

Financial Statements of

# **SYDNEY TAR PONDS AGENCY**

Year ended March 31, 2011

# SYDNEY TAR PONDS AGENCY

Financial Statements

March 31, 2011

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## INDEPENDENT AUDITORS' REPORT

To the Stakeholders of Sydney Tar Ponds Agency

We have audited the accompanying financial statements of Sydney Tar Ponds Agency which comprise the statement of financial position as at March 31, 2011 and the statements of operations and changes in net financial assets 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 generally accepted accounting principles, 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 Sydney Tar Ponds Agency as at March 31, 2011 and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

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

Chartered Accountants

Sydney, Canada

June 28, 2011

# SYDNEY TAR PONDS AGENCY

## Statement of Financial Position

March 31, 2011, with comparative figures for 2010

	2011	2010
<b>Financial Assets</b>		
Cash	\$ 100,229	\$ -
Accounts receivable, Province of Nova Scotia	21,751,196	16,799,541
	21,851,425	16,799,541
<b>Financial Liabilities</b>		
Cheques issued in excess of funds on deposit	-	17,713
Accounts payable and accrued liabilities	21,850,925	16,781,328
	21,850,925	16,799,041
<b>Net Financial Assets</b>	500	500
Non-financial assets:		
Tangible capital assets (note 2)	76,192	78,930
Prepaid expenses (note 3)	1,220,051	1,207,049
	1,296,243	1,285,979
Contractual obligations (note 4, 9)		
Contingencies (note 10)		
<b>Accumulated Surplus</b>	<b>\$ 1,296,743</b>	<b>\$ 1,286,479</b>

See accompanying notes to financial statements.

On behalf of the Agency:

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# SYDNEY TAR PONDS AGENCY

## Statement of Operations

Year ended March 31, 2011, with comparative figures for 2010

	2011	2010
Revenue:		
Province of Nova Scotia	\$ 67,371,883	\$ 68,639,276
Expenditures (Schedule A):		
Advertising	38,253	39,273
Discretionary grants	2,318,935	301,592
Equipment	23,923	45,080
Insurance	403,837	287,065
Office	83,970	92,525
Miscellaneous fees	82,779	133,398
Miscellaneous services	126,958	33,674
Professional services	60,454,184	64,159,094
Rent	313,400	333,686
Salaries and benefits	2,598,834	2,347,013
Supplies	170,471	80,288
Travel	175,624	121,486
Utilities	547,798	192,519
Amortization of tangible capital assets	22,653	10,587
	67,361,619	68,177,280
Excess of revenue over expenditures	10,264	461,996
Accumulated surplus, beginning of year	1,286,479	824,483
Accumulated surplus, end of year	\$ 1,296,743	\$ 1,286,479

See accompanying notes to financial statements.

# SYDNEY TAR PONDS AGENCY

## Statement of Changes in Net Financial Assets

Year ended March 31, 2011, with comparative figures for 2010

	2011	2010
Excess of revenue over expenditures	\$ 10,264	\$ 461,996
Acquisition of capital assets	(19,915)	(40,064)
Amortization of tangible capital assets	22,653	10,587
	13,002	432,519
Acquisition of prepaid expenses	(416,720)	(717,853)
Use of prepaid expenses	403,718	285,484
Change in net financial assets	–	150
Net financial assets, beginning of year	500	350
Net financial assets, end of year	\$ 500	\$ 500

See accompanying notes to financial statements.

# SYDNEY TAR PONDS AGENCY

## Statement of Cash Flows

Year ended March 31, 2011, with comparative figures for 2010

	2011	2010
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenditures	\$ 10,264	\$ 461,996
Items not involving cash:		
Amortization of tangible capital assets	22,653	10,587
Change in non-cash operating working capital:		
Increase in accounts receivable	(4,951,655)	(8,783,795)
Increase in prepaid expenses	(13,002)	(432,369)
Increase in accounts payable and accrued liabilities	5,069,597	8,822,176
	137,857	78,595
Capital transactions:		
Additions to tangible capital assets	(19,915)	(40,064)
Increase in cash position	117,942	38,531
Cash position, beginning of year	(17,713)	(56,244)
Cash position, end of year	\$ 100,229	\$ (17,713)

Cash position is defined as cheques issued in excess of funds on deposit.

See accompanying notes to financial statements.

# SYDNEY TAR PONDS AGENCY

Notes to Financial Statements

Year ended March 31, 2011

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The Sydney Tar Ponds Agency is a special operating Agency of the Nova Scotia Provincial Government, created by an order-in-council on September 10, 2004. Pursuant to the Memorandum of Agreement, the STPA is charged with carrying out the \$400,000,000 remediation of the Tar Ponds and Coke Oven sites. Nova Scotia will contribute the lesser of 40% of the actual costs incurred or \$120,000,000. Canada will contribute an amount not exceeding \$280,000,000.

## 1. Significant accounting policies:

### (a) Basis of presentation:

These financial statements of the Sydney Tar Ponds Agency (the "Agency") have been prepared, in all material respects, in accordance with Canadian generally accepted accounting principles as recommended by the Public Sector Accounting Board ("PSAB") of the Canadian Institute of Chartered Accountants.

### (b) Basis of accounting:

Revenues and expenditures are recorded on the accrual basis of accounting. The accrual basis of accounting recognizes revenues as they are earned and measurable; expenditures are recognized as they are incurred and measurable as a result of the receipt of goods or services and the creation of a legal obligation to pay.

### (c) Tangible capital assets:

Tangible capital assets consist of land and vehicles and are recorded at cost. The Agency amortizes its vehicles on a declining balance basis at a rate of 35%.

### (d) Financial instruments:

The Agency utilizes various financial instruments. Unless otherwise noted, it is management's opinion that the Agency is not exposed to significant interest, currency or credit risks arising from these financial instruments and the carrying amounts approximate fair values.

All transactions related to financial instruments are recorded on a settlement date basis.

### **Held for trading financial assets and liabilities**

Held for trading financial assets and liabilities comprise accounts receivable, cheques issued in excess of funds on deposit, as well as accounts payable and accrued liabilities. These financial assets and liabilities are measured at their fair value with changes in fair value recognized in the Statement of Operations.

### (e) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, the disclosure of contingencies and the reported

# SYDNEY TAR PONDS AGENCY

Notes to Financial Statements

Year ended March 31, 2011

## 1. Significant accounting policies (continued):

(e) Use of estimates (continued):

amounts of revenues and expenditures in the consolidated financial statements and accompanying notes. Due to the inherent uncertainty in making estimates, actual results could differ from those estimates.

## 2. Tangible capital assets:

			2011	2010
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 29,143	\$ –	\$ 29,143	\$ 29,143
Vehicles	133,975	86,926	47,049	49,787
	<u>\$ 163,118</u>	<u>\$ 86,926</u>	<u>\$ 76,192</u>	<u>\$ 78,930</u>

## 3. Prepaid expenses:

Contractor's operations and professional services environmental insurance (COPSEI):

Total premiums		\$ 1,621,771	
Less:			
2007 expense	\$ 34,266		
2008 expense	110,800		
2009 expense	116,672		
2010 expense	162,861		
2011 expense	284,199	708,798	
Prepaid COPSEI			\$ 912,973

Wrap up liability insurance:

Total premiums		679,868	
Less:			
2008 expense	20,437		
2009 expense	122,623		
2010 expense	122,623		
2011 expense	119,519	385,202	
Prepaid wrap-up liability insurance			294,666

Other prepaid expenses 12,412

Total prepaid expenses \$ 1,220,051

# SYDNEY TAR PONDS AGENCY

Notes to Financial Statements

Year ended March 31, 2011

## 4. Lease obligation:

The Agency has a long - term operating lease obligation to Harbourside Commercial Park Inc. for office accommodation. The lease expires July 13, 2013. The Agency has a long-term operating lease obligation to Sydney Steel Corporation for property rental expiring July 31, 2014. The Agency has a long-term operating lease obligation to Cape Breton & Central Nova Scotia Railway Company Limited for property rental expiring January 31, 2014. The total financial obligation in each of the next four years is as follows: 2012 - \$336,102; 2013 - \$336,102; 2014 - \$190,146 and 2015- \$40,000.

## 5. Project expenditures:

Project expenditures include only those items managed pursuant to the Interim Cost Share Agreement (ICSA) and the Final Cost Share Agreement (FCSA). The ICSA comprising \$42,000,000 of the \$400,000,000 committed for the remediation of the Tar Ponds and Coke Oven sites, provides for interim governance and funding for undertaking Preventative Works and Preliminary Works, as set out in the Memorandum of Agreement between the Government of Canada and the Province of Nova Scotia. The FCSA, comprising the remainder of the \$400,000,000, provides for governance and funding for the Project Works, which incorporates the Joint Review Panel recommendations. Total project expenditures include the cost of capital expenditures and prepaid insurance as follows:

	2011	2010
Total expenditures per the Statement of Operations	\$ 67,361,619	\$ 68,177,280
Add:		
Project expenditures included in financial statements previous year	1,208,473	447,701
Tangible capital assets purchased during the year	19,915	40,064
Prepaid expenses included in project expenditures	382,727	660,721
	1,611,115	1,148,486
Deduct:		
Financial statement accrual not in project expenditures	102,131	1,207,924
Insurance expense included in project expenditures in previous years	369,724	228,352
Amortization of tangible capital assets	22,653	10,587
	494,508	1,446,863
Total project expenditures (Schedule B)	\$ 68,478,226	\$ 67,878,903

# SYDNEY TAR PONDS AGENCY

Notes to Financial Statements

Year ended March 31, 2011

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## 6. Pension plans:

Certain of the employees of the Sydney Tar Ponds Agency retain Civil Servant status pursuant to the Civil Service Act, and are covered by the Nova Scotia Public Service Superannuation Plan (PSSP). Certain others, although they are not considered Civil Servants, participate in the PSSP. Employer pension costs for the PSSP of \$16,861, (2010 - \$13,948), are included in these financial statements. Employees contribute an equal amount. The remainder of the employees, who are not Civil Servants, are part of a Group Registered Retirement Savings Plan (Group RRSP). Employer Group RRSP costs of \$172,647, (2010 - \$135,836), which represent 100% of the contributions to the Group RRSP, are included in these financial statements.

## 7. Fair value of financial assets and liabilities:

The carrying value of cash, accounts receivable, cheques issued in excess of funds on deposit, and accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of these financial instruments.

## 8. Capital management:

The Agency's objectives when managing capital are:

To safeguard the Agency's ability to continue as a going concern, so that it can continue to fulfill its mandate to remediate the Tar Ponds and Coke Oven sites.

To maintain the facilities from which services are provided.

The Agency manages its capital through established management policies, contractual obligations, and governance through various committees.

## 9. Contractual obligations:

The Agency's purpose is to administer the \$400 million remediation of the Tax Ponds and Coke Ovens sites. As of March 31, 2011, contracts totaling approximately \$235.2 million were active, with \$149.5 million completed. The Agency is committed to overseeing the remaining \$85.7 million and in addition to complete further tenders related to the remediation by 2014.

## 10. Contingencies:

The Agency has referred claims to the Department of Justice, Province of Nova Scotia. The outcome of these matters is not determinable and settlement, if any, will be accounted for as a charge (or a recovery) to operations in the period of settlement.

# SYDNEY TAR PONDS AGENCY

## Schedule A – Supplementary Details of Expenditures

Year ended March 31, 2011, with comparative figures for 2010

	2011	2010
Advertising	\$ 38,253	\$ 39,273
Discretionary grants	2,318,935	301,592
Equipment:		
Equipment	14,291	6,138
IT software and hardware	6,127	31,704
Office furniture	3,505	7,238
	<u>23,923</u>	<u>45,080</u>
Insurance	403,837	287,065
Office:		
Miscellaneous office expense	44,733	58,184
Printing and stationery	25,606	27,045
Freight, duty, express	13,631	7,296
	<u>83,970</u>	<u>92,525</u>
Miscellaneous fees:		
Staff training and development	70,405	108,992
Fees and other charges	12,374	24,406
	<u>82,779</u>	<u>133,398</u>
Miscellaneous services:		
Other services	42,448	8,909
Janitorial services	21,600	18,000
Materials and water testing	62,910	6,765
	<u>126,958</u>	<u>33,674</u>
Professional services:		
Professional services	60,400,676	64,109,697
Consulting and legal services	52,055	7,500
Clerical services	1,453	41,897
	<u>60,454,184</u>	<u>64,159,094</u>
Rent:		
Office rentals	210,894	206,083
Construction property rentals	97,643	120,000
Equipment leases and rentals	4,863	7,603
	<u>313,400</u>	<u>333,686</u>

# SYDNEY TAR PONDS AGENCY

Schedule A – Supplementary Details of Expenditures (Continued)

Year ended March 31, 2011, with comparative figures for 2010

	2011	2010
Salaries and benefits:		
Contract employees	\$ 2,006,997	\$ 1,809,875
Civil servants	194,430	197,759
Fringe benefits	397,407	339,379
	<u>2,598,834</u>	<u>2,347,013</u>
Supplies:		
General operating supplies	166,430	77,421
Janitorial supplies	4,041	2,867
	<u>170,471</u>	<u>80,288</u>
Travel:		
Airfare/accommodations	34,489	28,237
General travel	35,982	30,456
Auto operations/maintenance	84,831	37,411
Meeting expenses	20,322	25,382
	<u>175,624</u>	<u>121,486</u>
Utilities:		
Telecommunications	74,950	70,768
Water and electricity	258,366	120,871
Other utilities	214,482	880
	<u>547,798</u>	<u>192,519</u>
Amortization of tangible capital assets	22,653	10,587
<b>Total expenditures</b>	<b>\$ 67,361,619</b>	<b>\$ 68,177,280</b>

# SYDNEY TAR PONDS AGENCY

## Schedule B – Project Expenditures

Year ended March 31, 2011, with comparative figures for 2010

	2011	2010
Implementing agency	\$ 3,230,120	\$ 3,144,749
Cooling Pond – design	–	722
Security	529,276	219,889
Air monitoring	4,080,633	2,363,410
Quality assurance	1,274,879	792,728
Operations and maintenance	615,474	835,391
Project communication program	2,357,597	319,952
Independent engineer	2,167,648	2,259,968
Detailed design & construction oversight	7,484,454	4,746,887
TP2 – construction & operating	1,689,593	6,070,347
TP6 – construction	26,263,413	28,402,942
TP7 – construction	3,714,419	2,898
CO1 – construction	5,965,598	2,452
CO2 – construction	3,315,971	3,143,654
CO5 – construction	–	1,056,037
CO6 – construction	–	7,570
CO7/CO8 – construction	4,557,942	12,279,483
C08 - operating	113,094	–
Panel recommendations – design & construction oversight	135,982	867,990
Environmental management	848,805	1,186,717
Other panel recommendations	133,328	175,117
<b>Total project expenditures (note 5)</b>	<b>\$ 68,478,226</b>	<b>\$ 67,878,903</b>