to be complementary with the strategic objectives of the City of Guelph, and seeks to work collaboratively with our Shareholder and our customers to build a robust system that ensures fiscal and service sustainability, while attracting business and providing a safe and environmentally conscious service to the City of Guelph.

OPERATIONS AND CAPITAL MAINTENANCE UPDATE:

Rail operations continue to be provided by Ontario Southland Railway under the terms of the operations agreement. GJR receives additional revenues from flagging for third parties and is responsible for the invoicing for the additional revenues. Track maintenance and flagging costs increased in mid 2018 due to an OSR labour increase, a rate which is not governed by the operating agreement.

GJR has adopted a life cycle approach to its capital maintenance program and identifies infrastructure maintenance priorities annually. This ensures that GJR maintains financial health, and continues with the recapitalization of infrastructure and pursuit of long range strategic growth objectives. GJR's guiding principle is to operate in a safe manner, and in accordance with the requirements of the Shareholder Declaration and Federal transportation regulations.

GJR completed several large scale capital projects over the course of 2018 which included the following:

Tie replacement program: GJR identified failing ties for replacement within the city of Guelph. Along with the replacement of these ties, older ties discarded along the side of railway property were also gathered and arranged for proper disposal.

Ballasting and surfacing program: New track ballast was delivered and distributed to several identified key points of track within the city. Track surfacing brings levels of the track to new standards of safety, providing maximum performance and extending the life cycle of track components.

Culverts and ditching: GJR executed the extensive cleaning of clogged culverts and ditching in rural areas along the track, reducing flooding risk and increasing foundational stability. Some of the culverts were 100 years overdue in their inspection.

Bridge approach rehabilitation: GJR undertook the rehabilitation of railway track approaches to five (5) separate bridges as per Transport Canada recommendations.

Roadway crossing upgrades: Seven (7) roadway crossings were upgraded. This included the reconstruction of railway tracks, upgrading of signal conduits through the roadway crossing and the subsequent re-asphalting.

Signal upgrades: Two (2) major arterial roadway crossings received important signal upgrades, from 8" incandescent bulbs to 12" LED lights, including their wiring.

ONGOING PROJECTS, CHALLENGES AND OPPORTUNITIES:

Highlights of Capital Projects in Progress:

Eramosa River Bridge: Engineering design for new abutments on the Eramosa River bridge were completed for 2018 and are on course to be installed in 2019.

Transfer of Title:

City Council approved the transfer of title of CPR assets within the City of Guelph to GJR on May 27, 2016. GJR prepaid for these assets in full in 2010. Work continues to transfer these assets fully (largely real property) to GJR. (In process)

Permanent Human Resources Solutions and Governance Review:

GJR continued to receive significant support from City of Guelph staff in 2018 as per the Shared Service Agreement. The current organizational structure of GJR employs City Staff, through the shared service agreement, to assist GJR's general manager with the various component of the business such as legal, finance, administration and governance.

Although this existing staffing structure has generally worked well, GJR requires permanent human resources solutions to avoid confusion and clarify reporting relationships. At the request of the shareholder, a consultant was engaged and provided feedback on the current governance structure. The final draft of the consultant's report came through in early Q2 2019.

Ontario Ministry of Transportation (MTO) Expropriations – Northwest Industrial:

As part of the provincial plan to improve Highway 7, the MTO has expropriated several parcels of land in the Northwest of the City. These include expropriations of GJR lands that include active rail crossings at the Hanlon Expressway. As part of the reconstruction of the highway, GJR tracks will have to be moved in order to maintain service to customers in the Northwest of the City.

GJR remains in possession of, and is currently still operating on the lands expropriated by MTO. GJR has been working with the MTO to ensure that necessary track reconfiguration will take place prior to the reconstruction of the highway, in such a way as to minimize disruptions in service to customers.

GJR has retained experienced legal Counsel to deal with the legal aspects of the expropriations. The expectation continues to be that GJR will be fully compensated for all costs and disturbance, including consultant and legal costs, in accordance with the Expropriations Act.

The MTO's Highway 7 improvement and expansion project is currently delayed for project cost evaluation by the provincial government. GJR is working through its counsel with MTO to determine the impact of this delay on GJR operations, compensation related to the expropriations, and future track and road configuration options.

Railway Safety:

2018 was a year of heavy focus on capital improvements to the railway such as arterial signal crossing upgrades and main roadway rehabilitations to increase safety and near miss incidents. With the physical work well underway, GJR has identified the next steps which are increasing community awareness through educational programs and attending events to promote rail safety. It is anticipated for 2019 that GJR will work closely with representatives from VIA and Metrolinx to promote these messages within Guelph and the surrounding area.

Identification of Rail Serviceable Lands:

A continued priority for the GJR Board is to identify additional rail serviceable lands in the City of Guelph and surrounding area. This has been incorporated into the adopted strategic direction, and will form part of the GJR business plans and long term plans. GJR's General Manager will continue to advise the GJR Board on potential opportunities for rail expansion.

External Challenges:

Certain challenges that affect GJR's business are not within the control of the railway, but efforts are made by management to mitigate impacts. Examples include impacts that occur at the level of the Class 1 railway, weather, infrastructure failures, or service interruptions caused by labour disputes. Further, the nature of the railway business is very competitive and changes in contracts can directly influence car counts and ultimately freight revenues.

Challenges to GJR in 2018 and going forward include recovering from a harsh winter resulting in increased GJRs freight and maintenance costs, the shortage of Class 1 rail cars to deliver freight on time, and the implementation of new freight tariff rates to mitigate increased switching times for customers due to bottleneck effects on their private spurs. Despite these challenges, GJR currently anticipates meeting its revenue targets for 2019 through diligent work on business expansions with existing clients and potential new clients.

Since the CNR takeover of the GEXR line on November 16, 2018, GJR is working with CNR to ensure all maintenance within the industrial basin is approved and paid in a timely fashion while the rail lines continue to find a new rhythm in their working relationship within city limits.

Existing Opportunities:

Business Expansions: GJR is in the process of building the relationship and financial security with both Traxxside and PDI through new capital projects, or business expansions projected for 2019 that will increase revenues for all parties involved.

New Business Attraction: GJR management has identified potential new client(s) for both rail serviceable land and trans-loading opportunities within Guelph in 2019.

CNR Class 1 Traffic Transfer: Following the take over of GEXR by CNR, increased costs involved in the switching of rail cars within the city may encourage CNR to defer all switching to GJR on their behalf.

GUELPH JUNCTION RAILWAY LIMITED

1 CARDEN STREET

GUELPH, ONTARIO N1H 3A1

Staff Report

To	**City Council as Shareholders of Guelph Junction Railway Limited**
Date	Monday, June 17, 2019
Subject	**GJR - Assessment of Business and Governance Recommendations**
Report Number	GJR-2019-03

Recommendation

1. That City Council in its capacity as the sole shareholder of the Guelph Junction Railway Limited directs staff to implement recommendations that are provided in Report GJR-2019-03 – "Assessment of Business and Governance Recommendations"

Executive Summary

Purpose of Report

The purpose of this report is to:

1. Provide City Council as shareholder of Guelph Junction Railway Limited (GJR) with the results of an assessment of GJR's current operations, ownership and governance that has been conducted by Guelph City staff and AECOM; and
2. Seek Council's direction regarding the implementation of the recommendations provided by Guelph City staff and AECOM regarding the future operation and governance structure of GJR.

Key Findings

A brief summary of findings as per the City staff's assessment of risk/liability and AECOM's business assessment of GJR are listed as follows:

City Staff Key Findings: Insurance Coverage

- GJR has adequate general liability and environmental insurance coverage, and there is low risk of personal liability to the GJR Shareholders, Directors, and/or Officers in the current environment.

AECOM Key Findings: Economic Benefit to the Guelph Community

- GJR has a positive and stable financial performance that directly contributes to the local economy.
- Provision of competitively priced, reliable, and safe services makes GJR a critical economic development asset.

AECOM Key Findings: Operations

- GJR maintains a strong focus on safety in tandem with their third-party railway operating partners, Ontario Southland Railway.
- Major capital improvements have been made to the railway that have significantly reduced risks.
- GJR has an excellent safety compliance record with Transport Canada.

AECOM Key Findings: Ownership

- Maintaining the status quo is the recommended option as providing the best control regarding the oversight of safety matters, ensuring continued delivery of service to local businesses, and contributing to the economic development health of the community.

AECOM Key Findings: Governance

- Succession planning and knowledge transfer is needed.
- Further delineation of roles between GJR and City staff can be achieved through separate payrolls.
- Board composition and member experience should be considered.

Financial Implications

It is anticipated that the cost to implement all of the recommended actions will be limited to staff time. GJR paid for the AECOM report in full as of Q2 2019.

Report

On September 11, 2017, staff presented to City Council, in its capacity as the sole shareholder of GJR, Report Number IDE-17-103, entitled "Guelph Junction Railway – Preliminary Operational and Governance Risk Review."

In response to the shareholder's direction, staff, in consultation with the GJR Board of Directors, engaged AECOM to conduct an assessment of GJR's current operations and governance structure for the purpose of:

1. Quantifying the level of risk associated with the current level of insurance/liability coverage as well as governance and operations;
2. Recommending short-term options/actions to mitigate or remedy such risk; and
3. Recommending medium- to long-term options/actions regarding the Company's governance, operations, and ownership.

Due to budget restrictions, part of item 1 was conducted by the City's Legal Realty and Risk Services Department, with input from the City's insurer, Frank Cowan. The Insurance Coverage Review Findings can be found in ATT – 2 – "Internal Memo: Insurance Coverage Review Findings".

Insurance Coverage

ATT-2 provides the complete legal review of GJR's insurance coverage. The assessment considered the insurance coverage of the City of Guelph, GJR, and Ontario Southland Railway (OSR), being the three principal entities that are involved with the operation of GJR.

The assessment concluded that:

- GJR does have adequate general liability and environmental insurance coverage;
- The current levels of insurance are adequate in light of the current level of risk between GJR and OSR's combined policies; and
- There is low risk of personal liability to the GJR Shareholders, Directors, and/or Officers in the current environment, but this is contingent on these parties not engaging in wrongful acts and/or not fulfilling their respective obligations pursuant to the Canada Business Corporations Act and the Shareholder Declaration of The Corporation of the City of Guelph regarding Guelph Junction Railway Limited (the Shareholder Declaration).

Economic Benefits to the Guelph Community

The AECOM Railway Assessment noted that retaining GJR as a municipally-owned corporation provides a respectable revenue stream and the railway should be showcased as a component of the local economy. With a safe operating record and good business foundation, GJR offers benefits such as directly contributing more than $2.7 million to the local economy in 2017 (up from $2.3 million and $1.9 million in 2016 and 2015, respectively), which represents close to 90% of GJR's total spending.

GJR provides services to 11 customers, three of which contribute the majority of the revenue for the corporation. Through interviews with these customers, City staff can confirm that the presence of the railway is essential to the continuation of the customers' operations. Some Guelph companies rely nearly solely on railway services, without which they would cease to operate.

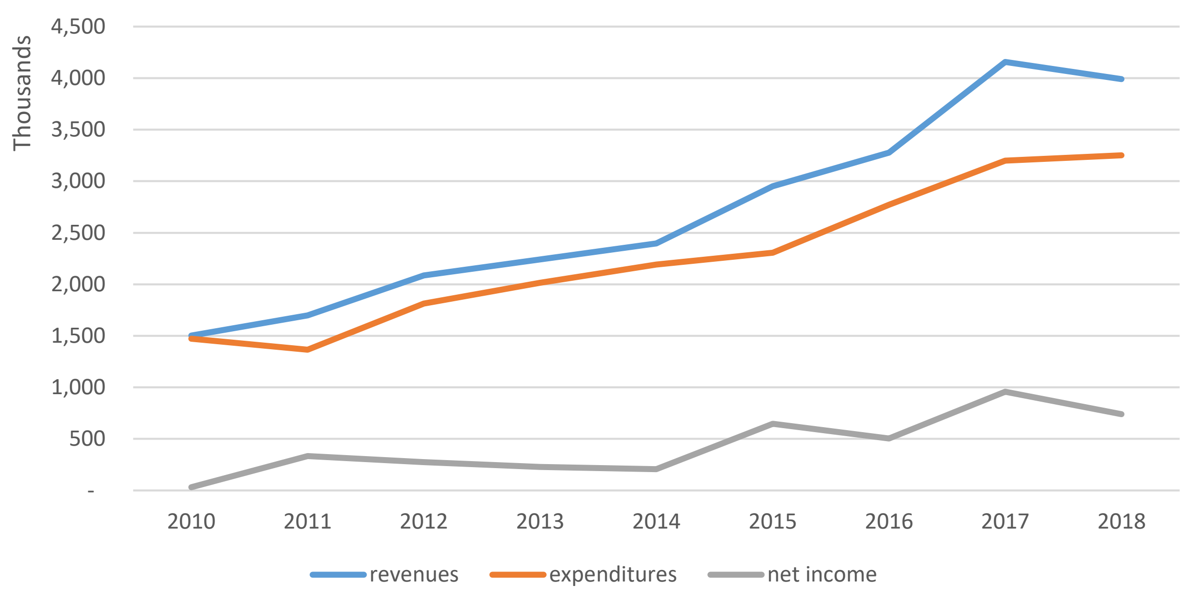
The AECOM Railway Assessment also found that GJR customers take comfort in knowing that the railway is City owned and monitored, given that many customers have expressed concerns that private ownership of GJR, or ownership by a Class 1 carrier, would mean higher rates and/or the eventual reduction in capital investments to the railway. These issues could force the customers out of business in Guelph entirely. Similarly, without the keen economic development interest that the municipally-owned railway currently takes, these companies would likely no longer see project planning or site development in the interest of helping to expand their business through rail commodities.

GJR also indirectly benefits the local economy by drawing new business to the city. The north industrial sector possesses the advantage of accessible track and, in many cases, the space to build spur lines directly to the facility for loading/offloading ability. For those businesses that are unable to build or lease on rail-accessible land, there is still the option of bringing in inventory through a trans-loading facility. GJR maintains a strong business relationship with two of its largest existing customers, which are trans-loading facilities. Together with GJR, they can work with clients within Guelph to bring their goods in by rail for the long haul, and simply truck the short distance from the rail offloading site to their own facility.

As green infrastructure, rail also helps to serve the City's ambitious energy and environmental goals. The Corporate Energy Management Plan outlines Guelph's designs on being a greener city with a plan to meet the target of 100% renewable energy and to make the city a net zero carbon community by 2050. According to the Official Plan, transport accounts for 30% of energy used and 45% of greenhouse gas (GHG) emissions in Guelph. Highly energy efficient and low emitters of GHGs, a locomotive can move one tonne of freight more than 200 km on a single litre of fuel. With a single railcar able to handle the load of three to four conventional trucks, the nearly 5,000 railcars that GJR transports yearly are diverting approximately 20,000 trucks from the city's local roads and highways every year. This improves traffic flow for residential automobiles on the roads and reduces taxpayers' costs associated with road maintenance as well as traffic-related collisions.

Continued steady growth is anticipated for GJR. Increasingly more businesses are attracted to the savings created by reducing their transportation costs through the elimination of long-haul trucking. With GJR's only competition in Guelph being CNR, there is opportunity to divert shipping and switching through competitive pricing and personal business relationships. Additionally, current customers of GJR expect their volumes to grow by 2% to 5% per year, which in turn translates into increased revenue for the railway.

Figure 1: GJR Financial Results



Please refer to Figure 1, which illustrates a steady upward trend in net income for GJR over the last eight years. The last 4 years in particular have been a period of significant growth in freight revenues. In addition to this, average net income in the last four years was approximately $700 thousand, compared to $200 thousand from fiscal years 2014 and prior. Freight revenues in the past four fiscal years on average were $3.6 million, compared to $2.0 million in from 2014 and prior. GJR's growth is attributed to a number of factors; however, one of the most significant being be the change in management and Board direction.

Operations

GJR is Transport Canada compliant and currently operates a safe and successful railway business that supports Guelph's economy. Rail operations continue to be implemented through OSR under the terms of an operations agreement. GJR remains responsible for the invoicing of third parties, and receives additional revenues from flagging for third parties.

The vision, mission and values of GJR include the aspirational goal to "be the number one rail supplier in the region." Because the railway is truly interdependent with its customers, the goal is to not only meet but also exceed customer expectations. When interviewing customers, there were specific comments about the ease of doing business with a short line railway and the high level of service GJR provides. GJR's approach means that the customers they work with are valued stakeholders who receive personalized service and the ability to work with train crews and managers directly.

To keep up with public trust, it is imperative that safety is at the centre of all rail operations. A review of OSR and its operating history with GJR shows that there have been no significant incidents that have occurred in the past decade. Total compliance with Transport Canada standards and the disciplined execution of the rules and standard operating procedures illustrates how it is a guiding principle of GJR to operate in a safe manner, and in accordance with the requirements of the Shareholder Declaration and Federal transportation regulations.

GJR has employed a life cycle approach to its capital maintenance program and identifies infrastructure maintenance priorities annually. This ensures that GJR maintains financial health, and continues with the recapitalization of infrastructure and pursuit of long-range strategic growth objectives. Despite many short lines facing difficulties in their ability to invest back into their tracks for increased capacity, speeds, and performance, GJR is comparable to Class 1 railways in Canada, with a rate of approximately 20% of revenues returning into capital improvements. Years 2015-2017 saw a major upgrading of the track that raised it from Class 1: 10 mph to Class 2: 25 mph, though the speeds remain low within city limits as a safety precaution. Upgrading the track reduces the risk of derailment significantly, and the slower a train moves the less damage it can cause if it derails. The combined effect means that GJR has taken significant effort to reduce the occurrence and/or severity of a derailment.

Ownership

Three ownership options were presented by AECOM with benefits and disadvantages provided. The three options were as follows:

1. Maintaining the status quo.
   Advantage:
   - City would retain control over the access to the railway, products, safety aspects, and maintenance.

   Disadvantage:
   - GJR is not self sufficient in terms of shared services with the City of Guelph.

2. Public offering of GJR shares.
   Advantage:
   - Access to additional working capital, capital markets, and potentially reduced borrowing costs.
   - City may still retain partial ownership

Disadvantage:

- Additional costs would involve overhead fees, going public, being public and all capital acquired through shares would be a one-time return only.

3. Divesting the ownership of the asset.

   Advantage:

   - One time return on investment and transfer of risk to third party

   Disadvantage:

   - City would lose control over the access to railway, products, safety aspects, and maintenance.
   - Loss of future economic benefits.
   - City runs the risk of underinvestment in the asset thereby reducing safety, economic value to the City, and increasing financial costs to customers resulting in possible job losses.

It is favourable that the solutions to the disadvantages involved with maintaining the status quo are largely implementable at the GJR level. The railway's current success combined with interviews of City staff show that the shared service agreement between the City and GJR has been an agreeable working relationship to date. The provided analysis of these above three options by AECOM recommends the City retain ownership of the asset at this time.

Governance

As stated in its Railway Assessment document, AECOM's initial impression of the current GJR governance structure is that it provides a suitable foundation for supporting the railway business. There are, however, improvements that could be made to further solidify the governance to enhance transparency and define responsibilities.

In the assessment document, AECOM notes that the GJR Board and management are governed by the Shareholder Declaration, approved by the City on November 9, 2015, and by GJR's corporate By-law Number 1 (Organizational By-law), made by the Board on January 27, 2015. The purpose of the Shareholder Declaration is, among other things, to establish a framework of corporate governance for GJR, including the City's expectations of and objectives for GJR. In accordance with those objectives, GJR shall:

- be an economic development tool for the City;
- operate as a for-profit business providing value to the City in the form of dividends or other benefits; and
- restrict its business activities to railway-related operations.

Further, the AECOM assessment delves into various aspects of the GJR Board. In terms of qualifications, the assessment references Article 4.01 of the Shareholder Declaration, which provides that: "In addition to the requirements established under the CBCA, it is the intention of the City that the GJR Board be a skills-based board, with the collective ability to discharge its duty of care to GJR and the City." While the Shareholder Declaration does not set out the requisite skills, AECOM assumes them to include, but not be limited to, finance, legal, operations, marketing, engineering and design. AECOM recommends that, prior to reappointing, nominating or appointing individuals as directors, the City and the Board should:

- consider the competencies and skills the Board, as a whole, should possess;
- assess the competencies and skills each incumbent director possesses; and
- consider the character of directors and their fit within the current Board culture.

In terms of composition, Article 4.04 of the Shareholder Declaration provides that the GJR Board may be composed of Independent Directors, Municipal Members and City employees, the exact composition to be at the discretion of the City. The assessment notes that, three years ago, the Board was reduced from seven to five members. In addition, two previous Municipal Members left the Board when their terms expired in November of 2018. AECOM acknowledges that both the City and the Board have expressed concerns about the availability of potential new Board members with the requisite skill set and experience in municipal government and/or the railway business. AECOM attributes this unavailability to the demographics of the local area and/or the fact that the Independent Directors currently receive no compensation, save for the reimbursement of reasonable expenses related to their director's role.

Currently, the GJR Board is composed of two Independent Directors and a City employee (the Deputy Chief Administrative Officer of Corporate Services).

GJR's roster of officers is comprised of an Interim Chief Executive Officer (the General Manager of Business Development and Enterprise Services), a General Manager, a Chief Financial Officer (the General Manager of Finance/City Treasurer as represented by her delegate, the Manager, Financial Reporting), and a Corporate Secretary/Legal (the City Solicitor).

The day-to-day operations of the railway fall within the purview of GJR's General Manager. The decisions in this area vary in daily operations, railway switching procedures, the setting and execution of budgetary expenditures and other financial responsibilities, including the reconciliation of revenues and pricing activities. Medium-term planning and development involve developing the annual budget, multi-year business plans and capital expenditure requests, which the General Manager presents to the Chief Executive Officer and Board for approval.

AECOM raises a concern about the fact that, currently, GJR employs only one full-time employee (*i.e.*, the General Manager), who understands the intricacies of the railway operations. Accordingly, AECOM recommends that GJR engage in succession planning and knowledge transfer. The benefit here will be to achieve "redundancy in staff in the event of vacation, retirement or leave of absence, [which] further helps to provide knowledge of the railway through the organization." A further recommendation is for staff to be paid by way of the GJR payroll, which would provide "a more defined line between the City and GJR as a separate entity."

Long-term strategic planning is conducted by GJR's management and Board, the results of which are, ordinarily, presented to City Council as Shareholder during the AGM.

AECOM finds the fact that the GJR Board meets six times a year, on average, is more than adequate for its operation, particularly when compared to other boards, like that of Metrolinx, which meet quarterly.

Recommendations

Based on the above findings, City staff and AECOM are providing the following recommendations for the shareholder's consideration:

- Retain the railway as a municipally-owned corporation
- Develop a long-term strategy for the future of the corporation
- Consider implementing a new governance model to streamline staff reporting and to better avail of City services including a renewed Guelph Economic Development Advisory Committee

Further details of these recommendations can be found in ATT – 1 - AECOM “Guelph Junction Railway (GJR) Railway Assessment”.

Financial Implications

It is anticipated that the cost to implement all of the recommended actions will be limited to staff time. Guelph Junction Railway Limited paid for the AECOM report in full as of Q2 2019.

Consultations

Guelph Junction Railway Limited Board of Directors

Finance Department, City of Guelph

Legal, Realty and Court Services, City of Guelph

Business Development and Enterprise, City of Guelph

Deputy CAO, Infrastructure, Development and Enterprise, City of Guelph

Attachments

Attachment-1 Confidential Attachment - AECOM “Guelph Junction Railway (GJR) Railway Assessment” (Section 239(2)(b) of the Municipal Act, 2001, relating to personal matters about an identifiable individual, including municipal or local board employees; and (f) advice that is subject to solicitor-client privilege, including communications necessary for that purpose.)

Attachment-2 Confidential Attachment – Correspondence from the Chair of the Board to Mayor and Council (Section 239(2)(b) of the Municipal Act, 2001, relating to personal matters about an identifiable individual, including municipal or local board employees; and (f) advice that is subject to solicitor-client privilege, including communications necessary for that purpose.)

Attachment-3 Confidential Attachment – Internal Memo: Insurance Coverage Review Findings (Section 239(2)(b) of the Municipal Act, 2001, relating to personal matters about an identifiable individual, including municipal or local board employees; and (f) advice that is subject to solicitor-client privilege, including communications necessary for that purpose.)

Report Authors

Les Petroczi, General Manager, Guelph Junction Railway Limited

Christopher C. Cooper, Corporate Secretary/Legal, Guelph Junction Railway Limited

Approved and Recommended By

Helen Loftin
Interim Chief Executive Officer
Guelph Junction Railway
519 822 1260 ext 3567
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Staff Report

GUELPH JUNCTION RAILWAY

To	City Council as Shareholder or Guelph Junction Railway Limited
Date	Monday, June 17, 2019
Subject	**Chief Financial Officer Report – 2018 Guelph Junction Railway Limited Audited Financial Statements**
Report Number	GJR-2019-04

Recommendation

1. That report GJR-2019-04 titled, Chief Financial Officer Report – 2018 Guelph Junction Railway Limited Audited Financial Statements be received for information; and
2. That the Guelph Junction Railway Limited Audited Financial Statements for the year-ended December 31, 2018 be received for information.

Executive Summary

Purpose of Report

To present and review the 2018 Guelph Junction Railway Limited Audited Financial Statements.

Key Findings

Please refer to Attachment-1, which represents the audited financial statements of Guelph Junction Railway Limited for the year-ended December 31, 2018. KPMG LLP performed the audit in accordance with generally accepted auditing standards. KPMG LLP has expressed an unqualified or "clean" opinion that the statements present fairly, in all material respects, the financial position of Guelph Junction Railway Limited.

Guelph Junction Railway Limited had another strong financial year, reporting a net income of $741 thousand, which contributes to an increase in the City's investment in Guelph Junction Railway Limited at $9.4 million as at December 31, 2018.

Financial Implications

There are no direct financial implications resulting from this report as the results are to be received as information.

Report

Accounting Treatment

Guelph Junction Railway Limited has prepared its financial statements in accordance with International Financial Reporting Standards ("IFRS"), as issued by the

International Accounting Standards Board ("IASB"). The financial statements have been prepared on a historical cost basis.

Comment on 2018 Results

Guelph Junction Railway Limited had another strong financial year, reporting a net income of $741 thousand compared to $957 thousand in 2017. The decrease in net income from 2017 relates to the service review, which cost $80 thousand, requested by the Shareholder, as well as a decrease in plastic revenues and car counts related to winter weather conditions. Guelph Junction Railway Limited's operations are cyclical and our revenues are heavily dependent on the business activities of our customers.

Over the past 5 years, the City's equity position in GJR has grown approximately $2.7 million. In addition to this, GJR has made financial contributions to the City in the past three years. In 2016, GJR invested $135 thousand towards the City owned pedestrian trail system on the Eramosa River Bridge. In 2017, GJR declared a cash dividend of $100 thousand. Lastly, in 2018, GJR has absorbed $80 thousand in their bottom line for the City's asset review study and declared a cash dividend of $80 thousand in 2019 based on the 2018 year-end results.

The remaining cash generated in 2018 was reinvested back into the company through capital acquisitions of $791 thousand. GJR operates in a capital intensive industry and we have been reinvesting in our capital infrastructure in order to remain competitive in the future, meet legislative requirements, and ensure the safety of our operations.

The focus of 2019 is to ensure GJR continues to be a profitable, self-sustained company. In 2019, GJR will have completely paid off the external loans with RBC, and will be following our Board approved debt strategy to accelerate the debt repayment with the City. The strategy also ensures that the GJR will have funds available for all capital purchases over the next ten years to eliminate any reliance on the City.

GJR is more competitive than ever and we are committed to increasing our long-term value to the City and to the community.

Financial Implications

There are no direct financial implications resulting from this report as the results are to be received as information.

Attachments

Attachment-1 2018 Guelph Junction Railway Limited Audited Financial Statements

Report Author

Jade Surgeoner, Chief Financial Officer, Guelph Junction Railway Limited

Financial statements of

Guelph Junction Railway Limited

December 31, 2018

Guelph Junction Railway Limited
December 31, 2018

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Guelph Junction Railway Company

Opinion

We have audited the financial statements of Guelph Junction Railway Company (the Entity), which comprise:

- the statement of balance sheet as at December 31, 2018
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Waterloo, Canada

April 26, 2019

Guelph Junction Railway Limited
Balance sheet
as at December 31, 2018

	2018	2017
	$	$
Assets		
Current assets		
Cash	**648,896**	561,514
Accounts receivable	**673,020**	637,488
Inventory	**103,329**	56,943
	1,425,245	1,255,945
Property, plant and equipment (note 3)	**11,583,081**	11,131,985
	13,008,326	12,387,930
Liabilities and equity		
Current liabilities		
Accounts payable and accrued liabilities	**209,762**	461,644
Due to City of Guelph	**321,139**	106,115
Current portion of long-term debt (note 5)	**118,753**	309,694
Deferred revenue	**34,524**	59,427
Dividend payable (note 6)	**-**	100,000
	684,178	1,036,880
Long-term debt (note 5)	**1,519,551**	1,638,276
Deferred capital contributions (note 4)	**1,395,713**	1,044,442
	3,599,442	3,719,598
Share capital (note 7)	**1**	1
Retained earnings (note 9)	**9,408,883**	8,668,331
	9,408,884	8,668,332
	13,008,326	12,387,930

Approved by the Board:

_______________ Chair

Guelph Junction Railway Limited

Statement of comprehensive income
year ended December 31, 2018

	2018	2017
	$	$
Revenue		
Freight movement	**3,211,088**	3,273,577
Non-freight movement	**731,230**	842,331
Amortization of deferred capital contributions	**49,500**	41,102
	3,991,818	4,157,010
Expense		
Freight movement	**2,126,806**	2,147,145
Track maintenance	**360,939**	386,620
Depreciation	**340,428**	322,630
Administration and office	**258,571**	246,896
Business development	**79,998**	-
Interest on long-term debt	**61,197**	74,331
Expropriation costs	**15,159**	13,762
Audit & legal	**8,168**	8,000
	3,251,266	3,199,384
Net comprehensive income for the year	**740,552**	957,626

Guelph Junction Railway Limited

Statement of changes in equity
year ended December 31, 2018

	2018	2017
	$	$
Retained earnings, beginning of year	**8,668,331**	7,810,705
Dividends to Shareholder (note 6)	**-**	(100,000)
Net comprehensive income for the year	**740,552**	957,626
Retained earnings, end of year	**9,408,883**	8,668,331
Share capital, beginning and end of year	**1**	1
Equity, end of year	**9,408,884**	8,668,332

Guelph Junction Railway Limited

Statement of cash flows
year ended December 31, 2018

	2018	2017
	$	$
Operating activities		
Cash from operations		
Net income from operations	**740,552**	957,626
Items not affecting cash:		
Amortization of deferred capital contributions	**(49,500)**	(41,102)
Depreciation of property, plant and equipment	**340,428**	322,630
Changes in non-cash operating working capital components:		
Change in accounts receivable	**(35,532)**	82,786
Change in due to City of Guelph	**215,024**	(286,944)
Change in inventory	**(46,386)**	(11,020)
Change in accounts payable and accrued liabilities	**(251,882)**	328,058
Change in deferred revenue	**(24,903)**	59,427
Change in dividend payable	**(100,000)**	-
	787,801	1,411,461
Investing activity		
Acquisition of property, plant and equipment	**(791,524)**	(731,536)
Capital contributions	**400,771**	115,999
	(390,753)	(615,537)
Financing activity		
Repayment of long-term debt	**(309,666)**	(297,167)
	(309,666)	(297,167)
Increase in cash during the year	**87,382**	498,757
Cash, beginning of year	**561,514**	62,757
Cash, end of year	**648,896**	561,514

1. Description of business

Guelph Junction Railway Limited (the "Company") was incorporated under the laws of Canada in 1884. The Company is wholly owned by The City of Guelph and is exempt from income taxes. The Company is engaged in the rail and related transportation business in Southwestern Ontario.

The Company's head office is located at 1 Carden Street, Guelph, Ontario and is a subsidiary of the City of Guelph.

The financial statements have been approved by the Board of Directors and authorized for issue on April 26, 2019.

2. Significant accounting policies

Basis of accounting

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Boards ("IASB"). The policies set out below were consistently applied to all the periods presented unless otherwise noted below.

The financial statements have been prepared on a historical cost basis. The financial statements are presented in Canadian dollars which is also the functional currency of the Company.

Revenue recognition

Revenue recognition

Revenues are recorded based on the five-step approach outlined by IFRS 15:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the Company satisfies a performance obligation.

The Company recognizes revenue when (or as) a performance obligation is satisfied, which is when control of the goods or services underlying the particular performance obligation is transferred to the customer. A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

The Company's service revenue is recognized as the service is provided. These services are usually billed and paid for on a monthly basis.

Inventory

Inventory is valued at the lower of cost and net realizable value on a first-in, first-out basis.

Property, plant and equipment

Property, plant and equipment are recorded at cost, net of accumulated depreciation and accumulated impairment losses. Cost includes the acquisition cost, labour and other costs directly attributable to bringing the asset to a working condition for its intended use. When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in earnings in the period the asset is derecognized.

2. Significant accounting policies (continued)

Depreciation is provided using the declining-balance method at rates designed to amortize the cost of the assets less their residual values over their estimated useful lives as follows:

Tracks and structures	4%
Bridges	4%
Buildings	4%
Switches	4%
Crossing equipment	4%

Work in progress is not depreciated until the equipment is put into active use.

Depreciation methods, useful lives and residual values are reviewed annually and adjusted prospectively if appropriate.

Impairment of long-lived assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in earnings.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in earnings.

Financial instruments

At initial recognition, the Company measures its financial assets at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Subsequent measurement of the financial asset depends on the classification determined on initial recognition. Financial assets are classified as either amortized cost, fair value through other comprehensive income or fair value through profit or loss, depending on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are not reclassified subsequent to their initial recognition, unless the Company changes its business model for managing financial assets.

2. Significant accounting policies (continued)

Financial liabilities are initially measured at fair value, net of transaction costs incurred. They are subsequently carried at amortized cost using the effective interest rate method; any difference between the proceeds (net of transaction costs) and the redemption value is recognized as an adjustment to interest expense over the period of the borrowings.

The Company has classified its financial instruments, in accordance with IFRS 9, as follows: cash, accounts receivable, accounts payable, Due to City of Guelph and long-term debt are classified as amortized cost.

Note the following comparison of designation and carrying amount under IFRS 9 versus IAS 39 as at January 1, 2018:

January 1, 2018	Designated Category (IFRS 9)	Carrying Value (IFRS 9)	Designated Category (IAS 39)	Carrying Value (IAS 39)
Cash	Amortized cost	561,514	Loans and receivables	561,514
Accounts receivable	Amortized cost	637,488	Loans and receivables	637,488
Accounts payable	Amortized cost	(461,644)	Other financial liabilities	(461,644)
Due to City of Guelph	Amortized cost	(106,115)	Other financial liabilities	(106,115)
Long-term debt	Amortized cost	(1,947,970)	Financial liabilities at amortized cost	(1,947,970)

Financial assets and liabilities are recorded in the statement of financial position as current if they mature within one year and non-current if they mature after one year.

Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on a financial asset that is designated as amortized cost or fair value through other comprehensive income. For financial assets designated as fair value through other comprehensive income, the loss allowance is recognized in other comprehensive income and is not reflected in the carrying amount of the financial asset in the statement of financial position.

At each reporting date, the Company assesses whether there is any objective evidence that the credit risk associated with a financial asset not carried at fair value through profit or loss has increased significantly since initial recognition. In the event there is a significant increase in credit risk, a loss allowance is recorded at an amount equal to the lifetime expected credit losses arising from the financial asset. If, at the reporting date, the credit risk has not increased significantly, the loss allowance is measured at an amount equal to the twelve-month expected credit losses.

The carrying values of cash, accounts receivable, and accounts payable approximate their fair values due to the short-term nature of these financial instruments. The fair value of long-term debt represents the value as at December 31, 2018, based on interest rates in effect as at that date available to the Company for the same or similar debt instruments.

2. Significant accounting policies (continued)

Government grants and other contributions

Government grants are recognized in net income on a systematic basis over the periods in which the Company recognizes as expenses the related costs for which the grants were intended to compensate.

Grants that take the form of a transfer of a non-monetary asset for the use of the Company are recognized as deferred contributions in the balance sheet and measured based on the fair value of the asset received. Deferred contributions are transferred to net income on a systematic and rational basis over the useful life of the related assets.

Significant accounting estimates and judgments

The preparation of financial statements requires management to make estimates, assumptions and judgments that affect the application of accounting policies and the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and reported revenues and expenses during the reporting period. Due to the inherent uncertainty involved in making such estimates and judgments, actual results reported could differ from those estimates and judgments. Significant judgments include the determination of cash-generating units for impairment testing and determination of useful lives of property, plant and equipment.

Recent accounting pronouncements

The Company is evaluating the adoption of the following new and revised standards along with any subsequent amendments.

a) Accounting pronouncements adopted in the current year:

IFRS 15 Revenue from Contracts with Customers

On May 28, 2014 the IASB issued IFRS 15 Revenue from Contracts with Customers. The new standard is effective for annual periods beginning on or after January 1, 2018. IFRS 15 replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers, and SIC 31 Revenue – Barter Transactions Involving Advertising Services.

On April 12, 2016, the IASB issued Clarifications to IFRS 15, Revenue from Contracts with Customers, which is effective at the same time as IFRS 15.

IFRS 15 contains a five step model that applies to contracts with customers that specifies that revenue is recognized when or as an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled.

The Company has initially applied IFRS 15 Revenue from Contracts with Customers from January 1, 2018 on a retrospective basis. The following practical expedients have been used in the initial application of this new standard:

For completed contracts, the Company did not restate contracts that:

(i) began and ended within the same annual reporting period; or

(ii) were completed at the beginning of January 1, 2017.

There is no impact to retained earnings at January 1, 2018 as a result of the transition to IFRS 15.

IFRS 9 Financial Instruments

On July 24, 2014 the IASB issued the final IFRS 9 standard.

The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight.

2. Significant accounting policies (continued)

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortized cost; fair value through other comprehensive income ("FVOCI") – debt investment; FVOCI – equity investment; or fair value through profit and loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment.

IFRS 9 also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will allow more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model.

The Company has adopted IFRS 9 in its financial statements for the annual period ended December 31, 2018. There were no changes to recognized amounts as a result of the application of the classification categories under IFRS 9. The impact of IFRS 9 on the classification and measurement of financial assets is set out in note 2.

(b) Future accounting pronouncements:

The Company is evaluating the adoption of the following new and revised standards along with any subsequent amendments.

IFRS 16 Leases

In January 2016, IASB issued IFRS 16 to establish principles for the recognition, measurement, presentation, and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. IFRS 16 replaces IAS 17 and it is effective for annual periods beginning on or after January 1, 2019.

The standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by the lessor. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The Corporation intends to adopt IFRS 16 in its financial statements for the annual period beginning January 1, 2019. The Company is assessing the impact of IFRS 16 on its results of operations, financial position and disclosures.

3. Property, plant and equipment

2018
Cost

	Opening Cost	Additions	Disposals	Ending Cost
	$	$	$	$
Land	2,997,210	-	-	2,997,210
Tracks and structures	7,908,707	477,747	23,500	8,362,954
Bridges	1,917,827	-	-	1,917,827
Buildings	481,327	-	-	481,327
Switches	158,599	-	-	158,599
Crossing equipment	464,409	352,379	9,860	806,928
Work in progress	38,602	(38,602)	-	-
	13,966,681	791,524	33,360	14,724,845

2018
Accumulated depreciation

	Opening balance	Depreciation	Disposals	Ending balance
	$	$	$	$
Land	-	-	-	-
Tracks and structures	2,419,509	229,100	23,500	2,625,109
Bridges	67,620	74,008	-	141,628
Buildings	230,845	10,020	-	240,865
Switches	80,130	3,140	-	83,270
Crossing equipment	36,592	24,160	9,860	50,892
	2,834,696	340,428	33,360	3,141,764

2018
Net book value

	Opening net book value	Ending net book value
	$	$
Land	2,997,210	2,997,210
Tracks and structures	5,489,198	5,737,845
Bridges	1,850,207	1,776,199
Buildings	250,482	240,462
Switches	78,469	75,329
Crossing equipment	427,817	756,036
Work in progress	38,602	-
	11,131,985	11,583,081

3. Property, plant and equipment (continued)

2017
Cost

	Opening Cost	Additions	Disposals	Ending Cost
	$	$	$	$
Land	2,997,210	-	-	2,997,210
Tracks and structures	7,479,236	459,471	30,000	7,908,707
Bridges	1,899,180	30,647	12,000	1,917,827
Buildings	481,327	-	-	481,327
Switches	162,799	-	4,200	158,599
Crossing equipment	336,593	202,816	75,000	464,409
Work in progress	-	38,602	-	38,602
	13,356,345	731,536	121,200	13,966,681

2017
Accumulated depreciation

	Opening balance	Depreciation	Disposals	Ending balance
	$	$	$	$
Land	-	-	-	-
Tracks and structures	2,157,562	291,947	30,000	2,419,509
Bridges	75,968	3,652	12,000	67,620
Buildings	220,408	10,437	-	230,845
Switches	81,061	3,269	4,200	80,130
Crossing equipment	98,268	13,324	75,000	36,592
	2,633,267	322,629	121,200	2,834,696

2017
Net book value

	Opening net book value	Ending net book value
	$	$
Land	2,997,210	2,997,210
Tracks and structures	5,245,706	5,489,198
Bridges	1,899,180	1,850,207
Buildings	260,919	250,482
Switches	81,738	78,469
Crossing equipment	238,325	427,817
Work in progress	-	38,602
	10,723,078	11,131,985

4. Deferred capital contributions

	2018	2017
	Net book value	Net book value
	$	$
Deferred contributions - gross	**1,920,582**	1,519,811
Less: accumulated amortization	**(524,869)**	(475,369)
	1,395,713	1,044,442

5. Long-term debt

The Company entered into three long-term debt facilities with the Royal Bank of Canada ("RBC") for the purpose of constructing two new rail yards within the limits of the City of Guelph. These projects were completed and put into use during 2012.

The Company entered into a long-term loan agreement with the City for the purpose of reconstructing a bridge.

	2018	2017
	$	$
RBC Fixed term loan, repayable monthly, blended principal and interest at 3.51%, maturing December 2018	**-**	125,606
RBC Fixed term loan, repayable monthly, blended principal and interest at 3.41%, maturing June 2019	**58,521**	173,041
RBC Fixed term loan, repayable monthly, blended principal and interest at 3.41%, maturing June 2019	**11,455**	33,828
City of Guelph fixed term loan, repayable monthly, blended principal and interest at 3.395%, maturing December 2020	**1,568,328**	1,615,495
Less: current portion of long-term debt	**(118,753)**	(309,694)
Long-term debt	**1,519,551**	1,638,276

The debt is repayable as follows:

	$
2019	118,753
2020 and thereafter	1,519,551
	1,638,304

The debt facilities are secured by a general security arrangement over all inventory, accounts receivable and property, plant and equipment.

The Company is onside with the financial covenants related to these debt facilities.

6. Dividend to Shareholder

On March 1, 2019, the Board of Directors declared a dividend of $80,000 based on the income earned in the year ended December 31, 2018. The dividend was paid on April 1, 2019.

7. Share capital

Authorized, unliminted number
Common shares

Issued and outstanding	**December 31, 2018**	December 31, 2017
	$	$
1 Common share	**1**	1
	1	1

8. Related party transactions

The Company is wholly owned by The City of Guelph. The City pays certain expenses and receives revenues on behalf of the Company for which the Company reimburses the City. During the year, these net expenses for which the Company reimbursed the City amounted to $512,304 (2017 - $574,509). The Company also receives direct revenue from the City which amounted to $122,309 (2017 -$116,323). The Company also paid the City $55,250 (2017 - $53,200) in office rent and administration fees for the year. These transactions were made in the normal course of business and have been recorded at the exchange amounts.

In 2015 the Company entered into a loan agreement with the City to finance the reconstruction of a bridge. In 2018 principal and interest payments were $47,173 and $54,116 respectively (2017 – $45,601, $55,689).

Members of the board of directors are unpaid.

The remuneration of key management personnel during the year was $163,668 (2017 - $154,132).

9. Capital management

The Company's manages its capital to ensure sufficient liquidity to protect the Company's long-term viability as a going concern.

The Company's total capital is defined as shareholder's equity. Shareholder's equity at December 31, 2018 is $9,408,884 (December 31, 2017 - $8,768,332). There have been no changes to the Company's approach on capital management.

The company has certain restrictions to its capital as part of the debt facility agreements entered into with RBC.

10. Financial risk management

Financial assets and liabilities

The following table analyzes financial assets and liabilities by the categories defined in IAS 39. In addition, IFRS 7 requires that financial instruments held at fair value be categorized into one of the following three levels to reflect the degree to which observable inputs are used in determining the fair values:

- 'Level 1' fair value measurements are those derived without adjustment from quoted prices in active markets for identical assets or liabilities.
- '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).

10. Financial risk management (continued)

- '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).

The Company has no financial assets or financial liabilities held at fair value.

	Loans and receivables	Available for sale	Liabilities at amortized cost	Fair value through profit or loss	Total carrying value	Fair value
	$	$	$	$	$	$
As at December 31, 2018						
Financial assets not held at fair value						
Cash	**648,896**	**-**	**-**	**-**	**648,896**	**648,896**
Trade and other receivables	**673,020**	**-**	**-**	**-**	**673,020**	**673,020**
Financial assets held at fair value	**-**	**-**	**-**	**-**	**-**	**-**
Total financial assets	**1,321,916**	**-**	**-**	**-**	**1,321,916**	**1,321,916**
Financial liabilities not held at fair value						
Trade and other payables	**-**	**-**	**209,762**	**-**	**209,762**	**209,762**
Due to City of Guelph	**-**	**-**	**321,139**	**-**	**321,139**	**321,139**
Current portion of long-term debt	**-**	**-**	**118,753**	**-**	**118,753**	**118,753**
Long-term debt	**-**	**-**	**1,519,551**	**-**	**1,519,551**	**1,519,551**
Financial liabilities held at fair value	**-**	**-**	**-**	**-**	**-**	**-**
Total financial liabilities	**-**	**-**	**2,169,205**	**-**	**2,169,205**	**2,169,205**

The fair value of the Company's external long-term debt approximates its carrying value as the interest rate approximates market. The fair value of the debt payable to the City of Guelph, a related party is undeterminable.

	Loans and receivables	Available for sale	Liabilities at amortized cost	Fair value through profit or loss	Total carrying value	Fair value
	$	$	$	$	$	$
As at December 31, 2017						
Financial assets not held at fair value						
Cash	561,514	-	-	-	561,514	561,514
Trade and other receivables	637,488	-	-	-	637,488	637,488
Financial assets held at fair value	-	-	-	-	-	-
Total financial assets	1,199,002	-	-	-	1,199,002	1,199,002
Financial liabilities not held at fair value						
Trade and other payables	-	-	461,644	-	461,644	461,644
Due to City of Guelph	-	-	106,115	-	106,115	106,115
Dividend payable	-	-	100,000	-	100,000	100,000
Current portion of long-term debt	-	-	309,694	-	309,694	309,694
Long-term debt	-	-	1,638,276	-	1,638,276	1,638,276
Financial liabilities held at fair value	-	-	-	-	-	-
Total financial liabilities	-	-	2,615,729	-	2,615,729	2,615,729

10. Financial risk management (continued)

Interest rate risk

Interest rate risk is the risk that market rates will fluctuate and affect the debt carrying costs paid by the Company. The Company has three fixed rate term loans and is only exposed to interest rate risk upon year five when the facilities will be renewed for an additional two year term.

Currency risk

The Company realizes an insignificant portion of its income in US dollars and is thus not exposed to foreign exchange risk.

Credit risk

Credit risk is the risk that a counter party will default on its contractual obligations resulting in financial loss to the Company.

The Company's maximum exposure to credit risk is the carrying value of financial assets on the statement of financial position.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

All contractual cash flows related to the Company's financial liabilities are expected to be settled within one year except for those amounts due to the City of Guelph and the long-term debt which will be settled over the next 22 years.

11. Comparative figures

Certain of the comparative figures have been reclassified to conform with the current year's presentation of the financial statements.

Staff Report

To	City Council as Shareholder of Guelph Junction Railway Limited
Date	Monday, June 17, 2019
Subject	**Appointment of KPMG LLP as Auditors for 2019**
Report Number	GJR-2019-05

Recommendation

1. That KPMG LLP be appointed as auditors for Guelph Junction Railway Limited for its 2019 fiscal year.

Executive Summary

Background

In November 2015 City Council approved a resolution to appoint KPMG LLP as the City's auditor for the 2015 through 2019 period, pending an annual review of their performance. Efficiencies are gained in keeping the same auditor for Guelph Junction Railway Limited and the City of Guelph as the accounting process and practices use the same system and accounting staff. Guelph Junction Railway Limited has also approved to appoint KPMG LLP as the auditor pending an annual review.

Report

Staff is satisfied with KPMG's performance as an external service provider and recommends Guelph Junction Railway Limited to engage KPMG LLP as the external auditor through the 2019 fiscal year.

Report Author

Jade Surgeoner, Chief Financial Officer, Guelph Junction Railway Limited