Consolidated Financial Statements

Vancouver Airport Authority

December 31, 2014

INDEPENDENT AUDITORS' REPORT

To the Directors of
Vancouver Airport Authority

We have audited the accompanying consolidated financial statements of **Vancouver Airport Authority** [the "Entity"], which comprise the consolidated statement of financial position as at December 31, 2014, 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, we 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 in our audit 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, 2014, 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

Vancouver, Canada
April 16, 2015

Chartered Accountants

Vancouver Airport Authority

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

[expressed in thousands of dollars]

As at December 31

	2014	2013
	$	$
		[restated]
ASSETS		
Current		
Cash	**132,435**	193,078
Accounts receivable *[note 3]*	**25,681**	20,240
Other receivables	**2,319**	2,773
Current portion of net investment in lease *[note 4]*	**1,028**	881
Inventory *[note 5]*	**7,195**	6,151
Prepaid expenses	**3,010**	2,031
Total current assets	**171,668**	225,154
Net investment in lease *[note 4]*	**5,495**	6,523
Investment in Vantage Airport Group *[note 6]*	**51,175**	63,409
Partnership interests *[note 7]*	**21,485**	9,871
Capital assets, net *[note 8]*	**1,834,445**	1,666,512
Other long-term assets, net *[note 9]*	**35,203**	33,133
	2,119,471	2,004,602
LIABILITIES AND NET ASSETS		
Current		
Notes payable to Vantage Airport Group *[note 6[b]]*	—	16,072
Accounts payable and accrued liabilities *[notes 11, 13, 17[c] and 18[a]]*	**97,364**	63,955
Deferred revenue	**7,265**	10,188
Current portion of deferred ground lease payments *[note 12]*	**2,052**	2,053
Current portion of debentures *[note 13]*	**199,876**	—
Total current liabilities	**306,557**	92,268
Other long-term liabilities *[note 17[b] and [c]]*	**13,665**	12,839
Deferred ground lease payments *[note 12]*	—	2,052
Deferred capital contributions *[note 14[a]]*	**50,957**	51,814
Debentures *[note 13]*	**348,336**	547,922
Deferred gain on deemed disposition of shares *[note 6[d]]*	**39,268**	41,191
Total liabilities	**758,783**	748,086
Commitments, contingencies and guarantee *[note 18]*		
Subsequent event *[note 23]*		
Net assets *[notes 2 and 17]*	**1,360,688**	1,256,516
	2,119,471	2,004,602

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

	2014	2013
	$	$
		[restated]
REVENUE		
Landing fees	**36,485**	35,269
Terminal fees	**89,107**	86,234
Concessions	**90,035**	80,780
Airport improvement fees *[note 16]*	**129,330**	122,275
Car parking	**29,856**	27,823
Rentals	**38,438**	38,972
Fees and miscellaneous	**38,995**	27,247
Contributions *[note 14[b]]*	**13,370**	15,583
	465,616	434,183
EXPENSES		
Salaries, wages and benefits	**46,026**	43,705
Materials, supplies and services	**92,430**	83,444
Payments in lieu of taxes, insurance and other	**35,571**	22,588
Amortization of capital assets	**119,625**	110,707
	293,652	260,444
Other expenses		
Ground lease	**46,635**	42,272
Interest and financing charges	**31,467**	31,499
	78,102	73,771
Excess of revenue over expenses before undernoted items	**93,862**	99,968
Write-down of capital assets	**(48)**	(2,259)
Gain on disposal of capital assets	**5**	76
Foreign exchange gain	**679**	297
Equity earnings (loss) of Vantage Airport Group *[note 6[a]]*	**1,260**	(49,708)
Dividend income from Vantage Airport Group *[note 6[c]]*	**7,725**	7,725
Amortization of deferred gain on deemed disposition of shares *[note 6[d]]*	**1,923**	1,923
Equity loss of DOC Partnership *[note 7[a]]*	**(208)**	(58)
Partnership income of VAPH *[note 7[b]]*	**414**	—
Excess of revenue over expenses for the year	**105,612**	57,964

See accompanying notes

Vancouver Airport Authority

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

[expressed in thousands of dollars]

Year ended December 31

	2014	2013
	$	$
Balance, beginning of year	**1,256,516**	1,181,634
Transitional adjustment on adoption of employee future benefits standard *[notes 2 and 17]*	**—**	6,636
Restated balance, beginning of year	**1,256,516**	1,188,270
Excess of revenue over expenses for the year	**105,612**	57,964
Employee future benefit plan remeasurements *[note 17]*	**2,457**	5,896
Other comprehensive income (loss) from investment in Vantage Airport Group	**(3,897)**	4,386
Balance, end of year	**1,360,688**	1,256,516

See accompanying notes

Vancouver Airport Authority

CONSOLIDATED STATEMENT OF CASH FLOWS

[expressed in thousands of dollars]

Year ended December 31

	2014	2013
	$	$
		[restated]
OPERATING ACTIVITIES		
Excess of revenue over expenses for the year	**105,612**	57,964
Add (deduct) items not involving cash		
Amortization of capital assets	**119,625**	110,707
Amortization of deferred capital contributions	**(9,240)**	(11,748)
Amortization of deferred financing costs	**290**	273
Amortization of other long-term assets	**2,453**	2,517
Write-down of capital assets	**48**	2,259
Gain on disposal of capital assets	**(5)**	(76)
Foreign exchange gain	**(679)**	(297)
Equity earnings (loss) of Vantage Airport Group *[note 6[a]]*	**(1,260)**	49,708
Unpaid dividends from Vantage *[note 6[c]]*	**(7,725)**	(7,725)
Amortization of deferred gain on deemed disposition of shares *[note 6[d]]*	**(1,923)**	(1,923)
Equity loss of DOC Partnership *[note 7[a]]*	**208**	58
Partnership income of VAPH *[note 7[b]]*	**(414)**	—
Changes in non-cash operating working capital *[note 22[a]]*	**14,364**	12,904
Cash provided by operating activities	**221,354**	214,621
INVESTING ACTIVITIES		
Additions of capital assets	**(277,687)**	(185,996)
Redemption of Class A preferred shares *[note 6[b]]*	**16,072**	—
Investments in DOC Partnership	**(11,408)**	(6,528)
Dividend received from Vantage Airport Group	**1,250**	—
Proceeds on disposal of capital assets	**158**	98
Decrease in net investment in lease	**881**	752
Increase in other long-term assets	**(2,066)**	(2,775)
Cash used in investing activities	**(272,800)**	(194,449)
FINANCING ACTIVITIES		
Repayment of notes payable *[note 6[b]]*	**(16,072)**	—
Increase in other long-term liabilities	**826**	758
Deferred capital contributions	**7,423**	902
Deferred ground lease payments	**(2,053)**	(2,053)
Cash used in financing activities	**(9,876)**	(393)
Effect of exchange rates on cash	**679**	297
Net increase (decrease) in cash	**(60,643)**	20,076
Cash, beginning of year	**193,078**	173,002
Cash, end of year	**132,435**	193,078

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands of dollars]

December 31, 2014

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, 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 *[notes 6 and 7]*:

- Vancouver Airport Enterprises Ltd. ["VAEL"] holds investments in the following companies:
  - YVR Project Management Ltd. ["YVRPM"] – 100% owned subsidiary of VAEL, which provides capital project management and consulting services to affiliated and non-affiliated entities.
  - Vantage Airport Group Ltd. ["Vantage"] – 50% equity interest held by VAEL, which invests in and manages a number of airports across Canada and around the world.

- 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"] which holds the Airport Authority's 50% investment in the Templeton DOC Limited Partnership ["DOC Partnership"], which is developing a retail designer outlet centre on Sea Island.

- Vancouver Airport Properties Ltd. ["VAPL"] holds 0.1% 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 its wholly owned subsidiaries and partnership interest. All intercompany transactions and balances have been eliminated on consolidation.

The Airport Authority prepares its financial statements in accordance with the CPA Canada Handbook Part III – *Accounting Standards for Not-for-Profit Organizations* ["ASNPO"].

Adoption of CPA Canada Handbook Section 3463 – Reporting Employee Future Benefits by Not-for-Profit Organizations

The Airport Authority has a contributory defined benefit pension plan which 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 which covers new employees who have joined the Airport Authority since June 1992; and unfunded supplemental plans which cover its senior executives and some of its senior management.

Defined Benefit Pensions

On January 1, 2014, the Airport Authority adopted CPA Canada Handbook Section 3463 – Reporting Employee Future Benefits by Not-for-Profit Organizations, with a transition date of January 1, 2013. The main impacts of adopting this new standard include:

- The immediate recognition of actuarial gains and losses in net assets, replacing the deferral and amortization approach.
- The permitted use of an actuarial funding valuation for funded defined benefit plans to measure the defined benefit obligation.
- The requirement to measure plan assets and obligations at the reporting date instead of permitting the use of a date within three months prior to the reporting date.

This standard has been applied retrospectively, in accordance with the transitional provisions contained within the new standard. An adjustment has been recorded in opening net assets to account for the retrospective application, which results in an increase to net assets at January 1, 2013 of $6,636,000.

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 at December 31, 2013. The next valuation for funding purposes will be as at December 31, 2014, the results of which are expected to be available during 2015.

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 noted above 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 which 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 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 into net assets and presented separately.

Past service costs arising from plan amendments are also recognized immediately on the statement of operations.

Defined Contribution 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.

Inventory

Inventory is valued at the lower of weighted average cost and net realizable value. Weighted average cost includes 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.

Partnership interest

The Airport Authority accounts for its partnership interest using the equity method. The Airport Authority's share of its partnership net income is recorded in the statement of operations. See note 7 for additional details.

Borrowing cost

Borrowing costs are recognized as an expense in the period in which they are 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 systems	3 to 10 years
Art collection	Not amortized

Deferred revenue

Deferred revenue represents payments received or receivable 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.

Effective January 1, 2011, the Airport Authority introduced the Gateway Incentive Program, which is a program that offers carriers fixed annual aeronautical charges for a period of 5 years beginning in 2011 and ending in 2015 based on the amount of fees paid in 2010. Participating carriers are charged a fixed monthly aeronautical fee regardless of their level of activity.

[ii] Concession revenue is recognized based on the greater of agreed percentages of reported concessionaire sales and specified minimum rentals. Incentives for lessees to enter into lease agreements are spread evenly over the lease term, even if the payments are not made on such a basis.

[iii] Revenue from the Airport Improvement Fees [“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 straight-line over the duration of the respective agreements. Revenue from rental arrangements classified as direct finance leases are 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 payment 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.

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

The assets and liabilities of the self-sustaining foreign investees of Vantage are translated to Canadian dollars using the exchange rate prevailing at year end. Revenue and expenses are translated at average rates of exchange during the period and retained earnings (deficit) are translated at historical rates. Exchange gains and losses arising from the translation of the financial statements of the self-sustaining foreign operations are included as an adjustment to the investment in Vantage and as an adjustment to net assets.

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.

[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 date of the 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

	2014 $	**2013** $
Current	**25,165**	19,462
31-60 days past due	**278**	573
61-90 days past due	**388**	38
90+ days past due	**335**	677
Less allowance for doubtful accounts	**(485)**	(510)
	25,681	20,240

	2014 $	**2013** $
Allowance for doubtful accounts, beginning of year	**510**	785
Addition to (decrease in) allowance for doubtful accounts	**26**	(213)
Write-off of specific accounts	**(51)**	(62)
Allowance for doubtful accounts, end of year	**485**	510

[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:

	2014 $	2013 $
Minimum lease payments receivable	**8,793**	10,566
Unearned income	**(2,270)**	(3,162)
	6,523	7,404
Less current portion	**1,028**	881
	5,495	6,523

As at December 31, 2014, the future minimum lease payments receivable under the direct financing lease are as follows:

	$
2015	1,800
2016	1,826
2017	1,854
2018	1,882
2019	1,431
	8,793

5. INVENTORY

At December 31, 2014, the Airport Authority has a $644,000 [2013 – $595,000] valuation allowance on its inventory, of which the increase to the provision of $49,000 [2013 – $111,000] was recorded in payment in lieu of taxes, insurance and other. There were no reversals of previous write-downs during the year [2013 – nil]. The cost of inventory recognized as a materials, supplies and services expense and payment in lieu of taxes, insurance and other during the year ended December 31, 2014 was $8,142,000 [2013 – $3,896,000].

[tabular amounts in thousands of dollars]

6. INVESTMENT IN VANTAGE AIRPORT GROUP

	2014		2013	
	Number of shares #	Amount $	Number of shares #	Amount $
Class A preferred shares				
Beginning balance	**190**	**16,072**	190	16,072
Share redemption *[b]*	**(190)**	**(16,072)**	—	—
Ending balance	**—**	**—**	190	16,072
Class B preferred shares				
Beginning balance	**75,000,000**	**42,582**	75,000,000	42,582
Ending balance	**75,000,000**	**42,582**	75,000,000	42,582
Class C common shares				
Beginning balance	**1,577**	**4,755**	1,577	42,352
Equity earnings (loss) *[a]*	**—**	**1,260**	—	(49,708)
Other comprehensive income	**—**	**(3,897)**	—	4,386
Payment of prior period dividend *[c]*	**—**	**(1,250)**	—	—
Unpaid dividends *[c]*	**—**	**7,725**	—	7,725
Ending balance	**1,577**	**8,593**	1,577	4,755
Total investment in Vantage		**51,175**		63,409

[a] In December 2013, Vantage wrote down the value of the Vantage Airport UK Limited's ["VAUK"] property, plant and equipment to an amount equal to the fair value less costs to sell based on the planned divestiture transaction. The Airport Authority recorded an equity loss of Vantage of $49,708,000 in 2013, of which $43,844,000 was as a result of the impairment.

On April 16, 2014, Vantage disposed of its 65% interest in the shares of VAUK. Based on the terms of the disposition, all related assets and liabilities were assumed by the purchaser upon completion. The disposal resulted in a gain of $15,521,000, of which $14,709,000 was a non-cash foreign exchange gain on the disposition of the assets and liabilities of VAUK. The Airport Authority's share of the gain was $7,760,000 which was recorded in equity earnings of Vantage for the year ended December 31, 2014.

[tabular amounts in thousands of dollars]

[b] VAEL redeemed its Class A preferred share investment in Vantage in two tranches on December 18 and 19, 2014 for total proceeds of $16,072,000. These proceeds were then used by VAEL to repay the notes payable to Vantage in the same amount.

[c] During the year ended December 31, 2014, Vantage declared dividends of $7,725,000 [2013 – $7,725,000] on its Class B preferred shares of which nil [2013 – nil] was paid to the Airport Authority. The Airport Authority received $1,250,000 [2013 – nil] from Vantage for dividends declared in a prior period.

[d] For the year ended December 31, 2014, the deferred gain recognized into income from amortization was $1,923,000 [2013 – $1,923,000], with $39,268,000 [2013 – $41,191,000] remaining in deferred gain on deemed disposition of shares.

Summarized consolidated statements of financial position, operations and cash flows of the Airport Authority's share of Vantage [50%, 2013 – 50%] as at and for the years ended December 31, 2014 and 2013 are presented below:

	2014 $	**2013** $
Current assets	**22,184**	107,484
Long-term assets	**48,940**	46,029
Current liabilities	**(4,534)**	(130,741)
Long-term liabilities	**(69,205)**	(59,620)
Net liabilities	**(2,615)**	(36,848)

	2014 $	**2013** $
Revenue	**17,731**	17,555
Expenses	**12,609**	63,401
Net income (loss)	**5,122**	(45,846)

[tabular amounts in thousands of dollars]

	2014 $	2013 $
Cash flows provided by (used in)		
Operating activities	**(1,060)**	688
Financing activities	**2,405**	927
Investing activities	**(7,921)**	(2,939)

7. PARTNERSHIP INTERESTS

	2014 $	2013 $
[a] DOC Partnership	**21,071**	9,871
[b] VAPH	**414**	—
	21,485	9,871

[a] DOC Partnership

To date, the Airport Authority has contributed $21,337,000 [2013 – $9,929,000] in equity to the DOC Partnership. Costs incurred to date related to the construction of the retail designer outlet centre, as well as associated leasing and marketing expenditures.

For the year December 31, 2014, the Airport Authority recorded an equity loss of $208,000 [2013 – $58,000] from the DOC Partnership. The amount was recorded as a reduction in the partnership interests *[note 18[c]]*.

Summarized consolidated statements of financial position, operations and cash flows of the Airport Authority's share of the DOC Partnership [50%, 2013 – 50%] as at and for the years ended December 31, 2014 and 2013 are presented below:

	2014 $	2013 $
Current assets	**484**	1,898
Long-term assets	**25,571**	8,063
Current liabilities	**(4,862)**	(2)
Net assets	**21,193**	9,959

[tabular amounts in thousands of dollars]

	2014 $	**2013** $
Revenue	**—**	—
Expenses	**208**	58
Net loss	**(208)**	(58)

	2014 $	**2013** $
Cash flows provided by (used in)		
Operating activities	**(339)**	(72)
Financing activities	**16,773**	5,438
Investing activities	**(17,591)**	(4,102)

[b] VAPH and VAPM

On June 27, 2014, VAPM acquired the leasehold interests and six buildings from a third party real estate investment trust for consideration of $6,506,000. The acquisition was financed by a non-revolving demand facility ["VAPM Facility"] in the amount of $7,000,000. The VAPM Facility must be repaid in full within 12 months of the initial advance, with two options to each extend the VAPM Facility for a period of six months. The VAPM Facility bears interest at the Bankers' Acceptances Stamping Fee of 1.50% per year plus the face amount of each Bankers' Acceptance note. As at December 31, 2014, the interest rate on the VAPM Facility was 2.77%, which is secured by mortgages of the leasehold interests of the acquired properties. The VAPM Facility requires VAPM to maintain a debt coverage ratio of not less than 1.60, or the facility will be reduced by an amount where the ratio is in compliance.

On August 12, 2014, VAPM acquired the leasehold interests and eleven buildings from two separate third parties, for consideration of $38,590,000. These acquisitions were financed using the VAPM Facility, by issuing additional debt tranches, increasing the total of the demand loan to $47,500,000. The remaining balance of the VAPM Facility was used to fund related transaction costs.

[tabular amounts in thousands of dollars]

These acquisitions were accounted for as a business combination in accordance with CPA Canada Handbook section 1582, Business Combinations, applying the acquisition method. All identifiable assets and liabilities acquired were measured at fair value on the acquisition date, and all transaction costs have been expensed as incurred. The fair values of the identifiable assets and liabilities acquired in these transactions at the date of acquisition were:

	June 2014 $	**August 2014** $	**Total** $
Buildings	4,294	27,035	31,329
Lease intangibles	2,139	12,465	14,604
Working capital items	73	(910)	(837)
Total identified net assets at fair value and purchase consideration transferred	6,506	38,590	45,096

Lease intangibles acquired in these transactions include prepaid lease origination costs, the value of in-place leases and tenant renewal asset and below market rate leases, and are being amortized over their useful lives, ranging from two to eight years.

For the year ended December 31, 2014, the Airport Authority recorded on the statement of operations 99.9% and 0.1% of $414,000 partnership income from VAPH, based on its partnership interest in VAPH and investment in VAPL, respectively.

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 year ended December 31, 2014 are presented below:

	2014 $
Assets	**2,885**
Liabilities	**(2,471)**
Net assets	**414**

	2014 $
Revenue	**425**
Expenses	**11**
Net income	**414**

[tabular amounts in thousands of dollars]

	2014 $
Cash flows provided by (used in)	
Operating activities	**76**
Financing activities	**2,334**
Investing activities	**—**

8. CAPITAL ASSETS

	2014		
	Cost $	**Accumulated amortization** $	**Net book value** $
Buildings and other structures	**1,536,376**	**633,848**	**902,528**
Runways and other paved surfaces	**488,352**	**215,653**	**272,699**
Rapid transit infrastructure	**298,948**	**32,433**	**266,515**
Machinery and equipment	**109,501**	**73,582**	**35,919**
Furniture and fixtures	**29,967**	**25,466**	**4,501**
Computer equipment and systems	**140,721**	**113,041**	**27,680**
Art collection	**7,567**	**—**	**7,567**
Construction-in-progress	**317,036**	**—**	**317,036**
	2,928,468	**1,094,023**	**1,834,445**

	2013		
	Cost $	**Accumulated amortization** $	**Net book value** $
Buildings and other structures	1,420,883	564,474	856,409
Runways and other paved surfaces	475,294	193,283	282,011
Rapid transit infrastructure	298,948	26,361	272,587
Machinery and equipment	109,704	66,353	43,351
Furniture and fixtures	27,250	24,614	2,636
Computer equipment and systems	131,761	101,651	30,110
Art collection	7,506	—	7,506
Construction-in-progress	171,902	—	171,902
	2,643,248	976,736	1,666,512

[tabular amounts in thousands of dollars]

9. OTHER LONG-TERM ASSETS

		2014		
		Cost $	**Accumulated amortization** $	**Net book value** $
[a]	Operating lease receivable	**24,450**	**11,631**	**12,819**
[b]	Leasehold interest	**4,640**	**538**	**4,102**
[c]	Development costs	**961**	**—**	**961**
[d]	Intangible asset	**1,400**	**1,049**	**351**
	Accrued benefit asset *[note 17]*	**16,970**	**—**	**16,970**
		48,421	**13,218**	**35,203**

		2013 *[restated]*		
		Cost $	**Accumulated amortization** $	**Net book value** $
[a]	Operating lease receivable	23,330	9,715	13,615
[b]	Leasehold interest	4,640	467	4,173
[c]	Development costs	956	—	956
[d]	Intangible asset	1,400	583	817
	Accrued benefit asset *[note 17]*	13,572	—	13,572
		43,898	10,765	33,133

[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 life of the lease. During the year, the Airport Authority recognized $1,916,000 [2013 – $1,980,000] 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 forty years with two subsequent renewal options of ten 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 sub-lease. As at December 31, 2014, the cumulative difference between the rental income recognized and cash lease payments received is $6,533,000 [2013 – $5,505,000].

[tabular amounts in thousands of dollars]

[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, 2014, the amortization of the leasehold interest was $71,000 [2013 – $71,000].

[c] On June 28, 2013, the DOC Partnership agreement was signed and all costs incurred by the Airport Authority relating to the retail designer outlet centre and previously recorded as other long-term assets were transferred from the Airport Authority to VAEL Templeton as an equity contribution *[note 7[a]]*. Costs remaining in this account relate to a separate 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. For the year ended December 31, 2014, the amortization of the intangible was $466,000 [2013 – $466,000].

10. LINE OF CREDIT

The Airport Authority has available an unsecured bank operating line of $200,000,000 with an interest rate at prime, which was 3.00% as at December 31, 2014, or by issuing bankers' acceptances at prevailing market interest rates. The operating line of credit remained undrawn for the year ended December 31, 2014.

	2014 $	**2013** $
Unsecured bank operating line	**200,000**	200,000
Outstanding letters of credit, reducing available balance	**13,081**	11,359
Available unsecured bank operating line	**186,919**	188,641

[tabular amounts in thousands of dollars]

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 adjustments to Transport Canada.

	2014 $	2013 $
Transport Canada	**4,363**	3,196
TransLink	**510**	490
Canada Revenue Agency	**3,184**	156
British Columbia Ministry of Finance	**36**	43
U.S. government	**66**	—
	8,159	3,885

12. DEFERRED GROUND LEASE PAYMENTS

Between July 2003 and June 2005, the Airport Authority deferred a total of $20,529,000 of ground lease payments due to Transport Canada under an arrangement whereby Transport Canada provided temporary relief to Canadian airports which suffered declines in passenger traffic resulting from international events in 2001 through 2003.

	2014 $	2013 $
Deferred ground lease payments	**2,052**	4,105
Less current portion	**2,052**	2,053
Long-term portion	**—**	2,052

Annual repayments of $2,053,000 are interest free over a ten-year period, commencing January 1, 2006.

[tabular amounts in thousands of dollars]

13. DEBENTURES

	2014 $	2013 $
Debentures	**548,212**	547,922
Less current portion		
Series E 5.020%, due November 13, 2015	**200,000**	—
Less unamortized deferred financing costs	**(124)**	—
	199,876	—
Long-term portion		
Amended Series B 7.425%, due December 7, 2026	**150,000**	150,000
Series D 4.424%, due December 7, 2018	**200,000**	200,000
Series E 5.020%, due November 13, 2015	**—**	200,000
	350,000	550,000
Less unamortized deferred financing costs	**(1,664)**	(2,078)
	348,336	547,922

The amended Series B debentures are issued under the Trust Indenture dated December 6, 1996, and amended under the Supplemental Indenture dated December 7, 2006. The Series D and Series E debentures are issued under Supplemental Indentures dated December 7, 2006 and November 14, 2007, respectively.

The effective interest rates on the Series B, D and E debentures are 7.530%, 4.484% and 5.094%, respectively. At December 31, 2014, the Airport Authority has accrued debenture interest and fees of $2,717,000 [2013 – $2,717,000] which are recorded in accounts payable and accrued liabilities. See note 22[b] for interest expense paid during the year.

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 E. The debentures are redeemable at the option of the Airport Authority, in whole or in part, at any time. 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, 0.125% for the Series D debentures, and 0.20% for the Series E debentures.

[tabular amounts in thousands of dollars]

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.

14. 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 or amount consistent with the amortization of the related capital assets.

	2014	**2013**
	$	$
Capital contributions		
CATSA	**127,384**	119,490
Other	**2,979**	2,490
	130,363	121,980
Accumulated amortization	**(79,406)**	(70,166)
	50,957	51,814

[b] Contributions

	2014	**2013**
	$	$
Amortization of deferred capital contributions	**9,240**	11,748
Operating contributions	**4,130**	3,835
	13,370	15,583

[tabular amounts in thousands of dollars]

15. 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 in the years ended December 31, 2014 and 2013.

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

The Airport Authority pays legal, administrative, salaries and wages expense on behalf of its subsidiaries in the normal course of operations which are included in other receivables with payment term of net 30 days.

For the year ended December 31, 2014, the Airport Authority recorded $560,000 [2013 – nil] of rental revenue from VAEL Templeton relating to a land lease for the DOC and $945,000 [2013 – nil] of DOC management fees in fees and miscellaneous revenue, of which $1,010,000 are in accounts receivable as at December 31, 2014 [2013 – nil]. The payment term for these receivables is by installments with the first installment due on the date the first phase of the DOC opens to the public for business.

The Airport Authority collected rent on VAPH's behalf. The amount is included in accounts payable and accrued liabilities as follows:

	2014 $	**2013** $
Due to VAPH	**1,668**	—
Due to VAPM	**31**	—
	1,699	—

For the year ended December 31, 2014, the Airport Authority, through VAEL recognized miscellaneous revenue of $335,000 [2013 – $522,000] from the DOC Partnership.

16. 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 2014, the Airport Authority recorded $128,695,000 [2013 – $121,656,000] main terminal AIF revenue, and main terminal AIF eligible capital expenditures totalled $277,623,000 [2013 – $185,996,000]. The remainder of the AIF revenue is from the south terminal. To December 31, 2014, the cumulative main terminal AIF revenue totalled $1,567,178,000 [2013 – $1,438,492,000], and cumulative AIF eligible expenditures totalled $2,857,696,000 [2013 – $2,587,496,000]. To December 31, 2014, the cumulative AIF revenue has been used to fund AIF eligible capital expenditure in accordance with the MOA.

17. EMPLOYEE FUTURE BENEFITS

[a] Funded pension 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 2014 were $2,182,000 [2013 – $2,228,000].

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 year ended December 31, 2014 was $16,000 [2013 – $15,000].

[tabular amounts in thousands of dollars]

Defined benefit plan

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

	2014 $	2013 $ *[restated]*
Accrued benefit obligation		
Balance, beginning of year	**46,531**	42,811
Current service cost	**752**	642
Employee contribution	**226**	205
Interest cost	**3,250**	2,612
Benefits paid	**(2,152)**	(1,682)
Actuarial loss	**451**	1,943
Balance, end of year	**49,058**	46,531
Fair value of plan assets		
Balance, beginning of year	**59,536**	49,158
Actual return on plan assets	**7,130**	11,125
Administration cost	**(175)**	(100)
Employer contributions	**1,463**	830
Employee contributions	**226**	205
Benefits paid	**(2,152)**	(1,682)
Balance, end of year	**66,028**	59,536
Surplus of plan assets	**16,970**	13,005
Impact of adoption of new accounting standard *[note 2]*	**—**	567
Accrued benefit asset	**16,970**	13,572

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

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

	2014 %	2013 %
Asset category		
Equity shares	**66.7**	68.2
Debt securities	**29.4**	27.5
Cash and short-term investments	**3.9**	4.3
	100.0	100.0

[tabular amounts in thousands of dollars]

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

	2014 %	2013 %
		[restated]
Accrued benefit obligation as of December 31		
Discount rate	**6.00**	6.00
Rate of compensation increase	**3.25**	3.25
Benefit costs for year ended December 31		
Discount rate	**6.00**	6.00
Expected long-term rate of return on plan assets	**6.00**	6.00
Rate of compensation increase	**3.25**	3.25

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

	2014 $	2013 $
		[restated]
Current service cost, net of employees' contributions	**751**	642
Administration cost	**175**	100
Interest cost	**3,250**	2,612
Expected return on plan assets	**(4,151)**	(2,979)
Employee future benefit costs	**25**	375
Impact of change in measurement date	**(3)**	—
Pension expense	**22**	375

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. At December 31, 2014, the total amount of the letter of credit was $7,177,000 [2013 – $4,709,000], which reduced the available bank operating line *[note 10]*.

Total cash payments for employee future benefits for the year ended December 31, 2014, consisting of cash contributed by the Airport Authority to its funded pension plans [the defined benefit plan and defined contribution plans], were $3,662,000 [2013 – $3,034,000].

[b] Unfunded pension plans

Pension expense for the year ended December 31, 2014 was $858,000 [2013 – $1,087,000]. Based on an actuarial report, the total accrued benefit liability of these plans as at December 31, 2014 was $10,998,000 [2013 – $10,182,000], 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. In 2014 and 2013 the accrued benefit liability was determined using an actuarial valuation. As at December 31, 2014, the total accrued benefit liability of this plan is $3,126,000 [2013 – $3,097,000] of which $459,000 [2013 – $440,000] is recorded in accounts payable and accrued liabilities and $2,667,000 [2013 – $2,657,000] in other long-term liabilities.

18. COMMITMENTS, CONTINGENCIES AND GUARANTEE

[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 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.

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.

[tabular amounts in thousands of dollars]

The difference between the Airport Authority's required ground lease payments based on is estimated 2014 Airport Revenue at the beginning of the year and its expense is $4,363,000 [2013 – $3,196,000]. This amount is included in accounts payable and accrued liabilities at December 31, 2014.

Projected lease expense and payments, including repayments of deferred ground lease payments *[note 12]* under the amended Ground Lease for the next five years, are estimated as follows:

	Lease expense $	**Lease payments** $
2015	47,712	49,764
2016	49,066	49,066
2017	50,784	50,784
2018	52,743	52,743
2019	54,571	54,571

[b] Capital and operating commitments

As at December 31, 2014, in connection with the construction of certain capital projects, the Airport Authority has capital commitments outstanding of approximately $69,547,000 [2013 – $223,533,000].

As at December 31, 2014, in connection with operating the Airport, the Airport Authority has total operating commitments of approximately $125,553,000 [2013 – $60,219,000]. These commitments extend for periods of up to five years.

[c] Guarantee

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 which are not proceeds of the collateral securing the loan. See also note 23.

[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, 2014, there are no material claims pending against the Airport Authority.

19. CUSTOMER CONCENTRATION

The Airport Authority derives approximately $48,773,000 [2013 – $51,065,000] in aeronautical charges and rents from one airline and $35,724,000 [2013 – $29,722,000] 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.

20. FINANCIAL INSTRUMENTS

[a] Fair value of financial instruments

The Airport Authority's financial instruments include cash, accounts receivable, other receivables, and accounts payable for which the carrying amounts approximate fair values.

The fair value of the debentures at December 31, 2014 is estimated to be $638,514,000 [2013 – $626,087,000]. To determine an estimated fair value of the debentures, the Airport Authority maintains a financial model which uses current market interest rates based upon the applicable Government of Canada bond yield plus a corporate spread based upon the Airport Authority's credit rating.

[b] 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 $2,251,000 as at December 31, 2014 [2013 – $2,056,000]. 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 2014 and 2013 either in the form of bankers' acceptance or drawings on the bank operating line. The balance of outstanding debt is by way of debentures *[note 13]* 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.

[tabular amounts in thousands of dollars]

21. CAPITAL RISK MANAGEMENT

The Airport Authority is a non-share corporation and, accordingly, is funded through aeronautical and non-aeronautical revenue, AIF revenue, an unsecured bank operating line and debentures. The funds generated by the Airport Authority are used to cover costs within its mandate. There were no changes in the Airport Authority's approach to capital risk management during the year.

The Trust Indenture dated December 6, 1996, and related supplemental indentures as described in note 13, provide the terms of the debentures issued and require a minimum interest coverage ratio of 1.25:1. As at December 31, 2014, the Airport Authority was in compliance with the required minimum interest coverage ratio.

22. SUPPLEMENTARY CASH FLOW INFORMATION

[a] Changes in non-cash operating working capital

	2014	**2013**
	$	$
		[restated]
Accounts receivable	**(5,441)**	(2,270)
Other receivables	**1,414**	(1,700)
Inventory	**(1,044)**	(953)
Prepaid expenses	**(979)**	401
Accounts payable and accrued liabilities	**23,337**	14,261
Deferred revenue	**(2,923)**	3,165
	14,364	12,904

[tabular amounts in thousands of dollars]

[b] Other supplementary information

	2014 $	2013 $
Supplementary information		
Interest expense paid	**30,274**	15,229
Interest income received	**2,108**	2,232
Non-cash transaction		
Construction-in-progress accrual	**26,299**	16,227
Deferred capital contribution accrual	**960**	—
Transitional adjustment on adoption of employee future benefits standard *[notes 2 and 7]*	**—**	6,636
Employee future benefit plan remeasurements	**2,457**	5,896
Prior year costs contributed to DOC Partnership *[note 7[a]]*	**—**	3,401

23. SUBSEQUENT EVENT

On February 18, 2015, the Airport Authority entered into an agreement to irrevocably and unconditionally guarantee the timely payment of the obligations of Templeton DOC Limited Partnership to the utility company for electrical services, up to $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 ninety days prior to the expiry that the guarantee is not extended.

24. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the year ended December 31, 2014.