



YLW

Kelowna International Airport



20 10 ANNUAL REPORT

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your
link
to the
world

YLW
KELOWNA



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MAYOR'S MESSAGE

Kelowna International Airport (YLW) continues to win accolades from its customers. Once again ranking in the top three, YLW placed second out of 38 like-sized airports around the world in 2010 through an annual independent customer-satisfaction survey. YLW scored 4.5 out of 5 (5 being "Excellent") for overall customer satisfaction. In 2010 YLW continued to further enhance its customer service by expanding its Airport Ambassador program, with students aged 15 to 18 joining the ranks of dedicated volunteers providing a friendly welcome and farewell to arriving and departing passengers.

YLW's commitment to service doesn't end with its customers. The Airport also serves the community at large through co-operation with its tenants, numerous charities and community groups. Over the years the Airport Ambassadors have donated over \$47,000 to charities, including local food banks, from money collected from the luggage carts. This year Kelowna Flightcraft hosted the first annual United Way Plane Pull at YLW, which raised over \$20,000 for the charity. YLW staff personally donated to the United Way and our Airport Operations Specialists volunteered their time collecting funds for the Fire Fighter Boot Drive for Muscular Dystrophy. YLW and various airport tenant employees also volunteered their time to serve at Tim Horton's Camp Day, helping raise money to send over 14,000 disadvantaged kids on the camping adventure of a lifetime.

■ YLW is committed to providing unparalleled service

YLW is the major departure point for Hope Air which provides flights for children and adults who need to travel for medical treatment and could otherwise not afford to fly. Hope Air was YLW's charity of choice for the 2010 Hot Sun Destination event which raised \$3,380, enough to provide 27 flights.

As passenger numbers continue to grow, YLW is committed to providing unparalleled service to travellers to and from the Thompson Okanagan and linking these communities around the world. But the team at YLW is also dedicated to serving and supporting the region through its charities, making Kelowna International Airport not just community-owned and operated, but community-focused in everything they do.



Sharon Shepherd
Mayor, City of Kelowna
Airport Advisory Chair



CITY MANAGER'S MESSAGE

All air travellers in our region, from regular business commuters to vacationers, appreciate the ease and convenience of having an international airport on their doorstep. But Kelowna International Airport contributes more than meets the eye to the City of Kelowna, the region, and the province.

Ongoing operations at YLW generate \$30 million in government tax revenue annually. The federal government is the largest recipient, receiving \$22 million (73% of total tax revenue) \$7 million (24% of the total tax revenue) is paid to the province, and a further \$1.3 million is collected by the City itself. As the 2010 study shows, the economic benefits YLW brings to the region spread much wider.

The 2010 Airport Economic Impact assessment measured the spending and employment in the region associated with YLW's operations. The airport directly generates 1,400 jobs with a total economic output estimated at \$300 million. The Study estimates that a further 640 jobs are indirectly linked to YLW's activities (for example by employment at YLW's suppliers) and another 690 are "induced" jobs generated by the spending of individuals employed directly or indirectly. The airport's overall economic impact to the province was estimated to be \$610 million.

The analysis also pointed out the strategic importance of YLW for economic development in the region as a link to the world for both corporate travel and tourism. Kelowna International Airport is a major convenience for business and leisure travellers to and from the Thompson Okanagan, but it is also a significant and growing contributor to the economy and development of the region.



Ron Mattiussi
City Manager



AIRPORT DIRECTOR'S MESSAGE

Heading into 2010, our goal at Kelowna International Airport was to match the record-breaking passenger numbers of 2008 after a modest decline during the recession of 2009. Not only did YLW meet and exceed the 2008 numbers with a total of 1,391,725 passengers served, we saw three all time record-breaking months in July, August and December. In fact, August 2010 was YLW's busiest month ever, with 131,914 passengers travelling through the airport. And at a time when many airports saw a decline in air service, YLW was able to maintain its current service levels in 2010, and saw increased same-plane service to more locations in Canada including Ottawa, Winnipeg, Saskatoon and Regina; increased non-stop scheduled service to Las Vegas, Toronto and Cancun, Puerto Vallarta and Los Cabos in Mexico.

The continuing growth in passengers and flights at YLW is driving the long-term airport development approved by Kelowna City Council in 2009 - the "Drive to 1.6 Million" Development Program. The first phase of this development plan will launch in 2011 with the expansion of the international customs hall, further improvements to the U.S. flight boarding processes, upgrade to the runway and road improvements to Airport Way.

The introduction of the legislated Safety Management System (SMS) at YLW continues, with Phase 2 completed in 2010. The SMS program introduces a structured approach to organizing, evaluating and managing aviation-related safety risks and hazards. It also encourages a safety-based culture where staff is encouraged to recognize and report safety concerns. As YLW continues to grow toward our 1.6-million passenger target, the safety and well being of our passengers, tenants, volunteers and staff will always be our primary focus.

2010 was a successful year for YLW. Our staff, tenants and stakeholder groups have accomplished a great deal and we have all set our goals and objectives for 2011 to ensure YLW is Your Link to the World. As we move forward onto the next phases of the Drive to 1.6 Million Passengers program, 2011 promises to be an exciting year.



Sam Samaddar
Airport Director

AT A GLANCE



1,391,725 passengers
in 2010

3

record-breaking
months

1

record-breaking
year



84% of employment
generated by YLOW
is full time



30% of YLOW passengers
are frequent travellers
making 3-5 trips a year



\$610M economic
impact annually
to the region overall



1400 jobs or 1,290 person
years of direct employment
is generated by YLOW



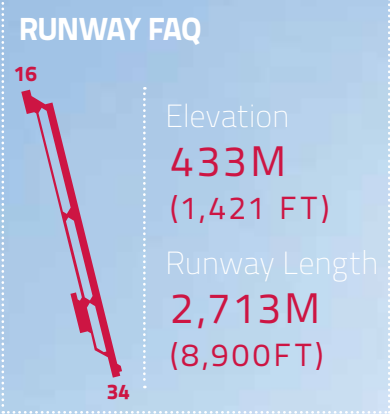
Six years or 2,025 days
without any lost time
for work related injuries



\$70 million in direct
wages by YLOW

DESTINATIONS

NON-STOP FLIGHT ———
SAME PLANE FLIGHT ———



LINKING TO THE WORLD

Y.L.W. recovered nicely in 2010 after a slight dip of 1.6 per cent in passengers for 2009. In fact Y.L.W. had three record breaking months and finished 2010 as a record breaking year with 1,391,725 passengers, an increase of 1.76% over 2009

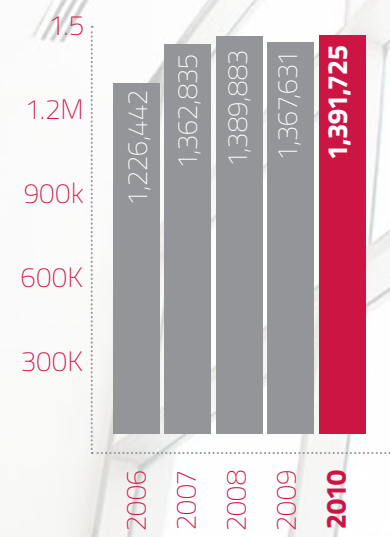
July and December set new monthly records with 122,965 and 126,513 passengers respectively, while August became the busiest month in Y.L.W.'s history with 131,914 passengers, more than two per cent above of the previous record month in March of 2008.

At a time when many airports saw a decline in air service, Y.L.W. was able to maintain its current service levels including non-stop service by WestJet and Air Canada to Canada's largest airport Toronto Pearson International and increased additional same-plane service to more locations in Canada including Ottawa, Winnipeg, Saskatoon and Regina. Mexico and Las Vegas scheduled service was increased to six months from four for the 2010/11 winter season. In addition, WestJet flights to and from Las Vegas were moved to the afternoon rather than late night departure and early morning arrival to provide more connection access over Las Vegas one of the largest hubs in the USA.

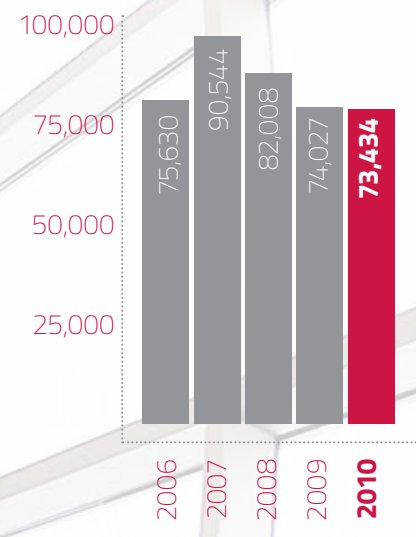
Y.L.W. averages 62 daily flights by WestJet, Air Canada, Alaska Airlines/Horizon Air and Central Mountain Air. Transat Holidays, WestJet Vacations, Nolitours, Sunwing Vacations, Signature Holidays and Sunquest Vacations offered all-inclusive non-stop seasonal service to Los Cabos, Puerto Vallarta and Cancun, Mexico.



PASSENGER MOVEMENT



LANDINGS



LINKING CUSTOMER SERVICE

FREE INTERNET

Wireless Internet access was one of the amenities most frequently requested by passengers and on July 1 YLW, partnering with BOLDstreet Wireless, began offering free Internet access to passengers throughout the terminal building, lounges and concession areas.

QUALITY SERVICE

YLW continues to participate in a customer satisfaction survey which benchmarks itself against other airports. In 2010, YLW expanded its benchmark by participating in a biannual survey conducted by Airports Council International which compares YLW to 38 airports in its size category world-wide. YLW achieved an overall satisfaction rating of 4.50 out of 5 (1 being poor and 5 excellent), and proudly ranked second overall only to Boise International Airport in Idaho, USA.

■ YLW ranked second out of 38 like-sized airports

VOLUNTEERS

With almost 150 volunteers from Airport Ambassadors, Jr Ambassadors, Airport Watch, and Tourism Kelowna, a high priority is kept on volunteer programs, customer service and safety and security, 365 days a year at YLW.

YLW launched the Junior Ambassador Program in the summer of 2010 to help celebrate the 10th anniversary of the airport's current ambassador volunteer program. High School students in Grades 10 and 11 earn their volunteer hours required by the Central Okanagan School District 23 while gaining exposure to career opportunities in the aviation industry and volunteering alongside the airport's 'seasoned' ambassadors.

The Airport Watch Program, linked to the national Airport Watch Program based in Ottawa and launched in December of 2009, completed its first year with over 360.25 hours logged by volunteers conducting patrols of the parking lots and perimeter fencing. Members monitor general aviation procedures, the condition of the fencing, wildlife activity, parking lots, suspicious behaviours and foreign object debris (FOD) while they enjoy their favourite pastime – watching airplanes. They are an extra set of eyes and ears outside the perimeter fence. Their task is to "Observe, Record and Report".

AIRPORT TERMINAL OPEN 24 HOURS

Improvements were made to the arrivals area to allow the airport to provide better overall customer service and stay open 24 hours for passengers waiting for early morning flights.



LINKING COMMUNITY

2010 WINTER OLYMPICS

YLV supported the 21st Winter Olympiad February 12-28 and the 10th Paralympics March 12-21 by processing corporate aircraft prior to entering the Vancouver airspace. All non-scheduled aircraft heading to Vancouver were required to be pre-screened for security purposes. YLV did not experience a large increase in aircraft landings for the Olympics but did welcome its largest passenger aircraft to date with a B767-300, which landed non-stop from Moscow, Russia, to drop off members of the Russian biathlon team who were training in the Okanagan prior to competing in the games.

SEARCH AND RESCUE OPERATIONS

The Department of National Defence set up search headquarters at YLV after a Piper PA24 aircraft with pilot and three occupants failed to arrive in Victoria after leaving Penticton. Two Cormorant helicopters, three Buffalo and one Aurora aircraft from 19 Wing Comox, one CC-130 Hercules from 17 Wing Winnipeg along with 15 Provincial Emergency Program (PEP) and Civilian Air Search and Rescue Association (CASARA) aircraft were involved in the search which covered 18,000 square kilometres over land and water. The aircraft and its occupants were recovered eight days later.





MILESTONE ANNIVERSARIES

Kelowna Flightcraft, headquartered at YLW and known internationally for its aviation and modification services and the world leader in winglet installations, celebrated 40 years at YLW on March 25. Kelowna Flightcraft continues to be the largest private employer in the Okanagan with nearly 600 employees at YLW.

Kelowna Ramp Services, which provides ground and cargo handling services for Air Canada, WestJet, charter flights and the Department of National Defence, in addition to providing various services for Horizon Air and Central Mountain Air at YLW reached its diamond anniversary, 25 years, in December.

RECYCLING THE PAST

For the first time in 30 years the airport purchased property for future expansion. The property, adjacent to the airport and located on Old Vernon Road across from the Ellison Community Hall, was originally owned by one of Kelowna's pioneering families, the Bornais. The outbuildings on the site suffered too much deterioration to be relocated but much of the fabric of the buildings were salvaged and will be used to restore Brent's Grist Mill, which was built in 1871.

WESTBANK FIRST NATION DISPLAY

Celebrating Westbank First Nation and those who are members of the Okanagan Syilx people, a display case was added to the U.S. Departures area featuring unique historical, cultural and art pieces. The display case was unveiled by Mayor Shepherd, Chief Robert Louie, Elder Delphine Derickson, Westbank First Nation Council, Airport Advisory Committee in June.

AWARDED FOR OUR EFFORTS

WestJet won the Airline Staff Service Excellence Award North America at the 2010 World Airline Awards presented in Hamburg Germany. The awards are recognized around the world and more than 17 million travellers were surveyed.

Horizon Air was named the Recycler of the Year by the Washington State Recycling Association (WSRA). Horizon began its in-flight recycling program in the late 1980s and today operates the most comprehensive onboard recycling program of any U.S. airline.

YLW was recognized once again by Airports Council International (ACI-NA) Marketing and Communications Awards and placed 2nd for both its social media efforts (Twitter & Facebook) and the 2009 Annual Report. Fifty five airports in Canada and U.S. submitted over 250 entries to be judged by their industry peers.



LINKING OPERATIONS

SMS

The introduction of the legislated Safety Management System (SMS) at YLW completed Phase 2 in 2010. The SMS program introduces a structured approach to organizing, evaluating and managing aviation related safety risks and hazards. It also encourages a strong realignment to a safety-based culture where staff is encouraged to recognize and report safety concerns on a reactive and proactive basis in a non-punitive environment.

U.S. (TRANSBORDER) SCREENING POST DEC. 25, 2009

As a result of revised security regulations, to provide a better customer experience YLW expedited construction of a U.S. Hold Room to physically segregate U.S. destined passengers from domestic and other international passengers. To support revised security regulations, CATSA installed a millimetre wave scanner in the airport's pre-board screening area and YLW became the first Class 2 Airport in Canada to receive a full body scanner. YLW was the Canadian trial host for this technology in 2008/09.

WINTER OPERATIONS

January to March 2010 was a very mild winter with few weather impacts locally. YLW became the alternate for Calgary airport three times due to weather related issues in Calgary. On February 16, Kelowna received 7 diversions on their way to Calgary. November and December 2010 was a more active winter with a number of significant snowfalls that resulted in only minor flight disruptions on one day due mainly to poor visibility.



2010 AIRCRAFT
RESCUE + FIRE
FIGHTING STATS

- 34 aircraft responses
- 144 first medical responses
- 26 hazardous material spills/leaks responses
- 148 foreign object debris responses
- 122 animal control and bird strike responses
- 10 vehicle responses
- 46 building and alarm responses
- 93 security and misc. responses
- 623 total response calls

LINKING LEADERSHIP

AIRPORT ADVISORY COMMITTEE 2009-2011

The Airport Advisory Committee includes representation from communities throughout the Okanagan, in addition to Kelowna, that are also served by the Kelowna International Airport. Elected officials from member communities are appointed to the committee as representatives by their respective Local Governments. This is an important Committee in providing regional collaboration and support for the future of Kelowna International Airport.

The 16 member committee appointed by Kelowna City Council represents the following:

- Elected Officials: City of Kelowna (2), Central Okanagan Regional District, City of Vernon, District of Peachland, District of Lake Country, City of Salmon Arm, District of West Kelowna, and the Westbank First Nation.
- Economic Development Commission, Kelowna Chamber of Commerce, Kelowna City at Large, Tourism Kelowna, Westbank and District Chamber of Commerce and Vernon Chamber of Commerce representative.

KELOWNA CITY COUNCIL 2010

The Kelowna International Airport has been managed and operated by the City of Kelowna since its inception in 1946, making this the largest airport in Canada to be municipally operated. Kelowna City Council ultimately makes the final decisions concerning airport management and operations.



Back L-R Councillor Robert Hobson, Councillor Kevin Craig, Councillor Graeme James, Councillor Luke Stack, Councillor Michele Rule, Councillor Andre Blanleil,

Front L-R Councillor Angela Reid-Nagy, Mayor Sharon Shepherd, Councillor Charlie Hodge

INDEPENDENT AUDITORS' REPORT

To the members of Council of the City of Kelowna

We have audited the accompanying financial statements of Kelowna International Airport (the "Airport"), which comprise the statement of financial position as at December 31, 2010, and the statement of operations and accumulated surplus, statement of changes in net financial assets and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Public Sector Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Airport's preparation and fair presentation of the 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 Airport'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 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 financial statements present fairly, in all material respects, the financial position of Kelowna International Airport as at December 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with Public Sector Accounting Standards.

Grant Thornton LLP

Grant Thornton LLP
Chartered Accountants
Kelowna, BC
May 5, 2011

STATEMENT OF FINANCIAL POSITION

As at December 31 2010	Actual 2010	Actual 2009
Financial Assets		
Cash and temporary investments	\$ 22,454,160	\$ 19,922,144
Accounts receivable		
Federal government	78,592	208,145
Trade	1,731,548	1,650,104
Municipal Finance Authority debt reserve deposit	1,053,547	1,048,034
	25,317,847	22,828,427
Financial Liabilities		
Financial Liabilities		
Federal government	86,167	75,902
Regional government	140,647	140,647
Trade	483,825	215,320
Performance deposits	244,295	212,550
Deferred revenue	28,034	125,791
Municipal Finance Authority debt reserve		
Cash deposits	175,219	169,706
Demand notes	878,328	878,328
Debenture debt (Note 4)	13,281,384	14,667,345
	15,317,899	16,485,589
Net Financial Assets	9,999,948	6,342,838
Non-Financial Assets		
Prepaid expenses	103,507	109,258
Construction in progress, at cost (Note 5)	4,501,008	19,141,636
Tangible capital assets (Note 6)	59,366,711	43,433,252
	63,971,226	62,684,146
Accumulated Surplus (Note 7)	\$ 73,971,174	\$ 69,026,984

Contingent liabilities (Note 8)

Commitments (Note 9)



Sam Samaddar
Airport Director



Keith Grayston, CGA
Director, Financial Services

See accompanying notes to the financial statements.

STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS

For The Year Ended December 31 2010	Budget 2010	Actual 2010	Actual 2009
Revenue			
Sale of services	\$ 16,294,484	\$ 17,349,320	\$ 16,889,880
Interest earned	283,740	135,230	83,232
Conditional grant - Federal government	-	97,368	135,000
Conditional transfers - Provincial government	-	-	100,000
Conditional transfers - Federal government	381,500	298,223	313,075
Other capital contributions	-	53,306	-
	16,959,724	17,933,447	17,521,187
Expenditures			
Administration	1,855,501	1,781,092	1,623,597
Interest	1,344,000	744,000	744,000
Terminal Operation	3,592,662	3,071,005	3,511,166
Airport Improvement Fee Administration	232,300	241,943	240,941
Airport Policing	315,050	222,837	300,713
Groundside Operations	1,289,019	1,566,998	1,091,308
Airside Operations	1,646,572	1,819,465	1,524,257
Amortization	-	3,541,917	2,985,426
	10,275,104	12,989,257	12,021,408
Excess Revenue Over Expenditures	6,684,620	4,944,190	5,499,779
Accumulated Surplus, beginning of year		69,026,984	63,527,205
Accumulated surplus, end of year		\$ 73,971,174	\$ 69,026,984

See accompanying notes to the financial statements.

STATEMENT OF CHANGES IN NET FINANCIAL ASSETS

For The Year Ended December 31 2010	Budget 2010	Actual 2010	Actual 2009
Excess of Revenue over Expenditure	\$ 6,684,620	\$ 4,944,190	\$ 5,499,779
Amortization	–	3,541,917	2,985,426
Proceeds from disposal of tangible capital assets	–	–	26,433
Acquisition of tangible capital assets	(12,271,650)	(4,834,748)	(3,884,919)
Gain on disposal of tangible capital assets	–	–	(26,433)
Change in prepaid expenses	–	5,751	5,750
	(5,587,030)	3,657,110	4,606,036
Net Financial Assets, beginning of year	6,342,838	6,342,838	1,736,802
Net Financial Assets, end of year	\$ 755,808	\$ 9,999,948	\$ 6,342,838

See accompanying notes to the financial statements.

STATEMENT OF CASH FLOWS

For The Year Ended December 31 2010	Actual 2010	Actual 2009
Cash provided by (used for)		
Operating		
Excess of revenue over expenditures	\$ 4,944,190	\$ 5,499,779
Adjustment for non-cash items		
Amortization	3,541,917	2,985,426
Gain on disposal of capital assets	–	(26,433)
Actuarial adjustment on debenture debt	(53,306)	–
Decrease (increase) in assets		
Accounts receivable	48,109	564,010
Other assets	238	1,049
Increase (decrease) in liabilities		
Accounts payable	278,770	(979,593)
Deferred revenue	(97,757)	112,831
Other liabilities	37,258	3,715
	8,699,419	8,160,784
Capital		
Proceeds from disposal of tangible capital assets	–	26,433
Purchase of tangible capital assets	(4,834,748)	(3,884,919)
	(4,834,748)	(3,858,486)
Financing		
Repayment of debenture debt	(1,332,655)	(1,332,655)
Net cash inflow	2,532,016	2,969,643
Cash and temporary investments, beginning of year	19,922,144	16,952,501
Cash and temporary investments, end of year	\$ 22,454,160	\$ 19,922,144
Supplementary cash flow information		
Interest paid	\$ 744,000	\$ 744,000

See accompanying notes to the financial statements.

NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION AND NATURE OF OPERATIONS

The Kelowna International Airport (the "Airport") is controlled by the City of Kelowna (the "City") and is reported in the City's financial statements as part of the City's resources and operations. The City operates the Airport pursuant to the provisions of a long-term lease with the Government of Canada entered into January 1, 1969 ("the Ground Lease"). The current term of the lease, renewed January 1, 1996 for a period of 39 years, ends on December 31, 2034.

These financial statements reflect only the assets, liabilities and operations of the Airport. The financial statements have been prepared in accordance with accounting standards established by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

2. SIGNIFICANT ACCOUNTING POLICIES

ACCRUAL ACCOUNTING

The accrual method for reporting revenues and expenditures has been used.

CASH AND TEMPORARY INVESTMENTS

Cash and temporary investments represent funds held by and invested in the City of Kelowna pooled investments. The amounts are recorded at cost and are comprised of deposits with banks, guaranteed investment certificates, municipal finance authority bond and money market funds, and provincial and bank issued accrual notes and debentures.

The temporary investments held are readily convertible to cash and are therefore included in cash and temporary investments.

TANGIBLE CAPITAL ASSETS

Tangible capital assets are recorded at cost which includes all amounts directly attributable to the acquisition, construction, development or betterment of the asset. The cost, less residual value of the assets are amortized on a straight-line basis over their estimated useful lives as follows:

Land improvements 25 years	Infrastructure 10 to 75 years
Buildings 10 to 75 years	Machinery and equipment 5 to 20 years

MUNICIPAL FINANCE AUTHORITY CASH DEPOSITS AND DEMAND NOTES

The City has issued its debt instruments through the Municipal Finance Authority. As a condition of these borrowings, a portion of the debenture proceeds is withheld by the Municipal Finance Authority as a debt reserve fund. The City also executes demand notes in connection with each debenture whereby the City may be required to loan certain amounts to the Municipal Finance Authority. These demand notes are contingent in nature.

FINANCIAL INSTRUMENTS

The Airport's financial instruments consist of cash and temporary investments, accounts receivable, accounts payable and debenture debt. Unless otherwise noted, it is management's opinion that the Airport is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying value, unless otherwise noted.

USE OF ESTIMATES

Management has made estimates and assumptions that affect the amounts reported in preparing these financial statements. The significant area requiring the use of management estimates relate to the determination of tangible capital assets' estimated useful life and related amortization. Actual results could vary from those estimates.

REVENUE RECOGNITION

Airport improvement fees revenue is recognized as income in the period that passengers depart from the Airport.

Landing fees and terminal fees are generated principally from scheduled airlines and non-scheduled commercial aviation and are recognized when the airport facilities are utilized.

Rentals and fees, car parking revenue and other revenue are recognized when the airport facilities are utilized.

Car rental concession revenue is recognized based on the greater of an agreed percentage of reported concessionaire sales and specified minimum rentals. Other concession revenue is recognized based on an agreed percentage of reported concessionaire sales.

GROUND LEASE

The Ground Lease is accounted for as an operating lease and has a single rent payment of \$1 for the current 39 year term.

RESERVES FOR FUTURE EXPENDITURE

Reserves for future expenditure are non-statutory reserves which represent an appropriation of surplus for specific purposes. Transfers to reserves for future expenditure include funds to finance incomplete projects and accumulations for specific purposes.

3. FUTURE ACCOUNTING CHANGES

PS 3260 – LIABILITY FOR CONTAMINATED SITES

This section establishes the recognition criteria, measurement and disclosure requirements for reporting liabilities associated with remediation of contaminated sites that either are not in use or resulted from unexpected environmental events. This section applies to fiscal years beginning on or after April 1, 2014, with early adoption permitted.

4. DEBENTURE DEBT

Debenture debt principal is reported net of sinking fund balances. The sinking fund balance at December 31, 2010 was \$2,718,616 (2009 - \$1,332,655). The interest rate on debenture debt is 4.65% and is due in 2018. Principal repayments for the next five years are as follows:

2011	2012	2013	2014	2015
\$ 1,332,655	\$ 1,332,655	\$ 1,332,655	\$ 1,332,655	\$ 1,332,655

5. CONSTRUCTION IN PROGRESS

Construction in progress is recorded at cost and is comprised of:

	2010	2009
Buildings	\$ 2,268,852	\$ 9,852,585
Engineering structures	1,741,737	8,382,339
Land improvements	295,396	811,196
Machinery and equipment	195,023	95,516
Total construction in progress	\$ 8,699,419	\$ 19,141,636

6. TANGIBLE CAPITAL ASSETS

	Cost	Accumulated amortization	2010 Net Book Value	2009 Net Book Value
Land	\$ 1,432,026	\$ —	\$ 1,432,026	\$ 495,332
Land improvements	12,518,476	3,855,504	8,662,972	8,301,090
Buildings	42,468,186	12,722,042	29,746,144	21,668,693
Infrastructure	30,370,160	14,737,178	15,632,982	8,712,176
Machinery & equipment	8,504,108	4,611,521	3,892,587	4,255,961
	\$ 95,292,956	\$ 35,926,245	\$ 59,366,711	\$ 43,433,252

7. ACCUMULATED SURPLUS

	Future Expenditures Reserves	General Surplus	Investment in Tangible Capital Assets	Total 2010	Total 2009
Surplus, beginning of year	\$ 20,958,870	\$ 160,570	\$ 47,907,544	\$ 69,026,984	\$ 63,527,205
Excess of revenue over expenditures	130,357	8,205,077	(3,391,244)	4,944,190	5,499,779
Transfers	2,130,519	(2,130,519)	—	—	—
Acquisition of tangible capital assets	—	(4,737,380)	4,737,380	—	—
Retirement of debenture debt	—	(1,332,655)	1,332,655	—	—
Surplus, end of year	\$ 23,219,746	\$ 165,093	\$ 50,586,335	\$ 73,971,174	\$ 69,026,984

8. CONTINGENT LIABILITIES

PENSION LIABILITY

The Airport and its employees contribute to the Municipal Pension Plan (the plan), a jointly trustee pension plan. The board of trustees, representing plan members and employers, is responsible for overseeing the management of the plan, including investment of the assets and administration of benefits. The plan is a multi-employer contributory pension plan. Basic pension benefits provided are defined. The plan has about 163,000 active members and approximately 60,000 retired members. Active members include approximately 35,000 contributors from local governments.

Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of plan funding. The most recent valuation as at December 31, 2009 indicated an unfunded liability of \$1,024 million for basic pension benefits. The next valuation will be as at December 31, 2012 with results available in 2013. The actuary does not attribute portions of the unfunded liability to individual employers. The Airport paid \$213,978 (2009 - \$195,890) for employer contributions while employee contributions were \$176,715 (2009 - \$162,353) to the plan in fiscal 2010.

LEGAL ACTIONS

The City is currently engaged in certain legal actions. The outcome and the possible effect on the Airport of these legal actions are not determinable at this time. Accordingly, no provision has been made in the accounts for these actions. The amount of loss, if any, arising from these contingent liabilities will be recorded in the accounts in the period in which the loss is realized.

9. COMMITMENTS

At December 31, 2010, the Airport had entered into construction commitments relating to the Airport capital program amounting to \$9,592,660.

10. AIRPORT IMPROVEMENT FEES

The Kelowna International Airport entered into a Memorandum of Agreement (the "Agreement") dated September 23, 1997 with the Air Transport Association of Canada and all major carriers operating from the Airport. The Agreement provides for a consultative process with air carriers regarding the improvement to and expansion of airport facilities and the collection of airport improvement fees (AIF) by air carriers through the carrier's ticketing process.

On February 1, 1998, the Airport implemented an AIF of \$5.00 per departing passenger. On March 1, 2002 the AIF fee was raised to \$8.00 per passenger. On November 1, 2007, the AIF was raised to \$10.00 per passenger. AIF revenues can only be used to fund approved Airport infrastructure projects and associated financing costs.

Airport improvement fee summary to December 31:

	2010	2009
Cumulative AIF revenue	\$ 48,455,136	\$ 42,084,390
Cumulative AIF expenditures	63,978,426	59,141,514
Deficiency of revenue over expenditures	\$ (15,523,290)	\$ (17,057,124)

11. SALE OF SERVICE BY OBJECT

	2010	2009
Airport improvement fee	\$ 6,370,746	\$ 6,135,671
Aircraft parking	71,123	67,651
Airline CUTE charges	44,123	38,604
Airline terminal fees	1,751,441	1,686,844
Apron equipment parking	11,659	11,712
Aviation fuel concessions	15,726	15,820
Car rentals	1,644,244	1,607,164
Ground handler concessions	51,837	51,375
Land lease revenue	471,577	445,900
Landing fees	2,583,520	2,534,184
Other	192,160	234,880
Terminal building space rental	411,334	416,211
Terminal concessions	660,517	577,008
Vehicle parking	3,069,313	3,066,856
	\$ 17,349,320	\$ 16,889,880

12. EXPENDITURES BY OBJECT

Expenditures reported by object comprise:	2010	2009
Salaries and benefits	\$ 3,088,358	\$ 2,912,795
Contract and professional services	560,677	853,874
Interest expense	744,000	744,000
Materials and supplies	4,088,931	3,592,400
Equipment	15,831	17,421
Allocations	840,768	733,013
Cost recoveries	(404,106)	(332,647)
Utilities	512,881	515,126
Amortization	3,541,917	2,985,426
	\$ 12,989,257	\$ 12,021,408

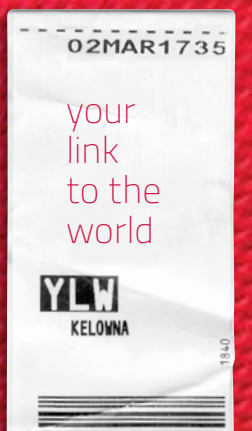
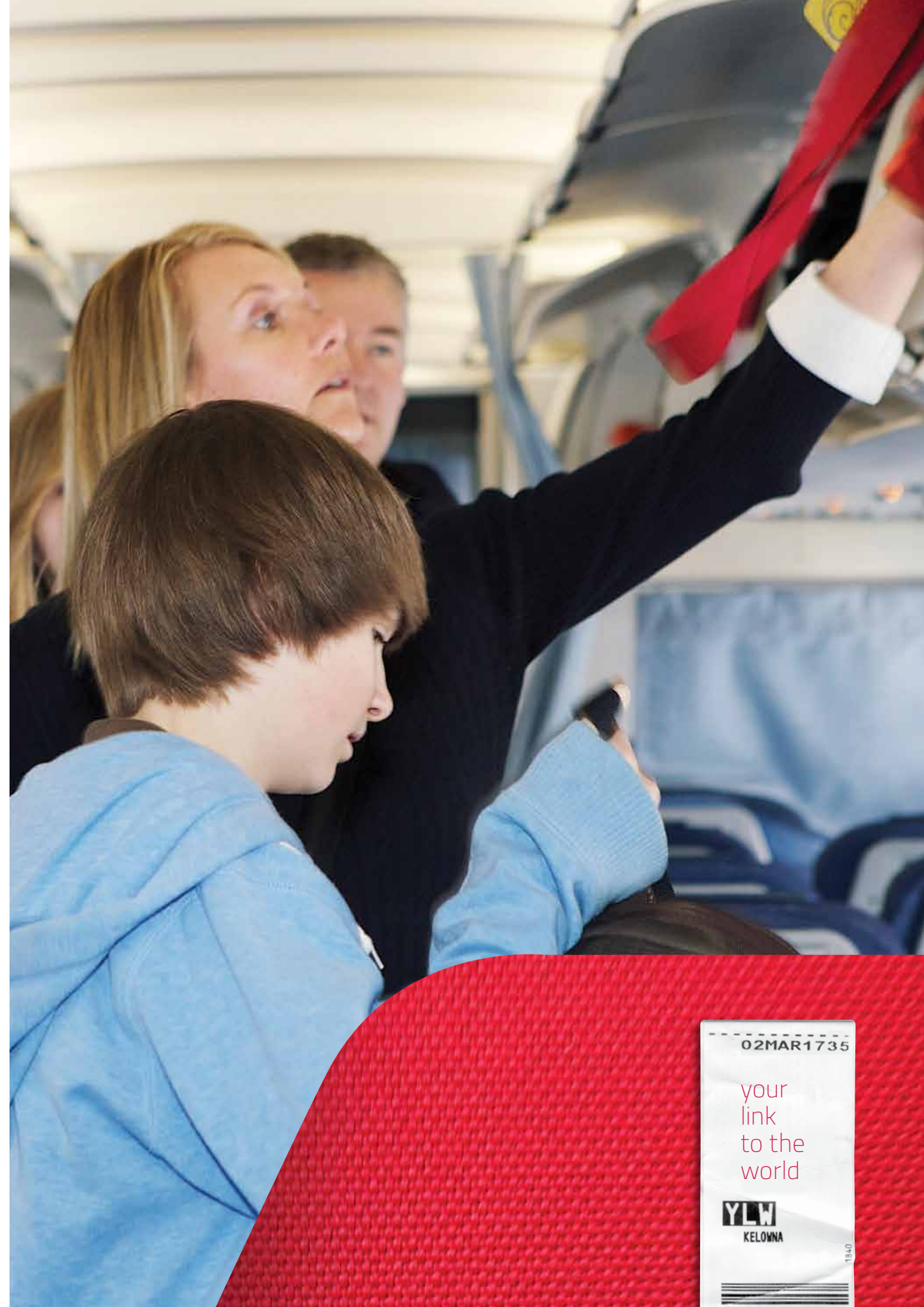
13. BUDGET DATA

The budget figures are from the Annual Five-Year Financial Plan Bylaw adopted before May 15 of each year and are not subject to audit. Subsequent amendments have been made by Council to reflect changes in the budget as required by law. Amortization of tangible capital assets was not included in the budget. The table below shows the reconciliation between the approved budget and the budget presented in these consolidated financial statements.

	Budget Amount
Revenues	
Operating budget	\$ 16,959,724
Expenses	
Operating budget	10,275,104
Capital budget	12,271,650
	22,546,754
Annual deficit per approved budget	(5,587,030)
Add: capital expenses	12,271,650
Annual surplus per statement of operations	\$ 6,684,620

14. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to current year financial statement presentation.



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