

Financial Statements of  
**Edmonton Regional  
Airports Authority**  
Year ended December 31, 1997





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Year ended December 31, 1997

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## REPORT OF MANAGEMENT

The financial statements of the Edmonton Regional Airports Authority (Edmonton Airports) are the responsibility of management and have been approved by the Board of Directors. These financial statements have been prepared by management in accordance with generally accepted accounting principles, and disclosure otherwise required by laws, regulations and agreements to which Edmonton Airports is subject. These financial statements also include amounts that are based on estimates and judgments which reflect currently available information. Edmonton Airports has developed and maintains accounting procedures and related systems of internal controls that are designed to provide reasonable assurance that its assets are safeguarded and that its financial records are reliable.

KPMG, an independent firm of chartered accountants, has been appointed by the Board of Directors as external auditors of Edmonton Airports. The Auditors' Report to the Board of Directors, which describes the scope of their examination and expresses their opinion, is presented herein.

The Board of Directors has appointed an Audit Committee, whose members are not employees of Edmonton Airports. The Audit Committee meets with management and external auditors periodically to review any significant accounting, internal control and auditing matters. They also review and recommend the annual financial statements of Edmonton Airports to the Board of Directors for approval.



G. Scott Clements  
President and Chief Executive Officer



R. Cort Smith  
Vice President, Finance and Corporate Services

## **AUDITORS' REPORT TO THE BOARD OF DIRECTORS**

We have audited the balance sheet of Edmonton Regional Airports Authority as at December 31, 1997 and the statements of earnings and equity in capital assets and changes in financial position for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

KPMG

Chartered Accountants

Edmonton, Canada

March 6, 1998

# EDMONTON REGIONAL AIRPORTS AUTHORITY

## Balance Sheet

December 31, 1997, with comparative figures for 1996

	1997	1996
<b>Assets</b>		
Current assets:		
Cash and restricted cash (note 4)	\$ 1,420,726	\$ 3,101,232
Accounts receivable [note 3(a)(v)]	11,848,672	9,418,931
Consumable inventory	561,007	548,221
Prepaid expenses and other	255,647	192,460
	<u>14,086,052</u>	<u>13,260,844</u>
Deferred pension charge (note 14)	551,966	274,416
Deferred financing charges (note 5)	—	279,615
Tangible capital assets (note 6)	44,795,996	35,620,349
	<u>\$ 59,434,014</u>	<u>\$ 49,435,224</u>

## Liabilities and Equity in Capital Assets

Current liabilities:		
Accounts payable and accrued liabilities [note 6(b)]	\$ 6,682,472	\$ 5,523,402
Deferred rent payable (note 7)	7,449,265	6,850,320
Current portion of long-term debt	362,051	1,489,930
	<u>14,493,788</u>	<u>13,863,652</u>
Tenants' security deposits held	530,303	527,184
Long-term debt (note 8)	12,400,226	15,153,162
	<u>27,424,317</u>	<u>29,543,998</u>
Equity in capital assets:		
Contributed capital [note 3(b)]	3,804,915	3,804,915
Equity in capital assets	28,204,782	16,086,311
	<u>32,009,697</u>	<u>19,891,226</u>
Subsequent event [note 8(a)]		
Contingencies (note 17)		
Commitments (note 18)		
	<u>\$ 59,434,014</u>	<u>\$ 49,435,224</u>

See accompanying notes to financial statements.

On behalf of the Board:



Director



Director

# EDMONTON REGIONAL AIRPORTS AUTHORITY

## Statement of Earnings and Equity in Capital Assets

Year ended December 31, 1997, with comparative figures for 1996

	1997	1996
Revenue:		
Airside and general terminal	\$ 13,889,228	\$ 13,382,006
Concession	11,091,162	9,737,532
Real estate	1,348,700	1,298,400
Police and security (note 13)	1,739,201	—
Airport improvement fee (note 9)	10,262,380	—
Canada Lease Capital Credit [note 3(a)(iv)]	6,515,497	6,185,930
	<u>44,846,168</u>	<u>30,603,868</u>
Expenses:		
Salaries and employee benefits	10,313,705	8,875,111
Service, maintenance, supplies and administration (note 10)	9,979,217	7,622,285
Utilities, insurance and property taxes	2,414,226	2,407,100
Interest (note 7)	758,311	782,875
Amortization	4,672,358	3,003,458
Airport improvement fee collection costs (note 9)	1,094,873	—
Canada Lease Rent [note 3(a)(iii)]	5,122,384	4,167,589
	<u>34,355,074</u>	<u>26,858,418</u>
Earnings before unusual items	10,491,094	3,745,450
Unusual items:		
Organization costs expensed (note 11)	—	(4,186,408)
Adjustment of Canada Lease [note 3(a)(v)]	1,627,377	3,161,454
Net earnings	12,118,471	2,720,496
Equity in capital assets, beginning of year	16,086,311	13,365,815
Equity in capital assets, end of year	<u>\$ 28,204,782</u>	<u>\$ 16,086,311</u>

See accompanying notes to financial statements.

# EDMONTON REGIONAL AIRPORTS AUTHORITY

## Statement of Changes in Financial Position

Year ended December 31, 1997, with comparative figures for 1996

	1997	1996
Cash provided by (used in):		
Operations:		
Net earnings	\$ 12,118,471	\$ 2,720,496
Items which do not involve cash:		
Amortization	4,672,358	3,003,458
Organization costs expensed	-	4,186,408
Changes in non-cash operating working capital:		
Accounts receivable	(2,429,741)	(1,115,210)
Consumable inventory	(12,786)	(80,163)
Prepaid expenses and other	(63,187)	(42,454)
Accounts payable and accrued liabilities	1,010,701	1,201,941
	15,295,816	9,874,476
Financing:		
Proceeds from long-term debt	-	13,598,162
Repayments of long-term debt	(3,880,815)	(1,654,977)
Increase in deferred rent payable, including accrued interest	598,945	1,108,740
Increase in tenants' security deposits held	3,119	65,732
Increase in deferred financing charges	-	(64,327)
Contributed capital [note 3(b)]	-	3,804,915
	(3,278,751)	16,858,245
Investments:		
Acquisition of tangible capital assets	(13,568,390)	(24,329,817)
Increase in accounts payable and accrued liabilities relating to tangible capital assets [note 6(b)]	148,369	1,037,404
Increase in deferred pension charge	(277,550)	(136,770)
Organization costs	-	(1,188,356)
	(13,697,571)	(24,617,539)
Increase (decrease) in cash	(1,680,506)	2,115,182
Cash and restricted cash, beginning of year	3,101,232	986,050
Cash and restricted cash, end of year	\$ 1,420,726	\$ 3,101,232

See accompanying notes to financial statements.

# EDMONTON REGIONAL AIRPORTS AUTHORITY

Notes to Financial Statements

Year ended December 31, 1997

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## 1. Nature of operations:

The Edmonton Regional Airports Authority ("Edmonton Airports") was incorporated on July 26, 1990 under the provisions of the Regional Airports Authorities Act (Alberta) (the "Act") for the purposes of managing the airports for which it is responsible in a safe, secure and efficient manner, and to advance economic and community development by promoting improved airline and transportation service and an expanded aviation industry. In accordance with the provisions of the Act, all of Edmonton Airports' surpluses shall be applied towards promoting its purposes and no dividends may be paid out of the surpluses. Surpluses in these financial statements are described as equity in capital assets.

Six Edmonton area municipalities were the original Appointers for Edmonton Airports. The Appointers have the right to appoint eleven of Edmonton Airports' fifteen directors. Pursuant to the Amended Canada Lease described in note 3(a)(i) the Government of Canada has the right to appoint two of the directors.

### Edmonton International Airport

Effective August 1, 1992, Edmonton Airports assumed operations of the Edmonton International Airport ("International Airport") [see note 3(a)].

### Cooking Lake Airport

Effective April 1, 1995, Edmonton Airports acquired the Cooking Lake Airport.

### Edmonton City Centre Airport

Effective April 1, 1996, Edmonton Airports assumed the operations of the Edmonton Municipal Airport and changed the name to the Edmonton City Centre Airport ("City Centre Airport") [see note 3(b)].

## 2. Significant accounting policies:

### (a) Basis of accounting:

The financial statements of Edmonton Airports are prepared in accordance with accounting principles generally accepted in Canada.

### (b) Consumable inventory:

The inventory of consumable supplies is recorded at the lower of cost and estimated net realizable value.



# EDMONTON REGIONAL AIRPORTS AUTHORITY

Notes to Financial Statements, continued

Year ended December 31, 1997

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## 2. Significant accounting policies, continued:

### (c) Lease of airport facilities:

The lease of the International Airport facilities from the Government of Canada (the "Landlord") and the lease of the City Centre Airport facilities from The City of Edmonton (the "City") are accounted for as operating leases.

### (d) Tangible capital assets:

Tangible capital assets are recorded at cost less accumulated amortization. Amortization is provided using the straight-line method at the following annual rates:

Asset	Rate
Terminal and facilities (excluding the leased facilities)	5 - 10%
Machinery and equipment:	
Vehicles and maintenance equipment	7 - 100%
Furniture and equipment	20%
Computer hardware	20 - 33%
Computer software	50 - 100%
Shop tools and equipment	10%

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### (e) Revenue recognition:

Revenues are recorded when the services are performed, the facilities are utilized or the amounts are earned pursuant to the related agreements. Airport improvement fee ("AIF") revenue is recognized when passengers depart the terminal building.

### (f) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those reported. Amortization and Canada Lease Rent are the more significant expense items which reflect estimates.

# EDMONTON REGIONAL AIRPORTS AUTHORITY

Notes to Financial Statements, continued

Year ended December 31, 1997

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## 3. Lease agreements:

### (a) International Airport:

#### (i) *Amended Canada Lease:*

Effective December 31, 1997, Edmonton Airports and the Landlord agreed to amendments to the financial arrangements of the original sixty year lease agreement dated July 31, 1992 (the "Amended Canada Lease") for the International Airport. The new terms provide for the adjustment of rent due for the years 1992 to 1995, require the accelerated repayment of the deferred rent payable and revise the calculation of rent for the ten year period 1996 to 2005. Certain of the adjustments arising from the amendment had been determined as of December 31, 1996 pursuant to an earlier Memorandum of Agreement [see note 3(a)(v)].

#### (ii) *Lease term:*

The Amended Canada Lease provides that Edmonton Airports will lease the International Airport for an initial term of sixty years ending 2052. A twenty year renewal option may be exercised by Edmonton Airports. At the end of the term, unless otherwise extended, Edmonton Airports is obligated to return control of the International Airport to the Landlord.

#### (iii) *Payment of rent:*

The Amended Canada Lease requires Edmonton Airports to calculate and pay rent annually ("Canada Lease Rent") to the Landlord utilizing formulas reflecting annual airport revenues, passenger volumes and operating costs.

#### (iv) *Canada Lease Capital Credit:*

The calculation of rent pursuant to the Amended Canada Lease provides for a deduction of base capital costs ("Canada Lease Capital Credit") from rent otherwise payable to the Landlord. The Canada Lease Capital Credit is intended to substantially provide for the annual capital expenditures required to maintain the International Airport facilities. Edmonton Airports is not precluded from using the Canada Lease Capital Credit for non-capital expenditures.

# EDMONTON REGIONAL AIRPORTS AUTHORITY

Notes to Financial Statements, continued

Year ended December 31, 1997

## 3. Lease agreements, continued:

### (a) International Airport, continued:

#### (v) Receivable from Landlord:

Accounts receivable include a net amount due from the Landlord in connection with the Amended Canada Lease as follows:

	1997	1996
Canada Lease Rent payable	\$ (9,289,973)	\$ (4,167,589)
Canada Lease Capital Credit	12,701,427	6,185,930
Adjustment of prior years' Canada Lease:		
Re 1992 - 1995	3,161,454	3,161,454
Re 1996	1,627,377	—
Interest and other receivables	1,249,695	1,097,562
Chattels purchase adjustment	—	779,609
	<u>\$ 9,449,980</u>	<u>\$ 7,056,966</u>

The adjustment of prior years' Canada Lease in 1997 reflects the net reduction in rent for the period January 1, 1996 to December 31, 1996 utilizing actual passenger volumes produced by Statistics Canada in late 1997. The adjustment in 1996 reflects the net reduction in rent for the period from August 1, 1992 to December 31, 1995 pursuant to the Amended Canada Lease.

### (b) City Centre Airport:

Edmonton Airports signed a lease agreement (the "City Lease") with the City which provides that Edmonton Airports will, for a nominal amount, lease the City Centre Airport facilities for a term of fifty-six years commencing April 1, 1996. At the end of the term in 2052, unless otherwise extended, Edmonton Airports is obligated to return control of the City Centre Airport to the City.

Pursuant to the City Lease, Edmonton Airports also received an "airport reserve fund" of \$3,804,915 from the City to fund future capital expenditures at the City Centre Airport. The receipt of these funds was recorded as contributed capital. At December 31, 1997, \$752,083 (1996 - \$2,211,267) of this remains unspent as described in note 4.

# EDMONTON REGIONAL AIRPORTS AUTHORITY

Notes to Financial Statements, continued

Year ended December 31, 1997

## 4. Cash and restricted cash:

	1997	1996
Cash	\$ 668,643	\$ 364,326
Restricted cash:		
Airport reserve fund	752,083	2,211,267
Debt reserve fund	-	525,639
	<b>\$ 1,420,726</b>	<b>\$ 3,101,232</b>

Cash designated for use on capital expenditures at the City Centre Airport is defined as the "airport reserve fund" under the terms of the lease with the City. The debt reserve fund is no longer required under the new financing arrangement described in note 8(a).

## 5. Deferred financing charges:

As a result of the new financing arrangement described in note 8 (a), the previous deferred financing charges were fully amortized in 1997. The resulting amount charged to the statement of earnings was \$299,175 and is included in amortization expense.

## 6. Tangible capital assets:

			1997	1996
	Cost	Accumulated amortization	Net book value	Net book value
Terminal and facilities:				
Terminal building	\$ 26,560,103	\$ 3,119,970	\$ 23,440,133	\$ 16,884,160
Runway and other paved surfaces	12,314,971	1,856,778	10,458,193	7,949,134
Other terminal and facilities	6,867,471	797,540	6,069,931	5,629,205
	<b>45,742,545</b>	<b>5,774,288</b>	<b>39,968,257</b>	<b>30,462,499</b>
Machinery and equipment:				
Vehicles and maintenance equipment	6,007,907	2,335,658	3,672,249	3,891,849
Furniture and equipment	1,222,041	919,274	302,767	449,219
Computer hardware and software	1,963,018	1,472,629	490,389	442,827
Shop tools and equipment	961,058	598,724	362,334	373,955
	<b>10,154,024</b>	<b>5,326,285</b>	<b>4,827,739</b>	<b>5,157,850</b>
	<b>\$ 55,896,569</b>	<b>\$ 11,100,573</b>	<b>\$ 44,795,996</b>	<b>\$ 35,620,349</b>

# EDMONTON REGIONAL AIRPORTS AUTHORITY

Notes to Financial Statements, continued

Year ended December 31, 1997

## 6. Tangible capital assets, continued:

- (a) At December 31, 1997, \$5,660,854 (1996 - \$2,684,000) of tangible capital assets were under construction and not yet subject to amortization.
- (b) Included in accounts payable and accrued liabilities at December 31, 1997 is \$2,867,407 (1996 - \$2,719,038) relating to unpaid capital expenditures.
- (c) Tangible capital assets include \$85,206 (1996 - \$nil) in capitalized interest.
- (d) Amortization of tangible capital assets of \$4,373,183 is included in amortization expense on the statement of earnings.

## 7. Deferred rent payable:

The original Canada Lease allowed Edmonton Airports to defer the payment of rent relating to concession operations. The rent so deferred bears interest compounded semi-annually at the Landlord's five year yield rate plus 2.5%. The Amended Canada Lease [see note 3(a)(i)] requires that the deferred rent payable at December 31, 1997 be repaid in 1998.

Interest expense includes \$598,945 (1996 - \$491,584) related to interest on deferred rent.

## 8. Long-term debt:

	1997	1996
Revolving credit facilities, interest payable monthly at the lender's prime rate, authorized to a maximum of \$50,000,000, full payout from refinancing by June 30, 2000 or reducing by \$9,000,000 per annum commencing June 30, 2000, secured by an assignment of book debts, eligible costs, leases, passenger facility charges, collateral and airline user agreements, bank accounts, insurance coverage and a leasehold mortgage	\$12,014,656	\$ 12,105,587
Term bank loan	-	3,449,930
Term loan from the City, \$410,647 payable annually including principal and interest at 6.5%, secured by specific equipment with a carrying value of \$995,050 and due May 31, 1999	747,621	1,087,575
	<u>12,762,277</u>	<u>16,643,092</u>
Current portion of long-term debt	362,051	1,489,930
	<u>\$12,400,226</u>	<u>\$ 15,153,162</u>

# EDMONTON REGIONAL AIRPORTS AUTHORITY

Notes to Financial Statements, continued

Year ended December 31, 1997

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## 8. Long-term debt, continued:

- (a) Effective January 21, 1998, Edmonton Airports signed a credit facilities letter with its lender to amend the terms of the financing arrangements. The authorized amount of its revolving credit facilities was increased from \$30,000,000 to \$50,000,000 with the new arrangements including a \$5,000,000 revolving credit facility to finance operations and a \$45,000,000 revolving credit facility to finance tangible capital asset additions at the International Airport.

The new financing arrangements also include an additional \$3,450,000 credit facility to finance interest rate swaps or similar financial instruments and an additional \$7,000,000 credit facility to finance tangible capital asset additions relating to cost recovery projects.

These financial statements reflect the terms of the credit facilities letter.

- (b) The future annual payments required to retire the debt are as follows:

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1998	\$	362,051
1999		385,570
2000		9,000,000
2001		3,014,656
		<hr/>
	\$	12,762,277

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## 9. Airport improvement fee:

On April 12, 1997, Edmonton Airports implemented an airport improvement fee ("AIF") to fund capital expenditures and the related financing costs, including the planned redevelopment and expansion of the terminal facilities (see note 18) at the International Airport. To December 31, 1997, cumulative expenditures of \$25,558,854 exceeded cumulative net AIF revenue collected of \$9,167,507 by \$16,391,347.

# EDMONTON REGIONAL AIRPORTS AUTHORITY

Notes to Financial Statements, continued

Year ended December 31, 1997

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## **10. Service, supplies and administration:**

Included in service, supplies and administration expense is the cost of Edmonton Airports' involvement with the Edmonton International Air Show Association ("EIASA").

EIASA is a not-for-profit organization established to promote and run a biennial international air show for the benefit of children's charities. EIASA utilizes the facilities of the International Airport and Edmonton Airports has guaranteed its financial obligations.

During 1996 EIASA operated its first airshow. Expenditures for the 1996 airshow of \$1,461,839 exceeded revenues by \$336,986. In 1996, Edmonton Airports recorded the \$336,986 as an expense since it was responsible for EIASA's financial obligations. In 1997, the decision was made to cancel the 1998 airshow. As a result, Edmonton Airports expensed its remaining investment in the EIASA assets which totalled \$219,112.

## **11. Organization costs:**

During 1996 management reviewed the nature of the capitalized organization costs and the related amortization policy. In view of the significant changes in activity arising from the assumption of operations of the City Centre Airport, consolidation of all scheduled air passenger traffic at the International Airport, and the new lease terms negotiated for the International Airport, it was determined that these prior years' costs had no specific future relevance and they were expensed.

## **12. Income taxes:**

Edmonton Airports' income generated from airport-related operations is exempt from income taxes.

## **13. Other transactions with the Landlord:**

Certain airport-related services such as air traffic control and customs and inspections are provided by the Government of Canada at no charge to Edmonton Airports. Effective April 1, 1997, Edmonton Airports became responsible for providing police and security services which previously were also provided at no charge by the Government of Canada. During 1997, Edmonton Airports received \$1,600,000 as one-time transitional funding for police and security services. The balance of the 1997 police and security revenue reflects a fee that is charged to the airlines.

# EDMONTON REGIONAL AIRPORTS AUTHORITY

Notes to Financial Statements, continued

Year ended December 31, 1997

## 14. Defined benefit pension plan:

Edmonton Airports has a defined benefit pension plan which covers all of its employees. The plan provides pension benefits based on length of service and best average earnings.

The present value of the accrued pension benefits and the net assets available to provide for these benefits are as follows:

	1997	1996
Accrued pension benefits	\$ 7,019,000	\$ 5,868,000
Pension plan assets, at market value	9,386,000	6,908,000

The accumulated excess of \$551,966 (1996 - \$274,416) of funding contributions over the amounts expensed has been reflected on the balance sheet as a long-term deferred pension charge.

## 15. Payments to officers and directors:

This information is provided pursuant to the requirements of the Regulations, pursuant to the Act.

During the year ended December 31, 1997, Edmonton Airports provided its officers and directors remuneration and reimbursement of expenses in the following amounts:

	Remuneration	Reimbursement
To directors	\$ 254,455	\$ 12,131
To officers who are not directors	614,307	209,292
	\$ 868,762	\$ 221,423

## 16. Financial assets and financial liabilities:

### Fair value:

The fair value of Edmonton Airports' cash and restricted cash, accounts receivable, accounts payable and accrued liabilities, deferred rent payable and tenants' security deposits approximate their carrying amounts due to the immediate or short-term maturity of these financial instruments.

The fair value of long-term debt approximates its carrying value. Fair value has been calculated using the future cash flows (principal and interest) of the actual outstanding debt instrument, discounted at current market rates available to Edmonton Airports for the same or similar instruments.



# EDMONTON REGIONAL AIRPORTS AUTHORITY

Notes to Financial Statements, continued

Year ended December 31, 1997

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## 16. Financial assets and financial liabilities, continued:

### Interest rate risk:

The majority of Edmonton Airport's long-term debt bears floating interest rates. A change of 1% in the lender's prime rate would change annual interest expense by approximately \$120,000 based on the revolving credit facilities outstanding at December 31, 1997.

### Credit risk:

A significant portion of Edmonton Airports' revenues is derived from airlines. At December 31, 1997 a significant portion of the accounts receivable balance (other than the amount due from the Government of Canada) is due from airlines.

## 17. Contingencies:

Edmonton Airports has been named as a defendant in certain lawsuits. These actions are in the preliminary stages and their outcomes are not currently determinable. In management's opinion, these actions will not result in any significant loss to Edmonton Airports. Settlements, if any, will be accounted for in the period of settlement.

## 18. Commitments:

Edmonton Airports has planned a \$235,000,000 redevelopment and expansion of the terminal facilities at the International Airport which is to be completed over the period 1997 to 2006. Of the \$235,000,000 planned, projects totalling \$44,000,000 have been approved. To December 31, 1997, expenditures of \$6,211,801 have been incurred on the approved projects.

## 19. Comparative figures:

Certain of the 1996 comparative figures, primarily those on the statement of earnings, have been reclassified to conform with the financial statement presentation adopted in 1997.

