

Financial Statements of

**PORT OF SYDNEY
DEVELOPMENT CORPORATION**

Year ended March 31, 2018



MGM & Associates
Chartered Professional Accountants
Commerce Tower
15 Dorchester Street Suite 500
PO Box 1
Sydney NS B1P 6G9

Telephone (902) 539-3900
Fax (902) 564-6062
Internet www.mgm.ca

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Port of
Sydney Development Corporation

We have audited the accompanying financial statements of Port of Sydney Development Corporation which comprise the statement of financial position as at March 31, 2018 and the statements of operations, changes in net financial liabilities 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 Canadian public sector accounting 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 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 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 auditors consider 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 Port of Sydney Development Corporation as at March 31, 2018 and its financial performance and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

A handwritten signature in black ink that reads 'MGM & Associates'. The signature is written in a cursive, flowing style.

Chartered Professional Accountants
Licensed Public Accountants

Sydney, Canada
September 25, 2018

PORT OF SYDNEY DEVELOPMENT CORPORATION

Financial Statements

Year ended March 31, 2018

Financial Statements

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PORT OF SYDNEY DEVELOPMENT CORPORATION

Statement of Financial Position

March 31, 2018, with comparative figures for 2017

	2018	2017
FINANCIAL ASSETS		
Cash	\$ 519,976	\$ 310,244
Accounts receivable (note 3)	158,173	284,863
Harmonized sales tax receivable	57,846	14,673
	<u>\$ 735,995</u>	<u>\$ 609,780</u>
FINANCIAL LIABILITIES		
Accounts payable and accrued liabilities	\$ 248,265	\$ 140,039
Payable to Cape Breton Regional Municipality (note 4)	1,322,622	1,487,950
Deferred revenue	6,601	3,964
	<u>1,577,488</u>	<u>1,631,953</u>
NET FINANCIAL LIABILITIES	(841,493)	(1,022,173)
NON-FINANCIAL ASSETS		
Tangible capital assets (note 5)	4,978,928	5,902,174
Deposits and prepaid expenses	30,179	31,638
	<u>5,009,107</u>	<u>5,933,812</u>
Commitments (note 9)		
ACCUMULATED SURPLUS	<u>\$ 4,167,614</u>	<u>\$ 4,911,639</u>

See accompanying notes to financial statements.

On behalf of the Board:

_____ Director

_____ Director

PORT OF SYDNEY DEVELOPMENT CORPORATION

Statement of Operations

Year ended March 31, 2018, with comparative figures for 2017

	2018		2017
	Budget	Actual	Actual
REVENUES			
Passenger tax	\$ 936,691	\$ 944,540	\$ 660,304
Wharfage and berthage	532,261	556,468	532,961
Government funding	204,000	327,554	503,349
Storage and rental	183,484	194,767	163,016
Security	138,416	150,873	140,864
Events	66,930	75,625	78,228
Craft market	102,300	90,389	72,503
Sundry	4,200	3,007	12,137
	2,168,282	2,343,223	2,163,362
EXPENSES			
Salaries and benefits	823,821	682,547	738,136
Repairs and maintenance	340,274	349,890	165,022
Business development	204,000	210,867	364,338
Utilities	199,085	200,844	179,018
Security	155,091	165,813	133,332
Advertising	48,339	71,838	102,619
Professional fees	63,000	69,047	54,339
Insurance	63,228	61,918	52,252
Cruise activities	35,745	41,627	35,173
Dues and fees	45,187	39,098	67,926
Office and general	20,435	35,186	15,607
Travel	56,090	30,631	36,793
Miscellaneous	34,600	18,138	25,458
Office rent	-	13,220	-
Interest and bank charges	4,760	6,172	9,660
Events	3,585	3,822	3,037
Interest on long-term debt	-	-	5,974
Bad debts	500	-	1,935
	2,097,740	2,000,658	1,990,619
Net operating loss before the undernoted	70,542	342,565	172,743
OTHER EXPENSES			
Amortization	(357,412)	(324,015)	(365,643)
Loss on disposal of tangible capital assets	-	(49,351)	(6,525)
	(357,412)	(373,366)	(372,168)
Net operating income before other items	(286,870)	(30,801)	(199,425)
OTHER ITEMS			
Derecognition of assets under capital lease (note 5)	-	(713,224)	-
ANNUAL DEFICIT	(286,870)	(744,025)	(199,425)
ACCUMULATED SURPLUS, BEGINNING OF YEAR		4,911,639	5,111,064
ACCUMULATED SURPLUS, END OF YEAR		\$ 4,167,614	\$ 4,911,639

See accompanying notes to financial statements.

PORT OF SYDNEY DEVELOPMENT CORPORATION

Statement of Changes in Net Financial Liabilities

Year ended March 31, 2018, with comparative figures for 2017

	2018		2017
	Budget	Actual	Actual
ANNUAL DEFICIT	\$ (286,870)	\$ (744,025)	\$ (199,425)
Acquisition of tangible capital assets	(158,425)	(163,344)	(54,188)
Disposal of tangible capital assets	-	49,351	53,779
Derecognition of assets under capital lease	-	713,224	-
Amortization of tangible capital assets	357,412	324,015	365,643
Decrease (increase) in deposits and prepaid expenses	-	1,459	(3,601)
CHANGE IN NET FINANCIAL LIABILITIES	(87,883)	180,680	162,208
NET FINANCIAL LIABILITIES, BEGINNING OF YEAR		(1,022,173)	(1,184,381)
NET FINANCIAL LIABILITIES, END OF YEAR		\$ (841,493)	\$ (1,022,173)

See accompanying notes to financial statements.

PORT OF SYDNEY DEVELOPMENT CORPORATION

Statement of Cash Flows

Year ended March 31, 2018, with comparative figures for 2017

	2018	2017
CASH FLOWS FROM OPERATIONS		
Annual deficit	\$ (744,025)	\$ (199,425)
Items not involving cash		
Amortization of tangible capital assets	324,015	365,643
Loss on disposal of tangible capital assets	49,351	6,525
Derecognition of assets under capital lease	713,224	-
Change in non-cash operating working capital		
Decrease (increase) in accounts receivable	126,690	(120,962)
Increase in harmonized sales tax receivable	(43,173)	(4,586)
Increase in accounts payable and accrued liabilities	108,226	25,384
Decrease in Payable to Cape Breton Regional Municipality	(165,328)	(22,321)
Increase (decrease) in deferred revenue	2,637	(5,500)
Decrease (increase) in deposits and prepaid expenses	1,459	(3,601)
	<u>373,076</u>	<u>41,157</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in obligations under capital lease	-	(155,815)
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Proceeds from disposal of tangible capital assets	-	47,254
Additions to tangible capital assets	(163,344)	(54,188)
	<u>(163,344)</u>	<u>(6,934)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>209,732</u>	<u>(121,592)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	310,244	431,836
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 519,976</u>	<u>\$ 310,244</u>

See accompanying notes to financial statements.

PORT OF SYDNEY DEVELOPMENT CORPORATION

Notes to Financial Statements

Year ended March 31, 2018

CORPORATION BIOGRAPHY

Port of Sydney Development Corporation (the "Corporation") is an other government organization created by the Cape Breton Regional Municipality with a mandate to manage and develop the harbour and infrastructure of the Port of Sydney, Nova Scotia, Canada. The Corporation incorporated under the Companies Act, Chapter 81, Revised Statutes of Nova Scotia, 1989 on March 31, 2015. The Corporation is exempt from income taxes under section 149(1)(d.3) of the Income Tax Act.

1. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared by management to conform in all material respects to generally accepted accounting principles for other government organizations using the standards established by the Public Sector Accounting Board ("PSAB") of the Chartered Professional Accountants (CPA) Canada. Significant aspects of the accounting policies adopted by the Corporation are as follows:

(a) Cash and cash equivalents

Cash and cash equivalents are comprised of cash on hand, cash in bank accounts and term deposits.

(b) Revenue recognition

Revenue from the commercial operations of the Port of Sydney is recognized when the services are provided and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable. Amounts received in advance of the provision of services are recorded as deferred revenue.

Restricted contributions for the purchase of capital assets are recognized in the year in which the capital assets have been purchased and all liabilities relating to the asset have been cleared. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

(c) Financial instruments

Measurement of financial instruments

The Corporation initially measures its financial assets and financial liabilities at fair value and subsequently measures all its financial assets and financial liabilities at amortized cost.

PORT OF SYDNEY DEVELOPMENT CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2018

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets include cash and accounts receivable.

Financial liabilities include accounts payable and accrued liabilities and payable to the Cape Breton Regional Municipality.

Impairment

Financial assets measured at cost or amortized cost are tested for impairment when there are indicators of impairment. The amount of the write-down is recognized in income. A previously recognized impairment loss may be reversed to the extent of the improvement, directly or by adjusting the allowance account, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in income.

Unless otherwise noted, the Corporation is not subject to significant credit, market or liquidity risks arising from these instruments.

(d) Tangible capital assets

Purchases of tangible capital assets are recorded at cost and are amortized over their estimated useful lives. Tangible capital assets acquired under capital leases are recorded at cost and are amortized over their estimated useful lives of the assets or over the lease term as appropriate.

Amortization is provided using the following methods and annual rates:

Asset	Basis	Rate
Building	Declining balance	5%
Equipment	Declining balance	20-30%
Exhibits	Declining balance	20%
Compound	Declining balance	5%
Computer	Declining balance	30%
Vehicles	Declining balance	20%
Wharf	Declining balance	5%

PORT OF SYDNEY DEVELOPMENT CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2018

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Corporation assesses the carrying amount of tangible capital assets initially based on the net recoverable amounts determined on an undiscounted cash flow basis. If the carrying amount of an asset exceeds its net recoverable amount, an impairment loss is recognized to the extent that fair value is below the asset's carrying amount. Fair value is determined based on quoted market prices when available, otherwise on the discounted cash flows over the life of the asset.

(e) Use of estimates

The preparation of financial statements 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 expenditures during the year. Actual results could differ from those estimates.

(f) Net liabilities

The Corporation's financial statements are presented so as to highlight net liabilities as the measurement of financial position. The net liabilities of the Corporation is determined by its financial liabilities less its financial assets.

2. LINE OF CREDIT

The Corporation has an established line of credit of \$150,000. The line of credit bears interest at a rate of prime plus 2.5%. As security for the line of credit, the Corporation provided a first ranking security interest on all the property and accounts receivable of the Corporation. At year end, the line of credit has a nil balance (2017 - \$nil).

3. ACCOUNTS RECEIVABLE

	2018	2017
Trade receivables	\$ 116,674	\$ 192,467
Transport Canada	41,499	92,396
	<u>\$ 158,173</u>	<u>\$ 284,863</u>

PORT OF SYDNEY DEVELOPMENT CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2018

4. PAYABLE TO CAPE BRETON REGIONAL MUNICIPALITY

The Corporation has entered into a formal repayment plan to the Cape Breton Regional Municipality for all amounts payable upon the expiration of the capital lease. The Corporation has proposed to repay the balance owing equally over the next nine years. An amount of \$165,328, without interest, is due March 31, 2019.

5. TANGIBLE CAPITAL ASSETS

			2018	2017
	Cost	Accumulated amortization	Net book value	Net book value
Building	\$ 9,111,163	\$ 4,495,637	\$ 4,615,526	\$ 4,887,002
Equipment	717,905	519,500	198,405	196,190
Compound	68,973	18,640	50,333	52,982
Exhibits	101,309	48,376	52,933	66,166
Computer	15,177	13,322	1,855	2,650
Vehicles	27,584	8,275	19,309	-
Wharf	44,950	4,383	40,567	697,184
	\$ 10,087,061	\$ 5,108,133	\$ 4,978,928	\$ 5,902,174

During the year, the capital lease with Cape Breton Regional Municipality expired and no lease renewal or extension was completed. As a result, the previously recorded capital assets were derecognized along with the accumulated amortization on those capital assets. This resulted in a reduction to the Wharf of \$654,482 and Building of \$58,742 and was expensed in the statement of operations for the year.

6. PENSION EXPENSE

Effective April 1, 2015, the Corporation has adopted a defined contribution pension plan for its employees.

The pension expense for the year ended March 31, 2018 was \$22,760 (2017 - \$27,878) and is included in wages and benefits, as disclosed in the statement of operations.

PORT OF SYDNEY DEVELOPMENT CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2018

7. FUNDS HELD IN TRUST

On June 17, 2014, Enterprise Cape Breton Corporation acting on behalf of the dredge oversight committee, entered into an agreement with the SPC (now the Corporation) to transfer the remaining funds to lawyers trust for specific purposes. The Corporation draws down the fund in compliance with the agreement.

The balance of funds held in trust as of March 31, 2018 is \$1,184,891 (2017 - \$1,467,955).

8. FINANCIAL INSTRUMENTS

The Corporation is exposed to various risks through its financial instruments and has a comprehensive risk management framework to monitor, evaluate and manage these risks. The following are the significant risks as of March 31, 2018.

a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Financial instruments which potentially subject the Corporation to concentrations of credit risk consist principally of accounts receivable. Concentration of credit risk may arise from exposures to a single debtor or to a group of debtors having similar characteristics such that their ability to meet their obligations is expected to be affected similarly by changes in economic or other conditions.

The Corporation's most significant accounts receivable transactions are with cruise ship companies and arise in the normal course of the Corporation's operations. To alleviate the potential for credit risk concentration, the Corporation monitors the balance receivable on a regular basis.

b) Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with financial liabilities. The Corporation is exposed to liquidity risk arising primarily from its accounts payable and accrued liabilities. The Corporation manages its liquidity risk by constantly monitoring forecasted and actual cash flow. Accounts payable and accrued liabilities are normally paid within thirty days.

PORT OF SYDNEY DEVELOPMENT CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2018

9. COMMITMENTS

The Corporation entered into a five year lease agreement with a company to rent the premises located on 90 Esplanade, Sydney, Nova Scotia. The lease starts September 2018 with base rent of \$4,360 per month for the five year term of the lease and the agreement expires in July 2023.

The Corporation entered into a seven month lease agreement with a company to rent the premises located on 275 Charlotte Street, Sydney, Nova Scotia. The lease started December 2017 with base rent of \$2,444 per month for the seven month term of the lease and the agreement expires in July 2018.

The total annual lease commitment under both leases is as follows:

2019	\$	40,296
2020		52,320
2021		52,320
2022		52,320
2023		52,320
2024		17,440
	\$	267,016
