A DEPARTURE
FROM THE EVERYDAY
FINANCIAL & GOVERNANCE MATTERS 2011

ST. JOHN'S
International Airport Authority

FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of St. John's International Airport Authority

We have audited the accompanying financial statements of St. John's International Airport Authority (the Authority), which comprise the balance sheet as at December 31, 2011 and December 31, 2010 and the statements of operations and equity in capital assets and cash flows for the years ended December 31, 2011 and December 31, 2010, and the related notes, which comprise 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 private enterprises, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 2011 and December 31, 2010 and the results of its operations and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with Canadian accounting standards for private enterprises.

Comparative Information

Without modifying our opinion, we draw attention to note 2 to the financial statements which describes that the Authority adopted Canadian accounting standards for private enterprises on January 1, 2011 with a transition date of January 1, 2010. These standards were applied retrospectively by management to the comparative information in these financial statements, including the balance sheets as at December 31, 2010 and January 1, 2010, and the statements of operations and equity in capital assets and cash flows for the year ended December 31, 2010 and related disclosures. We were not engaged to report on the restated balance sheet as at January 1, 2010, comparative information, and as such, it is unaudited.

PricewaterhouseCoopers LLP

Chartered Accountants

March 20, 2012

BALANCE SHEET

St. John's International Airport Authority

As at December 31, 2011 and 2010 (in thousands of dollars)

	Dec 31, 2011	Dec 31, 2010	Jan 1, 2010 (unaudited)
Assets			
Current			
Cash and cash equivalents	$ 2,622	$ 4,734	$ -
Accounts receivable (note 3)	3,425	2,723	3,008
Consumable inventory (note 2)	367	306	287
Prepaid expenses	590	240	201
Total current assets	7,004	8,003	3,496
Capital assets, net (note 4)	98,344	94,062	92,906
Debt service reserve fund (note 6)	1,448	1,447	1,445
Accrued benefit asset (notes 2 and 9)	1,465	1,007	655
Intangible assets, net	116	80	82
	$ 108,377	**$ 104,599**	**$ 98,584**
Liabilities and Equity in Capital Assets			
Current			
Bank indebtedness	$ -	$ -	$ 324
Accounts payable and accrued liabilities (note 5)	7,814	6,636	5,893
Current portion of long-term debt (note 6)	5,981	1,206	-
Total current liabilities	13,795	7,842	6,217
Long-term debt (note 6)	50,956	56,835	54,281
Deferred contributions for capital projects, net (note 7)	9,587	10,159	10,732
Equity in capital assets (note 2)	34,039	29,763	27,354
	$ 108,377	**$ 104,599**	**$ 98,584**

Commitments (note 11)

See accompanying notes

On behalf of the Board:

Darlene Whalen, Chair

John Chapman, Chair, Finance and Audit Committee

STATEMENT OF OPERATIONS AND EQUITY IN CAPITAL ASSETS

St. John's International Airport Authority

For the years ended December 31, 2011 and 2010 (in thousands of dollars)

		2011		2010
Revenues				
Landing fees	$	4,941	$	4,675
Terminal fees		3,911		3,628
Concessions		3,640		3,281
Car parking		2,613		2,504
Rentals		2,189		1,961
Other		850		560
		18,144		16,609
Airport improvement fees (note 8)		11,422		9,028
		29,566		25,637
Operating Expenses				
Salaries and benefits		7,036		6,508
Operating		5,925		5,199
Amortization		5,970		5,526
Interest and financing costs		3,101		3,080
Ground rent (note 11)		1,235		895
Municipal tax		656		647
Business development		659		579
Professional services		403		460
General and administrative		305		304
Bad debts		-		30
		25,290		23,2228
Excess of revenues over expenses	**$**	**4,276**	**$**	**2,409**
Total equity in capital assets, beginning of year	$	29,763	$	27,354
Total equity in capital assets, end of year	**$**	**34,039**	**$**	**29,763**

See accompanying notes

STATEMENT OF CASH FLOWS

St. John's International Airport Authority

For the years ended December 31, 2011 and 2010 (in thousands of dollars)

		2011		2010
Operating Activities				
Excess of revenues over expenses	$	4,276	$	2,409
Add (deduct) items not involving cash				
Amortization - capital assets, net		6,503		6,070
Amortization - deferred contributions		(572)		(573)
Amortization - intangible assets		38		28
Amortization - other		102		97
Loss (gain) on sale of capital assets		6		(53)
Increase in accrued benefit asset		(458)		(352)
		9,895		7,626
Changes in non-cash working capital balances related to operations				
Accounts receivable		(702)		285
Consumable inventory		(61)		(19)
Prepaid expenses		(350)		(39)
Accounts payable and accrued liabilities		1,178		743
Cash provided by operating activities		9,960		8,596
Financing Activities				
Proceeds from demand installment loan		730		1,206
(Repayment of) proceeds from revolving credit facility		(1,937)		2,455
Cash provided by financing activities		(1,207)		3,661
Investing Activities				
Additions to capital assets		(10,791)		(7,255)
Additions to intangible assets		(74)		(26)
Proceeds from sale of capital assets		-		82
Cash used in investing activities		(10,865)		(7,199)
Net (decrease) increase in cash during the year		**(2,112)**		**5,058**
Cash and cash equivalents (bank indebtedness), beginning of year		4,734		(324)
Cash and cash equivalents, end of year	**$**	**2,622**	**$**	**4,734**

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

St. John's International Airport Authority

December 31, 2011 and 2010
(tabular amounts expressed in thousands of dollars except where otherwise noted)

1. Organization and nature of operations:

The St. John's International Airport Authority (the "SJIAA") was incorporated on May 6, 1996 as a corporation without share capital under Part II of the *Canada Corporations Act*. The *Airport Transfers (Miscellaneous Matters) Act* exempts the corporation from paying income and large corporations tax.

On December 1, 1998, the operations and undertakings of the St. John's International Airport (the "Airport"), previously administered by Transport Canada, were transferred to the SJIAA. The SJIAA operates the Airport pursuant to the provisions of a long-term lease with the Government of Canada (the "Ground Lease"). As the principal document governing the relationship and allocating responsibilities between the SJIAA and the Government of Canada, the Ground Lease provides a formula for the calculation and payment of Airport Rent, after an initial rent-free period which ended December 31, 2005. The term of the Ground Lease is sixty years, ending 2057, with an option to extend the term for a further twenty years.

The SJIAA has all the powers and obligations of any Canadian private corporation and operates on a fully commercial basis. The SJIAA has the autonomy to set all fees and charges and does not rely on grants, donations or on contributions with restrictions imposed by the contributor.

The corporate structure ensures that the excess of revenues over expenses, or surplus from operations, is retained and reinvested in capital assets for development of the Airport. Equity in capital assets includes the net assets invested in capital assets to date and cumulative surpluses restricted for future airport infrastructure projects and associated financing costs.

2. Significant accounting policies:

Basis of accounting

Effective January 1, 2010, the company elected to adopt Canadian accounting standards for private enterprises (ASPE) as issued by the Canadian Accounting Standards Board. The accounting policies selected under this framework have been applied consistently and retrospectively as if these policies had always been in effect.

NOTES TO FINANCIAL STATEMENTS

2. Significant accounting policies (continued)**:**

These are the SJIAA's first financial statements prepared in accordance with ASPE and the transitional provision of Section 1500, *First-time Adoption* has been applied. As permitted by Section 1500, the SJIAA has elected to recognize all accumulated actuarial losses, associated with its defined benefit pension plan, in opening retained earnings as at the date of transition. Except for the effects of this election, the adoption of ASPE had no impact on the previously reported assets, liabilities and equity of the SJIAA, nor any recorded adjustments in the comparative income statement and cash flow statement. Accordingly, the effect of adopting ASPE with the election to recognize accumulated actuarial losses, in opening retained earnings, is as follows:

	Dec 31, 2010	**Jan 1, 2010**
Retained earnings, as previously reported	$30,409	$28,000
Adjustment for accumulated actuarial losses	(646)	(646)
Retained earnings, as reported in accordance with ASPE	$29,763	$27,354

As a result of this adjustment, accrued benefit asset decreased to $655,000 and $1,007,000 as at January 1, 2010 and December 31, 2010 respectively.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities at the date of the financial statements and the reported amounts of certain revenues and expenses during the year. Actual results could differ from those estimates.

Cash and cash equivalents

The SJIAA considers deposits in banks, certificates of deposits and short-term investments with original maturities of three months or less as cash and cash equivalents.

Ground lease

The Ground Lease is accounted for as an operating lease.

Severance pay

A liability for severance pay is recorded in the accounts for all employees who have a vested right to receive such payment. This includes a provision for severance pay liability for employees who have less than ten years of continual service.

NOTES TO FINANCIAL STATEMENTS

2. Significant accounting policies (continued)**:**

Capital assets

Capital assets are recorded at cost and are amortized on a straight-line basis from their in-service date over the estimated useful lives of the assets at the following annual rates:

Asset	Rate
Airport terminal building, other buildings and bridges	15 - 25 years
Leasehold improvements and improvements to leased land	15 - 25 years
Vehicles, machinery, furniture and fixtures	5 - 15 years
Computer hardware and software	3 - 15 years
Multi-purpose/central de-icing facility	25 years

Assets under construction or development are recorded at cost and are transferred to capital assets when the projects are complete and the assets are placed into service.

Intangible assets

Intangible assets of the SJIAA include computer software and are recorded at cost and amortized on a straight-line basis over their estimated useful lives. Amortization of $38,669 (2010 - $28,399) is included in operating expenses for the year.

Revenue recognition

Landing fees, terminal fees, and car parking revenues are recognized as the facilities are utilized. Airport improvement fees ("AIF"), net of airline administration costs, are recognized when originating departing passengers board the respective aircrafts, and are subject to reconciliation with air carriers. Concessions revenue is charged on a monthly basis and is recognized based on a percentage-of-sales or specified minimum levels. Rental revenue is recognized on a straight-line basis over the duration of the respective agreements.

Contributions for capital projects, exclusive of AIF, are accounted for under the deferral method. Contributions externally restricted for the purchase of capital assets are deferred and recognized in income as the related assets are amortized.

Pension plans

In 2005, the SJIAA established a contributory defined contribution pension plan for new employees hired after March 9, 2003, whereby retirement benefits are based on the investment in the marketplace of both the employer and the employee contributions. The employees determine where their funds are invested. The SJIAA's contributions to this plan for the year ended December 31, 2011 amounted to $139,335 (2010 - $99,740).

The SJIAA has a contributory defined benefit pension plan for its employees whereby retirement benefits are based on length of service and the best six years' average earnings. The defined benefit pension cost is charged to salaries and benefits expense as employees render services.

NOTES TO FINANCIAL STATEMENTS

2. Significant accounting policies (continued)**:**

The Authority's policies for accounting for future employee benefits for the defined benefit pension plan are as follows:

I. The cost of pensions earned by employees is actuarially determined using the projected benefit method prorated on services and management's best estimates of expected plan investment performance, salary escalation and retirement ages of employees.

II. For the purpose of calculating expected return on plan assets, those assets are valued at market value.

III. The excess of the net actuarial gain (loss) over 10% of the greater of the accrued benefit obligation and the fair value of plan assets is amortized over the average remaining service life of active employees.

Financial instruments

The financial instruments, which include cash, accounts receivable, debt service reserve fund, accounts payable and accrued liabilities and long term debt, are recorded at amortized cost. Amortization is recorded on a straight-line basis.

Financial assets are tested for impairment at the end of each reporting period when there are indications that the assets may be impaired.

Derivative financial instruments, including interest rate swaps, may be used from time to time to reduce exposure to fluctuations in interest rates. These financial instruments will be accounted for under the deferral method if the Authority meets the hedging requirements set out in existing accounting pronouncements and the Authority chooses to designate these financial instruments as hedges. Accordingly, the book value will not be adjusted to reflect the current market values. Payments and receipts under interest rate swap agreements will be recognized as adjustments to interest and financing costs where the underlying instrument is an Authority debt issue.

Derivative financial instruments that are not designated by the Authority to be an effective hedging relationship will be carried at fair value with the changes in fair value, including any payments or receipts made or received, being recorded in interest and financing costs.

Realized and unrealized gains or losses associated with derivative financial instruments, which have been terminated, dedesignated from a hedging relationship or cease to be effective prior to maturity, will be deferred and recognized in the period during which the underlying hedged item is realized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative financial instrument, any realized or unrealized gain or loss on such derivative financial instrument will be recognized in the statement of operations and equity in capital assets.

NOTES TO FINANCIAL STATEMENTS

2. Significant accounting policies (continued)**:**

Effective interest rate method

Transaction costs are included in the debt balances and are recognized as an adjustment to interest expense over the term of the debt. The SJIAA uses the effective interest rate method to recognize bond interest expense and financing costs where the amount to be recognized varies over the life of the debt based on the principal outstanding.

Consumable inventory

Inventories are valued at the lower of cost and replacement cost. Previously recorded write-downs to replacement cost are reversed when there is clear evidence that replacement cost has increased. For 2011, $766,159 (2010 – $489,191) of inventories were recognized as an expense.

3. Accounts receivable:

	2011	2010
Trade	$2,264	$1,976
Airport improvement fees	620	468
HST	356	175
Other	267	197
Allowance for doubtful accounts	(82)	(93)
	$3,425	$2,723

NOTES TO FINANCIAL STATEMENTS

4. Capital assets:

		2011	
	Cost	Accumulated amortization	Net book value
Airport terminal building, other buildings and bridges	$ 62,415	$ 21,141	$ 41,274
Leasehold improvements and improvements to leased land	35,044	7,249	27,795
Vehicles, machinery, furniture and fixtures	19,026	6,951	12,075
Computer hardware and software	3,815	1,745	2,070
Multi-purpose/central de-icing facility	14,234	2,698	11,536
Assets under construction or development	3,594	–	3,594
	$ 138,128	$ 39,784	$ 98,344

Assets under construction or development are not being amortized and consists of the Ramp Services Building.

		2010	
	Cost	Accumulated amortization	Net book value
Airport terminal building, other buildings and bridges	$ 59,491	$ 18,448	$ 41,043
Leasehold improvements and improvements to leased land	32,305	5,718	26,587
Vehicles, machinery, furniture and fixtures	19,036	7,182	11,854
Computer hardware and software	2,581	1,483	1,098
Multi-purpose/central de-icing facility	14,231	2,132	12,099
Assets under construction or development	1,381	–	1,381
	$ 129,025	$ 34,963	$ 94,062

Assets under construction or development in 2010 were not being amortized and consisted of the Ramp Services Building and the Common User Passenger Processing Systems.

5. Accounts payable and accrued liabilities:

	2011	2010
Trade – other	$ 4,517	$ 3,827
Accrued liabilities	1,722	1,884
Salaries and benefits	1,332	733
Deferred revenue and other	243	192
	$ 7,814	$ 6,636

NOTES TO FINANCIAL STATEMENTS

6. Long-term debt:

	2011	2010
Revenue bonds	$ 55,000	$ 55,000
Revolving credit facility	3,493	5,429
Demand installment loan	1,936	1,206
	60,429	61,635
Less transaction costs (net of amortization of $101,737; 2010 - $96,145)	(3,492)	(3,594)
	56,937	58,041
Current portion	5,981	1,206
	$ 50,956	$ 56,835

(a) Bond Issue

In May 2007, the SJIAA completed a $55,000,000 Revenue Bond issue. The $55,000,000, 5.252% Series A Revenue Bonds pay interest semi-annually. $27,500,000 of the initial principal amount is repayable in semi-annual installments commencing on May 11, 2012 until November 11, 2036. The remaining principal of $27,500,000 is payable on maturity, which is May 11, 2037. The net proceeds from this offering were used to repay existing bank demand loan of $29,145,000 and are otherwise used to partially finance capital expenditures, to fund a $1,448,195 Debt Service Reserve Fund required for the bond and a $3,270,000 (2010 – $3,358,228) Operating and Maintenance Reserve Fund required by the Master Trust Indenture entered into by the SJIAA in connection with the offering.

The bonds are direct obligations of the SJIAA ranking *pari passu* with all other indebtedness issued under the Master Trust Indenture. The bonds are secured by an assignment, and security interest, in all revenues and book debts, and all assets of the Authority including reserve funds, all leases and related property and an unregistered mortgage of the Authority's leasehold interest in Airport lands and the Ground Lease.

(b) Reserve Funds

Pursuant to the terms of the Master Trust Indenture, the SJIAA is required to establish and maintain with a trustee a Debt Service Reserve Fund with a balance at least equal to 50% of the annual debt service costs. As at December 31, 2011, the Debt Service Reserve Fund included $1,448,195 in interest-bearing deposits held in trust. These trust funds are held for the benefit of bondholders for use in accordance with the terms of the Master Trust Indenture.

For 2011, the SJIAA was required to maintain an Operating and Maintenance Reserve Fund of approximately $3,270,000. The Operating and Maintenance Reserve Fund must be established and funded as required by the Master Trust Indenture, for the benefit of bondholders. The balance in the fund is equal to 25% of the actual or estimated Operating and Maintenance Expenses incurred by the SJIAA over the previous 12-month period. For 2012, approximately $3,582,000 will be required to fund the Operating and Maintenance Reserve Fund. The Operating and Maintenance Reserve Fund may be satisfied by cash, qualified investments, letters of credit and the allocation by the Authority of un-drawn availability under a Committed Credit Facility.

NOTES TO FINANCIAL STATEMENTS

6. Long-term debt (continued)**:**

(c) Credit Facilities

The credit facilities of the SJIAA are secured by a $25,000,000 pledge bond issued pursuant to the Master Trust Indenture. Indebtedness under the credit facilities ranks *pari passu* with other indebtedness issued under the Master Trust Indenture.

i) Revolving Credit Facility

In May 2007, the SJIAA entered into a Revolving Credit Facility ("Revolving Facility"). Under this Revolving Facility, the SJIAA is provided with a $15,000,000 facility for general business requirements, capital expenditures and funding for the Operating and Maintenance Reserve Fund, as necessary. The facility has a term of five years.

On November 7, 2011, the SJIAA issued a Banker's Acceptance in the gross amount of $3,492,825, at an interest rate of 0.21%, due January 6, 2012. As at December 31, 2011, letters of credit for $759,526 (2010 – $759,526) were outstanding against the facility. Indebtedness under the Revolving Facility bears interest at rates that vary with the lender's prime rate and Banker's Acceptance rates, as appropriate. During 2011, the interest rate ranged from 0.35% to 3% (2010 – 1.21% to 3%).

ii) Demand Installment Loan

In July 2010, the SJIAA entered into a Demand Installment Loan ("Demand Loan"). Under this Demand Loan, the SJIAA is provided with a $2,500,000 non-revolving Installment Loan to be used for capital expenditures relating to movable equipment. The term of each advance under this facility is in accordance with the useful life of the respective assets to a maximum of ten years.

Indebtedness under the Demand Loan bears interest at rates that vary with the lender's prime rate and Banker's Acceptance rates, as appropriate. On November 15, 2011, the SJIAA issued two Banker's Acceptances in the gross amount of $1,085,716 and $850,940, at an interest rate of 1.2%, due February 13, 2012.

(d) The annual principal payments required over the next five years and thereafter are as follows:

2012	$ 5,981
2013	580
2014	611
2015	644
2016	678
Thereafter	51,935
	$ 60,429

NOTES TO FINANCIAL STATEMENTS

7. Deferred contributions for capital projects:

Pursuant to the Ground Lease and the Runway 11-29 Rehabilitation Agreement, the Government of Canada provided one-time financial assistance in the amount of $9,656,000 ($6,600,000 and $3,056,000, respectively) as deferred capital contributions for the Airport reconstruction program. On November 30, 2002, the construction of the new Airport terminal building was deemed to be substantially complete; therefore, amortization of the deferred contributions began at that time. Amortization of $386,252 (2010 - $386,252) is included in excess of revenues over expenses for the year.

In 2005, the Canadian Air Transport Security Authority (CATSA) contributed $3,302,415 to fund the Hold Bag Screening/Explosive Detection System project, which included an additional expansion to the Airport terminal building to house the new baggage handling equipment. This project was deemed to be substantially complete as of December 30, 2005. Amortization of $132,097 (2010 – $132,097) is included in excess of revenues over expenses for the year.

In 2006, the City of St. John's contributed $1,000,000 towards funding the construction of the Multi-Purpose/ Central De-icing Facility. Amortization of $40,000 (2010 – $40,000) is included in excess of revenues over expenses for the year.

Other contributions for capital projects total $187,995. Amortization of $14,208 (2010 – $14,209) is included in excess of revenues over expenses for the year.

	2011	2010
Balance, beginning of the year	$10,159	$10,732
Less amortization	(572)	(573)
Net deferred contributions for capital projects	$9,587	$10,159

8. Airport improvement fees:

The SJIAA entered into an AIF agreement dated May 27, 1999 with the Air Transport Association of Canada and major air carriers operating from the Airport. There is a consultative process with air carriers regarding the expansion of airport facilities and the collection of AIF by air carriers from passengers through the carriers' ticketing process.

On October 1, 1999 the SJIAA implemented an AIF of $10 per departing passenger. On April 3, 2006, this fee increased to $15 per departing passenger, and further increased to $20 on April 1, 2011. These fees are collected by the air carriers for a fee of 7% of the amount collected. AIF revenues earned and the cash collected can only be used to fund Airport infrastructure projects and associated financing costs that relate primarily to the passenger-handling functions of the Airport.

As at December 31, 2011, cumulative expenditures of $117,128,361 (2010 – $106,548,888) exceeded cumulative net AIF revenue collected of $77,416,472 (2010 - $65,993,817) by $39,711,889 (2010 - $40,555,071). A summary of the AIF collected and the related collection costs are as follows:

AIF revenue (net):	2011	2010
AIF revenue	$12,292	$9,715
AIF collection cost	(870)	(687)
	$11,422	$9,028

NOTES TO FINANCIAL STATEMENTS

9. Pension Plan:

	2011	2010
Plan assets		
Market value, beginning of year	$11,368	$10,166
Interest earned	696	621
Employer contributions	716	625
Employee contributions	97	100
Benefits paid	(353)	(360)
Actuarial (loss) gain	(842)	216
Market value, end of year	11,682	11,368
Plan obligations		
Accrued benefit obligations, beginning of year	11,098	9,511
Current service cost	465	422
Interest cost	586	572
Benefits paid	(353)	(360)
Actuarial loss	1,144	953
Accrued benefit obligations, end of year	12,940	11,098
Plan assets/obligations		
End of year market value less accrued benefit obligations	(1,258)	270
Unamortized amounts	2,723	737
Accrued benefit asset	1,465	1,007
Plan expense		
Current service cost, net of employee contributions	368	322
Interest on accrued benefits	586	573
Expected return on assets	(696)	(621)
Plan expense	258	274

Weighted average actuarial assumptions

	2011	2010
Discount rate	5.25%	6.00%
Expected long-term rate of return on plan assets	6.00%	6.00%
Rate of compensation increase	3.25%	3.25%

NOTES TO FINANCIAL STATEMENTS

9. Pension Plan (continued)**:**

The assets of the pension plan are invested and maintain the following asset mix:

	Percentage of plan assets	
	2011	**2010**
Bonds/fixed-income securities	39.38%	50.00%
Equity securities	60.62%	50.00%
Total	100%	100%

The date of the last actuarial valuation of the defined benefit pension plan is December 31, 2010. According to this valuation, the SJIAA's employer service contribution as a percentage of payroll was 20.3% for 2011 (2010 – 20.8%). In recent years, the decrease in long-term interest rates, along with changes in actuarial standards, has resulted in solvency deficiencies for many defined benefit pension plans in Canada. A $1,887,000 solvency deficiency in the defined benefit pension plan existed as at December 31, 2010. This resulted in a special annual payment to fund the deficiency in the amount of $334,632 for 2011. This annual special payment of $334,632 is required over the next seven years.

10. Financial instruments:

(a) Interest rate risk:

The SJIAA's exposure to interest rate risk relates to its floating rate Credit Facilities described in Note 6 (c), long-term debt. It should be noted that the majority of the SJIAA's debt is fixed-rate debt and therefore changes in interest rates do not significantly impact interest payments but may impact the fair value of this debt.

(b) Credit risk:

The SJIAA is subject to credit risk through its financial assets. The SJIAA performs ongoing credit valuations of these balances and maintains valuation allowances for potential credit loss. The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to historical information about the customer.

The SJIAA's revenues are largely dependent on the domestic air transportation industry. One major carrier providing passenger traffic to the Airport accounted for approximately 56% (2010 – 56%) of the total enplaned and deplaned passengers for the Airport during the year.

11. Commitments:

Ground Lease:

The Ground Lease requires that the SJIAA operate the Airport as a "first-class facility" and that, as the operator, it exercises sound business practices. The Ground Lease also contains specific conditions for compliance with a series of requirements, including environmental standards, minimum insurance coverage, reporting requirements and various other matters that have a significant effect on the day-to-day operations of the Airport. The SJIAA believes that it has complied with all of the requirements under the Ground Lease. During the year, all contracts entered into in excess of $75,000 (adjusted for the Consumer Price Index from 1994) were awarded on the basis of a competitive tendering process.

NOTES TO FINANCIAL STATEMENTS

11. Commitments (continued):

In January 2006, the SJIAA began paying Airport Rent to Transport Canada as outlined in its terms of the Ground Lease.

The annual payments are forecasted to be as follows over the next five years:

2012	$ 1,419
2013	2,134
2014	2,299
2015	2,609
2016	2,719

12. Other information:

The Authority may, from time to time, be involved in legal proceedings, claims and litigation that arise in the ordinary course of business which the Authority believes would not reasonably be expected to have a material adverse effect on the financial condition of the Authority.

13. Supplemental cash flow information:

	2011	2010
Cash paid during the year for interest	$ 3,046	$ 2,951
Cash received during the year for interest	42	22

14. Related party transactions:

During the year, related party transactions for services rendered to SJIAA relating to the operation of the Airport totaled $906 (2010 - $199,393). These transactions are in the normal course of business and are measured at the exchange amount of consideration established and agreed to by the related parties.

15. Directors and officers' remuneration:

For the year ended December 31, 2011, the SJIAA expensed remuneration to its Directors in the amount of $269,250 (2010 - $279,000). A further amount of $1,035,616 (2010 - $859,315) was expensed as remuneration in 2011 to its senior officers/managers who are not Directors.

16. Government remittances

Government remittances consist of amounts (such as payroll withholding taxes, property tax and sales taxes) required to be paid to government authorities and are recognized when the amounts become due. In respect of government remittances, all amounts have been paid as at December 31, 2011.

17. Comparative figures:

Certain amounts for 2010 have been reclassified to conform to the financial statement presentation adopted for 2011.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

The St. John's International Airport Authority is a private, not-for-profit corporation with the mandate to provide the region with a safe, cost-efficient transportation facility that is a catalyst for economic growth. Under the provisions of a long-term Ground Lease with the Government of Canada, the Airport Authority is responsible for the management, maintenance and development of the St. John's International Airport on behalf of the community it serves.

The community's interests are represented through a diverse Board of 12 Directors, nominated by various stakeholders in the region. These Directors are appointed or nominated by the following entities:

Federal Government: 2
Provincial Government: 1
City of St. John's: 2
St. John's Board of Trade: 1
City of Mount Pearl: 1
Mount Pearl Chamber of Commerce: 1
Town of Conception Bay South: 1
SJIAA Board of Directors: 3

The corporate operations and the activities of the Board of Directors are guided by the National Airports Policy of 1994 and specifically the "Public Accountability Principles for Canadian Airports" and the Authority's Operating by-laws. The St. John's International Airport Authority's Operating By-laws were amended in 2008 to incorporate the relevant elements of the Not-for-Profit Corporations Act, the proposed Canada Airports Act, as well as the best practices of corporate governance currently employed in Canada.

The By-laws contain Conflict of Interest Guidelines and a prescribed Code of Conduct. In 2011 there were no breaches of the conflict of interest guidelines by any Officer or Director of the Airport Authority. The declaration of Conflict of Interest is referenced in Note 14 of the Financial Statements, titled Related Party Transactions.

CORPORATE GOVERNANCE

The role of the Board of Directors is to guide the strategic direction for the Airport Authority. Solid business practice, including formal strategic planning, is carried out and reviewed on a periodic basis. Directors also serve on the committees of the Board: Development, Finance & Audit, and Governance. The Board is kept informed on the day-to-day operation of the Airport through monthly financial statements and management reports. Compensation for the Directors of the Airport Authority is reviewed annually and the amounts paid to the Airport Authority's Directors during 2011 are listed below:

St. John's International Airport Authority
Schedule of Director's Fees for the Year 2011

Board Member	Total Board Fees
Fraser Edison (Board Chair)[1+]	$ 30,667.00
Darlene Whalen (Board Chair)[2]	38,666.67
Gary Follett[3]	24,000.00
Gail Carroll	18,250.00
John Chapman[4]	25,000.00
John Outerbridge	19,000.00
Raymond Stamp	18,000.00
Katharine Hickey	17,500.00
Blair Patrick	18,000.00
Irene Baird[5]	18,666.67
Art Cheeseman	18,000.00
Neil Pittman (Board Vice Chair)[6]	21,666.67
Jerry Byrne*	1,833.33
	$ 269,250.34

1. Board Chair (completed term as Chair August 31, 2011)
2. Board Chair (served as Vice-Chair until appointed Chair on September 1, 2011)
3. Chair, Development Committee
4. Chair, Finance and Audit Committee
5. Chair, Governance Committee (appointed September 1, 2011)
6. Board Vice Chair (served as Chair, Governance Committee until appointed as Board Vice Chair September 1, 2011)

+ Completed term on the Board on November 30, 2011
* Joined the Board on December 1, 2011

ST. JOHN'S
International Airport Authority

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