



OWEN SOUND
TRANSPORTATION COMPANY
ANNUAL REPORT

2017/18



SERVICE AREAS

MANITOULIN ISLAND

SOUTH BAYMOUTH

FITZWILLIAM ISLAND

FATHOM FIVE NATIONAL MARINE PARK

TOBERMORY

BRUCE PENINSULA NATIONAL PARK

OUR MANDATE

The Owen Sound Transportation Company Limited contributes to the provision of safe, efficient and reliable ferry transportation in the Province of Ontario primarily through the operation of seasonal vehicle/passenger ferry service between Tobermory and South Baymouth, Manitoulin Island. It contributes to economic development in the region by supporting the creation of a positive business climate, and by enhancing and promoting the tourism sector through partnerships with local communities and regional stakeholders.



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The Owen Sound Transportation Company Limited is an Agency of the Province of Ontario. Services are financially supported by the Provincial Government through a Contribution Agreement with the Ministry of Northern Development and Mines.

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Barney Hopkins,
Chairman of the OSTC
Board of Directors

“It goes without saying that none of our recent successes have been possible without strong community partnerships.”

This past season, The Owen Sound Transportation Company (OSTC) was pleased to join the list of numerous celebrations honouring both the 150th anniversaries of Canada and Ontario. In commemoration of the Province, OSTC added an event to its roster of onboard happenings, A Month of Sundays, celebrating the diversity and traditions of our province and its people through music and song. The development of the onboard experiences has been a prime focus for OSTC over the past few seasons aiming to re-establish the ship as a destination in and of itself.

It is with distinct pleasure to chair the OSTC’s Board of Directors and on behalf of the company I would like to once again recognize the evident achievements of our employees, community partners and volunteers in shaping the vision of the company’s operation into reality. For the fourth consecutive season, the Chi-Cheemaun has increased its vehicle and passenger ridership numbers. These strong results demonstrate

the successes of our ongoing marketing campaign and brand identity. The recognition of the Chi-Cheemaun has become pronounced not only in Ontario but our bordering provinces and internationally. We can see this with demographic results showing increased inbound tourists from diverse locations.

The continuation of infrastructure upgrades exhibits the company’s commitment to improving customer spaces both on ship and shore. \$1,136,442 was invested in these renovations, which included; the revitalization of the Aft Lounge, home to the kids play area, art exhibition space and interpretation presentation area, both the South Baymouth & Tobermory terminal building roofs, and the beginning stages of the Springmount main office building and expansion project. Always striving to provide safe and accessible transportation for our passengers, all renovation projects have a top priority of

designing each space to allow for optimal service to meet all needs of customers using the Chi-Cheemaun ferry service.

Niska I, our landing craft ferry, providing vehicle and passenger transportation between Moosonee and Moose Factory Island on the Moose River at the mouth of James Bay, displayed a successful season once again with minimal disruption during its 172-day season from May 17 to November 4. This service is vital as it provides a means of transporting food, general and dangerous goods in addition to people and vehicles during the open water season.

It goes without saying that none of our recent successes have been possible without strong community partnerships. We are fortunate to have endorsements from local tourism operators providing recommendations to travelers to use our services as a reliable alternative to highway routes as we are the natural link to Manitoulin Island. The Owen Sound Transportation Company is committed to further developing relationships with all stakeholders and continuing onboard programming. This will contribute to our goal of becoming a premier repeat travel experience. ■

BARNEY HOPKINS
Chairman of the OSTC
Board of Directors

SUSAN SCHREMPF
President & CEO



manage and operate the Pelee Island Transportation Service, a year-round transportation system consisting of ferry service on Lake Erie between the Ontario ports of Kingsville and Leamington to Pelee Island from April through December, including summer only service between Pelee Island and Sandusky, Ohio, and a winter air service between Pelee Island and Windsor, Ontario from late December through the end of March.

During the peak operating season OSTC’s workforce consists of 31 full-time and seasonal management employees, and 150 unionized seasonal employees for the Manitoulin Island and Pelee Island ferry services. Unlicensed and non-management employees are members of the Seafarers International Union of Canada under Collective Agreements expiring December 31, 2018. OSTC contracts the services of Complex RE Limited Partnership, a wholly owned subsidiary company of the Moose Cree First Nation on Moose Factory Island, for the provision of Niska I crews and daily vessel operation. ■

The Owen Sound Transportation Company Limited (OSTC) was established under the Ontario Business Corporation Act on March 10, 1921 as a private sector business in receipt of both Federal and Provincial subsidies. In 1973, the Province of Ontario became the sole shareholder of the corporation and from 1973 was operated by the Ontario Northland Transportation Commission (ONTC) under the Ontario Northland Act.

On April 1, 2002, OSTC separated from the ONTC and established as an Operational Enterprise Agency of Province of Ontario with its administration office in Owen Sound, Ontario, under the direction of the Ministry of Northern Development and Mines. OSTC is an integral

part of Ontario’s tourism and transportation system. During 2017/18, the OSTC was responsible for the operation of four ships, seven terminal and dock facilities servicing ferry routes, as well as one seasonal air service in Ontario.

OSTC owns and operates the MS Chi-Cheemaun ferry which provides seasonal service to a largely tourism-based ridership between Manitoulin Island and the Bruce Peninsula on Lake Huron. MV Niska I, a landing craft ferry also owned by OSTC provides vehicle, freight and passenger transportation services between Moosonee and Moose Factory Island on the Moose River at the mouth of James Bay.

OSTC is contracted by the Ministry of Transportation to

SHIP	SIZE	CAPACITY	ROUTE	SEASON	CROSSING TIME(MIN)
Chi-Cheemaun	106m	638psgr/140veh	Tobermory - South Baymouth	May - Oct	120
Niska I	27m	47psgr/6veh	Moosonee - Moose Factory Island	June - Oct	20
Jiimaan	61m	385psgr/35veh	Kingsville/Leamington - Pelee Island	May - Nov	90
Pelee Islander	42m	196psgr/10veh	Kingsville/Leamington - Pelee Island	Apr - Dec	90
Pelee Islander	42m	196psgr/10veh	Pelee Island - Sandusky, OH	May - Sept	90

The Ontario Minister of Energy, Northern Development and Mines, pursuant to a sole shareholder declaration in accordance with section 108 of the Business Corporations Act R.S.O. 1990, c. B.16, exercises control over the Directors who are responsible for the administration of the business of the OSTC.

The Board of Directors has fiduciary duty to carry out the duties of their office honestly and in good faith on the best interests of the Corporation and in accordance with the management principles and guidelines of the Government of Ontario. The principles include ethical behaviour, accountability, and excellence in management, wise use of public funds, high-quality service to

the public and fairness in the marketplace.

In the 2014 Budget, the Ontario government committed to providing all appointees to agencies with governance training related to their responsibilities overseeing Ontario’s agencies. To meet this commitment all OSTC directors have completed the Governance training for Public Appointees E-Modules or in-person training sessions.

The Board of Directors sets the standards of conduct for the Corporation and ensures the safety of its operations, supervising the conduct of the business through the President and CEO, to whom it delegates the responsibility of leadership and management of the Corporation. ■



BOARD OF DIRECTORS

- Mr. Barney Hopkins**
Chair, Tobermory
(01 June 2017 – 31 May 2019)
- Mr. Martin Garfield Brown**
Director, South Baymouth
(01 July 2017 – 30 June 2019)
- Mr. John Greenway**
Director, South Baymouth
(01 June 2017 – 31 May 2020)
- Mr. Bill Caulfeild-Browne**
Director, Tobermory
(01 July 2017 – 30 June 2019)
- Mr. Andy Underwood**
Director, Owen Sound
(09 March 2018 – 08 March 2021)
- Ms. Faye Johnson**
Director, Sault Ste. Marie
(09 March 2018 – 08 March 2021)

EXECUTIVE/OFFICERS

- S.M. Schrempf**
President, CEO, Secretary
to Board of Directors
- S. Shaw**
Vice President of Operations
- J. Ostrander**
Vice President of Engineering



KEY INDICATORS	2017/18	2016/17	2015/16	2014/15
CHI-CHEEMAUN				
1 Income per passenger (ticket and on-board sales)	\$ 38.63	\$ 40.03	\$ 38.85	\$ 38.74
2 Expense per passenger (operating only, not including 6)	\$ 44.23	\$ 47.54	\$ 49.45	\$ 52.67
3 Percentage of operating expenses recovered from income	83.69%	83.25%	78.56%	73.54%
4 Retail Service Revenue per passenger	\$ 7.37	\$ 6.98	\$ 6.71	\$ 5.64
5 Advertising expense per passenger	\$ 0.99	\$ 1.17	\$ 1.40	\$ 1.11
6 New Branding Mktg Campaign cost per passenger	\$ 1.86	\$ 2.50	\$ 2.71	\$ 2.90
Fuel expense per one-way crossing (avg from total fuel cost)	\$ 1,029.83	\$ 1,036.00	\$ 1,127.29	\$ 1,465.76
Passengers carried	206,718	202,763	185,712	167,593
Utilization - passengers	32.66%	31.65%	29.13%	25.63%
Vehicles carried	80,786	79,191	73,578	67,699
Utilization - vehicles	64.05%	61.71%	57.15%	47.93%
Annual total # of departures	992	1004	1012	1038
Average # of vehicles per departure	81.4	79	73	65
Average # of passengers per vehicle per departure	2.58	2.56	2.52	2.48
NISKA I				
Income per passenger (ticket sales)	\$ 40.59	\$ 37.71	\$ 38.28	\$ 79.64
Expense per passenger (operating only)	\$ 129.70	\$ 122.71	\$ 121.08	\$ 274.53
Percentage of operating expenses recovered from income	31.29%	30.73%	31.62%	29.01%
Fuel expense per one-way crossing (avg from total fuel cost)	\$ 21.88	\$ 18.97	\$ 21.04	\$ 30.34
Passengers carried	5628	5288	5627	2226
Vehicles carried	3194	3169	3283	2828
Annual total # of departures	1410	1256	1318	1167
Average # of vehicles per departure	2.27	2.52	2.49	2.42
Average # of passengers per vehicle per departure	3.99	4.21	4.27	1.91

FINANCIAL HIGHLIGHTS (COMBINED SERVICES OSTC AND NISKA I)	2017/18	2016/17	2015/16	2014/15
OPERATIONS:				
Commercial Revenues	\$ 8,446,649	\$ 8,115,769	\$ 7,429,439	\$ 6,669,030
Operating Contract Revenues	\$ 465,989	\$ 460,161	\$ 465,969	\$ 434,902
Total Revenue	\$ 8,912,638	\$ 8,575,930	\$ 7,895,408	\$ 7,103,932
(1) Operating Expenses	\$ 9,606,851	\$ 13,165,883	\$ 9,776,265	\$ 9,383,315
Marketing	\$ 384,152	\$ 507,382	\$ 502,845	\$ 486,330
Amortization	\$ 1,094,714	\$ 970,704	\$ 865,893	\$ 845,814
Total Expense	\$ 11,085,717	\$ 14,643,969	\$ 11,145,003	\$ 10,715,459
Loss before Provincial Funding	\$ (2,173,079)	\$ (6,068,039)	\$ (3,249,595)	\$ (3,611,527)
Provincial Funding - operating	\$ 2,363,000	\$ 2,363,000	\$ 2,572,000	\$ 2,810,000
** Provincial Funding - capital projects and drydock expensed in operating (1)	\$ 1,136,442	\$ 3,597,357	\$ 178,687	\$ 78,866
(2) Net earnings (loss)	\$ 1,326,363	\$ (107,682)	\$ (498,908)	\$ (722,661)
ASSETS:				
Financial Assets	\$ 4,104,745	\$ 3,300,143	\$ 3,072,245	\$ 2,225,528
Non-financial Assets	\$ 188,269	\$ 210,587	\$ 186,830	\$ 66,785
Investment in Capital Assets	\$ 20,434,443	\$ 20,370,335	\$ 19,232,987	\$ 16,994,711
Total Assets	\$ 24,727,457	\$ 23,881,065	\$ 22,492,062	\$ 19,287,024

NOTES TO KEY INDICATORS:

(1) Total expenses per audited financial statements	\$ 11,187,222	\$ 14,725,704	\$ 11,233,132	\$ 10,802,809
Less: Amortization (reported separately above)	\$ (1,094,714)	\$ (970,704)	\$ (865,893)	\$ (845,814)
Marketing Costs (reported separately above)	\$ (384,152)	\$ (507,382)	\$ (502,845)	\$ (486,330)
Change in WSIB	\$ (22,358)	\$ (23,769)	\$ (39,917)	\$ (37,024)
Change in Employee Future Benefits	\$ (79,147)	\$ (57,966)	\$ (48,212)	\$ (50,326)
Total Operating Expenses per Above	\$ 9,606,851	\$ 13,165,883	\$ 9,776,265	\$ 9,383,315
(2) Annual surplus (deficit) per audited financial statements	\$ 1,224,858	\$ 1,775,193	\$ 2,525,132	\$ (215,209)
Less: Capital funding from MNDM (capital expenses directly financed and not included in operating expenses - therefore, capital funds do not cover operating losses)	\$ (1,136,442)	\$ (2,036,331)	\$ (3,112,169)	\$ (594,803)
Remove change in WSIB Obligation	\$ (22,358)	\$ (23,769)	\$ (39,917)	\$ (37,024)
Remove change in Employee Future Benefits	\$ (79,147)	\$ (57,966)	\$ (48,212)	\$ (50,326)
Adjusted Net Loss	\$ (13,089)	\$ (342,873)	\$ (675,166)	\$ (897,362)

**2016/17: \$3,525,636 For 5-year dry-dock + \$71,721 in excess of capital funding

CHI-CHEEMAUN FERRY

TRAFFIC: For the 4th consecutive year, OSTC has achieved another sailing season of traffic growth over the previous year’s numbers. Both vehicle and passenger traffic increased modestly, producing a 2.01% increase over vehicle traffic in 2016 (80,786 vs. 79,191) and a 1.95% increase over passenger traffic in 2016 (206,718 vs. 202,763). These figures put the company 1.15% closer to its reasonable and sustainable annual target of 87,700 vehicles and 226,000 passengers.

To continue with the recent advancements, OSTC is focused on retention and attraction of customers. To do so, OSTC must continue to identify and mitigate processes perceived by customers as onerous, or

barriers to ease their enjoyment when using the ferry. OSTC will also continue to work with community partners to identify develop and implement business growth opportunities.

Concentrating on the above-mentioned components, OSTC is optimistic with continued ridership growth and delivering a comfortable and pleasurable transportation experience that customers will choose over any other alternative, regardless of the geographical location, origin or destination.

MARKETING: Now, with the completion of the fundamental piece of the Chi-Cheemaun’s re-branding strategy, the Woodland Art inspired bow wrap, OSTC and Cleansheet Communications elected to transition to an impactful creative concept

spotlighting the ship itself with the catch phrase “You’ve missed the boat.” This creative concept is an extension of the initial re-branding campaign ‘Travel In Good Spirits’ and promotes Manitoulin Island as a destination while connecting emotionally to the viewers.

Understanding the media plans of 2015 & 2016 had substantiated return on investment, OSTC did not alter the distribution with a poster campaign in the TTC, multiple social media platform sponsored posts, programmatic web banners and continued to make improvements to the customer-focused website.

Finally, the Chi-Cheemaun marketing and promotional effort was shortlisted as one of the top campaigns in the “Turnaround Strategy” category at the 2017 Strategy Awards. The awards recognize ideas that shape, build and transform brands through strong insight and creative excellence.

BUSINESS DEVELOPMENT: The accessible onboard experiences evolved once again this season. Both nationally and provincially 2017 was a monumental year, celebrating Canada’s & Ontario’s 150th anniversaries. In partnership with the Georgian Bay Folk Society, OSTC capitalized on newly available festival funding, the Celebrate Ontario 150 grant. Awarded this grant, “A Month of Sundays” event series materialized. This event series took place in the

MS CHI-CHEEMAUN VEHICLE AND PASSENGER TRAFFIC 2013 - 2017

	May	June	July	Aug	Sept	Oct	Total	% change from prior year
VEHICLES								
2017	6,432	11,558	21,455	22,802	13,209	5,330	80,786	2.01%
2016	6,317	10,953	21,791	21,572	13,323	5,235	79,191	7.63%
2015	5,915	9,771	19,601	20,867	12,097	5,327	73,578	8.68%
2014	5,345	10,053	17,735	20,054	9,906	4,606	67,699	1.98%
2013	3,378	9,432	17,907	20,628	9,933	5,107	66,385	-6.44%
PASSENGERS								
2017	13,908	24,847	58,863	65,984	30,575	12,541	206,718	1.95%
2016	13,529	24,614	59,385	61,916	31,645	11,674	202,763	9.18%
2015	12,246	21,750	52,932	58,947	27,961	11,876	185,712	10.81%
2014	10,906	22,272	46,321	56,613	21,689	9,792	167,593	7.28%
2013	7,479	21,272	47,228	57,606	21,315	1,324	156,224	-12.40%

Fathom Five Lounge every Sunday in July and was free with ferry fares. The premise was to celebrate Ontario and its diversity through music by collaborating veteran musicians with young emerging artists. Each weekend highlighted a unique theme including indigenous, multi-cultural, homemade jam (local musicians) and all-female.

The “A Month of Sundays” event series was in addition to our popular long-standing onboard programming which consists of;

- Sunset Dinner Cruises offered Friday evenings departing from Tobermory during the Off-Peak schedules and Monday, Wednesday & Saturday evenings departing from Tobermory and Thursday evenings departing from South Baymouth during the On-Peak schedule.

- Dinner & Concert Cruise 2017 series included David Newland – The Northwest Passage in Story & Song, Trent Severn, James Keelaghan and Tyler Beckett. Each concert was either sold out or reached at least 90% capacity.

- Benefit Dinner Cruise & Concert with The Trevor MacKenzie Band in partnership with 92.3 FM The Dock R40 Campaign.

- The Traditional Storytelling, Singing & Drumming with Falcon Migwans, this year adding onboard crafting workshops

where passengers had the opportunity to construct drums and dream catchers while learning the indigenous cultural significance.

- The 2nd Annual Brews Cruise-showcasing the flavours of the regions with local breweries.

- The Stargazer’s Delight Tour offered daily (excluding Thursdays) during the month of August.

In addition to the “Annual Scenic City Order of Good Cheer” Charter, the local Lion’s Club chartered the Chi-Cheemaun for an evening as the venue for their bi-centennial celebration.

The OSTC renewed agreements with the following organizations; Georgian Bay Folk Society, Working It Out Together, Grey & Bruce Counties, RTO 7 & 13A, MICA, Manitoulin Expositor, Parks Canada, Georgian Bay

\$63,576
was invested in capital for the initial cost of the Springmount renovation and building expansion project



Coastal Route and Bluegrass in County, in recognition that community partnerships play a vital role in the promotion of the Chi-Cheemaun ferry. New partnerships were established with Wikwemikong Tourism and The Waterfront Regeneration Trust Bike Trails with program implementation during 2018.

MAJOR CAPITAL: Capital projects in the amount of \$1,136,442 were completed in 2017/18 consisting of upgrades to the OSTC Terminal Facilities (Tobermory & South Baymouth), OSTC Head Office (Springmount) and MS Chi-Cheemaun.

The OSTC Terminal Facilities flat roof rehabilitation project cost \$95,702. This amount

was shared between the two buildings with \$39,179 spent on the Tobermory Terminal roof and \$56,523 spent on the South Baymouth Terminal roof. Rehabilitation work consisted of; cleaning of the exterior coating of the flat roofs, the application, repair and/or substitution of the waterproofing system, the thermal insulation, the separation layer and of the vapour barrier and shaping layer. Creation of circulation routes was also included.

\$63,576 was invested in capital for the initial cost of the

Springmount renovation and building expansion project. This includes \$6,564 spent on preliminary architect plans and drawings with the remaining \$57,012 going towards the OSTC outdoor sign with digital marquee messaging. Materials used for the fabrication and installation of the outdoor sign were selected with consideration for light pollution reduction and feature billboard messaging highlighting tourist information and the Sauble Conservation Authority for Jones Falls.

On-going interior revitalization, broken up into segments as part of a multi-year renovation program, led to the completion of the Aft Lounge and play area in 2017/18 totaling \$619,727 of the \$977,163 in capital expenses spent on the MS Chi-Cheemaun. This renovation project was third in line of the five-year renovation program which when completed, will be the first total interior space update in the 40+ year life of the vessel. Work for the Aft Lounge and play area included the removal and replacement of wall panels with new, lightweight and fire-rated paneling, replacement of floor coverings, installation of fire doors, purchase of furniture, digital program software and art exhibit display encasements and exchange of fluorescent light banks with dimmable LED pot lights. The re-design of the space allows for easier maneuvering through the seating areas for

better accessibility. Other ship capital expenses include; ship equipment replacement, wall linings, bridge equipment, navigation aids, fire damper covers, main engine component replacement and phase 2 of 2 for the emergency generator, all totaling \$357,436.

MACHINERY: The Chi-Cheemaun was re-powered in 2007/2008 with an internal mechanical propulsion redundancy. With this in place the ship is expected to operate with zero failure as it is the only ship available to this route. If major propulsor require repair or maintenance during operation, it would not be a ship stopping event and would in fact be invisible to the customers.

The vessel also has non-propulsion related mechanical systems that cannot be retrofitted with redundant or back-up systems, and when a failure occurs in one of those ancillary systems, there’s potential the ship would be forced out of service or experience delays.

During the 2017 sailing season, the Chi-Cheemaun lost six round trips due to mechanical failures in the vessel’s steering system and one round trip for a scheduled repair to the steering system. Once the repair was made no further lost trips were resulted from mechanical failure. Lost time (delays) but no lost trips were experienced when the vessel’s stern door was non-operational.

Malfunctions in the hydraulic system of the door prevented the door from opening, this caused necessary adjustments being required for loading and unloading of vehicles.

SAFETY & ENVIRONMENT:

OSTC has maintained voluntary International Safety Management Code compliance since receiving certification through Lloyd's Classification Society in 1997. The Safety Management provides policies and procedures in every area of the operation for intended purpose of reducing safety and environmental incidents which have been proven to be predominantly the consequence

of human error or behaviors. Through this internal and external audit, the system is in a state of constant improvement and is used to evaluate and reduce the risk inherent in the operation of a marine transportation service. OSTC's commitment to continuous improvement in 2017/18 continued to focus on the identification and reporting of near misses, and the review and improvement of comprehensive risk management strategies, policies and procedures.

OSTC had 100% compliance rate for ISM audits for all four quarters in 2017/18. There were 8 injury reports with no lost time.

OSTC enrolled in the Green Marine environmental certification program in 2014 for all four vessels the company has operational responsibility over. Green Marine participants are committed to continuously reducing their environmental footprint. Each year, participants benchmark their environmental performance through Green Marine's detailed framework. OSTC entered Green Marine at a Level 2 on the 1-to-5 performance indicator scale. Given the age of the OSTC's vessels, advancement beyond Level 3 is only possible through major structural changes such as converting to zero emission fuel products, not possible at

this time for Chi-Cheemaun, Niska I, or the regions in which they operate. OSTC continues to work on improvements in all areas of the operation that the company has the ability to influence.

OCCUPATIONAL SAFETY AND HEALTH: OSTC is accountable to the Ontario Ministry of Labour Occupational Health and Safety Act and regulations, specifically, and the Industrial regulations, and not the Marine Occupational Health and Safety Regulations (MOHS) that apply to most Marine Sector employers as a consequence of the Province of Ontario not having entered into an agreement with the Government of Canada to assume responsibility for enforcement and inspection of Occupational Health and Safety on ships owned by the Province. OSTC does however, maintain compliance with both Provincial Regulations and MOHS as the MOHS regulations are often more stringent and more applicable to the marine working environment.

There were no changes to Occupational Health and Safety regulations during the 2017/18 period that affected OSTC, or which had not already been incorporated into OSTC's Policies and Procedures as matter of "best practice."

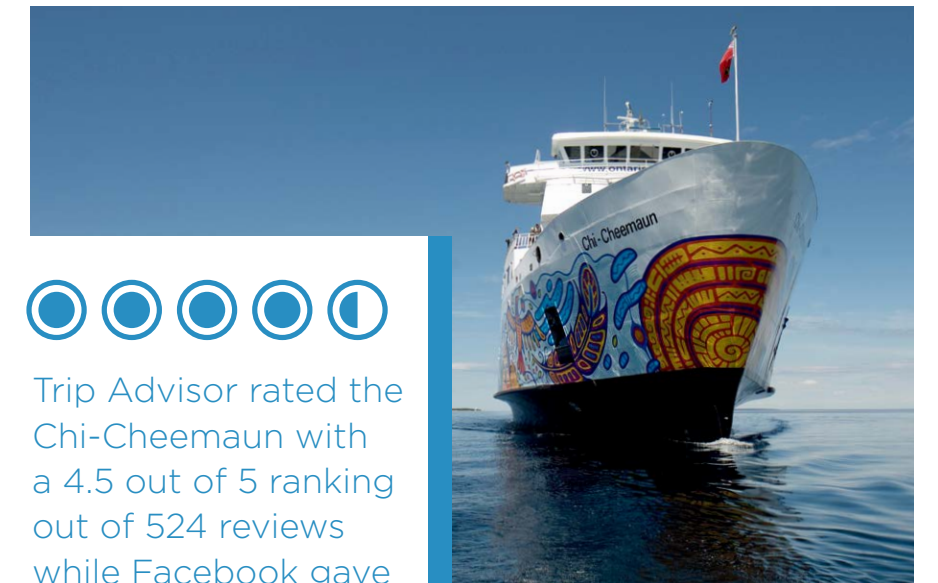
CUSTOMER SATISFACTION:

OSTC conducts an ongoing on-line customer satisfaction survey inviting customers via



Trip Advisor rated the Chi-Cheemaun with a 4.5 out of 5 ranking out of 524 reviews while Facebook gave an average of 4.8 stars out of 5 from a total of 126 reviews for ferry service.

social media and posted on the OSTC website to complete the survey and offer their ideas and opinions on how OSTC can improve the ferry service. The agency received 240 completed surveys. Those respondents did register an 83% overall satisfaction level. Social platforms reviews were also recorded during 2017. Trip Advisor posted the Chi-Cheemaun with a 4.5 out of 5 ranking with 524 reviews, Facebook had a total of 126 reviews with us posting an average of 4.8 stars out of 5 for the ferry service. Combining the reviews from the multiple platforms the tallied number of 890 remains statistically insignificant for 2017's total ridership of 206,718 passengers.



MOOSONEE/ MOOSE FACTORY ISLAND NISKA I FERRY:

The opening of the operating season of the Niska I on the Moose River was right on schedule this year, starting May 17th, 2017 with a season end date of November 4th, 2017. There were minimal disruptions to service throughout the 2017 open water season with only 19 extraordinary reports due to low/high water levels or weather delays.

OSTC and its sub-contracted vessel operator, Complex RE continued the co-op work placement program for employment opportunities on board Niska I made available to high school students over age 16. Students working on the ferry learn about vessel operations, provide assistance to the Senior Deckhand with loading/unloading, passenger management, and participate in daily vessel maintenance. ■





CHI-CHEEMAUN REVENUES:

Revenue from the Chi-Cheemaun operations from 2017/18 was \$10,659,720, versus the budgeted amount of \$10,304,500 which was based on achieving a 2% overall increase in traffic from 2016/17.

The 2017 traffic met expectations and generated an increase of 2.02% in vehicles and 1.96% in additional passengers. This resulted in revenues of \$380,000, 60% (\$228,000) of which came directly from passenger and vehicle fares. Dinner Cruise revenue exceeded the budget by 10% demonstrating the growing popularity of the dining and entertainment cruises. In addition, gift shop sales increased by 20% and cruise revenue (Spring/ Fall Cruises & Private Charters) was 162% over

budget. This is partly due to the re-instatement of the Fall Cruise from Tobermory, which was not in operation in 2016 due the cancelation for mandatory 5-year out-of-water inspection.

The 2017 season resulted in traffic levels slightly above 2008. This is the highest traffic count carried in the last 13 years.



Fun, colourful socks are part of Chi-Cheemaun's wide range of merchandise available at the gift shop.

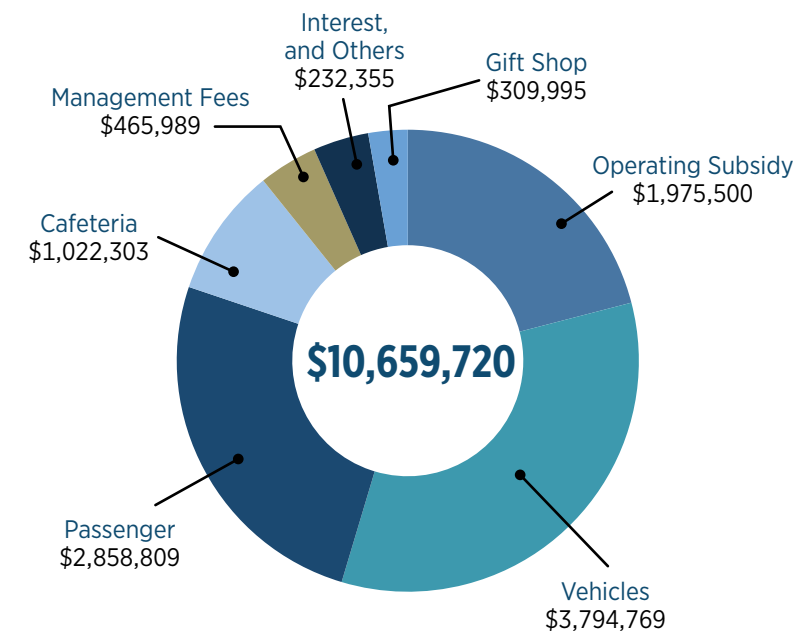
While the ferry is gaining traffic year over year, the organization is cognizant of the fact that the ferry service is only one of multiple options travelers have for routing choices. As a result, traffic will be continually monitored to ensure fiscal sustainability over the long term.

CHI-CHEEMAUN EXPENSES:

The year end operating break-even of \$28,500 budget was based on total budget of \$10,276,000. This does not include capital costs as they are funded and accounted for separately. The year-end expenses amounted to \$9,426,590, this is \$849,410 under budget.

The top three operating expenses for the company were \$6,675,741, for Payroll, General

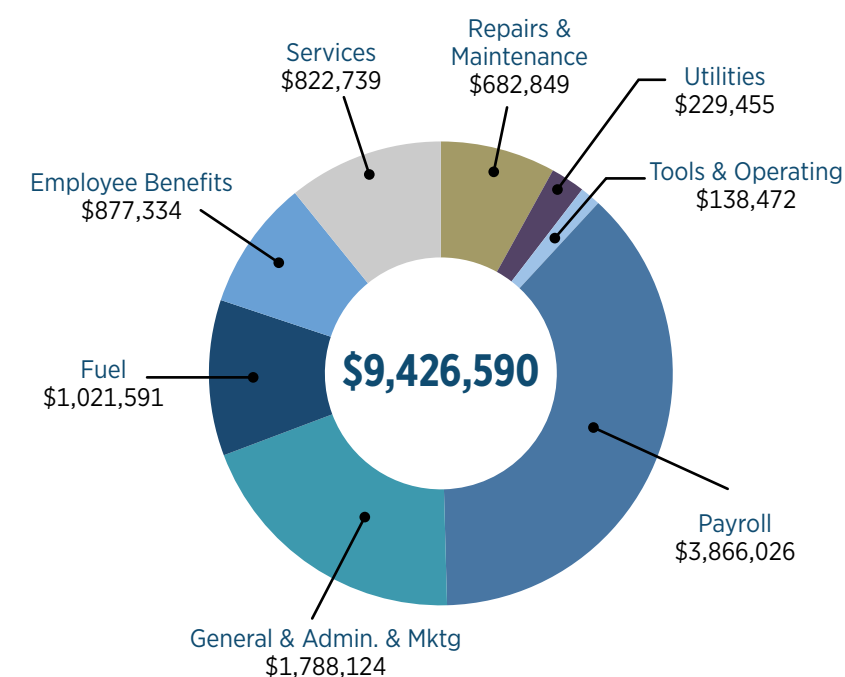
2017/18 Revenue



Administrative & Marketing and Fuel. This makes up 71% of the 2017 operating expenditures with an amount of \$9,426,590

Fuel costs have experienced fluctuation in response to market and international political events. Fuel in 2017 was 12% below budget, which amounts to \$145,025. The difference between actual and budgeted payroll costs were \$406,160. This amount included a pay scale review consultant fee and anticipated wage increases not paid out by year end. OSTC's third year of the 'Travel In Good Spirits' marketing campaign cost \$400,000 for additional creative content and wider distribution. OSTC attributes the turnaround in ferry traffic to the marketing campaign.

2017/18 Operating Expenses



NISKA I REVENUE AND EXPENSES:

Revenue from ferry services exceeded budget by \$55,418 as a result of increased passenger use and a higher volume of transport trucks.



Expenses of \$19,163 were incurred in excess of the budget. This can be attributed to the fluctuation in operating days from year to year. ■

FINANCIAL STATEMENTS

For the year ended March 31, 2018

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MANAGEMENT’S RESPONSIBILITY

The Owen Sound Transportation Company Limited’s management is responsible for the integrity and fair presentation of the financial statements and other information included in the annual report. The financial statements have been prepared in accordance with Canadian public sector accounting standards. The preparation of financial statements necessarily involved the use of management’s judgement and best estimates, particularly when transactions affecting the current accounting period are based on projections into the future. All financial information in this annual report is consistent with financial statements.

The Company maintains systems of internal accounting controls designed to provide reasonable assurance that the financial information is accurate and reliable and that company assets and liabilities are adequately accounted for and assets safeguarded. The financial statements have been reviewed by the company’s Audit Committee (Governing Board of Directors Committee of the Whole) and have been approved.

SUSAN SCHREMPF
President & CEO

Owen Sound, Ontario
August 2, 2018



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BDO Canada LLP
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PO Box 397
Owen Sound ON N4K 5P7 Canada

Independent Auditor’s Report

To the Members of The Owen Sound Transportation Company Limited

We have audited the accompanying financial statements of The Owen Sound Transportation Company Limited, which comprise the statement of financial position as at March 31, 2018 and the statements of operations and accumulated surplus, changes in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of The Owen Sound Transportation Company Limited as at March 31, 2018 and the results of its operations, changes in net financial assets and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants
Owen Sound, Ontario
August 2, 2018

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THE OWEN SOUND TRANSPORTATION COMPANY LIMITED

STATEMENT OF FINANCIAL POSITION

MARCH 31	2018	2017
Financial Assets		
Cash and cash equivalents (Note 2)	\$ 2,573,093	\$ 1,993,949
Accounts receivable (Note 3)	1,462,426	1,230,973
Inventory held for resale	69,226	75,221
	4,104,745	3,300,143
Liabilities		
Accounts payable and accrued liabilities	340,949	820,920
Employee future benefit obligations (Note 6)	1,076,551	997,404
Workers' safety insurance obligations (Note 7)	299,102	276,744
	1,716,602	2,095,068
Net financial assets	2,388,143	1,205,075
Contingencies (Note 11)		
Non-financial assets		
Inventory for own use	188,269	210,587
Tangible capital assets (Note 8)	20,434,443	20,370,335
	20,622,712	20,580,922
Accumulated surplus (Note 9)	\$ 23,010,855	\$ 21,785,997

Approved on Behalf of the Company:

 Chair

 President & CEO

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

THE OWEN SOUND TRANSPORTATION COMPANY LIMITED

STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS

FOR THE YEAR ENDED MARCH 31	2018	2018	2017
	Budget (Note 10)	Actual	Actual
Revenues			
Ministry of Northern Development and Mines subsidy (Note 13(a))	\$ 5,597,000	\$ 3,499,442	\$ 7,924,967
Vehicles	3,605,000	3,796,456	3,630,491
Passenger revenue	2,834,200	2,880,393	2,842,628
Cafeteria	977,500	1,022,303	978,504
Pelee Island ferry service management fee (Note 13 (b))	520,000	465,989	460,161
Interest, freight and other	303,300	437,502	353,466
Tuck and terminal gift shop revenue	262,000	309,995	260,180
Ontario Tourism Marketing Partnership	-	-	50,500
	14,099,000	12,412,080	16,500,897
Expenses			
Repairs and maintenance (Note 13(a))	801,492	778,164	4,328,866
Salaries and wages	4,398,000	3,954,046	3,856,977
General and administrative expenses	2,062,707	1,907,831	2,167,764
Fuel	1,195,366	1,052,445	1,040,142
Services	1,018,580	1,048,943	981,333
Employee benefits	935,025	978,839	975,630
Amortization	-	1,094,714	970,704
Utilities	258,080	232,450	268,391
Tools and operating supplies	152,000	139,790	135,897
	10,821,250	11,187,222	14,725,704
Annual surplus (Note 10)	3,277,750	1,224,858	1,775,193
Accumulated surplus, beginning of the year	21,785,997	21,785,997	20,010,804
Accumulated surplus, end of the year	\$ 25,063,747	\$ 23,010,855	\$ 21,785,997

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

THE OWEN SOUND TRANSPORTATION COMPANY LIMITED

STATEMENT OF CHANGES IN NET FINANCIAL ASSETS

FOR THE YEAR ENDED MARCH 31	2018	2018	2017
	Budget (Note 10)	Actual	Actual
Annual surplus (Page 5)	\$ 3,277,750	\$ 1,224,858	\$ 1,775,193
Acquisition of tangible capital assets	(3,234,000)	(1,158,822)	(2,108,052)
Amortization of tangible capital assets	-	1,094,714	970,704
	(3,234,000)	(64,108)	(1,137,348)
	43,750	1,160,750	637,845
Change in inventories for own use	-	22,318	(24,382)
Change in prepaid expense		-	625
Increase in net financial assets	43,750	1,183,068	614,088
Net financial assets, beginning of the year	1,205,075	1,205,075	590,987
Net financial assets, end of the year	\$ 1,248,825	\$ 2,388,143	\$ 1,205,075

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

THE OWEN SOUND TRANSPORTATION COMPANY LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31	2018	2017
Cash provided by (used in)		
Operating activities		
Annual surplus	\$ 1,224,858	\$ 1,775,193
Items not affecting cash		
Amortization	1,094,714	970,704
Change in workers' safety insurance obligations (Note 7)	22,358	23,769
Change in employee future benefit obligations (Note 6)	79,147	57,966
	2,421,077	2,827,632
Changes in non-cash working capital balances		
Accounts receivable	(231,453)	1,752,462
Inventory held for resale	5,995	(29,235)
Inventory for own use	22,318	(24,382)
Prepaid expenses	-	625
Accounts payable and accrued liabilities	(479,971)	388,811
	1,737,966	4,915,913
Investing activities		
Purchase of capital assets	(1,158,822)	(2,108,052)
Financing activities		
Decrease in bank indebtedness	-	(856,736)
Change in cash and cash equivalents during the year	579,144	1,951,125
Cash and cash equivalents, beginning of the year	1,993,949	42,824
Cash and cash equivalents, end of the year	\$ 2,573,093	\$ 1,993,949

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

MARCH 31, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business	<p>The Owen Sound Transportation Company Limited (“OSTC”), an operational enterprise agency of the Province of Ontario, owns and operates a seasonal vehicle and passenger ferry, the M.S. Chi Cheemaun, from Tobermory to Manitoulin Island and the M.V. Niska, from Moosonee to Moose Factory Island. It also provides vessel management services for the Ministry of Transportation for two vessels, the M.V. Pelee Islander and the M.V. Jiimaan, operating on the Pelee Island service, and a daily air service between the Ontario mainland and Pelee Island during the winter months when the ferry service is not in operation.</p> <p>OSTC’s one issued and outstanding common share is held by the Ministry of Northern Development and Mines (MNDM).</p>
Management Responsibility	<p>The financial statements have been prepared by management. Management is responsible for the integrity, reliability, comparability and presentation of the financial information. The Board of Directors reviews and approves the financial statements.</p>
Basis of Accounting	<p>The financial statements have been prepared in accordance with Canadian public sector accounting standards established by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.</p> <p>The accrual basis of accounting recognizes the effect of transactions and events in the period in which the transactions and events occur, regardless of whether there has been a receipt or payment of cash or its equivalent.</p>
Cash and Cash Equivalents	<p>Cash and cash equivalents include cash on hand and balances with banks.</p>
Inventory	<p>Inventory of goods held for resale is recorded at the lower of cost and net realizable value. Cost is determined based on a first in first out methodology.</p> <p>Inventory for own use is recorded at the lower of cost and replacement cost.</p>

MARCH 31, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Tangible Capital Assets	<p>Purchased tangible capital assets are recorded at cost less accumulated amortization. Costs include all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. Contributed capital assets are recorded at fair value at the date of contribution. Repairs and maintenance costs are charged to expense. Betterments that extend the estimated life of an asset are capitalized. When a capital asset no longer contributes to OSTC’s ability to provide services, or the value of future economic benefits associated with the capital asset is less than its net book value, the carrying value of the capital asset is reduced to reflect the decline in the asset’s value. Construction in progress is not amortized until construction is substantially complete and the assets are ready for use.</p> <p>Amortization is calculated using the straight line method over the estimated service lives of the assets. The estimated service lives for principal categories of assets are as follows:</p> <table><tr><td>Land improvements</td><td>10 years</td></tr><tr><td>Buildings and improvements</td><td>20 years</td></tr><tr><td>Equipment and other</td><td>5 years</td></tr><tr><td>Marine vessels</td><td>30 years</td></tr></table>	Land improvements	10 years	Buildings and improvements	20 years	Equipment and other	5 years	Marine vessels	30 years
Land improvements	10 years								
Buildings and improvements	20 years								
Equipment and other	5 years								
Marine vessels	30 years								
Financial Instruments	<p>Financial instruments are recorded at fair value at initial recognition.</p> <p>In subsequent periods, financial instruments are reported at cost or at amortized cost using the effective interest rate method, less any impairment losses on financial assets.</p> <p>Transaction costs related to financial instruments measured at amortized cost are added to the carrying value of the instrument.</p> <p>Impairment of financial assets measured at amortized cost 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 write down being recognized in the statement of operations.</p>								

MARCH 31, 2018	
1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)	
Bank Indebtedness	Bank indebtedness includes short-term overdrafts.
Income Taxes	As an agency of the Province of Ontario, OSTC is exempt from income taxes and, accordingly, no tax provision is recorded in these financial statements.
Employee Future Benefits	<p>OSTC's eligible employees continue to participate in the defined benefit pension plan of the ONTC (OSTC's former parent). The contributions to the pension plan, a multi employer defined benefit plan are expensed when due.</p> <p>Employees hired after April 1, 2002 are eligible to participate in the defined benefit Ontario Public Service Pension Plan. The contributions to the pension plan, a multi employer defined benefit plan are expensed when due.</p> <p>In addition, eligible employees are also entitled to non pension post retirement benefits such as group life, health care and long term disability as part of the ONTC multiple employer group plan. The costs associated with these future benefits are actuarially determined using the projected benefits method pro rated on service and best estimate assumptions.</p> <p>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 OSTC.</p>
Workers' Safety & Insurance	OSTC is a Schedule 2 employer with respect to workers' safety insurance. As such, OSTC is individually liable for reimbursing the WSIB costs relating to its workers' WSIB claims. The estimated future benefits are determined using actuarial calculations and OSTC recognizes its obligation for these benefits on an accrual basis.
Liability for Contaminated Site	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 organization 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. Management is not aware of any contaminated sites.

MARCH 31, 2018	
1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)	
Revenue Recognition	<p>Vehicle and passenger revenues are generally recognized on the date tickets are sold.</p> <p>Cafeteria, tuck and terminal gift shop and other revenue is recorded upon sale of goods or provision of service when collection is reasonably assured.</p> <p>Interest is recognized in the period earned.</p> <p>Government transfers are recognized as revenue in the financial statements when the transfer is authorized and any eligibility criteria are met, except to the extent that transfer stipulations give rise to an obligation that meets the definition of a liability. Transfers are recognized as deferred revenue when the transfer stipulations give rise to a liability. Transfer revenue is recognized in the statement of operations as the stipulation liabilities are settled.</p>
Foreign Currency Translation	<p>Foreign currency accounts are translated into Canadian dollars as follows:</p> <p>At the transaction date, each asset, liability, revenue and expense is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year end date, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date. The resulting foreign exchange gains and losses are included in income in the current period.</p>
Use of Estimates	Preparation of the financial statements in accordance 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. Estimates are used when accounting for items such as accrued grant receivables, accrued liabilities, employee future benefits, workers' safety insurance obligations and useful life of tangible capital assets. By their nature, these estimates are subject to measurement uncertainty and actual results could differ from management's best estimates as additional information becomes available in the future.

MARCH 31, 2018

2. CASH AND CASH EQUIVALENTS

	2018	2017
Cash on hand	\$ 15,150	\$ 14,300
Bank	2,555,747	1,970,906
In transit	2,196	8,743
	\$ 2,573,093	\$ 1,993,949

On March 31, 2018, the company had deposits of \$2,723,749 in a Canadian Chartered bank. The Canadian Deposit Insurance Corporation insures deposits up to a maximum of \$100,000 per depositor per financial institution.

3. ACCOUNTS RECEIVABLE

	2018	2017
Ministry of Northern Development and Mines	\$ 185,002	\$ 385,572
Ministry of Transportation	956,559	509,491
Other	320,865	335,910
	\$ 1,462,426	\$ 1,230,973

4. BANK INDEBTEDNESS

OSTC has negotiated a demand operating line of credit with a Canadian Chartered Bank, bearing interest at the bank’s prime rate less 0.5%. The maximum draws that could be advanced on this operating line are \$2,000,000. At March 31, 2018 the company had undrawn credit capacity under this facility of \$2,000,000.

MARCH 31, 2018

5. PENSION AGREEMENTS

Ontario Northland Transportation Commission

The company makes contributions to the Contributory Pension Plan of the Ontario Northland Transportation Commission (the “Plan”), which is a multi employer plan, on behalf of 12 members of its staff. This plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. Employees and employers contribute jointly to the plan. The employer amount contributed to the Plan for 2018 by the Owen Sound Transportation Company Limited was \$97,851 (2017 – \$75,063). Members contribute 5.50% (2017 – 5.00%) of their earnings between the Year’s Basic Exemption (YBE) and the Year’s Maximum Pensionable Earnings (YMPE) as defined under the Canada Pension Plan plus 7.30% (2017 – 9.00%) of all other earnings. No contributions are required if the Plan Member has 35 years or more of Pensionable Service and no further benefits accrue.

The Plan is a multi-employer plan, therefore, any pension plan surpluses or deficits are a joint responsibility of Ontario Northland Transportation Commission and other Plan members and their employees. As a result, the company does not recognize any share of the Plan’s pension surplus or deficit. The last available report for the Plan was January 1, 2017. At that time the plan reported a \$71.8 million actuarial deficit (2014 – \$66.0 million actuarial deficit), based on actuarial liabilities of \$593.5 million (2014 – \$540.9 million), actuarial assets of \$521.7 million (2014 – \$483.0 million) and a prior year credit balance of \$Nil (2014 – \$8.1 million). The Ontario Northland Pension Plan is currently underfunded due to losses sustained by the fund during 2008 – 2009 and the historically low interest rates in the following years. The province has recognized the challenges faced by public sector employers and has provided an opportunity for Ontario Northland to reduce their pension contributions by applying for a funding relief program. Ontario Northland is reviewing their plan, identifying potential cost savings, and seeking input into potential changes to the plan to consider continued sustainability.

Subsequent to year end, all 12 employees chose to transfer their pensions to the Ontario Public Service Pension Plan. On May 1, 2018 all employees stopped contribution to the Ontario Northland Transportation Commission and began contributing to the Ontario Public Service Pension Plan. The employees’ old pensions are still being held by the Ontario Northland Transportation Commission but are planning to be transferred to the Ontario Public Service Pension Plan over the upcoming 12 18 months.

Ontario Public Service Pension Plan

The company makes contributions to the Contributory Pension Plan of the Ontario Public Service Pension Plan, which is a multi-employer plan, on behalf of 18 members of its staff. This plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. Employees and employers contribute jointly to the plan. The employer amount contributed to the Plan for 2018 by the Owen Sound Transportation Company Limited was \$55,729 (2017 – \$43,822). Members contribute 6.4% (2017 – 6.4%) of their earnings between the Year’s Basic Exemption (YBE) and the Year’s Maximum Pensionable Earnings (YMPE) as defined under the Canada Pension Plan plus 9.5% (2017 – 9.5%) of all other earnings.

The Plan is a multi employer plan, therefore, any pension plan surpluses or deficits are a joint responsibility of all Plan members and their employees. As a result, the company does not recognize any share of the Plan’s pension surplus or deficit. The last available report for the Plan was December 31, 2017. At that time the plan reported a \$738 million actuarial deficit (2017 – \$795 million actuarial deficit), based on actuarial liabilities of \$27.2 billion (2017 – \$25.2 billion) and actuarial assets of \$26.5 billion (2017 – \$24.4 billion). Ongoing adequacy of the current contribution rates will need to be monitored as financial market fluctuations may lead to increased future funding requirements.

MARCH 31, 2018

6. RETIREMENT AND POST-EMPLOYMENT BENEFITS

The company provides certain benefits, including retirement benefits and other post employment benefits, to its employees. The post employment benefit at March 31 includes the following components:

	2018	2017
Current period benefit cost	\$ 1,389,780	\$ 1,359,938
Unamortized actuarial loss	(313,229)	(362,534)
Non-pension post-retirement benefits	1,076,551	997,404
Accrued Pension Benefit	-	-
	\$ 1,076,551	\$ 997,404

Non-Pension Benefits

Payments for these benefits totalled \$127,669 (2017 – \$136,188) which include payments for current and retired employees. Actuarial valuations for accounting purposes are performed for the non-pension post-retirement benefits using the projected benefit method, pro-rated on services. The most recent actuarial report was prepared as at March 31, 2016.

The actuarial valuation was based on a number of assumptions about future events, such as inflation rates, medical inflation rates, wage increases, employee turnover and mortality rates. The assumptions used reflect management’s best estimates. The post-employment benefit liability was determined using a discount rate of 4.75% (2017 – 4.75%). For extended health care costs, a 5.3% annual rate of increase was assumed for 2016, decreasing to an ultimate rate of 4.0% per year for 2021. For dental costs, a 4.0% annual rate of increase was assumed.

	2018	2017
Current period benefit cost	\$ 26,819	\$ 25,101
Amortization of actuarial loss	49,305	49,305
Retirement benefit expense	76,124	74,406
Interest costs	63,791	62,413
Benefits paid	(60,768)	(57,952)
Total expense for the year	\$ 79,147	\$ 78,867

MARCH 31, 2018

7. WSIB FUTURE BENEFIT AND COMMITMENT

As OSTC is an employer included under Schedule 2 of the Workplace Safety and Insurance Act, it self-insures the entire risk of its own WSIB claims and is individually liable for reimbursing the WSIB for all costs relating to its workers’ WSIB claims.

	2018	2017
Accrued benefit obligation	\$ 306,651	\$ 304,860
Unamortized actuarial loss	(7,549)	(28,116)
WSIB future benefit	\$ 299,102	\$ 276,744

Actuarial valuations for accounting purposes are performed for the WSIB future benefits using the projected benefit method. The most recent actuarial report was prepared as at March 31, 2016.

The actuarial valuation was based on a number of assumptions including, discount rates, wage increases, and WSIB payment rates. The assumptions used reflect management’s best estimates. The WSIB benefit liability was determined using a discount rate of 4.25% (2017 – 4.25%), average lost time injury payment rate of 50%, a WSIB administrative rate of 36% and an average lost time injury count of 1.

	2018	2017
Current period benefit cost	\$ 26,138	\$ 27,263
Amortization of losses	20,567	20,567
WSIB benefit expense	46,705	47,830
Interest costs	12,724	12,668
Benefits paid	(37,071)	(36,729)
Total expense for the year	\$ 22,358	\$ 23,769

8. TANGIBLE CAPITAL ASSETS

At March 31, 2018, there were \$1,145,821 (2017 – \$2,108,052) Chi-Cheemaun Ferry capital assets that were not being amortized due to installation not being complete.

In 2018, OSTC purchased \$1,136,442 (2017 – \$2,036,331) worth of tangible capital assets with capital funding. Capital funding of \$Nil (2017 – \$3,525,636) was received for projects that did not meet the capitalization requirements and were expensed as a result. OSTC used \$22,380 (2017 – \$71,721) of its own operating funds to cover additional capital costs.

MARCH 31, 2018

8. TANGIBLE CAPITAL ASSETS (continued)

	2018					
	Land	Land Improvements	Buildings and Improvements	Equipment and Other	Chi-Cheemaun Ferry	Niska I Ferry
Cost, beginning of the year	\$ 76,100	\$ 20,200	\$ 2,268,145	\$ 695,746	\$ 30,309,042	\$ 4,420,172
Additions	-	-	159,278	7,040	992,504	-
Cost, end of the year	76,100	20,200	2,427,423	702,786	31,301,546	4,420,172
Accumulated amortization, beginning of the year	-	9,090	1,035,298	554,082	15,347,947	472,653
Amortization	-	1,010	200,212	39,548	673,540	180,404
Accumulated amortization, end of the year	-	10,100	1,235,510	593,630	16,021,487	653,057
Net carrying amount, end of the year	\$ 76,100	\$ 10,100	\$ 1,191,913	\$ 109,156	\$ 15,280,059	\$ 3,767,115

MARCH 31, 2018

8. TANGIBLE CAPITAL ASSETS (continued)

	2017					
	Land	Land Improvements	Buildings and Improvements	Equipment and Other	Chi-Cheemaun Ferry	Niska I Ferry
Cost, beginning of the year	\$ 76,100	\$ 20,200	\$ 2,029,964	\$ 668,757	\$ 28,631,700	\$ 4,254,632
Additions	-	-	238,181	26,989	1,677,342	165,540
Cost, end of the year	76,100	20,200	2,268,145	695,746	30,309,042	4,420,172
Accumulated amortization, beginning of the year	-	8,080	883,116	514,847	14,716,966	325,357
Amortization	-	1,010	152,182	39,235	630,981	147,296
Accumulated amortization, end of the year	-	9,090	1,035,298	554,082	15,347,947	472,653
Net carrying amount, end of the year	\$ 76,100	\$ 11,110	\$ 1,232,847	\$ 141,664	\$ 14,961,095	\$ 3,947,519

MARCH 31, 2018

9. ACCUMULATED SURPLUS

Accumulated surplus consists of the following categories:

	2018	2017
Invested in tangible capital assets	\$ 20,434,443	\$ 20,370,335
Unfunded WSIB benefits	(299,102)	(276,744)
Unfunded future employee benefits	(1,076,551)	(997,404)
General surplus (Note 10)	3,952,065	2,689,810
Accumulated surplus	\$ 23,010,855	\$ 21,785,997

10. BUDGETS

Under Canadian public sector accounting principles, budget amounts are to be reported on the consolidated statement of operations and accumulated surplus and changes in net financial assets for comparative purposes. The 2018 budget amounts for OSTC approved by the Board of Directors have been reclassified to conform to the presentation of the consolidated statements of operations and accumulated surplus and changes in net financial assets. The following is a reconciliation of the budget approved by the Board of Directors.

	2018	2018	2017
	Budget	Actual	Actual
Annual surplus (Page 5)	\$ 3,277,750	\$ 1,224,858	\$ 1,755,193
Amortization	-	1,094,714	970,704
Change in unfunded liabilities	-	101,505	81,735
	3,277,750	2,421,077	2,807,632
Capital acquisitions, disposals and write-down	(3,234,000)	(1,158,822)	(2,108,052)
	43,750	1,262,255	719,580
Prior year general surplus	-	2,689,810	1,970,230
General surplus (Note 9)	\$ 43,750	\$ 3,952,065	\$ 2,689,810

MARCH 31, 2018

11. CONTINGENCIES

a) OSTC has been named in a number of litigations resulting from a fatal plane crash at Pelee Island on January 17, 2004.

Georgian Express Ltd. operated the air service and as part of the agreement with OSTC maintained liability coverage of \$20 million naming OSTC as an additional insured. In addition, Georgian Express Ltd. entered into an indemnity and save harmless agreement in favour of OSTC as part of the operating agreement.

The outcome of these claims are not determinable at the present time and, as a result, is not reflected in these financial statements. However, should the claim exceed the insurance coverage in place, OSTC will be indemnified by the Ministry of Transportation.

b) OSTC is involved in other legal proceedings and believes it has adequate legal defences and/or insurance coverage with respect to these actions. However, it is possible that these cases could result in outcomes unfavourable to the organization. The outcome of litigation is inherently difficult to predict. In the event of an adverse outcome, management believes the amount of any such loss in excess of insurance coverage would not be material.

12. CCOMMITMENTS

a) OSTC has entered into an agreement ending October 31, 2018 with a contractor to provide marine services on behalf of OSTC for the ferry service between Moosonee and Moose Factory Island. The agreement requires OSTC to pay \$175,536 per season, adjusted annually by changes in the Consumer Price Index, plus 1.5% for a total annual increase of not less than 3% per year.

b) OSTC has entered into an agreement with a company to provide consulting services and recommendations on OSTC's compensation system and pay scale as well as a report on the Broader Public Sector Executive Compensation Framework in relation to OSTC. As of March 31, 2018 OSTC has expensed costs of \$48,365 in relation to this project and has committed to spending a further \$117,846 in future years.

MARCH 31, 2018

13. GOVERNMENT FUNDING

a) Ministry of Northern Development and Mines

Under the terms of a memorandum of understanding with the Ministry of Northern Development and Mines, OSTC receives both operational and capital funding from the Province of Ontario. The operational subsidies are received for the Owen Sound and Moosonee operations based on an approved operating plan and are cash flowed to OSTC on a quarterly basis. These amounts totalled \$2,363,000 (2017 – \$2,363,000).

Capital subsidies are paid to OSTC on submission of invoices for capital items consistent with its approved capital plan. These amounts totalled \$1,136,442 (2017 – \$2,036,331). No additional capital funding (2017 – \$3,525,636) was received for projects that did not meet the capitalization requirements. Capital and operating payments received during the year totalled \$3,499,442 (2017 – \$7,924,967).

b) Ministry of Transportation

OSTC has an agreement with the Ministry of Transportation to manage and operate the Pelee Island ferry service on Lake Erie between the ports of Kingsville, Leamington and Pelee Island in Ontario and the port of Sandusky in the State of Ohio. Pursuant to this agreement, OSTC received \$465,989 in management fees for the 2017 sailing season.

The amended 5 year agreement, ending March 2018, requires the Ministry to pay the OSTC a management fee of \$400,000 annually, with annual increases to reflect changes in the Consumer Price Index, up to a maximum of 3% in any year to a maximum of \$480,000. The agreement also provided for OSTC to receive a project management fee of up to 2% of the value of the vessel to support capital improvements which OSTC oversees on behalf of the Ministry of Transportation.

The revenue and expenses related to operating this service are not reflected in these financial statements.

MARCH 31, 2018

14. SEGMENT INFORMATION

OSTC is an operational enterprise agency of the Province of Ontario which owns and operates seasonal vehicle and passenger ferries. Distinguishable functional segments have been separately disclosed in the segmented information. The nature of the segments and the activities they encompass are as follows:

M.S. Chi-Cheemaun

The M.S. Chi-Cheemaun is a ferry that runs from Tobermory to Manitoulin Island.

M.V. Niska I

The M.V. Niska 1 is a landing craft style ferry that runs between Moosonee and Moose Factory Island on the Moose River, in Northern Ontario.

For the year ended March 31	M.S. Chi-Cheemaun	M.V. Niska I	2018 Total	2017 Total
Revenue				
MNDM subsidy	\$ 3,111,942	\$ 387,500	\$ 3,499,442	\$ 7,924,967
Ferry services	7,985,876	23,271	8,009,147	7,711,803
Pelee Island ferry service management fee	465,989	-	465,989	460,161
Interest, freight and other	232,355	205,147	437,502	353,466
Ontario Tourism Marketing Partnership	-	-	-	50,500
	11,796,162	615,918	12,412,080	16,500,897
Expenses				
Repairs and maintenance	682,849	95,315	778,164	4,328,866
Salaries and wages	3,866,026	88,019	3,954,046	3,856,977
General and administrative	1,788,124	119,707	1,907,831	2,167,764
Fuel	1,021,591	30,854	1,052,445	1,040,142
Services	822,739	226,204	1,048,943	981,333
Employee benefits	978,839	-	978,839	975,630
Amortization	929,174	165,540	1,094,714	970,704
Utilities	229,455	2,995	232,450	268,391
Tools and operating supplies	138,472	1,319	139,790	135,897
	10,457,269	729,953	11,187,222	14,725,704
Annual surplus (deficit)	\$ 1,338,893	\$ (114,035)	\$ 1,224,858	\$ 1,775,193

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15. FINANCIAL INSTRUMENT RISK MANAGEMENT

Credit Risk
Credit risk is the risk of financial loss to OSTC if a debtor fails to make payments when due. OSTC is exposed to this risk relating to its cash and accounts receivable. OSTC holds its cash accounts with federally regulated chartered banks who are insured by the Canadian Deposit Insurance Corporation. In the event of default, OSTC’s cash accounts are insured up to \$100,000 (2017 – \$100,000).

The maximum exposure to credit risk is outlined in Note 3.

Accounts receivable are primarily due from CRA, MNDM and MTO. Credit risk is mitigated by the financial solvency of the Provincial government.

OSTC measures its exposure to credit risk based on how long the amounts have been outstanding. An impairment allowance is set up based on the OSTC’s historical experience regarding collections. At March 31, 2018 there is no impairment allowance.

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.

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; interest rate risk, currency risk and equity risk. OSTC is not exposed to significant currency or equity risk as it does not transact materially in foreign currency or hold equity financial instruments.

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.

OSTC is not exposed to this risk as it does not hold any interest bearing investments.

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 OSTC will not be able to meet all cash outflow obligations as they come due. OSTC mitigates this risk by monitoring cash activities and expected outflows through extensive budgeting and maintaining investments that may be converted to cash in the near term if unexpected cash outflows arise. OSTC is exposed to this risk relating to its accounts payable and accrued liabilities.

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.

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16. FINANCIAL INSTRUMENT CLASSIFICATION

OSTC’s financial instruments consist of cash, accounts receivable and accounts payable and accrued liabilities.

	2018		
	Fair Value	Cost	Total
Cash and cash equivalents	\$ 2,573,093	\$ -	\$ 2,573,093
Accounts receivable	\$ -	\$ 1,462,426	\$ 1,462,426
Accounts payable and accrued liabilities	\$ -	\$ (340,949)	\$ (340,949)

	2017		
	Fair Value	Cost	Total
Cash and cash equivalents	\$ 1,993,949	\$ -	\$ 1,993,949
Accounts receivable	\$ -	\$ 1,230,973	\$ 1,230,973
Accounts payable and accrued liabilities	\$ -	\$ (820,920)	\$ (820,920)

The only financial instruments that are measured subsequent to initial recognition at fair value are cash and cash equivalents.

17. ECONOMIC DEPENDENCE

The OSTC is dependent on the continuing subsidy from the Ministry of Northern Development and Mines to carry on its operations.

OWEN SOUND
TRANSPORTATION COMPANY
ANNUAL REPORT

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