

Hamilton Port Authority

Financial Statements
December 31, 2003

February 11, 2004

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, 2003 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, 2003 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, 2003

	2003 \$	2002 \$
Assets		
Current assets		
Cash	879,071	1,338,557
Short-term investments, restricted for future harbour developments	33,499,954	31,617,822
Accounts receivable		
Trade	1,559,009	2,116,717
Interest	448,393	118,834
Other	54,655	190,217
Other current assets	573,025	522,196
	<hr/>	<hr/>
	37,014,107	35,904,343
Property and equipment (note 3)	64,292,258	61,439,660
	<hr/>	<hr/>
	101,306,365	97,344,003
Liabilities and Equity		
Current liabilities		
Accounts payable and accrued liabilities	4,796,587	2,340,714
Employee future benefits (note 4)	1,048,693	736,434
	<hr/>	<hr/>
	5,845,280	3,077,148
Equity	95,461,085	94,266,855
	<hr/>	<hr/>
	101,306,365	97,344,003
Contingencies (note 7)		

Approved by the Board

_____ Director

_____ Director

Hamilton Port Authority

Statement of Revenue, Expenses and Equity For the year ended December 31, 2003

	2003 \$	2002 \$
Revenue from operations		
Harbour	1,400,609	1,583,970
Equipment	674,261	786,471
Piers and property	9,963,919	9,507,385
Marine dockyard	1,786,263	2,116,404
	<hr/> 13,825,052	<hr/> 13,994,230
Operating expenses		
Harbour	571,306	715,387
Equipment	433,465	324,058
Piers and property	3,028,999	2,755,321
Marine dockyard	1,714,997	1,521,460
	<hr/> 5,748,767	<hr/> 5,316,226
Income from operations	<hr/> 8,076,285	<hr/> 8,678,004
Administrative, office and general expenses	<hr/> 4,600,458	<hr/> 3,891,071
Other expenses (income)		
Amortization	3,311,031	3,406,776
Loss (gain) on disposal of property and equipment	19,956	(191,423)
Interest income	(1,078,047)	(793,408)
Interest expense	28,657	21,598
	<hr/> 2,281,597	<hr/> 2,443,543
Excess of revenue over expenses for the year	<hr/> 1,194,230	<hr/> 2,343,390
Equity – Beginning of year	<hr/> 94,266,855	<hr/> 91,923,465
Equity – End of year	<hr/> <hr/> 95,461,085	<hr/> <hr/> 94,266,855

Hamilton Port Authority

Statement of Cash Flows

For the year ended December 31, 2003

	2003 \$	2002 \$
Cash provided by (used in)		
Operating activities		
Excess of revenue over expenses for the year	1,194,230	2,343,390
Items not affecting cash		
Amortization	3,311,031	3,406,776
Loss (gain) on disposal of property and equipment	19,956	(191,423)
Employee future benefits expense	409,477	219,500
Amounts funded related to employee future benefits	(97,218)	(65,332)
	<hr/>	<hr/>
	4,837,476	5,712,911
Change in non-cash working capital items related to operations (note 5)	2,768,755	(987,796)
	<hr/>	<hr/>
	7,606,231	4,725,115
Investing activities		
Purchase of property and equipment	(6,188,885)	(1,003,714)
Proceeds on disposal of property and equipment	5,300	331,400
	<hr/>	<hr/>
	(6,183,585)	(672,314)
Net increase in cash and short-term investments	1,422,646	4,052,801
Cash and short-term investments – Beginning of year	32,956,379	28,903,578
	<hr/>	<hr/>
Cash and short-term investments – End of year	34,379,025	32,956,379
Supplemental disclosure of cash flow information		
Cash received during the year in respect of		
Interest	748,488	735,092
Cash paid during the year in respect of		
Interest	28,657	21,598

Hamilton Port Authority

Notes to Financial Statements

December 31, 2003

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").

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, 2003 amounted to \$396,401 (2002 - \$426,078). This amount is included in operating expenses in the statement of revenue and expenses and in accounts payable and accrued liabilities.

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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. Payments in lieu of municipal taxes for the year ended December 31, 2003 are estimated to be \$563,883 (2002 - \$543,010). This amount is included in operating expenses in the statement of revenue and expenses. The balance owing at year end of \$413,352 (2002 - \$234,797) 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, 2003

3 Property and equipment

			2003	2002
	Cost	Accumulated	Net	Net
	\$	amortization	\$	\$
		\$		
Land	21,230,001	-	21,230,001	20,784,792
Docks and harbour improvements	45,938,515	21,371,702	24,566,813	24,296,446
Buildings	34,887,282	18,154,715	16,732,567	14,717,365
Vessels and equipment	7,369,036	5,945,279	1,423,757	1,377,481
Capital development in progress	339,120	-	339,120	263,576
	109,763,954	45,471,696	64,292,258	61,439,660

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.

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

	2003	
	Pension benefit plans and SERP \$	Other benefit plans \$
Net expense	378,377	31,100
Accrued benefit obligation	7,544,569	226,700
Fair value of plan assets	5,261,588	-
Funded status – plan deficit	(2,282,981)	(226,700)
Accrued benefit liability	(990,294)	(58,399)
Discount rate	6.0%	6.25%
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	30,666
Benefits paid	(746,907)	(10,552)

	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)

Hamilton Port Authority

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5 Non-cash working capital items

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

	2003	2002
	\$	\$
Trade accounts receivable	557,708	(216,121)
Interest receivable	(329,559)	(58,316)
Other receivables	135,562	77,233
Other current assets	(50,829)	(141,934)
Accounts payable and accrued liabilities	2,455,873	(648,658)
	<u>2,768,755</u>	<u>(987,796)</u>

6 Canada Marine Act Port Authorities Management Regulations

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

	2003	2002
	\$	\$
Directors' remuneration		
F. Eisenberger (chair)	23,500	22,500
R. Swenor	17,200	17,800
I. Lanza	16,600	18,000
J. Marsales	10,689	17,800
L. Russell	13,050	17,500
R. Charters	16,100	18,300
W. Mulkewich	16,100	17,500
CEO's remuneration		
Salary (R. A. Edwards)	-	221,028
Salary (J. K. Robson)	150,000	-
Taxable benefits	1,296	999
Wages and salaries	2,839,969	2,650,599
Payroll taxes and fringe benefits	956,699	747,186
Professional fees and consulting	303,499	514,956
Maintenance and repair costs	1,813,610	1,413,453
Amortization	3,311,031	3,406,776
Realty taxes	167,543	197,586
Payments in lieu of taxes	563,883	543,010

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7 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.

The Authority has been named as a defendant in other actions in which the plaintiffs have claimed \$6 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.

8 Comparative figures

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

