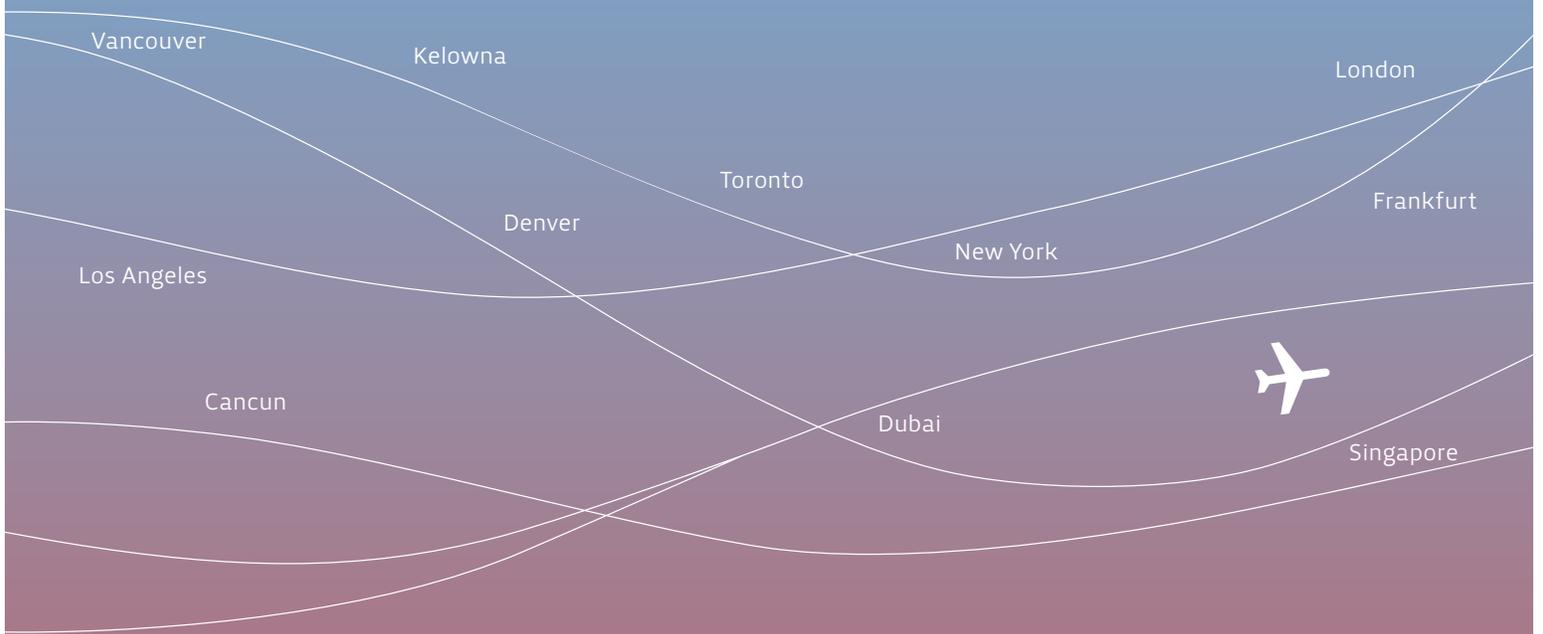


Kelowna International Airport 2014 Financial Statements

December 31, 2014



Contents

	Page
Independent auditors' report	1
Statement of financial position	2
Statement of operations and accumulated surplus	3
Statement of changes in net financial assets	4
Statement of cash flows	5
Notes to the financial statements	6-12
Schedule 1 – Tangible capital assets	13

Independent auditors' report

Grant Thornton LLP
200 - 1633 Ellis Street
Kelowna, BC
V1Y 2A8
T (250) 712-6800
(800) 661-4244 (Toll Free)
F (250) 712-6850
www.GrantThornton.ca

To the members of Council of the City of Kelowna

We have audited the accompanying financial statements of Kelowna International Airport (“the Airport”), which comprise the statement of financial position as at December 31, 2014, the statement of operations and accumulated surplus, statement of changes in net financial assets and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management’s responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Airport’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 Airport’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 Kelowna International Airport as at December 31, 2014, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Kelowna, BC
April 27, 2015

Grant Thornton LLP
Chartered accountants

KELOWNA INTERNATIONAL AIRPORT
Statement of Financial Position
As at December 31, 2014

	Actual 2014	Actual <u>2013</u>
Financial Assets		
Cash and cash equivalents	\$ 25,523,974	\$ 20,204,491
Accounts receivable		
Federal government	84,236	42,856
Trade	<u>2,743,490</u>	<u>2,662,357</u>
	<u>28,351,700</u>	<u>22,909,704</u>
Liabilities		
Accounts payable		
Regional government	140,647	140,647
Trade	1,351,225	1,087,227
Performance deposits	220,280	219,665
Deferred revenue	187,140	112,699
Debenture debt (Note 4)	<u>7,160,531</u>	<u>8,781,910</u>
	<u>9,059,823</u>	<u>10,342,148</u>
Net Financial Assets	<u>19,291,877</u>	<u>12,567,556</u>
Non-Financial Assets		
Prepaid expenses	227,116	151,799
Construction in progress (Note 5)	6,916,748	12,934,078
Tangible capital assets (Note 6)	<u>78,156,718</u>	<u>68,955,037</u>
	<u>85,300,582</u>	<u>82,040,914</u>
Accumulated Surplus (Note 7)	<u>\$ 104,592,459</u>	<u>\$ 94,608,470</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, 2014

	Budget <u>2014</u>	Actual <u>2014</u>	Actual <u>2013</u>
Revenue			
Sale of services (Note 11)	\$ 23,875,710	\$ 26,180,006	\$ 24,248,874
Interest earned	144,000	250,715	184,397
Conditional transfers - government	115,500	115,500	443,246
Other capital contributions	-	288,724	226,363
	<u>24,135,210</u>	<u>26,834,945</u>	<u>25,102,880</u>
Expenses (Note 12)			
Administration	2,283,720	2,413,646	2,161,597
Interest	1,272,000	744,000	744,000
Terminal operations	3,808,390	3,968,650	3,832,742
Airport improvement fee	333,130	339,961	336,550
Airport policing	170,860	192,576	219,955
Groundside operations	1,929,230	1,641,126	1,707,281
Airside operations	2,349,810	2,613,154	2,450,824
Amortization	-	4,937,843	4,532,028
	<u>12,147,140</u>	<u>16,850,956</u>	<u>15,984,977</u>
Annual surplus	\$ <u>11,988,070</u>	9,983,989	9,117,903
Accumulated Surplus, beginning of year		<u>94,608,470</u>	<u>85,490,567</u>
Accumulated Surplus, end of year		\$ <u>104,592,459</u>	\$ <u>94,608,470</u>

See accompanying notes to the financial statements

KELOWNA INTERNATIONAL AIRPORT
Statement of Changes in Net Financial Assets
For the Year Ended December 31, 2014

	Budget <u>2014</u>	Actual <u>2014</u>	Actual <u>2013</u>
Annual surplus	\$ 11,988,070	\$ 9,983,989	\$ 9,117,903
Amortization	-	4,937,843	4,532,028
Acquisition of tangible capital assets	(25,633,980)	(8,122,194)	(4,978,602)
Change in prepaid expenses	-	(75,317)	(21,370)
	<u>(13,645,910)</u>	<u>6,724,321</u>	<u>8,649,959</u>
Net Financial Assets, beginning of year	<u>12,567,556</u>	<u>12,567,556</u>	<u>3,917,597</u>
Net Financial Assets, end of year	\$ <u><u>(1,078,354)</u></u>	\$ <u><u>19,291,877</u></u>	\$ <u><u>12,567,556</u></u>

See accompanying notes to the financial statements

KELOWNA INTERNATIONAL AIRPORT
Statement of Cash Flows
For the Year Ended December 31, 2014

Net inflow (outflow) of cash and cash equivalents related to the following activities:	Actual <u>2014</u>	Actual <u>2013</u>
Operating		
Annual surplus	\$ 9,983,989	\$ 9,117,903
Adjustment for non-cash items		
Amortization	4,937,843	4,532,028
Actuarial adjustment on debenture debt	(288,724)	(226,363)
Decrease (increase) in assets		
Accounts receivable	(122,513)	997,813
Prepaid expenses	(75,317)	(21,370)
Increase (decrease) in liabilities		
Accounts payable	263,998	(936,137)
Performance deposits	615	(25,225)
Deferred revenue	74,441	22,927
	<u>14,774,332</u>	<u>13,461,576</u>
Capital		
Purchase of tangible capital assets	<u>(8,122,194)</u>	<u>(4,978,602)</u>
Financing		
Repayment of debenture debt	<u>(1,332,655)</u>	<u>(1,332,655)</u>
Net increase in cash and cash equivalents	5,319,483	7,150,319
Cash and cash equivalents, beginning of year	<u>20,204,491</u>	<u>13,054,172</u>
Cash and cash equivalents, end of year	\$ <u>25,523,974</u>	\$ <u>20,204,491</u>
Supplementary cash flow information		
Interest paid	<u>\$ 744,000</u>	<u>\$ 744,000</u>

See accompanying notes to the financial statements.

KELOWNA INTERNATIONAL AIRPORT

Notes to Financial Statements

December 31, 2014

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, renewed January 1, 1996 for a period of 39 years, ends on December 31, 2034.

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 2014 there are no deferred revenue balances related to these grants. The Airport received and recorded as revenue the following grants:

2014

<u>Grant received from</u>	<u>Type of grant</u>	<u>Project</u>	<u>Amount</u>
Canadian Air Transport Security Authority	Restricted	Terminal Building – baggage handling operations	<u>\$ 115,500</u>

2013

<u>Grant received from</u>	<u>Type of grant</u>	<u>Project</u>	<u>Amount</u>
Canadian Air Transport Security Authority	Restricted	Terminal Building – baggage handling operations	\$ 115,500
Canadian Air Transport Security Authority	Restricted	Airport Policing operations	75,819
Province of BC – energy management	Restricted	Geo exchange system in terminal building	<u>251,927</u>
			<u>\$ 443,246</u>

KELOWNA INTERNATIONAL AIRPORT

Notes to Financial Statements

December 31, 2014

2. Significant accounting policies (continued)

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

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.

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>2014</u>	<u>2013</u>
Cash Deposits held by MFA	\$ 201,439	\$ 195,765
Demand Notes Held by MFA	<u>878,328</u>	<u>878,328</u>
	<u>\$ 1,079,767</u>	<u>\$ 1,074,093</u>

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 and the related amortization. Actual results could vary from those estimates.

KELOWNA INTERNATIONAL AIRPORT

Notes to Financial Statements

December 31, 2014

2. Significant accounting policies (continued)

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 the greater of an agreed percentage of reported concessionaire sales and specified minimum rentals. Other concession revenue is recognized based on an agreed percentage of reported concessionaire sales.

Ground lease

The Ground Lease is accounted for as an operating lease and has a single rent payment of \$1 for the current 39 year term.

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. Future accounting changes

PS 3260 – Liability for contaminated sites

This section establishes the recognition criteria, measurement and disclosure requirements for reporting liabilities associated with remediation of contaminated sites that either are not in use or resulted from unexpected environmental events. This section applies to fiscal years beginning on or after April 1, 2014, with early adoption permitted.

PS 3450 – Financial instruments

This section establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. This section applies to fiscal years beginning on or after April 1, 2016, with early adoption permitted.

PS 2601 – Foreign currency translation

This section revises and replaces the existing Section PS 2600 *Foreign currency translation*. This section applies to fiscal years beginning on or after April 1, 2016, with early adoption permitted.

PS 1201 – Financial statement presentation

This section revises and replaces the existing Section PS 1200 *Financial statement presentation*. This section applies to fiscal years beginning on or after April 1, 2016, with early adoption permitted.

KELOWNA INTERNATIONAL AIRPORT
Notes to Financial Statements
December 31, 2014

3. Future accounting changes (continued)

PS 2200 – Related party disclosures

This section defines a related party and establishes disclosures required for related party transactions. Disclosure of information about related party transactions and the relationship underlying them is required when they have occurred at a value different from that which would have been arrived at if the parties were unrelated. This section applies to fiscal years beginning on or after April 1, 2017, with early adoption permitted.

4. Debenture debt

Debenture debt principal is reported net of sinking fund balances. The sinking fund balance at December 31, 2014 was \$8,839,469 (2013 - \$7,218,090). The interest rate on debenture debt is 4.65% and is due in 2018. Principal repayments required for the next four years are as follows:

<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
<u>\$ 1,332,655</u>	<u>\$ 1,332,655</u>	<u>\$ 1,332,655</u>	<u>\$ 1,332,655</u>

5. Construction in progress

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

	<u>2014</u>	<u>2013</u>
Buildings	\$ 428,996	\$ 5,807,473
Infrastructure	3,522,824	3,768,757
Machinery and equipment	<u>2,964,928</u>	<u>3,357,848</u>
Total construction in progress	<u>\$ 6,916,748</u>	<u>\$ 12,934,078</u>

6. Tangible capital assets

	<u>Cost</u>	<u>Accumulated amortization</u>	<u>2014 Net book value</u>	<u>2013 Net book value</u>
Land	\$ 5,837,166	\$ -	\$ 5,837,166	\$ 3,734,692
Land improvements	13,160,384	5,696,635	7,463,749	7,903,824
Buildings	54,986,310	18,727,594	36,258,716	31,426,979
Infrastructure	43,883,016	21,447,497	22,435,519	20,486,695
Machinery and equipment	<u>14,065,856</u>	<u>7,904,288</u>	<u>6,161,568</u>	<u>5,402,847</u>
	<u>\$ 131,932,732</u>	<u>\$ 53,776,014</u>	<u>\$ 78,156,718</u>	<u>\$ 68,955,037</u>

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

KELOWNA INTERNATIONAL AIRPORT
Notes to Financial Statements
December 31, 2014

7. Accumulated surplus

	Reserves for future <u>expenditure</u>	General <u>surplus</u>	Investment in tangible capital <u>assets</u>	Total 2014	Total <u>2013</u>
Surplus, beginning of year	\$ 20,904,986	\$ 596,279	\$ 73,107,205	\$ 94,608,470	\$ 85,490,567
Annual surplus (deficit)	231,700	14,401,408	(4,649,119)	9,983,989	9,117,903
Transfers	13,068,752	(13,068,752)	-	-	-
Acquisition of tangible capital assets	(8,122,194)	-	8,122,194	-	-
Retirement of debenture debt	<u>-</u>	<u>(1,332,655)</u>	<u>1,332,655</u>	<u>-</u>	<u>-</u>
Surplus, end of year	<u>\$ 26,083,244</u>	<u>\$ 596,280</u>	<u>\$ 77,912,935</u>	<u>\$104,592,459</u>	<u>\$ 94,608,470</u>

8. Contingent liabilities

Pension liability

The Airport and its employees contribute to the Municipal Pension Plan (the plan), a jointly trustee pension plan. The board of trustees, representing plan members and employers, is responsible for overseeing the management of the plan, including investment of the assets and administration of benefits. The plan is a multi-employer contributory pension plan. Basic pension benefits provided are based on a formula. The plan has about 182,000 active members and approximately 75,000 retired members. Active members include approximately 36,000 contributors from local government.

The most recent actuarial valuation as at December 31, 2012 indicated a \$1,370 million funding deficit for basic pension benefits. The next valuation will be as at December 31, 2015 with results available in 2016. 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 with the result that there is no consistent and reliable basis for allocating the obligation, assets and cost to the individual employers participating in the Plan.

The Airport paid \$326,683 (2013 - \$330,341) for employer contributions while employee contributions were \$248,482 (2013 - \$253,351) to the plan in fiscal 2014.

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.

KELOWNA INTERNATIONAL AIRPORT
Notes to Financial Statements
December 31, 2014

9. Commitments

At December 31, 2014, the Airport had entered into construction commitments relating to the Airport capital program amounting to \$3,962,480 (2013 - \$3,283,170).

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.

Since implementation, AIF fees have been charged at the following rates per departing passenger:

<u>Effective date</u>	<u>Rate</u>
February 1, 1998	\$5
March 1, 2002	\$8
November 1, 2007	\$10
January 1, 2011	\$12
January 1, 2013	\$15

Airport improvement fee summary since implementation to December 31:

	<u>2014</u>	<u>2013</u>
Cumulative AIF revenue	\$ 85,393,980	\$ 74,397,230
Cumulative AIF expenditures	<u>96,373,276</u>	<u>88,886,177</u>
Deficiency of revenue over expenditures	\$ <u>(10,979,296)</u>	\$ <u>(14,488,947)</u>

11. Sale of service by object

	<u>2014</u>	<u>2013</u>
Airport improvement fee	\$ 10,963,576	\$ 10,336,102
Aircraft parking	115,611	112,619
Airline terminal fees	2,318,272	2,286,917
Apron equipment parking	11,659	11,659
Aviation fuel concessions	21,236	15,183
Car rental concessions	1,971,244	1,911,512
Ground handler concessions	73,630	67,734
Land lease revenue	583,093	565,877
Landing fees	3,119,637	2,951,399
Other	341,183	249,920
Terminal building space rental	432,378	476,077
Terminal concessions	738,430	673,050
Vehicle parking	<u>5,490,057</u>	<u>4,590,825</u>
	\$ <u>26,180,006</u>	\$ <u>24,248,874</u>

KELOWNA INTERNATIONAL AIRPORT
Notes to Financial Statements
December 31, 2014

12. Expenses by object

Expenses reported by object comprise:	<u>2014</u>	<u>2013</u>
Salaries and benefits	\$ 3,796,797	\$ 3,704,379
Contract and professional services	846,568	892,820
Interest expense	744,000	744,000
Materials and supplies	5,139,005	5,011,314
Equipment	13,585	9,945
Allocations	1,343,916	1,201,687
Cost recoveries	(637,986)	(667,838)
Utilities	667,228	556,642
Amortization	<u>4,937,843</u>	<u>4,532,028</u>
	<u>\$ 16,850,956</u>	<u>\$ 15,984,977</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>24,135,210</u>
Expenses	
Operating budget	12,147,140
Capital budget	<u>25,633,980</u>
	<u>37,781,120</u>
Annual deficit per approved budget	(13,645,910)
Add: tangible capital asset purchases	<u>25,633,980</u>
Annual surplus per statement of operations	<u>\$ 11,988,078</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, 2014

	<u>Machinery & Equipment</u>							Subtotal Machinery & Equipment	Total 2014	Total 2013
	Land	Land Improvements	Buildings	Infrastructure	Vehicles	Other Machinery & Equipment	Computer			
Cost										
Balance, beginning of year	\$ 3,734,692	13,131,927	\$ 48,581,369	\$ 39,960,099	\$ 3,023,244	\$ 8,683,027	678,850	\$ 12,385,121	\$ 117,793,208	\$ 108,001,219
Add: additions during the year	2,102,474	28,457	6,404,941	3,922,917	-	1,680,735	-	1,680,735	14,139,524	9,791,989
Less: disposals during the year	-	-	-	-	-	-	-	-	-	-
Balance, end of year	<u>5,837,166</u>	<u>13,160,384</u>	<u>\$ 54,986,310</u>	<u>\$ 43,883,016</u>	<u>\$ 3,023,244</u>	<u>\$ 10,363,762</u>	<u>678,850</u>	<u>14,065,856</u>	<u>131,932,732</u>	<u>117,793,208</u>
Accumulated Amortization										
Balance, beginning of year	-	5,228,103	17,154,390	19,473,404	333,208	6,082,105	566,961	6,982,274	48,838,171	44,306,143
Add: amortization	-	468,532	1,573,204	1,974,093	209,302	690,587	22,125	922,014	4,937,843	4,532,028
Less: accumulated amortization on disposals	-	-	-	-	-	-	-	-	-	-
Balance, end of year	-	<u>5,696,635</u>	<u>18,727,594</u>	<u>21,447,497</u>	<u>542,510</u>	<u>6,772,692</u>	<u>589,086</u>	<u>7,904,288</u>	<u>53,776,014</u>	<u>48,838,171</u>
Net Book Value of Tangible Capital Assets	<u>\$ 5,837,166</u>	<u>\$ 7,463,749</u>	<u>\$ 36,258,716</u>	<u>\$ 22,435,519</u>	<u>\$ 2,480,734</u>	<u>\$ 3,591,070</u>	<u>\$ 89,764</u>	<u>\$ 6,161,568</u>	<u>\$ 78,156,718</u>	<u>\$ 68,955,037</u>
Construction in progress	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 428,996</u>	<u>\$ 3,522,824</u>	<u>\$ -</u>	<u>\$ 2,964,928</u>	<u>\$ -</u>	<u>\$ 2,964,928</u>	<u>\$ 6,916,748</u>	<u>\$ 12,934,078</u>
								<u>\$ 85,073,466</u>	<u>\$ 81,889,115</u>	

Your Link to the World



Kelowna International Airport

1-5533 Airport Way
Kelowna, BC V1V 1S1
TEL 250-765-5125
FAX 250-317-0213
airport@kelowna.ca

ylw.kelowna.ca