# Greater London International Airport Authority

## Airport of Choice

## 2012 Annual Report


## Mission Statement

As Southwestern Ontario's "Airport of Choice", the Greater London International Airport Authority will be self sustaining while exceeding the highest level of service and convenience for its customers and stakeholders.


## Principles and Values

Professionalism and integrity united in the delivery of high value services and products. Promoting common interests through collective action.

## Behaviours

The GLIAA Board, Senior Administration and Staff will work effectively to ensure that the Airport continues to successfully serve the flying public and the community.

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# Report from the Board Chair and the President & Chief Executive Officer

Janet Stewart
Chair, Board of Directors

Michael Seabrook
President & CEO

As Southwestern Ontario's "Airport of Choice", the Greater London International Airport (GLIAA) will be self sustaining while exceeding the highest level of service and convenience for its customers and stakeholders. That is our mandate at London International Airport and was determined in a comprehensive Strategic Review and Plan undertaken by the Airport in 2012. It means we want more from our Airport and we are going to "set the bar" higher every year. In 2012, we worked diligently in the pursuit of this mandate and our results demonstrate it.

2012 witnessed the retirement in April of the Airport's President and C.E.O., Steve Baker. Steve was a tireless and dedicated leader who led the Airport through its incorporation to a Local Airport Authority. Steve was a visionary who saw the potential for London's Airport and, on behalf of the staff and Board of Directors we thank him for his dedication and success.

The completion of the London International Airport Strategic Plan was a big accomplishment in 2012. The Board of Directors and Management spent considerable time and effort in reviewing the current operations of the Airport and prioritizing strategies that will position the Airport for success in the future. Five strategic goals were created through the planning process and these goals will guide the Airport and focus its efforts through 2016 and beyond.

Air service and connectivity is vital for the economic prosperity of the London region and we saw continued enhancement from our airlines in 2012. Passenger traffic increased by 3.8% compared to 2011 and each of our airlines showed positive growth.

London International Airport continues to be one of the most affordable Canadian airports for passengers. Our $15 Airport Improvement Fee has remained the same since January 1, 2002 and is one of the lowest in Canada. This fee has remained constant while capital improvements have been made to the Airport over the same period of time at a cost of just under $30 million.

There have been significant improvements to customer service over the last year that have been well received by our travelers. A new cell phone waiting lot was completed that is less than 50 metres from the terminal building and allows for easy pick-up of passengers. This enhancement has eased congestion problems in front of the terminal and improved customer satisfaction. A new food and beverage operation was also opened in the departure lounge of the terminal building in 2012. The facility is complete with a licensed bar area and allows passengers access to food and drink in the secure area of our terminal building after clearing passenger screening.

In terms of financial performance the Airport continues to operate with a high degree of fiscal responsibility. Revenues exceeded $10 million in 2012 with a surplus of $877,383. Debt was reduced by almost $900,000 while the equivalent amount was put back into the Airport in capital improvements.

We are also extremely proud of the spirit of volunteerism and community involvement that is exhibited by our Board of Directors and airport staff. We volunteered our time, involved ourselves in charitable events, chaired community organizations, raised money for worthwhile causes and donated financially to help support our community. Our efforts ensure that we remain connected to our market place and operate as a catalyst in the continued prosperity of our region.

2012 was a very successful year for GLIAA. Our efforts and diligence will continue in 2013 and we look forward to further growth and advancements in the coming year.

Thank you to our Board Members, management and employees of GLIAA. We continue as a team to find innovative ways of operating our local airport in a manner that promotes its long term viability, ensures its continuing growth, while providing a vital asset in the prosperity of our region.

## A moment to reflect from outgoing Board Chair, Janet Stewart

I have had the honour of serving on the Greater London International Airport Authority Board of Directors for eight years, the last three of them in the position of Chair. I have thoroughly enjoyed my time on the Board and am very proud of the accomplishments that together we have achieved.

We have undertaken a wide variety of projects during my tenure including the development of the Skyway Industrial Park, the 40,000 square foot cargo facility and the enhanced Departure Lounge in the Terminal Building. We also retired a CEO, hired a new one, completed a Strategic Plan and invested millions of dollars in capital projects to position our Airport for the future.

These accomplishments have been achieved through a team approach that has promoted the value of everyone in our organization from the Board of Directors to our staff. It includes individuals and groups in our community who have also worked with us to accomplish our goals.

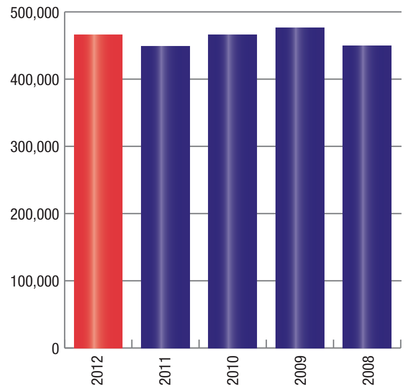
To the Directors with whom I have had the pleasure of working – thank you. To our community, region, elected officials, business leaders and residents – your ongoing support and recognition of our Airport is very much appreciated. To the staff at London International Airport who deliver our products and services – my deepest appreciation. To our snow plow operators, security officers, airline agents and the friendly staff in our retail operations – I am grateful for your spirit and enthusiasm.

The incoming Chair as of August 2013, Jeff Brown, has established an excellent reputation in our community and with our Board of Directors. Jeff will have the opportunity to build on many of our accomplishments and I am confident that during his tenure the Airport will be even more successful than it is today.

2012 In Review

## Passenger Statistics

London International Airport is in the top twenty airports in Canada with 465,704 passengers in 2012. This represents a 3.8% increase over 2011 and growth of 41% over the last ten years. The airport averages close to 40 departures and arrivals daily with non-stop service to Calgary, Winnipeg, Chicago, Toronto, Ottawa, Orlando, Cancun and Varadero.




## Cargo Services

In 2011 construction was completed on the 40,000 square foot cargo facility at London International Airport. The cargo sector has been identified for growth in the airport business plan. Steady progress has been made in developing this sector and the Cargo Facility is now operating at close to 50% occupancy with over 20,000 square feet currently under lease. Tenants in the Cargo Facility include Kuehne and Nagel, Strategic Shipping, Ground Services International and Amphenol Borisch.

### Cargo Airlines in London in 2012

| | |
|---|---|
| Airsprint | AirNet Express |
| Ameristar Jet Charter | Alliance Air Charter |
| Berry Aviation | Cargojet Canada |
| Freight Runner Express | Flightexec |
| Kelowna Flightcraft | Kalitta Flying Service |
| IFL Group | Kolob Canyons Air Services |
| Nolinor | Manitoulin Transport Inc. |
| Northern Air Solutions | PAL Airlines |
| Royal Air Freight | Priority Air Charter LLC |
| Skylink Express | USA Jet Airlines |
| Wasaya Airways | |

## Customer Service Improvements

### Cell Phone Waiting Lot

A new cell phone waiting lot was constructed that makes passenger pickup a simple process at London International Airport. The lot is conveniently located adjacent to the terminal building and can hold up to twenty cars. If Fred is picking up his wife at the airport the process is simple. Fred waits in his car in the cell phone lot and when his wife's plane arrives she calls Fred on the cell phone (or sends him a text message). Fred receives the message and meets his wife at the curb in front of the terminal. Wow... it's easy to use, convenient for everyone, and it helps relieve vehicle congestion in front of the terminal.


### New Food and Beverage Service in Departure Lounge

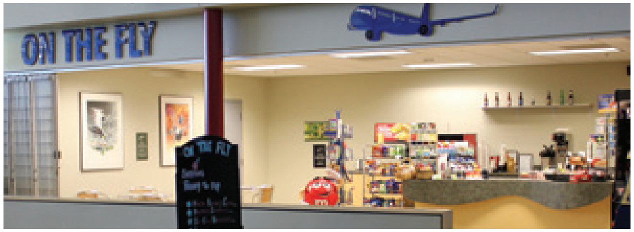
One of the most requested services that was asked for at London International Airport was food and drink in the departure lounge. We answered the request and the "On the Fly" Restaurant was opened in 2012 in our newly expanded Departure Lounge. From "Grab and Go" salads and sandwiches to coffee and bottled water... the On the Fly restaurant is open to serve the needs of our travelers. The new facility is fully licensed and has proven quite popular with the "charter" crowd as they embark on their journey to the Caribbean and Florida.

## Operational Improvements

London International Airport invested close to $800,000 in 2012 on capital projects to maintain and improve the airport infrastructure. The money was spent on projects that included the runways, taxiways, electrical systems, maintenance equipment, buildings and road systems.


## Social Media

There is no denying the power of Social Media and the Airport launched our social media program in 2012 on Facebook and Twitter. The program has experienced steady growth in activity and proven to be a valuable tool for airport announcements, weather updates and aviation trivia. Join our growing list of friends and visit us on Facebook (London International Airport) or on Twitter (London Intl Airport). Stay tuned as contests and trivia events will be taking place in 2013!



## Safety and Security

The provision of a safe and secure facility for our airport businesses and visitors is our most important task. The GLIAA Safety Management System has been developed to quantify our safety performance, to identify areas of concern or "elevated risk", and to develop a Corrective Action Plan to help mitigate these identified risks. In the fourth quarter of 2012, the final draft of our Safety Management System was submitted to Transport Canada for final review and approval. An on-site review of our program by Transport Canada inspectors is expected in late 2013.

With respect to airport security, we are in final development and implementation of our Airport Security Program (ASP). The ASP was developed to allow us to identify our current security performance level, and to work toward continuous security improvement.

Other safety and security initiatives that were accomplished in 2012 were:

- Hiring of two additional Airport Operations Specialists for assistance with operations and emergency response.
- Expanded employee training to provide advanced emergency response Command and Control training to additional staff members.
- Conducted live on-site familiarization and training with London Police Explosives Removal Unit and Tactical Response Unit.
- Provided airport familiarization training to City of London Fire Department.
- In 2012 our Airport Security Officers responded to 621 calls for service, with 42 direct responses to potential restricted area violations.
- In 2012 our Fire Department responded to 25 calls for service, with 16 medical calls and 5 aircraft responses.

## Strategic Planning Process

Strategic Planning is an organization's process of defining its strategy, or direction, and making decisions on allocating its resources to pursue this strategy. It's a vital component of the planning process and in 2012 London International Airport completed a Plan that represents the newest vision and direction for the period 2013 to 2016. The process involved the Board of Directors and Airport Management and the outcome "paves the way" for a new attitude at London International Airport defined by an aggressive, confident, customer focused approach to the future.

Strategic focus has been given to the development of a plan that supports the GLIAA's principal objectives:

- Maximize our Customers' Experience
- Ensure its own long-term sustainability
- Develop and execute a comprehensive Marketing Plan
- Ensure all its human resources are maximized to achieve its objectives
- Continue to operate with fiscal responsibility

The execution of these Principal Objectives will focus the efforts of GLIAA and form the basis of more detailed plans in different functional areas of the Airport's business.

## The Highs and Lows of Aviation

Chorus Aviation Inc., the primary regional affiliate of Air Canada, announced in July that it would be closing its base in London and moving the heavy maintenance work to Halifax, impacting roughly 200 jobs at the Airport

The news was delivered shortly after Chorus, whose subsidiary Jazz Aviation LP operates flights on behalf of Air Canada, announced it would be purchasing six Bombardier Q400 turboprops. Jazz management cited a number of factors for the base closing in London including the rejuvenation of the fleet with the Q 400's. The company has two heavy maintenance facilities in London and Halifax and the decision was made to close the London operation.

Air Canada Jazz will continue flying out of the London airport with their regular schedule of arrivals and departures from London. Air Canada Jazz, which used to be called Air Ontario, has had a presence at the London International Airport since the late 1980s.

London International Airport would like to extend their appreciation to Air Canada Jazz for the excellent business relations that were developed over the last thirty years and look forward to working with Air Canada in the continued development of services in London.


# Disclosure Requirements of the Ground Lease

On August 1, 1998, the Authority signed a 60-year ground lease, together with a renewal term of 20 years, with Transport Canada and assumed responsibility for the management, operation and development of the Airport. Subsection 9.01.07 of the Ground Lease requires the Authority to publish an annual report that includes the matters below.

## Report on the Business Plan and Objectives for 2012

| | Plan | Actual | Variance |
|---|---|---|---|
| **Revenue** | $10,425,164 | $10,090,216 | ($334,948) |
| **Expenses** | $9,514,594 | $9,393,038 | $121,556 |
| **Capital Expenditures** | $800,000 | $772,657 | ($27,343) |

- The Auditors' Report and the audited financial statements are found on page 13 to 26.
- The notes accompanying the Audited Financial Statements provide a summary of the 2012 financial results

## Report on the Business Forecast for 2013 - 2017

| | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| **Revenue** | $10,083,092 | $10,385,584 | $10,697,152 | $11,018,066 | $11,348,608 |
| **Expenses** | $9,850,655 | $10,146,174 | $10,450,559 | $10,764,076 | $11,086,998 |
| **Capital Expenditures** | $900,000 | $1,090,000 | $1,080,000 | $1,227,500 | $1,175,000 |

- Revenue includes Airport Improvement Fees (AIF)
- Expenses includes interest and amortization (a non cash item)
- Capital forecast includes both eligible and non-eligible AIF items

## Remuneration

***Directors' Compensation***

The annual compensation for the Board of Directors, consisting of honorariums and per diems for the year ending December 31, 2012 was $182,750

***Senior Management Compensation***

The annual compensation for the management team for the year ending December 31, 2012 was $509,400

## Ethical Business Conduct

The Greater London International Airport has established and maintains a comprehensive Code of Conduct. All Directors and Officers have completed Disclosure Statements and there were no instances of real or potential Conflicts of Interest brought forward to the Board of Directors during 2012.

## Competitive Tenders

The Greater London International Airport is committed to doing business locally and in competitive fashion. All projects with a value in excess of $75,000 (base year 1998 = 100 CPI annually adjusted) require a public tender or request for proposal. To that end, the Authority sought competitive bids on all contracts as required.

# Governance

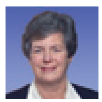
The Greater London International Airport Authority (GLIAA) operates London International Airport. The not-for-profit Airport Authority has full operational and financial control of the Airport under the Federal Government's National Airports Policy.

The Board of Directors of GLIAA provides governance to the Airport. Members are nominated by various entities representing the community at large including:

- Federal Government
- Provincial Government
- Municipal Government
- London Chamber of Commerce
- GLIAA Board

## Greater London International Airport Authority

### Board Of Directors

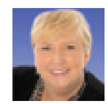


**Janet Stewart, Q.C.** (Chair)
Lerners LLP

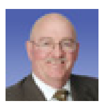
**Jeff Brown** (Vice-Chair)
18 Asset Management Inc.

**Bernie Bierbaum**
Bluestone Properties

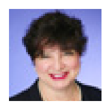
**Gary Blazak**
BLAST inc.



**Ann Campbell**
Ingersoll District Chamber of Commerce



**Rick Coates**
Pacific & Western Bank of Canada



**Michelle Faysal**
Management Effectiveness

**Sandi Firman**
Pathways Skill Development

**Robert Flack**
Masterfeeds Inc.

**Ken Kalopsis**
StarTech.com Ltd.

**Rick Witherspoon**
Retired

In addition to the regular meetings, Board members serve on Standing and Adhoc Committees:

- Executive Committee
- Finance/Audit Committee
- Nominating Committee
- Advisory Committee on Community and Area Issues


## Senior Management Team

| | |
|---|---|
| Brad Rice | Manager Business Development |
| Janet Carr | Director, Finance & Human Resources |
| Michael Seabrook | President and Chief Executive Officer |
| Steve Faulkner | Operations Manager |
| Gerry Vanderhoek | Manager, Commercial Services & Passenger Experience |

### Corporate Offices

Greater London International
Airport Authority
1750 Crumlin Road,
London, Ontario  N5V 3B6
Phone: 519-452-4015
Fax: 519-453-6219
www.londonairport.on.ca

### Legal Counsel

Miller Thomson LLP
One London Place, Suite 2010
255 Queens Avenue
London, Ontario  N6A 5R8

### Auditors

Ernst & Young LLP
One London Place, Suite 1800
255 Queens Avenue
London, Ontario  N6A 5S7

Financial Statements

# Greater London International Airport Authority

December 31, 2012

# INDEPENDENT AUDITORS' REPORT

To the members of the **Greater London International Airport Authority**

We have audited the accompanying financial statements of **Greater London International Airport Authority,** which comprise the statement of financial position as at December 31, 2012, and the statements of operations, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit 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 **Greater London International Airport Authority** as at December 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations. As required by the Canada Corporations Act, we report that, in our opinion, Canadian accounting standards for not-for-profit organizations have been applied on a basis consistent with that of the preceding year.

London, Canada
March 28, 2013.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

**Greater London International Airport Authority**
Incorporated without share capital under the laws of Canada

# STATEMENT OF FINANCIAL POSITION

As at December 31

| | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| **ASSETS** | | |
| **Current** | | |
| Cash and marketable securities *[note 3]* | **1,586,780** | 1,150,361 |
| Accounts receivable | **900,008** | 719,871 |
| Prepaid expenses and deposits | **136,489** | 81,085 |
| **Total current assets** | **2,623,277** | 1,951,317 |
| Accrued pension asset *[note 8]* | **1,644,000** | 1,449,000 |
| Capital assets, net *[note 4]* | **46,375,944** | 47,484,036 |
| Marketable securities restricted for capital purposes *[note 3]* | **2,000,000** | 2,000,000 |
| | **52,643,221** | 52,884,353 |
| **LIABILITIES AND NET ASSETS** | | |
| **Current** | | |
| Accounts payable and accrued liabilities | **586,144** | 625,632 |
| Deferred revenue | **18,990** | 17,260 |
| Current portion of promissory note payable *[note 5]* | **80,797** | 80,797 |
| Demand installment loan *[note 5]* | **14,324,083** | 15,218,527 |
| **Total current liabilities** | **15,010,014** | 15,942,216 |
| Long-term portion of promissory note payable *[note 5]* | **242,391** | 323,188 |
| Deferred capital contributions *[note 6]* | **12,517,583** | 12,623,099 |
| **Total liabilities** | **27,769,988** | 28,888,503 |
| **Net assets** | **24,873,233** | 23,995,850 |
| | **52,643,221** | 52,884,353 |

*See accompanying notes*

On behalf of the Board:

Director Director

# STATEMENT OF CHANGES IN NET ASSETS

Year ended December 31

| | 2012<br>$ | 2011<br>$ |
|---|---|---|
| **Balance, beginning of year** | **23,995,850** | 22,653,650 |
| Surplus for the year | **877,383** | 1,342,200 |
| **Balance, end of year** | **24,873,233** | 23,995,850 |

*See accompanying notes*

# STATEMENT OF OPERATIONS

Year ended December 31

| | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| **REVENUES** | | |
| Airport improvement fees | **3,324,666** | 3,254,971 |
| Concessions | **2,834,437** | 2,838,739 |
| Landing and terminal fees | **2,481,406** | 2,588,280 |
| Security | **729,685** | 714,514 |
| Rentals | **613,163** | 599,632 |
| Other | **106,859** | 142,678 |
| | **10,090,216** | 10,138,814 |
| **EXPENSES** | | |
| Salaries and wages | **2,128,619** | 2,036,751 |
| Amortization of capital assets | **1,864,349** | 1,726,271 |
| Contracted services | **826,556** | 809,322 |
| Interest expense *[note 5]* | **803,551** | 825,774 |
| Municipal taxes | **696,014** | 610,129 |
| Benefits | **659,380** | 717,696 |
| Utilities | **464,310** | 464,049 |
| Office and administration | **418,033** | 269,713 |
| Contracted maintenance | **329,958** | 324,306 |
| Repairs, maintenance and equipment rentals | **321,297** | 195,214 |
| Directors' fees and expenses | **184,814** | 197,887 |
| Materials and supplies | **172,794** | 157,324 |
| Professional fees | **157,636** | 120,771 |
| Insurance | **139,819** | 150,134 |
| Vehicle maintenance | **109,979** | 245,681 |
| Transport Canada rent | **58,356** | 55,000 |
| Advertising and business development | **57,573** | 52,785 |
| | **9,393,038** | 8,958,807 |
| **Surplus of revenues over expenses before the following** | **697,178** | 1,180,007 |
| Investment income | **62,710** | 55,063 |
| Amortization of deferred capital contributions *[note 6]* | **126,395** | 133,000 |
| Loss on disposal of capital assets | **(8,900)** | (25,870) |
| **Surplus for the year** | **877,383** | 1,342,200 |

*See accompanying notes*

# STATEMENT OF CASH FLOWS

Year ended December 31

| | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| **OPERATING ACTIVITIES** | | |
| Surplus for the year | **877,383** | 1,342,200 |
| Add (deduct) items not involving cash | | |
| Amortization of capital assets | **1,864,349** | 1,726,271 |
| Loss on disposal of capital assets | **8,900** | 25,870 |
| Amortization of deferred capital contributions | **(126,395)** | (133,000) |
| Increase in accrued pension asset | **(195,000)** | (117,000) |
| | **2,429,237** | 2,844,341 |
| Net change in non-cash working capital balances related to operations *[note 7]* | **(273,299)** | (99,216) |
| Repayment of demand installment loan | **(894,444)** | (763,647) |
| Increase in demand installment loan | **—** | 3,000,000 |
| **Cash provided by operating activities** | **1,261,494** | 4,981,478 |
| **INVESTING ACTIVITIES** | | |
| Purchase of capital assets | **(772,657)** | (3,507,916) |
| Proceeds on disposal of capital assets | **7,500** | 3,600 |
| **Cash used in investing activities** | **(765,157)** | (3,504,316) |
| **FINANCING ACTIVITIES** | | |
| Airport terminal expansion payable | **—** | (1,195,032) |
| Decrease in construction holdback payable | **—** | (520,750) |
| Repayment of promissory note payable | **(80,797)** | (80,797) |
| (Increase) decrease in marketable securities *[note 3]* | **(1,528,582)** | 210,000 |
| Increase in deferred capital contributions *[note 6]* | **20,879** | 819,605 |
| **Cash provided by financing activities** | **(1,588,500)** | (766,974) |
| **Net (decrease) increase in cash during the year** | **(1,092,163)** | 710,188 |
| Cash, beginning of year | **2,507,097** | 1,796,909 |
| **Cash, end of year** *[note 3]* | **1,414,934** | 2,507,097 |

*See accompanying notes*

# NOTES TO FINANCIAL STATEMENTS

December 31, 2012

## 1. DESCRIPTION OF BUSINESS

The Greater London International Airport Authority [the "Authority"] was incorporated on December 4, 1995 as a corporation without share capital under Part II of the Canada Corporations Act.

The objectives of the Authority are:

[a] to manage, operate and develop the Greater London International Airport [the "Airport"], the premises of which are leased to the Authority by Transport Canada, in a safe, secure, efficient, cost effective and financially viable manner with reasonable airport user charges and equitable access to all carriers;

[b] to undertake and promote the development of the Airport lands, for which it is responsible, for uses compatible with air transportation activities; and

[c] to expand transportation facilities and generate economic activity in ways which are compatible with air transportation activities.

On August 1, 1998, the Authority signed a 60-year ground lease, together with a renewal term of 20 years, with Transport Canada and assumed responsibility for the management, operation and development of the Airport.

The Authority is exempt from federal and provincial income taxes.

## 2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared by management in accordance with Part III of the CICA Handbook - Accounting, which constitutes generally accepted accounting principles for not-for-profit organizations in Canada ["GAAP"].

The significant accounting policies are as follows:

**Use of estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Examples of such estimations and assumptions include the useful lives of capital assets, and valuation adjustments. Actual results could differ from those estimates. Adjustments, if any, will be reflected in operations in the period of settlement.

**Income and revenue recognition**

The Authority follows the deferral method of accounting for contributions. Externally restricted contributions such as governmental grants are deferred and recognized in operations in the year in which the related expenses are incurred. Funds restricted for capital purposes represent amounts internally restricted by the Board of Directors for specific purposes.

Unrestricted contributions that are available for the operations of the Authority are recognized as revenues when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Airport Improvement Fees ["AIF"] may only be used to fund Airport infrastructure projects and associated financing costs that relate primarily to the passenger-handling functions of the Airport. Revenue from AIF is recognized when departing passengers board their aircraft.

Investment income, landing and terminal fees, concessions and rental revenues are recognized when earned.

**Financial Instruments**

Marketable securities reported at fair value consist of investments in fixed income securities that the Authority designates upon purchase to be measured at fair value. Transaction costs are recognized in the statement of operations in the period during which they are incurred.

Investment income (loss), which consists of interest and realized and unrealized gains and losses, is included in other revenue in the statement of operations.

Other financial instruments, including accounts receivable and accounts payable, are initially recorded at their fair value and are subsequently measured at cost, net of any provisions for impairment.

**Derivative financial instruments and hedge accounting**

The Authority uses an interest rate swap to mitigate the effect of changes in interest rates on variable-rate debt. When both at the inception of a hedging relationship and throughout its term, the Authority has reasonable assurance that the critical terms of the hedging item and the hedged item are the same, the Authority may choose to designate that hedge accounting will be applied. The Authority then formally documents the hedging relationship, identifying the hedged item, the related hedging item, the nature of the specific risk exposure or exposures being hedged and the intended term of the hedging relationship.

Interest rate swaps in qualifying hedging relationships are not recognized until their maturity. Interest on the debt is recorded at the stated interest rate plus or minus amortization of any initial premium or discount and any financing fees and transaction costs. Net amounts receivable or payable on the interest rate swap are recognized as an adjustment to the interest expense on the hedged item in the period during which they accrue.

Hedge accounting may not be electively discontinued. If an interest rate swap is discontinued, any gain or loss is recognized as an adjustment to the debt and amortized to surplus as interest payments are accrued. If the debt is derecognized, the interest rate swap is measured at fair value and any gain or loss is recognized in operations.

**Capital assets**

Capital assets are initially recorded at cost. Normal maintenance and repair expenditures are expensed as incurred.

Amortization is provided on a straight-line basis from the month following the date the asset was first put into use. It is expected that the total cost of capital assets, net of their estimated salvage values, will be charged to operations over the assets' estimated useful lives by following these procedures. The costs associated with construction-in-progress including interest, if any, are capitalized during the construction phase. Upon completion of the project, the assets will be allocated to their respective classes and amortized at the rates provided in the schedule below.

Capital assets are amortized on a straight-line basis as follows:

| | |
|---|---|
| Office furniture and equipment | 4 - 10 years |
| Terminal furniture and fixtures | 5 - 20 years |
| Shop equipment | 5 - 10 years |
| Mobile equipment | 6 - 20 years |
| Computer software | 3 - 5 years |
| Computer hardware | 3 - 5 years |
| Pavement leasehold improvements | 15 years |
| Structural leasehold improvements | 5 - 40 years |
| Security equipment | 6 - 40 years |
| Baggage system | 20 years |
| Land leasehold improvements and land transfer tax | 20 - 60 years |

Gain or loss on disposal of individual assets is recognized in income in the year of disposal.

**Pension obligations**

The Authority sponsors a registered pension plan with defined benefit and defined contribution portions, as well as a non-registered defined benefit supplemental employee retirement plan (SERP). These plans cover all full time employees.

The Authority accounts for its defined benefit plan using the deferral and amortization approach. The cost of defined benefit pensions is determined using the projected benefit method prorated on employment services and is expensed as the employees provide services. Adjustments arising from plan amendments, experience gains and losses and changes in assumptions are amortized on a straight-line basis over the estimated average remaining service lifetime of the employee group for the registered plan, and are recognized in total for the SERP. Gains or losses arising from plan curtailments and settlements are recognized in the year in which they occur. For purposes of calculating the expected return on plan assets, pension assets are revalued at fair value.

The cost of defined contribution benefits is expensed as earned by employees. The Authority makes contributions in accordance with plan agreements.

## 3. CASH AND MARKETABLE SECURITIES

Cash and marketable securities consist of the following:

| | **2012** | **2011** |
|---|---|---|
| | $ | $ |
| Cash | **1,414,934** | 2,507,097 |
| Marketable securities | **2,171,846** | 643,264 |
| | **3,586,780** | 3,150,361 |
| Less restricted for capital purposes | **2,000,000** | 2,000,000 |
| | **1,586,780** | 1,150,361 |

Marketable securities consist of fixed income, government and corporate bonds bearing interest at rates ranging from 2.3% to 4.38% and having maturity dates ranging from November 2, 2015 to March 2, 2022.

The Board of Directors has undertaken measures to provide for the funding of approved capital projects designed to maintain and improve the facilities, equipment and structures of the Airport. The amounts restricted for this purpose are subject to change at the discretion of the Board of Directors.

## 4. CAPITAL ASSETS

Capital assets consist of the following:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | **Cost** | **Accumulated amortization** | **Cost** | **Accumulated amortization** |
| | $ | $ | $ | $ |
| Office furniture and equipment | **88,196** | **54,548** | 82,831 | 49,513 |
| Terminal furniture and fixtures | **376,687** | **162,281** | 373,805 | 113,606 |
| Shop equipment | **322,785** | **206,428** | 314,174 | 174,358 |
| Mobile equipment | **5,271,021** | **2,218,783** | 5,245,999 | 2,023,445 |
| Computer software | **44,589** | **40,153** | 47,261 | 39,308 |
| Computer hardware | **71,868** | **46,246** | 95,407 | 51,849 |
| Pavement leasehold improvements | **2,262,706** | **1,209,661** | 2,179,200 | 1,064,818 |
| Structural leasehold improvements | **32,977,341** | **6,943,429** | 32,858,308 | 5,842,287 |
| Security equipment | **734,534** | **384,374** | 728,259 | 336,314 |
| Baggage system | **3,405,355** | **1,153,180** | 3,405,355 | 999,429 |
| Gateway project | **11,100,253** | **—** | 11,087,270 | — |
| Land leasehold improvements and land transfer tax | **2,651,304** | **511,612** | 2,212,851 | 451,757 |
| | **59,306,639** | **12,930,695** | 58,630,720 | 11,146,684 |
| Less accumulated amortization | **12,930,695** | | 11,146,684 | |
| **Net book value** | **46,375,944** | | 47,484,036 | |

Cumulative expenditures on qualifying Airport infrastructure projects, from inception of the AIF, including eligible debt service costs, amount to $38,316,899. During the same period, cumulative AIF revenue was $32,559,695.

## 5. DEMAND INSTALLMENT LOAN AND PROMISSORY NOTE PAYABLE

[a] The promissory note payable to the Minister of Finance for Ontario relating to land transfer tax bears no interest and is repayable in five equal annual installments of $80,797 commencing 2012.

[b] The demand instalment loan is comprised of three non-revolving credit facilities that assisted in financing of the Air Terminal Building expansion. The first facility, having an outstanding balance of $9,424,120 [2011 - $9,968,560], bears interest at the bank's prime rate minus 15 basis points and is repayable in monthly principal payments based on the following installment schedule:

| | $ |
|---|---|
| March 2009 - February 2013 | 45,370 |
| March 2013 - February 2018 | 64,815 |
| March 2018 - February 2023 | 90,741 |

The Authority has entered into and designated as a hedging item, an interest rate swap agreement linked to the amortizing balance of this facility, with the lender as counterparty, to swap its floating rate obligation of the bank's prime rate minus 15 basis points for a fixed rate of 6.09%. As at December 31, 2012, the swap had a fair value of $2,112,994 [2011 - $2,554,201] in favour of the lender. The fair value of interest rate swaps generally reflect the estimated amount that the Authority, if required to settle the outstanding contract, would be required to pay at year end.

The second non-revolving facility having a balance outstanding of $2,149,963 [2011 - $2,349,967] bears interest at the bank's prime rate minus 15 basis points and is payable in monthly payments of principal of $16,667 plus interest.

The third non-revolving facility having a balance outstanding of $2,750,000 [2011 - $2,900,000] bears interest at the bank's prime rate minus 15 basis points and is payable in monthly payments of principal of $12,500 plus interest.

The facilities are subject to a financial covenant in the form of a cash coverage ratio. The Authority was in compliance at year end.

Although the Authority has negotiated a specific repayment schedule, as described above, to repay the debt over a 20 year period, the terms of the facilities include a unilateral demand feature and therefore the entire balance has been classified as current. The lender has taken as collateral a first charge mortgage for $18,000,000 over property at 1750 Crumlin Road.

The Authority also has a revolving operating line of credit in the amount of $500,000, with interest payable at the bank's prime rate minus 15 basis points.

## 6. DEFERRED CAPITAL CONTRIBUTIONS

The balance of deferred capital contributions consists of the following:

| | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| [i] Security grant | **249,744** | 249,702 |
| [ii] Canadian Air Transport Security Authority [“CATSA”] | **1,755,009** | 1,873,397 |
| [iii] Gateway | **10,500,000** | 10,500,000 |
| [iv] Nav Canada | **12,830** | — |
| **Total** | **12,517,583** | 12,623,099 |

[i] Security grant

In 2002, the Authority received a security grant to fund capital projects associated with the Security and Policing Program. This contribution was deferred and is amortized to income on the same basis as the amortization of the related security improvements. In 2012, funding was received from the CATSA for additional biometric readers which were required for the Passenger Hold room expansion.

| | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| **Security grant, beginning of year** | **249,702** | 265,040 |
| Contributions during the year | **8,049** | — |
| Amortization during the year | **(8,007)** | (15,338) |
| **Security grant, end of year** | **249,744** | 249,702 |

[ii] CATSA funding

In 2004 and 2005, the Authority received funding from CATSA to partially fund the capital costs associated with the construction of the new hold baggage system. These contributions were deferred and are being amortized to income on the same basis as the amortization of the related hold baggage system.

| | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| **CATSA funding, beginning of year** | **1,873,397** | 1,953,350 |
| CATSA contribution | **—** | 37,709 |
| Amortization during the year | **(118,388)** | (117,662) |
| **CATSA funding, end of year** | **1,755,009** | 1,873,397 |

[iii] Gateway funding

In 2010, the Authority received funding from the Federal Economic Development Agency for Southern Ontario ["FedDev"] and the City of London to partially fund the capital costs associated with the construction of an International Air Freight Transshipment Centre. There were no additional contributions in 2012. The Gateway project had an effective accounting completion date at the earlier of 75% occupancy of the facility and related lots or two years from substantial completion. Neither of these conditions were met at December 31, 2012. In 2012 the cost of the project has been adjusted by the net operating loss. Amortization will commence January 2013.

[iv] Nav Canada funding

In 2012, the Authority received a contribution from Nav Canada for 50% of the costs related to the upgrade of the HVAC system in the Control Tower. This contribution was deferred and is amortized to income on the same basis as the amortization of the related asset.

| | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| Nav Canada funding, beginning of year | **—** | — |
| Contribution | **12,830** | — |
| Nav Canada funding, end of year | **12,830** | — |

## 7. STATEMENT OF CASH FLOWS

The following represents the net change in non-cash working capital balances related to operations:

| | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| **Decrease (increase) in current assets** | | |
| Accounts receivable | **(180,137)** | 524,933 |
| Prepaid expenses and deposits | **(55,404)** | 66,658 |
| | **(235,541)** | 591,591 |
| **Increase (decrease) in current liabilities** | | |
| Accounts payable and accrued liabilities | **(39,488)** | (663,212) |
| Deferred revenue | **1,730** | (27,595) |
| | **(37,758)** | (690,807) |
| | **(273,299)** | (99,216) |

## 8. EMPLOYEE BENEFIT PLANS

| | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| [a] Defined benefit pension plan asset | **1,810,000** | 1,599,000 |
| [b] Supplemental pension plan obligation | **(166,000)** | (150,000) |
| **Accrued pension asset, net** | **1,644,000** | 1,449,000 |

**[a] Defined benefit pension plan**

The Authority sponsors a pension plan on behalf of its employees, which has defined benefit and defined contribution components. This plan is administered as part of the Canadian Airport Authorities and Canadian Port Authorities Pension Plan [the "Plan"]. The most recent valuation was determined using membership data as at January 1, 2012 and extrapolated to December 31, 2012.

[i] Pension expense for the defined contribution plan is $59,428 [2011 - $53,167].

[ii] Information about the Authority's defined benefit plan is as follows:

| | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| Benefit obligation | **8,249,000** | 7,281,000 |
| Fair value of plan assets | **7,692,000** | 6,719,000 |
| **Funded status – plan deficit** | **(557,000)** | (562,000) |
| Unamortized net actuarial losses | **2,367,000** | 2,161,000 |
| **Accrued benefit asset** | **1,810,000** | 1,599,000 |

The asset allocation of the Plan is as follows:

| | 2012 | 2011 |
|---|---|---|
| | % | % |
| Equity securities | **58.0** | 59.9 |
| Debt securities | **31.0** | 33.1 |
| Other | **11.0** | 7.0 |

The following table provides a reconciliation of the accrued benefit asset:

| | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| **Accrued benefit asset, beginning of year** | **1,599,000** | 1,481,000 |
| Pension expense for the year | **(280,000)** | (316,000) |
| Authority contributions | **491,000** | 434,000 |
| **Accrued benefit asset, end of year** | **1,810,000** | 1,599,000 |

The significant actuarial assumptions adopted in measuring the Authority's accrued benefit asset under the defined benefit pension plan as at December 31, 2012 are as follows:

| | 2012 | 2011 |
|---|---|---|
| | % | % |
| Discount rate | **4.50** | 5.10 |
| Expected long-term rate of return on plan assets | **6.50** | 6.50 |
| Rate of compensation increase | **4.00** | 4.00 |
| Inflation rate | **2.50** | 2.50 |

**[b] Supplemental pension plan**

Information about the unfunded supplemental pension plan is as follows:

| | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| Benefit obligation | **299,000** | 175,000 |
| **Accrued benefit obligation, beginning of year** | **150,000** | 149,000 |
| Pension expense for the year | **24,000** | 9,000 |
| Contributions by the Authority | **(8,000)** | (8,000) |
| **Accrued benefit obligation, end of year** | **166,000** | 150,000 |

The significant actuarial assumptions adopted in measuring the Authority's accrued benefit obligation for the supplemental plan are the same as for the defined benefit pension plan.

## 9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial assets create a risk that a counterparty will fail to discharge an obligation, causing a financial loss. As at December 31, 2012, other than accounts receivable, there were no significant concentrations of credit risk with respect to any class of financial assets. While the Authority deals with several customers in North America, seven customers represent 81% [2011 - six customers represent 83%] of the trade accounts receivable balance as at December 31, 2012. The maximum credit risk represents the full amount of the accounts receivable. The Authority anticipates receiving payments in full from these customers.

The Authority will continue to use derivative instruments to manage interest rate risk. Derivative financial instruments result in exposure to credit risk, since there is a risk of counterparty default. The Authority monitors and minimizes credit risk through various techniques including dealing with highly rated counterparties, limiting total exposure levels with individual counterparties and entering into master agreements which enable net settlement.

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