

Financial statements of

**Toronto Port Authority**

December 31, 2011 and 2010

# Toronto Port Authority

December 31, 2011 and 2010

## Table of contents

Independent Auditor's Report .....	1-2
Statements of operations and comprehensive income .....	3
Statements of changes in equity .....	4
Statements of financial position .....	5
Statements of cash flows .....	6
Notes to the financial statements .....	7-35

## Independent Auditor's Report

To the Board of Directors of the Toronto Port Authority

We have audited the accompanying financial statements of the Toronto Port Authority, which comprise the statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the statements of operations and comprehensive income, statements of changes in equity and statements of cash flows for the years ended December 31, 2011 and December 31, 2010, 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 International Financial Reporting Standards, 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 audits. We conducted our audits 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 in our audits 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, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

*Deloitte & Touche LLP*

Chartered Accountants  
Licensed Public Accountants  
April 25, 2012  
Toronto, Ontario

# Toronto Port Authority

## Statements of operations and comprehensive income

years ended December 31, 2011 and 2010

(In thousands of dollars)

	Notes	2011	2010*
		\$	\$
<b>Operating revenue</b>			
Port, Outer Harbour Marina, Airport, Property and Other revenue	18	27,575	22,024
Airport improvement fees, net - for Airport capital expenditures	11	14,645	9,962
		<b>42,220</b>	<b>31,986</b>
<b>Operating expenses</b>			
Wages, salaries and employee benefits	18	7,885	6,727
Repairs and maintenance		3,694	3,597
Professional and consulting fees		1,941	3,448
Amortization of capital assets		1,553	1,368
Other operating and administrative expenses		9,800	7,415
Charge on gross revenue - Port, Outer Harbour Marina, Airport, Property and Other revenue	2	1,051	720
Charge on gross revenue - Airport improvement fees	2	879	598
		<b>26,803</b>	<b>23,873</b>
Income from operations and Airport improvement fees, net before the following		15,417	8,113
Payments in respect of land disposition		1,880	2,087
Payments in lieu of taxes	10	(2,210)	(1,828)
Loss on interest rate swap	16	(816)	(306)
Loss due to impairment of capital assets		(350)	-
Lands transferred (Macro Settlement)		-	(780)
Net income for the year		13,921	7,286
Unrealized gain on available for sale assets		41	45
<b>Comprehensive income for the year</b>		<b>13,962</b>	<b>7,331</b>

\*Effect of IFRS Transition: Note 16

**Toronto Port Authority**  
**Statements of changes in equity**  
**years ended December 31, 2011 and 2010**  
(In thousands of dollars)

	Net assets over liabilities	Accumulated other comprehensive loss	Total equity
	\$	\$	\$
Balance as at January 1, 2010	42,957	(856)	42,101
Net Income	7,286	-	7,286
Amortization of accumulated (loss) on derivative interest rate swap	-	91	91
Unrealized gain on available for sale assets	-	45	45
Balance as at December 31, 2010	50,243	(720)	49,523
Net Income	13,921	-	13,921
Amortization of accumulated (loss) on derivative interest rate swap	-	91	91
Unrealized gain on available for sale assets	-	41	41
<b>Balance as at December 31, 2011</b>	<b>64,164</b>	<b>(588)</b>	<b>63,576</b>

# Toronto Port Authority

## Statements of financial position

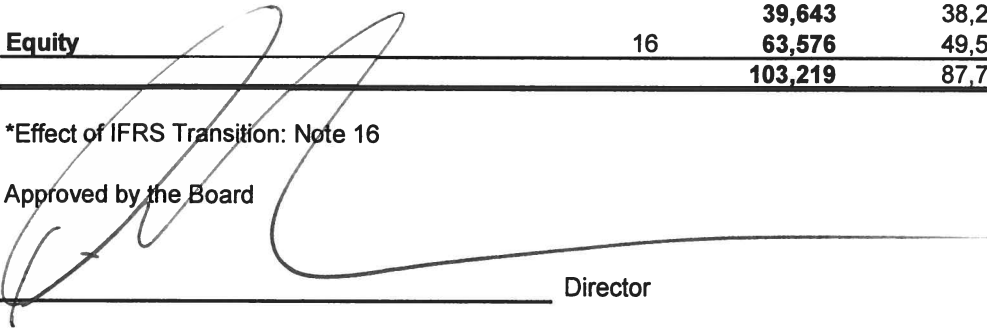
as at December 31, 2011 and 2010, and January 1, 2010

(In thousands of dollars)

	Notes	December 31, 2011	December 31, 2010*	January 1, 2010*
		\$	\$	\$
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents		15,765	13,692	6,989
Short-term investments	5	5,250	2,962	1,162
Cash and cash equivalents - AIF restricted	11	3,665	1,849	3,826
Short-term investments - AIF restricted	5 & 11	10,889	7,229	979
Accounts receivable (net)	2 & 3	6,062	5,947	4,670
City settlement payments receivable		-	-	11,700
Inventories		34	35	39
Prepaid expenses		499	273	219
		<b>42,164</b>	<b>31,987</b>	<b>29,584</b>
<b>Non-current assets</b>				
Mortgages receivable		-	157	307
Long-term investments	2, 4 & 5	1,318	1,273	1,732
Capital assets	7 & 16	59,737	54,351	50,876
		<b>61,055</b>	<b>55,781</b>	<b>52,915</b>
		<b>103,219</b>	<b>87,768</b>	<b>82,499</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities		10,328	7,961	4,657
Fair value of the interest rate swap	5 & 16	2,027	1,302	1,087
Current portion of bank loans	2 & 9	937	917	4,575
Payment in lieu of taxes payable	2 & 10	2,210	961	6,991
Unearned revenue		1,084	1,121	1,044
		<b>16,586</b>	<b>12,262</b>	<b>18,354</b>
<b>Non-current liabilities</b>				
Bank loans	2 & 9	15,667	16,607	12,922
Deferred city capital payments		4,972	6,825	6,044
Employees benefit liabilities	8	2,418	2,551	3,078
		<b>23,057</b>	<b>25,983</b>	<b>22,044</b>
		<b>39,643</b>	<b>38,245</b>	<b>40,398</b>
<b>Equity</b>	16	<b>63,576</b>	<b>49,523</b>	<b>42,101</b>
		<b>103,219</b>	<b>87,768</b>	<b>82,499</b>

\*Effect of IFRS Transition: Note 16

Approved by the Board



Director

Director

April 25, 2012

# Toronto Port Authority

## Statements of cash flows

### years ended December 31, 2011 and 2010

(In thousands of dollars)

	Notes	2011	2010*
		\$	\$
<b>Operating activities</b>			
Net income for the year before interest expense		14,652	7,981
Adjustments for non-cash items			
Amortization of capital assets		1,553	1,368
Employee future benefit expense	16	(133)	(527)
City funded capital assets retired/sold		-	(54)
Loss due to impairment of capital assets		350	-
Lands transferred (Macro Settlement)		-	780
Loss on derivative designated as cash flow hedge interest rate swap	16	816	306
		<b>17,238</b>	<b>9,854</b>
Net change in non-cash working capital balances related to operations		<b>3,239</b>	<b>(3,972)</b>
		<b>20,477</b>	<b>5,882</b>
<b>Investing activities</b>			
Payments in mortgage receivable	4	157	150
Disposal of long-term investments		-	500
(Acquisition) of short-term investments (net)		(5,952)	(8,050)
(Acquisition) of capital assets (net)		(11,741)	(6,651)
		<b>(17,536)</b>	<b>(14,051)</b>
<b>Financing activities</b>			
Bank loan		-	815
Interest paid		(731)	(695)
Bank loan principal payments	9	(919)	(788)
City settlement capital payments receivable		-	11,700
City funded capital payments	7	1,700	1,700
Airport Capital Assistance Program	7	871	163
Other Funded Capital		27	-
		<b>948</b>	<b>12,895</b>
Increase in cash position		<b>3,889</b>	<b>4,726</b>
Cash and cash equivalents - beginning of year		<b>13,692</b>	<b>6,010</b>
Cash and cash equivalents - AIF restricted, beginning of year		<b>1,849</b>	<b>4,805</b>
<b>Total Cash</b>		<b>19,430</b>	<b>15,541</b>
Cash and cash equivalents, end of year		<b>15,765</b>	<b>13,692</b>
Cash and cash equivalents - AIF restricted, end of year	11	<b>3,665</b>	<b>1,849</b>
<b>Total Cash, end of year</b>		<b>19,430</b>	<b>15,541</b>
<b>Cash and cash equivalents consists of</b>			
Cash		<b>2,421</b>	<b>955</b>
Cash equivalents		<b>17,009</b>	<b>14,586</b>
		<b>19,430</b>	<b>15,541</b>

\*Effect of IFRS Transition: Note 16



# Toronto Port Authority

## Notes to the financial statements

December 31, 2011 and 2010

(In thousands of dollars)

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### 1. General information and Canada Marine Act status

The Toronto Port Authority ("Port Authority") is a single entity operating pursuant to Letters Patent issued by the Federal Minister of Transport. The Port Authority is a corporation without any share capital. Its head office is located at 60 Harbour Street, Toronto Ontario.

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

The Port Authority has jurisdiction over the navigational waters from Victoria Park Avenue to Humber River. It has several businesses, including:

- Port Operations which include land and facilities providing docking, handling, distribution and storage services for cargo and container shipping and related services for cruise ship passengers. This operation supported by the Works Department provides harbour maintenance and aids to navigation, as well as exercising regulatory authority over the harbour by-laws. The Toronto Port Authority has jurisdiction over the navigational waters from Victoria Park Avenue to Humber River.
- Billy Bishop Toronto City Airport ("BBTCA") operations which include ferry service, ferry terminals, runways and tenanted properties to support scheduled commercial passenger flight service, charter services and flight schools.
- The Outer Harbour Marina, a full service marina located near the foot of Leslie Street.
- Property Administration which includes management of lands under its control.

The financial statements were authorized for issue by the Board of Directors on April 25, 2012.

### 2. Significant accounting policies

#### *Statement of compliance*

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented. These are the Port Authority's first annual financial statements prepared in accordance with IFRS.

An explanation of how the transition from Canadian generally accepted accounting principles ("CGAAP") to IFRS as at January 1, 2010 (the date of transition) has affected the reported statement of financial position, operations and comprehensive income and cash flows of the Port Authority is provided in Note 16.

#### *Basis of presentation*

The financial statements are presented in Canadian dollars, rounded to the nearest thousand.

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

#### *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*

Financial assets and financial liabilities are recognized when the Port Authority becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

# Toronto Port Authority

## Notes to the financial statements

December 31, 2011 and 2010

(In thousands of dollars)

### 2. Significant accounting policies (continued)

#### *Financial instruments (continued)*

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	FVTPL
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	FVTPL
Payment in lieu of taxes payable	Other financial liabilities	Amortized cost
Bank loans	Other financial liabilities	Amortized cost

#### Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

#### Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

#### Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Port Authority manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

# Toronto Port Authority

## Notes to the financial statements

December 31, 2011 and 2010

(In thousands of dollars)

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### 2. Significant accounting policies (continued)

#### *Financial instruments (continued)*

##### Financial assets at FVTPL (continued)

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates interest earned on the financial asset.

##### Available-for-sale financial assets (AFS financial assets)

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

AFS financial assets are stated at fair value at the end of each reporting period with changes in the fair value recognized in other comprehensive income.

##### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

##### Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period.

Financial assets classified as AFS are assessed for impairment when a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

Financial assets classified as loans and receivables are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Port Authority's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

# Toronto Port Authority

## Notes to the financial statements

December 31, 2011 and 2010

(In thousands of dollars)

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### 2. Significant accounting policies (continued)

#### *Financial instruments (continued)*

##### Impairment of financial assets (continued)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

##### Derecognition of financial assets

The Port Authority derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Port Authority neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Port Authority recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Port Authority retains substantially all the risks and rewards of ownership of a transferred financial asset, the Port Authority continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received. On de-recognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

##### Other financial liabilities

Other Financial Liabilities including borrowings are initially measured at fair value net of transaction costs. Other financial liabilities (including borrowings and trade and other payables) are subsequently measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

##### Derecognition of financial liabilities

The Port Authority derecognizes financial liabilities when, and only when, the Port Authority's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

# Toronto Port Authority

## Notes to the financial statements

December 31, 2011 and 2010

(In thousands of dollars)

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### 2. Significant accounting policies (continued)

#### *Financial instruments (continued)*

##### Derivative financial instruments

The Port Authority had entered into derivative financial instruments to manage its exposure to interest rate swaps.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Transaction costs are expensed as incurred.

##### *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 less amortization and any impairment losses with a contra asset representing applicable government funding.

Historical cost of property, plant and equipment includes expenditures that are directly attributable to the acquisition or construction of the items, including borrowing costs relating to the acquisition or construction.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Port Authority and the cost of the item can be measured reliably. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that it is necessary to complete and prepare the asset for its intended use. The carrying amounts of replaced capital assets are derecognized as incurred. All repairs and maintenance are charged to earnings during the period in which they are incurred.

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.

##### *Impairment of capital assets*

Capital assets which have long lives and are non-financial in nature are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of fair value less costs to sell and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows, or cash generating units ("CGU's"). Where the asset does not generate cash flows that are independent from other assets, the Port Authority estimates the recoverable amount of the CGU to which the asset belongs. When the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount is reduced to the recoverable amount and an impairment loss is recognized. Impairment losses are recognized as an expense immediately in profit or loss. An impairment charge is reversed if the asset (or CGUs) recoverable amount exceeds its carrying amount.

# Toronto Port Authority

## Notes to the financial statements

December 31, 2011 and 2010

(In thousands of dollars)

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### 2. Significant accounting policies (continued)

#### *Settlement with City of Toronto*

In May 2003, the Port Authority and the City of Toronto (the "City") reached a settlement of then outstanding litigation (the "Settlement Agreement") that required the City to pay to the Port Authority a portion of outstanding and unpaid operating and capital payments, a stream of ongoing operating and capital payments from 2003 to 2012 and the use of certain lands in the port lands area. The Settlement Agreement also provided for certain payments of, and for the resolution of remaining disputes concerning, Harbour User Fees to be paid by the City and Payments in Lieu of Taxes ("PILTS") to be paid by the Port Authority.

#### *Capital Funding*

Capital payments whose primary condition is that the Port Authority should purchase, construct or otherwise acquire non-current assets are recognized as capital funding in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

#### *Leases*

A lease is an agreement whereby the Port Authority (the lessor) conveys to the tenant (the lessee) in return for a payment or series of payments for the right to use an asset generally land and buildings for an agreed period of time. Leases in which a significant portion of the risks and rewards of ownership are retained by the Port Authority are classified as operating leases. Operating lease rentals are recognized on a straight line basis over the period of the lease. Leases are classified as finance leases if the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. As at December 31, 2011 the Port Authority did not have any finance lease agreements.

#### *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 unit credit 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) Unamortized prior service costs for the Pension Plan and Other Post Retirement Benefits as of the date of transition were all recognized immediately through retained earnings. Prior service costs that arise after transition will be recognized as expense on a straight-line basis over the average period until the benefits become vested.

# Toronto Port Authority

## Notes to the financial statements

December 31, 2011 and 2010

(In thousands of dollars)

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### 2. Significant accounting policies (continued)

#### *Employee future benefits (continued)*

- (iv) Upon transition to IFRS, the Port Authority has elected to recognize all cumulative actuarial gains and losses at the date of transition through retained earnings. 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.

#### *Revenue recognition*

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract. The Port Authority's policy for recognition of revenue from operating leases is described above in note 2 for Leases.

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.

#### *Gross revenue charge*

In order to maintain its Letters Patent in good standing, the Port Authority is required to pay annually to the Transport Canada a Charge on Gross Revenue which is calculated as follows:

<u>Gross revenue</u>	<u>Charge</u>
	%
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

#### *Future accounting standards*

##### Fair value measurement

On May 12, 2011, the IASB issued IFRS 13, "Fair Value Measurement", which defines fair value, provides guidance in a single IFRS framework for measuring fair value and identifies the required disclosures pertaining to fair value measurement. This standard is effective for annual periods beginning on or after January 1, 2013, and early adoption is permitted. The Port Authority is currently assessing the impact of the new standard on its financial statements.

##### Employee benefits

On June 16, 2011, the IASB revised IAS 19, "Employee Benefits". The revisions include the elimination of the option to defer the recognition of gains and losses, enhancing the guidance around measurement of plan assets and defined benefit obligations, streamlining the presentation of changes in assets and liabilities arising from defined benefit plans and instruction of enhanced disclosures for defined benefit plans. The amendments are effective for annual periods beginning on or after January 1, 2013. The Port Authority is currently assessing the impact of the amendments on its financial statements.

##### Presentation of financial statements

On June 16, 2011, the IASB issued amendments to IAS 1, "Presentation of Financial Statements". The amendments enhance the presentation of Other Comprehensive Income ("OCI") in the financial statements, primarily by requiring the components of OCI to be presented separately for items that may be reclassified to the statement of earnings from those that remain in equity. The amendments are effective for annual periods beginning on or after July 1, 2012. The Port Authority is currently assessing the impact of the amendments on its financial statements.

# Toronto Port Authority

## Notes to the financial statements

December 31, 2011 and 2010

(In thousands of dollars)

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### 2. Significant accounting policies (continued)

#### *Future accounting standards (continued)*

##### Financial Instruments

The IASB has issued a new standard, IFRS 9, "Financial Instruments", which will ultimately replace IAS 39, Financial Instruments Recognition and Measurement. The replacement of IAS 39 is a three phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 in November 2009 is the first phase of the project which provides guidance on the classification and measurement of financial assets and financial liabilities. This standard becomes effective on January 1 2015. The Port Authority is currently assessing the impact of the new standard on its financial statements.

##### Lease exposure draft

In March 2010 the IASB and the Financial Accounting Standards Board of the United States (FASB) jointly published an Exposure Draft on accounting for lease contracts. The new lease accounting standards propose an approach to lease accounting based on the principle that all leases give rise to liabilities for future rental payments and assets that should be recognized in an entity's statement of financial position. The proposed approach seeks to ensure that leases are accounted for consistently across countries, sectors and industries. These standards are expected to be re-exposed in the second quarter of 2012. The Port Authority continues to monitor and evaluate the potential impact of the new standards on its financial statements.

##### *Use of estimates and key areas of judgment*

The preparation of financial statements in accordance with IFRS 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, useful lives of capital assets, employee future benefits, and payment in lieu of taxes payable.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

##### Fair Value of Interest Rate SWAP

As described in note 5, the Port Authority uses valuation techniques that include inputs that are based on observable market data to estimate the fair value of its interest rate SWAP. Note 5 provides information about the key assumptions used in the determination of the fair value of the interest rate swap."

The Port Authority believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments

##### Useful lives of capital assets

The Port Authority reviews the estimated useful lives of capital assets at the end of each reporting period. There has been no change in the useful lives estimates for the current year. Below are the estimated useful lives of the capital assets:

Land	-	No amortization
Buildings and structure	-	Straight-line over 5-40 years
Plant and equipment	-	Straight-line over 3-25 years
Deferred site preparation expenditures	-	Straight-line over 5-40 years
Capital work-in-progress	-	No amortization



# Toronto Port Authority

## Notes to the financial statements

December 31, 2011 and 2010

(In thousands of dollars)

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### 2. Significant accounting policies (continued)

#### Accounts receivable

The carrying amount of Accounts receivable is reduced by a valuation allowance which is calculated on both a specific identification of accounts known to be delinquent and provision for aged accounts receivable. Management reviews the adequacy of these provisions at each reporting date. In the years ended December 31, 2011 and 2010 there have been no adjustments to the methodology or provisioning rate used by management.

#### Future employee benefits

Please see details in Note 8.

#### Payment in lieu of taxes

Please see the details in Note 10.

#### Legal provisions

Provisions are recognized when the Port Authority has a present obligation (legal or constructive) as a result of a past event, it is probable that the Port Authority will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Please see details in Note 12.

### 3. Accounts receivable

	December 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Trade accounts receivable, net of allowance for doubtful accounts	5,113	5,699	3,145
City of Toronto Harbour user fees	-	-	381
Interest on City Macro Settlement	-	-	806
Airport capital assistance program receivable	871	-	-
Commodity tax receivable	-	86	189
Current portion of mortgage receivable (Note 4)	66	150	137
Deposits	12	12	12
	<u>6,062</u>	<u>5,947</u>	<u>4,670</u>

# Toronto Port Authority

## Notes to the financial statements

December 31, 2011 and 2010

(In thousands of dollars)

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

##### *Mortgages receivable*

	December 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Mortgages receivable			
Interest at 9% maturing July 1, 2012	66	173	270
Interest at 8.5%, paid in full in 2011	-	134	174
	66	307	444
Less: amounts expected to be received in one year and included in accounts receivable (Note 3)	66	150	137
	-	157	307

##### *Long-term bond investments*

	December 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Long-term bond investments	1,318	1,273	1,732

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%.

#### 5. Financial instruments: fair value and risk management

##### *Fair value*

The fair values of short term investments are based on the quoted market prices (includes guaranteed investment certificates and bankers acceptances). The fair values of long term investments are based on the quoted market prices of bonds and redeemable notes. The fair value of the interest rate swap is calculated using a discounted cash flow analysis using the applicable yield curve and credit spread over the remaining life of the derivative.

The fair value of short-term and long term investments is determined directly from published price quotations in an active market whenever available.

The carrying value of cash and cash equivalents, accounts 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.

##### *Fair value hierarchy*

The Port Authority applies 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)

# Toronto Port Authority

## Notes to the financial statements

December 31, 2011 and 2010

(In thousands of dollars)

### 5. Financial instruments: fair value and risk management (continued)

#### *Fair value hierarchy (continued)*

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

The following is a summary of the fair value and classification levels as at December 31, 2011:

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Financial assets				
Short-term investments	-	16,139	-	16,139
Long-term investments	-	1,318	-	1,318
	-	17,457	-	17,457
Financial liabilities				
Interest rate swap	-	2,027	-	2,027

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

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Financial assets				
Short-term investments	-	10,191	-	10,191
Long-term investments	-	1,273	-	1,273
	-	11,464	-	11,464
Financial liabilities				
Interest rate swap	-	1,302	-	1,302

The following was a summary of the fair value classification levels as at January 1, 2010:

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Financial assets				
Short-term investments	-	2,141	-	2,141
Long-term investments	-	1,732	-	1,732
	-	3,873	-	3,873
Financial liabilities				
Interest rate swap	-	1,087	-	1,087

There were no transfers of investments between Level 1 and Level 2 during 2011 and 2010.

#### *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.

# Toronto Port Authority

## Notes to the financial statements

December 31, 2011 and 2010

(In thousands of dollars)

### 5. Financial instruments: fair value and risk management (continued)

#### *Financial risk management (continued)*

##### 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, mortgages receivable and long-term investments, which are subject to credit risk. The carrying amounts of financial assets on the statement of financial position, represents the Port Authority's maximum credit exposure at the date of the statement of financial position.

The Port Authority's credit risk is primarily attributable to its accounts receivables. The amounts disclosed in the statement of financial position 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 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 mortgage it holds on a regular basis and believes there are no issues as to the recoverability of the amounts.

As at December 31, 2011, the aging of accounts receivable was:

	December 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Trade			
Current	4,634	5,318	2,609
Aged between 31-90 days	256	185	265
Aged greater than 90 days	475	436	423
	5,365	5,939	3,297
Others	949	248	1,525
	6,314	6,187	4,822
Allowance for doubtful accounts	(252)	(240)	(152)
	6,062	5,947	4,670

##### Reconciliation of allowance for doubtful accounts

	December 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Balance, beginning of year	240	152	339
Increase during the year	50	92	83
Bad debts written off during the year	(38)	(4)	(270)
Balance, end of year	252	240	152

# Toronto Port Authority

## Notes to the financial statements

December 31, 2011 and 2010

(In thousands of dollars)

### 5. Financial instruments: fair value and risk management (continued)

#### *Financial risk management (continued)*

##### 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, 2011:

	Carrying value	2012	2013	2014 and thereafter
	\$	\$	\$	\$
Accounts payable and accrued liabilities	10,328	10,328	-	-
Payments in lieu of taxes	2,210	2,210	-	-
Bank variable interest rate loans	7,202	509	509	6,184
Bank fixed interest rate loan	9,402	429	450	8,523
	<u>29,142</u>	<u>13,476</u>	<u>959</u>	<u>14,707</u>

##### 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.

##### Interest rate risk

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, 2011:

	\$
<u>Variable portion of long term debt</u>	<u>7,202</u>
	<u>7,202</u>

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.

Maturity	Interest	December 31,	December 31,	January 1,
	rate range	2011	2010	2010
	%	\$	\$	\$
2012	5	383	374	362
2013	2.00 - 5.18	407	389	870
2014	3	528	510	500
		<u>1,318</u>	<u>1,273</u>	<u>1,732</u>

# Toronto Port Authority

## Notes to the financial statements

December 31, 2011 and 2010

(In thousands of dollars)

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### 5. Financial instruments: fair value and risk management (continued)

#### *Financial risk management (continued)*

#### Interest rate risk (continued)

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
	\$
Variable portion of long term debt	(18)
	(18)

Under interest rate swap contracts, the Port Authority agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Port Authority to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt and the cash flow exposures on the issued variable rate debt. The fair value of interest rate swaps at the end of the reporting period is determined by discounting the future cash flows using the curves at the end of the reporting period and the credit risk inherent in the contract.

The interest rate swaps settle on a monthly basis. The Port Authority settles the difference between the fixed and floating interest rate on a net basis.

#### Currency risk

At year-end, there were no amounts denominated in foreign currency carried on the statement of financial position.

# Toronto Port Authority

## Notes to the financial statements

December 31, 2011 and 2010

(In thousands of dollars)

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### 6. 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.

	December 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Total debt	16,604	17,524	17,497
Less: cash and cash equivalents	19,430	15,541	10,815
Net debt	(2,826)	1,983	6,682
Deferred city capital payments	4,972	6,825	6,044
Equity	63,576	49,523	42,101
	65,722	58,331	54,827

The Port Authority has certain covenants on its bank loans. As at December 31, 2011, 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 is deferred city capital payments and airport improvement fees. As at December 31, 2011, the Port Authority was in compliance with those restrictions.

# Toronto Port Authority

## Notes to the financial statements

December 31, 2011 and 2010

(In thousands of dollars)

### 7. Capital assets

	December 31, 2010					
	Land	Building and structures	Plant and equipment	Deferred site preparation expenditures	Capital under work in process	Total
	\$	\$	\$		\$	\$
Opening - January 1, 2010 (gross)						
Cost	26,591	53,193	18,768	796	4,008	103,356
Capital funding	-	(15,020)	(4,173)	-	-	(19,193)
Accumulated amortization	-	(22,198)	(11,078)	(11)	-	(33,287)
Opening - January 1, 2010 (net book value)	26,591	15,975	3,517	785	4,008	50,876
Additions	-	374	5,689	787	(199)	6,651
Disposal - cost	(780)	(86)	(929)	-	-	(1,795)
Disposal - accumulated amortization	-	86	929	-	-	1,015
Amortization	-	(820)	(531)	(17)	-	(1,368)
Capital funding	-	(369)	(659)	-	-	(1,028)
	(780)	(815)	4,499	770	(199)	3,475
Closing - December 31, 2010 (net book value)	25,811	15,160	8,016	1,555	3,809	54,351
	December 31, 2011					
	Land	Building and structures	Plant and equipment	Deferred site preparation expenditures	Capital under work in process	Total
	\$	\$	\$		\$	\$
Opening - January 1, 2011 (gross)						
Cost	25,811	53,481	23,528	1,583	3,809	108,212
Capital funding	-	(15,389)	(4,832)	-	-	(20,221)
Accumulated amortization	-	(22,932)	(10,680)	(28)	-	(33,640)
Opening - January 1, 2011 (net book value)	25,811	15,160	8,016	1,555	3,809	54,351
Additions	-	4,450	4,778	381	2,132	11,741
Amortization	-	(877)	(646)	(30)	-	(1,553)
Capital funding	-	(3,109)	(1,343)	-	-	(4,452)
Impairment losses recognized in statement of operations	(204)	(131)	(15)	-	-	(350)
	(204)	333	2,774	351	2,132	5,386
Closing - December 31, 2011 (net book value)	25,607	15,493	10,790	1,906	5,941	59,737
Year ended - December 31, 2011 (gross)						
Cost	25,607	53,259	25,552	1,964	5,941	112,323
Capital funding	-	(18,492)	(5,927)	-	-	(24,419)
Accumulated amortization	-	(19,274)	(8,835)	(58)	-	(28,167)
Closing - December 31, 2011 (net book value)	25,607	15,493	10,790	1,906	5,941	59,737



# Toronto Port Authority

## Notes to the financial statements

December 31, 2011 and 2010

(In thousands of dollars)

### 7. Capital assets (continued)

#### 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 \$1,700 (2010 - \$1,700) of City funded payments were received.

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

Transport Canada funds certain eligible capital acquisitions through ACAP. ACAP funding applied in 2011 totaled \$871 (2010 - \$163). The funds \$871, were received on February 16, 2012.

#### 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.

### 8. 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, 2011	Other benefits December 31, 2011	Pension benefit plan December 31, 2010	Other benefits December 31, 2010	Pension benefit plan January 1, 2010	Other benefits January 1, 2010
	\$	\$	\$	\$	\$	\$
<b>Accrued benefit obligation</b>						
Balance, beginning of year	43,575	1,910	39,031	1,960	39,031	1,960
Employer current service cost	1,067	43	657	29	-	-
Employees' contributions	373	-	327	-	-	-
Interest cost	2,061	89	2,133	107	-	-
Benefits paid	(2,769)	(142)	(2,884)	(143)	-	-
Actuarial gains (losses)	2,712	252	4,311	(43)	-	-
Plan amendments	37	-	-	-	-	-
<b>Balance, end of year</b>	<b>47,056</b>	<b>2,152</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	39,553	-	37,913	-	37,913	-
Expected return on plan assets	2,330	-	2,230	-	-	-
Actuarial gains (losses)	(4,374)	-	887	-	-	-
Employer contributions	958	-	1,080	-	-	-
Employees' contributions	373	-	327	-	-	-
Benefits paid	(2,769)	-	(2,884)	-	-	-
<b>Fair value, end of year</b>	<b>36,071</b>	<b>-</b>	<b>39,553</b>	<b>-</b>	<b>37,913</b>	<b>-</b>
Funded status - plan (deficit) surplus	(10,985)	(2,152)	(4,022)	(1,910)	(1,118)	(1,960)
Unamortized net actuarial loss (gain)	10,510	209	3,424	(43)	-	-
<b>Accrued benefit asset (liability)</b>	<b>(475)</b>	<b>(1,943)</b>	<b>(598)</b>	<b>(1,953)</b>	<b>(1,118)</b>	<b>(1,960)</b>

# Toronto Port Authority

## Notes to the financial statements

December 31, 2011 and 2010

(In thousands of dollars)

### 8. Employee future benefits (continued)

#### Plan asset allocation

	2011	2010
	%	%
Equities	61.10	62.90
Fixed income	24.50	25.50
Real estate	11.20	9.30
Other	3.20	2.30
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

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

	2011	2010
	%	%
<b>Key assumptions</b>		
Accrued benefit obligation at end of year		
Discount rate	4.20	4.80
Compensation increase	3.00	3.00
Benefit cost during the year		
Discount rate	4.80	5.60
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

\$

#### Sensitivity analysis

Impact of a one-percentage-point increase in the health trend rates		
Total service and interest cost in 2011	0.40	
Benefit obligation at December 31, 2011	4.00	
Impact of a one-percentage-point decrease in the health trend rates		
Total service and interest cost in 2011	(0.40)	
Benefit obligation at December 31, 2011	(4.00)	

# Toronto Port Authority

## Notes to the financial statements

December 31, 2011 and 2010

(In thousands of dollars)

### 8. Employee future benefits (continued)

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

	2011		2010	
	Pension benefit plan	Other benefits	Pension benefit plan	Other benefits
	\$	\$	\$	\$
Components of net benefit costs recognized during the year				
Current service cost	1,067	43	657	29
Interest cost	2,061	89	2,133	107
Actual return on plan assets	2,044	-	(3,117)	-
Actuarial (gains) losses	2,712	252	4,311	(43)
Plan amendment	37	-	-	-
<hr/>				
Elements of employee future benefit costs before adjustments to recognize the long-term nature of employee future benefit costs	7,921	384	3,984	93
Adjustments to recognize the long-term nature of employee future benefit costs				
Difference between expected and actual return on plan assets	(4,374)	-	887	-
Difference between recognized and actual actuarial loss	(2,712)	(252)	(4,311)	43
Difference between amortization of past service cost and actual plan amendment cost	-	-	-	-
<b>Employee future benefit cost recognized</b>	<b>835</b>	<b>132</b>	<b>560</b>	<b>136</b>

The date used to measure assets and liabilities for accounting purposes was December 31, 2011. The most recent actuarial valuation for funding purposes was January 1, 2011. The next actuarial valuation for funding purposes will be done as at January 1, 2012.

The Port Authority expects to make contributions of \$869 in 2012 (2011 - \$958) to the defined benefit pension plan of employees of Toronto Port Authority. In addition, the Port Authority has secured additional contributions of \$876 and \$500 through letters of credit in 2012 and 2011, respectively.

### 9. Bank loans

The Port Authority has two credit facilities, one for \$15,000 and the other for \$5,000, with a major financial institution used to finance repairs and improvements related to access to the Billy Bishop Toronto City 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, 2011, the fair value of the swap was (\$2,027), December 31, 2010 (\$1,302), January 1, 2010 (\$1,087). 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 January 1, 2007, no principal was paid on this portion of the loan.

# Toronto Port Authority

## Notes to the financial statements

December 31, 2011 and 2010

(In thousands of dollars)

### 9. Bank loans (continued)

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. 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
	\$	\$	\$
2012	428	509	937
2013	451	509	960
2014	475	509	984
2015	500	509	1,009
2016	526	509	1,035
Thereafter	7,022	4,657	11,679
	9,402	7,202	16,604
Less: current portion	428	509	937
Long term	8,974	6,693	15,667

### 10. 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. A payment of \$74 was made in 2005. In the 2009 Macro Settlement, \$6,419 was offset against payments owed by the City to the Port Authority. A further payment of \$571 was made in 2010 for the 2009 balance. The Toronto Port Authority paid \$1,828 to the City for 2010. For 2011, the Port Authority has accrued an additional \$2,210, which is listed as a liability as of December 31, 2011.

The City of Toronto's position is that the amount of PILTS paid by the Port Authority is not sufficient. The City has accepted \$8,892 on account that the Port Authority has paid to date.

The parties are in discussions on a possible resolution. No additional amounts have been provided for in these financial statements.

### 11. Airport improvement fees

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

These fees are to be used entirely to finance the Airport's capital program, which includes Debt Service for borrowings (see Note 9).

For the year ended December 31, 2011, the net amount of AIF collected was \$14,645 (2010 - \$9,962). These fees are recorded as Billy Bishop Toronto City Airport revenue in the Statement of operations and comprehensive income.

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

The 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, 2011 was \$14,554 (December 31 2010: \$9,078; January 1, 2010: \$4,805).

# Toronto Port Authority

## Notes to the financial statements

December 31, 2011 and 2010

(In thousands of dollars)

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### 12. 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.

In July 2010, two Federal Court judicial review proceedings commenced by Air Canada were heard and dismissed and costs were awarded to TPA in the amount of \$900 in January 2011 and received in February 2011. The appeal of the July 2010 decision was dismissed in December 2011 with costs of the appeal awarded to the TPA.

# Toronto Port Authority

## Notes to the financial statements

December 31, 2011 and 2010

(In thousands of dollars)

### 13. 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:

	2011	2010
	\$	\$
<b>Directors' fees</b>		
Mr. Mark McQueen (Chair, effective January 21, 2009 to present)	24	23
Mr. Colin Watson	22	21
Mr. Craig Rix	13	12
Mr. Sean Morley	21	21
Mr. Jeremy Adams	17	18
Mr. Mark Curry	16	15
Ms. Jan Innes (effective August 30, 2010)	14	1
Mr. David Gurin (ceased to hold office on December 3, 2011)	20	18
Mr. Robert Poirier (ceased to hold office on January 21, 2011) (reappointed on April 16, 2012)	4	17
Ms. Michele McCarthy (ceased to hold office as of August 29, 2010)	-	6
	<b>151</b>	<b>152</b>
<b>President &amp; CEO</b>		
Mr. Geoffrey Wilson		
Salaries and bonus	290	225
Other benefits	30	26
	<b>320</b>	<b>251</b>
<b>Vice President &amp; CFO</b>		
Mr. Alan Paul		
Salaries and bonus	183	162
Other benefits	12	11
	<b>195</b>	<b>173</b>
<b>Director Communications &amp; Public Affairs</b>		
Ms. Suzanna Birchwood- Effective September 1, 2010		
Salaries	149	47
Other benefits	12	4
	<b>161</b>	<b>51</b>
<b>Director Infrastructure, Planning &amp; Environment</b>		
Mr. Ken Lundy		
Salaries and bonus	149	135
Other benefits	11	11
	<b>160</b>	<b>146</b>
<b>Chief of Security and Harbour Master</b>		
Mr. Angus Armstrong		
Salaries and bonus	147	124
Other benefits	11	11
	<b>158</b>	<b>135</b>
<b>Financial information pursuant to section 35 of the Port Authorities Management Regulations is as follows:</b>		
s.35(1)(a) Wages, salaries and employee benefits	7,885	6,727
s.35(1)(b) Professional fees and fees for consulting	1,941	3,448
s.35(1)(c) Repairs and maintenance	3,694	3,597
s.35(1)(e) Realty taxes	443	409

# Toronto Port Authority

## Notes to the financial statements

December 31, 2011 and 2010

(In thousands of dollars)

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### 14. Commitments

The 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 2013 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.

### 15. 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 statement of financial position with respect to these agreements.

### 16. Explanation of transition to IFRS

This is the first year that the Port Authority has presented its financial statements under IFRS. The accounting policies set out in Note 2 have been applied in preparing the financial statements for the year ended December 31, 2011, the comparative information presented in these financial statements for the year ended December 31 2010, and in the preparation of an opening IFRS statement of financial position as at January 1, 2010, (the Port Authority's date of transition to IFRS). An explanation of how the transition from Canadian GAAP to IFRS has affected the financial position, equity, financial performance and cash flows is set out in the following tables and the accompanying notes for the mandatory exceptions and elected exemptions applied.

# Toronto Port Authority

## Notes to the financial statements

December 31, 2011 and 2010

(In thousands of dollars)

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### 16. Explanation of transition to IFRS (continued)

Upon transition, IFRS1 permits certain exemptions from full retrospective application. The Port Authority has applied the mandatory exceptions, where applicable, and certain optional exemptions. The elected exemptions adopted by the Port Authority are set out below:

- (1) The Port Authority has elected use and appraisal value conducted in 1967 and applied to 1974 to revalue lands at a deemed cost at the date of their revaluation. For other Capital Assets and lands under long-term leases, and lands acquired after 1974, the Port Authority has retrospectively applied IAS 16.
- (2) The Port Authority has elected to recognize all cumulative actuarial gains and losses for its defined benefit plans at the date of transition into equity. In addition, the Port Authority has elected to use the exemption to not disclose the defined benefit plans surplus or deficit and experience adjustments before the date of transition.

The following available exemptions do not apply to the Port Authority:

- Business combinations
- Cumulative translation differences
- Compound financial instruments
- Assets and liabilities of subsidiaries, associates and joint ventures
- Designation of previously recognized financial instruments for trading or available for sale
- Share-based payment transactions
- Insurance contracts
- Decommissioning liabilities
- Leases (IFRIC 4, Determining whether an Arrangement contains a Lease)
- Fair value measurement of financial assets or financial liabilities at initial recognition
- Borrowing costs (election available only if deemed cost election made)
- Service concession arrangements (IFRIC 12, Service concession arrangements)
- Investments in subsidiaries, associates and joint ventures
- Severe hyperinflation

The Port Authority has applied the following mandatory exception with respect to its IFRS transition:

- (1) Under Canadian GAAP, the Port Authority had followed hedge accounting rules of the CICA Handbook Part V, s.3865 "Hedges" using a "critical terms match" approach. At the date of transition, the required documentation was not available under IAS 39 "Financial Instruments". The Port Authority has prospectively derecognized the hedging relationship and has recognized all changes in the fair value of the Swap during 2010 and 2011 in profit and loss in the Statement of Operations and comprehensive income. The remaining accumulated loss on the Swap will be amortized over its remaining life.

The Port Authority has applied all of the other mandatory exceptions to full retrospective application as required under IFRS 1.



# Toronto Port Authority

## Notes to the financial statements

December 31, 2011 and 2010

(In thousands of dollars)

### 16. Explanation of transition to IFRS (continued)

#### Effect on the statement of financial position

	December 31, 2010 (Date of last Canadian GAAP statement)			January 1, 2010 (Date of transitions)		
	Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
	\$	\$	\$	\$	\$	\$
<b>Assets</b>						
<b>Current assets</b>						
Cash and cash equivalents -						
TPA non restricted	13,692	-	13,692	6,989	-	6,989
Short-term investments -						
TPA non restricted	2,962	-	2,962	1,162	-	1,162
Cash and cash equivalents -						
TPA restricted	1,849	-	1,849	3,826	-	3,826
Cash and cash equivalents -						
TPA restricted	7,229	-	7,229	979	-	979
Accounts receivable	5,947	-	5,947	4,670	-	4,670
City settlement payments receivable	-	-	-	11,700	-	11,700
Inventories	35	-	35	39	-	39
Prepaid expenses	273	-	273	219	-	219
	31,987	-	31,987	29,584	-	29,584
<b>Non-current assets</b>						
Mortgages receivable	157	-	157	307	-	307
Long-term investments	1,273	-	1,273	1,732	-	1,732
Capital assets	54,351	-	54,351	50,876	-	50,876
Pension assets	6,841	(6,841)	-	6,795	(6,795)	-
	94,609	(6,841)	87,768	89,294	(6,795)	82,499
<b>Liabilities</b>						
<b>Current liabilities</b>						
Accounts payable and						
accrued liabilities	7,961	-	7,961	4,657	-	4,657
Fair value of the interest rate swap	1,302	-	1,302	1,087	-	1,087
Current portion of bank loans	917	-	917	4,575	-	4,575
Payment in lieu of taxes payable	961	-	961	6,991	-	6,991
Unearned revenue	1,121	-	1,121	1,044	-	1,044
	12,262	-	12,262	18,354	-	18,354
<b>Non-current liabilities</b>						
Bank loans	16,607	-	16,607	12,922	-	12,922
Deferred revenue	-	-	-	585	(585)	-
Deferred city capital payments	6,825	-	6,825	6,044	-	6,044
Employee benefit liabilities	1,538	1,013	2,551	1,508	1,570	3,078
	37,232	1,013	38,245	39,413	985	40,398
<b>Equity</b>	57,377	(7,854)	49,523	49,881	(7,780)	42,101
	94,609	-	87,768	89,294	-	82,499

# Toronto Port Authority

## Notes to the financial statements

December 31, 2011 and 2010

(In thousands of dollars)

### 16. Explanation of transition to IFRS (continued)

*Effect on the statement of operations and comprehensive income*

	Year ended December 31, 2010 (Date of last Canadian GAAP statements)			
	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
		\$	\$	\$
Operating revenue				
Port, Outer Harbour Marina, Airport, Property and Other revenue		22,049	(25)	22,024
		22,049	(25)	22,024
Airport improvement fees, net - restricted for airport capital expenditures		9,962	-	9,962
		32,011	(25)	31,986
Operating expenses				
Wages, salaries and employee benefits		7,238	(511)	6,727
Repairs and maintenance		3,597	-	3,597
Professional and consulting fees		3,448	-	3,448
Amortization of capital assets		1,368	-	1,368
Other operating and administrative expenses		7,415	-	7,415
Charge on gross revenue		1,318	-	1,318
		24,384	(511)	23,873
Income from operations and airport improvement fees, net before the following		7,627	486	8,113
Payments in respect of land disposition		2,087	-	2,087
Payments in lieu of taxes		(1,828)	-	(1,828)
Loss on interest rate swap		-	(306)	(306)
Lands transferred (Macro Settlement)		(780)	-	(780)
Net income for the year		7,106	180	7,286
Unrealized gain on available for sale assets		45	-	45
Comprehensive income for the year		7,151	180	7,331

# Toronto Port Authority

## Notes to the financial statements

December 31, 2011 and 2010

(In thousands of dollars)

### 16. Explanation of transition to IFRS (continued)

#### Effect on the cash flow

	Year ended December 31, 2010 (Date of last Canadian GAAP statement)			
	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
		\$	\$	\$
<b>Operating activities</b>				
Net income for the year before interest expense		7,801	180	7,981
Adjustments for non-cash items				
Amortization of capital assets		1,368	-	1,368
Employee future benefit expense		1,207	(1,734)	(527)
City funded capital assets retired/sold		-	(54)	(54)
Lands transferred (Macro Settlement)		-	780	780
Loss on derivative designated as cash flow hedge interest rate swap		-	124	306
		10,376	(704)	9,854
Net change in non-cash working capital balances related to operations		(3,972)	-	(3,972)
		6,404	(704)	5,882
<b>Investing activities</b>				
Decrease in mortgage receivable		150	-	150
Disposal of long-term investments		500	-	500
(Acquisition) of short-term investments		(8,050)	-	(8,050)
(Acquisition) of capital assets (net)		(5,925)	(726)	(6,651)
		(13,325)	(726)	(14,051)
<b>Financing activities</b>				
Bank loan		815	-	815
Interest paid		(695)	-	(695)
Bank loan principal payments		(788)	-	(788)
City settlement capital payments receivable		11,700	-	11,700
City funded capital applied		1,700	-	1,700
Airport Capital Assistance Program		163	-	163
		12,895		12,895
Increase in cash position		5,974	(1,248)	4,726
Cash and cash equivalents, beginning of year		10,815	-	10,815
Cash and cash equivalents, end of year		16,789	(1,248)	15,541

# Toronto Port Authority

## Notes to the financial statements

December 31, 2011 and 2010

(In thousands of dollars)

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### 16. Explanation of transition to IFRS (continued)

#### *Notes to the reconciliations*

##### a) Employee benefit obligation

Under IFRS, the Port Authority recognizes actuarial gains and losses for defined benefit post-employment plans in other comprehensive income in the period in which they arise. Under CGAAP, actuarial gains and losses for post-employment defined benefit plans were deferred and were subject to amortization under the "corridor method", and actuarial gains and losses for other-long term employee benefits were deferred and were amortized over a period that was linked to the type of benefit. At the date of transition, the Port Authority elected to use the exemption in IFRS 1, and recognized all actuarial losses in the statement of financial position. The effect was a decrease of \$6,795 to pension assets, increase of \$1,570 in employee benefit obligations and decrease of \$8,365 to equity. Due to the transition from Canadian GAAP to IFRS, the actuarial calculations for pension expenses under IFRS were lower for 2010 by \$511. The actuarial gain as a result of lower expenses under IFRS is booked under Other Comprehensive Income.

##### b) Losses due to cessation of hedge accounting

TPA has been following hedge accounting rules on a "critical terms match" basis under GAAP. Under IFRS, the Swap was reevaluated and did not meet IAS 39 requirements in terms of necessary documentation and testing/assessment in 2010 and 2011. The unamortized accumulated other comprehensive loss due to losses in derivatives previously designated as cash flow hedge as at December 31, 2009 was \$1,087. This loss is being amortized over the remaining term of the Swap until maturity on January 4, 2022. The total impact of losses on the derivatives including the amortization in 2011 was \$816 (2010- \$306).

##### c) Deferred revenue

During fiscal 1988, the Commissioners sold certain hangars at the Billy Bishop Toronto City Airport. Under Canadian GAAP, the excess of the proceeds over the net book value was being deferred and was being taken into income over 46 years, being the term of the land lease on which the hangars are situated. Under IFRS, the entire gain would have been recognized on the date of sale. As at December 31, 2009, the original deferred gain was \$1,204 and the original accumulated amortization was \$619, the net balance of \$585 was reclassified to Equity on January 1, 2010.

### 17. Subsequent event

#### *Pedestrian Tunnel Project*

On March 8, 2012, the Toronto Port Authority and Forum Infrastructure Partners ("Forum") signed a Project Agreement ("the Agreement") to construct a Pedestrian Tunnel to link the Billy Bishop Toronto City Airport ("Airport") to the Mainland at the foot of Bathurst Street, under the Western Gap. Under the Agreement, Forum will design, build, finance, operate and maintain the tunnel for 20 years. The Port Authority will make Annual Service Payments ("ASPs") to Forum using a portion of the \$20.00 Airport Improvement Fee collected for Enplaning (departing) Passengers at the Airport. The ASPs include Capital, Lifecycle and Operating Payments. The cost for Forum to construct the Tunnel is \$82.5 million and it is expected to take 25 months to complete. Title to the Tunnel remains with the Port Authority throughout the term of the Agreement.

# Toronto Port Authority

## Notes to the financial statements

December 31, 2011 and 2010

(In thousands of dollars)

### 18. Revenue and expenses by Business Units:

The following is an analysis of the Toronto Port Authority's results from continuing operations by business units:

(in thousands of dollars)	Business unit revenue		Business unit expenses		Business unit income	
	December 31,		December 31,		December 31,	
	2011	2010	2011	2010	2011	2010
	\$	\$	\$	\$	\$	\$
<b>Business units</b>						
Port operations	5,398	4,402	4,229	3,938	1,169	464
Outer Harbour Marina	2,789	2,568	1,598	1,416	1,191	1,152
Billy Bishop Toronto City Airport	17,721	13,313	13,178	11,577	4,543	1,736
Property and other	1,398	1,383	1,339	1,050	59	333
Investment income	269	358	-	-	269	358
Corporate services	-	-	4,529	4,574	(4,529)	(4,574)
Charge on gross revenue	-	-	1,930	1,318	(1,930)	(1,318)
<b>Income (loss) from operations</b>	<b>27,575</b>	<b>22,024</b>	<b>26,803</b>	<b>23,873</b>	<b>772</b>	<b>(1,849)</b>
Airport Improvement Fees, net - for airport capital expenditures					14,645	9,962
<b>Net income from operations and airport improvement fees, net before the following:</b>					<b>15,417</b>	<b>8,113</b>
Payments in respect of land disposition					1,880	2,087
Payments in lieu of taxes					(2,210)	(1,828)
Loss on interest rate swap					(816)	(306)
Loss due to impairment of capital assets					(350)	-
Lands transferred (Macro Settlement)					-	(780)
<b>Net Income for the year</b>					<b>13,921</b>	<b>7,286</b>
Unrealized gain on available for sale assets					41	45
<b>Comprehensive Income for the year</b>					<b>13,962</b>	<b>7,331</b>