

**Financial Statements of**  
**PORT ALBERNI PORT AUTHORITY**  
**Year Ended December 31, 2012**

DICKSON  
DUSANJ  
& WIRK

CHARTERED  
ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

### To the Board of Directors of Port Alberni Port Authority

#### *Report on Financial Statements*

We have audited the accompanying financial statements of Port Alberni Port Authority, which comprise the statement of financial position as at December 31, 2012 and the statements of equity, income and comprehensive income, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Port Alberni Port Authority as at December 31, 2012 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Chartered Accountants

Victoria, BC  
March 27, 2013

# PORT ALBERNI PORT AUTHORITY

## STATEMENT OF FINANCIAL POSITION

DECEMBER 31,

2012

2011

\$

\$

### ASSETS

#### CURRENT ASSETS

Cash and short-term investments (Note 3)

4,332,798

5,499,335

Accounts receivable

272,554

529,916

Inventories

24,110

17,327

Prepaid expenses

67,960

80,881

4,697,422

6,127,459

PROPERTY AND EQUIPMENT (Note 4)

11,753,026

9,133,494

16,450,448

15,260,953

### LIABILITIES

#### CURRENT LIABILITIES

Accounts payable and accrued liabilities

897,359

768,653

Unearned revenue

17,333

21,812

914,692

790,465

DEFERRED GOVERNMENT CONTRIBUTIONS (Note 6)

3,992,296

1,688,004

4,906,988

2,478,469

### EQUITY

RESERVE FOR SELF INSURANCE (Note 7)

110,000

110,000

RESERVE FOR HARBOUR MAINTENANCE AND DEVELOPMENT (Note 8)

4,200,000

6,420,000

RETAINED EARNINGS

7,233,460

6,252,484

11,543,460

12,782,484

16,450,448

15,260,953

COMMITMENTS (Note 9)

Approved on Behalf of the Board:

\_\_\_\_\_ Chairman

\_\_\_\_\_ Treasurer

See accompanying notes

# PORT ALBERNI PORT AUTHORITY

## STATEMENT OF EQUITY

YEAR ENDED DECEMBER 31, 2012

	(Note 7) Reserve for Self Insurance \$	(Note 8) Reserve for Harbour Maintenance & Development \$	Retained Earnings \$	Total Equity \$
BALANCE, JANUARY 1, 2011	110,000	6,420,000	6,279,028	12,809,028
Comprehensive (loss)	-	-	(26,544)	(26,544)
BALANCE, DECEMBER 31, 2011	110,000	6,420,000	6,252,484	12,782,484
Comprehensive (loss)	-	-	(1,239,024)	(1,239,024)
Transfers	-	(2,220,000)	2,220,000	-
BALANCE, DECEMBER 31, 2012	110,000	4,200,000	7,233,460	11,543,460

See accompanying notes

# PORT ALBERNI PORT AUTHORITY

## STATEMENT OF INCOME AND COMPREHENSIVE INCOME

YEAR ENDED DECEMBER 31,

	2012	2011
	\$	\$
REVENUE		
Operations	4,355,776	5,044,344
Investment income	61,185	125,395
	<u>4,416,961</u>	<u>5,169,739</u>
Gross revenue charge	88,339	103,395
	<u>4,328,622</u>	<u>5,066,344</u>
EXPENSES		
Supplies, service and maintenance	3,088,093	3,077,823
Wages and benefits	1,925,361	1,486,525
	<u>5,013,454</u>	<u>4,564,348</u>
INCOME (LOSS) FROM OPERATIONS BEFORE AMORTIZATION	(684,832)	501,996
Amortization	558,923	517,622
OPERATING (LOSS)	(1,243,755)	(15,626)
Gain (loss) on disposal of assets	4,731	(10,918)
(LOSS) AND COMPREHENSIVE (LOSS) FOR THE YEAR	<u>(1,239,024)</u>	<u>(26,544)</u>

*See accompanying notes*

# PORT ALBERNI PORT AUTHORITY

## STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31,	2012 \$	2011 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Comprehensive (loss)	(1,239,024)	(26,544)
Amortization	558,923	517,622
(Gain) loss on disposal of assets	(4,731)	10,918
(Increase) decrease in accounts receivables	257,362	(85,300)
(Increase) in inventories	(6,783)	(5,777)
Decrease in prepaid expenses	12,921	7,629
Increase (decrease) in accounts payable and accrued liabilities	128,707	(110,149)
Increase (decrease) in unearned revenue	(4,479)	972
	<u>(297,104)</u>	<u>309,371</u>
<b>TOTAL CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(3,319,055)	(2,995,895)
Net proceeds from disposal of property and equipment	9,252	14,200
	<u>(3,309,803)</u>	<u>(2,981,695)</u>
<b>NET CASH USED BY INVESTING ACTIVITIES</b>		
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Government grants received	2,440,370	1,102,774
	<u>2,440,370</u>	<u>1,102,774</u>
<b>NET (DECREASE) IN CASH AND SHORT-TERM INVESTMENTS</b>		
	(1,166,537)	(1,569,550)
<b>CASH AND SHORT-TERM INVESTMENTS - beginning of year (Note 3)</b>		
	<u>5,499,335</u>	<u>7,068,885</u>
<b>CASH AND SHORT-TERM INVESTMENTS - end of year (Note 3)</b>		
	<u>4,332,798</u>	<u>5,499,335</u>

See accompanying notes

# PORT ALBERNI PORT AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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### 1. BUSINESS OPERATION

The Port Alberni Port Authority (the "port authority") was incorporated on July 1, 1999 in accordance with Section 10 of the Canadian Marine Act and by Letters Patent of Continuance issued by the Minister of Transport.

The Port Authority generates revenue through a variety of operations including deep-sea shipping port, marina management, and property leases.

### 2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The Port Authority's accounting policies and the financial information presented are consistent with the recommendations of the IASB (International Accounting Standards Board). The financial statements were prepared on the historical cost basis and include the following significant accounting policies which have been applied consistently in all material respects:

#### Use of Estimates

The preparation of financial statements in conformity with IFRS 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 revenues and expenses during the reporting period. These estimates are reviewed periodically, and as adjustments become necessary, they are reported in profit or loss in the period in which they become known. Actual results could differ from those estimates.

#### Financial Instruments

The Port Authority aggregates its financial instruments into classes based on their nature and characteristics. Management determines the classification when the instruments are initially recognized, with is normally the date of purchase into the following categories:

#### i) Financial Assets at Fair Value through Profit or Loss

This category involves financial instruments held for the purpose of selling them in the short-term. All of the financial instruments in this category must meet the definition of financial assets held for trading. The instruments classified in this category are classified in current assets and include cash and short-term investments.

Financial assets classified in this category are initially measured recognized at fair value and the transactions costs are expensed to the income statement. Subsequently, financial assets at fair value through profit or loss are measured at fair value with unrealized gains and losses recognized through profit and loss.

#### ii) Held-to-maturity Investments

This category involves non-derivative financial instruments with fixed or determinable payments and fixed maturity that the Port Authority has the positive intention and ability to hold to maturity other than those that the Port Authority upon initial recognition designates as at fair value through profit or loss, available for sale, and those that meet the definition of loans and receivables. The Port Authority does not have any instruments classified in this category.

Held to maturity investments are measured at amortized cost using the effective interest method less any allowance for impairment.

#### iii) Loans and Receivables

This category involves non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market. They include current assets when they will be realized with 12 months of the reporting date, otherwise they are classified as non-current. The instruments classified in this category are accounts receivable.

Loans and receivables are measured at amortized cost using the effective interest rate method less an appropriate allowance for doubtful receivables.

# PORT ALBERNI PORT AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Financial Instruments (continued)

iv) Available-for-sale Financial Assets

This category involves non-derivative financial instruments that are either designated as such upon initial recognition or are not classified in any of the other categories. The Port Authority does not have any instruments classified in this category.

Available-for-sale assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income or loss. When the asset is sold, the accumulated gains or losses in other comprehensive income are reclassified in the income statement.

v) Financial Liabilities at Fair Value through Profit or Loss

This category involves financial liabilities held for trading. Financial liabilities classified in this category are measured at fair value with unrealized gains and losses recognized through profit and loss. The Port Authority does not have any instruments classified in this category.

vi) Other Financial Liabilities

This category involves other financial liabilities that are initially recorded at fair value less transaction costs. The instruments classified in this category are accounts payable and accrued liabilities.

Other financial liabilities are measured at amortized cost using the effective interest method.

All financial assets except those measured at fair value through profit or loss are subject to review for impairment annually and written down when there is evidence of impairment.

#### Cash and Short-term Investments

The Port Authority's policy is to disclose bank balances under cash and short-term investments, including bank overdrafts with balances that fluctuate frequently from being positive to overdraft and short-term investments with a maturity period of three months or less from the date of acquisition.

#### Inventories

Inventories are stated at the lower of cost and net realizable value, with the cost being determined using the FIFO (first in, first out) method. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing inventories to their present location and condition. The costs of purchase include the purchase price, import duties and non-recoverable taxes, and transport, handling and other costs directly attributable to the acquisition of finished goods, materials or services. The costs of conversion include direct material and labour costs, and a systematic allocation of fixed and variable overheads incurred in converting materials into finished goods.



# PORT ALBERNI PORT AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Property and Equipment

Property and equipment are stated at historical cost, less any accumulated depreciation and any impairment losses. Historical cost includes all costs directly attributable to the acquisition. Land is not amortized. Amortization of other items of property and equipment is provided on parts that have homogeneous useful lives by using the straight-line method so as to depreciate the initial cost down to the residual value over the estimated useful lives, as follows:

Harbour vehicles	20 %	Straight-line
Terminal - berth 1 & 2	2.5-10 %	Straight-line
Terminal - berth 3	2.5-10 %	Straight-line
Terminal equipment	10 %	Straight-line
Argyle Street development	2.5-10 %	Straight-line
Fishermen's harbour	5-100 %	Straight-line
Water Street wharf	10 %	Straight-line
Sundry Floats	10 %	Straight-line
Port Fish Building and equipment	5-30 %	Straight-line
Kingsway Avenue - parking lot	5 %	Straight-line
Marine Centre Building	5-10 %	Straight-line
Harbour Road	10 %	Straight-line
Marinas	2.5-20 %	Straight-line
Environmental protection equipment	10-20 %	Straight-line
Office furnishings	20-100 %	Straight-line

Useful lives, components, the amortization method and residual amounts are reviewed annually. Such a review takes into consideration the nature of the assets, their intended use and the evolution of the technology.

In the year of acquisition only one-half the normal rate is applied.

#### Investment Properties

Investment properties are properties held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. The investment properties are measured using the cost method and are included in property and equipment. Amortization is calculated using the straight-line method. Details of the useful lives of the properties are discussed with property and equipment.

#### Deferred Government Contributions

Government grants are recognized in profit or loss on a systematic basis over the periods in which the entity recognizes as expenses the related costs for which the grants are intended to compensate.

#### Gross Revenue Charge

In order to maintain its Letters Patent in good standing, the Port Authority is required to annually pay the Minister of Transport a charge on gross revenues. The charge is calculated by reference to gross revenues at a rate of 2% on the first \$10 million and at variable rates thereafter.

#### Revenue Recognition

Revenue from moorage and camping are recognized when invoiced subject to cancellation policies for early termination. Revenue from leases is recognized into revenue over the life of the lease. Unrecognized revenue is recorded as unearned revenue. All other revenue is recognized when earned.

# PORT ALBERNI PORT AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Impairment of Long-Lived Assets

Long-lived assets consist of property and equipment. The Port Authority performs impairment testing on long-lived assets whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and value in use. Non-current assets other than goodwill that have been impaired are reviewed for possible reversal of the impairment loss at the reporting date.

### 3. CASH AND SHORT-TERM INVESTMENTS

The Port Authority's cash and short-term investments are held with commercial banks and investment members in fixed and guarantee income securities as required by the Canada Marine Act per port authorities' management regulation. Cash and cash equivalents consist of the following:

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
Cash	101,866	126,155
Short-term investments	4,230,932	5,373,180
	<u>4,332,798</u>	<u>5,499,335</u>

**PORT ALBERNI PORT AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2012**

**4. PROPERTY AND EQUIPMENT**

	COST				ACCUMULATED AMORTIZATION				Value 2012 \$
	January 1, 2012 \$	Additions \$	Disposals \$	December 31, 2012 \$	January 1, 2012 \$	Expense \$	Disposals \$	December 31, 2012 \$	
<b><u>TERMINAL</u></b>									
Harbour vehicles	196,548	-	-	196,548	157,096	14,640	-	171,736	24,812
Terminal - berth 1 and 2	4,468,753	207,684	-	4,676,437	4,425,403	14,676	-	4,440,079	236,358
Terminal - berth 3	4,358,873	87,922	-	4,446,795	3,102,015	87,264	-	3,189,279	1,257,516
Terminal equipment	1,592,747	21,089	(73,273)	1,540,563	1,590,082	2,501	(73,273)	1,519,310	21,253
	10,616,921	316,695	(73,273)	10,860,343	9,274,596	119,081	(73,273)	9,320,404	1,539,939
<b><u>FISHERMEN'S HARBOUR, ARGYLE, &amp; WATER STREET</u></b>									
Argyle Street development	3,186,761	2,634,745	(9,505)	5,812,001	883,976	81,053	(9,505)	955,524	4,856,477
Fishermen's harbour	1,817,913	169,453	-	1,987,366	640,583	96,834	-	737,417	1,249,949
Water Street wharf	193,825	-	-	193,825	193,825	-	-	193,825	-
Sundry Floats	17,829	-	(6,029)	11,800	13,308	-	(1,508)	11,800	-
	5,216,328	2,804,198	(15,534)	8,004,992	1,731,692	177,887	(11,013)	1,898,566	6,106,426
<b><u>REAL ESTATE</u></b>									
Port Fish Building & equip.	1,885,213	-	-	1,885,213	1,861,482	7,248	-	1,868,730	16,483
Kingsway Avenue - parking	330,976	-	-	330,976	330,976	-	-	330,976	-
Marine Centre Building	219,714	-	-	219,714	170,933	11,787	-	182,720	36,994
Harbour Road	112,068	-	-	112,068	98,661	11,207	-	109,868	2,200
	2,547,971	-	-	2,547,971	2,462,052	30,242	-	2,492,294	55,677
<b><u>MARINAS</u></b>									
China Creek Marina	3,818,529	60,998	-	3,879,527	2,275,950	125,467	-	2,401,417	1,478,110
Clutesi Haven Marina	2,251,013	39,529	-	2,290,542	1,465,110	46,729	-	1,511,839	778,703
Harbour Quay Marina	4,951,626	1,300	-	4,952,926	3,302,650	136,702	-	3,439,352	1,513,574
	11,021,168	101,827	-	11,122,995	7,043,710	308,898	-	7,352,608	3,770,387
<b><u>ADMINISTRATION</u></b>									
Environmental protection equipment	34,852	-	-	34,852	34,852	-	-	34,852	-
Exploration costs	67,354	51,062	-	118,416	-	-	-	-	118,416
Harbour costs	304,809	-	-	304,809	179,721	30,403	-	210,124	94,685
Office furniture & equip.	250,362	45,273	-	295,635	199,648	28,491	-	228,139	67,496
	657,377	96,335	-	753,712	414,221	58,894	-	473,115	280,597
	30,059,765	3,319,055	(88,807)	33,290,013	20,926,271	695,002	(84,286)	21,536,987	11,753,026

**PORT ALBERNI PORT AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2012**

**4. PROPERTY AND EQUIPMENT (Continued)**

	COST				ACCUMULATED AMORTIZATION				Value 2011 \$
	January 1, 2011 \$	Additions \$	Disposals \$	December 31, 2011 \$	January 1, 2011 \$	Expense \$	Disposals \$	December 31, 2011 \$	
<b><u>TERMINAL</u></b>									
Harbour vehicles	196,548	-	-	196,548	135,127	21,969	-	157,096	39,452
Terminal - berth 1 & 2	4,468,753	-	-	4,468,753	4,417,528	7,875	-	4,425,403	43,350
Terminal - berth 3	4,289,242	69,631	-	4,358,873	3,017,349	84,666	-	3,102,015	1,256,858
Terminal equipment	1,592,747	-	-	1,592,747	1,588,636	1,446	-	1,590,082	2,665
	<u>10,547,290</u>	<u>69,631</u>	<u>-</u>	<u>10,616,921</u>	<u>9,158,640</u>	<u>115,956</u>	<u>-</u>	<u>9,274,596</u>	<u>1,342,325</u>
<b><u>FISHERMEN'S HARBOUR, ARGYLE, &amp; WATER STREET</u></b>									
Argyle Street Development	1,550,098	1,636,663	-	3,186,761	858,491	25,485	-	883,976	2,302,785
Fishermen's harbour	934,334	883,579	-	1,817,913	557,759	82,824	-	640,583	1,177,330
Water Street wharf	193,825	-	-	193,825	193,825	-	-	193,825	-
Sundry Floats	17,829	-	-	17,829	12,705	603	-	13,308	4,521
	<u>2,696,086</u>	<u>2,520,242</u>	<u>-</u>	<u>5,216,328</u>	<u>1,622,780</u>	<u>108,912</u>	<u>-</u>	<u>1,731,692</u>	<u>3,484,636</u>
<b><u>REAL ESTATE</u></b>									
Port Fish Building & equip.	1,885,213	-	-	1,885,213	1,854,234	7,248	-	1,861,482	23,731
Kingsway Avenue - parking	330,976	-	-	330,976	330,976	-	-	330,976	-
Marine Centre Building	219,714	-	-	219,714	159,146	11,787	-	170,933	48,781
Harbour Road	97,956	14,112	-	112,068	97,956	705	-	98,661	13,407
	<u>2,533,859</u>	<u>14,112</u>	<u>-</u>	<u>2,547,971</u>	<u>2,442,312</u>	<u>19,740</u>	<u>-</u>	<u>2,462,052</u>	<u>85,919</u>
<b><u>MARINAS</u></b>									
China Creek Marina	3,685,323	178,875	(45,669)	3,818,529	2,172,529	123,972	(20,551)	2,275,950	1,542,579
Clutesi Haven Marina	2,166,454	84,559	-	2,251,013	1,422,616	42,494	-	1,465,110	785,903
Harbour Quay Marina	4,941,521	10,105	-	4,951,626	3,166,291	136,359	-	3,302,650	1,648,976
	<u>10,793,298</u>	<u>273,539</u>	<u>(45,669)</u>	<u>11,021,168</u>	<u>6,761,436</u>	<u>302,825</u>	<u>(20,551)</u>	<u>7,043,710</u>	<u>3,977,458</u>
<b><u>ADMINISTRATION</u></b>									
Environmental protection equipment	34,852	-	-	34,852	34,852	-	-	34,852	-
Exploration costs	-	67,354	-	67,354	-	-	-	-	67,354
Harbour vessels	304,809	-	-	304,809	149,318	30,403	-	179,721	125,088
Office Furniture & equip.	199,347	51,015	-	250,362	177,380	22,268	-	199,648	50,714
	<u>539,008</u>	<u>118,369</u>	<u>-</u>	<u>657,377</u>	<u>361,550</u>	<u>52,671</u>	<u>-</u>	<u>414,221</u>	<u>243,156</u>
	<u>27,109,541</u>	<u>2,995,893</u>	<u>(45,669)</u>	<u>30,059,765</u>	<u>20,346,718</u>	<u>600,104</u>	<u>(20,551)</u>	<u>20,926,271</u>	<u>9,133,494</u>

# PORT ALBERNI PORT AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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### 4. PROPERTY AND EQUIPMENT (continued)

In 2012, the Port Authority incurred a cost of \$51,062 (2011 - \$67,354) in environmental studies and surveys for a potential land acquisition. These costs have been capitalized as exploration costs and will be added to the cost of the land, when acquired.

### 5. INVESTMENT PROPERTIES

Investment properties are comprised of the Port Fish Building and the Marine Centre Building. Included in the Port Authority's loss is rental income from investment properties of \$73,035 (2011 - \$98,677). A reconciliation of the investment properties' carrying amounts, including their gross carrying amounts and accumulated amortization, is included in Note 4.

### 6. DEFERRED GOVERNMENT CONTRIBUTION

During 2012, the Port Authority received the following government contributions during the year:

	2012	2011
	\$	\$
Balance, beginning of year	1,688,004	667,712
Contributions received:		
Fisheries and Oceans - Small Craft Harbours	84,593	852,774
Community Futures of Alberni: Clayoquot	-	250,000
North Island-Coast Development Initiative Trust	2,355,776	-
Amount recognized as amortization	<u>(136,077)</u>	<u>(82,482)</u>
Balance, end of year	<u>3,992,296</u>	<u>1,688,004</u>

In 2011, included in the Small Craft Harbours contribution was a non-monetary contribution of assets with a fair value of \$752,774. The asset and contribution were both recorded at fair value.

### 7. RESERVE FOR SELF INSURANCE

The Port Authority has set aside funds in the amount of \$110,000 for self-insurance of its small equipment and harbour vehicles with a value of \$10,000 or less. The funds are included in the account "cash and short-term investments" on the statement of financial position.

### 8. RESERVE FOR HARBOUR MAINTENANCE AND DEVELOPMENT

The Port Authority has appropriated net assets, under the title "harbour maintenance and development," in the amount of \$4,200,000 (2011 - \$6,420,000) for future upgrading and development of the port terminals, marinas, and harbour.

# PORT ALBERNI PORT AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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### 9. COMMITMENTS

The Port Authority has a long-term Head Lease with the Province of British Columbia for the management of Provincial property in and along the Alberni Inlet. The present lease agreement originated on January 1, 1986 with a term to December 31, 2023. In the five year term to December 31, 2010 the revenue allocation was 50% to the Port Authority. If the Province does not give notice of a rate change, the revenue rate allocation for the term to December 31, 2015 will be 50% to the Port Authority.

The Port Authority has a long-term lease with the Regional District of Alberni-Clayoquot for the operation of a campground with a term to December 31, 2029. Annual rent equivalent of 2.4% of the camping revenue is payable each year to the Regional District. A new rent rate is to be negotiated at the beginning of the year 2021. The lease has a cancellation clause of one year for the Port Authority and five years for the Regional District.

The Port Authority has a lease with the City of Port Alberni for Clutesi Haven Marina properties. The term of the lease is to December 31, 2014 with an option to renew for a further 21 years. The rent is \$1 per year and subject to negotiation by mutual agreement for each five year period which commenced January 1, 2009.

The Port Authority has a long-term lease with the Province of British Columbia for the marina lands at China Creek Marina. The term of the lease is to January 31, 2025. The annual fee for use is 4% of the potential gross income from moorage.

### 10. LOAN APPROVAL

The Port Authority has obtained approval in 2010 from a commercial bank to borrow up to \$1 million, providing the equivalent amount of investments are pledged as security. The rate of interest is commercial bank prime. There was no balance payable at year end.

### 11. MUNICIPAL ACCORD – CITY OF PORT ALBERNI

The Port Authority has an accord with the City of Port Alberni. This accord provides for the payment of \$95,000 per year to the City of Port Alberni for the purpose of enhancing and developing projects of common interests for the benefit of the community. This accord is in effect up to and including the calendar year 2012.

### 12. FINANCIAL INSTRUMENTS

The fair value of the Port Authority's financial instruments and their related carrying values are categorized as follows:

	2012		2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	\$	\$	\$	\$
<b><u>Financial Assets</u></b>				
Loans and receivables				
Accounts receivable	272,554	272,554	529,916	529,916
Fair value through profit & loss				
Cash and short-term investments	4,332,798	4,332,798	5,499,335	5,499,335
Total financial assets	4,605,352	4,605,352	6,029,251	6,029,251
<b><u>Financial Liabilities</u></b>				
Other financial liabilities				
Accounts payable and accrued liabilities	897,359	897,359	768,652	768,652

# PORT ALBERNI PORT AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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### 12. FINANCIAL INSTRUMENTS (continued)

The financial instruments that are measured subsequent to initial recognition at fair value use the following fair value hierarchy to determine fair value:

- i) Level 1 – fair value measurements are derived from quoted market prices of identical assets.
- ii) Level 2 – fair value measurements are derived from valuation techniques developed from observable market data for similar assets or liabilities.
- iii) Level 3 – fair value measurements are derived from valuation techniques developed without observable market data.

Fair value of cash and short-term investments was determined using Level 1 as quoted market prices were available. The fair value of accounts receivable and accounts payable and accrued liabilities approximates their carrying value because of their short-term nature.

### 13. FINANCIAL RISKS AND CONCENTRATION OF RISKS

#### Risk Management Policies

The Port Authority, through its financial instruments, is exposed to a variety of financial risks: credit risk, liquidity risk and market risk (including currency risk, interest rate risk and other price risk). The following evaluates the nature and extent of the risks at the end of the reporting period.

#### Credit Risk

Credit risk is the potential for financial loss should a counter party in a transaction fail to meet its obligations. The Port Authority is exposed to credit risk from its accounts receivable. In order to reduce this risk, the Port Authority has credit policies which include the analysis of the financial position of its customers and regular review of their credit limits. An allowance for doubtful accounts is established when factors surrounding the credit risk of specific amounts, historical trends, and other information indicate that an amount may not be collectible. At year end, an allowance for doubtful accounts of \$0 (2011 - \$151,405) has been recorded. The Port Authority is not exposed to significant credit risk.

#### Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Port Authority is exposed to interest rate risk on its short-term investments. The Port Authority manages interest rate risk by holding investments in accordance with the Canada Marine Act. The Port Authority is not exposed to significant interest rate risk.

#### Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Port Authority does not face significant currency risk exposure.

#### Other Price Risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or currency risk. The Port Authority manages other price risk by holding investments in accordance with the Canada Marine Act.

#### Liquidity Risk

Liquidity risk is the risk that Port Authority will encounter difficulty in meeting obligations. The Port Authority manages liquidity risk by having a reserve for harbour maintenance and development and a reserve for self-insurance and sufficient cash and short-term investments. The Port Authority is not exposed to significant liquidity risk.

# PORT ALBERNI PORT AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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### 14. CAPITAL MANAGEMENT

The Port Authority's objective in managing its capital is to fund operations and property and equipment acquisitions. The Port Authority's capital is comprised of assets and liabilities that are liquid. The Port Authority is not subject to any externally imposed capital requirements.

The Port Authority manages the capital based on changes in economic conditions and risk assessment. The Port Authority has sufficient cash and short-term investments to continue to fund the Port's operations.

	<u>2012</u>	<u>2011</u>
	\$	\$
Cash	4,332,798	5,499,335
Total requirements of capital:		
Accounts payable and accrued liabilities	(897,357)	(768,654)
Committed capital expenditures	<u>(750,000)</u>	<u>(2,600,000)</u>
Net excess	<u>2,685,441</u>	<u>2,130,681</u>

Management has estimated that it's committed to expenditures totaling \$750,000 for property, plant and equipment for the next fiscal year.

### 15. REMUNERATION

As required by subsection 37(3) of the Canada Marine Act, the Port Authority must disclose the remuneration paid to the directors and president and chief executive officer in its annual financial statements. For the year ended December 31, 2012, they are as follows:

<u>Name</u>	<u>Title</u>	<u>Amount</u>
		\$
K. Barlow	Director	5,000
G. Blake	Director	10,000
G. Brett	Director	5,000
R. Crema	Director	5,000
D. Deluca	Director	10,000
D. Ferster	Director	14,000
K. McRae	Director	5,000
D. St. Jacques	Director	10,000
G. Trumper	Director	10,000
Z. Knezevic	Port Manager/CEO	78,801
B. Madelung	Port Manager/CEO	<u>336,920</u>
		<u>489,721</u>

### 16. APPROVAL OF FINANCIAL STATEMENTS

The financial statements of Port Alberni Port Authority for the year ended December 31, 2012 were approved and authorized for issue by the Board of Directors on March 27, 2013.