Hamilton Port Authority

Consolidated Financial Statements
December 31, 2018
(expressed in Canadian dollars)

Independent auditor's report

To the Board of Directors of Hamilton Port Authority

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Hamilton Port Authority and its subsidiaries (together, the Authority) as at December 31, 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited
The Authority's consolidated financial statements comprise:

- the consolidated statement of financial position as at December 31, 2018;
- the consolidated statement of operations and comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

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 consolidated financial statements* section of our report.

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

Independence
We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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In preparing the consolidated financial statements, management is responsible for assessing the Authority'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 Authority or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 decisions of users taken on the basis of these consolidated 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. We also:

- Identify and assess the risks of material misstatement of the consolidated 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 Authority'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 Authority'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 consolidated 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 Authority to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Authority to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Oakville, Ontario
March 1, 2019

Hamilton Port Authority

Consolidated Statement of Financial Position

As at December 31, 2018

(expressed in Canadian dollars)

	2018 $	2017 $
Assets		
Current assets		
Cash and cash equivalents	17,696,012	11,807,642
Trade and other receivables (note 5)	1,793,692	2,342,930
Inventory and other current assets (note 6)	437,219	405,315
	19,926,923	14,555,887
Non-current assets		
Property and equipment (note 7)	128,288,840	125,948,115
Straight-line rent receivable	5,105,953	4,921,723
	153,321,716	145,425,725
Liabilities		
Current liabilities		
Trade and other payables (note 8)	6,936,032	5,162,249
Provisions and other liabilities	15,107	49,456
	6,951,139	5,211,705
Non-current liabilities		
Employee benefits (note 9)	5,436,616	5,906,281
Deferred revenue	97,500	105,000
	12,485,255	11,222,986
Equity		
Contributed surplus	18,365,972	18,365,972
Retained earnings	125,532,603	119,619,563
Accumulated other comprehensive loss	(3,062,114)	(3,782,796)
	140,836,461	134,202,739
	153,321,716	145,425,725

Contingencies and commitments (note 12)

Approved by the Board of Directors

_______________ Director _______________ Director

The accompanying notes are an integral part of these consolidated financial statements.

Hamilton Port Authority

Consolidated Statement of Operations and Comprehensive Income

For the year ended December 31, 2018

(expressed in Canadian dollars)

	2018 $	2017 $
Revenue from operations		
Port revenue (note 10)	28,126,468	26,371,575
Operating expenses		
Wages and other employee benefits (note 11)	7,408,264	6,585,864
Repairs and maintenance costs	1,215,054	1,465,699
Payments in lieu of taxes	717,574	710,335
Realty taxes	418,737	484,879
Professional and consulting fee	308,699	400,008
Depreciation (note 7)	7,758,184	7,782,375
Federal stipend	1,126,608	988,155
Other operating and administrative	3,459,475	2,805,657
	22,412,595	21,222,972
Earnings from operations before other (income) expenses	5,713,873	5,148,603
Other (income) expenses		
Investment income	(251,645)	(106,588)
Loss (gain) on disposal of property and equipment	52,478	(12,965)
	(199,167)	(119,553)
Net income for the year	5,913,040	5,268,156
Other comprehensive income (loss)	720,682	(1,622,613)
Total comprehensive income for the year	6,633,722	3,645,543

The accompanying notes are an integral part of these consolidated financial statements.

Hamilton Port Authority

Consolidated Statement of Changes in Equity

For the year ended December 31, 2018

(expressed in Canadian dollars)

	Contributed surplus $	Retained earnings $	Accumulated other comprehensive loss $	Total equity $
Balance - December 31, 2016	18,365,972	114,351,407	(2,160,183)	130,557,196
Net income for the year	-	5,268,156	-	5,268,156
Actuarial loss on post-employment benefit obligation	-	-	(1,622,613)	(1,622,613)
Balance - December 31, 2017	18,365,972	119,619,563	(3,782,796)	134,202,739
Net income for the year	-	5,913,040	-	5,913,040
Actuarial gain on post-employment benefit obligation	-	-	720,682	720,682
Balance - December 31, 2018	18,365,972	125,532,603	(3,062,114)	140,836,461

The accompanying notes are an integral part of these consolidated financial statements.

Hamilton Port Authority

Consolidated Statement of Cash Flows

For the year ended December 31, 2018

(expressed in Canadian dollars)

	2018 $	2017 $
Cash provided by (used in)		
Operating activities		
Net income for the year	5,913,040	5,268,156
Adjustments for		
Depreciation	7,758,184	7,782,375
Employee benefits expense (note 9)	1,112,365	929,263
Loss (gain) on disposal of property and equipment	52,478	(12,965)
Deferred revenue	(7,500)	(7,500)
Changes in non-cash working capital		
Increase (decrease) in trade and other receivables	549,238	(859,901)
Increase in straight-line rent receivable	(184,230)	(529,843)
Changes in inventory and other current assets	(31,904)	(153,580)
Increase (decrease) in trade and other payables	1,773,783	(1,659,885)
Increase (decrease) in provisions and other liabilities	(34,349)	17,352
Amounts funded related to employee future benefits (note 9)	(861,348)	(849,708)
	16,039,757	9,923,764
Investing activities		
Purchase of property and equipment (note 7)	(10,151,387)	(10,007,277)
Proceeds on disposal of property and equipment	-	12,965
	(10,151,387)	(9,994,312)
Increase (decrease) in cash and cash equivalents during the year	5,888,370	(70,548)
Cash and cash equivalents - Beginning of year	11,807,642	11,878,190
Cash and cash equivalents - End of year	17,696,012	11,807,642
Cash and cash equivalents - End of year comprise the following		
Cash	668,183	461,350
Short-term investments	17,027,829	11,346,292
	17,696,012	11,807,642

The accompanying notes are an integral part of these consolidated financial statements.

(expressed in Canadian dollars)

1 Nature of operations

Hamilton Port Authority (the Authority) was established effective May 1, 2001 pursuant to the Canada Marine Act and, in accordance with the Letters Patent, is a continuation of the former Hamilton Harbour Commissioners. The Authority, managed by a seven-member Board of Directors, operates on a commercial basis and is mandated to be financially self-sufficient. It is engaged to develop the Port of Hamilton's commercial operations including harbour operations, port security, land use planning and maintenance. The Authority also supports the recreational use of the harbour through its marine operations and launch ramp facility.

The Authority is a non-share capital corporation established under an act of federal parliament. The address of its registered office is 605 James Street North, Hamilton, Ontario, Canada.

2 Basis of presentation

The Authority prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as defined in Part I of the Chartered Professional Accountants of Canada Handbook.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Authority's accounting policies. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of accounting

The consolidated financial statements have been prepared under the historical cost convention.

Basis of consolidation

The consolidated financial statements include the accounts of the Authority and its wholly owned subsidiaries, Sea 3 Inc. as of its incorporation on May 29, 2009, and Great Lakes Port Management Inc. (GLPM) as of its incorporation on July 1, 2017. Sea 3 Inc. and GLPM are fully consolidated and all significant intercompany accounts and transactions have been eliminated on consolidation.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with banks and short-term investments that are immediately callable held by major financial institutions. Cash and cash equivalents are classified as current assets and are measured at fair value.

(expressed in Canadian dollars)

Trade receivables

Trade receivables are amounts due from customers in the ordinary course of business where collection is expected in one year or less. Accounts receivable are classified as current assets and are measured at amortized cost.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. Inventories include supplies used in the Authority's operations.

Property and equipment

Property and equipment include land, berthing structures, buildings, utilities, equipment, office furniture and equipment and roads and surfaces. Property and equipment are stated at acquisition cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Authority and the cost can be measured reliably. Repairs and maintenance costs are charged to the consolidated statement of operations and comprehensive income during the period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method, commencing in the year the asset becomes operational, to allocate the cost over their useful lives. The major classes of property and equipment are depreciated as follows:

Berthing structures	2 - 10%
Buildings	4 - 10%
Utilities	5 - 10%
Roads and surfaces	5 - 10%
Equipment	5 - 20%
Office furniture and equipment	10 - 33.3%

The Authority allocates the amount initially recognized in respect of an item of property and equipment to its significant parts and depreciates separately each such part. The carrying amount of a replaced part is derecognized when replaced. Residual values, method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate.

The assets' useful lives are reviewed annually and adjusted if appropriate. Gains and losses on disposal of property and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included in the consolidated statement of operations and comprehensive income in the period of disposal.

(expressed in Canadian dollars)

Impairment of non-financial assets

Property and equipment are tested for impairment whenever events or changes in circumstances indicate the 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 an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Cash-generating units that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

The Authority evaluates impairment losses for potential reversals whenever events or circumstances warrant such consideration.

Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less. Trade and other payables are recognized initially at fair value.

Provisions

Provisions are recognized when the Authority has a present obligation, legal or constructive, as a result of a past event, and it is probable the Authority will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the consolidated statement of financial position date, taking into account the risks and uncertainties surrounding the obligation, and are discounted where the effect is material.

Revenue recognition

The Authority adopted IFRS 15 effective January 1, 2018. IFRS 15 specifies how and when revenue should be recognized as well as requiring more informative and relevant disclosures. The standard supersedes IAS 18, Revenue, and a number of revenue-related interpretations. IFRS 15 applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. The Authority's revenue from leases are outside the scope of IFRS 15. The Authority's material revenue streams subject to IFRS 15 are harbour revenue, marina services, property management services and non-lease components within lease arrangements arising from the recovery of certain operating expenses from tenants. The adoption of IFRS 15 did not result in any material change to the pattern of revenue recognition by the Authority. The Authority adopted the standard using the modified retrospective approach with no restatement of comparatives and did not record any adjustment upon adoption. The Authority made additional disclosures in note 10, port revenue, as a result of the adoption.

(expressed in Canadian dollars)

Following the adoption of IFRS 15, the Authority has separately disclosed other revenue from tenants in note 10, piers and property revenue, which consists of non-lease components within lease arrangements arising from the recovery of certain operating expenses from tenants which are accounted for in accordance with IFRS 15. Other revenue from tenants is recognized when the Authority has satisfied its performance obligation by delivering services as agreed upon in the lease agreements to tenants at an amount equal to the component of revenue allocated to such performance obligation.

Harbour revenue includes revenues from wharfage and harbour dues and is recognized as the performance obligation is satisfied at a point in time. Marina revenue includes revenue from slip rentals and boat storage and is recognized as the performance obligation is satisfied over time.

Operating lease revenue is recognized on a straight-line basis over the period of the lease. Rent revenue recognized in excess of rent invoices is classified as straight-line rent receivable on the consolidated statement of financial position.

Deferred revenue

Deferred revenue comprises payments received in advance from customers, which are recognized into revenue over the life of the relevant lease or service period.

Leases

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use an asset for an agreed period of time. Leases in which a significant portion of the risks and rewards of ownership is retained by the lessor are classified as operating leases. Leases are classified as finance leases if the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee.

Contributed surplus

The Authority was incorporated without share capital. Assets gifted to (or expropriated from) the Authority by the Government of Canada are treated as increases to (reductions of) contributed surplus, respectively.

Employee benefits

The Authority has three pension plans. For employees hired before July 1, 2011, a defined benefit plan and a supplemental executive retirement plan exist and for employees hired after July 1, 2011, a defined contribution plan is available.

The costs of pension and other retirement benefits earned by employees are actuarially determined using the projected benefits method, pro-rated on service and using management's best estimate assumptions reflecting salary escalation, retirement ages of members, expected health-care costs and other actuarial factors. The pension payable to an employee is based on length of service and average earnings. Under the defined contribution plan, employees may contribute certain amounts annually with the Authority subject to regulated limitations.

(expressed in Canadian dollars)

The liability recognized in the consolidated statement of financial position in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the end of the reporting period, less the fair value of the plan assets, together with the adjustments for unrecognized past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefit will be paid and have terms to maturity approximating the terms of the related pension liability. The liability recognized in the consolidated statement of financial position for the registered pension plan also considers the minimum funding requirements as per the limit required per paragraph 64 of International Accounting Standard (IAS) 19, Employee Benefits.

Actuarial gains and losses are recognized in full in the period in which they occur, in other comprehensive income, without recycling to the consolidated statement of operations and comprehensive income in subsequent periods. Amounts recognized in other comprehensive income are recognized immediately in accumulated other comprehensive income. Current service cost, the recognized element of any past-service cost and the interest expense arising on the pension liability are included in the same line items in the consolidated statement of operations and comprehensive income as the related compensation cost. Past-service costs are recognized immediately into earnings to the extent the benefits are vested, and otherwise are amortized on a straight-line basis over the average period until the benefits become vested.

The cost of the defined contribution pension plan is charged to wages and other employment benefit expenses as the contributions become payable.

Payments in lieu of municipal taxes

Payments in lieu of municipal taxes are based on municipal assessments adjusted in accordance with the Payments in Lieu Act. This amount is included in operating expenses in the consolidated statement of operations and comprehensive income.

Federal stipend

In order to maintain its letters patent in good standing, the Authority is required to annually pay to the Ministry of Transportation a charge on gross revenue, which is calculated as follows:

Gross revenue	Charge
Up to $10,000,000	2%
On the next $10,000,000	4%
On the next $40,000,000	6%
On the next $10,000,000	4%
Over $70,000,000	2%

This amount is included in operating expenses in the consolidated statement of operations and comprehensive income.

(expressed in Canadian dollars)

Income taxes

The Authority is exempt from income taxes under Section 149(1)(d) of the Income Tax Act (Canada).

Financial instruments

The Authority adopted IFRS 9 effective January 1, 2018. IFRS 9 supersedes IAS 39, Financial Instruments - Recognition and Measurement (IAS 39). IFRS 9 establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. The Authority adopted IFRS 9 retrospectively with no restatement of comparatives. The adoption did not result in any material adjustment to the carrying amounts of financial assets, financial liabilities or opening retained earnings.

The following table presents the types of financial instruments held by the Authority within each financial instrument classification under IAS 39 and IFRS 9:

	IAS 39		IFRS 9
	Classification	**Measurement basis**	**Classification and measurement basis**
Financial assets			
Cash and cash equivalents	Loans and receivables	Amortized cost	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost	Amortized cost
Financial liabilities			
Trade and other payables	Other liabilities	Amortized cost	Amortized cost

The Authority has one type of financial asset that is subject to IFRS 9's new expected credit loss model, which is trade and other receivables. The Authority was required to revise its impairment methodology under IFRS 9 for trade and other receivables and this resulted in no adjustments on adoption.

There was no impact on the Authority's financial liabilities as a result of the adoption of IFRS 9 and no material change to the Authority's accounting policies for financial liabilities.

IFRS 9, Accounting policy

Financial assets and liabilities are recognized when the Authority becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Authority has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

(expressed in Canadian dollars)

- Classification

From January 1, 2018, the Authority classifies its financial instruments in the following categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss); and
- those to be measured at amortized cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

The Authority does not currently have any assets measured subsequently at fair value. For financial instruments measured at amortized cost, the Authority's accounting policy is as follows:

- Initial recognition

Financial assets at amortized cost: Financial assets at amortized cost include cash and cash equivalents and trade and other receivables. At initial recognition, the Authority measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. The Authority assesses on a forward-looking basis the expected credit losses associated with its financial assets carried at amortized cost. For trade and other receivables, the Authority applies the simplified approach permitted by IFRS 9, which requires lifetime expected credit losses to be recognized at the time of initial recognition of the receivables. To measure the expected credit losses, trade and other receivables have been grouped based on shared credit risk characteristics and the days past due.

Financial liabilities at amortized cost: Financial liabilities at amortized cost include trade and other payables. At initial recognition, the Authority measures the financial liability at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, trade and other payables are measured at amortized cost using the effective interest method. Trade and other payables are classified as current liabilities if payment is due within 12 months. Otherwise, they are represented as non-current liabilities.

- Impairment

Trade and other receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, significant financial difficulty of the obligor, delinquencies in payments, and when it becomes probable the borrower will enter bankruptcy or other financial reorganization.

(expressed in Canadian dollars)

The Authority recognizes a loss allowance on a forward looking basis at an amount equal to the lifetime expected credit losses on its financial assets measured at amortized cost. Lifetime expected credit losses represent the expected credit losses that will result from all possible default events over the expected life of a financial instrument. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Accounting standards and amendments issued but not yet adopted

The following revised standard is effective for annual periods beginning on or after January 1, 2019.

- IFRS 16, Leases: The standard includes the requirement for lessees to recognize assets and liabilities for the rights and obligations created by leases. Management is currently assessing the impact of adoption of this standard and does not expect it to have a material effect on the Authority.

4 Critical accounting estimates and judgments

The preparation of consolidated financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future. The actual outcome may differ from these judgments, estimates and assumptions. Estimates and other judgments are continually evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. The following discusses the most significant accounting judgments and estimates that the Authority has made in the preparation of the consolidated financial statements.

Provisions and employee benefit obligations

Due to the nature of employee benefit obligations, a considerable part of their determination is based on estimates and/or judgments, including assumptions concerning the future. The actual outcome of these uncertain factors may be materially different from the estimates, causing differences with the estimated obligations. Hence, the differences between actual outcomes and the recorded obligations can impact results over the periods involved. The timing of outflow of resources to settle these obligations is subject to the same uncertain factors. For the sensitivity of employee benefit obligations, refer to note 9. Each sensitivity analysis included in note 9 is based on changing one assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to variations in significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as for calculating the liability recognized in the consolidated statement of financial position.

(expressed in Canadian dollars)

In the case of the funded plans, the Authority ensures the investment positions are managed within an asset liability matching (ALM) framework that has been developed to achieve long-term investments that are in line with the obligations under the pension plans. Within this framework, the Authority's ALM objective is to match assets to the pension obligations by investing in long-term fixed interest securities with maturities that match the benefit payments as they fall due and in the appropriate currency. The Authority actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the pension obligations. The Authority has not changed the processes used to manage its risks from previous periods. The Authority does not use derivatives to manage its risk. Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. A large portion of assets in 2018 consists of equities and bonds. The Authority believes equities offer the best returns over the long term with an acceptable level of risk. The plans are not exposed to significant foreign currency risk.

5 Trade and other receivables

	2018 $	2017 $
Trade and other receivables	1,894,876	2,471,147
Less: Allowance for doubtful accounts (note 13)	(101,184)	(128,217)
Trade and other receivables - net	1,793,692	2,342,930

6 Inventory and other current assets

	2018 $	2017 $
Inventory	275,533	239,024
Prepaid expenses	161,686	166,291
	437,219	405,315

(expressed in Canadian dollars)

7 Property and equipment

	Land $	Buildings $	Docks and services $	Equipment $	Capital development-in-progress $	Total $
January 1, 2017						
Cost	44,870,412	71,873,994	90,809,518	11,413,331	3,235,589	222,202,844
Accumulated depreciation	-	(44,054,743)	(47,359,276)	(7,065,612)	-	(98,479,631)
Net book value	44,870,412	27,819,251	43,450,242	4,347,719	3,235,589	123,723,213
Year ended December 31, 2017						
Additions	-	3,477,681	3,498,005	1,864,924	1,166,667	10,007,277
Disposals - cost	-	-	-	(178,913)	-	(178,913)
Disposals - accumulated depreciation	-	-	-	178,913	-	178,913
Depreciation	-	(3,512,813)	(3,144,099)	(1,125,463)	-	(7,782,375)
	-	(35,132)	353,906	739,461	1,166,667	2,224,902
Closing net book value	44,870,412	27,784,119	43,804,148	5,087,180	4,402,256	125,948,115
January 1, 2018						
Cost	44,870,412	75,351,675	94,307,523	13,099,342	4,402,256	232,031,208
Accumulated depreciation	-	(47,567,556)	(50,503,375)	(8,012,162)	-	(106,083,093)
Net book value	44,870,412	27,784,119	43,804,148	5,087,180	4,402,256	125,948,115
Year ended December 31, 2018						
Additions	186,918	2,051,725	6,930,091	440,986	541,667	10,151,387
Disposals - cost	-	-	(73,584)	(82,521)	-	(156,105)
Disposals - accumulated depreciation	-	-	21,106	82,521	-	103,627
Depreciation	-	(3,456,133)	(3,324,876)	(977,175)	-	(7,758,184)
	186,918	(1,404,408)	3,552,737	(536,189)	541,667	2,340,725
Closing net book value	45,057,330	26,379,711	47,356,885	4,550,991	4,943,923	128,288,840
December 31, 2018						
Cost	45,057,330	77,403,400	101,164,030	13,457,807	4,943,923	242,026,490
Accumulated depreciation	-	(51,023,689)	(53,807,145)	(8,906,816)	-	(113,737,650)
Net book value	45,057,330	26,379,711	47,356,885	4,550,991	4,943,923	128,288,840

The Government of Canada, the Province of Ontario and the City of Hamilton contributed certain property and equipment to the Hamilton Harbour Commissioners prior to the Hamilton Port Authority being established in May 2001. The amount of land and property and equipment was included in land or property and equipment at the transfer amount with the offset included in contributed surplus.

(expressed in Canadian dollars)

The Authority continues to advance the Randle Reef Sediment Remediation Project (the Project) in partnership with Environment Canada, the Ontario Ministry of the Environment, the City of Hamilton, the City of Burlington and US Steel Canada. In September 2013, an important milestone was reached with the partners announcing that all legal agreements to fund and implement the Project had been executed. A project contractor commenced in 2015 to enable the construction of the contain-and-cap facility. To date, $4.94 million has been contributed by the Authority and is reflected in construction-in-progress within property and equipment and a further cash commitment of approximately $1.6 million is expected to occur between 2019 and 2021.

Included within purchases of property and equipment during the fiscal year is approximately $0.6 million (2017 - $0.4 million) of additions that have not yet been paid for.

8 Trade and other payables

	2018 $	2017 $
Trade payables	727,301	734,467
Accrued expenses	3,315,537	2,539,001
Deferred revenue	1,122,452	167,439
Security deposits	1,770,742	1,721,342
	6,936,032	5,162,249

9 Employee benefits

The Authority has a defined benefit pension plan (pension benefit plan), a supplemental executive retirement plan (SERP), a non-pension post-retirement benefit plan (other benefit plan) and a defined contribution plan. Certain information with respect to these plans is provided below.

The Authority operates defined benefit pension plans in Canada based on employee pensionable earnings and length of service. The pension benefit plan was closed to new members effective June 30, 2011.

The majority of benefit payments are from trustee administered funds; however, there is also an unfunded plan where the Authority meets the benefit payment obligation as it falls due. Plan assets held in trusts are governed by local regulations and practice. Responsibility for governance of the plans, overseeing all aspects of the plans, including investment decisions and contribution schedules, lies with the Authority. The Authority has set up a Pension Committee to assist in the management of the plans and has also appointed experienced, independent professional experts, such as investment managers, actuaries, custodians and trustees.

(expressed in Canadian dollars)

The amounts recognized in the consolidated statement of financial position are as follows:

	Pension benefit plan and SERP	
	2018	**2017**
	$	**$**
Present value of funded obligations	16,949,952	17,609,739
Fair value of plan assets	14,405,345	14,653,839
Deficit of funded plans	2,544,607	2,955,900
Present value of unfunded obligations	2,475,309	2,519,481
	5,019,916	5,475,381

	Other benefit plan	
	2018	**2017**
	$	**$**
Present value of funded obligations	-	-
Fair value of plan asset	-	-
Deficit of funded plan	-	-
Present value of unfunded obligations	416,700	430,900
Deficit of the plan	416,700	430,900

The movement in the defined benefit obligation is as follows:

	Pension benefit plan and SERP		Other benefit plan	
	2018	**2017**	**2018**	**2017**
	$	**$**	**$**	**$**
As at January 1	20,129,220	17,399,118	430,900	378,600
Current service cost	882,325	736,579	13,400	11,600
Interest cost on obligations	703,692	713,528	14,900	15,400
Actuarial (gain) loss	(1,660,540)	1,875,017	(29,500)	35,000
Benefits paid	(629,436)	(595,022)	(13,000)	(9,700)
As at December 31	19,425,261	20,129,220	416,700	430,900

(expressed in Canadian dollars)

The movement in the fair value of plan assets is as follows:

	Pension benefit plan and SERP		Other benefit plan	
	2018 $	2017 $	2018 $	2017 $
As at January 1	14,653,839	13,573,605	-	-
Interest cost on plan assets	501,952	547,844	-	-
Actual return on plan assets less interest cost	(969,358)	287,404	-	-
Employer contributions	848,348	840,008	13,000	9,700
Benefits paid	(629,436)	(595,022)	(13,000)	(9,700)
As at December 31	14,405,345	14,653,839	-	-

The amounts recognized in the consolidated statement of operations and comprehensive income are as follows:

	Pension benefit plan and SERP		Other benefit plan	
	2018 $	2017 $	2018 $	2017 $
Current service costs	882,325	736,579	13,400	11,600
Interest cost of obligations	703,692	713,528	14,900	15,400
Interest cost on plan assets	(501,952)	(547,844)	-	-
Total included in wages and other employee benefits expense	1,084,065	902,263	28,300	27,000

The amounts recognized in the consolidated statement of operations and comprehensive income are as follows:

	Pension benefit plan and SERP		Other benefit plan	
	2018 $	2017 $	2018 $	2017 $
Actual return on plan assets less interest cost	(969,358)	287,404	-	-
Actuarial gain (loss) on benefit obligations	70,207	(31,302)	-	-
Gain (loss) from change in financial assumptions	1,590,333	(1,843,715)	29,500	(35,000)
Total	691,182	(1,587,613)	29,500	(35,000)

(expressed in Canadian dollars)

The principal actuarial assumptions are as follows:

	Pension benefit plan and SERP		Other benefit plan	
	2018 %	2017 %	2018 %	2017 %
Defined benefit obligation as at December 31				
Discount rate	3.90	3.40	3.90	3.40
Future salary increases	3.75	3.75	n/a	n/a
Benefit costs for years ended December 31				
Discount rate	3.90	3.40	3.90	3.40
Future salary increases	3.75	3.75	n/a	n/a

The sensitivity of the defined benefit obligation to changes in assumptions is set out below. The effects on each plan of a change in an assumption are weighted proportionately to the total plan obligations to determine the total impact for each assumption presented.

Plan assets, the majority of which are funding the Authority's defined pension plans, comprise:

	2018		2017	
	Unquoted $	%	Unquoted $	%
Equity instruments				
Canadian equity funds	3,918,186	27	4,013,706	27
Foreign equity funds	3,346,426	23	2,630,834	18
	7,264,612	50	6,644,540	45
Fixed income instruments				
Bond funds	3,150,178	22	3,655,388	25
Long-term bonds	3,703,944	26	3,910,150	27
	6,854,122	48	7,565,538	52
Money market	286,611	2	443,761	3
	14,405,345	100	14,653,839	100

(expressed in Canadian dollars)

A sensitivity analysis of the Authority's defined benefit pension plans is as follows:

	Impact on pension benefit plan and SERP		Impact on other benefit plan	
	Increase in assumption %	Decrease in assumption %	Increase in assumption %	Decrease in assumption %
0.5% change in discount rate	(7.3)	8.2	(6.3)	7.2
0.5% change in salary growth rate	2.1	(1.9)	n/a	n/a
0.5% change in life expectancy	(1.0)	1.1	(0.9)	1.0

Expected contributions to pension benefit plans for the year ended December 31, 2019 are $594,200. As at December 31, 2018, the accumulated actuarial losses recognized in accumulated other comprehensive loss were $3,062,114 (2017 - $3,782,796).

The Authority's actuary prepares annual valuations of the plans' assets and accrued benefit obligations using January 1 as a measurement date and extrapolated to December 31. The most recent valuations of the pension benefit plan and supplementary plan for funding purposes were conducted as at December 31, 2017. The next valuations of these plans for funding purposes will be as at December 31, 2018.

Through its defined benefit plans, the Authority is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility

The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform, a deficit will be created. The plans hold a significant proportion of equities, which are expected to outperform corporate bonds in the long term while contributing volatility and risk in the short term.

As the plans mature, the Authority intends to reduce the level of investment risk by investing more in assets that better match the liabilities.

However, the Authority believes that due to the long-term nature of the plan liabilities and the strength of the supporting group, a level of continuing equity investment is an appropriate element of the Authority's long-term strategy to manage the plans efficiently.

Changes in bond yields

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.

(expressed in Canadian dollars)

Inflation risk

The majority of the plans' benefit obligations are linked to inflation; higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect the plans against extreme inflation). The majority of the plans' assets are either unaffected by (fixed interest bonds) or loosely correlated with (equities) inflation, meaning that an increase in inflation will also increase the deficit.

Life expectancy

The majority of the plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities.

The expected maturity analysis of the undiscounted pension plans is presented below:

	Less than a year $	Between 1 - 2 years $	Between 2 - 5 years $	Over 5 years $	Total $
Pension benefit plan and SERP	644,600	636,100	2,338,400	57,182,100	60,801,200
Other benefit plan	15,600	15,500	47,400	687,900	766,400
As at December 31, 2018	660,200	651,600	2,385,800	57,870,000	61,567,600

Employer contributions to the defined contribution plan were as follows:

	2018 $	2017 $
Employer contributions	73,477	71,449

10 Port revenue

	2018 $	2017 $
Harbour	3,490,209	2,488,910
Piers and property	23,109,473	21,807,134
GLPM	92,034	15,161
Straight-line rent revenue	184,230	529,843
Marina	1,250,522	1,530,527
	28,126,468	26,371,575

(expressed in Canadian dollars)

Non-lease components within lease arrangements arising from the recovery of certain operating expenses from tenants are identified within piers and property revenue as follows:

	2018 $	2017 $
Base rent	20,994,798	20,203,317
Other revenue from tenants (a)	2,114,675	1,603,817
Total rent revenue	23,109,473	21,807,134

(a) Other revenue from tenants includes charges for the following services: garbage, janitorial, pest control, window cleaning, security, utilities and maintenance.

11 Wages and other employee benefits

	2018 $	2017 $
Salaries and wages (including termination benefits)	5,317,930	4,780,668
Employee benefit costs		
Defined contribution plan	73,477	71,449
Defined benefit and SERP plans	1,084,065	902,263
Other benefit costs	932,792	831,484
	7,408,264	6,585,864

Compensation of key management

The following disclosure is required pursuant to the Authority's management regulations. The total remuneration includes all members of the Board of Directors, the Chief Executive Officer and employees exceeding $143,595 per year (2017 - $140,366).

(expressed in Canadian dollars)

				2018	2017
Name	Title	Salaries $	Taxable benefits $	Total $	Total $
Minich, Edward	Former Chair	-	-	-	19,983
Moccio, Matthew	Former Chair	17,817	-	17,817	32,917
Watts, Kathleen	Director	29,450	-	29,450	26,500
Shaw, Sandra	Director	-	-	-	23,950
Savage, Robert	Vice Chair	29,067	-	29,067	27,050
Keyes, Stan	Chair	32,917	-	32,917	27,817
Hawkrigg, Melvin	Director	-	-	-	6,000
Stebbing, Jennifer	Director	9,283	-	9,283	18,000
Howlett, James	Director	18,700	-	18,700	-
Davis, Meghan	Director	11,750	-	11,750	-
Waldes, Anne	Director	11,750	-	11,750	-
Hamilton, Ian	President & CEO	342,663	1,590	344,253	281,112
Hart, Robert	CAO & Corporate Secretary	232,332	1,945	234,277	248,932
Knight, Janet	Executive Vice President	263,184	2,133	265,317	254,259
Fitzgerald, William	Vice President of Operations	213,284	1,797	215,081	217,492
		1,212,197	7,465	1,219,662	1,184,012

Termination benefits paid in the year ended December 31, 2018 were $416,399 (2017 - $35,170).

12 Contingencies and commitments

The Authority has contingent liabilities in respect of legal claims arising in the ordinary course of business. It is not anticipated that any material liabilities will arise from the contingent liabilities other than those provided for.

Operating leases - accounting by lessor

The future minimum lease payments to be received under non-cancellable operating leases are as follows:

	2018 $	2017 $
No later than 1 year	15,393,324	15,055,353
Later than 1 year and not later than 5 years	39,128,710	40,733,318
Later than 5 years	56,129,343	50,148,097
	110,651,377	105,936,768

(expressed in Canadian dollars)

Operating leases - accounting by lessee

The Authority leases five photocopiers and a postage meter under non-cancellable operating lease agreements. The future minimum lease payments under non-cancellable operating leases for each of the following years are as follows:

	2018 $	2017 $
No later than 1 year	17,144	16,575
Later than 1 year and not later than 5 years	38,865	44,569
	56,009	61,144

The Authority has an aggregate borrowing limit of $45,000,000 (2017 - $45,000,000). Borrowing is defined in section 9.3 of the Letters Patent.

13 Financial instruments

The carrying amounts of cash and cash equivalents, trade and other receivables and trade and other payables are recorded at carrying amounts, which approximate fair value.

Fair values, including valuation methods and assumptions

The following table summarizes the fair value of financial assets and liabilities as at December 31, 2018 and December 31, 2017:

	2018 $	2017 $
Assets		
Cash and cash equivalents	17,696,012	11,807,642
Trade and other receivables	1,793,692	2,342,930
Liabilities		
Trade and other payables	6,936,032	5,162,249

Market risk

- Foreign exchange risk

  The Authority is not exposed to foreign exchange risk fluctuations.

- Price risk

  The Authority is not exposed to price risk.

(expressed in Canadian dollars)

- Interest rate risk

  The Authority is not exposed to interest rate risk, as there are currently no significant borrowings drawn by the Authority.

Credit risk

The Authority's exposure to concentration of credit risk is limited. The Authority places its cash and cash equivalents and restricted cash with major Canadian financial institutions of high creditworthiness. Credit risk associated with trade and other receivables is minimized, as the Authority performs credit assessments for new customers, monitors the aging of trade and other receivables and contacts debtors regarding payment history. The maximum exposure to credit risk as at the reporting date is the carrying value of accounts receivable. The fair value of trade and other receivables and trade and other payables approximates their carrying value due to their short-term maturity.

No financial assets are past due except for trade and current receivables. As at December 31, 2018, trade and other receivables of $1,188,402 (2017 - $1,479,224) were current, $605,290 (2017 - $863,706) were past due but not impaired and $101,184 (2017 - $128,217) were impaired. The aging analysis of the two categories of receivables is as follows:

	2018 $	2017 $
Trade and other receivables		
Current (less than 30 days)	1,188,402	1,479,224
Past due but not impaired (over 30 days)	605,290	863,706
Impaired	101,184	128,217
Past due but not impaired		
Up to 3 months	512,158	739,516
3 to 6 months	93,132	124,190
Impaired		
3 to 6 months	37,245	57,158
Over 6 months	63,939	71,059

The following table summarizes the changes in the allowance for doubtful accounts for trade receivables:

	2018 $	2017 $
Allowance for doubtful accounts		
Beginning of year	128,217	108,152
Provision	7,169	54,715
Accounts receivable written off during the year	(34,202)	(34,650)
End of year	101,184	128,217

Liquidity risk

Cash flow forecasting is performed to monitor the Authority's liquidity requirements to ensure it has sufficient cash to meet operational needs at all times.

(expressed in Canadian dollars)

Surplus cash held by the Authority over and above balances required for working capital management is invested in callable interest bearing short-term deposits with a maturity within 12 months, which are selected with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts.

As at the reporting date, the Authority held callable short-term deposits of $17,027,829 (2017 - $11,346,292) that are expected to readily generate cash inflows for managing liquidity risk.

The Authority's financial liabilities consist of trade and other payables in the amount of $1,137,166 (2017 - $734,467), which have a contractual activity of three months or less.

14 Capital management

The Authority manages its capital and credit facility availability to ensure the Authority has adequate financial structure and borrowing capacity to allow for financial flexibility and sufficient liquidity. This may require the Authority to establish new credit facilities. The Authority monitors its generation of cash from operations and available credit as part of its overall assessment.

15 Subsequent events

On February 9, 2019, the Minister of Transport posted a notice of certificate of intent recommending to amalgamate the Oshawa Port Authority and the Hamilton Port Authority (collectively the Authorities) pursuant to Section 59.1 of the Port Authorities Management Regulations (PAMR) and for the Authorities to continue as one port authority to be named the Oshawa-Hamilton Port Authority. Section 59.1 of the PAMR permits the Governor in Council to require two or more port authorities to amalgamate and to continue as one port authority. A 30-day consultation period was opened following the posting of the notice whereby interested parties may in accordance with the notice make written representations to Transport Canada and Transport Canada will consult with entities directly affected by the proposed amalgamation. The results of these consultations will be considered within the context of a second submission to the Governor in Council on whether to seek the issuance of a certificate of amalgamation that officially amalgamates the Authorities.