Greater London International Airport Authority

2013 Annual Report

Our Airport

London International Airport

MISSION STATEMENT

The London International Airport will be self-sustaining while exceeding the highest level of service and convenience for its 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 PRESIDENT

Jeff Brown
Chair, Board of Directors

Michael Seabrook
President & CEO

2013 will go down in the books as another successful year for London International Airport (LIA). The foundation of the business continues to be sound and improvements were realized in all aspect of the Airport's operations.

A change of leadership took place at LIA in 2013. Janet Stewart's three year term as Board Chair expired on July 31st, 2013 and Jeff Brown replaced Janet in the position of Chair. Janet's dedication, leadership and sense of humor were instrumental in the success of London International Airport over her term. On behalf of the Board of Directors and Airport staff we owe Janet a big "thank you" for her contribution and we know that she will keep an eye on the continuing progress of our Airport. Jeff Brown's previous position as Board Vice Chair has been filled by board member Rob Flack.

The financial position of LIA was strengthened in 2013 with successful operating results that met or exceeded budget forecasts. LIA continues to operate with a healthy financial surplus, cash flow and cash reserves are positive, assets are growing and corporate debt continues to fall. These results have been accomplished while maintaining a lean cost structure that places LIA among the most affordable airports for air service providers in Canada.

LIA operates as an Airport Authority with a sixty (60) year Ground Lease with Transport Canada to operate and manage the Airport. Transport Canada is responsible for monitoring the Ground Lease and other legal instruments associated with the transfer. Transport Canada performed an audit of LIA in 2013 and found LIA to be in compliance with the terms and conditions of the agreement. Matters of governance and public accountability are being adhered to and LIA is acting as a prudent tenant in managing, operating and developing the airport in a responsible and sensible manner.

From a human resources perspective, 2013 was also a very good year for LIA. Our employees took the initiative to form their own Employee Association. We have always benefited from an excellent relationship with our unionized employees. Their decision to form their own locally based Employee Association provides an opportunity to continue to strengthen our relationship. We completed a two year agreement with the Association effective January 1, 2013 that provides the proper balance between corporate and employee needs. We congratulate our employees on the formation of their Association and we look forward to a productive future for our entire team at LIA.

In 2013 we also asked the question "what is our brand". What do people say about our Airport, what are our strengths, how should we position ourselves in the marketplace to facilitate growth, what needs to get done now! We asked these questions through comprehensive market research that included passenger surveys, online surveys, focus groups, and interviews with key influencers and frequent travelers. The research concluded that LIA has a strong foundation in place to enhance the brand with the right focus and investment. The majority of travelers (88%) are satisfied or very satisfied with the overall experience when flying through LIA.

With this strong foundation in place we determined that there are four key elements to our business that need our attention:

Culture – we are positioned as the "easy and comfortable" airport and our corporate culture must support this positioning in all aspects of our business.

Product – we must continually strive to improve and expand our services through more flights to more destinations.

Passenger Experience - we will enhance all aspects of our Passengers Experience in support of our “easy and comfortable” brand.

Marketing – we have an excellent airport with growing services and we must market these benefits with a consistent, clear, targeted message.

Our goal is to have passengers perceive LIA as “Our Airport”. Focusing on improvement in the four areas identified will be an integral part of our plan to be the easy, comfortable alternative to Toronto or Detroit Airports. Work commenced in 2013 in all four of these areas and in 2014 the effort will be further intensified.

LIA continued to acknowledge our responsibility to the environment with a number of initiatives. Low level LED lighting is replacing the conventional lighting methods throughout the Terminal Building with significant electrical savings being realized. Additionally, an LED replacement program is underway on the airfield with old fixtures being replaced by LED lights consuming a fraction of the electrical power. The Airport continued it’s fleet modernization in 2013 with the addition of new fuel efficient vehicles including hybrid technology.

Finally a sincere thank you to our dedicated team of airport employees and our aviation partners who continually assist us in improving our airport. We have ambitious plans for the future of LIA and our staff and partners are integral to our success.

We look forward to 2014.

Jeff Brown
Chair Board of Directors

Michael Seabrook
President and CEO

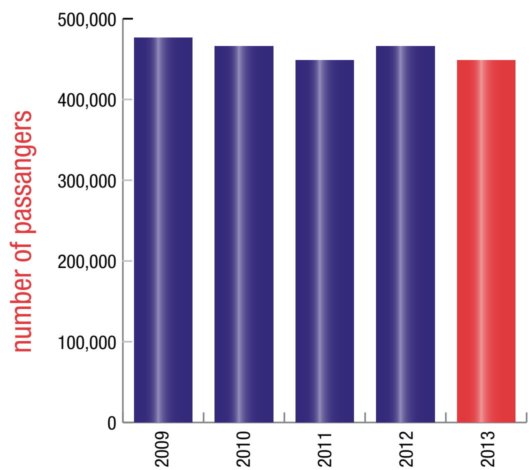
2013 In Review

PASSENGER STATISTICS

London International Airport (LIA) continues to be in the top twenty airports in Canada with 448,751 passengers in 2013. Ten years ago 348,357 passengers flew in and out of London. Our passenger growth depends upon new and enhanced services, awareness within the surrounding community of our 'easy come, easy go' experience and the ability to remain competitive in offering better value than our neighbouring airports. Our team continues to meet with airlines – new and existing to work on new routes and air services.

The airport averages close to 40 departures and arrivals daily with non-stop service to Calgary, Winnipeg, Chicago, Toronto, Ottawa, and seasonally to Orlando, Cancun and Varadero.

Airlines servicing LIA in 2013 included Air Canada Express, West Jet, United (SkyWest) Airlines, Canjet and Sunwing. Canadian North provided twice weekly chartered flights to the oil sands in Ft. McMurray.



TENANTS

London International Airport welcomed Scout Logistics and Flight Exec to the Cargo facility in 2013. Scout Logistics is a freight logistics company new to London. Flight Exec is a multi-faceted aviation organization and with the expansion to the cargo facility their daily cargo run operates from a facility more suited to their needs. Both companies have been actively growing their businesses and required additional space.

In August 2013, Fanshawe College purchased the facilities formerly owned by Jazz Aviation to create a permanent home for its aviation program with facilities that match the real world industry environment. The college adapted the hangar bay to meet operational shop requirements of the aircraft and avionics maintenance programs, giving students and faculty a space better suited to the program. The college continues to work to transition classes to the new building and expects to develop six to eight new aviation programs over the next few years.

PASSENGER EXPERIENCE ENHANCEMENTS

2013 brought many new and exciting initiatives to make our guests feel welcome and more relaxed as they spent time within the airport terminal.

Before proceeding through security screening, visitors to the airport are now able to enjoy all the products **Tim Horton's** has to offer with a full service restaurant. An innovative arrangement was made with the existing operator and the airport took control of the direction of the food services. With the introduction of new on-site managers, and a collaborative effort by both the operator and the Airport, the level of satisfaction by visitors has increased.

Barrier-free washrooms were constructed in the concourse allowing for easy access to both the men's and women's washrooms. This enhancement was identified through surveys conducted during the spring.

Self-drop baggage was introduced at the United check in counters. The requirement for the counter agent to move the bag from the one belt to another behind their station was eliminated. With self-drop there is less chance of baggage jams on the feeder belts, less potential for injury to staff and the passenger obtains greater control in handling their luggage. Other airlines are following suit and before the end of 2014 all feeder belts will be removed and self-drop will be the norm at the London International Airport.

Once through security screening, the passenger has more options. **New charging/docking desks** were installed allowing for work to be done without worrying about devices running low on power. If one wanted to relax, **lounge seating** was introduced at the front of the hold room with couches and coffee tables. Needless to say, this seating is the first to fill up!

If working or sitting back doesn't do it for you, an exhibit of **local artist Cliff Kerns** has been installed. Cliff is a renowned artist and exhibits thoroughout North America. He provided the posters for all the airshows held at the airport in the 80s and 90s and his originals of these posters are on display within the hold room.

While the jet bridges are used for the larger aircraft, the Dash 8s utilized by Air Canada Express continued to use the gates located along the passenger walkways. A **ramp** was purchased allowing passengers to use the jet bridges and then access the aircraft with the ramp. Less exposure to the elements and a shorter distance to board the plane makes the start or end of one's journey more enjoyable.

CAPITAL IMPROVEMENTS

A common use **car wash** was constructed in the summer of 2013 resulting from inquiries by the car rental companies. The car wash is used by the car rental companies located on site for cleaning and detailing their rental cars. Cars now remain on airport property and do not have to be taken elsewhere to get them ready for the next customer. The car wash was constructed by the Airport for their exclusive use and a nominal fee is levied by the car rental company as part of the rental agreement with the customer and is offsetting the costs of construction.

Dowler Karn, a wholesale fuel company, built a **fuel facility** on the airport property in the latter part of 2013. This card lock facility allows for the car rental companies to refill their cars at a site adjacent to the car wash which in turn saves fuel and time. The fuel facility is open to the public on a commercial and retail basis. With expanded business development in the area and Skyway Industrial Park and the increased traffic in and around the airport, this facility is a welcome addition.

COMMUNITY EVENTS

Several events took place at the airport in support of local charities and to bring the airport family closer together.

We saw the return of the **DreamLift for the Sunshine Foundation** in November with a Boeing 737 filled with kids and their escorts taking off in the early morning heading to Disneyland for a fun filled day of memories. Airport staff participated in making sure the departure and return went smoothly with no bumps to mar the experience for these children.

Western University Commercial Aviation Program students annually hold an airplane pull with money raised going to various charities. In 2013 the money raised went to London Anti-Bullying Coalition which promotes awareness and prevention of bullying. A T33 was donated by the Jet Museum and the students took to the taxiway to show their strength and commitment to community.

Every year the airport terminal staff decorates the terminal to bring holiday cheer to the public. Donations are accepted over the course of December in the form of non-perishable food and toys to support the **London Food Bank and Salvation Army.** The generosity of the community never fails to amaze us!

2013 was host to the first **chili-cook off** with airport tenants and celebrity judges. We had over 10 entries and for $5 a person, one could sample as many of the chili pots as they wanted. The judges had a blind taste testing and a winner was declared based on scores of taste, consistency and originality. All money raised went to the London Food Bank.

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 2013

	Plan	Actual	Variance
Revenue	$10,083,092	$10,021,649	($61,443)
Expenses	$9,850,655	$9,273,341	($577,314)
Capital Expenditures	$1,625,000	$1,593,016	($31,984)

- The Auditors' Report and the audited financial statements are found on page 15
- The notes accompanying the Audited Financial Statements provide a summary of the 2013 financial results

Report on the Business Forecast for 2014 - 2018

	2014	2015	2016	2017	2018
Revenue	$9,987,647	$10,087,523	$10,188,398	$10,290,283	$10,393,186
Expenses	$9,879,874	$9,978,672	$10,078,459	$10,179,244	$10,281,037
Capital Expenditures	$1,005,000	$1,080,000	$1,227,500	$1,175,000	$935,000

- 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, 2013 was $188,850

Senior Management Compensation

The annual compensation for the management team for the year ending December 31, 2013 was $591,671

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 2013.

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.

5 Year Annual Review

GLIAA's Ground Lease agreement with the Federal Government mandates a performance review be undertaken every five years by an independent consultant. The consultant interviewed stakeholders, employees, tenants and board members as well as reviewed documents, agreements, legislation, reports and plans in order to complete the report. A comprehensive report was submitted to the Landlord as required with positive results in all areas.

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:
at large including:

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

Greater London International Airport Authority

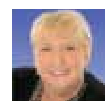
Board Of Directors


Jeff Brown (Chair)
18 Asset Management Inc.

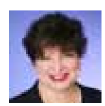

Robert Flack (Vice-Chair)
Masterfeeds Inc.


Bernie Bierbaum
Bluestone Properties


Gary Blazak
BLAST inc.

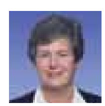

Ann Campbell
Ingersoll District
Chamber of Commerce


Rick Coates
Pacific & Western Bank
of Canada


Michelle Faysal
Management Effectiveness


Ken Kalopsis
StarTech.com Ltd.


Sandi Firman
Pathways Skill Development


Janet Stewart, Q.C.
Lerners LLP


Rick Witherspoon
Retired

SENIOR MANAGEMENT TEAM

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

Corporate Offices

Greater London International Airport Authority

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London, Ontario N5V 3B6
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Fax: 519-453-6219
www.londonairport.on.ca

Legal Counsel

Miller Thomson LLP

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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, 2013

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, 2013, 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, 2013, 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 27, 2014.

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

	2013	2012
	$	$
ASSETS		
Current		
Cash and marketable securities *[note 3]*	**1,904.365**	1,586,780
Accounts receivable	**663,453**	900,008
Prepaid expenses and deposits	**134,557**	136,489
Total current assets	**2,702,375**	2,623,277
Accrued pension asset *[note 8]*	**1,946,000**	1,644,000
Capital assets, net *[note 4]*	**45,786,709**	46,375,944
Marketable securities restricted for capital purposes *[note 3]*	**2,000,000**	2,000,000
	52,435,084	52,643,221
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities	**746,720**	586,144
Deferred revenue	**20,075**	18,990
Current portion of promissory note payable *[note 5]*	**80,797**	80,797
Demand installment loan *[note 5]*	**13,235,189**	14,324,083
Total current liabilities	**14,082,781**	15,010,014
Long-term portion of promissory note payable *[note 5]*	**161,594**	242,391
Deferred capital contributions *[note 6]*	**12,130,578**	12,517,583
Total liabilities	**26,374,953**	27,769,988
Net assets	**26,060,131**	24,873,233
	52,435,084	52,643,221

See accompanying notes

On behalf of the Board:

Director Director

STATEMENT OF CHANGES IN NET ASSETS

Year ended December 31

	2013	2012
	$	$
Balance, beginning of year	**24,873,233**	23,995,850
Surplus for the year	**1,186,898**	877,383
Balance, end of year	**26,060,131**	24,873,233

See accompanying notes

Greater London International Airport Authority

STATEMENT OF OPERATIONS

Year ended December 31

	2013 $	2012 $
REVENUES		
Airport improvement fees	**3,184,661**	3,324,666
Concessions	**2,780,318**	2,834,437
Landing and terminal fees	**2,668,040**	2,481,406
Rentals	**766,026**	613,163
Security	**482,597**	729,685
Other	**140,007**	106,859
	10,021,649	10,090,216
EXPENSES		
Salaries and wages	**2,069,552**	2,128,619
Amortization of capital assets	**2,145,378**	1,864,349
Benefits	**490,354**	659,380
Interest expense *[note 5]*	**746,213**	803,551
Municipal taxes	**674,123**	696,014
Contracted services	**566,198**	826,556
Utilities	**555,290**	464,310
Contracted maintenance	**332,716**	329,958
Repairs, maintenance and equipment rentals	**330,365**	321,297
Office and administration	**301,033**	418,033
Professional fees	**246,353**	157,636
Materials and supplies	**198,318**	172,794
Directors' fees and expenses	**191,753**	184,814
Vehicle maintenance	**156,780**	109,979
Insurance	**131,087**	139,819
Advertising and business development	**85,517**	57,573
Transport Canada rent	**52,311**	58,356
	9,273,341	9,393,038
Surplus of revenues over expenses before the following	**748,308**	697,178
Amortization of deferred capital contributions *[note 6]*	**387,480**	126,395
Investment income	**81,012**	62,710
Loss on disposal of capital assets	**(29,902)**	(8,900)
Surplus for the year	**1,186,898**	877,383

See accompanying notes

Greater London International Airport Authority

STATEMENT OF CASH FLOWS

Year ended December 31

	2013	2012
	$	$
OPERATING ACTIVITIES		
Surplus for the year	**1,186,989**	877,383
Add (deduct) items not involving cash		
Amortization of capital assets	**2,145,378**	1,864,349
Loss on disposal of capital assets	**29,902**	8,900
Amortization of deferred capital contributions	**(387,480)**	(126,395)
Increase in accrued pension asset	**(302,000)**	(195,000)
	2,672,698	2,429,237
Net change in non-cash working capital balances related to operations *[note 7]*	**400,148**	(273,299)
Cash provided by operating activities	**3,072,846**	2,155,938
INVESTING ACTIVITIES		
Purchase of capital assets	**(1,593,016)**	(772,657)
Proceeds on disposal of capital assets	**6,971**	7,500
Cash used in investing activities	**(1,586,045)**	(765,157)
FINANCING ACTIVITIES		
Repayment of promissory note payable	**(80,797)**	(80,797)
Increase in marketable securities *[note 3]*	**(62,401)**	(1,528,582)
Repayment of demand installment loan	**(1,088,894)**	(894,444)
Deferred capital contributions received *[note 6]*	**475**	20,879
Cash used in financing activities	**(1,231,617)**	(2,482,944)
Net (decrease) increase in cash during the year	**255,184**	(1,092,163)
Cash, beginning of year	**1,414,934**	2,507,097
Cash, end of year *[note 3]*	**1,670,118**	1,414,934

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

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 Chartered Professional Accountants of Canada ["CPA Canada"] Handbook – Accounting Standards for Not-for-Profit Organizations, which constitutes generally accepted accounting principles for not for profit organizations in Canada.

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 expenses 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 government 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 consists of interest and realized and unrealized gains and losses.

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 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 operations 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
Gateway	40 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 service. Adjustments arising from plan amendments, experience gains and losses and changes in assumptions are amortized on a straight-line basis over the average life expectancy of the employee group for the registered plan, and are recognized on a straight-line basis over the estimated average remaining service lifetime 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:

	2013	**2012**
	$	$
Cash	**1,670,118**	1,414,934
Marketable securities	**2,234,247**	2,171,846
	3,904,365	3,586,780
Less restricted for capital purposes	**2,000,000**	2,000,000
	1,904,365	1,586,780

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 December 6, 2024.

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:

	2013		2012	
	Cost	**Accumulated amortization**	**Cost**	**Accumulated amortization**
	$	$	$	$
Office furniture and equipment	**96,361**	**59,752**	88,196	54,548
Terminal furniture and fixtures	**512,193**	**213,111**	376,687	162,281
Shop equipment	**366,431**	**234,737**	322,785	206,428
Mobile equipment	**5,214,733**	**2,369,105**	5,271,021	2,218,783
Computer software	**53,719**	**41,614**	44,589	40,153
Computer hardware	**100,477**	**57,827**	71,868	46,246
Pavement leasehold improvements	**2,290,782**	**1,356,383**	2,262,706	1,209,661
Structural leasehold improvements	**34,180,886**	**8,066,025**	32,977,341	6,943,429
Security equipment	**686,785**	**377,520**	734,534	384,374
Baggage system	**3,405,355**	**1,306,931**	3,405,355	1,153,180
Gateway project	**11,135,764**	**277,996**	11,100,253	—
Land leasehold improvements and land transfer tax	**2,715,067**	**583,843**	2,651,304	511,612
	60,758,553	**14,971,844**	59,306,639	12,930,695
Less accumulated amortization	**14,971,844**		12,930,695	
Net book value	**45,786,709**		**46,375,944**	

Cumulative expenditures on qualifying Airport infrastructure projects, from inception of the AIF, including eligible debt service costs, amount to $38,862,525 [2012 - $35,469,914]. During the same period, cumulative AIF revenue was $35,764,113 [2012 - $32,579,452].

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 [2012 - 2016].

[b] The demand installment 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 $8,685,230 [2012 - $9,424,120], 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, 2013, the swap had a fair value of $1,503,283 [2012 - $2,112,994] 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 $1,949,959 [2012 - $2,149,963], 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 $2,600,000 [2012 - $2,750,000], 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. As at December 31, 2013, there is no balance outstanding [2012 - nil].

6. DEFERRED CAPITAL CONTRIBUTIONS

The balance of deferred capital contributions consists of the following:

	2013	2012
	$	$
[i] Security grant	**244,721**	249,744
[ii] Canadian Air Transport Security Authority ["CATSA"]	**1,636,620**	1,755,009
[iii] Gateway	**10,237,433**	10,500,000
[iv] Nav Canada	**11,804**	12,830
Total	**12,130,578**	12,517,583

[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 2013, funding was received from the CATSA for the replacement of biometric readers that were required for the Passenger Hold room.

	2013	2012
	$	$
Security grant, beginning of year	**249,744**	249,702
Contributions during the year	**475**	8,049
Amortization during the year	**(5,498)**	(8,007)
Security grant, end of year	**244,721**	249,744

[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.

	2013	2012
	$	$
CATSA funding, beginning of year	**1,755,009**	1,873,397
Amortization during the year	**(118,389)**	(118,388)
CATSA funding, end of year	**1,636,620**	1,755,009

[iii] Gateway funding

In 2010, the Authority received funding from the Federal Economic Development Agency for Southern Ontario and the City of London to partially fund the capital costs associated with the construction of an International Air Freight Transshipment Centre. 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. Amortization commenced January 1, 2013.

	2013	2012
	$	$
Gateway funding, beginning of year	**10,500,000**	10,500,000
Amortization during the year	**(262,567)**	—
Gateway funding, end of year	**10,237,433**	10,500,000

[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.

	2013	2012
	$	$
Nav Canada funding, beginning of year	**12,830**	—
Contribution during the year	**—**	12,830
Amortization during the year	**(1,026)**	—
Nav Canada funding, end of year	**11,804**	12,830

7. STATEMENT OF CASH FLOWS

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

	2013	2012
	$	$
Decrease (increase) in current assets		
Accounts receivable	**236,555**	(180,137)
Prepaid expenses and deposits	**1,932**	(55,404)
	238,487	(235,541)
Increase (decrease) in current liabilities		
Accounts payable and accrued liabilities	**160,576**	(39,488)
Deferred revenue	**1,085**	1,730
	161,661	(37,758)
	400,148	(273,299)

8. EMPLOYEE BENEFIT PLANS

	2013	2012
	$	$
[a] Defined benefit pension plan asset	**2,140,000**	1,810,000
[b] Supplemental pension plan obligation	**(194,000)**	(166,000)
Accrued pension asset, net	**1,946,000**	1,664,000

[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, 2013 and extrapolated to December 31, 2013.

[i] Pension expense for the defined contribution plan is $64,325 [2012 - $59,428].

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

	2013	2012
	$	$
Benefit obligation	**8,171,000**	8,249,000
Fair value of plan assets	**8,947,000**	7,692,000
Funded status – plan surplus (deficit)	**776,000**	(557,000)
Unamortized net actuarial losses	**1,364,000**	2,367,000
Accrued benefit asset	**2,140,000**	1,810,000

The asset allocation of the Plan is as follows:

	2013	2012
	%	%
Equity securities	**62.4**	58.0
Debt securities	**29.9**	31.0
Other	**7.7**	11.0

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

	2013	2012
	$	$
Accrued benefit asset, beginning of year	**1,810,000**	1,599,000
Pension expense for the year	**(42,000)**	(280,000)
Authority contributions	**372,000**	491,000
Accrued benefit asset, end of year	**2,140,000**	1,810,000

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:

	2013	**2012**
	%	%
Discount rate	**4.80**	4.50
Expected long-term rate of return on plan assets	**6.00**	6.50
Rate of compensation increase	**4.00**	4.00
Inflation rate	**2.50**	2.50

In the current year, the period over which gains and losses are amortized was changed from the estimated average remaining service life to the average life expectancy of former members as the majority of the eligible members are no longer active.

[b] Supplemental pension plan

Information about the unfunded supplemental pension plan is as follows:

	2013	**2012**
	$	$
Benefit obligation	**278,000**	299,000
Unamortized net actuarial gain	**(84,000)**	(133,000)
Accrued benefit asset	**194,000**	166,000

	2013	**2012**
	$	$
Accrued benefit obligation, beginning of year	**166,000**	150,000
Pension expense for the year	**37,000**	24,000
Contributions by the Authority	**(9,000)**	(8,000)
Accrued benefit obligation, end of year	**194,000**	166,000

The significant actuarial assumptions adopted in measuring the Authority's accrued benefit obligation for the supplemental pension plan are the same as for the defined benefit pension plan. In the current year, the period over which gains and losses are amortized was changed from immediate recognition to the estimated average remaining service life of active members as there is now an active member.

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial assets create a risk that counterparties will fail to discharge an obligation, causing a financial loss. As at December 31, 2013, 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, six customers represent 79% [2012 - seven customers represent 81%] of the trade accounts receivable balance as at December 31, 2013. 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 that enable net settlement.

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