

Financial Statements of

**PORT OF SYDNEY
DEVELOPMENT CORPORATION**

Year ended March 31, 2019



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Port of
Sydney Development Corporation

Opinion

We have audited the accompanying financial statements of Port of Sydney Development Corporation which comprise the statement of financial position as at March 31, 2019 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.

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, 2019 and the results of its financial performance and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Corporation in accordance with ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibility of Management and Those Charged with Governance 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.

In preparing financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditors' Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decision of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

Port of Sydney Development Corporation
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We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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
October 16, 2019

PORT OF SYDNEY DEVELOPMENT CORPORATION

Financial Statements

Year ended March 31, 2019

Financial Statements

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PORT OF SYDNEY DEVELOPMENT CORPORATION

Statement of Financial Position

March 31, 2019, with comparative figures for 2018

	2019	2018
FINANCIAL ASSETS		
Cash	\$ 581,563	\$ 519,976
Accounts receivable (note 3)	331,861	158,173
Harmonized sales tax receivable	24,327	57,846
	<u>\$ 937,751</u>	<u>\$ 735,995</u>
FINANCIAL LIABILITIES		
Accounts payable and accrued liabilities	\$ 334,390	\$ 248,265
Payable to Cape Breton Regional Municipality (note 4)	1,157,294	1,322,622
Deferred revenue	148,397	6,601
	<u>1,640,081</u>	<u>1,577,488</u>
NET FINANCIAL LIABILITIES	(702,330)	(841,493)
NON-FINANCIAL ASSETS		
Tangible capital assets (note 5)	5,040,119	4,978,928
Deposits and prepaid expenses	26,313	30,179
	<u>5,066,432</u>	<u>5,009,107</u>
Commitments (note 9)		
ACCUMULATED SURPLUS	\$ 4,364,102	\$ 4,167,614

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, 2019, with comparative figures for 2018

	2019		2018
	Budget	Actual	Actual
REVENUES			
Passenger tax	\$ 936,880	\$ 1,036,580	\$ 944,540
Wharfage and berthage	535,029	634,216	556,468
Government funding	35,000	238,323	327,554
Storage and rental	199,318	233,902	194,767
Security	160,212	200,024	150,873
Events	57,450	100,335	75,625
Craft market	83,780	83,109	90,389
Sundry	5,500	20,301	3,007
	2,013,169	2,546,790	2,343,223
EXPENSES			
Salaries and benefits	846,816	752,174	682,547
Repairs and maintenance	320,063	389,927	349,890
Security	168,988	207,189	165,813
Utilities	200,464	202,881	200,844
Advertising	52,740	79,790	71,838
Insurance	67,311	79,159	61,918
Cruise activities	58,495	57,386	41,627
Professional fees	61,000	53,625	69,047
Dues and fees	45,591	46,291	39,098
Office rent	36,000	31,991	13,220
Office and general	30,240	21,360	35,186
Miscellaneous	38,500	19,759	18,138
Travel	42,350	12,135	30,631
Interest and bank charges	6,220	10,700	6,172
Events	4,085	4,985	3,822
Bad debts	500	2,613	-
Business development	-	798	210,867
	1,979,363	1,972,763	2,000,658
Net operating income before the undernoted	33,806	574,027	342,565
OTHER REVENUE (EXPENSES)			
Amortization	(350,000)	(386,724)	(324,015)
Gain (loss) on disposal of tangible capital assets	-	9,185	(49,351)
	(350,000)	(377,539)	(373,366)
Net operating income (loss) before other items	(316,194)	196,488	(30,801)
OTHER ITEMS			
Derecognition of assets under capital lease (note 5)	-	-	(713,224)
ANNUAL SURPLUS (DEFICIT)	(316,194)	196,488	(744,025)
ACCUMULATED SURPLUS, BEGINNING OF YEAR		4,167,614	4,911,639
ACCUMULATED SURPLUS, END OF YEAR		\$ 4,364,102	\$ 4,167,614

See accompanying notes to financial statements.

PORT OF SYDNEY DEVELOPMENT CORPORATION

Statement of Changes in Net Financial Liabilities

Year ended March 31, 2019, with comparative figures for 2018

	2019		2018	
	Budget	Actual	Actual	
ANNUAL SURPLUS (DEFICIT)	\$ (316,194)	\$ 196,488	\$ (744,025)	
Acquisition of tangible capital assets	(158,425)	(448,530)	(163,344)	
Disposal of tangible capital assets	-	615	49,351	
Derecognition of assets under capital lease	-	-	713,224	
Amortization of tangible capital assets	350,000	386,724	324,015	
Decrease in deposits and prepaid expenses	-	3,866	1,459	
CHANGE IN NET FINANCIAL LIABILITIES	(124,619)	139,163	180,680	
NET FINANCIAL LIABILITIES, BEGINNING OF YEAR		(841,493)	(1,022,173)	
NET FINANCIAL LIABILITIES, END OF YEAR		\$ (702,330)	\$ (841,493)	

See accompanying notes to financial statements.

PORT OF SYDNEY DEVELOPMENT CORPORATION

Statement of Cash Flows

Year ended March 31, 2019, with comparative figures for 2018

	2019	2018
CASH FLOWS FROM OPERATIONS		
Annual surplus (deficit)	\$ 196,488	\$ (744,025)
Items not involving cash		
Amortization of tangible capital assets	386,724	324,015
Loss (gain) on disposal of tangible capital assets	(9,185)	49,351
Derecognition of assets under capital lease	-	713,224
Change in non-cash operating working capital		
Decrease (increase) in accounts receivable	(173,688)	126,690
Decrease (increase) in harmonized sales tax receivable	33,519	(43,173)
Increase in accounts payable and accrued liabilities	86,125	108,226
Decrease in Payable to Cape Breton Regional Municipality	(165,328)	(165,328)
Increase in deferred revenue	141,796	2,637
Decrease in deposits and prepaid expenses	3,866	1,459
	500,317	373,076
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Proceeds from disposal of tangible capital assets	9,800	-
Additions to tangible capital assets	(448,530)	(163,344)
	(438,730)	(163,344)
INCREASE IN CASH AND CASH EQUIVALENTS	61,587	209,732
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	519,976	310,244
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 581,563	\$ 519,976

See accompanying notes to financial statements.

PORT OF SYDNEY DEVELOPMENT CORPORATION

Notes to Financial Statements

Year ended March 31, 2019

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, 2019

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%
Compound	Declining balance	5%
Exhibits	Declining balance	20%
Computer	Declining balance	30%
Vehicles	Declining balance	20%
Wharf	Declining balance	5%
Other buildings	Declining balance	20%

PORT OF SYDNEY DEVELOPMENT CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2019

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 (2018 - \$nil).

3. ACCOUNTS RECEIVABLE

	2019	2018
Trade receivables	\$ 268,656	\$ 116,674
Transport Canada	63,205	41,499
	<u>\$ 331,861</u>	<u>\$ 158,173</u>

PORT OF SYDNEY DEVELOPMENT CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2019

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 seven years. An amount of \$165,328, without interest, is due March 31, 2020

5. TANGIBLE CAPITAL ASSETS

			2019	2018
	Cost	Accumulated amortization	Net book value	Net book value
Building	\$ 9,111,163	\$ 4,726,413	\$ 4,384,750	\$ 4,615,526
Equipment	1,128,374	632,615	495,759	198,405
Compound	68,973	21,157	47,816	50,333
Exhibits	101,309	58,963	42,346	52,933
Computer	15,177	13,879	1,298	1,855
Vehicles	27,584	14,068	13,516	19,309
Wharf	44,950	6,411	38,539	40,567
Other buildings	20,119	4,024	16,095	-
	\$ 10,517,649	\$ 5,477,530	\$ 5,040,119	\$ 4,978,928

During the year ended March 31, 2018, 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

The Corporation contributes to a defined contribution pension plan for its employees. The pension expense for the year ended March 31, 2019 was \$18,050 (2018 - \$22,760) 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, 2019

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, 2019 is \$1,200,342 (2018 - \$1,184,391).

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, 2019.

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, 2019

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 started 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 total annual lease commitment under the lease is as follows:

2020	\$	52,320
2021		52,320
2022		52,320
2023		52,320
2024		17,440
	\$	226,720
