

# **Hamilton Port Authority**

**Consolidated Financial Statements  
December 31, 2009**

February 11, 2010

## Auditors' Report

### To the Board of the Hamilton Port Authority

We have audited the consolidated balance sheet of the **Hamilton Port Authority** as at December 31, 2009 and the consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Hamilton Port Authority as at December 31, 2009 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

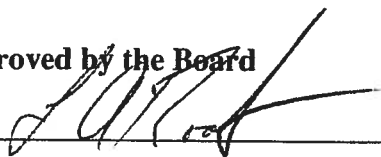
## Consolidated Balance Sheet

As at December 31, 2009

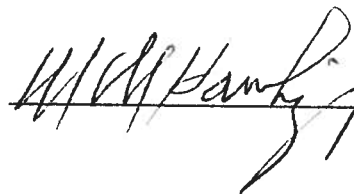
	2009 \$	2008 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash	331,822	128,617
Short-term investments, restricted for future harbour developments (note 11)	14,720,917	15,298,396
Restricted cash (note 9)	201,458	928,463
Accounts receivable		
Trade	1,212,577	1,406,461
Interest	40,698	16,564
Other	13,232	33,104
Other current assets	291,589	324,679
	<u>16,812,293</u>	<u>18,136,284</u>
<b>Property and equipment</b> (note 3)	<u>90,469,503</u>	<u>92,260,953</u>
	<u>107,281,796</u>	<u>110,397,237</u>
<b>Liabilities and Equity</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	2,726,586	2,888,450
Employee future benefits (note 4)	111,175	338,618
Due to Randle Reef Sediment Remediation Project (note 9)	201,458	928,463
	<u>3,039,219</u>	<u>4,155,531</u>
<b>Equity</b>	<u>104,242,577</u>	<u>106,241,706</u>
	<u>107,281,796</u>	<u>110,397,237</u>
<b>Contingencies</b> (note 7)		

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

Approved by the Board



Director



Director

# Hamilton Port Authority

## Consolidated Statement of Revenue, Expenses and Equity

For the year ended December 31, 2009

	2009	2008
	\$	\$
<b>Revenue from operations</b>		
Harbour	1,386,348	1,617,882
Equipment	43,002	278,771
Piers and property	12,510,264	12,945,905
Marine dockyard	1,593,673	1,707,550
	<u>15,533,287</u>	<u>16,550,108</u>
<b>Operating expenses</b>		
Harbour	595,942	610,822
Equipment	82,708	109,978
Piers and property	6,025,128	2,950,522
Marine dockyard	1,100,462	1,263,679
	<u>7,804,240</u>	<u>4,935,001</u>
<b>Income from operations</b>	<u>7,729,047</u>	<u>11,615,107</u>
<b>Administrative, office and general expenses</b>	<u>4,861,593</u>	<u>5,533,787</u>
<b>Other expenses (income)</b>		
Amortization	5,004,049	5,020,927
Interest income	(141,253)	(426,249)
Federal stipend on interest income	3,787	12,021
	<u>4,866,583</u>	<u>4,606,699</u>
<b>Excess (deficiency) of revenue over expenses before recovery of income taxes</b>	(1,999,129)	1,474,621
<b>Recovery of income taxes (note 12)</b>	<u>-</u>	<u>-</u>
<b>Excess (deficiency) of revenue over expenses for the year</b>	(1,999,129)	1,474,621
<b>Equity – Beginning of year</b>	<u>106,241,706</u>	<u>104,767,085</u>
<b>Equity – End of year</b>	<u>104,242,577</u>	<u>106,241,706</u>

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

**Hamilton Port Authority**  
Consolidated Statement of Cash Flows  
For the year ended December 31, 2009

	2009	2008
	\$	\$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Excess (deficiency) of revenue over expenses for the year	(1,999,129)	1,474,621
Items not affecting cash		
Amortization	5,004,049	5,020,927
Employee future benefits expense	445,130	465,455
Amounts funded related to employee future benefits	(672,573)	(627,441)
Gain on disposal of property and equipment	(12,754)	-
	<u>2,764,723</u>	<u>6,333,562</u>
Change in non-cash working capital items related to operations (note 5)	60,848	(860,417)
	<u>2,825,571</u>	<u>5,473,145</u>
<b>Investing activities</b>		
Purchase of property and equipment	(3,212,599)	(2,381,778)
Proceeds on disposal of property and equipment	12,754	98,079
	<u>(3,199,845)</u>	<u>(2,283,699)</u>
<b>Net increase (decrease) in cash and short-term investments</b>	(374,274)	3,189,446
<b>Cash and short-term investments – Beginning of year</b>	<u>15,427,013</u>	<u>12,237,567</u>
<b>Cash and short-term investments – End of year</b>	<u>15,052,739</u>	<u>15,427,013</u>
<b>Cash and short-term investments – End of year is comprised of the following</b>		
Cash	331,822	128,617
Short-term investments, restricted for future harbour developments	14,720,917	15,298,396
	<u>15,052,739</u>	<u>15,427,013</u>
<b>Supplemental disclosure of cash flow information</b>		
Cash received during the year in respect of		
Interest	103,224	426,249
Cash paid during the year in respect of		
Federal stipend (note 2)	406,530	478,010

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

# Hamilton Port Authority

Notes to Consolidated Financial Statements

December 31, 2009

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## 1 Basis of presentation and nature of operations

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada. The consolidated financial statements have, in management's opinion, been properly prepared using careful judgement within reasonable limits of materiality and within the framework of the accounting policies summarized below.

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 Authority is engaged in commercial operations, including harbour operations, port security, land use planning and maintenance. The Authority also supports the recreational use of the harbour through its marine operations and launch ramp facility.

## 2 Significant accounting policies

### Basis of consolidation

The consolidated financial statements include the accounts of the Authority and its wholly-owned subsidiary, Sea 3 Inc. as of its incorporation on May 29, 2009. All significant inter-company accounts and transactions have been eliminated on consolidation.

### 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.

# Hamilton Port Authority

Notes to Consolidated Financial Statements

December 31, 2009

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## 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.

## 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, 2009 amounted to \$406,530 (2008 – \$478,010). 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, 2009 are estimated to be \$1,067,801 (2008 – \$774,662). This amount is included in operating expenses in the consolidated statement of revenue, expenses and equity.

## Income taxes

The Authority is exempt from income taxes under Section 149(1)(d) of the Income Tax Act. However, the Authority's wholly-owned subsidiary follows the asset and liability method for determining income taxes. Under this method, future income tax assets and liabilities are recognized for future tax consequences attributable to the differences between the carrying amount of assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to recover or settle. Changes to these balances are recognized in income in the period in which they occur. The Authority records a valuation allowance when it is more likely than not that all of the future tax assets will not be realized prior to their expiration.

**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 to 18 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.

**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.

**Recently adopted CICA accounting pronouncements**

*Capital management*

Section 1535, Capital Disclosures, establishes standards which requires that an entity disclose information that enables users of its financial statements to evaluate an entity's objectives, policies and processes for managing capital, including disclosures of any externally imposed capital required and consequences for non-compliance (note 10).

# Hamilton Port Authority

Notes to Consolidated Financial Statements

December 31, 2009

## Recently issued CICA accounting pronouncements

### *Business Combinations*

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests: CICA Handbook Section 1582, "Business Combinations", CICA Handbook Section 1601, "Consolidated financial statements", and CICA Handbook Section 1602, "Non-controlling interests" replace the former CICA Handbook Section 1581, "Business Combinations" and CICA Handbook Section 1600, "Consolidated Financial Statements" and establishes a new section for accounting for a non-controlling interest in a subsidiary. These sections provide the Canadian equivalent to International Financial Reporting Standards ("IFRS") 3, "Business Combinations" and International Accounting Standard 27, "Consolidated and Separate Financial Statements". CICA Handbook Section 1582 is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Section 1601 and Section 1602 apply to interim and annual consolidated financial statements relating to years beginning on or after January 1, 2011. The Authority is currently evaluating the impact of adoption of these standards.

## 3 Property and equipment

	<b>2009</b>		
	<b>Cost</b>	<b>Accumulated</b>	<b>Net</b>
	\$	amortization	\$
		\$	\$
Land	38,071,350	-	38,071,350
Docks and harbour improvements	64,866,378	30,756,552	34,109,826
Buildings	45,221,438	31,876,198	13,345,240
Vessels and equipment	11,525,018	7,789,664	3,735,354
Capital development in progress	1,207,733	-	1,207,733
	<b>160,891,917</b>	<b>70,422,414</b>	<b>90,469,503</b>
			<b>2008</b>
	<b>Cost</b>	<b>Accumulated</b>	<b>Net</b>
	\$	amortization	\$
		\$	\$
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
	<b>157,679,318</b>	<b>65,418,365</b>	<b>92,260,953</b>

# Hamilton Port Authority

Notes to Consolidated Financial Statements

December 31, 2009

## 4 Employee future benefits

The Authority has non-contributory defined benefit pension plans for salaried employees and hourly employees (the "Pension Plan for the Employees of the Hamilton Port Authority"). 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, 2009 and 2008.

The most recent actuarial valuation of the Pension Plan for the Employees of the Hamilton Port Authority was December 31, 2006. The next required valuation for the plan is December 31, 2009.

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

	Pension benefit plans and SERP		Other benefit plans	
	2009 \$	2008 \$	2009 \$	2008 \$
Fair value of plan assets	8,123,879	6,454,565	-	-
Accrued benefit obligation	8,690,400	7,530,065	255,700	213,700
Funded status – plan deficit	(566,521)	(1,075,500)	(255,700)	(213,700)
Unamortized transitional obligation (asset)	(577,036)	(688,109)	96,600	108,700
Unamortized past service costs	178,374	198,409	-	-
Unamortized net actuarial loss	1,002,555	1,307,833	(48,200)	(79,200)
Employers contributions during period from measurement date to fiscal year end	55,553	102,649	3,200	300
	92,925	(154,718)	(204,100)	(183,900)

### Cash payments

Total cash payments for employee future benefits for 2009, 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 \$672,573 (2008 - \$627,441).

**Hamilton Port Authority**  
Notes to Consolidated Financial Statements  
December 31, 2009

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**Employee future benefits costs recognized in the year**

	2009 \$	2008 \$
Pension benefit plans and SERP	413,430	430,455
Other benefit plans	31,700	35,000
	<u>445,130</u>	<u>465,455</u>

**Benefits paid**

Benefits paid by the pension benefit plans were \$551,346 (2008 - \$805,808) and by other benefit plans were \$8,600 (2008 - \$7,800).

**Plan assets**

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

	2009	2008
Canadian equity securities	39%	35%
Foreign equity securities	20%	20%
Fixed income	41%	45%
Other	-	-
	<u>100%</u>	<u>100%</u>

**Significant assumptions**

The significant assumptions used are as follows:

	<u>Pension benefit plans and SERP</u>		<u>Other benefit plans</u>	
	2009	2008	2009	2008
Accrued benefit obligation as of December 31				
Discount rate	6.25%	7.1%	6.25%	7.1%
Rate of compensation increase	3.25%	3.25%		-
Benefit costs for years ended December 31				
Discount rate	7.1%	5.7%	7.1%	5.7%
Expected long-term rate of plan assets	6.5%	6.5%	-	-
Rate of compensation increase	3.25%	4.0%	-	-

# Hamilton Port Authority

Notes to Consolidated Financial Statements

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## 5 Non-cash working capital items

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

	2009	2008
	\$	\$
Trade accounts receivable	193,884	871,168
Interest receivable	(24,134)	(7,343)
Other receivables	19,872	49,756
Other current assets	33,090	79,857
Accounts payable and accrued liabilities	(161,864)	(1,853,855)
	<u>60,848</u>	<u>(860,417)</u>

## 6 Canada Marine Act Port Authorities Management Regulations

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

	2009	2008
	\$	\$
Directors' remuneration		
J. Cimba	29,100	13,517
M. Hawkrigg, Chair	30,000	17,169
J. Holditch	-	10,700
D. McKinnon	26,100	21,500
E. Minich	26,350	6,672
M. Moccio	11,785	-
D. Mothersill	-	7,883
A. Peckham (2006/07 chair)	-	11,683
A. Root	25,900	6,272
V. Sgro	-	7,083
D. Skidmore, Vice-Chair	27,000	22,300
M. Wiebe	-	7,883
CEO's remuneration		
Salary and pension (J. K. Robson)	94,154	264,792
Taxable benefits (J. K. Robson)	7,784	-
Salary (T. Valeri – Interim CEO)	-	48,672
Salary and bonus (B. Wood)	251,680	149,808
Taxable benefits (B. Wood)	1,048	112
Wages and salaries	3,329,099	3,428,589
Payroll taxes and fringe benefits	971,022	1,041,931
Professional fees and consulting	478,340	676,177
Maintenance and repair costs	970,677	1,097,413
Amortization	5,004,049	5,020,927
Realty taxes	59,642	57,419
Payments in lieu of taxes	1,067,801	774,662

# Hamilton Port Authority

Notes to Consolidated Financial Statements

December 31, 2009

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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.

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 2009 amounted to \$Nil (2008 - \$Nil). As the Authority has not spent the remaining balance of \$81,925 (2008 - \$86,450), it has been included as a component of accounts payable and accrued liabilities with the amount spent in 2009 of \$4,525 (2008 - \$7,388) 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 2009 amounted to \$Nil (2008 - \$1,063,800) and this amount has been accounted for as a reduction of capital assets.

**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 \$201,458 at December 31, 2009 (2008 - \$928,463) 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 consolidated financial statements, other than the Authority's current contribution of \$Nil (2008 - \$120,200) 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 Capital management**

The Authority's objectives in managing capital are to ensure sufficient liquidity to pursue its strategy of growth and to deploy capital to provide an appropriate return on investment.

The Authority does not have any externally imposed capital requirements.

**11 Short-term investments, restricted for future harbour developments**

The Authority has established a reserve, set aside for future harbour improvements that, from time to time, is increased or drawn down based on the cash flow requirements of the corporation. Allocations are made to the reserve as excess operating funds become available, or from the reserve when necessary to meet major expenditure requirements such as payment in lieu of taxes and capital acquisitions.

# Hamilton Port Authority

Notes to Consolidated Financial Statements

December 31, 2009

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## 12 Provision for income taxes

	2009	2008
	\$	\$
Recovery of income taxes based on combined federal and provincial statutory rates of 33.50%	707,847	-
Valuation allowance	(707,847)	-
	<hr/>	<hr/>
	-	-

During the period ended December 31, 2009, Sea 3 Inc. generated \$2,112,975 in tax losses which expire in 2029. The Authority has not recognized a future income tax asset for these losses.

## 13 Comparative figures

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