



2021

Financial Statements

Kelowna International Airport

Kelowna, British Columbia, Canada
For the year ended December 31, 2021



KELOWNA INTERNATIONAL AIRPORT

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Independent Auditor's Report

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To the members of the [Council of the City of Kelowna](#)

Opinion

We have audited the financial statements of the Kelowna International Airport ("the Airport"), which comprise the statement of financial position as at December 31, 2021, and the statements of operations and accumulated surplus, change in net financial assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Airport as at December 31, 2021, and its results of operations, its changes in its net assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance 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.

In preparing the financial statements, management is responsible for assessing the Airport's ability to continue as a going concern, disclosing, as applicable, matters related to a going concern and using the going concern basis of accounting unless management either intends to liquidate the Airport or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Airport's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Airport's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Airport to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Kelowna, Canada
April 5, 2022

Grant Thornton LLP

Chartered Professional Accountants

KELOWNA INTERNATIONAL AIRPORT

Statement of Financial Position

As at December 31, 2021

(in thousands of dollars)

	Actual 2021	Actual 2020
Financial Assets		
Cash and cash equivalents	\$ 4,989	\$ 3,676
Accounts receivable	6,605	2,052
Portfolio investments	28,397	29,087
	<u>39,991</u>	<u>34,815</u>
Liabilities		
Accounts payable	2,425	2,904
Performance deposits	218	211
Deferred revenue	435	214
Mortgage payable (Note 3)	-	900
Long term payable (Note 4)	743	1,093
Debenture debt (Note 5)	11,904	14,062
	<u>15,725</u>	<u>19,384</u>
Net Financial Assets	<u>24,266</u>	<u>15,431</u>
Non-Financial Assets		
Prepaid expenses	216	107
Inventory	368	210
Work in progress (Note 6)	7,922	6,557
Tangible capital assets (Note 7)	141,450	144,432
	<u>149,956</u>	<u>151,306</u>
Accumulated Surplus (Note 8)	<u>\$ 174,222</u>	<u>\$ 166,737</u>

Contingent liabilities and Commitments (Notes 9 and 10)



Sam Samaddar
Airport Director



Genelle Davidson, CPA, CMA
Divisional Director, Financial Services

See accompanying notes to the financial statements.

KELOWNA INTERNATIONAL AIRPORT
Statement of Operations and Accumulated Surplus
For the Year Ended December 31, 2021
(in thousands of dollars)

	Budget 2021	Actual 2021	Actual 2020
Revenue			
Sale of services (Note 12)	\$ 7,669	\$ 12,331	\$ 11,536
Interest earned	158	185	301
Government transfers (Note 13)	936	7,269	1,149
Actuarial increase	-	262	194
	<u>8,763</u>	<u>20,047</u>	<u>13,180</u>
Airport improvement fee (Note 11)	5,860	9,483	7,351
	<u>14,623</u>	<u>29,530</u>	<u>20,531</u>
Expenses (Note 14)			
Administration	4,597	4,009	3,592
Interest	584	584	584
Terminal operations	4,708	5,475	5,445
Airport improvement fee	-	4,884	5,144
Airport policing	162	162	173
Groundside operations	2,497	3,257	3,305
Airside operations	3,483	3,674	3,711
	<u>16,031</u>	<u>22,045</u>	<u>21,954</u>
Annual Surplus (Deficit)	<u>\$ (1,408)</u>	<u>7,485</u>	<u>(1,423)</u>
Accumulated Surplus, beginning of year		<u>166,737</u>	<u>168,160</u>
Accumulated Surplus, end of year		<u>\$ 174,222</u>	<u>\$ 166,737</u>

See accompanying notes to the financial statements.

KELOWNA INTERNATIONAL AIRPORT
Statement of Changes in Net Financial Assets
For the Year Ended December 31, 2021
(in thousands of dollars)

	Budget 2021	Actual 2021	Actual 2020
Annual Surplus (Deficit)	\$ (1,408)	\$ 7,485	\$ (1,423)
Amortization of tangible capital assets	-	7,543	7,748
Acquisition of tangible capital assets	(83,101)	(5,926)	(5,369)
Change in inventory and prepaid expenses	-	(267)	138
Increase (decrease) in Net Financial Assets	(84,509)	8,835	1,094
Net Financial Assets, beginning of year	15,431	15,431	14,337
Net Financial Assets, end of year	\$ (69,078)	\$ 24,266	\$ 15,431

See accompanying notes to the financial statements.

KELOWNA INTERNATIONAL AIRPORT

Statement of Cash Flows

For the Year Ended December 31, 2021

(in thousands of dollars)

	Actual 2021	Actual 2020
Net inflow (outflow) of cash and cash equivalents related to the following activities:		
Operating		
Annual surplus (deficit)	\$ 7,485	\$ (1,423)
Adjustment for non-cash items		
Amortization of tangible capital assets	7,543	7,748
Actuarial adjustment on debenture debt	(262)	(194)
(Increase) decrease in assets		
Accounts receivable	(4,552)	2,397
Inventory and prepaid expenses	(267)	138
(Decrease) increase in liabilities		
Accounts payable	(479)	(1,012)
Performance deposits	7	(99)
Deferred revenue	221	(267)
	<u>9,696</u>	<u>7,288</u>
Capital		
Acquisition of tangible capital assets	<u>(5,926)</u>	<u>(5,369)</u>
Investing		
Change in investments	<u>690</u>	<u>2,381</u>
Financing		
(Decrease) increase in long term payable	(350)	1,093
Repayment of mortgage payable	(900)	(900)
Repayment of debenture debt	(1,897)	(1,897)
	<u>(3,147)</u>	<u>(1,704)</u>
Net increase in cash and cash equivalents	1,313	2,596
Cash and cash equivalents, beginning of year	<u>3,676</u>	<u>1,080</u>
Cash and cash equivalents, end of year	\$ 4,989	\$ 3,676

See accompanying notes to the financial statements

KELOWNA INTERNATIONAL AIRPORT

Notes to the Financial Statements

December 31, 2021

(all amounts are presented to the 000's of dollars)

1. Organization and nature of operations

The Kelowna International Airport (“the Airport”) is controlled by the City of Kelowna (“the City”). The City operates the Airport pursuant to the provisions of a long-term lease with the Government of Canada entered into on January 1, 1969 (“the Ground Lease”). The term of the Ground Lease expires on December 31, 2054.

On March 11, 2020 the World Health Organization officially declared the COVID-19 outbreak a pandemic. The pandemic has forced governments to implement extraordinary measures to slow the progress of infections and to stabilize disrupted economies and financial markets. The Airport has deployed initiatives in order to protect the health and safety of its employees and customers, support its customers, and mitigate the impact of the crisis while ensuring continuity of its operations. As a result of the aforementioned conditions, the Airport saw a significant decrease in flights, passenger volumes and revenues in 2021, and expects flights, passenger volumes and revenues to continue to be impacted well beyond 2022. As of this time, it is difficult to assess the impact of the pandemic on the Airport’s future results as it is dependent on the length and severity of the pandemic and corresponding economic recovery. Management will continue to monitor and assess the situation and respond accordingly.

These financial statements reflect 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.

Work in progress

Work in progress represents capital projects under construction but not completed and is valued at cost.

KELOWNA INTERNATIONAL AIRPORT

Notes to the Financial Statements

December 31, 2021

(all amounts are presented to the 000's of dollars)

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 life 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.

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.

Municipal pension plan

The Airport's pension follows the guidelines of the Municipal Pension Plan which is administered by the Province of British Columbia for all British Columbia municipalities. The Airport and its employees contribute to the Municipal Pension Plan (a jointly trustee 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.

Portfolio investments

Portfolio investments are recorded at cost and are comprised of Municipal Finance Authority bonds and intermediate funds, provincial and bank issued accrual notes and debentures, and guaranteed investment certificates and deposit notes with maturities of 90 days or more from the date of acquisition.

Liability for Contaminated Sites

Contaminated sites are a result of contamination being introduced into air, soil, water or sediment 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 and all the following criteria are met:

- an environmental standard exists;
- contamination exceeds the environmental standard;
- the Airport
 - is directly responsible; or

KELOWNA INTERNATIONAL AIRPORT

Notes to the Financial Statements

December 31, 2021

(all amounts are presented to the 000's of dollars)

2. Significant accounting policies (continued)

Liability for Contaminated Sites (continued)

- 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 recorded as at December 31, 2020 and 2021.

Use of estimates

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

Revenue recognition

Revenue is recognized in the period in which it is earned.

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

Ground Lease

The Ground Lease is accounted for as an operating lease.

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 projects and accumulations for specific purposes.

3. Mortgage payable

The Airport's mortgage balance is \$Nil (2020 - \$900). The annual amount of principal repayment was \$900 per year. The mortgage did not bear interest and was secured in specific land.

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December 31, 2021

(all amounts are presented to the 000's of dollars)

4. Long-term payable

The Airport has arranged for payment terms beyond a year for certain payables amounting to \$743, as at December 31, 2021 (2020 - \$1,093) due to the significant impact of COVID-19. These payables will be paid in full by December 31, 2023 and are non-interest bearing.

5. Debenture debt

Debenture debt principal is reported net of sinking fund balances.

<u>Local Area Bylaw</u>	<u>Issue No.</u>	<u>Interest Rate</u>	<u>Amount of Issue</u>	<u>Sinking Fund Balance</u>	<u>Net Debt</u>	<u>Due Date</u>
9867	133	2.75	\$ 7,500	\$ 4,188	\$ 3,312	2025-10-02
9867	137	2.60	3,500	1,600	1,900	2026-04-19
9867	139	2.10	3,000	1,389	1,611	2026-10-05
9867	141	2.80	8,000	2,919	5,081	2027-04-07
			<u>\$ 22,000</u>	<u>\$ 10,096</u>	<u>\$ 11,904</u>	

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

<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>
<u>\$ 1,897</u>	<u>\$ 1,897</u>	<u>\$ 1,897</u>	<u>\$ 1,897</u>	<u>\$ 1,258</u>

The City, on behalf of the Airport, has issued the debt instruments above through the Municipal Finance Authority (MFA). 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>2021</u>	<u>2020</u>
Cash deposits held by MFA	\$ 245	\$ 243
Demand notes held by MFA	1,021	1,021
	<u>\$ 1,266</u>	<u>\$ 1,264</u>

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Notes to the Financial Statements

December 31, 2021

(all amounts are presented to the 000's of dollars)

6. Work in progress

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

	<u>Buildings</u>	<u>Infrastructure</u>	<u>Machinery & Equipment</u>	<u>Total 2021</u>	<u>Total 2020</u>
Cost					
Balance, beginning of year	\$ 5,854	\$ 459	\$ 244	\$ 6,557	\$ 7,047
Add: additions during the year	1,608	-	20	1,628	3,269
Less: transfers to tangible capital assets	(123)	-	(140)	(263)	(3,759)
Balance, end of year	\$ 7,339	\$ 459	\$ 124	\$ 7,922	\$ 6,557

7. Tangible capital assets

	<u>Land</u>	<u>Land Improvement</u>	<u>Buildings</u>	<u>Infrastructure</u>	<u>Machinery & Equipment</u>	<u>Total 2021</u>	<u>Total 2020</u>
Cost							
Balance, beginning of year	\$ 16,557	\$ 13,276	\$ 65,283	\$ 85,522	\$ 56,522	\$ 237,160	\$ 231,301
Add: additions during the year	-	-	-	3,928	370	4,298	2,100
Add: transfers from work in progress	-	-	123	-	140	263	3,759
Balance, end of year	16,557	13,276	65,406	89,450	57,032	241,721	237,160
Accumulated Amortization							
Balance, beginning of year	-	8,510	29,412	36,204	18,602	92,728	84,980
Add: amortization	-	466	1,771	2,652	2,654	7,543	7,748
Balance, end of year	-	8,976	31,183	38,856	21,256	100,271	92,728
Net book value of tangible capital assets	\$ 16,557	\$ 4,300	\$ 34,223	\$ 50,594	\$ 35,776	\$ 141,450	\$ 144,432

KELOWNA INTERNATIONAL AIRPORT

Notes to the Financial Statements

December 31, 2021

(all amounts are presented to the 000's of dollars)

8. Accumulated surplus

	Reserves for future expenditure	General surplus	Investment in tangible capital assets	2021 Total	2020 Total
Accumulated surplus, beginning of year	\$ 28,369	\$ 2,407	\$ 135,961	\$ 166,737	\$ 168,160
Annual surplus (deficit)	124	14,643	(7,282)	7,485	(1,423)
Transfers	11,838	(11,838)	-	-	-
Acquisition of tangible capital assets	(5,926)	-	5,926	-	-
Retirement of debt	-	(2,805)	2,805	-	-
Accumulated surplus, end of year	<u>\$ 34,405</u>	<u>\$ 2,407</u>	<u>\$ 137,410</u>	<u>\$ 174,222</u>	<u>\$ 166,737</u>

9. Contingent liabilities

Pension liability

The employer and its employees contribute to the Municipal Pension Plan (a jointly trustee 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, 2020, the plan has about 220,000 active members and approximately 112,000 retired members. Active members include approximately 42,000 contributors from local governments.

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 may be adjusted for the amortization of any actuarial funding surplus and will be adjusted for the amortization of any unfunded actuarial liability.

The most recent valuation for the Municipal Pension Plan as at December 31, 2018, indicated a \$2.9 billion funding surplus for basic pension benefits on a going concern basis.

The Airport paid \$340 (2020 - \$328) for employer contributions to the plan in fiscal 2021, while employees contributed \$272 (2020 - \$261) to the plan in fiscal 2021.

The next valuation will be as at December 31, 2021, with results available in 2022.

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.

KELOWNA INTERNATIONAL AIRPORT

Notes to the Financial Statements

December 31, 2021

(all amounts are presented to the 000's of dollars)

9. Contingent liabilities (continued)

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.

10. Commitments

At December 31, 2021, the Airport had entered into construction commitments relating to the Airport capital program amounting to \$293 (2020 - \$5,125).

11. 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 certain air 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). AIF revenues can only be used to fund Airport infrastructure projects and associated financing costs. During the year ended December 31, 2021, the City recognized \$9,483 (2020 - \$7,351), in airport improvement fee revenue.

AIF fees were charged at \$20 per departing passenger for travel booked on or after April 1, 2019, for travel scheduled on or after April 8, 2019. AIF fees were charged at \$25 per departing passenger for travel booked on or after February 19, 2020, for travel scheduled on or after March 1, 2020.

Airport improvement fee summary since implementation to December 31, 2021:

	<u>2021</u>	<u>2020</u>
Cumulative AIF revenue	\$ 169,238	\$ 159,755
Cumulative AIF expenditures	<u>172,664</u>	<u>164,411</u>
Deficiency of revenue over expenditures	<u>\$ (3,426)</u>	<u>\$ (4,656)</u>

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Notes to the Financial Statements

December 31, 2021

(all amounts are presented to the 000's of dollars)

12. Sale of service by object

	<u>2021</u>	<u>2020</u>
Parking revenue	\$ 3,317	\$ 2,990
Airport landing fees	2,307	2,074
Airport terminal fees	1,723	1,502
Car rental concessions	1,886	2,603
Terminal concessions	346	297
Lease revenue	1,650	1,403
Other	1,102	667
	<u>\$ 12,331</u>	<u>\$ 11,536</u>

13. Government transfers

Due to the completion or progress of the projects in 2021 there are no deferred revenue balances related to these grants. The Airport received and recorded as revenue the following grants:

	<u>Type of grant</u>	<u>Project</u>	<u>2021</u>	<u>2020</u>
Canadian Air Transport Security Authority	Restricted	Terminal Buildings - baggage handling operations	\$ 116	\$ 122
Province of British Columbia	Restricted	Freshet & Culvert	-	232
Federal Government	Restricted	Western Diversification	75	295
Province of British Columbia	Restricted	Provincial COVID-19 Relief	720	500
Federal Government	Restricted	Regional Air Transportation Initiative	3,261	-
Federal Government	Restricted	Airport Relief Fund	3,097	-
			<u>\$ 7,269</u>	<u>\$ 1,149</u>

KELOWNA INTERNATIONAL AIRPORT

Notes to the Financial Statements

December 31, 2021

(all amounts are presented to the 000's of dollars)

14. Expenses by object

Expenses reported by object comprise:

	<u>2021</u>	<u>2020</u>
Materials and supplies	\$ 1,768	\$ 1,898
Amortization	7,543	7,748
Salaries and benefits	4,458	4,374
Contract and professional services	5,292	5,114
Policing and other Municipal services	1,819	1,699
Interest expense	584	584
Utilities	581	537
	<u>\$ 22,045</u>	<u>\$ 21,954</u>

15. Budget data

The budget figures are from the Annual Five-Year Financial Plan Bylaw adopted before May 15th 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>\$ 14,623</u>
Expenses	
Operating budget	16,031
Capital budget	<u>83,101</u>
	<u>99,132</u>
Annual deficit per approved budget	(84,509)
Add: capital expenses	<u>83,101</u>
Annual deficit per statement of operations	<u><u>\$ (1,408)</u></u>



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