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Kelowna International Airport

2016 Financial Statements

For the year ended December 31, 2016



Kelowna,
British Columbia
Canada

KELOWNA INTERNATIONAL AIRPORT
Statement of Financial Position
As at December 31, 2016

	Actual 2016	Actual 2015
Financial Assets		
Cash and cash equivalents	\$ 57,144	\$ 32,485
Accounts receivable		
Federal government	262,775	72,573
Trade	3,769,929	2,884,548
Portfolio investments	<u>25,664,006</u>	<u>30,384,225</u>
	<u>29,753,854</u>	<u>33,373,831</u>
Liabilities		
Accounts payable		
Regional government	224,760	191,364
Trade	3,164,959	3,253,245
Performance deposits	379,937	220,474
Deferred revenue	133,615	92,939
Mortgage payable (Note 3)	4,500,000	-
Debenture debt (Note 4)	<u>17,081,304</u>	<u>12,974,297</u>
	<u>25,484,575</u>	<u>16,732,319</u>
Net Financial Assets	<u>4,269,279</u>	<u>16,641,512</u>
Non-Financial Assets		
Prepaid expenses	164,624	250,113
Inventory	184,580	211,230
Construction in progress (Note 5)	30,847,566	20,728,834
Tangible capital assets (Note 6)	<u>88,991,512</u>	<u>76,373,530</u>
	<u>120,188,282</u>	<u>97,563,707</u>
Accumulated Surplus (Note 7)	<u>\$ 124,457,561</u>	<u>\$ 114,205,219</u>

Contingent liabilities (Note 8)
 Commitments (Note 9)



Sam Samaddar
 Airport Director



Genelle Davidson, CPA, CMA
 Financial Services Director

See accompanying notes to the financial statements

KELOWNA INTERNATIONAL AIRPORT
Statement of Operations and Accumulated Surplus
For the Year Ended December 31, 2016

	Budget <u>2016</u>	Actual <u>2016</u>	Actual <u>2015</u>
Revenue			
Sale of services (Note 11)	\$ 26,197,260	\$ 28,671,592	\$ 26,369,267
Interest earned	144,000	254,728	250,842
Conditional transfers - Federal government (Note 2)	115,500	115,500	115,500
Other capital contributions	-	555,797	353,579
	<u>26,456,760</u>	<u>29,597,617</u>	<u>27,089,188</u>
Expenses (Note 12)			
Administration	2,837,022	2,943,793	2,458,509
Interest	1,203,500	1,029,147	794,717
Terminal operations	4,143,987	4,209,328	3,905,840
Airport improvement fee	376,864	614,523	517,819
Airport policing	180,790	180,790	200,661
Groundside operations	1,969,814	2,009,537	1,687,485
Airside operations	2,493,292	3,125,257	2,751,982
Amortization	-	5,232,900	5,159,415
	<u>13,205,269</u>	<u>19,345,275</u>	<u>17,476,428</u>
Annual Surplus	\$ <u>13,251,491</u>	10,252,342	9,612,760
Accumulated Surplus, beginning of year		<u>114,205,219</u>	<u>104,592,459</u>
Accumulated Surplus, end of year		\$ <u>124,457,561</u>	\$ <u>114,205,219</u>

See accompanying notes to the financial statements

KELOWNA INTERNATIONAL AIRPORT
Statement of Changes in Net Financial Assets
For the Year Ended December 31, 2016

	Budget <u>2016</u>	Actual <u>2016</u>	Actual <u>2015</u>
Annual surplus	\$ 13,251,491	\$ 10,252,342	\$ 9,612,760
Amortization	-	5,232,900	5,159,415
Proceeds from disposal of tangible capital assets	-	25,000	-
Acquisition of tangible capital assets	53,367,550	(27,969,614)	(17,188,313)
Gain on disposal of tangible capital assets	-	(25,000)	-
Change in inventory and prepaid expenses	-	112,139	(234,227)
	<u>66,619,041</u>	<u>(12,372,233)</u>	<u>(2,650,365)</u>
Net Financial Assets, beginning of year	<u>16,641,512</u>	<u>16,641,512</u>	<u>19,291,877</u>
Net Financial Assets, end of year	\$ <u><u>83,260,553</u></u>	\$ <u><u>4,269,279</u></u>	\$ <u><u>16,641,512</u></u>

See accompanying notes to the financial statements

KELOWNA INTERNATIONAL AIRPORT
Statement of Cash Flows
For the Year Ended December 31, 2016

Net inflow (outflow) of cash and cash equivalents related to the following activities:	Actual <u>2016</u>	Actual <u>2015</u>
Operating		
Annual surplus	\$ 10,252,342	\$ 9,612,760
Adjustment for non-cash items		
Amortization of tangible capital assets	5,232,900	5,159,415
Gain on disposal of tangible capital assets	(25,000)	-
Actuarial adjustment on debenture debt	(421,028)	(353,579)
Developer contributions of tangible capital assets	(109,769)	-
Decrease (increase) in assets		
Accounts receivable	(1,075,583)	(129,395)
Inventory and prepaid expenses	112,139	(234,227)
Increase (decrease) in liabilities		
Accounts payable	(54,890)	1,952,737
Performance deposits	159,463	194
Deferred revenue	40,676	(94,201)
	<u>14,111,250</u>	<u>15,913,704</u>
Capital		
Acquisition of tangible capital assets	(27,859,845)	(17,188,313)
Proceeds from disposal of tangible capital assets	25,000	-
	<u>(27,834,845)</u>	<u>(17,188,313)</u>
Investing		
Change in investments	<u>4,720,219</u>	<u>(4,921,930)</u>
Financing		
Proceeds from mortgage payable	4,500,000	-
Proceeds from issuance of debenture debt	6,500,000	7,500,000
Repayment of debenture debt	(1,971,965)	(1,332,655)
	<u>9,028,035</u>	<u>6,167,345</u>
Net increase (decrease) in cash and cash equivalents	24,659	(29,194)
Cash and cash equivalents, beginning of year	<u>32,485</u>	<u>61,679</u>
Cash and cash equivalents, end of year	\$ <u>57,144</u>	\$ <u>32,485</u>
Supplementary cash flow information - non cash transaction		
Contributed tangible capital asset	<u>\$ 109,769</u>	<u>\$ -</u>

See accompanying notes to the financial statements.

KELOWNA INTERNATIONAL AIRPORT

Notes to Financial Statements

December 31, 2016

1. Organization and nature of operations

The Kelowna International Airport (“the Airport”) is controlled by the City of Kelowna (“the City”) and is reported in the City’s financial statements as part of the City’s resources and operations.

The City operates the Airport pursuant to the provisions of a long-term lease with the Government of Canada entered into January 1, 1969 (“the Ground Lease”). The current term of the Ground Lease, was extended on July 24, 2015 for an additional 20 years with the result that the term of the Ground Lease ends on December 31, 2054.

These financial statements reflect only the assets, liabilities and operations of the Airport. The financial statements have been prepared in accordance with Canadian public sector accounting standards.

2. Significant accounting policies

Accrual accounting

The accrual method for reporting revenues and expenditures has been used.

Cash and cash equivalents

Cash and cash equivalents represent funds held in the City of Kelowna pooled funds. Cash and cash equivalents consist of cash and short-term investments with maturities of 90 days or less from the date of acquisition.

Government transfers

Government transfers are the major source of transfers to the Airport. Restricted government transfers are deferred and recognized as revenue in the year in which the related expenditures are incurred. Unrestricted transfers are recognized as revenue when received. Due to the completion of the projects in 2016 there are no deferred revenue balances related to these grants. The Airport received and recorded as revenue the following grants:

Grant received from	Type of grant	Project	2016	2015
Canadian Air Transport Security Authority	Restricted	Terminal Building – baggage handling operations	\$ 115,500	\$ 115,500

Tangible capital assets

Tangible capital assets are recorded at cost which includes all amounts directly attributable to the acquisition, construction, development or betterment of the asset. The cost, less residual value of the asset, is amortized on a straight-line basis over its estimated useful lives as follows:

Land improvements	25 years
Buildings	10 to 75 years
Infrastructure	10 to 75 years
Machinery and equipment	5 to 20 years

KELOWNA INTERNATIONAL AIRPORT

Notes to Financial Statements

December 31, 2016

2. Significant accounting policies (continued)

Contributions of tangible capital assets

Tangible capital assets received as contributions are recorded at their fair market value at the date of contribution.

Intangible assets

Intangible assets include works of art and historic assets. They are not recorded in these financial statements due to the uncertainty as to their value.

Inventories of supplies

Inventories of supplies include chemicals, fuel and supplies and are recorded at the lower of historical cost or replacement cost, with cost being determined using the weighted average cost method except for chemicals which are recorded at the first in-first out method.

Portfolio investments

Portfolio investments are recorded at cost and are comprised of Municipal Finance Authority Bonds/Intermediate Funds, Provincial and Bank Issued Accrual Notes and Debentures, and Guaranteed Investment Certificates and Deposit Notes.

Interest capitalization

The Airport only capitalizes interest on projects being financed internally which will require debenture borrowing upon completion. Interest is calculated on monthly expenditures using the bank prime rate less 2%.

Municipal Finance Authority cash deposits and demand notes

The City, on behalf of the Airport, has issued its debt instruments through the Municipal Finance Authority. As a condition of these borrowings, a portion of the debenture proceeds is withheld by the Municipal Finance Authority as a debt reserve fund. The City also executes demand notes in connection with each debenture whereby the City may be required to loan certain amounts to the Municipal Finance Authority. These demand notes are contingent in nature. The Debt Reserve and Demand Note balances are as follows:

	<u>2016</u>	<u>2015</u>
Cash Deposits held by MFA	\$ 355,969	\$ 282,077
Demand Notes Held by MFA	<u>1,518,126</u>	<u>1,226,108</u>
	<u>\$ 1,874,095</u>	<u>\$ 1,508,185</u>

KELOWNA INTERNATIONAL AIRPORT

Notes to Financial Statements

December 31, 2016

2. Significant accounting policies (continued)

Liability for Contaminated Sites

Contaminated sites are a result of contamination being introduced into air, soil, water or sediment of a chemical, organic or radioactive material or live organism that exceeds an environmental standard. The liability is recorded net of any expected recoveries. A liability for remediation of contaminated sites is recognized when a site is not in productive use all the following criteria are met:

- an environmental standard exists,
- contamination exceeds the environmental standard,
- the Airport;
 - is directly responsible; or
 - accepts responsibility,
- it is expected that future economic benefits will be given up, and
- a reasonable estimate of the amount can be made.

The liability is recognized as management's estimate of the cost of post-remediation including operation, maintenance and monitoring that are an integral part of the remediation strategy for a contaminated site.

There are no liabilities to be recorded as at December 31, 2016.

Use of estimates

Management has made estimates and assumptions that affect the amounts reported in preparing these financial statements. The significant area requiring the use of management estimates relates to the determination of tangible capital assets' estimated useful lives, the related amortization, and liability for contaminated sites. Actual results could vary from those estimates.

Revenue recognition

Airport improvement fee revenue is recognized as income in the period that passengers depart from the Airport.

Landing fees and terminal fees are generated principally from scheduled flights and non-scheduled commercial aviation and are recognized when the Airport facilities are utilized.

Rentals and fees, vehicle parking revenue, aircraft and apron equipment parking and other revenue are recognized when the Airport facilities are utilized.

Car rental concession revenue is recognized based on an agreed percentage of reported concessionaire sales and/or specified minimum rentals in the period in which the rentals occur. Other concession revenue is recognized based on an agreed percentage of reported concessionaire sales in the period in which the sales occur.

Investment income is recorded on an accrual basis and recognized when earned.

Ground lease

The Ground lease is accounted for as an operating lease and has a single rent payment of \$1 up to 2034 followed by annual rent payments of \$1 from 2035 to 2054.

KELOWNA INTERNATIONAL AIRPORT

Notes to Financial Statements

December 31, 2016

2. Significant accounting policies (continued)

Reserves for future expenditure

Reserves for future expenditure are non-statutory reserves which represent an appropriation of surplus for specific purposes. Transfers to reserves for future expenditure include funds to finance incomplete projects and accumulations for specific purposes.

3. Mortgage payable

The City has a mortgage of \$4,500,000 with Reaton Leasing Ltd. which is to be repaid in January 2021. The annual amount of principal repayment is \$900,000 per year. The mortgage does not bear interest and is secured by specific land.

4. Debenture debt

Debenture debt principal is reported net of sinking fund balances.

Local Area Bylaw	Issue No.	Interest Rate	Amount of Issue	Sinking Fund Balance	Net Debt	Due Date
9867	103	4.65	\$ 16,000,000	\$ 12,279,386	\$ 3,720,614	2018-04-23
9867	133	2.75	7,500,000	639,310	6,860,690	2025-10-02
9867	137	2.60	3,000,000	-	3,000,000	2026-04-19
9867	139	2.10	3,500,000	-	3,500,000	2026-10-05
			<u>\$ 30,000,000</u>	<u>\$ 12,918,696</u>	<u>\$ 17,081,304</u>	

Principal repayments required for the next five years are as follows:

<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
<u>\$ 2,532,002</u>	<u>\$ 2,532,002</u>	<u>\$ 1,199,347</u>	<u>\$ 1,199,347</u>	<u>\$ 1,199,347</u>

5. Construction in progress

Construction in progress is recorded at cost, is not amortized, and is comprised of:

	<u>2016</u>	<u>2015</u>
Land improvements	\$ 1,212,811	\$ -
Buildings	1,516,723	1,038,578
Infrastructure	7,729,183	11,987,210
Machinery and equipment	<u>20,388,849</u>	<u>7,703,046</u>
Total construction in progress	<u>\$ 30,847,566</u>	<u>\$ 20,728,834</u>

KELOWNA INTERNATIONAL AIRPORT

Notes to Financial Statements

December 31, 2016

6. Tangible capital assets

	<u>Cost</u>	<u>Accumulated amortization</u>	<u>2016 Net book value</u>	<u>2015 Net book value</u>
Land	\$ 11,255,949	\$ -	\$ 11,255,949	\$ 5,949,999
Land improvements	13,199,726	6,636,258	6,563,468	7,010,200
Buildings	55,218,711	22,001,682	33,217,029	34,624,202
Infrastructure	56,474,899	25,740,883	30,734,016	23,295,903
Machinery and equipment	16,714,062	9,493,012	7,221,050	5,493,226
	<u>\$ 152,863,347</u>	<u>\$ 63,871,835</u>	<u>\$ 88,991,512</u>	<u>\$ 76,373,530</u>

Schedule 1 provides a breakdown of tangible capital assets and construction in progress.

7. Accumulated surplus

	<u>Reserves for future expenditure</u>	<u>General surplus</u>	<u>Investment in tangible capital assets</u>	<u>Total 2016</u>	<u>Total 2015</u>
Surplus, beginning of year	\$ 24,340,755	\$ 596,280	\$ 89,268,184	\$ 114,205,219	\$ 104,592,459
Annual surplus (deficit)	237,575	14,716,870	(4,702,103)	10,252,342	9,612,760
Transfers	12,719,905	(12,719,905)	-	-	-
Acquisition of tangible capital assets	(11,694,728)	-	11,694,728	-	-
Proceeds from disposal of tangible capital assets	-	(25,000)	25,000	-	-
Retirement of debenture debt	-	(1,971,965)	1,971,965	-	-
Surplus, end of year	<u>\$ 25,603,507</u>	<u>\$ 596,280</u>	<u>\$ 98,257,774</u>	<u>\$ 124,457,561</u>	<u>\$ 114,205,219</u>

8. Contingent liabilities

Pension liability

The employer and its employees contribute to the Municipal Pension Plan (a jointly trusted pension plan). The board of trustees, representing plan members and employers, is responsible for administering the plan, including investment of assets and administration of benefits. The plan is a multi-employer defined benefit pension plan. Basic pension benefits are based on a formula. As at December 31, 2015, the plan has about 189,000 active members and approximately 85,000 retired members. Active members include approximately 37,000 contributors from local governments.

KELOWNA INTERNATIONAL AIRPORT

Notes to Financial Statements

December 31, 2016

8. Contingent liabilities (continued)

Pension liability (continued)

Every three years, an actuarial valuation is performed to assess the financial position of the plan and adequacy of plan funding. The actuary determines an appropriate combined employer and member contribution rate to fund the plan. The actuary's calculated contribution rate is based on the entry-age normal cost method, which produces the long-term rate of member and employer contributions sufficient to provide benefits for average future entrants to the plan. This rate is then adjusted to the extent there is amortization of any funding deficit.

The most recent valuation for the Municipal Pension Plan as at December 31, 2015, indicated a \$2,224 million funding surplus for basic pension benefits on a going concern basis.

The Airport paid \$377,727 (2015 - \$352,565) for employer contributions to the plan in fiscal 2016, which represents 0.02 per cent of the total plan contributions, while employees contributed \$278,195 (2015 - \$267,306) to the plan in fiscal 2016. The Airport expects to pay \$378,000 for employer contributions in the next fiscal year.

The next valuation will be as at December 31, 2018, with results available in 2019.

Employers participating in the plan record their pension expense as the amount of employer contributions made during the fiscal year (defined contribution pension plan accounting). This is because the plan records accrued liabilities and accrued assets for the plan in aggregate, resulting in no consistent and reliable basis for allocating the obligation, assets and cost to individual employers participating in the plan.

Legal actions

The City is currently engaged in certain legal actions. The outcome and the possible effect on the Airport of these legal actions are not determinable at this time. Accordingly, no provision has been made in the accounts for these actions.

The amount of loss, if any, arising from these contingent liabilities will be recorded in the accounts in the period in which the loss is realized.

9. Commitments

At December 31, 2016, the Airport had entered into construction commitments relating to the Airport capital program amounting to \$9,183,379 (2015 - \$25,070,215).

KELOWNA INTERNATIONAL AIRPORT

Notes to Financial Statements

December 31, 2016

10. Airport improvement fees

The Kelowna International Airport entered into a Memorandum of Agreement ("the Agreement") dated September 23, 1997 with the Air Transport Association of Canada and all major carriers operating from the Airport. The Agreement provides for a consultative process with air carriers regarding the improvement to and expansion of airport facilities and the collection of airport improvement fees (AIF) by air carriers through their ticketing processes. AIF revenues can only be used to fund approved Airport infrastructure projects and associated financing costs.

AIF fees are charged at \$15 per departing passenger.

Airport improvement fee summary since implementation to December 31:

	<u>2016</u>	<u>2015</u>
Cumulative AIF revenue	\$ 108,330,953	\$ 96,409,890
Cumulative AIF expenditures	<u>122,468,537</u>	<u>112,384,282</u>
Deficiency of revenue over expenditures	\$ <u>(14,137,584)</u>	\$ <u>(15,974,392)</u>

11. Sale of service by object

	<u>2016</u>	<u>2015</u>
Airport improvement fee	\$ 11,847,978	\$ 10,952,201
Aircraft parking	137,726	122,389
Airline terminal fees	2,852,857	2,493,738
Apron equipment parking	11,659	11,659
Aviation fuel concessions	16,246	20,892
Car rentals	2,191,572	2,073,083
Ground handler concessions	87,183	71,064
Land lease revenue	624,610	586,179
Landing fees	3,586,712	3,225,911
Other	377,050	406,549
Terminal building space rental	438,921	421,660
Terminal concessions	796,587	718,358
Vehicle parking	<u>5,702,491</u>	<u>5,265,584</u>
	\$ <u>28,671,592</u>	\$ <u>26,369,267</u>

KELOWNA INTERNATIONAL AIRPORT

Notes to Financial Statements

December 31, 2016

12. Expenses by object

Expenses reported by object comprise:	<u>2016</u>	<u>2015</u>
Salaries and benefits	\$ 4,309,910	\$ 3,887,703
Contract and professional services	1,415,617	936,370
Interest expense	1,029,147	794,717
Materials and supplies	5,752,209	5,111,705
Equipment	42,456	18,483
Allocations, policing and overhead	1,431,632	1,502,249
Cost recoveries	(503,281)	(494,256)
Utilities	634,685	560,042
Amortization	<u>5,232,900</u>	<u>5,159,415</u>
	<u>\$ 19,345,275</u>	<u>\$ 17,476,428</u>

13. Budget data

The budget figures are from the Annual Five-Year Financial Plan Bylaw adopted before May 15 of each year. Subsequent amendments have been made by Council to reflect changes in the budget as required by law. Amortization of tangible capital assets was not included in the budget. The table below shows the reconciliation between the approved budget and the budget presented in these financial statements.

	<u>Budget Amount</u>
Revenue	
Operating budget	\$ <u>26,456,760</u>
Expenses	
Operating budget	13,205,269
Capital budget	<u>53,367,550</u>
	<u>66,572,819</u>
Annual deficit per approved budget	(40,116,059)
Add: capital expenses	<u>53,367,550</u>
Annual surplus per statement of operations	<u>\$ 13,251,491</u>

14. Comparative figures

Certain of the comparative figures have been reclassified to conform to current year financial statement presentation.

KELOWNA INTERNATIONAL AIRPORT

Schedule 1 – Tangible Capital Assets

As at December 31, 2016

	Machinery & Equipment							Subtotal Machinery & Equipment	Construction in Progress	Total 2016	Total 2015
	Land	Land Improvements	Buildings	Infrastructure	Vehicles	Machinery & Equipment	Computer				
Cost											
Balance, beginning of year	\$ 5,949,999	13,176,254	\$ 54,989,132	\$ 46,805,556	\$ 3,023,244	\$ 10,685,924	\$ 678,850	\$ 14,388,018	\$ 20,728,834	\$ 156,037,793	\$ 138,849,480
Add: additions during the year	5,305,950	23,472	109,770	211,676	-	1,894,655	-	1,894,655	20,424,091	27,969,614	17,188,313
Add: transfers to tangible capital assets	-	-	119,809	9,457,667	-	727,883	-	727,883	(10,305,359)	-	-
Less: disposals during the year	-	-	-	-	-	(296,494)	-	(296,494)	-	(296,494)	-
Balance, end of year	<u>11,255,949</u>	<u>13,199,726</u>	<u>55,218,711</u>	<u>56,474,899</u>	<u>3,023,244</u>	<u>13,011,968</u>	<u>678,850</u>	<u>16,714,062</u>	<u>30,847,566</u>	<u>183,710,913</u>	<u>156,037,793</u>
Accumulated Amortization											
Balance, beginning of year	-	6,166,054	20,364,930	23,516,017	750,047	7,527,168	611,213	8,888,428	-	58,935,429	53,776,014
Add: amortization	-	470,204	1,636,752	2,224,866	205,773	673,180	22,125	901,078	-	5,232,900	5,159,415
Less: accumulated amortization on disposals	-	-	-	-	-	(296,494)	-	(296,494)	-	(296,494)	-
Balance, end of year	<u>-</u>	<u>6,636,258</u>	<u>22,001,682</u>	<u>25,740,883</u>	<u>955,820</u>	<u>7,903,854</u>	<u>633,338</u>	<u>9,493,012</u>	<u>-</u>	<u>63,871,835</u>	<u>58,935,429</u>
Net Book Value of Tangible Capital Assets and Construction in Progress	<u>\$ 11,255,949</u>	<u>\$ 6,563,468</u>	<u>\$ 33,217,029</u>	<u>\$ 30,734,016</u>	<u>\$ 2,067,424</u>	<u>\$ 5,108,114</u>	<u>\$ 45,512</u>	<u>\$ 7,221,050</u>	<u>\$ 30,847,566</u>	<u>\$ 119,839,078</u>	<u>\$ 97,102,364</u>

Y L W Kelowna
International
Airport

1-5533 Airport Way
Kelowna, BC V1V 1S1
TEL 250-807-4300
FAX 250-765-0213
airport@kelowna.ca

ylw.kelowna.ca