

Hamilton Port Authority

Financial Statements
December 31, 2008

February 19, 2009

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, 2008 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, 2008 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, Licensed Public Accountants

Hamilton, Ontario

Hamilton Port Authority

Balance Sheet

As at December 31, 2008

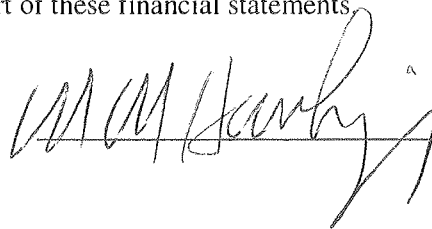
	2008 \$	2007 \$
Assets		
Current assets		
Cash	128,617	332,800
Short-term investments, restricted for future harbour developments	15,298,396	11,904,767
Restricted cash (note 9)	928,463	1,396,407
Accounts receivable		
Trade	1,406,461	2,277,629
Interest	16,564	9,221
Other	33,104	82,860
Other current assets	324,679	404,536
	<u>18,136,284</u>	<u>16,408,220</u>
Property and equipment (note 3)	92,260,953	94,998,181
	<u>110,397,237</u>	<u>111,406,401</u>
Liabilities and Equity		
Current liabilities		
Accounts payable and accrued liabilities	2,888,450	4,742,305
Employee future benefits (note 4)	338,618	500,604
Due to Randle Reef Sediment Remediation Project (note 9)	928,463	1,396,407
	<u>4,155,531</u>	<u>6,639,316</u>
Equity	106,241,706	104,767,085
	<u>110,397,237</u>	<u>111,406,401</u>
Contingencies (note 7)		

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

Approved by the Board



Director



Director

Hamilton Port Authority

Statement of Revenue, Expenses and Equity For the year ended December 31, 2008

	2008 \$	2007 \$
Revenue from operations		
Harbour	1,617,882	1,598,469
Equipment	278,771	446,270
Piers and property	12,945,905	13,416,449
Marine dockyard	1,707,550	1,631,928
	<hr/> 16,550,108	<hr/> 17,093,116
Operating expenses		
Harbour	610,822	595,255
Equipment	109,978	198,896
Piers and property	2,950,522	3,221,741
Marine dockyard	1,263,679	1,227,542
	<hr/> 4,935,001	<hr/> 5,243,434
Income from operations	<hr/> 11,615,107	<hr/> 11,849,682
Administrative, office and general expenses	<hr/> 5,533,787	<hr/> 5,984,671
Other expenses (income)		
Amortization	5,020,927	4,698,256
Interest income	(426,249)	(800,631)
Federal stipend on interest income	12,021	23,111
	<hr/> 4,606,699	<hr/> 3,920,736
Excess of revenue over expenses for the year	<hr/> 1,474,621	<hr/> 1,944,275
Equity – Beginning of year	<hr/> 104,767,085	<hr/> 102,822,810
Equity – End of year	<hr/> 106,241,706	<hr/> 104,767,085

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

Hamilton Port Authority

Statement of Cash Flows

For the year ended December 31, 2008

	2008 \$	2007 \$
Cash provided by (used in)		
Operating activities		
Excess of revenue over expenses for the year	1,474,621	1,944,275
Items not affecting cash		
Amortization	5,020,927	4,698,256
Employee future benefits expense	465,455	547,236
Amounts funded related to employee future benefits	(627,441)	(692,188)
	<hr/>	<hr/>
	6,333,562	6,497,579
Change in non-cash working capital items related to operations (note 5)	(860,417)	(55,036)
	<hr/>	<hr/>
	5,473,145	6,442,543
Investing activities		
Purchase of property and equipment	(2,381,778)	(13,366,514)
Proceeds on disposal of property and equipment	98,079	-
	<hr/>	<hr/>
	(2,283,699)	(13,366,514)
Net increase (decrease) in cash and short-term investments	3,189,446	(6,923,971)
Cash and short-term investments – Beginning of year	12,237,567	19,161,538
	<hr/>	<hr/>
Cash and short-term investments – End of year	15,427,013	12,237,567
Cash and short-term investments – End of year is comprised of the following		
Cash	128,617	332,800
Short-term investments, restricted for future harbour developments	15,298,396	11,904,767
	<hr/>	<hr/>
	15,427,013	12,237,567
Supplemental disclosure of cash flow information		
Cash received during the year in respect of		
Interest	426,249	761,488
Cash paid during the year in respect of		
Federal stipend (note 2)	478,010	518,485

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

Hamilton Port Authority

Notes to Financial Statements

December 31, 2008

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

Investments

Short-term investments are recorded at cost which approximates market value.

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.

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	4 – 15%
Vessels and equipment	10 – 20%

Capital development in progress

The Authority includes all costs to develop an asset in the capital development in progress 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.

Valuation of long-lived assets

The Authority periodically evaluates the carrying value of its long-lived assets, including, but not limited to, property and equipment. The carrying value of a long-lived asset is considered impaired when the undiscounted cash flow from such asset is estimated to be less than carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset.

Hamilton Port Authority

Notes to Financial Statements

December 31, 2008

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, 2008 amounted to \$478,010 (2007 – \$518,485). This amount is included in operating expenses and other expenses in the statement of revenue and expenses and in accounts payable and accrued liabilities.

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, 2008 are estimated to be \$774,662 (2007 – \$519,559). This amount is included in operating expenses in the statement of revenue and expenses.

Income taxes

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

Pensions and other retirement benefits

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, expected health care costs and other actuarial factors. 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. Past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.

On January 1, 2000, the Authority adopted the new accounting standard on employee future benefits using the prospective application method. The Authority is amortizing the transitional obligation on a straight-line basis over 15 years for the Salaried Plan and over 18 years for the Hourly Plan, which were the average remaining service periods of employees expected to receive benefits under the benefit plans as of January 1, 2000.

Hamilton Port Authority

Notes to Financial Statements

December 31, 2008

Use of estimates

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.

3 Property and equipment

	2008		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Land	37,969,427	-	37,969,427
Docks and harbour improvements	62,966,265	28,902,318	34,063,947
Buildings	44,477,248	29,317,665	15,159,583
Vessels and equipment	11,058,645	7,198,382	3,860,263
Capital development in progress	1,207,733	-	1,207,733
	157,679,318	65,418,365	92,260,953
	2007		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Land	39,499,585	-	39,499,585
Docks and harbour improvements	58,486,482	27,198,902	31,287,580
Buildings	45,301,895	27,389,968	17,911,927
Vessels and equipment	12,135,900	6,951,464	5,184,436
Capital development in progress	1,114,653	-	1,114,653
	156,538,515	61,540,334	94,998,181

Hamilton Port Authority

Notes to Financial Statements

December 31, 2008

4 Employee future benefits

The Authority has non-contributory defined benefit pension plans for salaried employees (the “Salaried Plan”) and hourly employees (the “Hourly Plan”). 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”) which includes a supplementary pension arrangement for a former executive and the new supplementary retirement plan for active members introduced January 1, 2005. The SERP is not funded. Pension benefits are based on length of service and final average earnings.

The Authority used the measurement date of November 30 for the years ended December 31, 2008 and 2007.

The most recent actuarial valuation of the Salaried Plan and the Hourly Plan was December 31, 2006. The next required valuation for the Plans is December 31, 2009.

Reconciliation of the funded status of the benefit plans to the amounts recorded in the financial statements

	Pension benefit plans and SERP		Other benefit plans	
	2008 \$	2007 \$	2008 \$	2007 \$
Fair value of plan assets	6,454,565	8,156,247	-	-
Accrued benefit obligation	7,530,065	9,303,092	213,700	242,600
Funded status – plan deficit	(1,075,500)	(1,146,845)	(213,700)	(242,600)
Unamortized transitional obligation (asset)	(688,109)	(799,182)	108,700	120,800
Unamortized past service costs	198,409	218,444	-	-
Unamortized net actuarial loss	1,307,833	1,283,531	(79,200)	(35,200)
Employers contributions during period from measurement date to fiscal year end	102,649	99,948	300	500
	(154,718)	(344,104)	(183,900)	(156,500)

Cash payments

Total cash payments for employee future benefits for 2008, consisting of cash contributed by the Authority to its funded pension plans and cash payments directly to beneficiaries for its unfunded other benefit plans was \$627,441 (2007 - \$692,188).

Hamilton Port Authority

Notes to Financial Statements

December 31, 2008

Employee future benefits costs recognized in the year

	2008 \$	2007 \$
Pension benefit plans and SERP	430,455	511,236
Other benefit plans	35,000	36,000
	<hr/> 465,455	<hr/> 547,236

Benefits paid

Benefits paid by the pension benefit plans were \$805,808 (2007 - \$470,836) and by other benefit plans were \$7,800 (2007 - \$11,700).

Plan assets

Plan assets relating to the pension benefit plans are comprised of the following:

	2008	2007
Canadian equity securities	35%	36%
Foreign equity securities	20%	24%
Fixed income	45%	37%
Other	-	3%
	<hr/> 100%	<hr/> 100%

Significant assumptions

The significant assumptions used are as follows:

	<u>Pension benefit plans and SERP</u>		<u>Other benefit plans</u>	
	2008	2007	2008	2007
Accrued benefit obligation as of December 31				
Discount rate	7.1%	5.7%	7.1%	5.7%
Rate of compensation increase	3.25%	4.0%	-	-
Benefit costs for years ended December 31				
Discount rate	5.7%	5.0%	5.7%	5.0%
Expected long-term rate of plan assets	6.5%	6.25%	-	-
Rate of compensation increase	4.0%	4.25%	-	-

Hamilton Port Authority

Notes to Financial Statements

December 31, 2008

5 Non-cash working capital items

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

	2008	2007
	\$	\$
Trade accounts receivable	871,168	(454,557)
Interest receivable	(7,343)	20,711
Other receivables	49,756	222,441
Other current assets	79,857	105,968
Accounts payable and accrued liabilities	(1,853,855)	50,401
	<u>(860,417)</u>	<u>(55,036)</u>

6 Canada Marine Act Port Authorities Management Regulations

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

	2008	2007
	\$	\$
Directors' remuneration		
J. Cimba	13,517	-
M. Hawkrigg, Chair	17,169	-
J. Holditch	10,700	29,050
D. McKinnon	21,500	29,850
E. Minich	6,672	-
D. Mothersill	7,883	30,650
A. Peckham (2006/07 chair)	11,683	40,200
A. Root	6,272	-
V. Sgro	7,083	27,450
D. Skidmore, Vice-Chair	22,300	18,248
M. Wiebe	7,883	28,250
CEO's remuneration		
Salary and bonus (J. K. Robson)	264,792	290,396
Taxable benefits (J. K. Robson)	-	1,368
Salary (T. Valeri – Interim CEO)	48,672	3,744
Salary (B. Wood)	149,808	-
Taxable benefits (B. Wood)	112	-
Wages and salaries	3,428,589	3,801,570
Payroll taxes and fringe benefits	1,041,931	1,088,267
Professional fees and consulting	676,177	717,125
Maintenance and repair costs	1,097,413	1,289,261
Amortization	5,020,927	4,698,256
Realty taxes	57,419	57,575
Payments in lieu of taxes	774,662	519,559

Hamilton Port Authority

Notes to Financial Statements

December 31, 2008

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.

In addition to the foregoing, there are various legal claims outstanding that have arisen in the normal course of business.

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, beyond amounts accrued, on the Authority’s financial position or results of operations.

8 Government assistance

Ministry of the Environment

During fiscal 2004, the Authority and the Ministry of the Environment (“Ministry”), entered into two agreements. One related to the evaluation of the Sherman Inlet for its suitability for a habitat remediation project including the creation of a fish habitat, the second agreement related to the development of a complete hydraulic model of the Randle Reef engineered containment facility and the additional triangular extension of the Pier 15 dock structure.

In accordance with the terms of the agreements, the Ministry granted the Authority \$75,000 for each agreement to be spent on certain specified tasks which were to be completed by specific points in time. Funds not spent by the dates specified in the agreements are repayable to the Ministry.

Government assistance received under these agreements in 2008 amounted to \$Nil (2007 - \$Nil). As the Authority has not spent the remaining balance of \$86,450 (2007 - \$93,838), it has been included as a component of accounts payable and accrued liabilities with the amount spent in 2008 of \$7,388 (2007 - \$47,848) being accounted for as a reduction of capital assets.

Marine Security Contribution Program

During fiscal 2004, the Authority applied for funding under the Marine Security Contribution Program related to expenditures required to improve marine security under the International Ship and Port Facility Security Code.

Government assistance received under this program in 2008 amounted to \$1,063,800 (2007 – \$228,326) and this amount has been accounted for as a reduction of capital assets.

Hamilton Port Authority

Notes to Financial Statements

December 31, 2008

9 Randle Reef Sediment Remediation Project

In 2003, the Authority entered into an agreement with the Federal Department of the Environment and the Ontario Ministry of the Environment in respect of the Randle Reef Sediment Remediation Project ("the Project") whereby the parties agreed to work cooperatively in developing a detailed engineering design for a remediation and containment facility for Randle Reef. As its contribution to the Project, the Authority has committed to inject funds of \$7,000,000 and to provide in-kind services, including the management of the funds held in trust for the Project and engineering support. These funds, in the amount of \$928,463 at December 31, 2008 (2007 - \$1,396,407) are held in an interest bearing account at a Canadian financial institution and are shown as "Restricted cash" on the balance sheet. An offsetting amount is recorded on the balance sheet under the caption "Due to Randle Reef Sediment Remediation Project". All expenses relating to the Project are separately accounted for by the Project, and as a result, no amounts related to the Project are included in these financial statements, other than the Authority's current contribution of \$120,200 (2007 - \$272,169) under its \$7,000,000 commitment which is included in "Capital development in progress" within the property and equipment accounts shown on the balance sheet.

10 Comparative figures

Certain prior year comparative figures have been reclassified to agree with the current year's presentation.

