Vancouver Airport Authority

Consolidated financial statements
December 31, 2019

Independent auditor’s report

To the Directors of
Vancouver Airport Authority

Opinion

We have audited the consolidated financial statements of the **Vancouver Airport Authority** [the “Airport Authority”], which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of operations, consolidated statement of changes in net assets and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Airport Authority as at December 31, 2019, and the consolidated results of its operations and its consolidated cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

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 consolidated financial statements* section of our report. We are independent of the Airport Authority in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled 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 consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor’s responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Authority'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 Authority'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 consolidated 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 Authority to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

Ernst & Young LLP

Chartered Professional Accountants

Vancouver, Canada
April 21, 2020

Vancouver Airport Authority

Consolidated statement of financial position

[expressed in thousands of dollars]

As at December 31

	2019	2018
	$	$
Assets		
Current		
Cash	**241,496**	270,313
Accounts receivable *[note 3]*	**43,106**	36,039
Other receivables *[notes 12 and 13]*	**20,657**	10,712
Net investment in lease *[note 4]*	**—**	1,311
Inventory *[note 5]*	**10,356**	9,908
Prepaid expenses	**8,227**	5,944
Current portion of other long-term assets *[note 8]*	**810**	651
Total current assets	**324,652**	334,878
Partnership interests *[note 6]*	**43,635**	38,633
Capital assets, net *[note 7]*	**2,653,099**	2,178,794
Other long-term assets, net *[note 8]*	**41,793**	38,664
	3,063,179	2,590,969
Liabilities and net assets		
Current		
Accounts payable and accrued liabilities *[notes 10, 11, 15[c] and 16[a]]*	**199,810**	132,237
Current portion of deferred revenue *[note 13]*	**13,626**	12,397
Total current liabilities	**213,436**	144,634
Deferred revenue *[note 13]*	**17,765**	15,028
Other long-term liabilities *[notes 15[b] and [c]]*	**18,711**	17,199
Deferred capital contributions *[note 12]*	**79,030**	53,702
Debentures *[note 11]*	**893,209**	594,973
Total liabilities	**1,222,151**	825,536
Commitments, contingencies and guarantees *[notes 9 and 16]*		
Net assets	**1,841,028**	1,765,433
	3,063,179	2,590,969

See accompanying notes

On behalf of the Board:

Director

Director

Vancouver Airport Authority

Consolidated statement of operations

[expressed in thousands of dollars]

Year ended December 31

	2019	2018
	$	$
Revenue		
Landing fees *[note 17]*	**48,723**	48,063
Terminal fees *[note 17]*	**97,574**	95,133
Concession *[note 17]*	**145,569**	143,489
Airport improvement fees *[note 14]*	**170,981**	172,133
Car parking	**38,708**	37,911
Rentals *[note 17]*	**40,735**	38,718
Fees and miscellaneous *[note 13]*	**21,723**	24,093
Contributions	**7,739**	5,604
	571,752	565,144
Expenses		
Salaries, wages and benefits *[note 15]*	**65,484**	60,502
Materials, supplies and services *[note 5]*	**144,629**	130,301
Payments in lieu of taxes, insurance and other *[note 5]*	**33,575**	32,780
Amortization of capital assets	**159,375**	154,508
	403,063	378,091
Other expenses		
Ground lease	**60,288**	59,530
Revenue sharing *[note 16[b][iii]]*	**5,707**	5,644
Interest and financing charges	**31,470**	30,396
	97,465	95,570
Excess of revenue over expenses before undernoted items	**71,224**	91,483
Write-down of capital assets	**(5,122)**	(457)
Gain on disposal of capital assets	**76**	63
Foreign exchange gain (loss)	**(294)**	646
DOC partnership income *(loss) [note 6[a]]*	**(898)**	1,154
VAPH partnership income *[note 6[b]]*	**10,616**	8,840
Excess of revenue over expenses for the year	**75,602**	101,729

See accompanying notes

Vancouver Airport Authority

Consolidated statement of changes in net assets

[expressed in thousands of dollars]

Year ended December 31

	2019	2018
	$	$
Balance, beginning of year	**1,765,433**	1,668,734
Excess of revenue over expenses for the year	**75,602**	101,729
Employee future benefit plan remeasurements *[note 19[b]]*	**(7)**	(5,030)
Balance, end of year	**1,841,028**	1,765,433

See accompanying notes

Vancouver Airport Authority

Consolidated statement of cash flows

[expressed in thousands of dollars]

Year ended December 31

	2019	2018
	$	$
Operating activities		
Excess of revenue over expenses for the year	**75,602**	101,729
Add (deduct) items not involving cash		
Amortization of capital assets	**159,375**	154,508
Amortization of deferred capital contributions	**(7,739)**	(5,514)
Amortization of deferred financing costs	**269**	970
Amortization of other long-term assets	**1,338**	751
Write-down of capital assets	**5,122**	457
Gain on disposal of capital assets	**(76)**	(63)
DOC Partnership loss (income) *[note 6[a]]*	**898**	(1,154)
VAPH partnership income *[note 6[b]]*	**(10,616)**	(8,840)
Net change in non-cash working capital balances related to operations *[note 19[a]]*	**27,307**	27,556
Cash provided by operating activities	**251,480**	270,400
Investing activities		
Additions to capital assets *[note 19[b]]*	**(610,639)**	(351,065)
Proceeds on disposal of capital assets	**116**	63
Investment in DOC Partnership *[note 6[a]]*	**—**	(10)
Dividends received from DOC Partnership *[note 6[a]]*	**3,250**	5,000
Partnership distributions from VAPH *[note 6[b]]*	**1,466**	920
Decrease in net investment in lease *[note 4]*	**1,311**	1,602
Increase in other long-term assets *[notes 8 and 19[b]]*	**(4,255)**	(3,183)
Cash used in investing activities	**(608,751)**	(346,673)
Financing activities		
Increase in other long-term liabilities	**1,512**	175
Deferred capital contributions received *[note 19[b]]*	**28,971**	11,734
Increase in deferred financing costs *[note 11]*	**(2,029)**	(1,635)
Increase in long-term debentures *[note 11]*	**300,000**	250,000
Repayment of Series D debentures *[note 11]*	**—**	(200,000)
Cash provided by financing activities	**328,454**	60,274
Net decrease in cash during the year	**(28,817)**	(15,999)
Cash, beginning of year	**270,313**	286,312
Cash, end of year	**241,496**	270,313

See accompanying notes

Notes to consolidated financial statements

[tabular amounts in thousands of dollars]

December 31, 2019

1. Operations

The Vancouver Airport Authority [the “Airport Authority”] is incorporated under the *Canada Not-for-profit Corporations Act*. The Airport Authority is governed by a Board of Directors [the “Board”], with nine members appointed by the Government of Canada and various government and professional bodies, up to five directors appointed by the Board from the community at large, and one seat on the Board held by the President and CEO of the Airport Authority.

The Airport Authority operates the Vancouver International Airport [the “Airport”] pursuant to a lease of most of Sea Island, Richmond, British Columbia, from the Government of Canada [the “Ground Lease”].

The Airport Authority has four wholly owned subsidiaries:

[i] Vancouver Airport Enterprises Ltd. [“VAEL”] holds a 100% investment in YVR Project Management Ltd. [“YVRPM”], which provides capital project management and consulting services to affiliated and non-affiliated entities.

[ii] Vancouver Airport Authority (Hong Kong) Ltd. [“YVRHK”] is a Hong Kong domiciled company that provides various marketing and support services to promote the Airport Authority as a premier passenger and air cargo hub for Asian customers.

[iii] Vancouver Airport Enterprises (Templeton) Ltd. [“VAEL Templeton”] holds the Airport Authority’s 50% investment in Templeton DOC General Partner Ltd. and Templeton DOC Limited Partnership [collectively referred to as “DOC Partnership”], which has developed a retail designer outlet centre [“DOC”] on Sea Island.

[iv] Vancouver Airport Properties Ltd. [“VAPL”] holds a 0.1% interest in and manages the following partnerships:

Vancouver Airport Property Holding LLP [“VAPH”] – VAPH’s purpose is to hold the leasehold interest from the Airport Authority. The Airport Authority holds the other 99.9% interest in VAPH.

Vancouver Airport Property Management LLP [“VAPM”] – VAPM is the limited liability partnership that owns and operates multi-tenanted buildings on Sea Island. VAPH holds the other 99.9% interest in VAPM.

2. Significant accounting policies

Presentation and basis of accounting

These consolidated financial statements are prepared in accordance with Part III of the *CPA Canada Handbook – Accounting*, “Accounting Standards for Not-for-Profit Organizations,” and include the results of the Airport Authority’s wholly owned subsidiaries and partnership interests. All intercompany transactions and balances have been eliminated on consolidation.

Inventory

Inventory is valued at the lower of weighted average cost and net realizable value. Weighted average cost includes the purchase price, import duties, other net taxes, transportation, handling and other costs directly attributable to acquisition. Net realizable value is the estimated current replacement cost.

Partnership interests

The Airport Authority accounts for its partnership interests using the equity method. The Airport Authority's share of its partnership net income is recorded in the consolidated statement of operations.

Borrowing cost

Interest on debt is recognized as an expense in the period in which it is incurred.

Capital assets

Capital assets are recorded at cost less accumulated amortization. The cost includes the purchase price and other acquisition and construction costs such as installation costs, design and engineering fees, legal fees, survey costs, site preparation, transportation charges, labour, insurance and duties.

Software that is an integral part of the related hardware is capitalized to the cost of computer equipment and included in capital assets.

The costs included in construction-in-progress are capitalized during the construction phase and are not amortized. Upon completion of the project, the assets will be allocated to the respective capital asset classes and amortized at the rates provided in the table below.

The art collection is considered to have a permanent value and is not amortized.

Amortization is provided at cost less estimated salvage value on a straight-line basis over the estimated useful lives as follows:

Buildings and other structures	5 to 40 years
Runways and other paved surfaces	3 to 30 years
Rapid transit infrastructure	50 years
Machinery and equipment	5 to 15 years
Furniture and fixtures	5 to 15 years
Computer equipment and software	3 to 10 years

Deferred revenue

Deferred revenue represents payments received in advance from tenants and operators, which are deferred and recognized over the terms of the related agreements.

Revenue recognition

Revenue is recognized when the amount to be received is fixed or can be reasonably estimated, delivery has occurred, and collection is reasonably assured as follows:

[i] Aeronautical charges, which consist of landing and terminal fees, are generally recognized as revenue when airport facilities are utilized.

[ii] Concession revenue is recognized based on a percentage of reported concessionaire sales and/or specified minimum annual guarantees. Specified minimum annual guarantee amounts and incentives for lessees to enter into lease agreements are recognized on a straight-line basis over the term of the lease.

[iii] Revenue from the Airport Improvement Fee ["AIF"], which is collected from passengers by air carriers, is recognized based on monthly passenger numbers submitted by individual air carriers.

[iv] Car parking revenue is recognized when airport facilities are utilized.

[v] Rental revenue is recognized on a straight-line basis over the term of the respective agreements. Revenue from rental arrangements classified as direct finance leases is recognized over the term of the lease in order to reflect a constant periodic return to the Airport Authority's net investment in the finance lease.

[vi] Contributions are accounted for using the deferral method as follows:

Unrestricted contributions are recognized as revenue if the amount to be received can be reasonably estimated and collection is reasonably assured.

Contributions received to offset specific operating costs are initially deferred and recorded as revenue when the related costs are incurred.

Contributions received and designated by third parties for specific capital purposes are initially deferred and recorded as revenue on a basis consistent with the amortization of the related capital assets.

Ground lease expense

The ground lease expense is based on a progressive scale of percentages of the Airport Authority's revenue as defined in the Ground Lease and is charged to the consolidated statement of operations.

The Airport Authority does not receive title to the underlying parcels of land; therefore, the Ground Lease has been accounted for as an operating lease.

Dividend income

Dividend income is recorded when the dividend is declared and collection is reasonably assured.

Taxes

Income arising from the operation of the Airport Authority is exempt from federal and provincial income taxes under the *Airport Transfer (Miscellaneous Matters) Act*.

A payment in lieu of taxes is made for municipal services and is based on the municipality's rates applied to the assessment of property values. Payments are recognized as an expense over the assessment term.

Operations of each subsidiary are subject to taxes in the jurisdictions in which the subsidiaries operate and recorded in payments in lieu of taxes, insurance and other. Taxes in these entities are measured using the future income taxes method.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Operating lease payments are recognized as an expense on a straight-line basis over the term of the lease.

Employee future benefits

The Airport Authority has a contributory defined benefit pension plan that covers employees of the Airport Authority who, immediately prior to joining the Airport Authority, were employees of the Federal Public Service; a defined contribution plan that covers new employees who have joined the Airport Authority since June 1992; and unfunded supplemental plans that cover its senior executives.

Defined benefit pension plans

The Airport Authority accrues its obligations under defined benefit pension plans as the employees render the service necessary to earn the employment benefits.

The Airport Authority measures its accrued benefit obligations and the fair value of plan assets as at December 31 of each year, using the most recent funding valuation for the defined benefit pension plan, with liabilities adjusted to remove the margin for adverse deviation from the discount rate. The most recent actuarial valuation of the defined benefit pension plan for funding purposes was as of December 31, 2018. The next valuation for funding purposes will be as of December 31, 2019, the results of which are expected to be available during 2020.

The actuarial determination of the accrued benefit obligations for pensions and other retirement benefits uses the projected accrued benefit cost method prorated on service. Obligations for the pension plans are calculated using the assumptions from the actuarial funding valuation including an estimate of future salary levels, pension indexing, retirement ages of employees, and other actuarial factors. Obligations for the non-pension benefit plan are calculated using assumptions that incorporate management's best estimate of cost escalation, retirement ages of employees, and other actuarial factors.

For the purpose of calculating the expected return on plan assets, those assets are valued at fair value at the reporting date.

Remeasurements, which include settlement and actuarial gains and losses, arise from the difference between actual long-term rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period, differences in demographic and economic experience compared to expectations, or from changes in actuarial assumptions used to determine the accrued benefit obligation. These remeasurements are recognized directly in net assets and presented separately.

Past service costs arising from plan amendments are recognized immediately in the consolidated statement of operations.

Defined contribution benefit plans

The Airport Authority records contributions to defined contribution benefit plans as an expense, which is included in salaries, wages and benefits expense as services are rendered.

Financial instruments

Recognition and measurement

The Airport Authority recognizes a financial asset or financial liability when the entity becomes a party to the contractual provisions of the financial instrument.

At initial acquisition, financial assets or financial liabilities acquired or assumed in an arm’s length transaction are measured at fair value, adjusted for directly attributable financing fees and transaction costs if the instrument is subsequently measured at cost or amortized cost.

The following is a summary of the Airport Authority’s financial instruments that are subsequently measured at cost or amortized cost: cash, accounts receivable, other receivables, accounts payable and accrued liabilities and debentures.

Financing costs

The Airport Authority capitalizes all transaction costs relating to the acquisition of financing as an offset to the related debt and amortizes the costs to interest expense using the effective interest rate method over the term of the underlying debt.

Translation of foreign currencies

The Airport Authority records foreign currency denominated transactions in Canadian dollars at exchange rates in effect at the time of the transactions. Monetary items denominated in foreign currencies are translated to Canadian dollars at the rate of exchange in effect at the reporting date. Foreign exchange gains and losses are included in the results of operations in the period in which they occur.

Integrated foreign subsidiary YVRHK’s monetary assets and liabilities are translated into Canadian dollars at the year-end exchange rate. Revenue and expenses are translated at average exchange rates for the year. Foreign exchange gains or losses are recorded in the consolidated statement of operations.

[tabular amounts in thousands of dollars]

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date, and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of accrued revenue, allowance for doubtful accounts, percentage of completion for construction-in-progress, useful lives for amortization of capital assets, accrued liabilities, assumptions with respect to defined benefit plans, and provisions for contingencies. Actual results could differ materially from those estimates.

3. Accounts receivable

	2019	2018
	$	$
Current	**36,078**	31,205
31–60 days past due	**4,335**	1,995
61–90 days past due	**1,756**	984
90+ days past due	**1,935**	2,438
Allowance for doubtful accounts	**(998)**	(583)
	43,106	36,039

	2019	2018
	$	$
Allowance for doubtful accounts, beginning of year	**583**	590
Increase in allowance for doubtful accounts	**415**	56
Write-off of specific accounts	**—**	(63)
Allowance for doubtful accounts, end of year	**998**	583

4. Net investment in lease

During 2002, the Airport Authority acquired a cargo facility for cash consideration of $11,254,000, which was then leased back to the vendor under an agreement that expired on September 30, 2019.

	2019	2018
	$	$
Minimum lease payments receivable	**—**	1,431
Unearned income	**—**	(120)
	—	1,311
Less current portion	**—**	1,311
	—	—

Notes to consolidated financial statements

[tabular amounts in thousands of dollars]

December 31, 2019

5. Inventory

As at December 31, 2019, the Airport Authority has a nil [2018 – $12,000] valuation allowance on its inventory. The cost of inventory recognized as materials, supplies and services and payments in lieu of taxes, insurance and other for the year ended December 31, 2019 was $5,348,000 [2018 – $6,916,000].

6. Partnership interests

	2019	2018
	$	$
DOC Partnership *[a]*	**14,028**	18,176
VAPH *[b]*	**29,607**	20,457
	43,635	38,633

[a] DOC Partnership

For the year ended December 31, 2019, the Airport Authority recorded a partnership loss of $898,000 [2018 – partnership income of $1,154,000] from Templeton DOC Limited Partnership. The amount was recorded in the consolidated statement of operations and as a decrease in partnership interests.

For the year ended December 31, 2019, the Airport Authority received total dividends of $3,250,000 [2018 – $5,000,000] from Templeton DOC Limited Partnership as a repayment on its initial investment. The amount was recorded as a decrease in partnership interests.

To date, the Airport Authority's net equity contribution to Templeton DOC Limited Partnership is $15,987,000 [December 31, 2018 – $19,237,000].

For the year ended December 31, 2019, the Airport Authority contributed nil [2018 – $10,000] in equity to Templeton DOC General Partner Ltd. to cover ongoing administrative expenditures. The amount was recorded as an increase in partnership interests. To date, the Airport Authority has contributed $10,000 in equity to Templeton DOC General Partner Ltd.

Notes to consolidated financial statements

[tabular amounts in thousands of dollars]

December 31, 2019

Summarized consolidated statements of financial position, operations and cash flows of the Airport Authority's 50% share of the Templeton DOC Limited Partnership as at and for the years ended December 31, 2019 and 2018, are presented below:

	2019	2018
	$	$
Assets	**94,136**	80,570
Liabilities	**80,118**	62,404
Net assets	**14,018**	18,166

	2019	2018
	$	$
Revenue	**9,553**	8,811
Expenses	**10,451**	7,657
Net income (loss)	**(898)**	1,154

	2019	2018
	$	$
Cash flows provided by (used in)		
Operating activities	**2,641**	6,433
Financing activities	**15,175**	(440)
Investing activities	**(17,675)**	(7,410)

[b] VAPH and VAPM

For the year ended December 31, 2019, the Airport Authority recorded $10,616,000 [2018 – $8,840,000] of partnership income in the consolidated statement of operations based on its partnership interest in VAPH. The amount was recorded as an increase in partnership interests.

During the year, the Airport Authority received a partnership distribution from VAPH of $1,466,000 [2018 – $920,000]. The distribution was recorded as a reduction in partnership interests.

Notes to consolidated financial statements

[tabular amounts in thousands of dollars]

December 31, 2019

Summarized consolidated statements of financial position, operations and cash flows of the Airport Authority's 99.9% share of VAPH, which include equity earnings in VAPM as at and for the years ended December 31, 2019 and 2018, are presented below:

	2019	2018
	$	$
Assets	**29,555**	20,425
Liabilities	**10**	9
Net assets	**29,545**	20,416

	2019	2018
	$	$
Revenue	**10,606**	8,833
Expenses	**10**	9
Net income	**10,596**	8,824

	2019	2018
	$	$
Cash flows provided by (used in)		
Operating activities	**249**	310
Financing activities	**(1,466)**	(920)

Notes to consolidated financial statements

[tabular amounts in thousands of dollars]

December 31, 2019

7. Capital assets

	2019		
	Cost	**Accumulated amortization**	**Net book value**
	$	$	$
Buildings and other structures	**2,304,090**	**1,055,862**	**1,248,228**
Runways and other paved surfaces	**664,341**	**325,864**	**338,477**
Rapid transit infrastructure	**298,948**	**62,243**	**236,705**
Machinery and equipment	**159,113**	**112,782**	**46,331**
Furniture and fixtures	**35,582**	**31,011**	**4,571**
Computer equipment and software	**221,430**	**171,504**	**49,926**
Art collection	**9,909**	**—**	**9,909**
Construction-in-progress	**718,952**	**—**	**718,952**
	4,412,365	**1,759,266**	**2,653,099**

	2018		
	Cost	**Accumulated amortization**	**Net book value**
	$	$	$
Buildings and other structures	2,152,108	963,742	1,188,366
Runways and other paved surfaces	564,274	301,259	263,015
Rapid transit infrastructure	298,948	56,263	242,685
Machinery and equipment	150,624	106,160	44,464
Furniture and fixtures	35,701	30,092	5,609
Computer equipment and software	212,357	164,325	48,032
Art collection	9,804	—	9,804
Construction-in-progress	376,819	—	376,819
	3,800,635	1,621,841	2,178,794

Notes to consolidated financial statements

[tabular amounts in thousands of dollars]

December 31, 2019

8. Other long-term assets

	2019		
	Cost	Accumulated amortization	Net book value
	$	$	$
Operating lease receivables *[a]*	**24,308**	**3,531**	**20,777**
Leasehold interest *[b]*	**4,640**	**895**	**3,745**
Development costs	**961**	**—**	**961**
Intangible asset	**1,400**	**1,400**	**—**
Accrued benefit asset *[note 15[a]]*	**17,120**	**—**	**17,120**
Total other long-term assets	**48,429**	**5,826**	**42,603**
Less current portion	**810**	**—**	**810**
	47,619	**5,826**	**41,793**

	2018		
	Cost	Accumulated amortization	Net book value
	$	$	$
Operating lease receivables *[a]*	20,688	2,264	18,424
Leasehold interest *[b]*	4,640	824	3,816
Development costs	961	—	961
Intangible asset	1,400	1,400	—
Accrued benefit asset *[note 15[a]]*	16,114	—	16,114
Total other long-term assets	43,803	4,488	39,315
Less current portion	651	—	651
	43,152	4,488	38,664

[a] In certain circumstances, the Airport Authority provides lease inducements to tenants. These lease inducements are recorded as long-term assets and recognized, on a straight-line basis, as a reduction of revenue over the term of the lease. For the year ended December 31, 2019, the Airport Authority provided lease inducements of $602,000 [2018 – $460,000] to tenants and recognized $1,232,000 [2018 – $679,000] as a reduction of concession and rental revenue.

In October 2011, the Airport Authority entered into a sublease with a tenant for a parcel of land on Sea Island. The initial term of the sublease is 40 years with two subsequent renewal options of 10 years each at the option of the tenant. The sublease has been classified as an operating lease, with rental revenue being amortized evenly over the initial term of the sublease. As at December 31, 2019, the cumulative difference between the rental income recognized and cash lease payments received is $10,822,000 [2018 – $10,092,000].

[tabular amounts in thousands of dollars]

[b] In June 2008, the Airport Authority acquired a leasehold interest on Sea Island for $4,640,000, which included the estimated cost of decommissioning and demolishing the existing building on the land. Accordingly, the Ground Lease with Transport Canada was amended to include this additional site.

The leasehold interest is being amortized over the remaining term of the Ground Lease. For the year ended December 31, 2019, the amortization of the leasehold interest was $71,000 [2018 – $72,000].

9. Line of credit

The Airport Authority has an unsecured bank operating line of $300,000,000 [2018 – $300,000,000] bearing interest at the bank prime rate, which was 3.95% as at December 31, 2019 [2018 – 3.95%], or at prevailing market interest rates if issuing bankers' acceptances. The unsecured bank operating line remained undrawn as at December 31, 2019 [2018 – nil].

	2019	**2018**
	$	$
Unsecured bank operating line	**300,000**	300,000
Outstanding letters of credit, reducing available balance *[note 15[a]]*	**19,798**	18,828
Available unsecured bank operating line	**280,202**	281,172

10. Accounts payable and accrued liabilities

Included in accounts payable and accrued liabilities are government remittances payable, which include amounts payable for sales, parking and payroll related taxes, as well as ground lease payments to Transport Canada.

	2019	**2018**
	$	$
Transport Canada *[note 16[a]]*	**758**	4,271
TransLink	**749**	637
British Columbia Ministry of Finance	**378**	42
Canada Revenue Agency	**1**	7
	1,886	4,957

Notes to consolidated financial statements

[tabular amounts in thousands of dollars]

December 31, 2019

11. Debentures

	2019	2018
	$	$
Amended Series B 7.425%, due December 7, 2026	**150,000**	150,000
Series F 3.857%, due November 10, 2045	**200,000**	200,000
Series G 3.656%, due November 23, 2048	**250,000**	250,000
Series H 2.874%, due October 18, 2049	**300,000**	—
	900,000	600,000
Less unamortized deferred financing costs	**6,791**	5,027
	893,209	594,973

The Amended Series B debentures are issued under the Trust Indenture dated December 6, 1996 and amended under the Supplemental Indentures dated December 7, 2006 and October 5, 2015. The Series F debentures are issued under the Supplemental Indenture dated November 10, 2015. The Series G debentures are issued under the Supplemental Indenture dated November 23, 2018.

The Airport Authority issued $300,000,000 of 30-year Series H debentures under the Eighth Supplemental Trust Indenture dated October 18, 2019 to provide funding for general corporate purposes. The Series H debentures have a maturity date of October 18, 2049. The total financing costs of $2,029,000 relating to the issuance were deferred and recorded as a reduction to the Series H debentures. The deferred financing costs are amortized to interest and financing charges on the consolidated statement of operations over the remaining term of the Series H debentures.

On December 7, 2018, the Airport Authority repaid the $200,000,000 outstanding on the Series D debentures.

The effective interest rates on the Series B, F, G, and H debentures are 7.668%, 3.895%, 3.692% and 2.908%, respectively. As at December 31, 2019, the Airport Authority has accrued debenture interest of $4,564,000 [2018 – $2,792,000], which is recorded in accounts payable and accrued liabilities.

The debentures are direct, unsecured and subordinated obligations of the Airport Authority. Interest is payable semi-annually in arrears in June and December for Series B, in May and November for Series F and G, and in April and October for Series H. The debentures are redeemable at the option of the Airport Authority, in whole or in part, at any time.

For the Series B debentures, the redemption price is the higher of par and that value which would result in a yield to maturity equivalent to that of a Government of Canada bond of equivalent maturity plus a premium. The premium is 0.15% for the Series B debentures.

For the Series F debentures, the redemption price prior to May 10, 2045 is the higher of par and that value which would result in a yield to maturity equivalent to that of a Government of Canada bond of equivalent maturity plus a premium. The premium for these debentures is 0.37%. The redemption price on or after May 10, 2045 is par.

[tabular amounts in thousands of dollars]

For the Series G debentures, the redemption price prior to May 23, 2048 is the higher of par and that value that would result in a yield to maturity equivalent to that of a Government of Canada bond of equivalent maturity plus a premium. The premium for these debentures is 0.31%. The redemption price on or after May 23, 2048 is par.

For the Series H debentures, the redemption price prior to April 18, 2049 is the higher of par and that value that would result in a yield to maturity equivalent to that of a Government of Canada bond of equivalent maturity plus a premium. The premium for these debentures is 0.295%. The redemption price on or after April 18, 2049 is par.

While the debentures are outstanding, the Airport Authority is required to maintain an interest coverage ratio of not less than 1.25:1. Any further new issues of debt with a maturity of 12 months or longer are subject to a minimum interest coverage ratio of 1.75:1 on a pro-forma basis. The Trust Indenture also places certain limitations on the Airport Authority in the areas of encumbrances of assets, sales of assets, acquisitions of corporations, investments and guarantees. As at December 31, 2019 and 2018, the Airport Authority was in compliance with its covenants.

12. Deferred capital contributions

The Airport Authority receives funding from Canadian Air Transport Security Authority ["CATSA"] towards specific security infrastructure upgrades. The funds received are deferred and brought into revenue as contributions at a rate consistent with the amortization of the related capital assets. The funds earned but not yet received of $12,951,000 [2018 – $8,855,000] are recorded in other receivables.

	2019	**2018**
	$	$
Capital contributions		
CATSA	**188,937**	155,937
Other	**4,211**	4,144
	193,148	160,081
Less accumulated amortization	**114,118**	106,379
	79,030	53,702

13. Related party transactions

Related parties include the Board of Directors, key management personnel, subsidiaries, partnerships and affiliates. The Airport Authority has not engaged in any significant related party transactions with directors and key management personnel for the years ended December 31, 2019 and 2018.

The Airport Authority provides certain administrative support services including information technologies, legal, accounting and human resources to its subsidiaries for no consideration.

The Airport Authority pays legal, administrative, and salaries and wages expenses on behalf of its directly or indirectly owned subsidiaries and partnerships in the normal course of operations and are measured at the agreed-upon exchange amount. All receivables from subsidiaries and partnerships are due and payable upon the Airport Authority's demand.

[tabular amounts in thousands of dollars]

For the year ended December 31, 2019, the Airport Authority received $3,082,000 [2018 – nil] for rental revenue pursuant to a land lease for the DOC. The amounts received have been deferred and are recognized in rental revenue over the team of the lease.

For the year ended December 31, 2019, the Airport Authority recognized $396,000 [2018 – $396,000] of rental revenue and $195,000 [2018 – 308,000] of management fees from Templeton DOC Limited Partnership, which is included in fees and miscellaneous revenue.

14. AIF – use of funds

The AIF is collected on the airline ticket by air carriers under a Memorandum of Agreement ["MOA"] between several Canadian airport authorities, air carriers and the Air Transport Association of Canada. Under the MOA, all AIF revenue collected is to be used to fund capital and related financing costs of airport infrastructure development as jointly agreed with the air carriers.

For the year ended December 31, 2019, the Airport Authority recorded $170,178,000 [2018 – $171,346,000] main terminal AIF revenue, and main terminal AIF eligible capital expenditures totalled $577,557,000 [2018 – $352,076,000]. The remainder of the AIF revenue was from the south terminal. As at December 31, 2019, the cumulative main terminal AIF revenue totalled $2,353,517,000 [2018 – $2,183,340,000], and cumulative main terminal AIF eligible capital expenditures totalled $4,292,401,000 [2018 – $3,714,845,000]. As at December 31, 2019, the cumulative AIF revenue has been used to fund AIF eligible capital expenditures in accordance with the MOA.

15. Employee future benefits

[a] Funded pension plans

Defined benefit plan

Information regarding the Airport Authority's defined benefit pension plan is as follows:

	2019	2018
	$	$
Fair value of plan assets	**74,759**	68,594
Accrued benefit obligation	**57,639**	52,480
Accrued benefit asset	**17,120**	16,114

The accrued benefit asset is included in other long-term assets *[note 8]*.

Total cash payments

In April 2011, amendments were made to the Pension Benefits Standards Regulations, which permitted plan sponsors to secure structured letters of credit in lieu of making solvency payments to the pension plan, up to a limit of 15% of plan assets. On August 31, 2011, the Airport Authority issued a letter of credit to fund its required solvency payments to its defined benefit plan. As at December 31, 2019, the total amount of the letter of credit was $8,717,000 [2018 – $8,717,000], which reduced the available bank operating line *[note 9]*.

Total cash payments for employee future benefits for the year ended December 31, 2019, consisting of cash contributed by the Airport Authority to its funded pension plans [the defined benefit plan and defined contribution plans], were $3,661,000 [2018 – $3,421,000].

[b] Unfunded pension plans

The Airport Authority participates in supplementary plans for its senior executives.

Pension expense for the year ended December 31, 2019 was $1,275,000 [2018 – $1,270,000]. Based on an actuarial report, the total accrued benefit liability of these plans as at December 31, 2019 was $15,174,000 [2018 – $13,498,000], which is included in other long-term liabilities.

[c] Retiring allowance

The Airport Authority provides a retiring allowance to bargaining unit employees based on their number of years of service and their salary at retirement. The accrued benefit liability is determined using an actuarial valuation and as at December 31, 2019, the total accrued benefit liability of this plan was $3,993,000 [2018 – $4,212,000], of which $456,000 [2018 – $511,000] is recorded in accounts payable and accrued liabilities and $3,537,000 [2018 – $3,701,000] in other long-term liabilities.

16. Commitments, contingencies and guarantees

[a] Ground Lease

The Ground Lease governs both the economic and day-to-day relations between the Airport Authority and the Government of Canada for a term ending on June 30, 2072.

The Ground Lease requires that the Airport Authority operates the Airport as a “first class international airport” and that, as the operator, the Airport Authority exercises sound business judgment.

Under the Ground Lease, Transport Canada is required to assume all costs associated with environmental remediation of any noxious or hazardous substance when such substance was present prior to the commencement of the Ground Lease on July 1, 1992. Transport Canada has taken the position that payment is contingent upon the actual issue of a direction from a government agency requiring the clean-up. The Airport Authority is of the view that compliance with the law, the Ground Lease and the general duty to the environment are the tests to determine when an obligation exists. These matters are under active discussion, and as such no obligation is recorded in the consolidated financial statements.

Effective January 1, 2010, the ground lease expense is based on a progressive scale of percentages of the Airport Authority’s revenue as defined in the Ground Lease. At a minimum, the required monthly payments are based on the immediately preceding year’s actual ground lease expense while the expense is calculated as a percentage of current year’s revenue.

The difference between the Airport Authority’s required ground lease payments based on its estimated 2019 Airport Revenue at the beginning of the year and ground lease expense is $758,000 [2018 – $4,271,000]. This amount is included in accounts payable and accrued liabilities as at December 31, 2019.

[tabular amounts in thousands of dollars]

Projected lease payments under the amended Ground Lease for the next five years are estimated as follows:

	$
2020	63,722
2021	67,175
2022	70,647
2023	74,469
2024	77,674

[b] Commitments

[i] As at December 31, 2019, in connection with the construction of certain capital projects, the Airport Authority has capital commitments outstanding of approximately $530,694,000 [2018 – $389,278,000].

[ii] As at December 31, 2019, in connection with the operation of the Airport, the Airport Authority has total operating commitments of approximately $205,999,000 [2018 – $176,616,000]. These commitments extend for periods of up to five years.

[iii] On June 21, 2017, the Airport Authority and a third party entered into a 30-year mutually beneficial agreement based on the four pillars of sustainability – economic, social, environmental, and governance. The agreement includes a revenue sharing arrangement whereby the Airport Authority will pay, on an annual basis, to the third party an amount equal to 1% of the Airport Authority's revenue as defined in the agreement.

[c] Guarantees

[i] On December 6, 2013, the Airport Authority entered into a payment guarantee agreement as the guarantor for a loan agreement between DOC Partnership and its bank [the "Loan Agreement"]. The Loan Agreement was amended and restated February 26, 2018. The maximum amount of the guarantee is $24,500,000, and will be reduced for any repayment of the principal amount of the loan made with cash capital contributions to the DOC Partnership directly or indirectly from the Airport Authority that are not proceeds of the collateral securing the loan.

[ii] On February 18, 2015, the Airport Authority entered into an agreement to guarantee the payment of the obligations of DOC Partnership to the utility company for electrical services, up to an amount of $974,800 plus applicable taxes. The initial term of the guarantee was until February 28, 2020 and was automatically extended for a one-year period until February 27, 2021.

[d] Legal claims

In the normal course of operations, the Airport Authority becomes involved in various claims and legal proceedings.

While the final outcome with respect to these claims and legal proceedings cannot be predicted with certainty, management believes that the resolution of these proceedings will not have a material adverse effect on the Airport Authority's financial position or the results of its operations.

As at December 31, 2019, there were no material claims pending against the Airport Authority.

17. Customer concentration

The Airport Authority derives approximately $63,002,000 [2018 – $61,212,000] in aeronautical and rental revenue from one airline and $58,359,000 [2018 – $59,120,000] in concession and rental revenue from one concession operator. The Airport Authority believes that the cessation of operations of the airline or concession operator would not have a material long-term effect on the Airport Authority's revenue or operations as the lost revenue would eventually be earned from other service providers.

18. Financial instruments – risk management

The Airport Authority primarily has exposure to credit, currency, interest rate and liquidity risk on its financial instruments.

Credit risk

The Airport Authority is subject to credit risk through its financial assets. Ongoing credit valuations are performed on these accounts and valuation allowances are maintained for potential credit losses. The credit quality of financial assets can be assessed by reference to external credit ratings or historical information about the customer. The Airport Authority held security deposits in the amount of $2,806,000 as at December 31, 2019 [2018 – $2,496,000]. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific customers, historical trends and other information. The accounts receivable aging and allowance for doubtful accounts reconciliation are detailed in note 3.

The Airport Authority's revenue is dependent on the domestic, transborder and international air transportation industry. Due to this diversification, the concentration of credit risk is considered to be minimal.

Currency risk

The Airport Authority has minimal transactions denominated in foreign currencies, as the majority of revenue, expenses and capital asset expenditures are denominated in Canadian dollars.

Interest rate risk

The Airport Authority had no bank indebtedness as at December 31, 2019 [2018 – nil] either in the form of bankers' acceptances or drawings on the bank operating line *[note 9]*. The balance of outstanding debt is by way of debentures *[note 11]*, which have fixed interest rates for their term and, therefore, any changes in market interest rates do not impact the Airport Authority's interest payments.

Liquidity risk

The Airport Authority manages liquidity risk by maintaining adequate cash or available credit facilities. Cash flow projections are continually updated and reviewed by management to ensure a sufficient continuity of funding.

Notes to consolidated financial statements

[tabular amounts in thousands of dollars]

December 31, 2019

19. Supplementary cash flow information

[a] Net change in non-cash working capital balances related to operations

	2019	2018
	$	$
Accounts receivable	**(7,067)**	9,014
Other receivables	**(5,849)**	(286)
Inventory	**(448)**	1,338
Prepaid expenses	**(2,283)**	3,118
Accounts payable and accrued liabilities	**38,988**	16,916
Deferred revenue	**3,966**	(2,544)
	27,307	27,556

[b] Other supplementary information

	2019	2018
	$	$
Non-cash transactions		
Construction-in-progress accrual	**88,151**	59,948
Deferred capital contribution accrual	**12,951**	8,855
Employee future benefit plan remeasurements	**(7)**	(5,030)

20. Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation.