

# Memo



**Date:** April 30, 2024

**To:** Audit Committee

**From:** Joe Sass, Divisional Director, Financial Services

**Subject:** Audit Committee Review of Kelowna International Airport's December 31, 2023 Audited Financial Statements

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## **Purpose of Kelowna International Airport's Financial Statements**

Consistent with the City of Kelowna's (the City's) other business unit funds, Kelowna International Airport (the Airport) prepares financial statements in accordance with Canadian public sector accounting standards, which are consolidated into the City's consolidated audited financial statements.

A portion of the Airport is located on land that is leased from the Federal Government. In accordance with the amendment made in 1993 to clause 34 of the lease agreement between the Minister of Transport and the City of Kelowna, *"The [City] shall submit within 120 days after the [City's] fiscal year end, a statement of revenues and expenditures relating to the Airport for that period, a statement of surplus for that period, a statement of source and application of all funds including the revenues deposited in the Airport Fund for that period, and a balance sheet as of the end of that period all prepared according to the Canadian Institute of Chartered Accountants (CICA) generally accepted accounting principles, and audited according to CICA generally accepted auditing standards and certified by an independent auditor, who is a member or a partnership whose partners are members in good standing of the Canadian Institute of Chartered Accountants."* As a result, the Airport's stand-alone financial statements are audited on an annual basis.

## **The Airport Financial Statements**

The Airport's Financial Statements include the financial results for each of the Airside, Groundside, Terminal, and Airport Improvement Fee (AIF) funds and provide an aggregate view of the financial position and overall financial well-being of the Airport.

The Airport's financial statements consist of the:

- Statement of Financial Position,
- Statement of Operations and Accumulated Surplus,
- Statement of Remeasurement Gains
- Statement of Changes in Net Financial Assets,
- Statement of Cash Flows, and
- Notes to the Financial Statements.

## **Statement of Financial Position**

The Statement of Financial Position presents the Airport's cumulative net financial assets, non-financial assets, and accumulated surplus as at December 31, 2023 and December 31, 2022.

The Airport's net financial assets are equal to its financial assets less its liabilities. The Airport's financial assets consist of cash and cash equivalents, accounts receivable and portfolio investments, and are the financial resources available to discharge the Airport's existing liabilities and finance its future operations. The Airport's liabilities consist of accounts payable, performance deposits, deferred revenue, long term payable, debenture debt, and asset retirement obligations.

The Airport's non-financial assets are employed to provide future services and consist of prepaid expenses, inventory, work in progress and tangible capital assets.

The Airport's accumulated surplus is the total that the Airport's cumulative revenues have exceeded its cumulative expenses. The accumulated surplus is equal to the sum of the net financial assets and non-financial assets.

Upon adoption of new Public Sector Accounting Standards in 2023, additions to the Statement of Financial Position include asset retirement obligation liability, reporting the estimated costs associated with the legally or contractually required retirement activities for assets at their end-of-life, and the impact of unrealized gains on portfolio investments, not previously reported. Unrealized gains are reconciled against accumulated surplus on the Statement of Financial Position.

### **Net Financial Assets**

The Airport's financial assets of \$68.7 million ("M") exceeded its liabilities of \$20.8M by \$47.9M at December 31, 2023. As a result, the Airport has sufficient financial assets to settle its existing liabilities as at December 31, 2023. The Airport's net financial assets increased \$10.6M from \$37.3M at December 31, 2022 to \$47.9M at December 31, 2023, mainly due to a \$17.2M increase in portfolio investments (including \$2.1M unrealized gains), and a \$2.3M decrease in debenture debt, which were partially offset by a \$5.6M decrease in accounts receivable, and a \$5.7M increase in accounts payable.

### **Financial Assets**

The Airport's financial assets have increased by approximately \$13.5M from \$55.2M at December 31, 2022 to \$68.7M at December 31, 2023 due to the movements outlined below.

i. Cash and cash equivalents

Cash and Cash equivalents represent funds held in the City of Kelowna pooled funds either as cash or short-term investments with maturities of 90 days or less from the date of acquisition. The Airport's cash and cash equivalents have increased \$1.9M from \$5.2M to \$7.1M between December 31, 2022 and December 31, 2023. Further details on these movements are included under the discussion on the Airport's Statement of Cash Flows.

ii. Accounts receivable

The Airport's account receivables decreased approximately \$5.6M from \$11.4M at December 31, 2022 to \$5.8M at December 31, 2023. This was mainly due to a one-time \$6.4M accrual for Airport

Critical Infrastructure Program grants in 2022, which were awarded and earned in 2022 but not received until 2023. This decrease was partially offset by grant accruals earned in 2023 but not received until 2024 of \$0.9M.

iii. Portfolio investments

Portfolio investments represent funds invested from the City of Kelowna's pooled funds and consist of Municipal Finance Authority bonds/intermediate funds, Provincial and bank issued accrual notes and debentures and guaranteed investment certificates and deposit notes. The Airport's portfolio investments increased by \$17.2M between December 31, 2022, and December 31, 2023. Included in this increase is \$2.1M in unrealized gains, as a new accounting standard effective for the 2023 fiscal year requires remeasurement of investments to fair value at each reporting date (discussed in more detail in the Statement of Remeasurement Gains below).

### Liabilities

The Airport's liabilities have increased \$2.9M from \$17.9M at December 31, 2022 to \$20.8M at December 31, 2023, due to the movements outlined below:

i. Accounts payable

The Airport's accounts payable increased \$5.7M from \$6.0M at December 31, 2022 to \$11.7M at December 31, 2023 mainly due to a \$5.7M increase in trade accounts payable. The increase in payables was primarily due to more multi-year capital projects in 2023, most notably with the commencement of the air terminal building expansion during the year.

ii. Performance Deposits

The Airport's performance deposits increased by \$0.1M from \$0.9M at December 31, 2022 to \$1.0M at December 31, 2023.

iii. Deferred revenue

The Airport's deferred revenue consists of cash received for services not yet provided with regards to grants, aircrew parking, shuttle and limo licenses, advertising, annual aircraft parking and leases. The Airport's deferred revenue decreased \$0.4M from \$0.5 at December 31, 2022 to \$0.1M at December 31, 2023, mainly due to \$0.4M of one-time grant funding received in advance for the Child Care Facility in 2022, which was earned and recognized during 2023.

iv. Long term payable

The Airport's long-term payable mainly consisted of the 2020 municipal services and administration fees payable to the City of Kelowna (the Municipal Fee). Due to the significant, negative impact of the COVID-19 pandemic, \$1.0M of the \$1.5M 2020 Municipal Fee was deferred with payment to be made between 2021 and 2023. The \$0.4M decrease in the long-term payable between December 31, 2022, and December 31, 2023, is due to the final annual payment made in 2023.

v. Debenture debt

The Airport's debenture debt consists of four debt issuances from the Municipal Finance Authority as outlined below. The \$2.3M decrease in debenture debt from \$9.7M at December 31, 2022 to \$7.4M at December 31, 2023 was due to the repayment of principal associated with the debenture debt issued between 2015 and 2017.

Date of Issue	Term (Years)	Amount of Issue	Sinking Fund Balance	Net Debt at December 31, 2023
October 2015	10	7,500,000	5,787,000	1,713,000
April 2016	10	3,500,000	2,321,000	1,179,000
October 2016	10	3,000,000	2,005,000	995,000
April 2017	10	8,000,000	4,514,000	3,486,000
<b>Total</b>		<b>\$22,000,000</b>	<b>\$14,627,000</b>	<b>\$7,373,000</b>

vi. Asset retirement obligation

The Airport adopted a new Public Sector accounting standard during 2023, requiring the recognition of the future obligation to retire assets if specific retirement activities are legally or contractually required at time of disposal of a tangible capital asset. This resulted in a \$0.5M liability for the year ended December 31, 2023 (\$0.4M December 31, 2022) for the future remediation of three Airport buildings that contain asbestos and other hazardous building materials.

Non-financial Assets

The Airport's non-financial assets have increased \$16.5M from \$161.4M at December 31, 2022 to \$177.9M at December 31, 2023 due to the movements outlined below:

i. Prepaid expenses

The Airport's prepaid expenses have remained at \$0.2M between December 31, 2022, and December 31, 2023.

ii. Inventory

The Airport's inventory consists of chemicals, fuel, and supplies. Inventory increased \$0.1M from \$0.3M at December 31, 2022 to \$0.4M at December 31, 2023.

iii. Work in progress

The Airport's work in progress represents the cost of projects that are underway at year-end and are not yet eligible to be capitalized to tangible capital assets. Work in progress increased \$10.4M from \$13.1M to \$23.5M between December 31, 2022, and December 31, 2023. Notable projects that were in progress at December 31, 2023 include the Airport Terminal Building Expansion (\$9.7M) and construction for the Combined Operations Building (\$1.3M).

iv. Tangible capital assets

Tangible capital assets consist of land, land improvements, buildings, infrastructure, and machinery and equipment. The Airport's tangible capital assets increased \$6.0M from \$147.7M at December 31, 2022, to \$153.7M at December 31, 2023, due to additions of \$14.9M (transfer from work in progress represents \$8.7M), offset by the recognition of \$8.9M in amortization. The additions in 2023 included the Child Care Facility (\$4.3M), the runway end safety area (\$2.6M), Apron 3 pavement rehabilitation project (\$2.4M), and the roof replacement project (\$1.7M). The Child Care Facility was fully funded through grant funding through the Child Care BC New Spaces program, and the roof replacement received grant funding at 50% of total cost up to \$0.8M through the Airport Critical Infrastructure Program.

### Accumulated Surplus

The Airport's accumulated surplus increased by \$25.0M from \$198.6M at December 31, 2022 to \$223.6M at December 31, 2023. The Airport's cumulative revenues exceed its cumulative expenditures by \$223.6M as at December 31, 2023. This accumulated surplus has been used to fund the Airport's capital development. Further details on the Airport's annual surplus are included below within the discussion on the Airport's Statement of Operations and Accumulated Surplus.

### Statement of Operations and Accumulated Surplus

The Statement of Operations and Accumulated Surplus presents the Airport's revenues, expenditures, annual surplus, and accumulated surplus for the years ended December 31, 2023, and December 31, 2022. This statement provides a summary of the Airport's operations during 2023 and 2022.

It is important to note that, as legislated, the budget figures used for comparison are from the final budget that was approved in the second quarter of 2023 and do not include any transfers or amendments that were subsequently approved.

### Annual surplus

The Airport had an annual surplus of \$25.0M for the year ended December 31, 2023, due to revenues of \$55.6M exceeding expenditures of \$30.6M. The Airport's annual surplus increased by \$0.2M between 2022 and 2023, as revenues increased by \$4.4M while expenditures increased by \$4.2M. It is important to note that the annual surplus includes costs resulting from the Airport's investment in its capital infrastructure including amortization, reimbursement of costs from the Federal Government, and the actuarial increase associated with the Airport's debenture debt. Excluding these costs, the Airport's annual operating surplus is \$28.2M, as shown below.

	<b>Year ended December 31, 2023</b>
Annual surplus	\$ 24,958,000
Add: amortization	8,864,000
Less: conditional transfers (reimbursement of capital expenditures)	(5,178,000)
Less: actuarial increase for debenture debt	(404,000)
	<b>\$ 28,240,000</b>

It's also important to note that the Airport's annual surplus of \$25.0M is mainly driven from the Airport Improvement Fee revenues of \$22.9M. The Airport Improvement Fee revenues can only be used to fund the construction and/or purchase of tangible capital assets and any associated debt. Excluding the Airport Improvement Fee revenues, the Airport's annual operating surplus is, as shown below.

	Year ended December 31, 2023
Annual surplus	\$ 24,958,000
Less: Airport Improvement Fee revenues	(22,892,000)
	<b>\$ 2,066,000</b>

### Revenue

The Airport's revenues consist of sale of services, interest earned, transfers from the Government, and the actuarial increase. Total revenues increased by \$4.4M from \$51.2M to \$55.6M between 2022 and 2023. Passenger numbers increased from 1.7M in 2022 to 2.0M in 2023, returning to pre-pandemic levels for the first time since 2019, which resulted in an increase in revenues, as outlined below:

i. Sale of services

The Airport's sale of services of \$25.2M consists of vehicle parking revenues (\$10.3M), landing fees (\$4.2M), terminal fees (\$3.3M), car rental fees (\$3.1M), lease revenues (\$2.1M), other revenues (\$1.3M), and terminal concessions (\$1.0M). Sale of services increased \$2.6M between the years ended December 31, 2022, and December 31, 2023, mainly due to a \$2.1M increase in parking revenues.

ii. Interest earned

The Airport earned an additional \$0.9M of interest during the year ended December 31, 2023, compared to the year ended December 31, 2022, due to higher interest rates during the year and an increase in cash and cash equivalents and portfolio investments that were invested.

iii. Government transfers

The Airport's grants from the federal and provincial government decreased \$2.6M between the year ended December 31, 2022, and the year ended December 31, 2023. Grants received from the Federal Airport Critical Infrastructure Program decreased \$4.2M from 2022 to 2023 as two of the funded projects were substantially completed during 2022. Three additional projects continued into 2023, with one more completed during the year. The Provincial Child Care Capital Funding Program grant received in 2023 was a \$1.6M increase compared to 2022, and this project was also completed during the year.

iv. Actuarial Increase

The actuarial increase for the Airport's debenture debt increased \$0.1M between the years ended December 31, 2023, and December 31, 2022.

v. Airport improvement fees

The Airport earned \$3.4M more in airport improvement fees (AIF) during the year ended December 31, 2023, than the year ended December 31, 2022. This is due to an 18% increase in enplaned passengers in 2023.

### Expenses

The Airport's expenses consist of administration, interest, terminal operations, AIF, policing, groundside operations, airside operations and the write-down of tangible capital assets. Total expenses increased by \$4.2M from \$26.4M to \$30.6M between the years ended December 31, 2022, and December 31, 2023. Further details are outlined in the following:

i. Administration

Administration expenditures increased by \$0.7M between the years ended December 31, 2022, and December 31, 2023. Notable changes in administration expenditures include an increase in wages and salaries of \$0.4M.

ii. Terminal expenditures

Terminal expenditures consist of expenditures associated with the operation and maintenance of the Airport's terminal building. Terminal expenditures increased by \$1.4M between 2022 and 2023 from \$6.3M to \$7.7M. This is primarily due to cost increases for facility maintenance of \$0.5M, and software maintenance of \$0.3M as passenger levels returned to pre-pandemic levels as well as the result of inflationary pressures.

iii. Airport Improvement Fee expenditures

Airport Improvement Fee expenditures increased \$0.5M from \$5.5M in 2022 to \$6.0M in 2023 due to an increase in amortization expense (\$0.5M) resulting from the completion of projects in 2023 including the runway end safety area construction, terminal building improvements, and airside pavement rehabilitation.

iv. Groundside expenditures

Groundside expenditures consist of the costs associated with operating and maintaining the Airport lands outside of the airside area, excluding the terminal building. Groundside expenditures increased by \$1.0M between 2022 and 2023 from \$4.8M to \$5.8M. The increase is mainly due to a full year under the new parking management contract implemented in 2022 that resulted in an increase of \$0.4M in 2023.

v. Airside expenditures

Airside expenditures consist of the costs associated with operating and maintaining the Airport lands within the security perimeter including the apron, taxiways, and runway, but excluding the terminal building. Airside expenditures increased by \$0.4M from \$4.7M in 2022 to \$5.1M in 2023. The increase is mainly due to increased professional and consulting services (\$0.2M).

When expenditures are assessed for the Airport rather than by business segment, expenditures by type increased between 2022 and 2023, as outlined below:

i. Amortization expense

Amortization expense increased \$0.7M from \$8.2M in 2022 to \$8.9M in 2023, due to asset additions of \$14.9M during 2023.

ii. Contract and professional services

Contract and professional services increased \$1.7M between the years ended December 31, 2022, and December 31, 2023 from \$7.3M to \$9.0M, mainly due to contracted services inflationary escalations and increased consulting fees with growth in operations and return to pre-pandemic operating levels during 2023.

iii. Salaries and benefits

Salaries and benefits increased \$0.6M from \$5.7M to \$6.3M between the years ended December 31, 2022, and December 31, 2023. This is mainly due to the hiring of positions that were not filled during the pandemic, the addition of new positions during the year, and annual salary and wage increases.

iv. Materials and supplies

The cost of materials and supplies increased \$1.0M between the years ended December 31, 2022, and December 31, 2023, mainly due to increased growth in operations and continued significant inflationary increases.

v. Policing and other Municipal services

Policing and other Municipal services increased \$0.1M from \$1.4M in 2022 to \$1.5M in 2023.

### **Statement of Remeasurement Gains**

The Airport's Statement of Remeasurement Gains reports the unrealized gains and losses on financial instruments due to remeasurement to fair market value at December 31, 2023. This statement is new for fiscal year 2023, implemented due to a new public sector accounting standard. Adjustment on adoption resulted in an unrealized gain on portfolio investments at December 31, 2022 of \$1.5M. Change in remeasurement gains on portfolio investments during 2023 of \$0.6M resulting in accumulated remeasurement gains of \$2.1M at December 31, 2023.

### **Statement of Changes in Net Financial Assets**

The Airport's Statement of Changes in Net Financial Assets reconciles the Airport's net financial assets at the beginning and end of the year. The Airport's net financial assets increased \$10.6M from \$37.3M at December 31, 2022 to \$47.9M at December 31, 2023. This is attributed to an annual surplus after depreciation of \$25.0M combined with depreciation of \$8.9M, which was partially offset by the acquisition of \$25.4M of tangible capital assets.

### **Statement of Cash Flows**

The Airport's Statement of Cash Flows outlines the cash generated and used by the Airport's operations, capital activities, investing activities and financing activities. The Airport's cash and cash equivalents increased \$1.9M between December 31, 2022, and December 31, 2023, as the Airport generated \$46.7M in



cash from operations, changed \$17.2M in cash to portfolio investments, acquired \$25.4M of tangible capital assets, and repaid debenture debt principal of \$1.9M.

## **Notes to the Financial Statements**

### *Update on the COVID-19 Pandemic*

On March 11, 2020 the World Health Organization officially declared the COVID-19 outbreak a pandemic. The pandemic forced governments to implement extraordinary measures to slow the progress of infections and to stabilize disrupted economies and financial markets. The Airport 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 2020, 2021 and 2022. Recovery commenced in 2022 and passenger numbers returned to 2019 levels in 2023.

### *Contingent Liability*

#### Pension Liability

During the year ended December 31, 2023, the Airport paid \$0.4M for employer contributions to the Municipal Pension Plan.

### *Commitments*

At December 31, 2023, the Airport had entered into commitments of \$7.2M.

**This concludes the review of the Airport's Audited Financial Statements for the years ended December 31, 2023, and December 31, 2022.**