



**ST. JOHN'S**  
*International Airport Authority*

# 2016 ANNUAL REPORT



**ST. JOHN'S**  
*International Airport Authority*

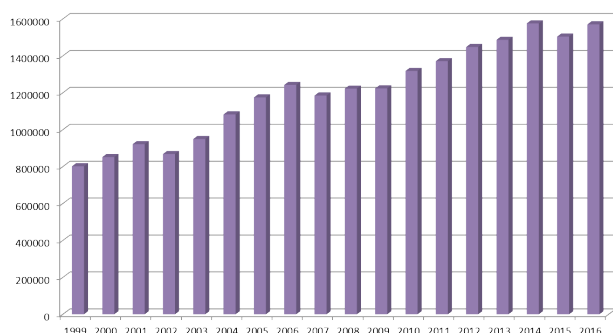
# MESSAGE FROM CHAIR & CEO



## A Message from the Chair & CEO

2016 marked another successful year of growth and development for the St. John's International Airport. The demand for air travel increased last year with the total number of passengers travelling through our gates reaching close to 1.6 million, a 4.3% increase over the previous year. We also experienced the busiest summer in our 75 year history as an Airport when we welcomed 836,000 passengers between May and September. This is a testament to the strong tourism product that our region has to offer.

4.3% passenger growth in 2016



Our airline partners helped facilitate this growth by adding new flights and new destinations, both within Canada as well as internationally. An exciting development was the launch of our third European destination last year when Westjet commenced its daily summer service to London Gatwick. This is in addition to its summer service to Dublin, Ireland and Air Canada's year-round service to London Heathrow. We are proud to state that we have more daily flights to Europe than any other airport of our size in North America; a strong contrast to where we were just over five years ago.

We were also successful in increasing our airline seat capacity to the most frequented US destination: Florida. A new service to Orlando was introduced, and Westjet extended its service

to a year-round offering. Westjet also announced the launch of a new weekly service to Tampa Bay, Florida during the peak sun season in 2017. While only operating for a very short season to start, it will be warmly welcomed by the thousands of Florida-loving sun seekers who have been demanding a direct flight to Tampa for more than 15 years.

The strong partnerships we've developed with our stakeholders in the business and tourism sectors has helped to support existing services and to encourage airlines to invest in new routes. We will continue to rely on these partnerships to achieve mutual goals that will result in the growth and development of our community.

## Expansion and Improvement Program

From our humble beginnings as a military airport, we have seen tremendous advancements and changes to our infrastructure and facilities. The completion of the Airfield Accessibility and Safety Initiative this past year will undoubtedly be recognized in history as having one of the most profoundly positive impacts on the safety and reliability of our Airport. As a region that is often plagued by prolonged periods of low visibility, the installation of Category III Instrument Landing Systems has already begun to remove our Airport's reputation for being inaccessible, especially during the Spring foggy season.

We were pleased to announce the completion of this project ahead of schedule and on budget in January 2016. The results of the first year of operation also exceeded our expectations. Given the frequency of low visibility weather we saw in 2016, we would have expected to see 980 flights affected by delays, diversions or cancellations. With the installation of our new landing systems, however, there were fewer than 40 flights affected in 2016 – and most of these were because the aircraft was not equipped with compatible technology to allow the use of the new systems. As our airline partners continue to upgrade their respective fleets over the next few years and introduce new aircraft with this capability, we can expect the accessibility of our Airport to improve even further.

Over the last year we completed and submitted our new Airport Master Plan to Transport Canada. This Plan, coupled with the Land Use Plan, provides the framework to guide the development of the Airport, and ensures future improvements are undertaken in a responsible manner with regard to operational efficiency, safety and security, environmental compliance and financial viability. While it indicates the ultimate build-out of the Airport, the projects included in the Master Plan will be implemented on a case-by-case basis where a strong business case for each project exists.

Substantial progress was also made on our 10-year Expansion and Improvement Program over the last year. 2016 was the second busiest year for capital projects in the Airport Authority's 18 year history with significant progress made on our largest capital project, the Terminal Building Expansion. With a total investment of \$35 million last year, improvements and enhancements were made on the airfield, in the parking lots, and particularly on the expansion of the Terminal Building. These projects and those planned over the next 10 years are necessary to ensure the safety and operational integrity of the Airport, and to expand our facilities to accommodate 2 million annual passengers.

While these numbers are substantial, they do not recognize the wider economic benefits our Airport offers through its facilitation of trade and investment, and its enhancement of the productivity of other business sectors.

## Growth in non-aeronautical revenue

While our development plans are sizeable, we have taken a very conservative and measured approach to ensure our long-term financial sustainability. We have a number of credit facilities in place and have maintained a positive A1 bond rating from Moody's Investor Services since 2007. Our strong Financial Plan also recognizes the importance of diversifying our revenue streams away from just aeronautical sources. In 2016, we received 54 percent of all revenue from non-aeronautical sources; a ratio that is much higher than the North American airport average of 45 percent. We will continue to look for new sources of revenue that do not add unnecessary expenses to our airline partners and passengers.

## An economic engine

Our mandate as an Airport Authority states that we must provide our region with a safe, cost-efficient transportation facility that is a catalyst for economic growth. Over the past year we conducted an Economic Impact Study to measure the value of our Airport to the local and national economy. The study revealed that the annual operations of the Airport have the following impacts on our national economy:

**3,830**

Person years of  
employment

**\$240**

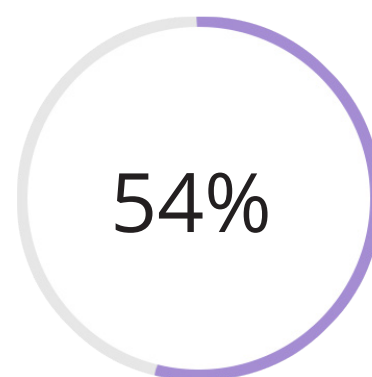
Million dollars  
in wages

**\$388**

Million dollars  
in GDP

**\$822**

Million dollars in  
economic output\*



Revenue from  
non-aeronautical sources

*\*(this is the gross dollar value of industrial output produced and reflects the spending by firms, organization and individuals.)*

## Future challenges and opportunities

Looking ahead to 2017, there will be continued construction and planning for the transition of operations to the newly expanded Airport Terminal Building, scheduled to open in Spring 2018. While this expanded building will offer new services and facilities for passengers and employees, and new revenue opportunities for the Airport Authority, the future will not be without its challenges. The exorbitantly increasing municipal taxes; the uncertainty around the complete privatization of Canadian airports; and the addition of competing businesses that could erode our existing non-aeronautical revenue sources may challenge us financially.

As we move into our 75th anniversary year as an Airport, we will take the opportunity to reflect on our past and the significant growth we have seen and anticipate to see over the next ten years. This milestone could not be achieved if not for our dedicated community of employees. In 2016 we saw exemplary work from our team and thank them for their ongoing commitment to the growth and success of the Airport.

We would also like to thank our passengers and the general public for their support as we continue our construction program, all with the intentions of making improvements and creating a safe, secure and efficient air transportation facility that positively reflects our city and our province.

A handwritten signature in blue ink that reads "Art Cheeseman".

Art Cheeseman

A handwritten signature in blue ink that reads "Keith Collins".

Keith Collins



**ST. JOHN'S**  
*International Airport Authority*

# WHO WE ARE

# St. John's International Airport Authority

## Mission Statement

We will create an exceptional airport experience at Newfoundland & Labrador's premier gateway.

Community Leader | Enabling Prosperity

St. John's International Airport Authority is a private, non-for-profit corporation that exists to provide a safe and efficient transportation facility at Newfoundland and Labrador's premier transportation gateway.

We generate our own revenue, raise our own capital, pay municipal taxes, and pay rent to the Federal Government on an annual basis to operate the airport on behalf of the community we serve. We are committed to offering an outstanding airport experience for our passengers and enhancing the economic and social well-being of our community.



### **Board of Directors**

Back Row (L-R): Jim Heale, Holly Hicks, Darren Martin, Gail Carroll, Mike Donovan, Jerry Byrne, Roger Butt  
Front Row (L-R): Neil Pittman, Art Cheeseman, Tom Williams



**ST. JOHN'S**  
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# STRATEGIC PLAN

## Strategic Business Plan Update

The Airport Authority's 2015-2019 Strategic Business Plan defines the Authority's ideal future and includes objectives and strategic initiatives that will serve as our guiding framework that will lead to our vision of providing an exceptional airport experience at our province's premier transportation gateway. This report provides an update on our progress associated with the seven strategic objectives: Outstanding Facilities; Exceptional Passenger Experience; Focused Business and Air Service Development; Culture of Engagement; Enhanced Community Partnerships and Collaboration; Organizational Effectiveness; and Financial Stability.

### Outstanding Facilities

Objective: Deliver new, improved, and expanded air terminal building and related airport facilities to meet 2020 demand.

A total of \$35 million was invested in 2016, making it the second busiest year for capital projects in the Authority's history.

The St. John's International Airport continues to experience passenger growth and, to meet these growing demands, significant investments in the improvement and expansion of its facilities are in the process of being made. A total of \$35 million was invested in 2016, making it the second busiest year for capital projects in the Authority's history.

## Airfield Accessibility & Safety Initiative

One of the most significant projects identified in our Improvement and Expansion Plan as having the most positive impact on the reliability of air service at our Airport was the Airfield Accessibility & Safety Initiative. After three years of construction that involved a \$37.3 million investment, the project was completed ahead of schedule and on budget in January 2016. This initiative was a significant undertaking and has exceeded expectations with its impact on flight operations during low visibility conditions.

Our Airport is the only Canadian airport serving less than 10 million passengers annually to employ Cat 3 ILS technology.

This project included significant improvements to the airfield to support the implementation of a Category III Instrument Landing System (Cat 3 ILS) on both ends of the primary runway (Runway 11/29), as well as the installation of Runway End Safety Areas (RESAs) on two of the Airport's largest runways. This technology was installed by NAV Canada and allows aircraft to land and take-off in conditions of very low visibility; a weather challenge that has had an impact on our Airport's operations and our region's reputation for decades. The Airport was the first in the world to install LED lights on the Cat 3 ILS approach towers as well as being the only Canadian airport serving less than 10 million passengers annually to employ this technology.

920 flights that would have previously been impacted by low visibility conditions were able to operate on schedule.

After its first full year of operation, the newly installed Cat 3 ILS exceeded expectations in the improvement in the reliability of flight operations at the Airport. The initial study that was conducted to determine the benefits of its implementation at St. John's International Airport estimated 1000 flights and 100,000 passengers annually are impacted by low visibility conditions. With the implementation of Cat 3 ILS, it was estimated that the impact on flight operations would be reduced to 300 flights and 30,000 passengers each year. While 2016 was perhaps less foggy than an average year, an

estimated 920 flights that would have previously been impacted by low visibility conditions were able to operate on schedule as a result of this newly installed technology. Less than 40 flights were impacted due to low visibility conditions in 2016, exceeding expectation. Moreover, the positive impact on flight operations has begun to reverse the region's reputation for being an inaccessible location.

The required infrastructure improvements to support the installation and operation of this advanced technology was cost-shared between the St. John's International Airport Authority, the Government of Newfoundland and Labrador, and the Government of Canada under its Atlantic Gateway and Trade Corridor Strategy, while NAV Canada owns, operates and maintains the instrument landing equipment.

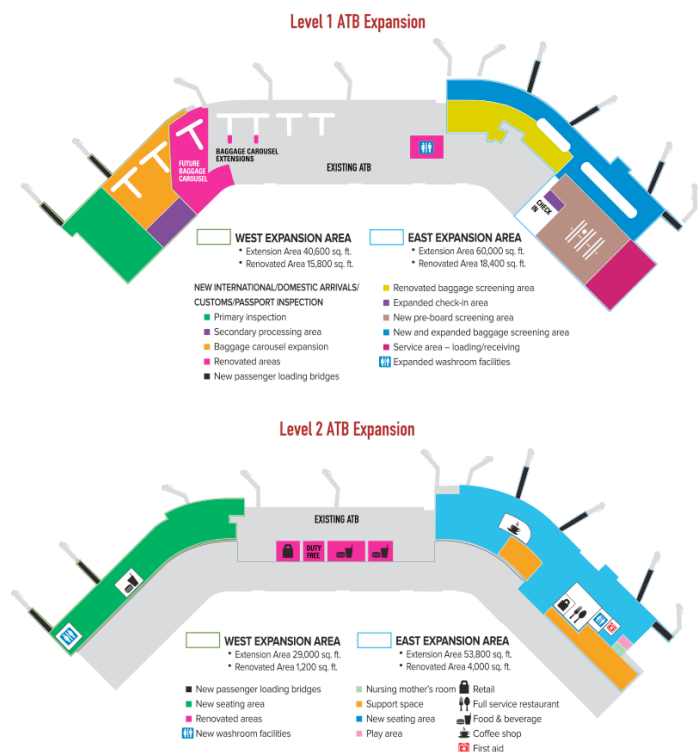
## Airport Terminal Building Expansion

Construction on the expansion to the Airport Terminal Building commenced in 2014 and, when completed in 2021, will more than double in size to total almost 400,000 square feet. The expansion is being conducted in two phases:

Phase one of the expansion, the East Expansion, will increase the size of the Airport by 145,000 square feet and will improve functionality as well as enhance the level of services for passengers, tenants, and airline partners. The additional space will accommodate an expanded check-in area and a larger pre-board screening area located on the first floor. It will also double the size of the existing Departures Lounge to accommodate more seating and double the number of washroom facilities. The increased space will also increase the food and retail options to seven new food outlets, including a full-service restaurant, and five new retail outlets. For families, the expanded Departures Lounge will include a new children's play area and offer a nursing mother's area. This first phase of the expansion is both on schedule and on budget for its Spring 2018 opening.

The second phase of the Terminal Building expansion will add 72,000 square feet to the west end of the building. This expansion will focus on the arrivals area and will include an expanded area for

customs activities, additional baggage carousels; more aircraft gates and passenger loading bridges. The Departures Lounge will continue to see improvements with expanded space for more seats, food outlets, and new washroom facilities. Construction will commence in 2018 and is set to be completed mid-2021.



## Expanded road network and parking lots

While renovations and expansions are underway inside the Terminal Building, improvement projects continue outside the Terminal. Last year saw the opening a new, four-leg roundabout, located at the entrance to the Airport at the intersection of World Parkway and Navigator Avenue. A number of new developments planned for the area, including a service (gas) station, a rental car facility and a second hotel, as well as growth in the number of passengers travelling through the Airport is anticipated to increase traffic volume on World Parkway. The roundabout was installed to efficiently manage traffic flows in and around the Airport.



Adjacent to the roundabout is a new wi-fi-enabled Cellphone Waiting Parking Lot. The new lot allows those greeting passengers to park in the lot for free, removed from the busy curb front of the Terminal Building. Passenger greeters can use this parking lot to await a phone call from an arriving passenger prior to proceeding to the Terminal Building for a quick pick-up from the curb.

Additional groundside improvements realized last year include the completion of the new exit road from the Airport Terminal Building to World Parkway; new employee, rental car and gold pass parking lots; as well as the expansion of the short-term parking lot to respond to increased requirements for vehicle parking. While the position of the rental car parking lot is in its permanent position, it is temporarily located further away from the Terminal building during the various phases of construction. Over the last year significant investment was made

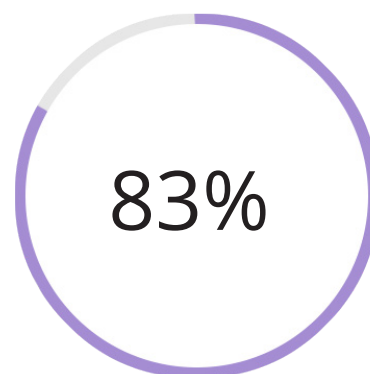
in the installation of a lighted, covered walkway to protect those commuting between the rental car parking lot and the Terminal building from weather elements. Once the second phase of the expansion to the Terminal Building is complete, the rental car parking lot will be physically closer to the arrivals area of the building.

Considerable investments were also made in 2016 to enhance safety and security at the Airport, including the installation of raised sidewalks in front of the Terminal Building that improves the visibility of pedestrians, as well as the construction of a new facility that enables all vehicles entering the secure area of the Terminal building apron to be screened by security personnel.

## Exceptional Airport Experience

Objective: Provide an exceptional passenger experience at our Airport.

The St. John's International Airport Authority is dedicated to providing a positive experience for all guests at our Airport. We take pride in our role as the premier transportation gateway to and from Newfoundland and Labrador, and understand the lasting effect of a positive first and last impression. We therefore continue to seek ways to make improvements and enhancements to the level of service offered at our Airport.



in 2016, we achieved an 83.4% overall passenger satisfaction rating.

In order to understand our passengers' level of satisfaction with our Airport, we participate in the Airport Service Quality Index survey, a global research tool that provides quantitative feedback on all aspects of the Airport experience and provides benchmark data from other airports around the world. In 2016, we achieved an 83.4% overall passenger satisfaction rating. This represents a very positive result, especially considering our space constraints in the Terminal Building, and the extensive level of construction that has taken place at our Airport over the last year. The expansion of our Terminal Building will provide opportunity to make meaningful enhancements to all our service offerings.

In the meantime, our Passenger Advisory Panel continues to meet on a regular basis to offer valuable feedback on their airport experiences. This diverse panel consists of frequent travelers and users of this facility who provide suggestions for enhancements and new services. This information, coupled with feedback from other communications channels and our own planning resulted in a number of improvements being made over the last year:

- Enhanced high-speed Wi-Fi throughout the Terminal Building and cell phone waiting lot
- Foreign currency availability in ATMs located on both levels of the Terminal Building
- A cell phone waiting lot for drivers to park for free while waiting to pick up arriving passengers
- A new covered walkway for passengers walking to the rental car lot
- New baggage cart corrals throughout the parking lots

These enhancements will continue in 2017 with the installation of the following:

- New pet relief area for traveling pets and service dogs
- Water bottle refill stations
- Enhancements to the flooring on the first and second floor levels of the Terminal Building

## Focused Business & Air Service Development

Objective: Pursue revenue diversification and aggressive air service development.



## Air Service Development

St. John's International Airport experienced a 4.3 percent growth in passenger traffic in 2016, with close to 1.6 million people travelling through its gates. This increase in passenger volume was particularly strong between May and September, when we saw 836,000 passengers travel during these months. The strong tourism market made it the busiest summer in the Airport's history.

Since 2008, the availability of airline seats for purchase to and from St. John's International Airport has grown by 40 percent. This includes a 5 percent growth in 2016 with the addition of more frequent flights, more destinations served and new airlines entering the market. The greatest growth last year was experienced in both domestic and international markets, including additional flight options to Toronto and Montreal; year-round service to Orlando; and the addition of WestJet's seasonal daily service to London Gatwick. Our Airport is the only one of its size in North America to offer three daily European flights during the summer months: WestJet to Dublin; WestJet to London Gatwick; and Air Canada to London Heathrow (year-round service).



For the first time in more than 15 years, passengers travelling to the very popular Tampa Bay area in Florida are able to avail of direct, weekly air service being offered by WestJet Airlines to Tampa International Airport. This flight was announced by WestJet in 2016 and will operate during Spring peak sun travel season in 2017. Tampa is the third most popular destination in the US at our Airport, and this is a route that has been pursued for many years.

We continue to work with our airline partners and community stakeholders in the business and tourism sectors to support existing air services and to encourage airlines to invest in new routes that will support the growth of tourism and trade in our region. Over the next year we will continue to pursue a direct flight to the New York area, a route in high demand for both business and tourism.

## Focused Business and Revenue Diversification

While Air Service Development is a core business focus, the Airport Authority has dedicated significant effort to increasing revenue from non-aeronautical sources in order to reduce its dependency on the airline industry. In 2016, our non-aeronautical revenue grew by 3%, and now represents 54 percent of total annual revenue.

This is a much higher proportion than the North American airport average of 45 percent. It was achieved through our successful focused business program that generates revenue through the sale of advertising, concessions programs, and land development.

The advertising sales program continues to offer a viable advertising location for local and national brands looking to connect with passengers at YYT. With 1.6 million passengers traveling through the province's premier gateway with a culture that involves picking up or dropping off passengers more so than any other airport in Canada, advertisers are able to communicate with a unique demographic of international tourists and local residents alike. This offers the value of reaching a broad group which is not achieved in most other venues. Marketing opportunities are made available from digital billboards on World Parkway, signage in the Arrivals and Departures areas and strategically throughout the Terminal Building.

The expansion of the Terminal Building also provides an opportunity to strengthen and expand the food and retail concession program at the Airport. This will increase the number of options for passengers while also increasing sales revenue for the Authority. In 2016 an Expression of Interest was released to identify interested food and retail outlets, and the selection process began. Negotiations commenced with the preferred

concessionaires selected with feedback obtained from passengers, employees and the general public in mind. The new program will feature strong local and national brands, and will include a full service restaurant in the Departures Lounge.

Land development at the Airport represents a long-term, dependable source of revenue that facilitates the diversification of our revenue stream. The new access road to the Airport Terminal Building has spurred activity in the area. In February 2016, the first hotel constructed on airport property, the Holiday Inn Express, opened its doors. Located at the entrance of World Parkway, this hotel offers an incredibly convenient lodging option for connecting passengers and airline crews. A second hotel is also under construction adjacent to the new Cougar Helicopters facility that opened in November of 2016. The Best Western Plus hotel is scheduled to open in the summer of 2017. In addition, Avis-Budget completed a facility that supports its rental car activities, and in 2017 a new service (gas) station equipped with retail space will be constructed adjacent to World Parkway and the cell phone waiting lot.

The increase in aviation activity has also increased the demand for land to support airfield operations. CargoJet, an air cargo airline, handles the majority of air cargo traveling to and from the region. The airline is constructing a new cross dock loading facility and ramp in 2017 that will enhance the efficiency and safety of its operations. The commercial airlines will also commence construction of a new and expanded fuel farm that will replace the existing fuel farm near the entrance to the Terminal Building. With approximately 300 acres of land available for commercial development, there is significant opportunity for further development to support the diversification strategy of the Authority.

## Culture of Engagement

Objective: Create a culture of employee engagement within the organization.

The Airport Authority recognizes the value of a strong culture of engagement for employee satisfaction and organizational effectiveness. A culture of engagement is one where communication channels and dialogue are open; there is a sense of community in the workplace; employees feel their work is meaningful; and all parties are committed to a shared and valued vision.

To ensure and promote regular, open dialogue, the Airport Authority has an active Labour Management Committee. This joint-committee works collaboratively to seek improvements in efficiency, engagement and employee satisfaction for the approximate one hundred employees of the Airport Authority.

To benchmark employee engagement levels, the Airport Authority conducted an Employee Engagement Survey in 2016, followed up with focus groups with employees to understand the extent to which employees feel engaged in their work and discover any areas for improvement.

As a follow up to the research conducted with employees, the Authority has established an Employee Engagement Committee comprised of management and unionized employees to identify, initiate and/or support activities designed to improve the level of engagement by all employees in our organization. New internal communications practices are also being implemented to enhance the sharing of information.

Safety is the number one priority of the St. John's International Airport Authority and, as a result, the Authority has placed considerable effort in creating a culture of safety. An Employee Safety Survey is conducted annually for employees of the St. John's International Airport Authority which is designed to measure our safety culture from both an Occupational Health & Safety and Safety Management System (aviation safety) perspective. In 2016, we achieved an overall rating of 81.7%. The survey allowed us to identify areas of success; areas where advancements in safety culture have been made; and all areas where further improvement is required. We also achieved another momentous milestone over the last year: In early 2017, St. John's International Airport Authority officially surpassed its one year anniversary since it last recorded a lost time injury. This is a significant accomplishment given the nature of the work that our employees conduct and the often extreme weather conditions in which it is performed.

## Enhanced Community Partnerships & Collaboration

Objective: Enhance partnerships and collaboration with community while strengthening brand.

As the premier gateway to Newfoundland and Labrador, St. John's International Airport plays a significant role in the economic and social well-being of our province. Recognizing this responsibility, the Airport Authority is committed to being actively involved in supporting the community in which we operate through enhanced partnerships and collaboration. In 2016, we proudly partnered with a number of local organizations, big and small, as we worked to serve our community.



This past year was the 100th anniversary of the battle of Beaumont-Hamel, an event that profoundly changed Newfoundland and Labrador. We partnered with The Rooms on a variety of activities to commemorate one of the most significant events in our province's history. Our Airport welcomes 70 percent of non-resident visitors flying to the province each year, and with more connecting traffic on our 3 daily European flights, there was an opportunity to educate visitors who may not be aware of our province's significant contribution to the war effort, and our strong and unique history. The Airport Authority provided advertising space in the Airport Terminal Building to feature Newfoundlanders and Labradorians who served during WWI; the history and timeline of the battle that occurred on July 1, 1916; and to promote the opening of the new gallery at The Rooms on July 1, 2016 to commemorate the 100th anniversary. The advertising was prominently displayed on both the first and second floors of the Terminal Building. The Airport Authority also organized events around the July 1st 100th

anniversary when hundreds of passengers were departing for France.

The Airport also worked with 150 Atlantic Wing of the Royal Canadian Air Force Association (RCAFA) to expand its existing exhibit that interpreted the military origins of the Airport dating back to the Second World War. This expanded exhibit incorporates Newfoundlanders and Labradorian's contribution to the air aspect of the First World War, and was officially opened on June 22nd prior to the July 1st commemoration ceremonies.

We continue to partner with Business and Arts NL, most notably through the "Come Play With Me" public piano program. Located in the Atrium, this piano promotes arts in our community and our Airport. Painted by a local artist, this piano is a welcomed amenity for passengers, and leads to impromptu performances that delight visitors and staff throughout the Terminal Building. This piano is often used as accompaniment during our Summer and Christmas concert series when we invite schools and local artists to showcase their talents and entertain passengers.

Strong partnerships with our stakeholders are also important as we work to enhance the passenger experience and develop the air services available from our Airport. We have developed close partnerships with tourism agencies, including Destination St. John's and NL Tourism, to promote and support targeted airline routes and destinations. We also continue to meet regularly with our Air Service Development Committee, made up of leaders in our community who help to define our air service development strategy and identify any factors that will influence it.

The Airport Authority looks forward to continuing to grow and strengthen these partnerships as we strive to achieve mutual goals for the benefit of the entire community.

## Organizational Effectiveness

Objective: Improve organizational effectiveness with improvements to processes and systems

St. John's International Airport Authority is seeking to improve processes and systems in order to deliver more efficient and effective services at our

Airport. A new Time and Attendance Payroll System was implemented in 2016 in order to modernize the timesheet entry and the payroll administration process. With the significant construction program underway at the Airport, a new Capital Time Entry System will allow employees to track the time spent on various capital projects in order to accurately track the labour costs of those projects. In addition, the creation of a new Document Management System commenced in 2016 to facilitate the appropriate sharing and storage of documents. With all of these systems in place and an ongoing review of new organizational systems to be implemented, organizational effectiveness will be improved.

## Financial Sustainability

Objective: Ensure financial sustainability.

Less than 60% of the \$280 million in infrastructure investments to date has come from the collection of Airport Improvement Fees.

The St. John's International Airport Authority is a not-for-profit, private organization. We are responsible for generating our own revenue and raising our own capital funds to support our infrastructure improvements and expansion. All earnings generated through the operations of the Airport are reinvested back into the infrastructure and operations of the Airport.

Being responsible for such an important infrastructure asset in our community requires great prudence in managing our financial situation. Since the Airport Authority went to the bond market for the first time in 2007, the Airport Authority has maintained an A1 bond rating. This strong rating is recognition of the credit worthiness of the Airport Authority, and was achieved through conservative financial management, sound strategic planning, and growing passenger volumes.

As passenger traffic continues to grow, so does the demand for improved and expanded facilities at our Airport. The Airport Authority has made significant capital investments to ensure the safety and operational integrity of the Airport, and is in the process of expanding its facilities to accommodate 2 million passengers annually. In

2016, the Authority invested \$35 million, making it the second largest annual capital investment year in the Airport Authority's history.

In 2014 the Airport Authority secured a \$60 million private placement bond and a \$25 million line of credit. In order to continue to meet its obligations, the Airport Authority will increase its line of credit to \$40 million. The Airport Authority's primary source of revenue to finance its long-term debt and credit facilities is the Airport Improvement Fee (AIF) paid by each enplaning passenger. Effective July 1, 2017, the AIF will increase from \$30 to \$35 for each enplaning passenger.

Since the Airport Authority was privatized in 1998, it has invested \$280 million in infrastructure improvements. To date, however, the Airport Authority has collected less than 60% of this total through Airport Improvement Fees. It was important to make these investments in our Airport in advance of collecting the total costs associated with them so that passengers would enjoy the improvements sooner rather than later, and airlines can continue to expand their services. The Airport Authority has placed an emphasis on diversifying its revenue stream with the goal to lessen its dependency on the commercial aviation industry, and last year 54 percent of revenues



**ST. JOHN'S**  
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# BUSINESS PLAN



were derived from non-aeronautical sources.

## Business Plan Summary

### 2016 Capital Program

The Airport Improvement and Expansion Plan that was announced in 2014 is progressing as planned with the Airport Terminal Building East Expansion scheduled for opening in 2018. Significant progress in 2016 included completion of the building envelope, connecting the building envelope to the existing terminal building and significant advancement of the internal finishing. Other projects involved the construction of a Non-Passenger Vehicles Screening Facility as required by Transport Canada; expanded vehicle parking lots and roadways; and the development of a two-lane roundabout to facilitate the steady flow of traffic to and from the Airport.

### 2016 Actual vs. Business Plan

*(in thousands of dollars)*

	Actual	Plan	Difference	Explanation
Revenue (Note 1)	\$45,981	\$46,222	(\$241)	Lower AIF revenues due to more connecting non-AIF paying passengers.
Expenses (Note 2)	\$26,105	\$27,920	(\$1,815)	Lower salaries and benefits expense due to the year-end actuarial pension adjustment.
Capital (Note 3)	\$35,096	\$40,595	(\$5,499)	Certain projects were deferred until 2017 including East End Parking Area/Loading Zone and Hold Bag Screening System Expansion.

Note 1. Revenue includes net AIF and operating revenue.

Note 2. Expenses include interest and exclude the non-cash items of depreciation and amortization.

Note 3. Capital includes the Airfield Accessibility and Safety Project expenditures net of government funding received and receivable.

## Planning for Growth (2017-2021)

We have completed a long-term infrastructure plan to address capacity constraints and to accommodate the approximately 2 million annual passengers forecast by the year 2020. Over the next five years the Airport Terminal Building will be expanded in two phases, with the first phase scheduled for completion in 2018, and the second phase completed in 2021. A long-term Financial Plan was also prepared in order to support the investment in infrastructure improvements, and includes future borrowings in the form of a private placement bond and credit facilities.

## Business Plan Forecast 2017-2021

(in thousands of dollars)

	2017	2018	2019	2020	2021
Revenue (Note 1 & 2)	\$49,669	\$52,422	\$54,389	\$56,331	\$58,311
Expenses (Note 3)	\$29,556	\$31,637	\$33,030	\$34,708	\$36,225
Capital (Note 4)	\$39,731	\$22,563	\$20,169	\$24,999	\$22,782

Note 1. Assumes passenger growth will be 2.0% in 2017 and 1.5% each year thereafter.

Note 2. Revenue includes net AIF and operating revenue.

Note 3. Expenses include interest and exclude the non-cash items of depreciation and amortization.

Note 4. Capital includes the expansion of the Airport Terminal Building, additional aircraft bridges and the expansion of the hold bag screening system.



**ST. JOHN'S**  
*International Airport Authority*

# FINANCIAL REPORT



# Audited Financial Statements

April 25, 2017  
Independent Auditor's Report

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

We have audited the accompanying financial statements of the St. John's International Airport Authority (the Authority), which comprise the balance sheet as at December 31, 2016 and the statements of operations and equity in capital assets and cash flows for the year then ended, 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 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 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 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 St. John's International Airport Authority as at December 31, 2016 and the results of its operations and its cash flows for the years then ended in accordance with Canadian accounting standards for private enterprises.

*PricewaterhouseCoopers LLP*  
Chartered Professional Accountants

# Balance Sheet

As at December 31, 2016  
(in thousands of dollars)

	2016	2015
<b>Assets</b>		
Current		
Cash and cash equivalents	\$12,983	\$26,760
Accounts receivable (note 3)	3,950	5,956
Consumable inventory (note 2)	334	381
Prepaid expenses	531	487
<b>Total current assets</b>	17,798	33,584
Capital assets, net (note 4)	210,422	187,066
Debt service reserve (note 6)	2,763	2,763
Defined benefit assets (notes 2 and 9)	5,771	4,335
Intangible assets, net	121	16
	<b>\$236,875</b>	<b>\$227,764</b>

	2016	2015
<b>Liabilities and Equity in Capital Assets</b>		
Current		
Accounts payable and accrued liabilities (notes 5 and 13)	\$22,554	\$27,153
Current portion of long-term debt (note 6)	714	678
<b>Total current liabilities</b>	23,268	27,831
Long-term debt (note 6)	107,877	108,424
Deferred contributions for capital projects, net (note 7)	32,361	28,041
Equity in capital (note 1)	73,369	63,468
	<b>\$236,875</b>	<b>\$227,764</b>

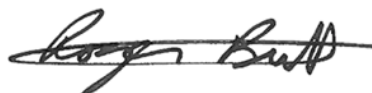
Commitments (note 11)

See accompanying notes

On behalf of the Board:



Art Cheeseman, Chair



Roger Butt, Finance and Audit Committee

# Statement of Operations and Equity in Capital Assets

For the year ended December 31, 2016

(in thousands of dollars)

	2016	2015
<b>Revenues</b>		
Landing fees	\$6,112	\$5,950
Terminal fees	5,466	5,067
Concessions	4,719	4,498
Car parking	3,563	3,550
Rentals	4,077	3,747
Other	1,309	1,454
	25,246	24,266
Airport improvement fees (note 8)	20,735	20,222
	45,981	44,488
<b>Operating Expenses</b>		
Salaries and benefits	8,695	8,625
Operating	6,822	6,699
Amortization	9,976	8,190
Interest and financing costs	5,028	5,052
Ground rent (note 11)	2,586	2,440
Municipal tax	1,133	1,277
Business development	451	614
Professional services	434	560
General and administrative	915	802
Bad debts	40	40
	36,080	34,299

## Statement of Operations and Equity in Capital Assets (cont.)

For the year ended December 31, 2016

(in thousands of dollars)

	2016	2015
<b>Excess of revenues over expenses</b>	<b>\$9,901</b>	<b>\$10,189</b>
Total equity in capital assets, beginning of year	63,468	53,279
<b>Total equity in capital assets, end of year</b>	<b>\$73,369</b>	<b>\$63,468</b>

See accompanying notes

# Statement of Cash Flows

For the year ended December 31, 2016  
(in thousands of dollars)

	2016	2015
<b>Operating Activities</b>		
Excess of revenues over expenses	\$9,901	\$10,189
Add (deduct) items not involving cash		
Amortization - capital assets, net	11,842	8,908
Amortization - deferred contributions	(1,874)	(745)
Amortization - intangible assets	8	27
Amortization - other	167	162
Gain on disposal of capital assets	(49)	(31)
Increase in defined benefit asset	(1,436)	(779)
	18,559	17,731
Changes in non-cash working capital balances related to operations		
Accounts receivable	2,006	355
Consumable inventory	47	(19)
Prepaid expenses	(44)	(143)
Accounts payable and accrued liabilities	(4,599)	6,217
Cash provided by operating activities	15,969	24,141
<b>Financing Activities</b>		
Decrease in debt service fund	-	9
Repayment of revenue bond	(678)	(644)
Cash used in financing activities	(678)	(635)

## Statement of Cash Flows (cont.)

For the year ended December 31, 2016  
(in thousands of dollars)

	2016	2015
<b>Investing Activities</b>		
Additions to capital assets	(35,198)	(60,074)
Additions to deferred contributions	6,194	16,193
Additions to intangible assets	(113)	(3)
Proceeds from sale of capital assets	49	31
Cash used in investing activities	(29,068)	(43,853)
<b>Net decrease in cash during the year</b>	<b>(13,777)</b>	<b>(20,347)</b>
Cash and cash equivalents, beginning of year	26,760	47,107
<b>Cash and cash equivalents, end of year</b>	<b>\$12,983</b>	<b>\$26,760</b>

See accompanying notes

# Notes to Financial Statements

December 31, 2016

(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 Ground Rent, after an initial rent-free period which ended December 31, 2005. The term of the Ground Lease is eighty years, ending 2078.

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 presentation

The financial statements have been prepared in accordance with Canadian accounting standards for private enterprises (ASPE) as issued by the Canadian Accounting Standards Board.

#### 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.

# Notes to Financial Statements

December 31, 2016

(tabular amounts expressed in thousands of dollars except where otherwise noted)

## 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.

## 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:

<b><u>Asset</u></b>	<b><u>Rate</u></b>
Airport terminal building, other buildings and bridges	15 - 30 years
Leasehold improvements and improvements to leased land	15 - 30 years
Vehicles, machinery, furniture and fixtures	5 - 20 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 \$8,463 (2015 – \$27,054) 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.

# Notes to Financial Statements

December 31, 2016

(tabular amounts expressed in thousands of dollars except where otherwise noted)

## 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, 2016 amounted to \$287,639 (2015 – \$218,070).

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.

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 unit credit actuarial cost method. Under this method, the accrued benefit obligation represents the pensionable service accrued as at the valuation date and best estimate assumptions.
- II) For the purpose of calculating expected return on plan assets, those assets are valued at market value.
- III) Actuarial gains and losses are recognized in full in the period in which they occur, in excess of revenues over expenses.

## 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, designated 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

December 31, 2016

(tabular amounts expressed in thousands of dollars except where otherwise noted)

## 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. For 2016, \$856,762 (2015 – \$1,078,227) of inventories were recognized as an expense.

## 3. Accounts Receivable:

	2016	2015
Trade	\$2,143	\$2,473
Airport improvement fees	407	1,059
HST	1,210	2,378
Other	379	222
Allowance for doubtful accounts	(189)	(176)
	<b>\$3,950</b>	<b>\$5,956</b>

# Notes to Financial Statements

December 31, 2016

(tabular amounts expressed in thousands of dollars except where otherwise noted)

## 4. Capital Assets

			2016	2015
	Cost	Accumulated Amortization	Net book value	Net book value
Airport terminal building, other buildings and bridges	\$76,782	(\$35,396)	\$41,386	\$40,846
Leasehold improvements and improvements to leased land	123,570	(23,378)	100,192	97,838
Vehicles, machinery, furniture and fixtures	27,216	(13,948)	13,268	12,953
Computer hardware and software	5,596	(4,660)	936	1,281
Multi-purpose/central de-icing facility	14,234	(5,512)	8,722	9,285
Assets under construction or development	45,918	-	45,918	24,863
	\$293,316	(\$82,894)	\$210,422	\$187,066

Assets under construction or development in 2016 were not being amortized and consisted of the Airport Terminal Building Expansion, the East Terminal Expansion Apron Grading and the Hold Bag Screening System Expansion.

## 5. Accounts payable and accrued liabilities:

	2016	2015
Trade	\$10,081	\$14,912
Accrued liabilities	11,243	11,143
Salaries and benefits	949	861
Deferred revenue and other	281	237
	\$22,554	\$27,153

# Notes to Financial Statements

December 31, 2016

(tabular amounts expressed in thousands of dollars except where otherwise noted)

## 6. Long-term debt:

	2016	2015
Revenue bonds	\$111,935	\$112,613
Less transaction costs (net of amortization of \$174,491; 2015 - \$169,586)	(3,344)	(3,511)
	108,591	109,102
Current portion	714	678
	\$107,877	\$108,424

### (a) Bond Issue

In May 2007, the SJIAA completed its inaugural \$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. The remaining principal is payable on maturity, which is May 11, 2037. In July 2014, the SJIAA completed a \$60,000,000 Revenue Bond issue. The \$60,000,000, 3.479% Series C Revenue Bonds are due on July 15, 2024. The net proceeds from these offerings are used to finance the capital plan and for general corporate purposes. These purposes include repaying existing bank indebtedness and funding of the Debt Service Reserve Fund. The bonds are direct obligations of the Authority ranking pari passu with all other indebtedness issued under the Master Trust Indenture.

### (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, 2016, the Debt Service Reserve Fund included \$2,763,205 (2015 - \$2,763,281) 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 2016, the SJIAA was required to maintain an Operating and Maintenance Reserve Fund of approximately \$4,335,000. 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 2017, approximately \$4,337,000 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 Committee Credit Facility.

### (c) Credit Facilities

The credit facilities of the SJIAA are secured by a \$75,000,000 pledge bond issued pursuant to the Master Trust Indenture. Indebtedness under the credit facilities pari passu with other indebtedness issued under the Master Trust Indenture.

# Notes to Financial Statements

December 31, 2016

(tabular amounts expressed in thousands of dollars except where otherwise noted)

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. In May 2012, the Revolving Credit Facility was amended and increased to \$25,000,000. The facility has a term of five years. As at December 31, 2016, letters of credit for \$759,526 (2015 – \$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.

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. In July 2015, the Demand Loan was amended and increased to \$10,000,000. 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.

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

2017	\$714
2018	752
2019	792
2020	834
2021	879
Thereafter	107,964
	\$111,935

# Notes to Financial Statements

December 31, 2016

(tabular amounts expressed in thousands of dollars except where otherwise noted)

## 7. Deferred contributions for capital projects:

From time to time the SJIAA receives contributions for capital projects from various sources. These funds are accounted for under the deferral method, as outlined in note 2.

	2016	2015
Balance, beginning of the year	\$28,041	\$12,593
Add capital contributions received during the year	6,194	16,193
Less amortization	(1,874)	(745)
Net deferred contributions for capital projects	\$32,361	\$28,041

During the year the SJIAA received capital contributions of \$5,534,250 from the Province of Newfoundland and the Government of Canada for the Airport Accessibility Project.

## 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, to \$20 on April 1, 2011 and to \$30 on August 1, 2014. On July 1, 2017, the AIF is scheduled to increase to \$35. These fees are collected by the air carriers for a fee. 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, 2016, cumulative expenditures of \$272,755,789 (2015 – \$237,557,827) exceeded cumulative net AIF revenue collected of \$160,749,446 (2015 – \$140,014,305) by \$112,006,343 (2015 – \$97,543,522). A summary of the AIF collected and the related collection costs are as follows:

AIF revenue (net):	2016	2015
AIF revenue	\$22,286	\$21,767
AIF collection costs	(1,551)	(1,545)
	\$20,735	\$20,222

# Notes to Financial Statements

December 31, 2016

(tabular amounts expressed in thousands of dollars except where otherwise noted)

## 9. Pension plan:

	2016	2015
Plan assets		
Market value, beginning of year	\$20,136	\$18,362
Interest earned	1,075	985
Employer contributions	1,064	1,175
Employee contributions	100	101
Benefits paid	(492)	(475)
Actuarial (gain)/loss	191	(12)
Market value, end of year	22,074	20,136
<b>Plan obligations</b>		
Accrued benefit obligations, beginning of year	15,801	14,806
Employee Contributions	100	101
Current service cost	359	373
Interest cost	829	777
Benefits paid	(492)	475
Actuarial (gain)/loss	(294)	219
Accrued benefit obligation, end of year	16,303	15,801
<b>Determination of total cost for the period</b>		
Current service costs	359	373
Finance cost	(246)	(208)
Remeasurement and other items	(485)	231
(Income)/cost for the period	(372)	396

# Notes to Financial Statements

December 31, 2016

(tabular amounts expressed in thousands of dollars except where otherwise noted)

## 9. Pension plan: (cont.)

	2016	2015
<b>Defined benefit asset</b>		
Defined benefit asset beginning of year	4,335	3,556
(Income)/cost for the period	372	(396)
Employer contributions during the period	1,064	1,175
Defined benefit asset, end of year	5,771	4,335
<b>Weighted average actuarial assumptions</b>		
Discount Rate	5.25%	5.25%
Rate of salary increases	3.25%	3.25%
The assets of the pension plan are invested and maintain the following asset mix:		
	Percentage of plan assets	
Bonds/fixed income securities	42.33%	37.08%
Equity securities	57.67%	62.92%
Total	100%	100%

The date of the last actuarial valuation of the defined benefit pension plan is December 31, 2015. According to this valuation, the SJIAA's employer service contribution as a percentage of payroll was 21% for 2016 (2015 – 20.5%). A \$4,024,200 solvency deficiency in the defined benefits pension plan existed as at December 31, 2015. This resulted in a special annual payment to fund the deficiency in the amount of \$669,380 for 2016. This annual special payment of \$669,380 is required over the next five years.

# Notes to Financial Statements

December 31, 2016

(tabular amounts expressed in thousands of dollars except where otherwise noted)

## 10. Financial risk factors:

- (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 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 52.7% (2015 – 52.9%) of the total enplaned and deplaned passengers for the Airport during the year.

## 11. Commitments:

Ground Lease:

In January 2006, the SJIAA began paying Ground 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:

2017	\$2,814
2018	3,144
2019	3,303
2020	3,461
2021	3,622

## 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.

# Notes to Financial Statements

December 31, 2016

(tabular amounts expressed in thousands of dollars except where otherwise noted)

## 13. 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, \$3,278,612 (2015 – \$2,156,370) is included in accounts payable and accrued liabilities.

## 14. Related party transactions:

During the year, related party transactions for services rendered to SJIAA relating to the operation of the Airport totaled \$140,587 (2015 – \$115,152). These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties. There was an amount of \$12,803 outstanding as of December 31, 2016 (2015 – \$24,669), which was paid in 2017.

## 15. Directors' and officers' remuneration:

The salary range for the Authority's President & CEO and for senior managers reporting to the President & CEO was \$121,500 to \$272,375 during 2016 (2015 – \$117,000 to \$263,165).

## 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 and 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 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 Paradise 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 – specifically the “Public Accountability Principles for Canadian Airports” and the Authority's Operating By-Laws. The St. John's International Airport's 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. Further amendments to the By-Laws, as required under the new Canada Not-For-Profit Corporations Act, were submitted to Transport Canada in 2014 for approval. The By-Laws contain Conflict of Interest Guidelines and a prescribed Code of Conduct. In 2016, there were no breaches of the Conflict of Interest Guidelines by any Officer or Director of the Airport Authority. The role of the Board of Directors is to guide strategic direction for the Airport Authority. Solid business practice, including formal strategic planning, is carried out and reviewed periodically. Directors also serve on the committees of the Board: Development; Finance and 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 2016 are listed below.

## Schedule of Director's Fees for the year 2016

Board Member	Total
Art Cheeseman (Board Chair)	\$40,000
Tom Williams (Board Vice Chair)	24,000
Gail Carroll <sup>1</sup>	22,000
Darren Martin <sup>2</sup>	21,667
Roger Butt <sup>3</sup>	21,500
Neil Pittman (Past Chair)	18,000
Holly Hicks	17,000
Jim Heale	17,000
Jerry Byrne	16,500
Mike Donovan	15,167
Gary Follett <sup>4</sup>	2,250
Irene Baird <sup>4</sup>	1,833
<b>Total</b>	<b>\$216,917</b>

<sup>1</sup> Chair, Governance Committee

<sup>2</sup> Chair, Development Committee

<sup>3</sup> Chair, Finance and Audit Committee

<sup>4</sup> Completed Term January 26, 2016