

Financial Statements

Halifax Port Authority

December 31, 2008



Halifax Port Authority

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Auditors' report



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To the Honourable John Baird
Minister of Transport, Infrastructure and Communities

We have audited the balance sheet of the **Halifax Port Authority** ("the Authority") as at December 31, 2008 and the statements of earnings, comprehensive income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 2008 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Halifax, Nova Scotia

February 9, 2009

Message from CEO

Halifax Port Authority – Overview of 2008

The Port of Halifax has long been home to a diverse range of marine activities. The Port, our surrounding community and its supply chain can offer a multitude of services for containerized, bulk, breakbulk, and roll on/roll off cargoes along with cruise ships.

When the economy ebbs and flows, we are especially fortunate to have a multi-service Port that is connected to a wide range of customers and markets. Two years ago, the Port of Halifax began to experience the impact of a slowdown in the global economy. Particularly with containerized and bulk cargo, Halifax has experienced a decline in import and export volumes handled over our Port. The breakbulk, roll on/roll off and cruise areas of business have withstood the economic slowdown and managed to forge ahead through 2008.

For some time, the Halifax Port Authority has made a concerted effort to diversify our revenue base. As a result, HPA revenues are mixed, by lines of business and by streams of fixed and variable revenue. The HPA has carefully managed revenue streams and expenses to maintain a strong balance sheet which enables our reinvestment in infrastructure. The HPA has invested \$100 million in the past five years in the Port to ensure service providers have quality facilities and innovative systems in place to remain competitive.

While making major capital investments, the HPA continues to maintain a strong financial position as evidenced by our investment grade credit rating, from Standard & Poor's, of A, Outlook Stable. The Port's capacity to ride out the economic low times is evidenced by the recent deferral of cargo tariff increases in early 2009.

The Port of Halifax is on solid footing and the HPA is financially stable which positions our Port community well to seize opportunities now and as global markets recover. On behalf of the Halifax Port Authority, I extend our thanks to the broad Port community and many partners that have demonstrated their commitment to taking our Port forward together.

Sincerely,

Karen Oldfield,
Chief Executive Officer

Statements of earnings, comprehensive income and retained earnings

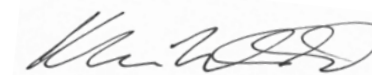
Year ended December 31 (expressed in \$,000's)	2008	2007
Revenue from operations	\$ 28,447	\$ 28,190
Investment income	341	496
	28,788	28,686
EXPENSES		
Salaries and employee benefits	5,722	5,959
Maintenance and repair expenses	1,038	812
Professional and consulting fees	533	695
Other operating expenses (note 4)	6,874	6,709
	14,167	14,175
Earnings from operations before gross revenue charge, interest expense and depreciation	14,621	14,511
Gross revenue charge (note 5)	1,110	1,117
Interest expense	200	283
Depreciation	8,206	6,925
	9,516	8,325
Net earnings and comprehensive income	\$ 5,105	\$ 6,186
Retained earnings, beginning of year	\$ 78,260	\$ 72,074
Net earnings and comprehensive income	5,105	6,186
Retained earnings, end of year	\$ 83,365	\$ 78,260

Balance sheet

December 31 (expressed in \$,000's)	2008	2007
ASSETS		
Current		
Cash and cash equivalents	\$ 84	\$ 704
Security deposits	-	92
Receivables (note 6)	4,529	13,805
Prepaid expenses	359	289
Derivative asset	150	-
	5,122	14,890
Long term receivables (note 7)	1,395	1,492
Property and equipment (notes 8 and 9)	144,460	137,986
Derivative asset (note 10)	144	-
	\$151,121	\$ 154,368
LIABILITIES		
Current		
Bank indebtedness (note 11)	\$ 1,319	\$ -
Payables and accruals	11,259	16,423
Deferred revenue	1,034	1,008
Current portion of long term debt (note 11)	-	4,400
	13,612	21,831
Employee benefit obligation (note 12)	607	620
Deferred revenue	2,680	2,800
	16,899	25,251
EQUITY		
Contributed capital	50,857	50,857
Retained earnings	83,365	78,260
	134,222	129,117
	\$151,121	\$ 154,368

Contingent liabilities (note 13)

On behalf of the Board




Statement of cash flows

Year ended December 31 (expressed in \$,000's)	2008	2007
Increase (decrease) in cash and cash equivalents		
OPERATING		
Net earnings and comprehensive income	\$ 5,105	\$ 6,186
Change in fair value of derivative asset	(294)	-
Depreciation, project impairment costs and gains on disposal of property and equipment	8,862	7,051
Decrease in employee benefit obligations	(13)	(287)
	13,660	12,950
Change in non-cash operating working capital (note 15)	(2,760)	(5,986)
	10,900	6,964
FINANCING		
Proceeds from capital grants	6,727	9,966
Repayment of long term debt	(4,400)	(400)
	2,327	9,566
INVESTING		
Purchase of property and equipment	(15,284)	(38,274)
Proceeds on disposal of assets	118	-
	(15,166)	(38,274)
Net decrease in cash and cash equivalents	(1,939)	(21,744)
Cash and cash equivalents, beginning of year	704	22,448
(Bank indebtedness), net of cash and cash equivalents, end of year	\$ (1,235)	\$ 704

Notes to the financial statements

December 31, 2008 (expressed in \$,000's)

1. Nature of operations

The Halifax Port Authority ("HPA") was established effective March 1, 1999 pursuant to the Canada Marine Act and is a continuation of the former Halifax Port Corporation.

The HPA is managed by a Board of Directors consisting of not more than seven members. The HPA operates on a commercial basis and is mandated to be financially self-sufficient. The HPA exercises management authority over Halifax Harbour and federal real property under its control and has ownership of other property and equipment as outlined in note 8 to the financial statements.

The principal sources of HPA revenues are lease payments for facilities under its management and ownership, fees on vessels, cargo and passengers using the Port of Halifax.

2. Summary of significant accounting policies

REVENUE RECOGNITION

Lease revenue is recognized on a straight-line basis over the rental period and the unearned portion reflected as deferred revenue. Revenue from vessels, cargo and passengers using the Port of Halifax are recognized when services are substantially rendered.

EMPLOYEE BENEFITS

HPA accrues in its accounts, annually, the estimated liabilities for pensions and other entitlements, annual leave, and overtime compensatory leave, which are payable to its employees in subsequent years under its collective agreements or in accordance with its policy.

The cost of pensions earned by employees is actuarially determined using the projected benefit method and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees. Under the projected benefit method, prorated on service, an equal portion of the total estimated future benefit, with salary projection, is attributed to each year of service. The expected return on plan assets is based on the fair value of Plan assets.

Pension expense includes the cost of pension benefits earned during the year, the interest cost on pension obligations, the expected return on pension plan assets, amortization of past service costs, and the amortization of the excess of the net actuarial gains or losses over 10 percent of the greater of the benefit obligation and the fair value of the Plan assets. The amortization period covers the expected average remaining service lives of active employees covered by the Plan. The difference between pension expense and pension funding is recorded as a deferred asset or liability on the balance sheet.

PROPERTY AND EQUIPMENT

Grants, including forgivable loans, towards capital projects received from Canada and from third parties are deducted from the cost of the related fixed assets.

Depreciation is calculated on the straight-line basis for the full year, commencing with the year the asset becomes operational, using rates based on the estimated useful lives of the assets. No depreciation is recorded in the year of disposition.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, balances with banks and short term investments. Bank borrowings are considered to be financing activities.

USE OF ESTIMATES

In preparing the HPA's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the year. Actual results could differ from these estimates.

FOREIGN CURRENCY

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the foreign currency exchange rate in effect at each year end date. Exchange gains or losses arising from the translation of these balances denominated in foreign currencies are recognized in operating income. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at the average foreign currency exchange rate for the period.

3. Changes in accounting policy**EFFECTIVE JANUARY 31, 2008**

On January 1, 2008, HPA adopted the new CICA Handbook Standard 3862 "Financial Instruments – Disclosure" and Standard 3863 "Financial Instruments – Presentation", replacing CICA Standard 3861 – "Financial Instruments – Disclosure and Presentation". These two new Standards became effective for annual financial statements beginning on or after October 1, 2007. The Standards provide enhanced disclosures for HPA's risk associated with financial instruments such as credit risk, liquidity risk and market risks and the techniques used to identify, monitor and manage these risks. The disclosures required as a result of adopting of these Sections are presented in note 10 to the financial statements.

Effective January 1, 2008, HPA adopted the new CICA Handbook Standard 1535 "Capital Disclosures". This Standard became effective for annual financial statements beginning on or after October 1, 2007. This Standard requires disclosure of information that enables users of HPA's financial statements to evaluate the Port's objectives, policies and processes for managing capital. The disclosures required as a result of this Standard are presented in note 14 to the financial statements.

FUTURE CHANGES

The Canadian Accounting Standards Board (AcSB) announced in early 2008 that Publicly Accountable Enterprises ("PAE's") are required to adopt International Financial Reporting Standards ("IFRS") for annual financial statements relating to years beginning or after January 1, 2011 (the Authority's fiscal 2011 year). The future impact to the Authority is unclear due to recent developments by the AcSB with respect to the definition of PAE's required to adopt IFRS and the applicability to Public Sector entities. The Authority will continue to monitor these standards as new guidance is released.

4. Other operating expenses

	2008	2007
Security and other services	\$ 2,570	\$ 2,454
Payments in lieu of taxes	924	1,007
Project development costs	832	241
Fuel, oil, and electricity	807	627
Contributions and industry memberships	474	474
Travel / hospitality	460	550
Advertising and promotion	297	717
Other expenses	510	639
	\$ 6,874	\$ 6,709

5. Gross revenue charge

In order to maintain its Letters Patent in good standing, the HPA is required to annually pay to the Minister of Transport a charge on gross revenues which is calculated as follows:

Gross Revenue	Charge
up to \$10,000	2%
on the next \$10,000	4%
on the next \$40,000	6%
on the next \$10,000	4%
over \$70,000	2%

6. Receivables

	2008	2007
Marine grants	\$ -	\$ 6,897
Trade receivables and accruals	2,704	3,197
HST receivable	592	2,090
Loans receivable	1,233	1,621
	\$ 4,529	\$ 13,805

7. Long term receivables

Long term receivables include interest and non-interest bearing advances to tenants repayable over the terms of their leases ranging from 4 to 10 years.

8. Property and equipment

	Depreciation Rates	Cost	Accumulated Depreciation	2008	2007
				Net Book Value	Net Book Value
FEDERAL REAL PROPERTY					
Land		\$25,517	\$ -	\$25,517	\$ 25,507
Dredging	2.5-6.7%	16,603	5,166	11,437	11,796
Berthing structures	2.5-10%	45,708	31,333	14,375	14,458
Buildings	2.5-10%	48,400	19,355	29,045	24,054
Tenant Improvements	*	809	176	633	381
Utilities	3.3-10%	31,067	11,605	19,462	17,764
Roads and surfaces	2.5-20%	35,065	20,000	15,065	14,256
		203,169	87,635	115,534	108,216
OTHER PROPERTY AND EQUIPMENT					
Land		4,971	--	4,971	4,832
Building	2.5%	3,849	357	3,492	3,417
Tenant Improvements	*	625	258	367	454
Utilities	3.3-10%	1,354	123	1,231	1,292
Roads and surfaces	2.5-20%	2,759	580	2,179	2,383
Machinery and equipment	5-100%	21,960	14,766	7,194	7,198
Office furniture and equipment	20-100%	6,591	3,920	2,671	981
Projects under construction		6,821	-	6,821	9,213
		48,930	20,004	28,926	29,770
		\$252,099	\$107,639	\$144,460	\$137,986

Federal real property, including fixtures, is owned by the federal government and is managed by the HPA as an agent of Her Majesty in right of Canada for certain activities set out in the Canada Marine Act. Federal land, excluding buildings and structures, cannot be mortgaged or pledged as security by the HPA. The HPA is responsible for performing necessary maintenance, restoration and replacement of federal real property that it manages.

* The depreciation calculation for Tenant Improvements is based on the term certain of the lease.

9. Commitments

During the year, additions to property and equipment totalled \$15,284 (2007 - \$26,042).

As at December 31, 2008, contractual obligations for capital projects are estimated at \$7,593 (2007 - \$1,640) for the construction and purchase of property and equipment.

Included in the foregoing amounts are the following projects which individually are estimated to exceed \$1,000:

Project	Spending to date	Commitments at year end	Total authorized cost
Construction of new maintenance building	\$ 821	\$ 3,250	\$ 4,298
Dredging	359	1,469	2,950
Terminal improvements	1,726	238	2,003
Building improvements	157	998	1,155
	\$ 3,063	\$ 5,955	\$10,406

10. Financial instruments and risk management

The HPA is exposed to a number of risks as a result of holding financial instruments. These risks include credit risk, liquidity risk and market risk.

CREDIT RISK

Credit risk is the risk that the entities to which the HPA provides services may experience financial difficulty and be unable to fulfil their obligations. The HPA reviews its outstanding receivables on an ongoing basis and records a provision for accounts where collection is doubtful, or writes off receivables that are considered uncollectible after all collection efforts are followed. Accounts receivable amounts written off (recovered) totalled \$6 (2007 - (\$12)). As at December 31, 2008, the HPA had an allowance of \$251 (2007 - \$256). The HPA mitigates credit risk by actively monitoring the aging of accounts receivable and regularly follows up with overdue accounts.

LIQUIDITY RISK

Liquidity risk is the risk that the Authority will not be able to meet its financial obligations as they become due. The HPA manages the risk through management of its capital structure in conjunction with cash flow forecasting. To facilitate the capital expenditure program, HPA has a credit facility, as outlined in note 11 to the financial statements. The facility is reviewed quarterly to assess compliance with financial covenants and available financing to meet financial obligations.

MARKET RISK

Market risk is the risk that changes in market price, such as foreign exchange rates and interest rates will affect the Authority's net earnings or the value of its financial instruments.

A) FOREIGN CURRENCY EXCHANGE RISK

Foreign currency exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign currency exchange rates. All of HPA's revenues are in Canadian dollars. Expenses incurred in US dollars are approximately \$650 (2007 - \$650). The HPA has put in place US forward exchange rate contracts for the current year and the next two years to mitigate the risk.

B) INTEREST RATE RISK

Interest rate risk is the risk that future cash flows associated with HPA's debt and interest payment will fluctuate as a result of changes in market interest rates. The Authority is exposed to interest rate fluctuations on its credit facility as outlined in note 11 to the financial statements.

FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

As at December 31, 2008, the Authority's financial assets and liabilities are categorized as follows:

	2008	2007
Loans and receivables	\$ 5,924	\$ 15,586
Held for trading	378	704
Other liabilities	12,578	20,823

The carrying values of current assets and current liabilities approximate their fair value due to the relatively short period to maturity of these financial instruments. The fair value of HPA's long-term debt was not materially different from its carrying value and was determined using cash flows discounted at a rate equal to the prevailing market rate of interest for financial instruments having substantially the same terms and characteristics.

DERIVATIVE

The HPA entered into foreign currency forward contracts to fix the rate of exchange for US dollars at future dates in order to reduce the Authority's exposure to foreign currency fluctuations on cash flows denominated in US dollars ("USD"). At December 31, 2008, the Authority has forward currency contracts with a total commitment to purchase \$1,300 USD at a rate of Canadian \$0.9842 (2007 - \$0.9842). The contracts are not held for speculative purposes. They act as economic hedges but are not hedges for accounting purposes and therefore hedge accounting is not applied. These contracts are considered to be derivative instruments and are classified as held-for-trading, therefore are measured at fair value with changes in fair value recognized in earnings. The fair value of the contracts as at December 31, 2008, was \$294 (2007 - \$Nil). A gain of \$294 has been included in investment income.

11. Credit facilities

The HPA has an unsecured, revolving term credit facility to a maximum of \$25,000, bearing interest at prime plus 0.375%. Under the facility, the HPA has the option to convert the outstanding principal balance to individual non-revolving fixed rate advances maturing over the agreed upon term of the facilities. On June 30, 2008, the HPA repaid \$4,400 of unsecured, non-revolving, fixed rate advances bearing interest ranging from 6.06% to 6.35%. As at December 31, 2008, the amount drawn down under the revolving facility was \$1,319 (2007 - \$4,400) and \$23,681 (2007 - \$20,600) was available. The HPA is required to maintain certain financial covenants as prescribed under the banking agreement (note 14).

12. Employee benefit obligation

On March 1, 1999, the HPA was established as described in note 1 to the financial statements. Pursuant to the Canada Marine Act, the HPA was required by March 1, 2000 to establish benefit plans for its employees as of March 1, 1999 comparable to the benefit plans that were in place immediately prior to its becoming a port authority. Prior to March 1, 1999, all employees were included in the Public Service Superannuation Act (PSSA) Plan. The HPA has complied with this requirement and with respect to pension benefits has established defined benefit plans which are available only to employees as at March 1, 1999. A defined contribution Plan has been established for employees hired after March 1, 1999. The Authority has established an unfunded supplementary pension arrangement for designated employees.

The defined benefit pension plan and supplementary pension arrangement provide pension benefits based upon length of service and final average earnings and are indexed for inflation after retirement.

Information about the financial position of the HPA's defined benefit plans as at December 31, 2008 is as follows:

	Pension Benefit Plans		Other Benefit Plans		Total	
	2008	2007	2008	2007	2008	2007
Accrued benefit obligation	\$ 5,908	\$ 7,307	\$ 980	\$ 900	\$ 6,888	\$ 8,207
Fair value of plan assets	6,321	7,136	-	-	6,321	7,136
Funded status-plan surplus (deficit)	413	(171)	(980)	(900)	(567)	(1,071)
Unamortized actuarial (gain) losses and past service costs	(40)	451	-	-	(40)	451
Accrued benefit asset (employee benefit obligation)	\$ 373	\$ 280	\$ (980)	\$ (900)	\$ (607)	\$ (620)

The other benefit plans consist of certain lump sum payment entitlements for all employees upon their retirement. Included in the above accrued benefit obligation are accrued liabilities for employment entitlements calculated in accordance with policy that are not funded.

The following actuarial assumptions have been used in the determination of the accrued benefit obligation and the fair value of plan assets as at December 31, 2008:

	2008	2007
Discount rate	7.50%	5.50%
EXPECTED LONG-TERM RATE OF RETURN ON PLAN ASSETS		
Pension plan	7.00%	7.00%
Supplemental pension plan	3.50%	3.50%
RATE OF COMPENSATION INCREASE		
Pension plan	3.90%	3.90%
Supplemental pension plan	3.90%	3.90%
Designated plan	2.90%	2.90%

The net expense for the HPA's benefit plans is as follows:

	Pension Benefit Plans		Other Benefit Plans		Total	
	2008	2007	2008	2007	2008	2007
Defined benefit plan	\$ 364	\$ 586	\$ 80	\$ 84	\$ 444	\$ 670
Defined contribution plan	115	86	-	-	115	86
	\$ 479	\$ 672	\$ 80	\$ 84	\$ 559	\$ 756

Other information about the HPA's defined benefit plans is as follows:

	Pension Benefit Plans	
	2008	2007
Employer contribution	\$ 457	\$ 903
Employees' contributions	122	114
Benefits paid	114	142

The measurement date used to determine the Plan assets and the accrued benefit obligation was December 31, 2008. The most recent and the next required actuarial valuation for funding purposes are as follows:

	Most Recent Actuarial Valuation	Next Required Actuarial Valuation
Defined benefit pension plan	December 31, 2007	December 31, 2008
Supplementary pension arrangement	December 31, 2007	December 31, 2008

13. Contingent liabilities

LEGAL ACTION

The HPA has been named a defendant in an action in which the plaintiffs have claimed unspecified damages. In the opinion of management, this claim is without merit and, therefore, no provision has been made in the HPA's accounts.

14. Capital risk management

The HPA's objectives when managing capital are to ensure sufficient liquidity to support its financial obligations and execute the operational and strategic plans to continue to provide benefits for its stakeholders and to remain financially self-sufficient. The HPA continually assesses its capital structure and makes adjustments to it with reference to changes in economic conditions and risk characteristics associated with its underlying assets. According to its Letters Patent, HPA's aggregate borrowing can not exceed \$25,000 nor can it borrow money as agent of Her Majesty. Currently, HPA largely relies on cash flows from operations to fund its capital investment program. HPA's capital is comprised of bank indebtedness and equity, net of cash and cash equivalents.

	2008	2007
Total debt	\$ 1,319	\$ 4,400
Less: cash and cash equivalents	84	704
Net debt	1,235	3,696
Equity	134,222	129,117
	\$135,457	\$ 132,813

As part of existing debt agreements, required financial covenants are monitored and communicated, as required by the terms of the credit agreement, on a quarterly basis to ensure compliance.

The HPA was in compliance with all debt agreements during the reporting period.

15. Supplemental cash flow information

	2008	2007
CHANGE IN NON-CASH OPERATING WORKING CAPITAL:		
Security deposits	\$ 92	\$ (26)
Receivables	1,991	(6,921)
Tenant advances, net of repayments	485	(2,756)
Prepaid expenses	(70)	(63)
Payables and accruals	(5,164)	1,397
Deferred revenue	(94)	2,383
	\$ (2,760)	\$ (5,986)
(BANK INDEBTEDNESS) NET OF CASH AND CASH EQUIVALENTS CONSIST OF:		
Cash and cash equivalents	\$ 84	\$ 704
Bank indebtedness	(1,319)	-
	\$ (1,235)	\$ 704
Interest paid	\$ 200	\$ 283

16. Other information

The Canada Marine Act requires disclosure of remuneration and allowances paid to directors and certain employees for the year ended December 31, 2008 as follows:

Name	Title	Remuneration	Directors' Fees	Allowance
Mark MacDonald	Chair	\$ 28	\$ 47	\$ –
D. Geoffrey Machum (1)	Vice-Chair	13	31	–
Linda Moreash (2)	Director	11	16	–
Trevor Johnson (3)	Director	10	18	–
David Henderson	Director	9	14	–
Thomas McInnis (4) (5)	Director	8	17	–
L. Anne Galbraith (6),(7)	Director	7	16	–
Gerald Blom (8)	Former Vice-Chair	3	3	–
William Richardson (9)	Former Director	3	3	-
Karen Oldfield	President, Chief Executive Officer	270	–	10
Paul MacIsaac	Senior Vice-President	191	–	7
George Malec	Vice-President, Business Development & Operations	187	–	7
Krista Dempsey	Vice-President, Real Estate	143	–	7

(1) Elected Vice-Chair effective March 1, 2008

(2) Chair – Security, Environment & Safety Committee

(3) Chair – Human Resources & Compensation Committee

(4) Appointed Director March 1, 2008

(5) Chair – Gateway Strategy Committee

(6) Appointed Director April 4, 2008

(7) Chair – Audit Committee

(8) Term as Director expired February 28, 2008

(9) Term as Director expired April 3, 2008

17. Comparative figures

Certain of the 2007 comparative figures have been reclassified to conform with the financial statement presentation adopted for 2008.

