

**Financial Statements of**  
**PORT ALBERNI PORT AUTHORITY**  
**Year Ended December 31, 2011**

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## AUDITORS' REPORT

**To: The Board of Directors of the 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, 2011 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 controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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 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 auditor's 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, these financial statements present fairly, in all material respects, the financial position of the Port Alberni Port Authority as at December 31, 2011 and the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.

### ***Other Matter***

The Comparative figures were audited by another Chartered Accountant and were unqualified and dated March 11, 2011.



Victoria, BC  
March 16, 2012

Chartered Accountant

# PORT ALBERNI PORT AUTHORITY

## STATEMENT OF FINANCIAL POSITION

DECEMBER 31,	2011	2010	January 1, 2010
	\$	\$	\$
<b>ASSETS</b>			
<b>CURRENT</b>			
Cash and short-term investments <i>(Note 4)</i>	5,499,335	7,068,885	8,098,377
Accounts receivable	529,916	444,617	493,374
Inventories	17,327	11,550	12,143
Prepaid expenses	80,881	88,510	61,035
	<u>6,127,459</u>	<u>7,613,562</u>	<u>8,664,929</u>
PROPERTY AND EQUIPMENT <i>(Note 5)</i>	<u>9,133,494</u>	<u>6,762,823</u>	<u>5,071,148</u>
	<u>15,260,953</u>	<u>14,376,385</u>	<u>13,736,077</u>
<b>LIABILITIES</b>			
<b>CURRENT</b>			
Accounts payable and accrued liabilities	768,652	878,804	455,394
Unearned revenue	21,812	20,840	101,441
	<u>790,464</u>	<u>899,644</u>	<u>556,835</u>
DEFERRED GOVERNMENT CONTRIBUTIONS <i>(Note 7)</i>	<u>1,688,004</u>	<u>667,712</u>	<u>315,405</u>
	<u>2,478,468</u>	<u>1,567,356</u>	<u>872,240</u>
<b>EQUITY</b>			
RESERVE FOR SELF INSURANCE <i>(Note 8)</i>	110,000	110,000	110,000
RESERVE FOR HARBOUR MAINTENANCE AND DEVELOPMENT <i>(Note 9)</i>	6,420,000	6,420,000	7,700,000
RETAINED EARNINGS	<u>6,252,485</u>	<u>6,279,029</u>	<u>5,053,837</u>
	<u>12,782,485</u>	<u>12,809,029</u>	<u>12,863,837</u>
	<u>15,260,953</u>	<u>14,376,385</u>	<u>13,736,077</u>

COMMITMENTS *(Note 10)*

CONTINGENT LIABILITIES *(Note 11)*

APPROVED BY THE BOARD:

\_\_\_\_\_ Chairman

\_\_\_\_\_ Treasurer

*See accompanying notes*

# PORT ALBERNI PORT AUTHORITY

## STATEMENT OF EQUITY

YEAR ENDED DECEMBER 31, 2011

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	<i>(Note 8)</i> Reserve for Self Insurance \$	<i>(Note 9)</i> Reserve for Harbour Maintenance & Development \$	Retained Earnings \$	Total Equity \$
BALANCE AT JANUARY 1, 2010	110,000	7,700,000	5,053,837	12,863,837
Comprehensive (loss)	-	-	(54,808)	(54,808)
Transfers	-	(1,280,000)	1,280,000	-
BALANCE AT DECEMBER 31, 2010	110,000	6,420,000	6,279,029	12,809,029
Comprehensive (loss)	-	-	(26,544)	(26,544)
Transfers	-	-	-	-
BALANCE AT DECEMBER 31, 2011	<u>110,000</u>	<u>6,420,000</u>	<u>6,252,485</u>	<u>12,782,485</u>

*See accompanying notes*

# PORT ALBERNI PORT AUTHORITY

## STATEMENT OF INCOME AND COMPREHENSIVE INCOME

YEAR ENDED DECEMBER 31,	2011	2010
	\$	\$
REVENUES		
Operations	5,044,344	4,097,816
Investment income	<u>125,395</u>	<u>264,262</u>
	5,169,739	4,362,078
Gross revenue charge	<u>103,395</u>	<u>87,241</u>
	<u>5,066,344</u>	<u>4,274,837</u>
EXPENSES		
Supplies, service and maintenance	3,077,823	2,541,066
Wages and benefits	<u>1,486,525</u>	<u>1,328,459</u>
	<u>4,564,348</u>	<u>3,869,525</u>
INCOME FROM OPERATIONS BEFORE AMORTIZATION	501,996	405,312
Amortization	<u>517,622</u>	<u>460,188</u>
OPERATING (LOSS)	(15,626)	(54,876)
Gain (loss) on disposal of assets	(10,918)	175
Unrealized (loss) on foreign exchange	<u>-</u>	<u>(107)</u>
(LOSS) AND COMPREHENSIVE (LOSS) FOR THE YEAR	<u>(26,544)</u>	<u>(54,808)</u>

*See accompanying notes*

# PORT ALBERNI PORT AUTHORITY

## STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31,	2011	2010
	\$	\$
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Comprehensive (loss)	(26,544)	(54,808)
Items not involving cash:		
Amortization	517,622	460,188
(Gain) loss on disposal of assets	<u>10,918</u>	<u>(175)</u>
	501,996	405,205
Net change in non-cash working capital balances	<u>(192,625)</u>	<u>364,682</u>
	<u>309,371</u>	<u>769,887</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Government grants received	<u>1,102,774</u>	<u>421,354</u>
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Purchase of property and equipment	(2,995,895)	(2,220,908)
Proceeds from sale of property and equipment	<u>14,200</u>	<u>175</u>
	<u>(2,981,695)</u>	<u>(2,220,733)</u>
(DECREASE) IN CASH AND SHORT-TERM INVESTMENTS	(1,569,550)	(1,029,492)
CASH AND SHORT-TERM INVESTMENTS, beginning of year (Note 4)	<u>7,068,885</u>	<u>8,098,377</u>
CASH AND SHORT-TERM INVESTMENTS, end of year (Note 4)	<u>5,499,335</u>	<u>7,068,885</u>

*See accompanying notes*

# PORT ALBERNI PORT AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

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### 1. BUSINESS OPERATIONS

The Port Alberni Port Authority (the "Port Authority") was incorporated on July 1, 1999 in accordance with Section 10 of the Canada 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

#### Statement of compliance

The financial statements represent the first annual financial statements of the Port Authority prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC). The Port Authority adopted IFRS in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards" as discussed in Note 3.

#### Basis of presentation

The financial statements were prepared on the historical cost basis in accordance with IFRS and include the following significant accounting policies which have been applied consistently in all material respects:

*a) Use of Estimates*

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of income 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.

*b) 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.



# PORT ALBERNI PORT AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

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### 2. SIGNIFICANT ACCOUNTING POLICIES (*continued*)

#### 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 within 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.

#### 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.

# PORT ALBERNI PORT AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

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### 2. SIGNIFICANT ACCOUNTING POLICIES (*continued*)

#### c) *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.

#### d) *Inventories*

Inventories are stated at the lower of cost and net realizable value, with 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 the 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.

#### e) *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 homogenous 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% to 10%	Straight-line
Terminal – berth	2.5% to 10%	Straight-line
Terminal equipment	10%	Straight-line
Argyle Street development	2.5% to 10%	Straight-line
Fishermen's harbour	5% to 100%	Straight-line
Water Street Wharf	10%	Straight-line
Sundry Floats	10%	Straight-line
Port Fish Building and equipment	5% to 30%	Straight-line
Kingsway Avenue – parking lot	5%	Straight-line
Marine Centre Building	5% to 10%	Straight-line
Marinas	2.5% to 20%	Straight-line
Environmental protection equipment	10% to 20%	Straight-line
Office furnishings	20% to 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.

# PORT ALBERNI PORT AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

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### 2. SIGNIFICANT ACCOUNTING POLICIES (*continued*)

*f) 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 in Note 2(e).

*g) 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.

*h) 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.

*i) 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.

*j) 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. TRANSITION TO IFRS

#### **The basis of transition to IFRS**

The Port Authority's financial statements for the period ending December 31, 2011 are the first annual financial statements to be prepared in accordance with International Financial Reporting Standards (IFRS). These financial statements have been prepared as described in Note 2. The Port Authority applied IFRS 1 in the presentation of these annual financial statements.

The Port Authority's date of transition to IFRS is January 1, 2011. The Port Authority prepared its opening statement of financial position at that date. The end of the reporting period for these consolidated statements is December 31, 2011. The date of IFRS adoption by the Port Authority is January 1, 2011.

# PORT ALBERNI PORT AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

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### 3. TRANSITION TO IFRS (continued)

In preparing the consolidated financial statements in accordance with IFRS 1, the Port Authority applied the following mandatory exception to the retrospective application of IFRS for estimates. Estimates under IFRS at January 1, 2010 are consistent with those made for the same date according to Canadian generally accepted accounting principles (GAAP).

#### Reconciliations between IFRS and Canadian GAAP

The following reconciliations demonstrate the effect of the transition to IFRS:

- Equity at January 1, 2010 (*Schedule A*)
- Equity at December 31, 2010 (*Schedule B*)
- Comprehensive income at December 31, 2010 (*Schedule C*)
- Cash flows (*Schedule D*)

### 4. 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 short-term investments is comprised of:

	2011	2010
	\$	\$
Cash	126,155	37,123
Short-term investments	<u>5,373,180</u>	<u>7,031,762</u>
	<u>5,499,335</u>	<u>7,068,885</u>

**PORT ALBERNI PORT AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2011**

**5. PROPERTY AND EQUIPMENT**

	Gross Value				Accumulated Amortization				Value 2010 \$
	January 1, 2010 \$	Additions \$	Disposals \$	December 31, 2010 \$	January 1, 2010 \$	Expense \$	Disposals \$	December 31, 2010 \$	
<b><u>TERMINAL</u></b>									
Harbour vehicles	188,387	24,992	(16,831)	196,548	132,915	19,043	(16,831)	135,127	61,421
Terminal – berth 1 and 2	4,462,783	5,970	-	4,468,753	4,410,084	7,444	-	4,417,528	51,225
Terminal – berth 3	4,195,448	93,794	-	4,289,242	2,933,025	84,324	-	3,017,349	1,271,893
Terminal – equipment	1,592,747	-	-	1,592,747	1,573,716	14,920	-	1,588,636	4,111
	10,439,365	124,756	(16,831)	10,547,290	9,049,740	125,731	(16,831)	9,158,640	1,388,650
<b><u>FISHERMEN'S HARBOUR, ARGYLE, &amp; WATER STREET</u></b>									
Argyle Street development	1,173,041	377,057	-	1,550,098	848,164	10,327	-	858,491	691,607
Fishermen's wharf	923,032	11,302	-	934,334	506,267	51,492	-	557,759	376,575
Water Street Wharf	193,825	-	-	193,825	193,825	-	-	193,825	-
Sundry Floats	17,829	-	-	17,829	12,102	603	-	12,705	5,124
	2,307,727	388,359	-	2,696,086	1,560,358	62,422	-	1,622,780	1,073,306
<b><u>REAL ESTATE</u></b>									
Port Fish building and equipment	1,885,213	-	-	1,885,213	1,841,542	12,692	-	1,854,234	30,979
Kingsway Avenue – parking lot	330,976	-	-	330,976	330,976	-	-	330,976	-
Marine Centre building	219,714	-	-	219,714	147,359	11,787	-	159,146	60,568
Harbour Road	97,956	-	-	97,956	97,956	-	-	97,956	-
	2,533,859	-	-	2,533,859	2,417,833	24,479	-	2,442,312	91,547
<b><u>MARINAS</u></b>									
China Creek Marina	2,829,281	859,346	(3,304)	3,685,323	2,090,940	84,893	(3,304)	2,172,529	1,512,794
Clutesi Haven Marina	1,540,314	626,140	-	2,166,454	1,395,637	26,979	-	1,422,616	743,838
Harbour Quay Marina	4,873,315	337,642	(269,436)	4,941,521	2,989,010	177,281	-	3,166,291	1,775,230
	9,242,910	1,823,128	(272,740)	10,793,298	6,475,587	289,153	(3,304)	6,761,436	4,031,862
<b><u>ADMINISTRATION</u></b>									
Environmental protection equipment	34,852	-	-	34,852	34,852	-	-	34,852	-
Harbour vessels	162,334	142,475	-	304,809	126,039	23,279	-	149,318	155,491
Office furniture and equipment	187,722	11,625	-	199,347	173,209	4,171	-	177,380	21,967
	384,908	154,100	-	539,008	334,100	27,450	-	361,550	177,458
	24,908,769	2,490,343	(289,571)	27,109,541	19,837,618	529,235	(20,135)	20,346,718	6,762,823

**PORT ALBERNI PORT AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2011**

**5. PROPERTY AND EQUIPMENT (continued)**

	Gross Value				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 and 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 wharf	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 and equipment	1,885,213	-	-	1,885,213	1,854,234	7,248	-	1,861,482	23,731
Kingsway Avenue – parking lot	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 and equipment	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>2,995,894</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, 2011

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### 5. PROPERTY AND EQUIPMENT (continued)

Included in property and equipment in 2011 are amounts for the Argyle Street/Fishermen's Harbour breakwater. This project is under construction at December 31, 2011. The total asset value at December 31, 2011 is \$1,695,932. No amortization has been recorded as the asset has not been placed into use.

In 2011, the Port Authority incurred a cost of \$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.

### 6. 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 \$98,677 (2010 - \$190,193). A reconciliation of the investment properties' carrying amounts, including their gross carrying amounts and accumulated amortization, is included in Note 5.

### 7. DEFERRED GOVERNMENT CONTRIBUTION

During 2011, the Port Authority received the following government contributions during the year:

	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Balance, beginning of year	667,712	315,405
Add – Contributions received:		
City of Port Alberni	-	66,354
Fisheries and Oceans – Small Craft Harbours	852,774	355,000
Community Futures of Alberni: Clayoquot	250,000	-
Less – Amount recognized as amortization in the year	<u>(82,482)</u>	<u>(69,047)</u>
Balance, end of year	<u>1,688,004</u>	<u>667,712</u>

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.

### 8. 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.

# PORT ALBERNI PORT AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

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### 9. RESERVE FOR HARBOUR MAINTENANCE AND DEVELOPMENT

The Port Authority has appropriated net assets, under the title “harbour maintenance and development,” in the amount of \$6,420,000 (2010 - \$6,420,000) for future upgrading and development of the port terminals, marinas, and harbour.

### 10. 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.

### 11. CONTINGENT LIABILITIES

The Port Authority is currently involved in the following legal matters which could result in an obligation to the Port Authority:

- (a) Human resources matter with an employee that was terminated during the year. The Port Authority expects that it is probable that an outflow of resources embodying economic benefits will be required to settle this matter; however, the amount and timing of the obligation cannot be determined with sufficient reliability. Therefore, this obligation has not been accrued in the statement of financial position.
- (b) Litigation with a Port Authority customer regarding a shipment of lumber. This matter is currently being handled by the Port Authority’s insurance company. The Port Authority expects that the full amount of future obligation will be covered by the Port Authority’s insurance, resulting in no effect to the statement of financial position. Therefore, this obligation has not been accrued in the statement of financial position.



# PORT ALBERNI PORT AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

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### 12. 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.

### 13. 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.

### 14. FINANCIAL INSTRUMENTS

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

	<u>2011</u>		<u>2010</u>	
	<u>Carrying</u>	<u>Fair</u>	<u>Carrying</u>	<u>Fair</u>
	<u>Value</u>	<u>Value</u>	<u>Value</u>	<u>Value</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
<b>Financial Assets</b>				
Loans and receivables				
Accounts receivable	529,916	529,916	444,617	444,617
Fair value through profit & loss				
Cash & short-term investments	<u>5,499,335</u>	<u>5,499,335</u>	<u>7,068,885</u>	<u>7,068,885</u>
Total financial assets	<u>6,029,251</u>	<u>6,029,251</u>	<u>7,513,502</u>	<u>7,513,502</u>
<b>Financial Liabilities</b>				
Other financial liabilities				
Accounts payable & accrued liabilities	<u>768,652</u>	<u>768,652</u>	<u>878,804</u>	<u>878,804</u>

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.

# PORT ALBERNI PORT AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

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### 14. FINANCIAL INSTRUMENTS (continued)

#### **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 analysis enables to evaluate 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 \$151,405 (2010 - \$707) 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 is not exposed to significant currency risk.

#### *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, 2011

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### 15. 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.

	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Cash and short-term investments	5,499,335	7,068,885
Total requirements of capital:		
Accounts payable and accrued liabilities	(768,652)	(878,804)
Committed capital expenditures	<u>(2,600,000)</u>	-
Net excess	<u>2,130,683</u>	<u>6,190,081</u>

Management has estimated that it's committed to expenditures totaling \$2,600,000 for property, plant and equipment for the next fiscal year.

# PORT ALBERNI PORT AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

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### 16. 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, 2011, they are as follows:

<b>Name</b>	<b>Title</b>	<b>Amount</b>
		<b>\$</b>
K. Barlow	Director	10,000
G. Blake	Director	10,000
G. Brett	Director	10,000
D. Deluca	Director	10,000
D. Ferster	Director	14,000
D. St. Jacques	Director	10,000
G. Trumper	Director	10,000
B. Madelung	Port Manager/CEO	<u>142,343</u>
		<u>\$ 216,343</u>

### 17. PRIOR PERIOD ADJUSTMENT

A prior period adjustment has been made to include accrued vacation payable in accounts payable and accrued liabilities which was not previously recorded. This error has been corrected retrospectively. The amount of the correction for each period presented is:

	<b>December 31,</b>	<b>January 1,</b>
	<b>2010</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Increase in accounts payable and accrued liabilities	<u>102,633</u>	<u>66,458</u>
(Decrease) in retained earnings	<u>(102,633)</u>	<u>(66,458)</u>
(Decrease) in profit	<u>(36,175)</u>	Note A

Note A – January 1, 2010 balances are not shown on the statement of income and comprehensive income.

### 18. APPROVAL OF FINANCIAL STATEMENTS

The financial statements of Port Alberni Port Authority for the year ended December 31, 2011 were approved and authorized for issue by the Board of Directors on March 16, 2012.

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

## RECONCILIATION OF EQUITY AT JANUARY 1, 2010

	Note	Canadian GAAP \$	Effect of transition to IFRS \$	IFRS \$
<b>ASSETS</b>				
<b>CURRENT</b>				
Cash and short-term investments		8,098,377	-	8,098,377
Accounts receivable		493,374	-	493,374
Inventories		12,143	-	12,143
Prepaid expenses		61,035	-	61,035
		<u>8,664,929</u>	-	<u>8,664,929</u>
PROPERTY AND EQUIPMENT	(a)	<u>4,813,282</u>	257,866	<u>5,071,148</u>
		<u>13,478,211</u>	257,866	<u>13,736,077</u>
<b>LIABILITIES</b>				
<b>CURRENT</b>				
Accounts payable and accrued liabilities		455,394	-	455,394
Unearned lease revenue		101,441	-	101,441
		<u>556,835</u>	-	<u>556,835</u>
DEFERRED GOVERNMENT CONTRIBUTIONS	(b)	<u>-</u>	315,405	<u>315,405</u>
		<u>556,835</u>	315,405	<u>872,240</u>
<b>EQUITY</b>				
CONTRIBUTED SURPLUS	(b)	3,726,305	(3,726,305)	-
RESERVE FOR SELF INSURANCE		110,000	-	110,000
RESERVE FOR HARBOUR MAINTENANCE AND DEVELOPMENT		7,700,000	-	7,700,000
RETAINED REVENUES		<u>1,385,071</u>	3,668,766	<u>5,053,837</u>
		<u>12,921,376</u>	(57,539)	<u>12,863,837</u>
		<u>13,478,211</u>	257,866	<u>13,736,077</u>

## (a) Property and equipment

The total adjustment constitutes a restatement of accumulated amortization to reflect calculating amortization using the half-year rules, where in the year of acquisition only one-half the normal amortization rate is applied rather than the full amortization rate. This provides a better estimate of when the assets were put into use.

## (b) Deferred government contributions

The total adjustment constitutes a restatement to reflect accounting for government contributions using the income approach where government grants are recorded in profit or loss on a systematic basis over the periods in which the Port Authority recognizes the related costs as expenses rather than including government contributions in contributed surplus.

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

## RECONCILIATION OF EQUITY AT DECEMBER 31, 2010

	Note	Canadian GAAP \$	Effect of transition to IFRS \$	IFRS \$
<b>ASSETS</b>				
<b>CURRENT</b>				
Cash and short-term investments		7,068,885		7,068,885
Accounts receivable		444,617		444,617
Inventories		11,550		11,550
Prepaid expenses		88,510		88,510
		<u>7,613,562</u>	-	<u>7,613,562</u>
PROPERTY AND EQUIPMENT	(a)	<u>6,383,393</u>	379,430	<u>6,762,823</u>
		<u>13,996,955</u>	379,430	<u>14,376,385</u>
<b>LIABILITIES</b>				
<b>CURRENT</b>				
Accounts payable and accrued liabilities		878,804		878,804
Unearned lease revenue		20,840		20,840
		<u>899,644</u>	-	<u>899,644</u>
DEFERRED GOVERNMENT CONTRIBUTIONS	(b)	<u>-</u>	667,712	<u>667,712</u>
		<u>899,644</u>	667,712	<u>1,567,356</u>
<b>EQUITY</b>				
CONTRIBUTED SURPLUS	(b)	4,147,659	(4,147,659)	-
RESERVE FOR SELF INSURANCE		110,000		110,000
RESERVE FOR HARBOUR MAINTENANCE AND DEVELOPMENT		6,420,000	-	6,420,000
RETAINED REVENUES		<u>2,419,692</u>	3,859,377	<u>6,279,069</u>
		<u>13,097,351</u>	(288,282)	<u>12,809,069</u>
		<u>13,996,995</u>	379,430	<u>14,376,425</u>

## (a) Property and equipment

The total adjustment constitutes a restatement of accumulated amortization to reflect calculating amortization using the half-year rules, where in the year of acquisition only one-half the normal amortization rate is applied rather than the full amortization rate. This provides a better estimate of when the assets were put into use.

## (b) Deferred government contributions

The total adjustment constitutes a restatement to reflect accounting for government contributions using the income approach where government grants are recorded in profit or loss on a systematic basis over the periods in which the Port Authority recognizes the related costs as expenses rather than including government contributions in contributed surplus.

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

## RECONCILIATION OF COMPREHENSIVE INCOME FOR 2010

	Note	Canadian GAAP \$	Effect of transition to IFRS \$	IFRS \$
<b>REVENUE</b>				
Operations		4,097,816	-	4,097,816
Investment income		264,262	-	264,262
		<u>4,362,078</u>	-	<u>4,362,078</u>
Gross revenue charge		87,241	-	87,241
		<u>4,274,837</u>	-	<u>4,274,837</u>
<b>EXPENSES</b>				
Amortization	(a)	650,799	(190,611)	460,188
Supplies, service and maintenance		2,541,066	-	2,541,066
Wages and benefits		1,328,459	-	1,328,459
		<u>4,520,324</u>	<u>(190,611)</u>	<u>4,329,713</u>
OPERATING PROFIT (LOSS)		(245,487)	190,611	(54,876)
Gain on disposal of assets		175	-	175
Unrealized gain (loss) on foreign exchange		(107)	-	(107)
NET PROFIT (LOSS) AND COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		<u>(245,419)</u>	<u>190,611</u>	<u>(54,808)</u>
(a) Amortization				
(i) Property and equipment				121,564
(ii) Deferred government contributions				<u>69,047</u>
				<u>190,611</u>

(i) The decrease in amortization of property and equipment reflects the change in calculating amortization using the half-year rules to better reflect the time that assets were placed into use.

(ii) The amortization of deferred government contributions reflects the amortization of deferred contributions related to property and equipment.

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

## RECONCILIATION OF THE STATEMENT OF CASH FLOWS FOR 2010

	Note	Canadian GAAP \$	Effect of transition to IFRS \$	IFRS \$
<b>OPERATING ACTIVITIES</b>				
Profit (loss)	(a)	(245,419)	190,611	(54,808)
Items not involving cash:				
Amortization	(a)	650,799	(190,611)	460,188
Gain on disposal of assets		(175)	-	(175)
		405,205	-	405,205
Net change in non-cash working capital balances		364,682	-	364,682
		769,887	-	769,887
<b>FINANCING ACTIVITIES</b>				
City of Port Alberni		66,354	-	66,354
Fisheries and Oceans / Small Craft Harbours		355,000	-	355,000
Government grants received		421,354	-	421,354
<b>INVESTING ACTIVITIES</b>				
Purchase of property and equipment		(2,220,908)	-	(2,220,908)
Proceeds from sale of equipment		175	-	175
		(2,220,733)	-	(2,220,733)
<b>INCREASE (DECREASE) IN CASH AND SHORT-TERM INVESTMENTS</b>		(1,029,492)	-	(1,029,492)
<b>CASH AND SHORT-TERM INVESTMENTS, beginning of year</b>		8,098,377	-	8,098,377
<b>CASH AND SHORT-TERM INVESTMENTS, end of year</b>		7,068,885	-	7,068,885
(a) Amortization				
(i) Property and equipment				121,564
(ii) Deferred government contributions				69,047
				190,611

(i) The decrease in amortization of property and equipment reflects the change in calculating amortization using the half-year rules to better reflect the time that assets were placed into use.

(ii) The amortization of deferred government contributions reflects the amortization of deferred contributions related to property and equipment.