

# TORONTO PORT AUTHORITY

## MANAGEMENT'S DISCUSSION & ANALYSIS – 2009

April 19, 2010

### President & CEO's Message

We are pleased to present the audited results for the Toronto port Authority's 2009 financial year. Once again as in 2008, all four areas of our business posted profitability, and we saw a significant growth in overall top line and net income for the year.

While the 2009 overall economic climate remained challenging, we see the 2010 year ahead as providing continued economic recovery, and therefore opportunity for further profitable growth. Management has recognized this in the annual Business Plan, and is working on implementing several key initiatives to deliver results over the 5 year period ahead.

Key to our delivering against objectives will be the continued growth of BBTCA passenger volumes. The 2010 year is expected to see not only a continued expansion of Porter Airlines, but also the entry of 1-2 new major international carriers, at this stage anticipated to be Air Canada/Jazz and Continental Airways. Our assessment of slot capacity will take us to a maximum 202 daily operating slots, against last year's average of approximately 95. With growing passenger volumes embracing the natural and offered high quality service advantages of the BBTCA, and the entry of new carriers, we are expecting to see an end year annualized passenger volume of 1.4 million, nearly double the prior year. Management are planning for this growth with key initiatives in staffing and organizational structure, expansions of passenger delivery logistics, the building of a pedestrian tunnel, investments in operating support equipment, infrastructure and buildings, enhanced security, and an implementation of internationally recognized best practices in airport management and operations. We have an equally strong priority on working with the local community in the important areas of noise management and environmental policies.

We also see the re-vitalization of our marine cargo activity in the port as both a timely opportunity and an important strategic component to our ability to generate growing support with our key stakeholders. While the 2008-2009 years wreaked havoc on traffic volumes for the Great Lakes as a whole, we do see some signs of project cargoes returning, and are forecasting a small uptick in general cargo movements. Management has selected 3 key initiatives to move beyond the traditional commercial sales focus and boost the TPA's port growth:

- a) The TPA will focus on leveraging the planned infrastructure project spending by all three levels of government, with an immediate focus on transportation equipment procurement. We are engaging key stakeholders for commitments to promote and route cargoes where appropriate through the TPA facilities.
- b) The TPA will assess its value in relation to the local supply chain management (SCM) process: traditional methods of cargo solicitation and business development focus on marine based sales activity. In recent years, there has been a power shift to purchaser

away from the selling manufacturer. The TPA has engaged an expert in SCM to evaluate the potential benefits of re-positioning the TPA port operations from a traditional provider of marine –based transportation services, to an asset manager, and a provider of strategic supply chain services to the GTA. Not only will the outcome of this study help us to align our activity with opportunity, our profile in the transportation community will naturally be significantly increased.

- c) The TPA is working to establish a viable short-sea operation by 2011. (A regular scheduled all- water service between Mtl and Tor). This will leverage Toronto’s natural population and SCM advantages, and above all have leverage-able merit on the basis of its business case. The TPA’s role is in facilitating the connection of a credible private business entrepreneur as operator, key base cargo’s, port terminal operators and stevedores, shippers, freight forwarders, and other key stakeholders. A key external deliverable outside the TPA is the creation of jobs in the port, and this is being used to solicit critical political stakeholder support at all levels of government.

The year forward also holds tremendous promise for the Outer Harbour Marina. The recessionary pressures felt more strongly in other areas of the economy were largely spared in the marina. There is growing pressure for the TPA to move forward with plans to build additional slips, and management has initiated planning to hire new experienced operations personnel, and implement new sources of revenue and fee activity in the OHM while ensuring a high quality standard of service delivery.

Lastly, the TPA has made and continues to make solid progress in our relationships with our key stakeholders, community associations, the City of Toronto, Waterfront Toronto, and others. We welcome the opportunity to tell our story and invite commentary from all who combine daily to make Toronto, and especially the Toronto waterfront, such a wonderful asset for all.

Geoffrey A. Wilson  
President & CEO

# TORONTO PORT AUTHORITY

## MANAGEMENT'S DISCUSSION & ANALYSIS – 2009

(in thousands of dollars)

**March 5, 2010**

*Management's discussion and analysis (MD&A) is intended to assist in the understanding and assessment of the trends and significant changes in the results of operations and financial condition of the Toronto Port Authority for the years ended December 31, 2009 and 2008 and should be read in conjunction with the audited financial statements and accompanying notes.*

### **Summary**

The Toronto Port Authority ("Port Authority", "TPA") was profitable in 2009 for the second year in a row. Net Income from Operations was \$5,137, up from \$2,251 in 2008, with overall Net Income of \$1,346, compared to \$863 in 2008. Factoring in the Other Comprehensive Gain, the bottom line was in total, a Comprehensive Gain of \$2,519.

As in 2008, all four of the main business areas of the Toronto Port Authority were profitable on an operating basis in 2009.

### **Introduction**

The Toronto Port Authority ("Port Authority", "TPA") was incorporated on June 8, 1999 as a government business enterprise under the *Canada Marine Act* as the successor to The Toronto Harbour Commissioners.

The TPA is governed by a nine member Board appointed as per subsection 14 (1) of the Canada Marine Act, and as per section 4.6 of the Letters patent issued to the Toronto Port Authority. There are four appointments by the user groups, three appointments by the Governor-in-Council, one provincial appointment and one City of Toronto appointment to the Board of Directors. There are four (4) Committees of the Board of Directors, namely Audit & Finance Committee, Governance, Nominating & Human Resources Committee, Communications & Outreach Committee and Pension Committee.

The Chairmanship of the Board changed in 2009 as did the Committee memberships. Appendix A gives details of the Board meetings, Committee meetings and attendance of Directors at the Board meetings and their respective Committee meetings.

The Toronto Port Authority is responsible for operating the lands and harbour it administers in the service of local, regional and national social and economic objectives, and for providing infrastructure and services to marine and air transport to help realize these objectives.

The TPA is an important part of the Southern Ontario Gateway as it is one of five ports of significance in the province, while the Billy Bishop Toronto City Airport is one of four airport facilities in the region with the capability to provide international service. In this regard, the TPA is and will remain an important factor in the economic health of Southern Ontario.

The main operations of the Port Authority are Port Operations, the Outer Harbour Marina (“OHM”), the Billy Bishop Toronto City Airport (“BBTCA”) and Property.

The TPA owns and operates Marine Terminal 51 and Warehouse 52 (“Marine Terminals”) located at the foot of Cherry Street and has contracted with Logistec Stevedoring Inc. to manage this operation. The TPA also owns the International Marine Passenger Terminal (“IMPT”), which currently services the cruise ship industry and has been used as a location for film productions.

A recent trend in marine is the pursuit of short-sea shipping opportunities. Short-sea shipping uses smaller ships and barges to move a variety of commodities from point to point, over relatively short distances. Bottlenecks and backlogs at major coastal ports, highway congestion, labour shortages, limited railcar availability and border crossing delays have brought increased focus to short-sea shipping alternatives. The TPA continues to actively pursue short-sea shipping opportunities where there is a strong business case.

The TPA is well-positioned to handle containers both in terms of proximity to markets in Toronto and the GTA and in terms of its infrastructure. Fully equipped with top loaders, refrigerated power supply, an open terminal area of 20 acres that translates into between 4,000 and 5,000 containers and the expertise to handle containers gives TPA a competitive advantage over other ports making it a viable choice for containers in the Great Lakes.

Recently, there has been an indication of improvement in the economy and this has produced renewed interest in the Port of Toronto. There are several projects related to infrastructure and green energy that the Port Authority is pursuing for 2010.

For the Outer Harbour Marina the economic downturn has had little effect on financial performance. Demand for winter storage remained strong in the 2009-2010 winter season and summer berthing renewals also remain strong. Low interest rates continue to create an inducement encouraging consumers, led by people aged 45 to 65, to buy more and bigger recreational boats. New technology in both the power and sail categories is making it much easier for novice boaters to buy bigger boats.

The Billy Bishop Toronto City Airport has a competitive advantage in the market that includes Toronto-Pearson, Hamilton and Buttonville. Its close proximity to downtown Toronto provides time sensitive, environmentally conscious travelers the convenience and service they demand.

The TPA annually pays a charge on Gross Revenue to the federal government based on the calculated gross revenue in each fiscal year. For 2009, the amount paid to the federal government was \$630.

In 2009, the Toronto Port Authority commissioned the building of a second larger ferry to service the Billy Bishop Toronto City airport. The successful bidder was a Canadian shipbuilder on the north shore of Lake Erie in Wheatley, Ontario. The new ferry, christened the M/V Marilyn Bell I went into service on January 21, 2010. The purchase of the ferry was financed with a \$5 million credit facility from a major financial institution, with the debt to be paid through enplaning Airport passengers and the Airport Improvement Fee. The M/V Marilyn Bell I will be the main ferry serving the BBTCA, with the M/V David Hornell built in 2006, serving as the back-up.

## **The Toronto Port Authority and the City of Toronto**

### **Macro Settlement Agreement**

Throughout 2009, the City of Toronto continued to withhold scheduled Capital Payments and Harbour User Fees owed to the TPA pursuant to the 2003 Settlement Agreement. The Port Authority had filed a Notice of Action on December 23, 2008 in the Ontario Superior Court of Justice for the outstanding amounts, and the Statement of Claim was subsequently filed on January 20, 2009 and served upon the City on June 17, 2009.

In an effort to resolve the outstanding issues between the City and the TPA, the TPA initiated discussions and negotiations in the fall of 2009. The result was the parties reached a macro settlement agreement, which addressed a number of the outstanding issues. The terms of the Agreement include the City acquiring an 18.01 acre parcel of land on the site of the Sewage Treatment Lands (“Land”) that the Toronto Transit Commission is expected to use for its new Leslie Street streetcar facility in support of Transit City. In addition, the payment by the City of the \$11,700 in Settlement Payments owed to Port Authority, the payment by the Port Authority of \$6,419 to the City to cover Payments in Lieu of Taxes determined by the Port Authority for the taxation year 1999 to 2009 and an agreement on Harbour User Fees to be paid by the City to the Port Authority for services provided to the Toronto Island ferries. The Harbour User Fees will be in the form of a fee of approximately 6 cents per passenger, which represents less than one per cent of the \$6.50 adult fare charged by the City for round trip passage on the ferries.

The City also agreed to provide the Port Authority with six post-dated cheques of \$850 each, representing the remaining Capital Payments under the 2003 Settlement Agreement, the first of which was cashed on January 4, 2010. The Agreement also included a net interest calculation in favour of the Port Authority, with an overall net payment to be made to the Port Authority of \$6,444. The transfer of the Land to the City and the payment to the Port Authority of Settlement Payments, interest and Harbour User Fees as determined under the Agreement will occur upon closing, the Agreement provides must occur by June 30, 2010.

### **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 bodies governed by the PILTS Act and is subject to review by the judiciary.

As part of the Settlement Agreement reached in 2003, the Port Authority agreed to make certain payments in lieu of taxes in respect of the lands the Port Authority owns and operates

and the Port Authority and the City of Toronto agreed to expeditiously use their best efforts to resolve the issues related to the magnitude of PILTS to be paid, in accordance with the provisions contained in the PILTS Act. It was further agreed that should there be a dispute on the amount of PILTS to be paid, then until such time as the exact amount is determined, the Port Authority may postpone remittance of the disputed amount.

The parties could not agree on an amount for PILTs and as a result the City applied to the PILTS Dispute Advisory (“Panel”) on April 13, 2006. The City and the Port Authority appeared before the Panel from February 25 to 28, 2008. The Panel heard evidence on valuation methods for four test properties owned and occupied by the Port Authority including Billy Bishop Toronto City Airport, that form the basis for the Port Authority’s determination of PILTS payments. The Panel consisted of three people appointed by the federal government (Public Works). The Panel also asked for written submissions to be provided by both sides. The written submissions were compiled and sent to the Panel in April 2008. On January 5, 2009, the Dispute Advisory Panel sent its recommendations to Toronto Port Authority for the four subject properties. The Report is only advice to the Port Authority, is not binding and does not create a debt payable by the Port Authority. The amount of PILTs the City requested on the four subject properties was \$35,274.

The TPA’s determination was \$3,657 and the amount of PILTS based on the Panel’s advice was \$5,063. The TPA Board reviewed the Panel’s advice and made a decision to accept management’s recommendation on an amount of PILTS that is fair and equitable. The TPA revised the determination of the total PILTS accrual to an amount of \$5,561 for the period 1999-2008, inclusive. On February 4, 2009, the City filed an Application in Federal Court for a Judicial Review of the Panel’s recommendations to the TPA Board and on May 8, 2009, amended the Application for a Judicial Review of the decision of the TPA Board with respect to the amount of PILTS to pay. The parties swore Affidavits of Documents and were cross examined in September 2009. The Federal Court hearing is to take place on March 22 and 23, 2010.

As a result of the 2009 Settlement Agreement between the City and the Port Authority and determinations by the Port Authority as to the appropriate amount for PILTS, the Port Authority has recognized an amount for PILTS in 2009 of \$1,503. The total amount recognized by the Port Authority for 1999 to 2009 is \$6,991 (\$7,064 less \$73 paid in 2005).

#### Harbour User Fees

As part of the 2009 Settlement, the parties agreed that the City would be charged Harbour User Fees on a basis consistent with the rates charged to commercial tour boat operators, during the same period. The result is that the City owes the Port Authority \$381 for 2000 to 2009, inclusive. This amount will be paid as part of the net payment to the Port Authority upon closing of the 2009 Settlement Agreement.

## **International Financial Reporting Standards**

The Toronto Port Authority, as a Government Business Enterprise or GBE has reviewed the impact of new requirements for reporting under International Financial Reporting Standards (“IFRS”). The TPA is finalizing its positions with respect to IFRS and will be prepared to report based on the new standards for fiscal 2011. The TPA will be reporting its financial results utilizing IFRS in a manner consistent with the other sixteen federal Port Authorities in Canada.

## **Fiscal Period – January 1 to December 31, 2009 versus 2008**

### **Statement of Revenue and Expenses (Financial Statements – Page 3)**

The 2009 Net Income from Operations for the Toronto Port Authority (“TPA”) was \$5,137, an improvement of \$2,886 from the 2008 operating profit of \$2,251. This is before Payments in Respect of Land Disposition, Payments in Lieu of Taxes and Amortization. This is also before the one-time adjustment of \$2,958 for Harbour User Fees charged to the City of Toronto; part of the 2009 Settlement Agreement. There were several reasons for the improvement in operating results in 2009, explained below in the different sections of the analysis.

The major reason for the improved result came from the operations of Billy Bishop Toronto City Airport. Driven by a continuing increase in revenues (25% in 2009 and 115% in 2008), the Airport generated an operating profit of \$5,871 in 2009; an improvement of \$2,541 over 2008, when the operating profit was \$3,330. This growth trend at the Airport is expected to continue in 2010 and beyond as passenger volumes should exceed one million passengers in 2010. Enplaned and deplaned passengers in 2009 totaled 770,681 versus 508,574 in 2008. Phase One of the new Air Terminal at the BBTCA opened on March 7, 2010, with seven aircraft gates. Phase Two is expected to be ready by November 2010, with an additional three gates, U.S. Customs Preclearance and many attractive amenities for passengers.

The operating bottom line for Port Operations was a profit of \$518. This compares to a Net Income from Operations of \$123 in 2008; an increase of \$395.

The Outer Harbour Marina continued its steady performance, with a profit of \$1,064; a decrease of \$175 over the profit of \$1,239 in 2008.

Property and Other accounted for a profit of \$1,213 in 2009, an improvement of \$79 over 2008.

Investment Income increased by \$471, comparing 2009 to 2008. Corporate Services expenses were up \$407 and the Charge on Gross Revenue increased by \$18.

A decrease in the Payments in Respect of Land Disposition of \$179, a decrease of \$542 in the amount accrued for Payments in Lieu of Taxes, a decrease of \$192 in Amortization and the \$2,958 adjustment in City Harbour User Fees accounted for the remaining change in the overall bottom line. Net Income increased from \$863 in 2008 to \$1,346 in 2009, an increase of \$483, or 56%.

## Port Operations

Port revenues are generated from the operation of the Marine Terminals and include terminal handling charges, container services, terminal berthing and ships services. In addition, revenue is generated from the International Marine Passenger Facility (“IMPT”), including charges for cruise ships and filming. From waterside, there are Harbour User Fees paid by Tour and Charter boats and Cargo Dues paid by large industrial ships. Finally, the Works & Environmental Services department generates revenue from services provided to Port users and other general customers.

Port revenue was down slightly; \$41 in 2009 versus 2008, as port activities remained relatively consistent. Storage revenues increased in 2009 as did Ships Services. Cargo Dues were lower in 2009, as bulk cargoes such as sugar were lower. In addition to bulk cargoes and other general cargo, the Port authority continues to pursue business opportunities focused on infrastructure and green energy. Cargo volumes for the St. Lawrence Seaway in 2009 decreased by 25% compared to 2008, which was attributed to recession. In 2007, 38 windmills were shipped from Germany into the Marine Terminals, en route to Northwest Ontario. Also, large components for the new Portlands Energy Centre on Unwin Avenue were handled by the Port Authority at the Marine Terminals, before being assembled and delivered to the Unwin Avenue site. The total value of the cargo handled at the Marine Terminals in 2007 was approximately \$300 million. Similar project cargoes were deferred over the last two years, but are expected to return once the economy fully recovers.

In December 2009, a settlement agreement was entered into with the Rochester Ferry Company for the termination of the lease for the International Marine Passenger Terminal and the resolution of all outstanding obligations arising out of the lease.

Port expenses decreased by 10% in 2009 or \$436, as operating costs were managed lower with a more efficient operation.

## Outer Harbour Marina (“OHM”)

The occupancy rate for summer berthing at the OHM increased marginally above 85% in 2009, and remained at 100% for winter storage. This despite the full impact of the economic downturn being felt in 2009. There is an ongoing turnover rate of 8% to 10% for summer contracts.

In addition to berthing and storage, marina services include shore power, pump-outs, power wash, fresh water and the sale of fuel and other products. There is also a 35-ton travellift for haul out and launch, and masting/demasting services.

Revenues at the Outer Harbour Marina were down \$47, as fuel sales dipped in 2009 versus 2008. A lower demand for fuel resulted from less visiting or transient boats at the Outer Harbour Marina. A trend towards larger boats continued to keep overall revenues stable, as customers pay fees based on the Overall Length of Boat.

Expenses were up \$128 from 2008 to 2009, an increase of 10%. Maintenance costs accounted for most of the increase, as the Marina facilities required additional servicing.

## Billy Bishop Toronto City Airport (“Airport”)

In 2009, operations at the Airport continued to mature; with the completion of the third full year of new infrastructure and the new fee methodology. Carrier Landing Fees and Airport Improvement Fees (“AIF”) are the main revenue sources at the Airport, with Carrier Landing Fees charged on a per landing basis and AIF collected from enplaning/departing passengers. The Airport Improvement Fee is funding the Airport’s ongoing capital expenditure program, including debt service on the existing Bank Loan.

The third full year of operations for Porter Airlines continued to drive Airport revenues higher, with 2009 revenue at \$13,796 versus \$11,020 in 2008; a \$2,776 improvement. Airport revenues have increased by \$8,677 over the two year period from 2007 to 2009, an increase of 170%. The number of Enplaned Passengers paying AIF in 2009 was 375,737, up from 258,483 in 2008, or 45 %.

Passenger volumes are expected to continue to grow in 2010, as Porter Airlines will soon have its full complement of Toronto built Bombardier Q-400 aircraft in operation. Also, there is the potential for new entrant air carriers to commence service from the Airport in 2010, with additional slot capacity available.

On the expense side, there was an increase of \$235 in 2009, due primarily to increases in labour costs, operating materials, repairs and maintenance costs and security charges. Labour costs increased as additional ferry crew members were needed to address increased capacity on the ferry that provides access to the Airport. Legal fees incurred for the Airport decreased in 2009, as did interest costs.

## Property and Other

Revenues from ancillary property holdings and other sources, such as filming, were up \$101 in 2009 over 2008. Rent from lands at the eastern end of the Ship Channel accounted for an increase of \$179. These lands are an integral part of the 2003 City Settlement Agreement and confer a right to the TPA to lease the lands, pursuant to the terms of a Ground Lease with the Toronto Portlands Company, formerly the Toronto Economic Development Corporation (“TEDCO”).

Expenses increased \$22 in 2009, as increased Legal Fees were offset by decreases in Maintenance and Operating Materials, 2009 versus 2008.

## Investments

Investment Income increased by \$471 in 2009 versus 2008, due primarily to the recognition of interest from the 2009 City Settlement Agreement. Interest on general investment holdings was lower in 2009, as interest rates dropped from 2008. Also, an exchange rate differential on a U.S. dollar account resulted in a small decrease in 2009.

### Corporate Services

Corporate Services support the operations of the Toronto Port Authority by providing general administrative support and services. These include executive, finance, accounting, human resources, information technology, legal, risk management, promotion and the functioning of the Board of Directors. General expenses, related to TPA, but not related to any particular operation are assigned to Corporate Services.

Expenses in Corporate Services increased in 2009 by \$407, over 2008. The cost of the Special Examination done in 2009 accounted for approximately 50% of the increase, with Legal fees for the ongoing PILTS dispute primarily responsible for the balance.

### Adjustment to City of Toronto Harbour User Fees

This is a one-time adjustment based on the 2009 Settlement Agreement between the City of Toronto and the Toronto Port Authority, as charges to the City for Harbour User Fees for the Toronto Island Ferries have been made on the same basis as other tour boat operators in Toronto Harbour, for years 2000 to 2009.

### Payments in Respect of Land Disposition

These amounts are the Operating Payments from the City Settlement Agreement and were lower in 2009 by \$179 due to rental amounts received for leased land at the eastern end of the Ship Channel. The \$179 is reported in the Property and Other revenue line, as indicated above.

### Payments in Lieu of Taxes

The amount booked for 2009 - \$1,503, represents the quantum of PILTS accrued by the TPA as being fair and equitable. The 2009 amount as well as amounts for 1999 to 2008, continue to reflect the recommendations of the PILTS Dispute Advisory Panel, released on January 5, 2009.

The City of Toronto continues to dispute these amounts and has filed an Application for Judicial Review in Federal Court as described above and in Note 11 to the Audited Financial Statements.

### Amortization of Capital Assets

These amounts charge the cost of capital assets purchased by the TPA to the operations on a straight-line basis over the estimated useful lives of the assets. Amortization decreased by \$192 in 2008, as there are an increasing number of older assets that have been fully amortized.

## **Statement of Comprehensive Gain (Loss) and Equity (Financial Statements – Page 4)**

Pursuant to new Standards in the CICA Handbook, the Toronto Port Authority has added a new statement on Other Comprehensive Gain (Loss) and Equity, in the past few years. Other Comprehensive Gain (Loss) includes Unrealized Gains or Losses on the Available for Sale Assets, which include Short-Term and Long-Term Investments. It also includes the gain or loss on a derivative designated as a Cash Flow Hedge described in Note 10 to the Financial Statements. The combined result for 2009 was a gain of \$1,173.

This gain, added to Net Income of \$1,346 results in a Comprehensive Gain of \$2,519. When added to the closing Equity from 2008 of \$47,362, Equity for December 31, 2009 totals \$49,881.

## **Balance Sheet (Financial Statements – Page 2)**

Cash and Cash Equivalents have gone from \$6,372 at the end of 2008 to \$10,815 at the end of 2009, an increase of \$4,443. An analysis of the Statement of Cash Flows is included below.

Short-Term Investments decreased from \$4,594 to at the end of 2008 to \$2,141 at the end of 2009, a decrease of \$2,453.

Accounts Receivable decreased from \$6,161 at the end of 2008 to \$4,670 at the end of 2009. The details of the decrease are found in Note 4 to the Audited Financial Statements. The increase in Trade Receivables of \$1,205 was due to revenue accruals for amounts collected in 2010 that related to December 2009 and for other normal trade receivables. In addition, the amount outstanding for Harbour User Fees from the City of Toronto has decreased by \$2,895 in 2009 as part of the 2009 Settlement Agreement. The remaining difference in Accounts Receivable is a Commodity Tax receivable of \$137, an increase in the current portion of Mortgages Receivable of \$11 and a small adjustment in a deposit.

City Settlement Payments Receivable reports amounts owed at the end of 2008 and 2009 by the City of Toronto (“City”) to the Port Authority. The \$11,700 receivable as at December 31, 2009 is made up of \$10,700 in Capital Payments and \$1,000 for past operating and capital amounts. These amounts are included in the 2009 Settlement Agreement and will be paid to the Toronto Port Authority upon close of the transaction. Note 5 describes the efforts of the City and the Port Authority to resolve their issues.

The details of the Mortgages Receivable and Long-Term Investments are found in Note 6. The two mortgages held by the Toronto Port Authority are for hangars at the Billy Bishop Toronto City Airport.

The details on Capital Assets are found in Note 7. Capital Assets increased by \$6,116 in 2009 and on a Net Book Value basis the increase was by \$3,476, when changes in amortization and the recognition of outside funding for capital projects is taken into

account. The details of the gross increase are as follows:

Port Operations	\$123
Outer Harbour Marina	42
Billy Bishop Toronto City Airport	5,442
Property & Other	<u>509</u>
Total	<u>\$6,116</u>

Capital Expenditures in 2009 include payments toward the purchase of the M/V Marilyn Bell I, the purchase of a second fire truck at the Airport, Airport Lighting upgrades, I.T. Hardware and Software and continued work on the Leslie Street Landfill Site.

The Port Authority has plans for large investments in infrastructure in 2010, with many of the projects related to the Port Authority's green initiatives.

Amortization allocated to the operations over the years is deducted and amounts received for capital funding from various sources is also deducted from gross capital asset amounts.

Note 8 describes the Deferred Site Preparation Expenditures.

Other Assets and Other Liabilities are described in Note 9 and represent accounting for Employee Future Benefits.

Accounts Payable and Accrued Liabilities have decreased by \$839, from 2008 to 2009. This is due to a reduction in Revenue Canada source deductions and payments made to the City of Toronto for Property Taxes.

The Fair Value of the Interest Rate Swap represents the closing balance following the Gain in value in 2009 of \$1,189.

The current portion of the Bank loan is the principal amount to be repaid in the next fiscal year, in this case 2010.

The liability for Payments in Lieu of Taxes has increased by \$1,503 and includes the amount recognized by the Port Authority in 2009 as a fair PILTS payment based on the recommendations of the PILTS Dispute Advisory Panel, described above. Note 11 describes the status of the PILTS situation.

Unearned Revenue decreased by \$39, 2009 versus 2008. This liability records the amount of Unearned Marina revenue the Port Authority will provide to customers, by way of services in the upcoming year, as well as Unearned Harbour Permits and Unearned Rents.

The Bank Loan is described in Note 10.

Deferred Revenue relates to the gain on the sale of Airport hangars. The gain is being recognized over the term of the land lease with the tenants. This is described in Note 12.

Deferred City Capital Payments are payments to be made to the Port Authority by the City of Toronto pursuant to the 2003 Settlement Agreement that have not yet been spent on capital. In 2009, an additional \$1,700 in Capital Payments was owed to the Port Authority, which was added to the City Receivable. The amount of these funds recognized by the Port Authority for capital in 2009 was \$345, so the difference between the additional Receivable \$1,700 and the funds recognized in the liability was \$1,355. Deferred City Capital Payments increased from \$4,689, in 2008 to \$6,044 in 2009.

Equity represents the difference between Assets and Liabilities. Equity increased in 2009 by \$2,519, as detailed on the Statement of Revenue and Expenses on Page 2 and the Statement of Comprehensive Gain (Loss) and Equity on Page 3.

### **Statement of Cash Flows (Financial Statements - Page 5)**

The Statement of Cash Flows begins with the Net Income reported in the Statement of Revenues and Expenses and adds back any non-cash items. These include Amortization, Employee Future Benefit Expense, Amortization of Deferred Revenue and Deferred Dredging and Site Preparation expenditures.

An amount is then added or deducted for non-cash working capital. In 2009, this amount resulted in an increase in cash of \$2,123. This was due to a decrease in Accounts Receivable of \$1,491, a decrease in Prepaid Expenses of \$51, an increase in Payments in Lieu of Taxes of \$1,503, offset by a decrease in Accounts Payable and Accrued Liabilities of \$839 and a decrease in Unearned Revenue of \$43. Other small changes account for the remaining \$40.

Financing Activities and Investing Activities are then listed. Financing includes items related to the Bank Loan and amounts to be received under the Airport Capital Assistance Program. Investing Activities include a decrease in Mortgages Receivable and Short-term Investments and an increase in Long-term Investments, Deferred Site Preparation expenditures for the eastern Ship Channel properties described above and the Acquisition of Capital Assets listed above.

The end result is the Cash and Cash Equivalents position increased in 2009 by a total of \$4,443 from \$6,372 to \$10,815. In future, it is anticipated that the Cash generated from operations will continue to improve, reflecting an improvement in the financial performance of the Airport as well as the other areas of the Port Authority.

## Appendix A

### Directors' Attendance - 2009

In 2009, there were twelve (12) meetings of the Board of Directors, six (6) meetings of the Audit & Finance Committee, seven (7) meetings of the Governance, Nominating & Human Resources Committee, four (4) meetings of the Communications & Outreach Committee and three (3) meetings of the Pension Committee. The TPA held its Annual Meeting on September 3, 2009. During the year, the Committees were reorganized on January 21 and October 1.

The following are particulars of the Board of Directors and their attendance at meetings of the Board and their respective Committees. The first number is the number of meetings attended by the Director and the second number is the total number of meetings held in each category, when the Director was a member of the Board or Committee.

#### Mr. Mark McQueen

Chairman of the Board of Directors, Chairman of Pension Committee and Member of Audit & Finance Committee in 2009.

Annual Meeting	- 1/1
Board Meetings	- 12/12
Audit & Finance Committee Meetings	- 6/6
Pension Committee Meetings	- 3/3
Total	- 22/22 (100%)

#### Ms. Michele McCarthy

Member of the Board of Directors for all of 2009. Member of Audit & Finance Committee from January 21 to October 1, 2009 and member of Communications & Outreach Committee effective October 1, 2009.

Annual Meeting	- 0/1
Board Meetings	- 9/12
Audit & Finance Committee Meetings	- 2/4
Communications & Outreach Committee Meetings	- 1/1
Total	- 12/18 (67%)

**Mr. Colin Watson**

Member of the Board of Directors for all of 2009. Chairman of Audit & Finance Committee effective January 21, 2009. Member of Pension Committee from January 21 to October 1, 2009. Member of Governance, Nominating & Human Resources Committee effective October 1, 2009.

Annual Meeting	- 1/1
Board Meetings	- 12/12
Audit & Finance Committee Meetings	- 6/6
Governance, Nominating & Human Resources Committee	- 2/3
Pension Committee Meetings	- 3/3
Total	- 24/25 (96%)

**Mr. Craig Rix**

Member of the Board of Directors for all of 2009. Member of Governance, Nominating & Human Resources Committee and Communications & Outreach Committee.

Annual Meeting	- 1/1
Board Meetings	- 11/12
Governance, Nominating & Human Resources Committee	- 7/7
Communications & Outreach Committee Meetings	- 4/4
Total	- 23/24 (96%)

**Mr. David Gurin**

Member of the Board of Directors for all of 2009. Member of Communications & Outreach Committee for 2009 and Member of Audit & Finance Committee effective October 1, 2009.

Annual Meeting	- 1/1
Board Meetings	- 11/12
Communications & Outreach Committee Meetings	- 4/4
Audit & Finance Committee Meetings	- 2/2
Total	- 18/19 (95%)

**Mr. Sean Morley**

Member of the Board of Directors for all of 2009. Chairman of the Governance, Nominating & Human Resources Committee and Member of Audit & Finance Committee.

Annual Meeting	- 1/1
Board Meetings	- 12/12
Governance, Nominating & Human Resources Committee	- 7/7
Audit & Finance Committee Meetings	- 5/6
Total	- 25/26 (96%)

**Mr. Jeremy Adams**

Appointed to Board of Directors on January 14, 2009. Chairman of the Communications & Outreach Committee and Member of Governance, Nominating & Human Resources Committee.

Annual Meeting	- 1/1
Board Meetings	- 11/12
Communications & Outreach Committee Meetings	- 4/4
Governance, Nominating & Human Resources Committee	- 6/7
Total	- 22/24 (92%)

**Mr. Mark Curry**

Appointed to Board of Directors on September 1, 2009. Member of Audit & Finance Committee and Pension Committee effective October 1, 2009.

Annual Meeting	- 1/1
Board Meetings	- 5/6
Audit & Finance Committee Meetings	- 2/2
Pension Committee Meetings	- 0/0
Total	- 8/9 (89%)

**Mr. Robert Poirier**

Appointed to Board of Directors on September 9, 2009. Member of Audit & Finance Committee and Governance, Nominating & Human Resources Committee effective October 1, 2009.

Annual Meeting	- 0/1
Board Meetings	- 6/6
Audit & Finance Committee Meetings	- 2/2
Governance, Nominating & Human Resources Committee	- 1/3
Total	- 9/12 (75%)

**Mr. Christopher Henley**

Chairman of Board of Directors, Chairman of Governance, Nominating & Human Resources Committee and Member of Audit & Finance Committee until January 21, 2009. Ceased to hold office on August 31, 2009.

Board Meetings	- 7/7
Governance, Nominating & Human Resources Committee	- 0/0
Audit & Finance Committee Meetings	- 0/0
Total	- 7/7 (100%)

**Mr. Douglas Reid**

Chairman of the Communications & Outreach Committee until January 21, 2009. Ceased to hold office on August 31, 2009.

Board Meetings	- 6/7
Communications & Outreach Committee Meetings	- 0/0
Total	- 6/7 (86%)

## **Directors' Attendance - 2008**

In 2008, there were eighteen (18) meetings of the Board of Directors, eight (8) meetings of the Audit & Finance Committee, five (5) meetings of the Governance, Nominating & Human Resources Committee, three (3) meetings of the Communications & Outreach Committee and three (3) meetings of the Pension Committee. The TPA held its Annual Meeting on September 11, 2008.

### **Mr. Mark McQueen**

Chairman of the Board from March 27 to September 14, 2008 and Chairman of Pension Committee and Member of Audit & Finance Committee in 2008.

Annual Meeting	- 1/1
Board Meetings	- 15/18
Audit & Finance Committee Meetings	- 8/8
Pension Committee Meetings	- 3/3
Total	- 27/30 (90%)

### **Ms. Michele McCarthy**

Chair of the Board from June 8, 2005 to March 27, 2008. Member of the Board of Directors for all of 2008.

Annual Meeting	- 1/1
Board Meetings	- 14/18
Total	- 15/19 (79%)

### **Mr. Colin Watson**

Member of the Board of Directors for all of 2008. Chairman of Audit & Finance Committee and member of Pension Committee for 2008.

Annual Meeting	- 1/1
Board Meetings	- 14/18
Audit & Finance Committee Meetings	- 8/8
Pension Committee Meetings	- 3/3
Total	- 26/30 (87%)

**Mr. Craig Rix**

Appointed to Board of Directors on February 2, 2008. Member of Governance, Nominating & Human Resources Committee and Communications & Outreach Committee for 2008.

Annual Meeting	- 1/1
Board Meetings	- 14/17
Governance, Nominating & Human Resources Committee	- 4/4
Communications & Outreach Committee Meetings	- 2/2
Total	- 21/24 (88%)

**Mr. David Gurin**

Appointed to Board of Directors on December 4, 2008.

Board Meetings	- 3/3
Total	- 3/3 (100%)

**Mr. Sean Morley**

Appointed to Board of Directors on December 19, 2008.

Board Meetings	- 1/1
Total	- 1/1 (100%)

**Mr. Christopher Henley**

Chairman of Board of Directors from September 15, 2008 to January 21, 2009. Chairman of Governance, Nominating & Human Resources Committee and Member of Audit & Finance Committee for 2008.

Annual Meeting	- 1/1
Board Meetings	- 13/18
Governance, Nominating & Human Resources Committee	- 5/5
Audit & Finance Committee Meetings	- 6/8
Total	- 25/32 (78%)

**Mr. Douglas Reid**

Member of the Board of Directors for all of 2008. Chairman of the Communications & Outreach Committee for 2008.

Annual Meeting	- 1/1
Board Meetings	- 13/18
Communications & Outreach Committee Meetings	- 3/3
Total	- 17/22 (77%)