

The Owen Sound Transportation
Company Limited
Financial Statements
For the year ended March 31, 2020

The Owen Sound Transportation Company Limited
Financial Statements
For the year ended March 31, 2020

Contents

Independent Auditor's Report	2 - 3
Financial Statements	
Statement of Financial Position	4
Statement of Operations and Accumulated Surplus	5
Statement of Changes in Net Financial Assets	6
Statement of Cash Flows	7
Notes to Financial Statements	8 - 21



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Independent Auditor's Report

To the Members of The Owen Sound Transportation Company Limited

Opinion

We have audited the financial statements of the Owen Sound Transportation Company Limited (the OSTC), which comprise the statement of financial position as at March 31, 2020, statements of operations and accumulated surplus, changes in net assets, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the OSTC as at March 31, 2020, and its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the OSTC 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 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.

In preparing the financial statements, management is responsible for assessing the OSTC'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 OSTC or to cease operations, or has no realistic alternative but to do so.

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



Auditor's 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 auditor's 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 these 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 OSTC'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 OSTC's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the OSTC 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.

We 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.

Chartered Professional Accountants, Licensed Public Accountants

Owen Sound, Ontario
February 8, 2021

The Owen Sound Transportation Company Limited
Statement of Financial Position

March 31	2020	2019
Financial assets		
Cash and cash equivalents (Note 2)	\$ 2,365,620	\$ 1,252,491
Accounts receivable (Note 3)	2,164,861	2,684,096
Inventory held for resale	72,746	84,910
	4,603,227	4,021,497
Liabilities		
Accounts payable and accrued liabilities	714,440	304,299
Employee future benefit obligations (Note 7)	1,276,847	1,157,189
Workers' safety insurance obligations (Note 6)	340,102	322,286
	2,331,389	1,783,774
Net financial assets	2,271,838	2,237,723
Contingencies (Note 11)		
Non-financial assets		
Inventory for own use	287,005	216,885
Tangible capital assets (Note 8)	21,713,198	20,816,987
	22,000,203	21,033,872
Accumulated surplus (Note 9)	\$24,272,041	\$ 23,271,595

Approved on Behalf of the Company:

_____ Chair

_____ President & CEO

The Owen Sound Transportation Company Limited
Statement of Operations and Accumulated Surplus

For the year ended March 31	2020 Budget (Note 10)	2020 Actual	2019 Actual
Revenues			
Ministry of Transportation contribution (Note 13)	\$ 13,608,000	\$ 4,971,167	\$ 5,107,513
Vehicles	3,721,900	3,769,097	3,616,780
Passenger revenue	2,810,000	2,899,820	2,804,540
Cafeteria	1,025,500	1,047,397	1,065,361
Pelee Island ferry service management fee (Note 13)	529,000	478,750	468,904
Interest, freight and other	320,600	378,591	346,685
Tuck and terminal gift shop revenue	260,000	302,579	313,590
	<u>22,275,000</u>	<u>13,847,401</u>	<u>13,723,373</u>
Expenses			
Salaries and wages	4,441,000	4,277,139	4,317,310
General and administrative expenses	2,092,087	2,005,291	1,884,499
Repairs and maintenance	1,519,970	1,428,789	2,283,794
Fuel	1,142,300	1,370,828	1,386,391
Services	1,116,726	1,098,396	1,062,718
Amortization	-	1,164,199	1,138,087
Employee benefits	940,125	1,122,170	1,013,817
Utilities	245,530	240,369	236,216
Tools and operating supplies	158,450	139,774	139,801
	<u>11,656,188</u>	<u>12,846,955</u>	<u>13,462,633</u>
Annual surplus (Note 10)	10,618,812	1,000,446	260,740
Accumulated surplus, beginning of the year	<u>23,271,595</u>	<u>23,271,595</u>	<u>23,010,855</u>
Accumulated surplus, end of the year	<u>\$ 33,890,407</u>	<u>\$24,272,041</u>	<u>\$ 23,271,595</u>

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	2020 Budget (Note 10)	2020 Actual	2019 Actual
Annual surplus (Page 5)	\$ 10,618,812	\$ 1,000,446	\$ 260,740
Acquisition of tangible capital assets	(10,600,000)	(2,060,410)	(1,520,631)
Amortization of tangible capital assets	-	1,164,199	1,138,087
	(10,600,000)	(896,211)	(382,544)
	18,812	104,235	(121,804)
Change in inventories for own use	-	(70,120)	(28,616)
Increase (decrease) in net financial assets	18,812	34,115	(150,420)
Net financial assets, beginning of the year	2,237,723	2,237,723	2,388,143
Net financial assets, end of the year	\$ 2,256,535	\$ 2,271,838	\$ 2,237,723

The Owen Sound Transportation Company Limited
Statement of Cash Flows

For the year ended March 31	2020	2019
Cash provided by (used in)		
Operating activities		
Annual surplus	\$ 1,000,446	\$ 260,740
Items not affecting cash		
Amortization	1,164,199	1,138,087
Change in workers' safety insurance obligations (Note 6)	17,816	23,184
Change in employee future benefit obligations (Note 7)	119,658	80,638
	<u>2,302,119</u>	<u>1,502,649</u>
Changes in non-cash working capital balances		
Accounts receivable	519,235	(1,221,670)
Inventory held for resale	12,164	(15,684)
Inventory for own use	(70,120)	(28,616)
Accounts payable and accrued liabilities	410,141	(36,650)
	<u>3,173,539</u>	<u>200,029</u>
Investing activities		
Purchase of capital assets	<u>(2,060,410)</u>	<u>(1,520,631)</u>
Change in cash and cash equivalents during the year	1,113,129	(1,320,602)
Cash and cash equivalents, beginning of the year	<u>1,252,491</u>	<u>2,573,093</u>
Cash and cash equivalents, end of the year	<u>\$ 2,365,620</u>	<u>\$ 1,252,491</u>

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

The Owen Sound Transportation Company Limited
Notes to Financial Statements

March 31, 2020

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 three vessels, the M.V. Pelee Islander, M.V. Pelee Islander 2, 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 Transportation.</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>

The Owen Sound Transportation Company Limited
Notes to Financial Statements

March 31, 2020

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>								
Bank Indebtedness	<p>Bank indebtedness includes short-term overdrafts.</p>								

The Owen Sound Transportation Company Limited
Notes to Financial Statements

March 31, 2020

1. Summary of Significant Accounting Policies - (continued)

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 OSTC's eligible employees are eligible to participate in the defined benefit Ontario Public Service Pension Plan (OPS). The contributions to the pension plan, a multi-employer defined benefit plan are expensed when due.

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 OPS 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.

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.

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 Sites A contaminated site is a site at which substances occur in concentrations that exceed the maximum acceptable amounts under an environmental standard. Sites that are currently in productive use are only considered a contaminated site if an unexpected event results in contamination. A liability for remediation of contaminated sites is recognized when the 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.

The Owen Sound Transportation Company Limited
Notes to Financial Statements

March 31, 2020

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	<p>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.</p>

The Owen Sound Transportation Company Limited
Notes to Financial Statements

March 31, 2020

2. Cash and Cash Equivalents

	2020	2019
Cash on hand	\$ 16,200	\$ 17,950
Bank	2,349,076	1,232,101
In transit	344	2,440
	\$ 2,365,620	\$ 1,252,491

On March 31, 2020, the company had deposits of \$2,427,089 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

	2020	2019
Ministry of Energy, Northern Development and Mines	\$ -	\$ 532,809
Ministry of Transportation	1,967,566	1,869,702
HST and other	197,295	281,585
	\$ 2,164,861	\$ 2,684,096

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, 2020 the company had undrawn credit capacity under this facility of \$2,000,000.

5. Pension Agreement

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 30 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 2020 by the Owen Sound Transportation Company Limited was \$174,496 (2019 - \$137,930). Members contribute 7.4% (2019 - 6.9%) 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 10.5% (2019 - 10.0%) of all other earnings.

The Owen Sound Transportation Company Limited
Notes to Financial Statements

March 31, 2020

5. Pension Agreements - (continued)

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, 2019. At that time the plan reported a \$2.48 billion actuarial deficit (2018 - \$1.89 billion actuarial deficit), based on actuarial liabilities of \$31.8 billion (2018 - \$28.4 billion) and actuarial assets of \$29.3 billion (2018 - \$26.6 billion). Ongoing adequacy of the current contribution rates will need to be monitored as financial market fluctuations may lead to increased future funding requirements.

6. 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.

	2020	2019
Accrued benefit obligation	\$ 157,194	\$ 309,268
Unamortized actuarial gain	182,908	13,018
WSIB future benefit	\$ 340,102	\$ 322,286

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, 2019.

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 3.75%, average lost time injury payment rate of 50%, a WSIB administrative rate of 30% and an average lost time injury count of 1.

	2020	2019
Current period benefit cost	\$ 25,740	\$ 27,356
Amortization of losses	3,975	20,567
WSIB benefit expense	29,715	47,923
Interest costs	5,532	12,816
Benefits paid	(17,431)	(37,555)
Total expense for the year	\$ 17,816	\$ 23,184

The Owen Sound Transportation Company Limited
Notes to Financial Statements

March 31, 2020

7. 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:

	2020	2019
Current period benefit cost	\$ 1,676,067	\$ 1,421,113
Unamortized actuarial loss	(399,220)	(263,924)
	<u>\$ 1,276,847</u>	<u>\$ 1,157,189</u>

Non-Pension Benefits

Payments for these benefits totalled \$169,323 (2019 - \$147,193) 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, 2019.

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 4.00%. For extended health care costs, a 6.75% annual rate of increase was assumed for 2020, decreasing to a rate of 3.75% per year for 2029. For dental costs, a 3.75% annual rate of increase was assumed.

	2020	2019
Current period benefit cost	\$ 48,241	\$ 28,655
Amortization of actuarial loss	69,816	49,305
	<u>118,057</u>	<u>77,960</u>
Retirement benefit expense	64,752	65,210
Interest costs	(63,151)	(62,532)
Benefits paid	<u>\$ 119,658</u>	<u>\$ 80,638</u>

8. Tangible Capital Assets

At March 31, 2020, there were \$2,060,410 (2019 - \$1,520,631) Chi-Cheemaun Ferry capital assets that were not being amortized due to installation not being complete.

In 2020, OSTC purchased \$2,050,927 (2019 - \$1,501,890) worth of tangible capital assets with capital funding. Capital funding of \$557,240 (2019 - \$1,242,623) was received for projects that did not meet the capitalization requirements and were expensed as a result. OSTC used \$9,483 (2019 - \$18,741) of its own operating funds to cover additional capital costs.

The Owen Sound Transportation Company Limited
Notes to Financial Statements

March 31, 2020

8. Tangible Capital Assets - (continued)

							2020
	Land	Land Improvements	Buildings and Improvements	Equipment and Other	Chi- Cheemaun Ferry	Niska Ferry	Total
Cost, beginning of the year	\$ 76,100	\$ 20,200	\$ 2,873,506	\$ 715,734	\$ 32,280,254	\$ 4,503,064	\$ 40,468,858
Additions	-	-	14,171	7,121	1,994,488	44,630	2,060,410
Cost, end of the year	76,100	20,200	2,887,677	722,855	34,274,742	4,547,694	42,529,268
Accumulated amortization, beginning of the year	-	11,110	1,438,134	632,867	16,736,847	832,913	19,651,871
Amortization	-	1,010	185,615	40,536	754,915	182,123	1,164,199
Accumulated amortization, end of the year	-	12,120	1,623,749	673,403	17,491,762	1,015,036	20,816,070
Net carrying amount, end of the year	\$ 76,100	\$ 8,080	\$ 1,263,928	\$ 49,452	\$ 16,782,980	\$ 3,532,658	\$ 21,713,198

The Owen Sound Transportation Company Limited
Notes to Financial Statements

March 31, 2020

8. Tangible Capital Assets - (continued)

							2019
	Land	Land Improvements	Buildings and Improvements	Equipment and Other	Chi- Cheemaun Ferry	Niska Ferry	Total
Cost, beginning of the year	\$ 76,100	\$ 20,200	\$ 2,427,423	\$ 702,786	\$ 31,301,546	\$ 4,420,172	\$ 38,948,227
Additions	-	-	446,083	12,948	978,708	82,892	1,520,631
Cost, end of the year	76,100	20,200	2,873,506	715,734	32,280,254	4,503,064	40,468,858
Accumulated amortization, beginning of the year	-	10,100	1,235,510	593,630	16,021,487	653,057	18,513,784
Amortization	-	1,010	202,624	39,237	715,360	179,856	1,138,087
Accumulated amortization, end of the year	-	11,110	1,438,134	632,867	16,736,847	832,913	19,651,871
Net carrying amount, end of the year	\$ 76,100	\$ 9,090	\$ 1,435,372	\$ 82,867	\$ 15,543,407	\$ 3,670,151	\$ 20,816,987

The Owen Sound Transportation Company Limited
Notes to Financial Statements

March 31, 2020

9. Accumulated Surplus

Accumulated surplus consists of the following categories:

	2020	2019
Invested in tangible capital assets (Note 8)	\$21,713,198	\$ 20,816,987
Unfunded WSIB benefits (Note 6)	(340,102)	(322,286)
Unfunded future employee benefits (Note 7)	(1,276,847)	(1,157,189)
General surplus (Note 10)	4,175,792	3,934,083
Accumulated surplus	<u>\$24,272,041</u>	<u>\$ 23,271,595</u>

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 2020 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.

	2020	2020	2019
	Budget	Actual	Actual
Annual surplus (Page 5)	\$ 10,618,812	\$ 1,000,446	\$ 260,740
Amortization	-	1,164,199	1,138,087
Change in unfunded liabilities	-	137,474	103,822
	10,618,812	2,302,119	1,502,649
Capital acquisitions, disposals and write-down	<u>(10,600,000)</u>	<u>(2,060,410)</u>	<u>(1,520,631)</u>
	18,812	241,709	(17,982)
Prior year general surplus	<u>3,934,083</u>	<u>3,934,083</u>	<u>3,952,065</u>
General surplus (Note 9)	<u>\$ 3,952,895</u>	<u>\$ 4,175,792</u>	<u>\$ 3,934,083</u>

The Owen Sound Transportation Company Limited
Notes to Financial Statements

March 31, 2020

11. Contingencies

- a) OSTC is involved in slip and fall 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.
- c) OSTC has not reached a collective agreement with Unifor Local 444 Union for the Pelee Island Transportation Service employees. This most recent contract (previously with Seafarer's International Union of Canada) expired on December 31, 2018. The outcome is not determinable at the present time.
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12. Financial Instrument Classification

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

	2020			
	Fair Value		Cost	Total
Cash and cash equivalents	\$ 2,365,620	\$ -	\$ -	\$ 2,365,620
Accounts receivable	\$ -	\$ 2,164,861	\$ -	\$ 2,164,861
Accounts payable and accrued liabilities	\$ -	\$ (714,440)	\$ -	\$ (714,440)
	2019			
	Fair Value		Cost	Total
Cash and cash equivalents	\$ 1,252,491	\$ -	\$ -	\$ 1,252,491
Accounts receivable	\$ -	\$ 2,684,096	\$ -	\$ 2,684,096
Accounts payable and accrued liabilities	\$ -	\$ (304,299)	\$ -	\$ (304,299)

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

13. Government Funding

Under the terms of a memorandum of understanding with the Ministry of Transportation, OSTC receives both operational and capital funding from the Province of Ontario (Note that prior to fiscal 2020 this funding was received from the Ministry of Energy, Northern Development and Mines). The operational contributions 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 (2019 - \$2,363,000).

The Owen Sound Transportation Company Limited
Notes to Financial Statements

March 31, 2020

13. Government Funding - (continued)

Capital contributions are paid to OSTC on submission of invoices for capital items consistent with its approved capital plan. These amounts totalled \$2,050,927 (2019 - \$1,501,890). Additional capital funding of \$557,240 (2019 - \$1,242,623) was received for projects that did not meet the capitalization requirements. Capital and operating payments received during the year totalled \$4,971,167 (2019 - \$5,107,513).

In addition, 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 \$478,750 in management fees for the 2019 sailing season.

The amended 5 year agreement, ending March 2023, 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 revenue and expenses related to operating this service are not reflected in these financial statements.

14. Economic Dependence

OSTC is dependent on the continuing contributions from the Ministry of Transportation to carry on its operations.

15. Subsequent Event

Subsequent to year end, the impact of COVID-19 in Canada and on the global economy increased significantly. As a result, OSTC has experienced a decline in sales for their 2020 sailing season due to operational restriction imposed through Interim Orders from Transport Canada to limit passenger counts to less than 50% of certified capacity, fewer customers boarding their ferries as transportation was restricted to essential use only until the Province entered Stage 2 of reopening, and the operational decision to delay the start date for the service by one month to June 1. In addition, if the impacts of COVID-19 continue there could be further impact on OSTC, its ability to generate revenue, and acquire necessary parts and inventory from major suppliers and other third party business associates, all of which could impact the timing and amounts realized on OSTC's assets and future profitability. At this time, the full potential impact of COVID-19 on OSTC is not known. Management considered the impact of COVID-19 in its assessment of COVID-19's assets, liabilities and its ability to continue as a going concern.

Although COVID-19 has had an impact on OSTC's operations, as well as the funding and operations of its related entities, subsequent to year end OSTC has received funding from the Ministry of Transportation to cover lost revenues and they have confirmed its continued financial support to maintain adequate liquidity to continue OSTC's operations and mitigate the financial impacts of COVID-19 on OSTC.

The Owen Sound Transportation Company Limited
Notes to Financial Statements

March 31, 2020

16. 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 1

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 1	2020 Total	2019 Total
Revenue				
MTO contribution	\$ 4,001,797	\$ 969,370	\$ 4,971,167	\$ 5,107,513
Ferry services	7,999,438	19,455	8,018,893	7,800,271
Pelee Island ferry service management fee	478,750	-	478,750	468,904
Interest, freight and other	193,849	184,742	378,591	346,685
	<u>12,673,834</u>	<u>1,173,567</u>	<u>13,847,401</u>	<u>13,723,373</u>
Expenses				
Repairs and maintenance	771,662	657,127	1,428,789	2,283,794
Salaries and wages	4,195,143	81,996	4,277,139	4,317,310
General and administrative	1,829,567	175,724	2,005,291	1,884,499
Fuel	1,337,337	33,491	1,370,828	1,386,391
Services	818,253	280,143	1,098,396	1,062,718
Employee benefits	1,122,170	-	1,122,170	1,013,817
Amortization	982,076	182,123	1,164,199	1,138,087
Utilities	237,239	3,130	240,369	236,216
Tools and operating supplies	136,176	3,598	139,774	139,801
	<u>11,429,623</u>	<u>1,417,332</u>	<u>12,846,955</u>	<u>13,462,633</u>
Annual surplus (deficit)	1,244,211	(243,765)	1,000,446	260,740
Amortization	982,076	182,123	1,164,199	1,138,087
Capital purchases	(2,015,780)	(44,630)	(2,060,410)	(1,520,631)
Unfunded liabilities	137,474	-	137,474	103,822
Operating surplus (deficit)	<u>\$ 347,981</u>	<u>\$ (106,272)</u>	<u>\$ 241,709</u>	<u>\$ (17,982)</u>

The Owen Sound Transportation Company Limited
Notes to Financial Statements

March 31, 2020

17. 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 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.

The maximum exposure to credit risk is outlined in Note 4.

Accounts receivable are primarily due from CRA 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, 2020 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.
