

Financial statements of

**Toronto Port Authority**

December 31, 2010

(In thousands of dollars)

# Toronto Port Authority

December 31, 2010

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## Independent Auditor's Report

To the Board of Directors of Toronto Port Authority

We have audited the accompanying financial statements of Toronto Port Authority, which comprise the balance sheet as at December 31, 2010, and the statements of revenue and expenses, comprehensive loss and equity and statement of 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.

### Auditor's 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 auditor's 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 auditor considers 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, the financial statements present fairly, in all material respects, the financial position of Toronto Port Authority as at December 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Deloitte & Touche LLP*

Chartered Accountants  
Licensed Public Accountants  
April 26, 2011

# Toronto Port Authority

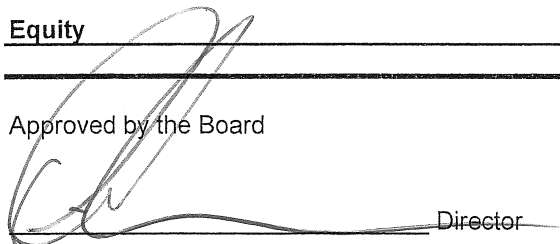
## Balance sheet

as at December 31, 2010

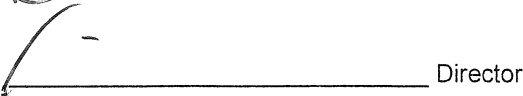
(In thousands of dollars)

	2010	2009
	\$	\$
<b>Assets</b>		
Current assets		
Cash and cash equivalents	15,541	10,815
Short-term investments	10,191	2,141
Accounts receivable (Notes 3 and 4)	5,947	4,670
City settlement payments receivable	-	11,700
Inventories	35	39
Prepaid expenses	273	219
	<b>31,987</b>	<b>29,584</b>
Mortgages receivable (Note 5)	157	307
Long-term investments (Note 5)	1,273	1,732
Capital assets (Note 8)	52,796	49,328
Land transferred	-	763
Deferred site preparation expenditures (Note 9)	1,555	785
Other assets (Note 10)	6,841	6,795
	<b>94,609</b>	<b>89,294</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	7,962	4,657
Fair value of the interest rate swap (Notes 6 and 11)	1,378	1,087
Current portion of bank loans (Note 11)	917	4,575
Payment in lieu of taxes payable (Note 12)	961	6,991
Unearned revenue	1,121	1,044
	<b>12,339</b>	<b>18,354</b>
Bank loans (Note 11)	16,607	12,922
Deferred revenue (Note 13)	559	585
Deferred city capital payments	6,825	6,044
Other liabilities (Note 10)	1,538	1,508
	<b>37,868</b>	<b>39,413</b>
<b>Equity</b>	<b>56,741</b>	<b>49,881</b>
	<b>94,609</b>	<b>89,294</b>

Approved by the Board



Director



Director

# Toronto Port Authority

## Statement of revenue and expenses year ended December 31, 2010

(In thousands of dollars)

	2010	2009
	\$	\$
<b>Revenue</b>		
Port operations	3,488	4,316
Outer Harbour Marina	2,568	2,459
Billy Bishop Airport (Note 14)	23,301	13,402
Property and other	2,296	2,077
Investment income	358	921
	<b>32,011</b>	<b>23,175</b>
<b>Expenses</b>		
Port operations	3,950	3,798
Outer Harbour Marina	1,379	1,395
Billy Bishop Airport	10,769	7,531
Property and other	946	864
Corporate services	4,671	3,820
Charge on gross revenue	1,318	630
	<b>23,033</b>	<b>18,038</b>
Net income from operations before the following	8,978	5,137
Payments in respect of land disposition	2,087	2,155
Adjustment to City of Toronto Harbour user fees	-	(2,958)
Lands transferred (Macro Settlement)	(780)	-
Payments in lieu of taxes (Note 12)	(1,828)	(1,503)
Amortization of capital assets	(1,351)	(1,485)
<b>Net income</b>	<b>7,106</b>	<b>1,346</b>

# Toronto Port Authority

## Statement of comprehensive gain and equity year ended December 31, 2010

(In thousands of dollars)

	2010	2009
	\$	\$
<b>Other comprehensive income (loss)</b>		
Unrealized gain (loss) in on available for sale assets	45	(16)
(Loss) gain on derivative designated as cash flow hedge interest rate swap (Note 11)	(291)	1,189
	(246)	1,173
Net income	7,106	1,346
Comprehensive gain	6,860	2,519
Equity, beginning of year	49,881	47,362
<b>Equity, end of year</b>	<b>56,741</b>	<b>49,881</b>
<b>Net accumulated other comprehensive loss included in equity, end of year</b>	<b>(1,102)</b>	<b>(856)</b>

# Toronto Port Authority

## Statement of cash flows

year ended December 31, 2010

(In thousands of dollars)

	2010	2009
	\$	\$
<b>Operating activities</b>		
Net income	7,106	1,346
Adjustments for non-cash items		
Amortization of capital assets	1,351	1,485
Employee future benefit expense (Note 10)	1,207	804
Amortization of deferred revenue (Note 13)	(26)	(26)
Amortization of deferred dredging expenditures	-	40
Amortization of deferred site preparation expenditures (Note 9)	17	11
	9,655	3,660
Net change in non-cash working capital balances related to operations	(3,971)	2,123
	5,684	5,783
<b>Financing activities</b>		
Bank loan (Note 11)	815	4,000
Bank loan principal payments	(788)	(556)
City settlement capital payments receivable	11,700	(1,700)
City funded capital applied (Note 8)	919	345
Deferred city funded capital payments	781	1,355
Airport Capital Assistance Program (Note 8)	163	810
Contributions to employee future benefit plans	(1,223)	(792)
	12,367	3,462
<b>Investing activities</b>		
Decrease in mortgage receivable	150	137
Disposal (acquisition) of long-term investments (Note 5)	500	(1,000)
(Acquisition) disposal of short-term investments (net)	(8,050)	2,453
Increase in deferred site preparation expenditures (Note 9)	(787)	(276)
Acquisition of capital assets (net)	(5,138)	(6,116)
	(13,325)	(4,802)
Increase in cash position	4,726	4,443
Cash and cash equivalents, beginning of year	10,815	6,372
<b>Cash and cash equivalents, end of year</b>	<b>15,541</b>	<b>10,815</b>
<b>Cash and cash equivalents consists of:</b>		
Cash	955	2,218
Cash equivalents	14,586	8,597
	15,541	10,815
<b>Supplementary cash flow information</b>		
Interest paid	695	616



# Toronto Port Authority

## Notes to the financial statements

December 31, 2010

(In thousands of dollars)

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### 1. Canada Marine Act status

The Toronto Harbour Commissioners ("Commissioners") had status and operated under The Toronto Harbour Commissioners Act of 1911. Effective June 8, 1999, the Toronto Port Authority ("Port Authority") was incorporated under the Canada Marine Act.

### 2. Significant accounting policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following policies:

#### *Cash and cash equivalents*

Cash and cash equivalents include cash on hand, balances with the bank and short-term investments which are readily convertible to cash and have original term to maturity of 90 days or less.

#### *Financial instruments*

The Port Authority's financial assets and financial liabilities are classified and measured as follows:

<u>Asset/liability</u>	<u>Category</u>	<u>Measurement</u>
Cash and cash equivalents	Held for trading	Fair value
Short-term investments	Available for sale	Fair value
Accounts receivable	Loans and receivables	Amortized cost
City settlement payments receivable	Loans and receivables	Amortized cost
Mortgages receivable	Loans and receivables	Amortized cost
Long-term investments	Available for sale	Fair value
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Fair value of interest rate swap	Held for trading	Fair value
Payment in lieu of taxes payable	Other financial liabilities	Amortized cost
Bank loans	Other financial liabilities	Amortized cost

Available for sale items are measured at fair value, with changes in their fair value recognized in the Statement of comprehensive gain and equity. Held-for-trading items are measured at fair value, with changes in their fair value recognized in the Statement of revenue and expenses in the current period unless the item qualifies for hedge accounting in which case the change in the fair value of the effective portion of the hedge is recorded as other comprehensive income in the Statement of comprehensive gain and equity. Loans and receivables are measured at amortized cost, using the effective interest method, net of any impairment. Other financial liabilities are measured at amortized cost, using the effective interest method.

The fair value of short-term and long term investments is determined directly from published price quotations in an active market. The fair value of the interest rate swap is calculated using a pricing model that incorporates current market prices and the contractual price of the underlying instrument, the time value of money and yield curves.

The carrying value of cash and cash equivalents, account receivable, City settlement payments receivable, accounts payable and accrued liabilities and payment in lieu of taxes payable approximate their fair values due to the relatively short term maturity. The carrying value of mortgages receivable and bank loans approximate fair value due to the terms and conditions of the borrowing arrangements compared to current market conditions for similar items.

Transaction costs are expensed as incurred.

# Toronto Port Authority

## Notes to the financial statements

December 31, 2010

(In thousands of dollars)

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### 2. Significant accounting policies (continued)

#### *Inventories*

Inventories are valued at the lower of cost and net realizable value. Cost includes all direct expenditures and other appropriate costs incurred in bringing the inventory to its present location and condition.

#### *Capital assets*

Lands held at December 31, 1974 are valued at appraised values as determined in 1967 except for lands which were under long-term leases or otherwise encumbered at that time. Land acquired since 1974 is recorded at cost.

All other capital assets are recorded at cost with a contra asset representing applicable government funding.

Amortization on buildings, structures, plant and equipment is provided on the straight-line basis over the estimated useful lives of the assets.

No amortization is provided on land and capital work-in-progress.

#### *Settlement with City of Toronto*

The operating amounts from the City of Toronto (the "City") related to the current year are recognized as revenue in the year they become due.

The capital payments due from the City are recorded as deferred capital funding until used for the acquisition of capital assets at which time these are transferred to City funded capital payments.

#### *Employee future benefits*

The Port Authority maintains a defined benefit (best five consecutive years' earnings average, up to December 31, 1999) pension plan for the benefit of most employees. The Port Authority also offers other non-pension post employment benefits to most employees, including a death benefit, early retirement benefits and self-funded workers' compensation benefits. Obligations under the employee benefit plans are accrued as the employees render the service necessary to earn the pension and other employee future benefits.

The Port Authority has adopted the following policies for its defined benefit pension plans and other retirement benefits:

- (i) The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, and retirement ages of employees.
- (ii) For the purpose of calculating the expected return on plan assets, those assets are valued at market-related value.
- (iii) Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.
- (iv) The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees.

# Toronto Port Authority

## Notes to the financial statements

December 31, 2010

(In thousands of dollars)

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### 2. Significant accounting policies (continued)

#### *Derivative financial instrument and hedge accounting*

The Port Authority uses an interest rate swap to reduce interest rate risk on its variable rate debt. The Port Authority does not enter into derivative financial instruments for trading or speculative purposes.

The swap used by the Port Authority (Note 11) has been formally designated as a hedge of specifically identified debt. The Port Authority believes that the swap is highly effective as a hedge of its exposure to interest rate risk and is eligible for hedge accounting.

The fair value of derivative instruments eligible for cash flow hedge accounting is recognized on the balance sheet. The effective portion of changes in fair value of the hedging derivative is recorded in other comprehensive income while the ineffective portion is recognized in other income. When the hedging instrument is sold, terminated or ceases to be effective prior to maturity, hedge accounting is ceased prospectively and any gains or losses previously recorded in accumulated other comprehensive income are recognized in earnings in the same period as those on the hedged item. When the hedged item is sold, extinguished or matures prior to the termination of the related hedging instrument, any gains or losses previously recorded in accumulated other comprehensive income are recognized immediately in other income.

Income and expenses on derivative instruments designated and qualifying as hedges are recognized in the Statement of revenue and expenses in the same period as the related hedged item. For interest rate swaps, this accounting treatment results in interest expense on long-term debt being reflected in the Statement of revenue and expenses at the hedged fixed rate rather than at their original contractual interest rates. If a designated hedge is no longer effective, the associated derivative instrument is subsequently carried at fair value with changes in fair value recorded in the statement of revenues and expenses.

The Port Authority formally assessed at the hedge's inception and assesses on an ongoing basis, whether the derivative used continues to be effective.

#### *Revenue recognition*

Revenue from vessels, cargo and passengers using the port are recognized when services are substantially rendered. Landing fees and Airport Operating fees are recognized as the airport facilities are utilized. Airport improvement fees are recognized upon the enplanement of passengers. Seasonal berthing fees and storage fees earned at the Outer Harbour Marina are recognized on a straight-line basis over the term of the agreement and any unearned portion is reflected as unearned revenue.

#### *Use of estimates*

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reported period. Actual results could differ from these estimates.

Accounts requiring significant estimates and assumptions include accounts receivable, capital assets, accrued liabilities, employee future benefits and payment in lieu of taxes payable.

# Toronto Port Authority

## Notes to the financial statements

December 31, 2010

(In thousands of dollars)

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### 2. Significant accounting polices (continued)

#### *Future accounting changes*

#### International Financial Reporting Standards ("IFRS"):

In January 2006, the Canadian Accounting Standards Board (AcSB) announced its decision to replace Canadian Generally Accepted Accounting Principles (GAAP) with International Financial Reporting Standards (IFRS) for all Canadian Publicly Accountable Enterprises (PAEs). PAEs include listed companies and any other organizations that are responsible to large or diverse groups of stakeholders, including non-listed financial institutions, securities dealers and many co-operative enterprises. The Port Authority will adopt IFRS effective January 1, 2011. The impact of the adoption of the standards is not known at this time.

### 3. Financial risk management

In the normal course of business, the Port Authority is exposed to a variety of financial risks: price risk, interest rate risk, liquidity risk and credit risk. The Port Authority's primary risk management objective is to preserve capital. Risk management strategies, as discussed below, are designed and implemented to ensure the Port Authority's risks and related exposures are consistent with its objectives and risk tolerances.

#### *Currency risk*

At year-end, there were no balance sheet amounts denominated in foreign currency.

#### *Interest rate risk*

Interest rate risk describes the Port Authority's exposure to changes in general level of interest rates. Interest rate risk arises when the Port Authority invests in fixed income and pooled funds which contain interest bearing investments and when it incurs financial liabilities at variable interest rates. Interest rate changes directly impact the fair value of fixed income securities and the fair value of the pooled funds. Interest rate changes will also have an indirect impact on the remaining investments held by the Port Authority. An analysis of maturity dates for the fixed income securities is set out below. A sensitivity analysis of the Port Authority's fixed income securities has not been presented as the Port Authority is not subject to significant interest rate risk that would impact either net income or other comprehensive loss.

Maturity	Interest rate range	2010	2009
	%	\$	\$
2012	4.90	374	362
2013	2.00 - 5.18	389	870
2014	2.70	510	500
		1,273	1,732

# Toronto Port Authority

## Notes to the financial statements

December 31, 2010

(In thousands of dollars)

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### 3. Financial risk management (continued)

#### *Interest rate risk (continued)*

The Port Authority's financial liabilities are exposed to fluctuations in interest rates with respect to the variable portion of long term debt and its credit facility. The Port Authority is exposed to the following interest rate risks at December 31, 2010:

	\$
Variable portion of long term debt	3,112
Variable debt	4,601
	<hr/> 7,713

The following table details the Port Authority's sensitivity analysis to an increase of interest rates by 0.5% on net earnings and comprehensive income. The sensitivity includes floating rate financial liabilities and adjusts their effect at year end for a 0.5% increase in interest rates. A decrease of 0.5% would result in an equal and opposite effect on net earnings and comprehensive income.

	Effect on net earnings and comprehensive income
	<hr/> \$
Variable portion of long term debt	(48)
Variable debt	(4)
	<hr/> (52)

#### *Market risk*

Market risk is managed by the Port Authority's investment policy which requires a diversified portfolio of allowable investments pursuant to Section 32 of the Canada Marine Act. The Port Authority does not have any financial instruments which are subject to significant market risk.

#### *Credit risk*

The Port Authority's principal financial assets are cash and cash equivalents, short term investments, accounts receivable, City settlement payments receivable, mortgages receivable and long-term investments, which are subject to credit risk. The carrying amounts of financial assets on the balance sheet, represents the Port Authority's maximum credit exposure at the balance sheet date.

The Port Authority's credit risk is primarily attributable to its accounts receivables and City settlement payments receivable. The amounts disclosed in the balance sheet for accounts receivable are net of allowance for doubtful accounts, estimated by the management of the Port Authority based on previous experience and its assessment of the current economic environment. In order to reduce its risk, management has adopted credit policies that include regular review of credit limits. The credit risk related to City settlement payments receivable is considered low. The credit risk on cash and cash equivalents and short term investments is limited because the counterparties are chartered banks with high credit-ratings assigned by national credit-rating agencies. The credit risk on long-term investments is mitigated because the instruments held are Canadian commercial bank, provincial and federal government bonds. Management monitors the credit worthiness of the two mortgages it holds on a regular basis and believes there are no issues as to the recoverability of these amounts.

# Toronto Port Authority

## Notes to the financial statements

December 31, 2010

(In thousands of dollars)

### 3. Financial risk management (continued)

#### *Credit risk (continued)*

As at December 31, 2010, the aging of accounts receivable was:

	2010	2009
	\$	\$
Trade		
Current	5,318	2,609
Aged between 31-90 days	185	265
Aged greater than 90 days	436	423
Total trade	5,939	3,297
Others	248	1,525
	6,187	4,822
Allowance for doubtful accounts	240	152
	5,947	4,670

#### *Reconciliation of allowance for doubtful accounts*

	2010	2009
	\$	\$
Balance, beginning of year	152	339
Increase during the year	92	83
Bad debts written off during the year	(4)	(270)
Balance, end of year	240	152

#### *Liquidity risk*

The Port Authority's objective is to have sufficient liquidity to meet its liabilities when due. The Port Authority monitors its cash balances and cash flows generated from operations to meet its requirements. The Port Authority has the following financial liabilities as at December 31, 2010:

	Carrying value	2011	2012	2013 and thereafter
	\$	\$	\$	\$
Accounts payable and accrued liabilities	7,962	7,962	-	-
Payments in lieu of taxes	961	961	-	-
Bank loans	17,524	917	938	15,669
	26,447	9,840	938	15,669

#### *Cash flow risk*

The investment policy restricts the Port Authority from holding more than 20% of its investments in any one particular investment not guaranteed by the Government of Canada or of a Canadian province. Investment income is not a primary source of revenue for the Port Authority.

# Toronto Port Authority

## Notes to the financial statements

December 31, 2010

(In thousands of dollars)

### 4. Accounts receivable

	2010	2009
	\$	\$
Trade accounts receivable, net of allowance for doubtful accounts	5,699	3,145
City of Toronto Harbour user fees	-	381
Interest on City Macro Settlement	-	806
Commodity tax receivable	86	189
Current portion of mortgage receivable (Note 5)	150	137
Deposits	12	12
	<u>5,947</u>	<u>4,670</u>

### 5. Mortgages receivable and long-term investments

	2010	2009
	\$	\$
Mortgages receivable		
Interest at 9% maturing July 1, 2012	173	270
Interest at 8.5%, maturing October 1, 2013	134	174
	<u>307</u>	<u>444</u>
Less amounts expected to be received in one year and included in accounts receivable (Note 4)	150	137
	<u>157</u>	<u>307</u>
Long-term bond investments	<u>1,273</u>	<u>1,732</u>

Long term bond investments consist of Canadian commercial bank, Provincial and Federal government bonds with maturity dates ranging between fiscal years ending 2012 and 2014 and interest rates ranging from 2.00% to 5.18%.

### 6. Investment valuation

CICA Section 3862 establishes a three-tier hierarchy to classify the determination of fair value measurements for disclosure purposes. Inputs refer broadly to the data and assumptions that market participants would use in pricing the investment. Observable inputs are inputs that are based on market data from independent sources. Unobservable inputs are inputs that reflect the Port Authority's own assumptions about the assumptions market participants would use in pricing an investment based on the best information available in the circumstances. The three-tier hierarchy of inputs is as follows:

**Level 1** - quoted prices in active markets for identical investments

**Level 2** - inputs other than quoted prices included in Level 1 that are observable for the investment, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

**Level 3** - inputs for the investment that are not based on observable market data (unobservable inputs)

# Toronto Port Authority

## Notes to the financial statements

December 31, 2010

(In thousands of dollars)

### 6. Investment valuation (continued)

The following is a summary of the fair value classification levels as at December 31, 2010:

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
<b>Financial assets</b>				
Short-term investments	-	10,191	-	10,191
Long-term investments	-	1,273	-	1,273
	-	11,464	-	11,464
<b>Financial liabilities</b>				
Interest rate swap	-	1,378	-	1,378

There were no transfers of investments between Level 1 and Level 2 during 2010 and 2009.

### 7. Capital disclosures

The Port Authority's objective when managing capital is 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 Port Authority 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, the Port Authority's aggregate borrowing cannot exceed \$27,000 nor can it borrow money as agent of Her Majesty. Currently the Port Authority largely relies on cash flows from operations to fund its capital investment program. The Port Authority's capital is comprised of bank indebtedness, deferred city capital payments and equity, net of cash and cash equivalents.

	2010	2009
	\$	\$
Total debt	17,524	17,497
Less: cash and cash equivalents	15,541	10,815
Net debt	1,983	6,682
Deferred city capital payments	6,825	6,044
Equity	56,741	49,881
	65,549	62,607

The Port Authority has certain covenants on its bank loans. As at December 31, 2010, the Port Authority was in compliance with those covenants. In addition, the Port Authority has certain external restrictions on the assets it can purchase with its deferred city capital payments and airport improvement fees. As at December 31, 2010, the Port Authority was in compliance with those restrictions.



# Toronto Port Authority

## Notes to the financial statements

December 31, 2010

(In thousands of dollars)

### 8. Capital assets

				2010	2009
	Cost	Capital funding	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$	\$
Land and capital work in progress	28,857	-	-	28,857	29,836
Buildings and structures	53,561	15,388	23,603	14,570	15,975
Plant and equipment	24,209	4,831	10,009	9,369	3,517
	<b>106,627</b>	<b>20,219</b>	<b>33,612</b>	<b>52,796</b>	<b>49,328</b>

Capital Funding is made up as follows:

	2010	2009
	\$	\$
City Funded Capital Payments	17,327	16,463
Airport Capital Assistance Program	2,115	1,953
Marine Security Contribution Program	752	752
Other Funded Capital Payments	25	25
	<b>20,219</b>	<b>19,193</b>

#### *City Funded Capital Payments*

The Port Authority receives a stream of capital funding from the City under the 2003 Structured Settlement Agreement. Amounts received or receivable under the agreement are deferred until they are used on qualifying non-airport capital projects, including capital expenditures at the Port, the Outer Harbour Marina and other facilities. During the year, \$919 (2009 - \$345) of City funded capital was applied to qualifying projects and \$55 of City funded assets were retired.

#### *Airport capital assistance program (ACAP) funded capital*

Transport Canada funds certain eligible capital acquisitions through ACAP. ACAP funding received in the current year totalled \$163 (2009 - \$810) resulting in cumulative funding of \$2,115 (2009 - \$1,953).

### 9. Deferred site preparation expenditures

Deferred site preparation expenditures were incurred to prepare lands in the port-lands area for sub-tenants under a ground lease. These expenditures will be amortized over the initial term of the sub-tenant leases.

# Toronto Port Authority

## Notes to the financial statements

December 31, 2010

(In thousands of dollars)

### 10. Employee future benefits

The Port Authority maintains a defined benefit (best five consecutive year's earnings average, up to December 31, 1999) pension plan for the benefit of most employees. The Port Authority also provides other post employment benefits to most of its employees.

Information about the Port Authority's employee future benefits in aggregate is as follows:

	Pension benefit plan December 31, 2010 \$	Other benefits December 31, 2010 \$	Pension benefit plan December 31, 2009 \$	Other benefits December 31, 2009 \$
<b>Accrued benefit obligation</b>				
Balance, beginning of year	39,031	1,960	35,137	1,612
Employer current service cost	657	29	469	22
Employees' contributions	327	-	282	-
Interest cost	2,133	107	2,387	109
Benefits paid	(2,884)	(143)	(2,962)	(161)
Actuarial gains (losses)	4,311	(43)	3,718	378
<b>Balance, end of year</b>	<b>43,575</b>	<b>1,910</b>	<b>39,031</b>	<b>1,960</b>
<b>Plan assets</b>				
Fair value, beginning of year	37,913	-	35,276	-
Actuarial return on plan assets	3,117	-	4,686	-
Employer contributions	1,080	-	631	-
Employees' contributions	327	-	282	-
Benefits paid	(2,884)	-	(2,962)	-
<b>Fair value, end of year</b>	<b>39,553</b>	<b>-</b>	<b>37,913</b>	<b>-</b>
<b>Funded status -</b>				
plan (deficit) surplus	(4,022)	(1,910)	(1,118)	(1,960)
<b>Unamortized net</b>				
actuarial loss (gain)	10,667	268	7,522	323
Unamortized past service costs	196	104	391	129
<b>Accrued benefit asset (liability)</b>	<b>6,841</b>	<b>(1,538)</b>	<b>6,795</b>	<b>(1,508)</b>

# Toronto Port Authority

## Notes to the financial statements

December 31, 2010

(In thousands of dollars)

### 10. Employee future benefits (continued)

The significant actuarial assumptions adopted in measuring the Port Authority's accrued benefit obligations are as follows (weighted-average assumptions as of December 31):

	2010	2009
	%	%
<b>Key assumptions</b>		
Accrued benefit obligation at end of year		
Discount rate	4.80	5.60
Compensation increase	3.00	3.00
Benefit cost during the year		
Discount rate	5.60	7.00
Expected rate of return on assets	6.00	6.00
Compensation increase	3.00	3.00
Health care trend rates at end of year		
Initial rate	8.00	8.00
Ultimate rate	5.00	5.00

The Port Authority's net benefit plan expense is as follows:

	Pension benefit plan December 31, 2010	Other benefits December 31, 2010	Pension benefit plan December 31, 2009	Other benefits December 31, 2009
	\$	\$	\$	\$
Components of net benefit costs				
recognized during the year				
Current service cost	657	29	469	22
Interest cost	2,133	107	2,387	109
Actual return on plan assets	(3,117)	-	(4,686)	-
Actuarial gains (losses)	4,610	(31)	3,718	378
Elements of employee future benefit costs before adjustments to recognize the long-term nature of employee future benefit costs	4,283	105	1,888	509
Adjustments to recognize the long-term nature of employee future benefit costs				
Difference between expected and actual return on plan assets	867	-	2,283	-
Difference between recognized and actual actuarial loss	(4,311)	43	(3,718)	(378)
Difference between amortization of past service cost and actual plan amendment cost	195	25	195	25
<b>Employee future benefit cost recognized</b>	<b>1,034</b>	<b>173</b>	<b>648</b>	<b>156</b>

The date used to measure assets and liabilities for accounting purposes was December 31, 2010. The most recent actuarial valuation for funding purposes was January 1, 2010. The next actuarial valuation for funding purposes will be done as at January 1, 2011.

# Toronto Port Authority

## Notes to the financial statements

December 31, 2010

(In thousands of dollars)

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### 11. Bank loans

The Port Authority has two credit facilities, one for \$15,000 and the other for \$5,000, with a major financial institution to finance repairs and improvements related to access to the Billy Bishop Airport.

The original \$15,000 facility was used for airport improvements including a new ferry ("M/V David Hornell"), repairs to the docking facilities and two new Ferry Passenger Transfer Facilities. On January 1, 2007, \$11,250 of the original facility was converted to a 5 year fixed rate term. The fixed rate of 5.585% was obtained through a 15 year interest rate swap commencing on January 1, 2007, including a credit spread of 50 basis points, with a 20 year amortization period. At December 31, 2010, the fair value of the swap was (\$1,378), December 31, 2009 (\$1,087). The difference of \$291 is recorded as a component of Other Comprehensive Loss in the Statement of Comprehensive Gain and Equity. The remaining \$3,750 of the original credit facility was converted to a variable rate term loan on September 1, 2007 and bears interest at bankers' acceptance rate plus 0.5% or BMO prime rate. The term of the Loan is 5 years, with a 20 year amortization period. Prior to conversion, no principal was paid on this portion of the loan.

An amount of \$4,815 of the available \$5,000 Credit Facility was drawn to finance the purchase of a second larger ferry ("M/V Marilyn Bell I"). The M/V Marilyn Bell I has a capacity of 200 passengers and is needed to address increased airport activity. The M/V Marilyn Bell I went into service on January 21, 2010. The M/V David Hornell, which was the original new ferry in 2006, is now the back-up ferry for the Airport. This facility bears interest at bankers' acceptance rate plus 2.0% or BMO prime rate plus 1.0%. The term of the Loan is 5 years, with a 15 year amortization period.

Principal payments for the two credit facilities for the next five years are as follows:

Year	Fixed	Variable	Total
	\$	\$	\$
2011	408	509	917
2012	429	509	938
2013	451	509	960
2014	475	509	984
2015	500	509	1,009
Thereafter	7,548	5,168	12,716
	9,811	7,713	17,524
Less: Current portion	408	509	917
	9,403	7,204	16,607

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The Bank Loan includes general security provisions and included a \$12,000 mortgage on a piece of property. That mortgage was discharged on November 26, 2010.

### 12. Payments in lieu of taxes

Payments in lieu of taxes or ("PILTS") are payments which may be paid by federal agencies to the municipality in which they operate, pursuant to the federal PILTS Act. The decision as to the quantum of the PILTS payment is discretionary to the federal body governed by the PILTS Act and is subject to review by the judiciary. The amount of PILTS paid by the federal agency must be fair and reasonable.

The Toronto Port Authority determined its obligation for PILTS for years 1999 through 2009 inclusive, as \$7,064. The Toronto Port Authority paid an additional \$867 for the first six months of 2010 and another \$961 in January 2011, for the last six months of 2010. The January 2011 payment is listed as a liability as of December 31, 2010.

# Toronto Port Authority

## Notes to the financial statements

December 31, 2010

(In thousands of dollars)

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### 12. Payments in lieu of taxes (continued)

The City of Toronto's position is that the amount of PILTS paid by the Toronto Port Authority is not sufficient. The parties are in discussions on a possible resolution. No additional amounts have been provided for in these financial statements.

### 13. Deferred revenue

During fiscal 1988, the Commissioners sold certain hangars at the Billy Bishop Airport. Based on the terms of the sales, the excess of the proceeds over the net book value has been deferred and is being taken into income over 46 years, being the term of the land lease on which the hangars are situated.

Deferred revenue is composed of:

	2010	2009
	\$	\$
Billy Bishop Airport hangars		
Deferred gain	1,204	1,204
Less accumulated amortization	645	619
	<u>559</u>	<u>585</u>

### 14. Airport improvement fees

Effective October 21, 2006, the Toronto Port Authority introduced a \$15.00 per passenger Airport Improvement Fee ("AIF") for all enplaning commercial passengers on scheduled flights from Billy Bishop Airport.

These fees are to be used entirely to finance the Airport's capital program, which includes Debt Service for amounts borrowed from a major financial institution (see Note 12).

For the year ended December 31, 2010, the net amount of AIF collected was \$9,962 (2009 - \$5,242). These fees are recorded as Billy Bishop Airport revenue in the Statement of Revenue and Expenses.

The AIF revenue is net of the 7% commission paid to the air carriers for the collection of the AIF.

The Toronto Port Authority approved an increase in the Airport Improvement Fee from \$15.00 to \$20.00 per enplaned passenger on January 29, 2010, and the \$5 increase was implemented effective April 1, 2010.

The cumulative unused balance in AIF funds as of December 31, 2010 was \$9,078.

### 15. Contingencies

- a) There are a number of outstanding claims against the Port Authority that have been reported to the Port Authority's insurers and referred to legal counsel. The Port Authority's liability is limited to the insurance deductible.
- b) In 2006, the Port Authority was made a party in three related proceedings brought by Jazz Air LP ("Jazz"). These three proceedings have been discontinued with costs to the TPA.

# Toronto Port Authority

## Notes to the financial statements

December 31, 2010

(In thousands of dollars)

### 15. Contingencies (continued)

#### b) (continued)

In July 2010 two further Federal Court judicial review proceedings commenced by Air Canada were heard and dismissed and costs to the TPA in the amount of \$900 were awarded in January 2011 and received in February 2011. The July 2010 decision is currently under appeal. Although no damages are sought by Air Canada in these judicial review proceedings, Air Canada, should it be successful on appeal, seeks both its costs of the appeal as well as its costs for the July hearing including return of any costs paid to the TPA pursuant to the January 2010 award. The Toronto Port Authority is vigorously defending the appeal and no provision for payment of costs to Air Canada has been made in these financial statements.

### 16. Canada Marine Act and Port Authorities' management regulations

Pursuant to subsection 37 (3) of the Canada Marine Act, total remuneration was paid to the following:

	2010	2009
	\$	\$
Directors' fees		
Mr. Mark McQueen (Chair, effective January 21, 2009 to present)	23	17
Mr. Colin Watson	21	17
Mr. Craig Rix	12	15
Mr. David Gurin	18	11
Mr. Sean Morley	21	12
Mr. Jeremy Adams (effective January 21, 2009)	18	10
Mr. Mark Curry (effective September 1, 2009)	15	2
Mr. Robert Poirier (effective September 1, 2009)	17	1
Ms. Jan Innes (effective August 30, 2010)	1	-
Ms. Michele McCarthy (ceased to hold office as of August 29, 2010)	6	12
Mr. Christopher Henley (ceased to hold office on August 31, 2009; Chair from September 15, 2008 to January 21, 2009)	-	13
Mr. Douglas Reid (ceased to hold office on August 31, 2009)	-	12
	<u>152</u>	<u>122</u>
President & CEO		
Mr. Geoffrey Wilson - Effective December 10, 2009		
Salaries	225	10
Other benefits	26	1
	<u>251</u>	<u>11</u>
Vice President & CFO		
Mr. Alan Paul		
Salaries (January 1 to December 9, 2009, \$218 as Acting President & CEO)	162	225
Other benefits	11	11
	<u>173</u>	<u>236</u>
Financial information pursuant to section 35 of the Port Authorities Management Regulations is as follows:		
s.35(1)(a) Wages, salaries and employee benefits	7,238	5,729
s.35(1)(b) Professional fees and fees for consulting	3,448	2,099
s.35(1)(c) Repairs and maintenance	3,597	3,475
s.35(1)(e) Realty taxes	409	439

# Toronto Port Authority

## Notes to the financial statements

December 31, 2010

(In thousands of dollars)

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### 17. Commitments

The Toronto Port Authority has a Lease Agreement with the provincial Ministry of Natural Resources to construct, operate and maintain a landfill area at the foot of Leslie Street on a portion of the Leslie Street Spit. This Agreement expires on April 30, 2013. In order to compensate for landfill construction, the Port Authority has an agreement with the federal Department of Fisheries and Oceans, to construct a fish habitat wetland on the northwest side of the Tommy Thompson Park. The project is to consist of a dyke and islands on the outer portion of a berm that will protect the berm from wave action and provide additional aquatic and terrestrial habitat opportunities. This project is expected to be completed in 2011 at an estimated cost of \$1,000.

The Port Authority will also continue to construct hard points and beaches along the east and south shores of the Leslie Street Spit to enhance shoreline stabilization, through until the expiration on the lease in 2013. The estimated cost for the shoreline protection is \$7,800.

### 18. Guarantees

In the normal course of business, the Port Authority enters into agreements that meet the definition of a guarantee. The Port Authority's primary guarantees are as follows:

- (a) Indemnity has been provided to all directors and or officers of the Port Authority for various items including, but not limited to, all costs to settle suits or actions due to association with the Port Authority, subject to certain restrictions. The Port Authority has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a trustee, director or officer of the Port Authority. The maximum amount of any potential future payment cannot be reasonably estimated.
- (b) In the normal course of business, the Port Authority has entered into agreements that include indemnities in favour of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. These indemnification agreements may require the Port Authority to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

The nature of these indemnification agreements prevents the Port Authority from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability which stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the Port Authority has not made any significant payments under such or similar indemnification agreements and therefore no amount has been accrued in the balance sheet with respect to these agreements.

### 19. Comparative figures

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation. This has no effect on net income or equity.