

FINANCIAL STATEMENTS
For
THE OWEN SOUND TRANSPORTATION COMPANY LIMITED
For year ended
MARCH 31, 2023

THE OWEN SOUND TRANSPORTATION COMPANY LIMITED

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MARCH 31, 2023

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Management's Responsibility for the Financial Statements

The financial statements of The Owen Sound Transportation Company Limited (the "OSTC") are the responsibility of management and have been approved by the Board.

The financial statements have been prepared in compliance with the Canadian public sector accounting standards established by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada. A summary of the significant accounting policies are described in Note 2 to the financial statements.

The preparation of the financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

The OSTC's management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the financial statements. These systems are monitored and evaluated by management.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting. The Board reviews the OSTC's financial statements and discusses any significant financial reporting or internal control matters prior to the approval of the financial statements.

The financial statements have been audited by Welch LLP, independent external auditors appointed by the Board of Directors, in accordance with Canadian generally accepted auditing standards. The accompanying Independent Auditor's Report outlines their responsibilities, the scope of their examination and their opinion on the OSTC's financial statements.

Jamie Colliver

..... Board Chairperson

Jim Hepple

..... Audit Committee Chairperson

INDEPENDENT AUDITOR'S REPORT

To the shareholder 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, 2023, and the statements of operations and accumulated surplus, changes in net financial 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, 2023, and the results of its 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 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.

Other Matter

The financial statements of the OSTC for the year ended March 31, 2022 were audited by another auditor who expressed an unmodified audit opinion on those financial statements on March 22, 2023. Our opinion is not modified with respect to the revised March 31, 2022 disclosures for note 10 and 16 being unaudited.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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.

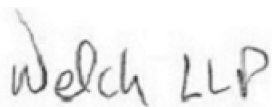
Auditor's Responsibilities for the Audit of the Financial Statements

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

Toronto, Ontario
April 30, 2024.

THE OWEN SOUND TRANSPORTATION COMPANY LIMITED

STATEMENT OF FINANCIAL POSITION

MARCH 31, 2023

	<u>2023</u>	<u>2022</u> (as restated, note 4)
Financial assets		
Cash (note 5)	\$ 54,765	\$ 917,182
Accounts receivable (note 6)	9,997,343	6,735,811
Inventory held for resale	<u>40,373</u>	<u>122,843</u>
	<u>10,092,481</u>	<u>7,775,836</u>
Liabilities		
Bank indebtedness (note 7)	1,130,000	-
Accounts payable and accrued liabilities	1,522,361	933,074
Deferred revenue (note 8)	568,537	478,015
Employee future benefit obligations (note 10)	<u>2,886,049</u>	<u>2,527,075</u>
	<u>6,106,947</u>	<u>3,938,164</u>
Net financial assets	<u>3,985,534</u>	<u>3,837,672</u>
Non-financial assets		
Inventory for own use	67,320	215,184
Tangible capital assets (note 11)	<u>21,655,039</u>	<u>21,863,657</u>
	<u>21,722,359</u>	<u>22,078,841</u>
Accumulated surplus (note 12)	<u>\$ 25,707,893</u>	<u>\$ 25,916,513</u>

Approved by the Board:

Jamie Colliver

..... Board Chairperson

Jim Hepple

..... Audit Committee Chairperson

(See accompanying notes)

THE OWEN SOUND TRANSPORTATION COMPANY LIMITED
STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS
YEAR ENDED MARCH 31, 2023

	Budget <u>2023</u> (unaudited)	Actual <u>2023</u>	Actual <u>2022</u> (as restated, note 4)
Revenues			
Ministry of Transportation contribution (note 13)	\$ 39,464,935	\$ 27,169,985	\$ 15,375,125
Vehicles	3,289,450	3,876,037	3,426,923
Passenger revenue	2,829,212	3,128,971	2,362,878
Cafeteria and gift shop	1,169,190	1,059,058	3,156
Interest, freight and other	<u>239,828</u>	<u>380,710</u>	<u>344,926</u>
	<u>46,992,615</u>	<u>35,614,761</u>	<u>21,513,008</u>
Expenses			
Repairs and maintenance	15,351,005	12,811,176	5,107,297
Salaries and wages	8,225,088	8,904,831	7,077,079
Fuel	3,395,603	4,275,511	2,060,521
General and administrative expenses	6,643,414	3,861,396	3,039,637
Employee benefits	1,807,507	2,262,334	1,832,679
Services	1,179,102	1,670,740	909,541
Amortization	-	1,217,505	1,160,051
Utilities	806,801	497,626	539,998
Tools and operating supplies	<u>275,095</u>	<u>322,262</u>	<u>200,391</u>
	<u>37,683,615</u>	<u>35,823,381</u>	<u>21,927,194</u>
Annual (deficit) surplus (note 12)	<u>\$ 9,309,000</u>	(208,620)	(414,186)
Accumulated surplus, beginning of year		<u>25,916,513</u>	<u>26,330,699</u>
Accumulated surplus, end of year		<u>\$ 25,707,893</u>	<u>\$ 25,916,513</u>

(See accompanying notes)

THE OWEN SOUND TRANSPORTATION COMPANY LIMITED

STATEMENT OF CHANGES IN NET FINANCIAL ASSETS

YEAR ENDED MARCH 31, 2023

	Budget <u>2023</u> (unaudited)	Actual <u>2023</u>	Actual <u>2022</u> (as restated, note 4)
Annual surplus (deficit) (note 12)	\$ 9,309,000	\$ (208,620)	\$ (414,186)
Acquisition of tangible capital assets	(9,309,000)	(1,008,887)	(745,865)
Amortization of tangible capital assets	-	1,217,505	1,160,051
Change in inventories for own use	<u>-</u>	<u>147,864</u>	<u>(130,587)</u>
Increase (decrease) in net financial assets	-	147,862	(130,587)
Net financial assets, beginning of year	<u>3,837,672</u>	<u>3,837,672</u>	<u>3,968,259</u>
Net financial assets, end of year	<u>\$ 3,837,672</u>	<u>\$ 3,985,534</u>	<u>\$ 3,837,672</u>

(See accompanying notes)

THE OWEN SOUND TRANSPORTATION COMPANY LIMITED

STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2023

	<u>2023</u>	<u>2022</u> (as restated, note 4)
CASH FLOWS BY (USED IN)		
OPERATING ACTIVITIES		
Annual deficit	\$ (208,620)	\$ (414,186)
Items not affecting cash:		
Amortization	1,217,505	1,160,051
Change in employee future benefit obligations	<u>358,974</u>	<u>775,197</u>
	1,367,859	1,521,062
Changes in non-cash working capital components:		
Accounts receivable	(3,261,532)	(4,761,447)
Inventory held for resale	82,470	(11,883)
Inventory for own use	147,864	(130,587)
Accounts payable and accrued liabilities	589,287	317,322
Deferred revenue	<u>90,522</u>	<u>92,037</u>
	(983,530)	(2,973,496)
INVESTING ACTIVITIES		
Acquisition of tangible capital assets	(1,008,887)	(745,865)
FINANCING ACTIVITIES		
Withdrawal from line of credit	<u>1,130,000</u>	<u>-</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(862,417)	(3,719,361)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>917,182</u>	<u>4,636,543</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 54,765</u>	<u>\$ 917,182</u>

(See accompanying notes)

THE OWEN SOUND TRANSPORTATION COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2023

1. NATURE OF OPERATIONS

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.

OSTC's one issued and outstanding common share is held by the Ministry of Transportation.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

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 Professional Accountants of Canada.

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.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and balances with banks.

Inventory

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.

Inventory for own use is recorded at the lower of cost and replacement cost.

Tangible capital assets

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.

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:

Land improvements	10 years
Buildings and improvements	20 years
Equipment and other	5 years
Marine vessels	30 years

THE OWEN SOUND TRANSPORTATION COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED MARCH 31, 2023

2. SIGNIFICANT ACCOUNTING POLICIES - Cont'd.

Financial instruments

OSTC initially measures its financial assets and financial liabilities at fair value. OSTC subsequently measures its financial assets and financial liabilities at amortized cost, unless the financial instruments meet the requirements to be measured at fair value in accordance with public sector accounting standards.

Financial assets measured at amortized cost include cash and accounts receivable. Financial liabilities measured at amortized cost include bank indebtedness, and accounts payable and accrued liabilities.

Bank indebtedness

Bank indebtedness represents amounts drawn on the bank line of credit.

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 benefit obligations

Certain 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.

The 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 THE FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED MARCH 31, 2023

2. SIGNIFICANT ACCOUNTING POLICIES - Cont'd.

Revenue recognition

Vehicle and passenger revenues are generally recognized on the date the service is provided.

Cafeteria and gift shop and other revenue is recorded upon sale of goods or provision of service when collection is reasonably assured.

Interest is recognized in the period earned.

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, in which case revenue is recognized upon fulfillment of the stipulations. Government transfers to cover operational surplus or deficits will be recognized in the year that the related net expenditures occur on an accrual basis.

Foreign currency translation

Foreign currency accounts are translated into Canadian dollars as follows:

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.

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 benefit 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.

3. FUTURE ACCOUNTING PRONOUNCEMENTS

OSTC is in the process of assessing the impact on its financial statements of the following upcoming changes to PSAS.

Standards applicable for fiscal years beginning on or after April 1, 2023
(in effect for OSTC for the year ending on March 31, 2024):

PS 3160 - Public Private Partnerships (P3s) identifies requirements on how to account for and disclose transactions in which public sector entities procure major infrastructure assets and/or services from private sector entities. Recognition of assets arising from P3 arrangements is ultimately dependent on whether public sector entities control the purpose and use of the assets, have access to the future economic benefits and exposure to the risks associated with the assets, and retain significant residual interest in the asset, if any, at the end of the term of P3s. Measurement of the asset and related liability will also be dependent on the overall model used to compensate the private sector entity.

THE OWEN SOUND TRANSPORTATION COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED MARCH 31, 2023

3. FUTURE ACCOUNTING PRONOUNCEMENTS - Cont'd.

PS 3400 - Revenue establishes standards on how to account for and report on revenue, specifically differentiating between revenue arising from transactions that include performance obligations, referred to as exchange transactions, and transactions that do not have performance obligations, referred to as non-exchange transactions.

PSG-8 - Purchased intangibles provides guidelines on accounting and reporting for purchased intangibles. Concurrently, PS 1000 - Financial Statement Concepts has been amended to remove the prohibition against recognizing intangibles purchased in an exchange transaction in public sector financial statements.

4. RESTATEMENTS

During fiscal 2023, the OSTC reviewed its funding agreements and funding practices with MTO, and has implemented the following two changes to its recognition of government transfers:

- a. Transfers from MTO for OSTC operations, designed to provide for break-even operations on a cash-requirements basis, were previously recorded based on Ontario Treasury Board approved allocations, with any adjustments based on actual results in the year those results were announced. Government transfers to cover operational surplus or deficits will now be recognized in the year that the related net expenditures occur on an accrual basis. Government transfer revenues in 2022 increased \$1,986,183 as a result of this change, while accumulated surplus as at March 31, 2021 increased to \$25,529,215.
- b. Expenses and the transfers from MTO under the contract to manage the Pelee Island Transportation Service (PITS), are now included as a segment in these financial statements, whereas in past years' only the management fee for undertaking the contract was recorded. The OSTC has been managing PITS since 1992 under operation agreements, with the latest agreement ending March 31, 2023. OSTC will continue to operate the service until a new formal agreement is in place. Under the agreements the OSTC has possession of MTO's assets, including 3 ships and 3 terminals, for use in carrying on the services. MTO contracts to reimburse the OSTC for its direct expenses (net of any revenues earned), and pays an annual management fee of \$480,000. The change involves recognition of PITS revenues and expenses in the Statement Of Operations, as well as certain liabilities on the Statement of Financial Position.

As well as the change to recognition of government transfers above, the OSTC is also implementing a change in the recognition of drydock costs, which were recorded as tangible capital assets in fiscal 2022:

- c. Drydock costs, which occur on a regular basis, based on Transport Canada requirements, include many tasks, some of which result in betterments to specific components of the ships. Rather than capitalizing all costs of the drydock, OSTC will capitalize only those costs which result in a betterment. The net impact is a reduction of tangible capital costs in 2022 of \$3,298,837 and a commensurate increase in repairs and maintenance expenses.

THE OWEN SOUND TRANSPORTATION COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED MARCH 31, 2023

4. **RESTATEMENTS - Cont'd.**

Each of these changes are being implemented with retroactive treatment, as follows:

Statement of financial position:

	2022 Previously Reported	(a) Government Revenue - Restatement	(b) PITS - Restatement	(c) Drydock Restatement	2022 Restated
Accounts receivable	\$ 3,421,414	\$ 3,314,397	\$ -	\$ -	\$ 6,735,811
Employee future benefits obligations	(1,886,868)	-	(640,207)	-	(2,527,075)
Net financial assets	1,163,482	3,314,397	(640,207)	-	3,837,672
Tangible capital assets	25,162,494	-	-	(3,298,837)	21,863,657
Accumulated surplus	26,541,160	3,314,397	(640,207)	(3,298,837)	25,916,513

Statement of operations and accumulated surplus:

	2022 Previously Reported	(a) Government Revenue - Restatement	(b) PITS - Restatement	(c) Drydock - Restatement	2022 Restated
Revenues					
Ministry of Transportation contribution	\$ 7,428,979	\$ 1,986,183	\$ 5,959,963	\$ -	\$ 15,375,125
Vehicles	2,940,276	-	486,647	-	3,426,923
Passenger revenue	1,994,425	-	368,453	-	2,362,878
PITS management fee	480,000	-	(480,000)	-	-
Interest, freight and other	249,886	-	95,040	-	344,926
Cafeteria and gift shop	3,156	-	-	-	3,156
	<u>13,096,722</u>	<u>1,986,183</u>	<u>6,430,103</u>	<u>-</u>	<u>21,513,008</u>
Expenses					
Salaries and wages	4,673,504	-	2,403,575	-	7,077,079
General and administrative expenses	2,447,887	-	591,750	-	3,039,637
Amortization	1,160,051	-	-	-	1,160,051
Repairs and maintenance	900,921	-	907,539	3,298,837	5,107,297
Employee benefits	1,100,772	-	731,907	-	1,832,679
Fuel	1,003,137	-	1,057,384	-	2,060,521
Services	485,550	-	423,991	-	909,541
Utilities	210,406	-	329,592	-	539,998
Tools and operating supplies	102,549	-	97,842	-	200,391
	<u>12,084,777</u>	<u>-</u>	<u>6,543,580</u>	<u>3,298,837</u>	<u>21,927,194</u>
Annual surplus (deficit)	1,011,945	1,986,183	(113,477)	(3,298,837)	(414,186)
Accumulated surplus, beginning of year	<u>25,529,215</u>	<u>1,328,214</u>	<u>(526,730)</u>	<u>-</u>	<u>26,330,699</u>
Accumulated surplus, end of year	<u>\$ 26,541,160</u>	<u>\$ 3,314,397</u>	<u>\$ (640,207)</u>	<u>\$ (3,298,837)</u>	<u>\$ 25,916,513</u>

THE OWEN SOUND TRANSPORTATION COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED MARCH 31, 2023

4. RESTATEMENTS - Cont'd.

Statement of changes in net financial assets:

	<u>2022 Previously Reported</u>	(a) Government Revenue - <u>Restatement</u>	(b) PITS - <u>Restatement</u>	(c) Drydock - <u>Restatement</u>	<u>2022 Restated</u>
Annual surplus (deficit)	\$ 1,011,945	\$ 1,986,183	\$ (113,477)	\$ (3,298,837)	\$ (414,186)
Acquisition of tangible capital assets	(4,044,702)	-	-	3,298,837	(745,865)
Increase (decrease) in net financial assets	\$ (2,003,293)	\$ 1,986,183	\$ (113,477)	\$ -	\$ (130,587)

Statement of cash flows:

	<u>2022 Previously Reported</u>	(a) Government Revenue - <u>Restatement</u>	(b) PITS - <u>Restatement</u>	(c) Drydock - <u>Restatement</u>	<u>2022 Restated</u>
Annual surplus (deficit)	\$ 1,011,945	\$ 1,986,183	\$ (113,477)	\$ (3,298,837)	\$ (414,186)
Change in employee future benefit obligations	134,990	-	640,207	-	775,197
Accounts receivable	(2,248,531)	(4,264,791)	1,751,875	-	(4,761,447)
Purchase of tangible capital assets	(4,044,702)	-	-	3,298,837	(745,865)

THE OWEN SOUND TRANSPORTATION COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED MARCH 31, 2023

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents is comprised of the following:

	<u>2023</u>	<u>2022</u>
Cash on hand	\$ 18,450	\$ 4,450
Bank	<u>36,315</u>	<u>912,732</u>
	<u>\$ 54,765</u>	<u>\$ 917,182</u>

6. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	<u>2023</u>	<u>2022</u>
Ministry of Transportation	\$ 5,817,890	\$ 3,451,665
Ministry of Transportation - future employment benefits	2,886,049	2,527,075
HST recoverable	1,240,410	739,304
Other	<u>52,994</u>	<u>17,767</u>
	<u>\$ 9,997,343</u>	<u>\$ 6,735,811</u>

7. 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 amount which can be drawn on this operating line is \$2,000,000. At March 31, 2023 the OSTC had \$1,130,000 (2022 - \$nil), under this facility.

8. DEFERRED REVENUE

The OSTC collects payment for passenger and vehicle revenue at the time of booking, and defers revenue recognition until the service has been provided. All amounts in deferred revenue relate to prepaid passenger and vehicle revenue for the upcoming sailing season.

9. PENSION AGREEMENT

The OSTC 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 2023 by the OSTC was \$188,680 (2022 - \$159,239). Members contribute 7.4% (2022 - 7.4%) 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 10.5% (2022 - 10.5%) 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 OSTC does not recognize any share of the Plan's pension surplus or deficit. The last available report for the Plan was December 31, 2022. At that time the plan reported a \$3.96 billion actuarial deficit (2021 - \$0.85 billion actuarial deficit), based on actuarial liabilities of \$34.99 billion (2021 - \$34.68 billion) and actuarial assets of \$31.03 billion (2021 - \$33.83 billion). Ongoing adequacy of the current contribution rates will need to be monitored as financial market fluctuations may lead to increased future funding requirements.

THE OWEN SOUND TRANSPORTATION COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED MARCH 31, 2023

10. EMPLOYEE FUTURE BENEFIT OBLIGATIONS

OSTC provides certain benefits, including retirement benefits and other post-employment benefits, to its employees. Also, as the 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.

The employee future benefit obligations at March 31 includes the following components:

	<u>2023</u>	<u>2022</u> (as restated, note 4)
Total employee accrued benefit obligation - EPEB	\$ 2,843,636	\$ 2,722,366
Unamortized actuarial losses - EPEB	<u>(566,756)</u>	<u>(793,584)</u>
EPEB liability	<u>\$ 2,276,880</u>	<u>\$ 1,928,782</u>
Total employee accrued benefit obligation - WSIB	641,712	616,469
Unamortized actuarial gains - WSIB	<u>(32,543)</u>	<u>(18,176)</u>
WSIB liability	<u>\$ 609,169</u>	<u>\$ 598,293</u>
Total employee future benefit obligations	<u>\$ 2,886,049</u>	<u>\$ 2,527,075</u>

The continuity of the accrued employee future benefit obligation is as follows:

	<u>EPEB</u>	<u>WSIB</u>	<u>2023</u>
Balance - beginning of year	\$ 1,928,782	\$ 598,293	\$ 2,527,075
Current service cost	112,338	102,280	214,618
Interest cost	109,137	24,670	133,807
Amortization of actuarial losses (gains)	226,828	(14,367)	212,461
Employer payments	<u>(100,205)</u>	<u>(101,707)</u>	<u>(201,912)</u>
Balance - end of year	<u>\$ 2,276,880</u>	<u>\$ 609,169</u>	<u>\$ 2,886,049</u>
	<u>EPEB</u>	<u>WSIB</u>	<u>2022</u> (as restated, note 4)
Balance - beginning of year	\$ 1,700,249	\$ 578,379	\$ 2,278,628
Current service cost	87,702	58,792	146,494
Interest cost	86,212	15,246	101,458
Amortization of actuarial losses (gains)	139,612	3,970	143,582
Employer payments	<u>(84,993)</u>	<u>(58,094)</u>	<u>(143,087)</u>
Balance - end of year	<u>\$ 1,928,782</u>	<u>\$ 598,293</u>	<u>\$ 2,527,075</u>

Actuarial valuations for accounting purposes are performed every three years 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, 2022.

The actuarial valuations were 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%. For extended health care costs, a 5.667% annual rate of increase was assumed for 2023 and 2024, decreasing to a rate of 4% per year for 2029 and subsequent years.

THE OWEN SOUND TRANSPORTATION COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED MARCH 31, 2023

11. TANGIBLE CAPITAL ASSETS

In 2023, OSTC purchased \$1,008,887 (2022 - \$745,865) worth of tangible capital assets with capital funding. Capital funding of \$10,011,352 (2022 - \$nil) was received for projects that did not meet the capitalization requirements and were expensed as a result. OSTC did not use any of its own operating funds to cover additional capital costs (2022 - \$28,329).

	2023						
	<u>Land</u>	<u>Land improvements</u>	<u>Buildings and improvements</u>	<u>Equipment and other</u>	<u>Chi-Cheemaun Ferry</u>	<u>Niska Ferry</u>	<u>Total</u>
Cost, beginning of year	\$ 76,100	\$ 136,471	\$ 2,960,257	\$ 985,431	\$ 36,194,207	\$ 4,691,859	\$ 45,044,325
Additions	<u>-</u>	<u>180,777</u>	<u>-</u>	<u>127,747</u>	<u>660,425</u>	<u>39,938</u>	<u>1,008,887</u>
Cost, end of year	<u>76,100</u>	<u>317,248</u>	<u>2,960,257</u>	<u>1,113,178</u>	<u>36,854,632</u>	<u>4,731,797</u>	<u>46,053,212</u>
Accumulated amortization, beginning of year	-	17,047	1,914,934	732,136	19,160,147	1,356,404	23,180,668
Amortization	<u>-</u>	<u>19,088</u>	<u>123,982</u>	<u>53,892</u>	<u>863,911</u>	<u>156,632</u>	<u>1,217,505</u>
Accumulated amortization, end of year	<u>-</u>	<u>36,135</u>	<u>2,038,916</u>	<u>786,028</u>	<u>20,024,058</u>	<u>1,513,036</u>	<u>24,398,173</u>
Net carrying amount, end of year	<u>\$ 76,100</u>	<u>\$ 281,113</u>	<u>\$ 921,341</u>	<u>\$ 327,150</u>	<u>\$ 16,830,574</u>	<u>\$ 3,218,761</u>	<u>\$ 21,655,039</u>
	2022						
	<u>Land</u>	<u>Land improvements</u>	<u>Buildings and improvements</u>	<u>Equipment and other</u>	<u>Chi-Cheemaun Ferry</u> (as restated, note 4)	<u>Niska Ferry</u>	<u>Total</u>
Cost, beginning of year	\$ 76,100	\$ 20,200	\$ 2,912,449	\$ 858,548	\$ 35,867,715	\$ 4,563,448	\$ 44,298,460
Additions	<u>-</u>	<u>116,271</u>	<u>47,808</u>	<u>126,883</u>	<u>326,492</u>	<u>128,411</u>	<u>745,865</u>
Cost, end of year	<u>76,100</u>	<u>136,471</u>	<u>2,960,257</u>	<u>985,431</u>	<u>36,194,207</u>	<u>4,691,859</u>	<u>45,044,325</u>
Accumulated amortization, beginning of year	-	13,130	1,789,757	701,678	18,312,808	1,203,244	22,020,617
Amortization	<u>-</u>	<u>3,917</u>	<u>125,177</u>	<u>30,458</u>	<u>847,339</u>	<u>153,160</u>	<u>1,160,051</u>
Accumulated amortization, end of year	<u>-</u>	<u>17,047</u>	<u>1,914,934</u>	<u>732,136</u>	<u>19,160,147</u>	<u>1,356,404</u>	<u>23,180,668</u>
Net carrying amount, end of year	<u>\$ 76,100</u>	<u>\$ 119,424</u>	<u>\$ 1,045,323</u>	<u>\$ 253,295</u>	<u>\$ 17,034,060</u>	<u>\$ 3,335,455</u>	<u>\$ 21,863,657</u>

THE OWEN SOUND TRANSPORTATION COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED MARCH 31, 2023

12. ACCUMULATED SURPLUS

Accumulated surplus consists of the following categories:

	<u>2023</u>	<u>2022</u> (as restated, note 4)
Invested in tangible capital assets (note 11)	\$ 21,655,039	\$ 21,863,657
Employee future benefits (note 10)	(2,886,049)	(2,527,075)
General surplus	<u>6,938,903</u>	<u>6,579,931</u>
Accumulated surplus	<u>\$ 25,707,893</u>	<u>\$ 25,916,513</u>

13. GOVERNMENT FUNDING

Government funding from the Ministry of Transportation (MTO) is as follows:

	<u>2023</u>	<u>2022</u>
OSTC - Operating (a)	\$ 6,302,106	\$ 5,380,940
OSTC - Capital (b)	1,798,325	3,887,962
Niska - Operating (a)	619,619	384,372
Niska - Capital (b)	10,074,940	128,411
PITS - Operating (c)	<u>8,374,995</u>	<u>5,593,440</u>
Total	<u>\$ 27,169,985</u>	<u>\$ 15,375,125</u>

- a. Under the terms of a memorandum of understanding with the MTO, the OSTC receives both operational and capital funding from the Province of Ontario. The operational contributions are received for the Owen Sound and Moosonee operations based on an approved operating plans and are cash flowed to the OSTC on a quarterly basis. These amounts totaled \$6,921,725 (2022 - \$5,765,312).
- b. Capital contributions are paid to the OSTC on submission of invoices for capital items consistent with its approved capital plan. These amounts totaled \$11,873,265 (2022 - \$4,016,373).
- c. The OSTC has an agreement with MTO 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, in addition to costs and expenses included in these statements, the OSTC was reimbursed for MTO capital expenditures incurred of \$2,051,256 (2022 - \$1,721,469), and received \$480,000 in management fee revenues (2022 - \$480,000). This agreement expired March 31, 2023 and is continuing under the same terms and conditions, pending completion of a new agreement.

14. ECONOMIC DEPENDENCE

The OSTC is dependent on the continuing contributions from the MTO to carry on its operations.

15. COMMITMENTS

In the normal course of its operations, the OSTC is subject to litigations, arbitrations, and claims. Contingent liabilities are recognized for events that have occurred prior to the financial statement date, where it is likely that the OSTC is liable, and the amount can be reasonably estimated. No amounts have been included in these financial statements.

The OSTC has entered into contracts for dredging services totaling \$15,186,829, with \$10,011,352 included in these financial statements, with the remainder expected to occur in fiscal 2024. These amounts are approved to be funded by the MTO through their capital funding process.

THE OWEN SOUND TRANSPORTATION COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED MARCH 31, 2023

16. SEGMENT INFORMATION

The 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:

OSTC Administration and the Ferry Service to Manitoulin Island (OSTC)

The OSTC operates from its head office in Owen Sound and runs the ferry service from Tobermory to Manitoulin Island.

Ferry Service to Pelee Island (Pelee)

The OSTC runs the ferry service from Leamington and Kingsville to Pelee Island and to Sandusky Ohio.

Ferry Service to Moose Factory Island (M.V. Niska 1)

The OSTC contracts the ferry service from Moosonee and Moose Factory Island on the Moose River, in Northern Ontario.

	2023			
	<u>OSTC</u>	<u>Pelee</u>	<u>M.V. Niska 1</u>	<u>Total</u>
Revenue				
MTO contribution	\$ 8,100,430	\$ 8,374,995	\$ 10,694,560	\$ 27,169,985
Vehicles	3,205,219	670,818	-	3,876,037
Passenger revenue	2,448,862	675,846	4,263	3,128,971
Cafeteria and gift shop	1,008,117	50,941	-	1,059,058
Interest, freight and other	182,537	103,977	94,196	380,710
	<u>14,945,165</u>	<u>9,876,577</u>	<u>10,793,019</u>	<u>35,614,761</u>
Expenses				
Repairs and maintenance	1,628,718	988,290	10,194,168	12,811,176
Salaries and wages	5,135,345	3,654,486	115,000	8,904,831
Fuel	1,837,143	2,409,027	29,341	4,275,511
General and administrative expenses	2,879,285	840,517	141,594	3,861,396
Employee benefits	1,299,429	962,905	-	2,262,334
Services	754,172	609,687	306,881	1,670,740
Amortization	1,060,873	-	156,632	1,217,505
Utilities	245,609	247,022	4,995	497,626
Tools and operating supplies	156,580	164,643	1,039	322,262
	<u>14,997,154</u>	<u>9,876,577</u>	<u>10,949,650</u>	<u>35,823,381</u>
Operating deficit	\$ (51,989)	\$ -	\$ (156,631)	\$ (208,620)
	2022			
	<u>OSTC</u>	<u>Pelee</u>	<u>M.V. Niska 1</u>	<u>Total</u>
Revenue				
MTO contribution	\$ 9,268,902	\$ 5,593,440	\$ 512,783	\$ 15,375,125
Vehicles	2,939,456	486,607	860	3,426,923
Passenger revenue	1,982,209	368,453	12,216	2,362,878
Interest, freight and other	65,647	95,040	184,239	344,926
Cafeteria and gift shop	3,156	-	-	3,156
	<u>14,259,370</u>	<u>6,543,540</u>	<u>710,098</u>	<u>21,513,008</u>
Expenses				
Salaries and wages	4,579,151	2,403,571	94,357	7,077,079
Repairs and maintenance	4,080,371	907,539	119,387	5,107,297
General and administrative expenses	2,305,369	591,712	142,556	3,039,637
Fuel	964,748	1,057,384	38,389	2,060,521
Employee benefits	1,100,771	731,908	-	1,832,679
Amortization	1,006,891	-	153,160	1,160,051
Services	174,723	423,991	310,827	909,541
Utilities	207,045	329,592	3,361	539,998
Tools and operating supplies	101,327	97,843	1,221	200,391
	<u>14,520,396</u>	<u>6,543,540</u>	<u>863,258</u>	<u>21,927,194</u>
Operating deficit	\$ (261,026)	\$ -	\$ (153,160)	\$ (414,186)

THE OWEN SOUND TRANSPORTATION COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED MARCH 31, 2023

17. **FINANCIAL INSTRUMENT RISK MANAGEMENT**

The OSTC, through its financial assets and liabilities, has exposure to the following risks from its use of financial instruments:

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 6.

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, 2023 there is no impairment allowance.

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.

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.

i) *Interest rate risk*

Interest rate risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate due to changes in market interest rates. OSTC's maximum exposure to interest rate risk relates to the amounts withdrawn under the OSTC's line of credit which generally are based on varying market interest rates.

Changes in risk

Aside from the interest rate risk newly applicable in 2023 due to the use of the OSTC's line of credit, there have been no other significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

18. **COMPARATIVE FIGURES**

Comparative figures have been reclassified where necessary to conform to the financial statement presentation adopted in the current year.