

PORT ALBERNI PORT AUTHORITY

FINANCIAL STATEMENTS

December 31, 2006

AUDITORS' REPORT

To the Chairman and Directors
Port Alberni Port Authority

We have audited the statements of financial position of **Port Alberni Port Authority** as at **December 31, 2006**, and the statements of changes in net assets, revenue and expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Port Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Port Authority as at **December 31, 2006** and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles applied on a basis consistent with that of the preceding year.

CHURCH PICKARD
Chartered Accountants

Nanaimo, BC
February 23, 2007

PORT ALBERNI PORT AUTHORITY

Statement A

STATEMENT OF FINANCIAL POSITION

As at December 31, 2006

	<u>2006</u>	<u>2005</u> (restated)
Assets		
Current		
Cash and short-term investments - Note 4	\$ 7,578,633	\$ 7,269,655
Accounts receivable	315,043	241,662
Prepaid expense - Note 11	<u>43,289</u>	<u>50,187</u>
	7,936,965	7,561,504
Property and equipment - Note 5		
At cost	\$ 24,188,507	\$ 23,818,201
Less: accumulated amortization	<u>(18,236,709)</u>	<u>(17,644,397)</u>
	<u>5,951,798</u>	<u>6,173,804</u>
	<u>\$ 13,888,763</u>	<u>\$ 13,735,308</u>

Liabilities and Net Assets

Current		
Accounts payable	\$ 399,624	\$ 255,825
Deferred lease revenue - Note 10	<u>97,569</u>	<u>74,582</u>
	497,193	330,407
Reserve for self insurance - Note 6	<u>110,000</u>	<u>110,000</u>
	607,193	440,407
Net assets	<u>13,281,570</u>	<u>13,294,901</u>
	<u>\$ 13,888,763</u>	<u>\$ 13,735,308</u>

Approved:

PORT ALBERNI PORT AUTHORITY

Statement B

STATEMENT OF CHANGES IN NET ASSETS

as at December 31, 2006

	Contributed Capital	Reserve for Harbour Maintenance and Development <small>(Note 7)</small>	Unrestricted	Total 2006	Total 2005 <small>(restated)</small>
Balance, beginning of year - Note 13	\$ 3,373,167	\$ 6,950,000	\$ 2,971,734	\$13,294,901	\$13,758,783
Excess of revenue over expenses - Note 13	-	-	439,858	439,858	171,869
Net transfers	-	200,000	(200,000)	-	-
Amortization of property and equipment	-	-	(592,312)	(592,312)	(719,997)
Contribution from government - Note 5	<u>139,123</u>	<u>-</u>	<u>-</u>	<u>139,123</u>	<u>84,246</u>
Balance, end of year	<u>\$ 3,512,290</u>	<u>\$ 7,150,000</u>	<u>\$ 2,619,280</u>	<u>\$13,281,570</u>	<u>\$13,294,901</u>

PORT ALBERNI PORT AUTHORITY

Statement C

STATEMENT OF REVENUE AND EXPENSES

For the year ended **December 31, 2006**

	2006	2005
		(restated)
Revenue		
Operations	\$ 3,238,712	\$ 2,771,262
Investment income - Note 12	<u>256,544</u>	<u>212,431</u>
	3,495,256	2,983,693
Gross revenue charge	<u>68,930</u>	<u>59,791</u>
	<u>3,426,326</u>	<u>2,923,902</u>
Expenses		
Wages and benefits	1,868,123	1,808,526
Supplies, services, and maintenance	<u>1,118,345</u>	<u>943,507</u>
	<u>2,986,468</u>	<u>2,752,033</u>
Excess of revenue over expenses before amortization	439,858	171,869
Amortization of property and equipment	<u>(592,312)</u>	<u>(719,997)</u>
Excess of expenses over revenue	<u>\$ (152,454)</u>	<u>\$ (548,128)</u>

PORT ALBERNI PORT AUTHORITY

Statement D

STATEMENT OF CASH FLOWS

For the year ended **December 31, 2006**

	2006	2005
		(restated)
Cash provided (used):		
Operating activities		
Excess of expenses over revenue	\$ (152,454)	\$ (548,128)
Item not involving cash		
Amortization of property and equipment	<u>592,312</u>	<u>719,997</u>
	439,858	171,869
Changes in non-cash operating accounts		
Increase in accounts receivable	(73,381)	(48,783)
Decrease in prepaid expense	6,898	818
Increase (decrease) in accounts payable	143,800	(53,457)
Increase (decrease) in deferred lease revenue	<u>22,987</u>	<u>(9,298)</u>
	<u>540,162</u>	<u>61,149</u>
Financing activities		
Capital contribution - Note 5	<u>139,123</u>	<u>84,246</u>
Investing activities		
Additions to capital assets	(370,307)	(264,778)
Disposal of capital assets	<u>-</u>	<u>1,682</u>
	<u>(370,307)</u>	<u>(263,096)</u>
Increase (decrease) in cash	308,978	(117,701)
Cash and equivalent, beginning of the year	<u>7,269,655</u>	<u>7,387,356</u>
Cash and equivalent, end of the year	<u>\$ 7,578,633</u>	<u>\$ 7,269,655</u>

PORT ALBERNI PORT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended **December 31, 2006**

1. **Business operations**

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

2. **Letters patent - Canada Marine Act**

On July 1, 1999, the Port Alberni Port Authority, under the *Canada Marine Act*, received Letters Patent. This authorized them to operate as a Canadian port under the rules and regulations of the *Canada Marine Act*.

As per the Letters Patent, the Port Authority shall pay annually a gross revenue charge to the Ministry of Transport to maintain the Letters Patent in good standing. The gross revenue charge for the Port Authority is 2% of calculated gross revenue to \$10,000,000. Increased rates will apply for higher gross revenues.

3. **Significant accounting policies**

The financial statements of the Port Authority have been prepared in accordance with Canadian generally accepted accounting principles.

- Property and equipment

Property and equipment are recorded at cost and amortized.

The Port Authority records the amortization in its accounts on a straight-line basis over the estimated useful life of the assets. The rates of amortization vary from 2.5% to 20% per annum except for office furniture and equipment which are fully amortized in the year of acquisition. Work in process is recorded at cost, but is not amortized until the work is completed and put into use.

- Government grants

Grants toward asset additions are recorded as contributed surplus. This method is based on the position that the funder has an equity position in the Port Authority.

- Revenue recognition

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

PORT ALBERNI PORT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended **December 31, 2006**

3. Significant accounting policies - cont.

- Use of estimates

The preparation of the financial statements of the Port Authority in accordance 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 expenditure during the reporting period. Significant areas requiring the use of management estimates relate to the fair value of financial instruments, the determination of the collectibility of accounts receivable, valuation of inventories, the liability of unearned revenues, and provisions for contingencies and obligations. Actual results could differ from those estimates. Adjustments, if any, will be reflected in operations in the period of settlement.

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 guaranteed income securities as required by the *Canada Marine Act* for port authorities management regulation. The investments are earning an average interest rate of 3.9% as of December 31, 2006.

5. Property and equipment

The Port Authority has received \$139,123 (2005 - \$84,246) from the government for the purpose of acquiring property, plant, and equipment relating to the Marine Security Program from the Department of Fisheries and Oceans Small Craft Harbours. These contributions are credited directly into contributed surplus.

PORT ALBERNI PORT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended **December 31, 2006**

6. 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 balance sheet.

7. Reserve for harbour maintenance and development

The Port Authority has appropriated net assets, under the title "harbour maintenance and development," in the amount of \$7,150,000 (2005 - \$6,950,000) for future upgrading and development of the port terminals, marinas, and harbour.

8. Municipal accord - City of Port Alberni

The Port Authority has entered into an accord with the City of Port Alberni. This accord provides for the payment of \$88,000 per year to the City of Port Alberni for the purpose of enhancing and thus promoting the use of the port of Port Alberni. This accord is in effect up to and including the calendar year 2007.

PORT ALBERNI PORT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended **December 31, 2006**

9. Financial instruments

Financial instruments are financial assets or liabilities where, in general, the Port Authority has the right to receive cash or another financial asset from another party or the Port Authority has the obligation to pay another party cash or other financial assets. The Port Authority's financial instruments consist of cash and short-term investments, accounts receivable, and accounts payable and accrued liabilities.

- Financial and foreign exchange risk

The financial risk is the risk to the Port Authority's earnings that arise from fluctuations in interest rates, market rates, and the degree of volatility of these rates. The Port Authority does not use derivative instruments to reduce its exposure to interest risk as management does not consider them to be material.

- Credit risk

Credit risk arises from the potential that a counterparty will fail to perform its obligations. The Port Authority is exposed to credit risk from its customers. However, management has credit policies which include the analysis of the financial position of its customers and regular review of their credit limits, and management does not consider credit risk to be material.

- Fair market value

For cash and short-term investments, accounts receivable, and accounts payable and accrued liabilities, the carrying amounts of these financial instruments approximate their fair value due to their short-term maturity or capacity of prompt liquidation.

10. Accounting changes - lease revenue recognition

Effective January 1, 2006, the Port Authority retroactively changed its method of recognizing revenue from leases in its financial statements. Previously, revenue from leases was recognized when payment was received. Under the new accounting method, revenue from leases is deferred and recognized into revenue over the term of the lease. Applying this new method results in \$74,582 of deferred revenue at December 31, 2005.

PORT ALBERNI PORT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended **December 31, 2006**

11. Accounting changes - prepaid expenses

Effective January 1, 2006, the Port Authority retroactively changed its method of recognizing prepaid expenses in its financial statements. Previously, insurance expenses were recognized upon payment. Under the new accounting method, insurance is deferred and recognized into expenses over the term of the coverage. Applying this new method results in \$50,187 of prepaid expenses at December 31, 2005.

12. Accounting changes - amortized investment premium

Effective January 1, 2006, the Port Authority retroactively changed its method of recognizing investment income in its financial statements. Previously, investment income was recognized upon receipt without any annual amortization of investment premiums or discounts. Under the new accounting method, investment premiums and discounts are recognized and amortized into income over the term of the investment. Applying this new method results in \$48,744 of investment premiums being amortized as at December 31, 2005.

13. Restatement of prior year's figure

The prior year's net assets were overstated by \$51,478, as no recognition was given for deferred lease revenue, prepaid expenses, and amortized investment premium/discount (as described in Notes 10, 11, and 12 above). Thus, the prior year's figures have been restated to account for these adjustments.

The net effect of the adjustment for prior years is summarized as followed:

	Excess (deficiency) of revenue over expenses before amortization for 2005	Net assets December 31, 2004
Recording of prepaid expenses balance	\$ 819	\$ 51,005
Recording of deferred revenue balance	(22,700)	(83,880)
Recording of amortized investment premium balance	<u>30,141</u>	<u>(18,603)</u>
Total effect on restatement	8,260	(51,478)
Balance per originally filed financial statements	<u>(180,129)</u>	<u>13,810,261</u>
Revised balance	<u>\$ (171,869)</u>	<u>\$13,758,783</u>

PORT ALBERNI PORT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended **December 31, 2006**

14. Prior year's figures

The prior year's figures were audited by another Chartered Accounting firm and have been restated to conform with the current year's presentation.

15. Directors and president/CEO remuneration during 2006

Position	Name	Wages	Benefits	Total
Directors	K. Barlow	\$ 7,500	\$ -	\$ 7,500
	G. Brett	7,500	-	7,500
	J. Creighton	5,625	-	5,625
	D. Ferster	7,500	-	7,500
	R. Kanngiesser	10,000	-	10,000
	P. Pashnik	7,500	-	7,500
President/CEO - D. Anderson (11 months)		126,667	6,600	133,267
Acting president/CEO - B. Madelung (1 month)		8,000	-	8,000