

Hamilton Port Authority

Financial Statements
December 31, 2002

February 14, 2003

Auditors' Report

**To the Board of the
Hamilton Port Authority**

We have audited the balance sheet of the **Hamilton Port Authority** as at December 31, 2002 and the statements of revenue, expenses and equity and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Hamilton Port Authority as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Hamilton, Ontario

Hamilton Port Authority

Balance Sheet

As at December 31, 2002

	2002 \$	2001 \$
Assets		
Current assets		
Cash	1,338,557	1,180,259
Short-term investments, restricted for future harbour developments	31,617,822	27,723,319
Accounts receivable		
Trade	2,116,717	1,900,596
Interest	118,834	60,518
Other	190,217	267,450
Other current assets	522,196	380,262
	<hr/>	<hr/>
	35,904,343	31,512,404
Property and equipment (note 3)	<hr/>	<hr/>
	61,439,660	63,982,699
	<hr/>	<hr/>
	97,344,003	95,495,103
Liabilities and Equity		
Current liabilities		
Accounts payable and accrued liabilities	2,340,714	2,989,372
Employee future benefits (note 4)	736,434	582,266
	<hr/>	<hr/>
	3,077,148	3,571,638
Equity	<hr/>	<hr/>
	94,266,855	91,923,465
	<hr/>	<hr/>
	97,344,003	95,495,103
Contingencies (note 9)		

Approved by the Board

_____ Director

_____ Director

Hamilton Port Authority

Statement of Revenue, Expenses and Equity

	Year ended December 31, 2002 \$	Eight-month period ended December 31, 2001 \$
Revenue from operations		
Harbour	1,583,970	977,993
Equipment	786,471	455,502
Piers and property	9,507,385	6,051,455
Marine dockyard	2,116,404	1,547,577
	<u>13,994,230</u>	<u>9,032,527</u>
Operating expenses		
Harbour	735,016	447,324
Equipment	324,058	173,539
Piers and property	2,598,455	2,092,276
Marine dockyard	1,673,994	1,239,335
	<u>5,331,523</u>	<u>3,952,474</u>
Income from operations	<u>8,662,707</u>	<u>5,080,053</u>
Administrative, office and general expenses	<u>3,875,774</u>	<u>2,573,369</u>
Other expenses (income)		
Amortization	3,406,776	2,254,743
(Gain) loss on disposal of property and equipment	(191,423)	2,888
Interest income	(793,408)	(870,373)
Interest expense	21,598	17,708
	<u>2,443,543</u>	<u>1,404,966</u>
Excess of revenue over expenses for the period	2,343,390	1,101,718
Equity – Beginning of period	<u>91,923,465</u>	<u>90,821,747</u>
Equity – End of period	<u>94,266,855</u>	<u>91,923,465</u>

Hamilton Port Authority

Statement of Cash Flows

	Year ended December 31, 2002	Eight-month period ended December 31, 2001
	\$	\$
Cash provided by (used in)		
Operating activities		
Excess of revenue over expenses for the period	2,343,390	1,101,718
Items not affecting cash		
Amortization	3,406,776	2,254,743
(Gain) loss on disposal of property and equipment	(191,423)	2,888
Employee future benefits expense	219,500	71,667
Amounts funded related to employee future benefits	(65,332)	(68,351)
	5,712,911	3,362,665
Change in non-cash working capital items related to operations (note 5)	(987,796)	1,452,840
	<u>4,725,115</u>	<u>4,815,505</u>
Investing activities		
Purchase of property and equipment	(1,003,714)	(8,717,452)
Proceeds on disposal of property and equipment	331,400	-
	<u>(672,314)</u>	<u>(8,717,452)</u>
Net increase (decrease) in cash and short-term investments	4,052,801	(3,901,947)
Cash and short-term investments – Beginning of period	<u>28,903,578</u>	<u>32,805,525</u>
Cash and short-term investments – End of period	<u>32,956,379</u>	<u>28,903,578</u>
Supplemental disclosure of cash flow information		
Cash received during the period in respect of		
Interest	735,092	1,157,017
Cash paid during the period in respect of		
Interest	21,598	17,708

Hamilton Port Authority

Notes to Financial Statements

December 31, 2002

1 Canada Marine Act Status

The Hamilton Harbour Commissioners was a corporation established and operated pursuant to The Hamilton Harbour Commissioners Act, 2 George V c.98, 1912. Effective May 1, 2001, The Hamilton Harbour Commissioners was continued under the Canada Marine Act as the Hamilton Port Authority (“Authority”).

The comparative figures of the balance sheet and statement of revenue and expenses represent the financial position and the results of operations of the Authority for the 8-month period ended December 31, 2001.

2 Significant accounting policies

Property and equipment

Property and equipment are recorded at acquisition cost. Amortization is provided on a straight-line basis at rates designed to amortize the cost over the useful lives of the assets as follows:

Docks and harbour improvements	2 – 20%
Buildings	2½ – 20%
Vessels and equipment	10 – 20%

Capital development in process

The Authority includes all costs to develop an asset in the capital development in process category until the project is substantially complete. At that time, the asset is transferred to property and equipment and amortization commences according to established policy.

Other current assets

Other current assets includes inventories of merchandise which is recorded at the lower of cost, determined on a first-in, first-out, basis and replacement cost.

Federal stipend

Under the Canada Marine Act, the Authority is obligated to pay annually to the Minister of Transport a charge to maintain its letters patent in good standing. The charge is calculated by reference to gross revenues at rates varying between 2% and 6%, depending on the gross revenue amount determined. The federal stipend for the year ended December 31, 2002 amounted to \$426,078 (2001 - \$207,504). This amount is included in operating expenses in the statement of revenue and expenses and in accounts payable and accrued liabilities.

Hamilton Port Authority

Notes to Financial Statements

December 31, 2002

Payments in lieu of municipal taxes

Payments in lieu of municipal taxes are based on estimated municipal assessments adjusted in accordance with the Municipal Grants Act. These amounts are paid only after the amounts have been audited by the Municipal Grants Division of Public Works Canada. Any subsequent adjustments are reflected in the accounts in the year of settlement. Payments in lieu of municipal taxes for the year ended December 31, 2002 are estimated to be \$543,010 (2001 - \$588,417). This amount is included in operating expenses in the statement of revenue and expenses. The balance owing at year end of \$234,797 (2001 - \$588,417) is included in accounts payable and accrued liabilities.

Income taxes

The Authority is exempt from income taxes under Section 149(1)(d) of the Income Tax Act.

Pensions

The Authority accrues its obligations under employee benefit plans as the employees render the service necessary to earn the pension and other employee future benefits. The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro rated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may vary from the current estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

Financial instruments

The carrying amounts of cash, short-term investments, accounts receivable, and accounts payable and accrued liabilities approximate fair value due to the short-term maturities of these instruments.

Hamilton Port Authority

Notes to Financial Statements

December 31, 2002

3 Property and equipment

			2002	2001
	Cost	Accumulated amortization	Net	Net
	\$	\$	\$	\$
Land	20,784,792	-	20,784,792	20,755,694
Docks and harbour improvements	44,415,374	20,118,928	24,296,446	24,789,176
Buildings	31,166,397	16,449,032	14,717,365	16,518,340
Vessels and equipment	7,110,084	5,732,603	1,377,481	1,655,913
Capital development in progress	263,576	-	263,576	263,576
	103,740,223	42,300,563	61,439,660	63,982,699

4 Employee future benefits

The Authority has non-contributory defined benefit pension plans for salaried employees and C.U.P.E. Local 5167 members. Pension costs are computed on the projected benefit method based on an average expected remaining service life of the employee groups of 15 years for salaried employees and 18 years for C.U.P.E. Local 5167 members. The Authority also provides other retirement and post-employment benefits to certain of its hourly and salaried employees. The Authority also maintains a Supplementary Executive Retirement Plan ("SERP") in respect of a certain employee. The following information has been calculated by an independent actuary based on assumptions determined by management for financial statement purposes.

Hamilton Port Authority

Notes to Financial Statements

December 31, 2002

Information about the Authority's benefit plans is as follows:

	2002	
	Pension benefit plans and SERP \$	Other benefit plans \$
Net expense	188,600	30,900
Accrued benefit obligation	6,926,000	216,000
Fair value of plan assets	5,436,989	-
Funded status – plan deficit	(1,489,011)	(216,000)
Accrued benefit liability	(663,187)	(73,247)
Discount rate	6.5%	6.5%
Expected long-term rate of return on plan assets	7.0%	N/A
Rate of compensation increase	4.5%	N/A
Employer contributions	56,000	-
Benefits paid	(325,200)	(9,332)
	2001	
	Pension benefit plans and SERP \$	Other benefit plans \$
Net expense	51,800	19,867
Accrued benefit obligation	6,538,200	233,500
Fair value of plan assets	6,429,403	-
Funded status – plan deficit	(108,797)	(233,500)
Accrued benefit liability	(535,317)	(46,949)
Discount rate	6.5%	6.5%
Expected long-term rate of return on plan assets	7.0%	N/A
Rate of compensation increase	4.5%	N/A
Employer contributions	56,000	-
Benefits paid	(165,658)	(12,351)

Hamilton Port Authority

Notes to Financial Statements

December 31, 2002

5 Non-cash working capital items

The change in non-cash working capital is comprised of the change in the following items:

	2002	2001
	\$	\$
Trade accounts receivable	(216,121)	163,977
Interest receivable	(58,316)	286,643
Other receivables	77,233	372,989
Other current assets	(141,934)	(42,592)
Accounts payable and accrued liabilities	(648,658)	671,823
	<hr/>	<hr/>
	(987,796)	1,452,840

6 Canada Marine Act Port Authorities Management Regulations

The following disclosure is required pursuant to the Canada Marine Act:

	Year ended December 31, 2002	Eight-month period ended December 31, 2001
	\$	\$
Directors' remuneration		
F. Eisenberger (chair)	22,500	15,000
R. Swenor	17,800	11,267
I. Lanza	18,000	11,667
J. Marsales	17,800	11,767
L. Russell	17,500	11,667
R. Charters	18,300	11,390
W. Mulkewich	17,500	10,602
CEO's remuneration		
Salary (R.A. Edwards)	221,028	81,164
Taxable benefits	999	717
Mileage allowance	-	2,800
Wages and salaries	2,650,599	1,849,378
Payroll taxes and fringe benefits	747,186	417,035
Professional fees and consulting	514,956	429,340
Maintenance and repair costs	1,413,453	1,294,953
Amortization	3,406,776	2,254,743
Realty taxes	197,586	82,370
Payments in lieu of taxes	543,010	588,417

Hamilton Port Authority

Notes to Financial Statements

December 31, 2002

7 Supplementary revenue and expenses information

The supplementary information for 2001 represents the revenue and expenses of The Hamilton Harbour Commissioners for the four-month period ended April 30, 2001 combined with the revenue and expenses of the Authority for the eight-month period ended December 31, 2001.

The supplementary information for 2002 represents the revenue and expenses of the Authority for the year ended December 31, 2002.

	2002 \$	2001 \$
Revenue from operations		
Harbour	1,583,970	1,258,099
Equipment	786,471	645,249
Piers and property	9,507,385	8,880,064
Marine dockyard	2,116,404	2,175,054
	<u>13,994,230</u>	<u>12,958,466</u>
Operating expenses		
Harbour	735,016	650,549
Equipment	324,058	294,504
Piers and property	2,598,455	2,641,210
Marine dockyard	1,673,994	1,702,794
	<u>5,331,523</u>	<u>5,289,057</u>
Income from operations	<u>8,662,707</u>	<u>7,669,409</u>
Administrative, office and general expenses	<u>3,875,774</u>	<u>3,801,092</u>
Other expenses (income)		
Amortization	3,406,776	3,127,970
(Gain) loss on disposal of property and equipment	(191,423)	1,405
Interest income	(793,408)	(1,473,667)
Interest expense	21,598	17,708
	<u>2,443,543</u>	<u>1,673,416</u>
Excess of revenue over expenses for the year	<u>2,343,390</u>	<u>2,194,901</u>

Hamilton Port Authority

Notes to Financial Statements

December 31, 2002

8 Comparative figures

Certain comparative figures have been restated to conform to the current year's presentation.

9 Contingencies

During 2000, the Authority filed a claim against National Petroleum Products Corporation ("NPPC") claiming approximately \$2 million for non-payment of rent and breach of covenants of a lease agreement. Subsequently, the Authority was served with a claim by NPPC, claiming \$900 million for damages for breach of confidentiality and frustration of NPPC's business plan.

During the year, the Authority was named a defendant in an action in which the plaintiff has claimed \$5 million.

Although the final outcomes cannot be predicted with certainty, the Authority, based upon a thorough review of the facts and advice of counsel, believe that the ultimate disposition of these issues will not have a materially adverse effect on the Authority's financial position or results of operations.

February 14, 2003

Hamilton Port Authority
Additional Comments of Auditors
For the year ended December 31, 2002

The accompanying schedules are presented as supplementary information only. In this respect, they do not form part of the financial statements of the **Hamilton Port Authority** for the year ended December 31, 2002 and hence are excluded from the opinion expressed in our report dated February 14, 2003 on such financial statements. The information in these schedules has been subject to audit procedures only to the extent necessary to express an opinion on the financial statements and, in our opinion, is fairly presented in all respects material to those financial statements.

PricewaterhouseCoopers LLP

Chartered Accountants

Hamilton, Ontario

Hamilton Port Authority

Schedule of Revenue

	Year ended December 31, 2002 \$	Eight-month period ended December 31, 2001 \$
Revenue from operations		
Harbour		
Cargo rates	1,583,970	977,993
Equipment		
Rental	786,471	455,502
Piers and property		
Piers and property	6,557,423	4,703,069
Buildings	2,525,957	1,041,684
Rights of way	145,039	135,546
Berthage	278,966	150,001
Landfill fees	-	21,155
	9,507,385	6,051,455
Marine dockyard	2,116,404	1,547,577
Total revenue	13,994,230	9,032,527
Other income		
Interest on investments	740,053	811,772
Interest – Other	53,355	58,601
	793,408	870,373

Hamilton Port Authority

Schedule of Operating Expenses

	Year ended December 31, 2002 \$	Eight-month period ended December 31, 2001 \$
Harbour		
Harbour control and marine safety	213,516	112,283
Vessel operations	38,173	39,068
Salaries and wages	483,327	295,973
	<hr/>	<hr/>
	735,016	447,324
	<hr/>	<hr/>
Equipment		
Equipment operating expenses	204,577	96,057
Salaries and wages	119,481	77,482
	<hr/>	<hr/>
	324,058	173,539
	<hr/>	<hr/>
Piers and property		
Realty taxes	153,809	82,370
Other operating expenses	2,444,646	1,962,540
Land reclaim	-	47,366
	<hr/>	<hr/>
	2,598,455	2,092,276
	<hr/>	<hr/>
Marine dockyard		
Material, gasoline and sublets	365,909	369,137
Other operating expenses	412,305	260,206
Salaries and wages	895,780	609,992
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	1,673,994	1,239,335
	<hr/>	<hr/>
	5,331,523	3,952,474
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Hamilton Port Authority

Schedule of Administrative, Office and General Expenses

	Year ended December 31, 2002 \$	Eight-month period ended December 31, 2001 \$
Benefits and employee future benefit plan expenses	597,060	319,832
Directors' remuneration	129,400	83,360
Engineering	239,298	136,350
Fire and general insurance	398,564	223,042
Management and office salaries	1,013,834	628,126
Miscellaneous expense	233,644	179,636
Net sailing programme (gross revenue \$318,374)	10,007	3,140
Office expenses and car allowances	404,970	244,751
Professional fees	454,602	429,340
Trade development and public relations	198,290	203,376
Travelling expenses	45,978	25,213
Workers' compensation and unemployment insurance	150,127	97,203
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	3,875,774	2,573,369
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