Consolidated financial statements

Vancouver Airport Authority

December 31, 2016

Building a better working world

Independent auditors' report

To the Directors of
Vancouver Airport Authority

We have audited the accompanying consolidated financial statements of **Vancouver Airport Authority**, which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statements of operations, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these 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.

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Vancouver Airport Authority** as at December 31, 2016, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Ernst & Young LLP
Chartered Professional Accountants

Vancouver, Canada
April 13, 2017

Vancouver Airport Authority

Consolidated statement of financial position

[expressed in thousands of dollars]

As at December 31

	2016	2015
	$	$
Assets		
Current		
Cash	**240,511**	205,804
Accounts receivable *[note 3]*	**37,390**	26,987
Other receivables	**3,223**	3,581
Current portion of net investment in lease *[note 4]*	**1,386**	1,196
Inventory *[note 5]*	**9,182**	7,288
Prepaid expenses	**5,421**	3,777
Total current assets	**297,113**	248,633
Net investment in lease *[note 4]*	**2,913**	4,299
Partnership interests *[notes 7, 14 and 17[c]]*	**26,292**	21,778
Capital assets, net *[note 8]*	**1,923,768**	1,925,381
Other long-term assets, net *[note 9]*	**38,810**	38,571
	2,288,896	2,238,662
Liabilities and net assets		
Current		
Accounts payable and accrued liabilities *[notes 11, 12, 16[c] and 17[a]]*	**74,785**	108,992
Current portion of deferred revenue	**15,685**	11,502
Total current liabilities	**90,470**	120,494
Deferred revenue *[note 14]*	**15,718**	15,063
Other long-term liabilities *[notes 16[b] and [c]]*	**16,366**	14,571
Deferred capital contributions *[note 13[a]]*	**43,638**	48,860
Debentures *[note 12]*	**544,719**	543,848
Total liabilities	**710,911**	742,836
Commitments, contingencies and guarantee *[note 17]*		
Net assets	**1,577,985**	1,495,826
	2,288,896	2,238,662

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

	2016	2015
	$	$
Revenue		
Landing fees	**42,346**	36,556
Terminal fees	**84,883**	91,741
Concession	**115,204**	102,477
Airport improvement fees *[note 15]*	**150,447**	136,916
Car parking	**33,484**	31,430
Rentals	**36,336**	36,782
Fees and miscellaneous	**21,410**	37,524
Contributions *[note 13[b]]*	**6,348**	12,078
	490,458	485,504
Expenses		
Salaries, wages and benefits	**52,469**	49,058
Materials, supplies and services	**108,250**	98,070
Payments in lieu of taxes, insurance and other	**31,383**	39,761
Amortization of capital assets	**137,938**	128,524
	330,040	315,413
Other expenses		
Ground lease	**50,587**	49,267
Interest and financing charges	**30,014**	31,510
	80,601	80,777
Excess of revenue over expenses before undernoted items	**79,817**	89,314
Write-down of capital assets	**(1,345)**	(3,058)
Gain on disposal of capital assets	**107**	75
Foreign exchange gain (loss)	**(234)**	940
Equity loss of DOC Partnership *[note 7[a]]*	**(730)**	(1,960)
Partnership income of VAPH *[note 7[b]]*	**4,508**	2,253
Gain on disposition of investment in Vantage Airport Group *[note 6]*	**3,000**	33,981
Equity earnings of Vantage Airport Group *[note 6]*	**—**	8,209
Amortization of deferred gain on deemed disposition of shares	**—**	1,720
Excess of revenue over expenses for the year	**85,123**	131,474

See accompanying notes

Vancouver Airport Authority

Consolidated statement of changes in net assets

[expressed in thousands of dollars]

Year ended December 31

	2016	2015
	$	$
Balance, beginning of year	**1,495,826**	1,360,688
Excess of revenue over expenses for the year	**85,123**	131,474
Employee future benefit plan measurements *[note 16]*	**(2,964)**	581
Other comprehensive income from investment in Vantage Airport Group	**—**	3,083
Balance, end of year	**1,577,985**	1,495,826

See accompanying notes

Vancouver Airport Authority

Consolidated statement of cash flows

[expressed in thousands of dollars]

Year ended December 31

	2016	2015
	$	$
Operating activities		
Excess of revenue over expenses for the year	**85,123**	131,474
Add (deduct) items not involving cash		
Amortization of capital assets	**137,938**	128,524
Amortization of deferred capital contributions *[note 13[b]]*	**(6,291)**	(8,963)
Amortization of deferred financing costs	**871**	459
Amortization of other long-term assets	**1,848**	2,249
Write-down of capital assets	**1,345**	3,058
Gain on disposal of capital assets	**(107)**	(75)
Foreign exchange loss (gain)	**234**	(940)
Partnership income of VAPH	**(4,508)**	(2,253)
Equity loss of DOC Partnership	**730**	1,960
Equity earnings of Vantage Airport Group	**—**	(8,209)
Amortization of deferred gain on deemed disposition of shares	**—**	(1,720)
Gain on disposition of investment in Vantage Airport Group	**(3,000)**	(33,981)
Changes in non-cash operating working capital *[note 20[a]]*	**(21,997)**	10,925
Cash provided by operating activities	**192,186**	222,508
Investing activities		
Additions of capital assets	**(160,212)**	(205,026)
Investments in DOC Partnership *[notes 7[a] and 14]*	**(1,100)**	—
Partnership distribution from VAPH *[note 7[b]]*	**485**	—
Proceeds on disposal of capital assets	**110**	75
Decrease in net investment in lease	**1,196**	1,028
Increase in other long-term assets	**(3,746)**	(5,036)
Proceeds on disposition of investment in Vantage Airport Group	**3,000**	38,517
Dividends received from Vantage Airport Group	**—**	20,383
Cash used in investing activities	**(160,267)**	(150,059)
Financing activities		
Increase in other long-term liabilities	**1,795**	906
Deferred capital contributions received	**1,227**	5,949
Repayment of deferred ground lease	**—**	(2,052)
Increase in deferred financing fees *[notes 12[a] and [b]]*	**—**	(4,823)
Issuance of Series F debentures *[note 12[b]]*	**—**	200,000
Repayment of Series E debentures *[note 12[c]]*	**—**	(200,000)
Cash provided by (used in) financing activities	**3,022**	(20)
Effect of exchange rates on cash	**(234)**	940
Net increase in cash during the year	**34,707**	73,369
Cash, beginning of year	**205,804**	132,435
Cash, end of year	**240,511**	205,804

See accompanying notes

Notes to consolidated financial statements

[tabular amounts in thousands of dollars]

December 31, 2016

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:

- 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. VAEL previously held a 50% equity interest in Vantage Airport Group Ltd. ["Vantage"], which invests in and manages a number of airports across Canada and around the world *[note 6]*.

- 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.

- Vancouver Airport Enterprises (Templeton) Ltd. ["VAEL Templeton"] holds the Airport Authority's 50% investment in the Templeton DOC Limited Partnership ["DOC Partnership"], which has developed a retail designer outlet centre ["DOC"] on Sea Island.

- 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 Canadian generally accepted accounting principles 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.

The Airport Authority prepares its consolidated financial statements in accordance with Part III of the *CPA Canada Handbook – Accounting*, "Accounting Standards for Not-for-Profit Corporations".

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.

Investment in Vantage

The Airport Authority accounts for its 50% investment in Vantage using the equity method. The Airport Authority's share of Vantage's net income is recorded as equity earnings and any change in other comprehensive income is recorded in net assets. The Airport Authority disposed of its investment in Vantage in 2015 *[note 6]*.

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 systems 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.

Amortization is provided at cost less estimated salvage value on a straight-line basis over a period not exceeding 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
Art collection	Not amortized

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 evenly over the lease term, even if the payments are not made on such a basis.

[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 when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

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

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

The Airport Authority does not have any endowment contributions.

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 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.

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 and some of its senior management.

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, 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, 2015. The next valuation for funding purposes will be as of December 31, 2016, the results of which are expected to be available during 2017.

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 on 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 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 consolidated statement of financial position date. Foreign exchange gains and losses are included in the results of operations in the period in which they occur.

[tabular amounts in thousands of dollars]

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

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 date of the consolidated financial statements, 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, fair values of identified assets and liabilities acquired in business combinations, and provisions for contingencies. Actual results could differ materially from those estimates.

3. Accounts receivable

[a]

	2016	2015
	$	$
Current	**31,495**	24,763
31-60 days past due	**3,372**	1,691
61-90 days past due	**871**	502
90+ days past due	**2,204**	576
Less allowance for doubtful accounts	**(552)**	(545)
	37,390	26,987

[b]

	2016	2015
	$	$
Allowance for doubtful accounts, beginning of year	**545**	485
Increase in allowance for doubtful accounts	**7**	149
Write-off of specific accounts	**—**	(89)
Allowance for doubtful accounts, end of year	**552**	545

[tabular amounts in thousands of dollars]

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 expiring December 31, 2019. The Airport Authority's net investment in the direct financing lease consists of the following:

	2016	**2015**
	$	$
Minimum lease payments receivable	**5,167**	6,994
Unearned income	**(868)**	(1,499)
	4,299	5,495
Less current portion	**1,386**	1,196
	2,913	4,299

As at December 31, 2016, the future minimum lease payments receivable under the direct financing lease are as follows:

	$
2017	1,854
2018	1,882
2019	1,431
	5,167

5. Inventory

At December 31, 2016, the Airport Authority has a $754,000 [2015 – $644,000] valuation allowance on its inventory. The cost of inventory recognized as materials, supplies and services expense and payments in lieu of taxes, insurance and other during the year ended December 31, 2016 was $6,907,000 [2015 – $6,888,000].

6. Investment in Vantage

On November 23, 2015, VAEL sold its 50% equity interest in Vantage and recorded a gain on disposal of $33,981,000.

On June 15, 2016, as a result of the occurrence of a post-closing event, the Airport Authority received additional proceeds of $3,000,000.

The disposition of VAEL's investment in Vantage resulted in income tax expense of $685,000 [2015 – $8,073,000], which is recorded in payments in lieu of taxes, insurance and other on the consolidated statement of operations.

The disposition of VAEL's investment in Vantage also resulted in the full recognition of the remaining deferred gain on the deemed disposition of shares that was initially generated on VAEL's 2008 sale of the other 50% of its interest in Vantage.

[tabular amounts in thousands of dollars]

The calculation of the gain on disposition of investment in Vantage is presented below:

	$
Gain on disposition of Class B preferred shares	9,743
Loss on disposition of Class C common shares	(13,310)
Recognition of deferred gain on deemed disposition of shares	37,548
	33,981

In 2015, prior to the transaction closing, VAEL received $20,383,000 in previously declared but unpaid ordinary course dividends on its class B preferred shares.

Summarized consolidated statements of financial position, operations and cash flows of VAEL's 50% share of Vantage as at and for the period ended November 22, 2015, the date of disposition of VAEL's investment in Vantage are presented below:

	November 22, 2015 $
Assets	89,823
Liabilities	(81,013)
Net liabilities	8,810

	January 1 to November 22, 2015 $
Revenue	22,115
Expenses	13,906
Net income	8,209

	January 1 to November 22, 2015 $
Cash flows provided by	
Operating activities	11,500
Financing activities	2,650
Investing activities	1,041

[tabular amounts in thousands of dollars]

7. Partnership interests

	2016	2015
	$	$
DOC Partnership *[a]*	**19,602**	19,111
VAPH *[b]*	**6,690**	2,667
	26,292	21,778

[a] DOC Partnership

On April 22, 2016, the Airport Authority contributed $1,100,000 in equity to the DOC Partnership to fund ground improvements required prior to the construction of Phase 2 of the DOC. To date, the Airport Authority has contributed $22,558,000 [2015 – $21,337,000] in equity to the DOC Partnership.

For the year December 31, 2016, the Airport Authority recorded an equity loss of $730,000 [2015 – $1,960,000] from the DOC Partnership. The amount was recorded as a reduction in the partnership interests.

Summarized consolidated statements of financial position, operations and cash flows of the Airport Authority's 50% [2015 – 50%] share of the DOC Partnership as at and for the years ended December 31, 2016 and 2015 are presented below:

	2016	2015
	$	$
Assets	**74,140**	70,162
Liabilities	**(54,538)**	(50,930)
Net assets	**19,602**	19,232

	2016	2015
	$	$
Revenue	**6,221**	2,444
Expenses	**6,951**	4,404
Net loss	**(730)**	(1,960)

	2016	2015
	$	$
Cash flows provided by (used in)		
Operating activities	**758**	574
Financing activities	**6,417**	42,885
Investing activities	**(7,819)**	(39,991)

[tabular amounts in thousands of dollars]

[b] VAPH and VAPM

For the year ended December 31, 2016, the Airport Authority recorded $4,508,000 [2015 – $2,253,000] of partnership income in the consolidated statement of operations based on its partnership interest in VAPH and investment in VAPL. The amount was recorded as an increase in the partnership interests.

In April 2016, the Airport Authority received a partnership distribution from VAPH of $485,000 [2015 – nil]. The distribution was recorded as a reduction in the partnership interests.

Summarized consolidated statements of financial position, operations and cash flows of the Airport Authority's share of VAPH [99.9%], which include equity earnings in VAPM as at and for the years ended December 31, 2016 and 2015, are presented below:

	2016	**2015**
	$	$
Assets	**16,700**	8,320
Liabilities	**(11)**	(13)
Net assets	**16,689**	8,307

	2016	**2015**
	$	$
Revenue	**4,511**	2,257
Expenses	**12**	8
Net income	**4,499**	2,249

	2016	**2015**
	$	$
Cash flows provided by (used in)		
Operating activities	**482**	(46)
Financing activities	**(577)**	(719)
Investing activities	**—**	—

[tabular amounts in thousands of dollars]

8. Capital assets

	2016		
	Cost $	**Accumulated amortization** $	**Net book value** $
Buildings and other structures	**1,940,733**	**791,903**	**1,148,830**
Runways and other paved surfaces	**523,566**	**258,582**	**264,984**
Rapid transit infrastructure	**298,948**	**44,303**	**254,645**
Machinery and equipment	**127,187**	**89,379**	**37,808**
Furniture and fixtures	**32,871**	**27,569**	**5,302**
Computer equipment and software	**180,510**	**136,798**	**43,712**
Art collection	**9,804**	**—**	**9,804**
Construction-in-progress	**158,683**	**—**	**158,683**
	3,272,302	**1,348,534**	**1,923,768**

	2015		
	Cost $	**Accumulated amortization** $	**Net book value** $
Buildings and other structures	1,879,424	709,317	1,170,107
Runways and other paved surfaces	513,836	236,569	277,267
Rapid transit infrastructure	298,948	38,323	260,625
Machinery and equipment	116,293	81,908	34,385
Furniture and fixtures	31,060	26,388	4,672
Computer equipment and software	163,183	123,819	39,364
Art collection	9,613	—	9,613
Construction-in-progress	129,348	—	129,348
	3,141,705	1,216,324	1,925,381

[tabular amounts in thousands of dollars]

9. Other long-term assets

	2016		
	Cost	**Accumulated amortization**	**Net book value**
	$	$	$
Operating lease receivables *[a]*	**29,893**	**13,740**	**16,153**
Leasehold interest *[b]*	**4,640**	**681**	**3,959**
Development costs *[c]*	**961**	**—**	**961**
Intangible asset *[d]*	**1,400**	**1,400**	**—**
Accrued benefit asset *[note 16]*	**17,737**	**—**	**17,737**
	54,631	**15,821**	**38,810**

	2015		
	Cost	**Accumulated amortization**	**Net book value**
	$	$	$
Operating lease receivables *[a]*	28,204	13,008	15,196
Leasehold interest *[b]*	4,640	609	4,031
Development costs *[c]*	961	—	961
Intangible asset *[d]*	1,400	1,400	—
Accrued benefit asset *[note 16]*	18,383	—	18,383
	53,588	15,017	38,571

[a] In certain circumstances, the Airport Authority provides lease inducements to tenants. These lease inducements are recorded as long-term assets and recognized evenly as a reduction of revenue over the term of the lease. During the year ended December 31, 2016, the Airport Authority provided lease inducements of $31,000 [2015 – $452,000] to tenants and recognized $1,776,000 [2015 – $1,827,000] 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, 2016, the cumulative difference between the rental income recognized and cash lease payments received is $8,546,000 [2015 – $7,561,000].

[b] In June 2008, the Airport Authority acquired a leasehold interest on Sea Island for $5,043,000, 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, 2016, the amortization of the leasehold interest was $71,000 [2015 – $71,000].

[tabular amounts in thousands of dollars]

[c] Costs in this account relate to a potential commercial development on Sea Island and will form part of the Airport Authority's future investment, likely in a separate entity that will own and operate the development.

[d] In October 2012, the Airport Authority purchased intellectual property rights from a third party relating to a technology the Airport Authority is currently developing and selling. This intangible asset is being amortized on a straight-line basis over three years, which represents the period over which the asset is expected to generate future economic benefit. As at December 31, 2015, the intangible asset was fully amortized.

10. Line of credit

The Airport Authority has an unsecured bank operating line of $250,000,000 [2015 – $250,000,000] bearing interest at the bank prime rate, which was 2.7% as at December 31, 2016 [2015 – 2.70%], or at prevailing market interest rates if issuing bankers' acceptances. The unsecured bank operating line remained undrawn as at December 31, 2016 [2015 – nil].

	2016	**2015**
	$	$
Unsecured bank operating line	**250,000**	250,000
Outstanding letters of credit, reducing available balance	**14,694**	14,694
Available unsecured bank operating line	**235,306**	235,306

11. 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.

	2016	**2015**
	$	$
Transport Canada *[note 17[a]]*	**1,319**	2,633
TransLink	**576**	536
Canada Revenue Agency	**355**	243
	2,250	3,412

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[tabular amounts in thousands of dollars]

December 31, 2016

12. Debentures

	2016	2015
	$	$
Debentures		
Amended Series B 7.425%, due December 7, 2026 *[a]*	**150,000**	150,000
Series D 4.424%, due December 7, 2018 *[a]*	**200,000**	200,000
Series F 3.857%, due November 10, 2045 *[b]*	**200,000**	200,000
	550,000	550,000
Less unamortized deferred financing costs	**5,281**	6,152
	544,719	543,848

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 D debentures are issued under the Supplemental Indenture dated December 7, 2006 and amended October 5, 2015. The Series F debentures are issued under the Supplemental Indenture dated November 10, 2015.

[a] On September 28, 2015, the Airport Authority received approval from holders of the Series B and D debentures to make amendments to the certain provisions in the Trust Indenture by way of a Fifth Supplemental Indenture dated October 5, 2015. These amendments include changes to the calculation of the interest coverage ratio, a means and time for resolution of deficiencies in the financial covenant, if required, and amendments to the limitations on investments and guarantees.

As a result of the amendments, voting debenture holders received an approval fee on the Series B and D debentures of $10.00 for each $1,000 principal amount outstanding. This resulted in an approval fee payment of $1,464,000 and $1,864,000, respectively, on the Series B and D debentures. The total approval fee and other financing costs incurred of $3,500,000 relating to the amendments were deferred and recorded as a reduction to each respective debenture. The deferred financing costs are amortized to interest and financing charges on the consolidated statement of operations over the remaining term of the respective debentures.

[b] On November 10, 2015, the Airport Authority issued $200,000,000 of 30-year Series F debentures through a Sixth Supplemental Trust Indenture dated November 10, 2015 to refinance the $200,000,000 Series E debentures that matured on November 13, 2015. The Sixth Supplemental Trust Indenture incorporates the amendments made to the Trust Indenture by way of the Fifth Supplemental Indenture dated October 5, 2015.

The total financing costs of $1,323,000 relating to the issuance were deferred and recorded as a reduction to the Series F 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 F debentures.

[c] The Airport Authority repaid the $200,000,000 outstanding on the Series E debentures when they became due on November 13, 2015.

[tabular amounts in thousands of dollars]

The effective interest rates on the Series B, D and F debentures are 7.668%, 4.814%, and 3.895%, respectively. As at December 31, 2016, the Airport Authority has accrued debenture interest of $2,440,000 [2015 – $2,468,000], 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 and D and in May and November for Series F. The debentures are redeemable at the option of the Airport Authority, in whole or in part, at any time. For the Series B and D 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 and 0.125% for the Series D 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.

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, 2016 and 2015, the Airport Authority was in compliance with its covenants.

13. Deferred capital and operating contributions

[a] 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.

	2016	**2015**
	$	$
Capital contributions		
CATSA	**134,651**	133,582
Other	**3,647**	3,647
	138,298	137,229
Less accumulated amortization	**94,660**	88,369
	43,638	48,860

[tabular amounts in thousands of dollars]

[b] Contributions

	2016	2015
	$	$
Amortization of deferred capital contributions	**6,291**	8,963
Operating contributions	**57**	3,115
	6,348	12,078

14. Related party transactions

Related parties include the Board of Directors, key management personnel, subsidiaries 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, 2016 and 2015.

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, salaries and wages expenses on behalf of its subsidiaries in the normal course of operations, which are included in other receivables and are measured at the agreed upon exchange amount. All receivables from subsidiaries are due and payable upon the Airport Authority's demand.

During the year ended December 31, 2016, the Airport Authority received $1,000,000 [2015 – $16,274,000] 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 term of the lease.

During the year ended December 31, 2016, the Airport Authority recognized $396,000 [2015 – $434,000] of rental revenue, nil [2015 – $660,000] of management fees, and nil [2015 – $418,000] of construction project management revenue, all from the DOC Partnership, which are included in fees and miscellaneous revenue.

15. 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.

During the year ended December 31, 2016, the Airport Authority recorded $149,746,000 [2015 – $136,234,000] main terminal AIF revenue, and main terminal AIF eligible capital expenditures totalled $134,797,000 [2015 – $212,584,000]. The remainder of the AIF revenue is from the south terminal. To December 31, 2016, the cumulative main terminal AIF revenue totalled $1,853,325,000 [2015 – $1,703,579,000], and cumulative AIF eligible expenditures totalled $3,191,757,000 [2015 – $3,056,960,000]. To December 31, 2016, the cumulative AIF revenue has been used to fund AIF eligible capital expenditures in accordance with the MOA.

[tabular amounts in thousands of dollars]

16. Employee future benefits

[a] Funded pension plans

Defined contribution plans

The Airport Authority participates in a Registered Retirement Savings Plan, which covers employees who have joined the Airport Authority since June 1992. Employees covered by this plan are required to contribute 6%, and the Airport Authority contributes an additional 7% of their earnings. Total contributions for 2016 were $2,485,000 [2015 – $2,345,000].

The Airport Authority participates in a defined contribution plan, which covers some of the senior executives who are also in an unfunded supplementary plan discussed in [b] below. Pension expense for the supplementary plan for the year ended December 31, 2016 was $18,000 [2015 – $15,000].

Defined benefit plan

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

	2016	**2015**
	$	$
Accrued benefit obligation		
Balance, beginning of year	**46,223**	49,058
Current service cost	**438**	652
Employee contribution	**143**	154
Interest cost	**2,699**	2,933
Benefits paid	**(2,132)**	(1,969)
Actuarial loss (gain)	**4,185**	(2,114)
Obligation extinguished on settlement *[i]*	**—**	(2,491)
Balance, end of year	**51,556**	46,223
Fair value of plan assets		
Balance, beginning of year	**64,606**	66,028
Actual return on plan assets	**6,206**	3,651
Administration cost	**(175)**	(150)
Employer contributions	**645**	873
Employee contributions	**143**	154
Benefits paid	**(2,132)**	(1,969)
Assets distributed on settlement *[i]*	**—**	(3,981)
Balance, end of year	**69,293**	64,606
Accrued benefit asset	**17,737**	18,383

The accrued benefit asset is included in other long-term assets *[note 9]*.

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Plan assets [measured as of the measurement date of December 31 each year] comprise the following:

	2016	2015
	%	%
Asset category		
Equity shares	**66.0**	65.3
Debt securities	**27.5**	28.6
Cash and short-term investments	**6.5**	6.1
	100.0	100.0

The significant assumptions used are as follows [weighted average]:

	2016	2015
	%	%
Accrued benefit obligation as of December 31		
Discount rate	**5.20**	6.00
Rate of compensation increase	**3.20**	3.25
Benefit costs for the years ended December 31		
Discount rate	**5.20**	6.00
Expected long-term rate of return on plan assets	**5.20**	6.00
Rate of compensation increase	**3.20**	3.25

The elements of the defined benefit plan costs recognized in the year are as follows:

	2016	2015
	$	$
Current service cost	**438**	652
Administration cost	**175**	150
Interest cost	**2,699**	2,933
Expected return on plan assets	**(3,772)**	(3,944)
Pension credit	**(460)**	(209)

Total cash payments

[i] In 2015, an annuity contract with a third party insurance company was purchased using plan funds to fully settle the benefits of members with accrued plan service at Vantage Airport Group Ltd. or its affiliates. The purchase of the annuity contract resulted in a loss on settlement of $1,490,000, which has been recorded directly in net assets.

[ii] 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, 2016, the total amount of the letter of credit was $8,296,000 [2015 – $8,296,000], which reduced the available bank operating line *[note 10]*.

Total cash payments for employee future benefits for the year ended December 31, 2016, consisting of cash contributed by the Airport Authority to its funded pension plans [the defined benefit plan and defined contribution plans], were $3,130,000 [2015 – $3,555,000].

[b] Unfunded pension plans

The Airport Authority participates in supplementary plans for its senior executives, along with some of its senior management.

Pension expense for the year ended December 31, 2016 was $1,113,000 [2015 – $1,013,000]. Based on an actuarial report, the total accrued benefit liability of these plans as at December 31, 2016 was $12,906,000 [2015 – $11,507,000], which has been accrued 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, 2016, the total accrued benefit liability of this plan is $3,988,000 [2015 – $3,411,000] of which $528,000 [2015 – $478,000] is recorded in accounts payable and accrued liabilities and $3,460,000 [2015 – $2,933,000] in other long-term liabilities.

17. 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 operate the Airport as a “first class international airport” and that, as the operator, the Airport Authority exercise 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.

[tabular amounts in thousands of dollars]

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 revenue.

The difference between the Airport Authority's required ground lease payments based on its estimated 2016 Airport Revenue at the beginning of the year and its expenses is $1,319,000 [2015 – $2,633,000]. This amount is included in accounts payable and accrued liabilities at December 31, 2016.

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

	$
2017	49,916
2018	52,830
2019	54,208
2020	55,679
2021	61,882

[b] Capital and operating commitments

As at December 31, 2016, in connection with the construction of certain capital projects, the Airport Authority has capital commitments outstanding of approximately $16,608,000 [2015 – $14,186,000].

As at December 31, 2016, in connection with operating the Airport, the Airport Authority has total operating commitments of approximately $114,662,000 [2015 – $104,780,000]. These commitments extend for periods of up to five years.

[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 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 irrevocably and unconditionally guarantee the timely payment of the obligations of DOC Partnership to the utility company for electrical services, up to an amount of $974,800. The agreement remains valid until February 28, 2020 and may be automatically extended without notice for a one-year period, unless the utility company provides notice at least 90 days prior to the expiry that the guarantee is not extended.

[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, 2016, there are no material claims pending against the Airport Authority.

18. Customer concentration

The Airport Authority derives approximately $40,500,000 [2015 – $46,566,000] in aeronautical charges and rents from one airline and $48,846,000 [2015 – $44,676,000] in concession revenue from one concession operator. The Airport Authority believes that the cessation of operations of an 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 recovered by other service providers.

19. 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 $2,450,000 as at December 31, 2016 [2015 – $2,478,000]. 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 purchases are denominated in Canadian dollars.

Interest rate risk

The Airport Authority had no bank indebtedness in both 2016 and 2015 either in the form of bankers' acceptances or drawings on the bank operating line. The balance of outstanding debt is by way of debentures *[note 12],* 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.

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[tabular amounts in thousands of dollars]

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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.

20. Supplementary cash flow information

[a] Changes in non-cash operating working capital

	2016	2015
	$	$
Accounts receivable	**(10,403)**	(1,868)
Other receivables	**200**	217
Inventory	**(1,894)**	(93)
Prepaid expenses	**(1,644)**	(767)
Accounts payable and accrued liabilities	**(13,094)**	(5,864)
Deferred revenue	**4,838**	19,300
	(21,997)	10,925

[b] Other supplementary information

	2016	2015
	$	$
Non-cash transactions		
Construction-in-progress accrual	**21,373**	43,791
Deferred capital contribution accrual	**1,719**	1,877
Employee future benefit plan remeasurements	**(2,964)**	581
Prior year costs contributed to DOC Partnership	**121**	—

21. Comparative figures

Certain comparative figures have been reclassified to conform with the consolidated financial statement presentation adopted for the year ended December 31, 2016.