

YXS

prince george airport authority 

**Paving the Way,
One Wave at a Time**
2016 Annual Report





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Our Mission is:

Operate a safe secure airport with quality customer oriented passenger facilities and services and a developing cargo business in an economically sustainable and environmentally responsible manner that contributes to regional economic development.

Our Vision is:

To be the 'best in class' airport.



Introduction

The Prince George Airport Authority (PGAA) was looking for a creative way to engage the community, add personality to its brand, and promote aviation. With that, Amelia Bearheart was born. The Prince George Airport (YXS) is the first airport in North America, and the second in the world, to own a mascot. Since her introduction to the world during Celebrating Women of Aviation Week and the day before International Women's Day, Amelia has left an impression on thousands of people in the community.

2016 was also a big year for operations, air service development and customer service. Inside this report you will learn more about how the PGAA continues to operate a 'best in class' airport.

2016 Highlights



Chairman and CEO Report

2016 was another challenging year.

The Prince George Airport Authority (PGAA) continues to realize positive financial operating results, as we have for the past seven years. However, our long term capital requirements to maintain the infrastructure we inherited continue to exceed our long term financial capacity. We remain optimistic that our efforts to solicit government assistance will return the Prince George Airport Authority tangible results in 2017.

2016 was a strong, stable year for the Prince George Airport (YXS). Passenger traffic at 462,007 was slightly behind 2015 at 470,849. Very good results considering 15,000 passengers in 2015 were associated to the Canada Winter Games. Last year's total of 462,007 passengers through the airport terminal represents a 3.5% growth in the number of passengers over 2014. Aircraft movements were down from 2015 by 2,179 movements for a total of 40,665.

The PGAA posted net earnings before other income of \$1,237,365. This is the seventh straight year that the airport has exceeded its financial objective for the year. The net earnings after all revenues and costs were accounted for were \$3,549,110. The surplus can be attributed to strong continued cost management, as revenues were down due to fewer flights. Another mild winter also helped to keep winter maintenance costs low.

Capital investment continued with the aim of improving safety and increasing capacity at YXS. In 2016, the PGAA invested \$1.7 million in major capital development. The largest project was the rehabilitation of the main aircraft parking area at the terminal. Phase one of a two-phase program was completed in 2016 which came in at \$1.2 million. The installation of new light-emitting diode (LED) Precision Approach Path Indicators was completed on Runway 33, which improves flight reliability. The parking machines were upgraded with the help of Northern Development Initiative Trust (NDIT) funding to include chip readers which offer another level of security to our customers. Two fuel trucks were purchased at a price of \$180,000 to increase capacity for the JetMark Refueling operation. All projects requiring a Canadian Environmental Assessment Act review have had the review conducted. Assessment reviews are available on request.

The Airport Authority completed negotiations with the Public Service Alliance of Canada for another five years. The cooperation from our local union members has been outstanding.

Air service development remains a key priority for the PGAA. The year 2016 saw the reappearance of a 5th daily WestJet flight to Vancouver, and during the summer months both Pacific Coastal and NT Air added additional flights to Victoria and Dease Lake, while Central Mountain Air increased the size of aircraft on several routes. Until the economy in Western Canada rebounds, WestJet dropped their direct flights between Prince George and Calgary.

On the Airport operations side of the business, the Authority supported the University of Northern British Columbia's wildlife research with the goal of understanding and reducing wildlife risks at airports using remote cameras. This is an ongoing project which has been in place for over a decade. An operations-based live exercise with local response agencies was completed to ensure a response to an emergency is well coordinated. Annual live fire training for 13 staff responders was also completed in 2016.

The Airport Authority strives to offer 'best in class' customer service for our customers. So, in 2016 we implemented an Airport Service Quality measurement program, which benchmarked surveyed responses from various airports around North America. The Prince George Airport's average score was 4.4 out of 5. This ranked as a 'High Satisfaction' score beating our benchmarked airports. Particular strengths were friendliness, efficiency, and security. The report also identified areas for the PGAA to work on in 2017, with the main deficiency being poor access from the long term parking lot to the terminal.

Several customer service initiatives were implemented in 2016. The PGAA launched a new website with added flight tracking and virtual tour features. In order to enhance the cleanliness of the terminal building, a Request for Proposals (RFP) for janitorial services was initiated and the contract was awarded to Marquise Facilities. The taxi contract for the airport was awarded to PG Taxi, which had provided a marked increase in customer service in 2016. Upgrades to the restroom supply machines, change tables and plumbing fixtures were completed by year-end. The World Host Customer Service Training was taken by 20% of the staff, either for the first time or to upgrade their accreditation.

The PGAA continued a program where volunteers from the airport community and the PGAA prepare gardens at the terminal building, welcome sign and the cargo warehouse. Fertile land for a Community Garden was provided by the PGAA, where airport employees are given the opportunity to grow fresh food and encouraged to donate 20% of the crop to local food programs.

In Cargo Development, the Rosenau Cargo Warehouse officially opened its doors in 2016. To complement this cargo development, the PGAA worked with the City of Prince George in its application for Foreign Trade Zone designation. This designation would allow importers and distribution companies to import goods from overseas points into Prince George without paying duties or taxes until the goods are actually sold or moved to other markets in North America. This program would provide opportunities for international Cargo operations.

The fuel storage and in-to-plane capacity brought more fueling agreements in 2016. With that, the published price of fuel has dropped to competitive levels at the Prince George airport.

The PGAA stays connected with the community through social media and presentations to local organizations, Boards, City and Regional Councils. The Airport Authority continues to work with the Immigrant and Multicultural Services Society, Tourism Prince George and Northern Development Initiative Trust in growing the economy of Prince George and Northern BC. The year 2016 saw the creation of Amelia Bearheart, a female pilot who promotes women in aviation, while connecting the community with the airport. The mascot, the first for an airport in North America, was unveiled at a neighbouring community elementary school in front of 250 people. The PGAA was recognized by the Airports Council North American Marketing Awards for the Amelia Bearheart program.

The Prince George Airport Authority is also a tremendous community supporter through the work airport volunteers provide various charities. The airport won the People's Choice Award for the fourth straight year at the 2016 Festival of Trees fundraiser, which raises money for the Spirit of the North Healthcare Foundation. All four airlines operating out of YXS participated in this annual event by hosting their own trees. 2016 was a record year for funds raised through our annual charity golf tournament. Over \$16,000 was raised for Hope Air, which arranges free flights for children seeking medical help in other communities.

Board members and staff represent the airport both in the community and throughout Canada on several Boards and Committees. These include Canadian Airports Council (CAC) Council of Chairs, CAC Board of Directors, as well as, Cargo, Human Resources, Marketing and Public Relations, Environmental, Security, Finance, and Operations/Safety and Technical Affairs sub-committees. Additional Board and Committees participation include the British Columbia Aviation Council, and Tourism Prince George, among others.

Looking ahead to next year, we continue to develop our cargo, fueling and land development businesses. We also aim to grow our passenger business by targeting new routes. With John Gibson's role as Canadian Airports Council Past Chair, we are pushing the Federal Government for funding for safety related capital programs, which would support operations at YXS. The PGAA has also been working with the BC Government to obtain funding through the BC Air Access Program for customer access and safety programs. NDIT has been a supporter of economic development initiatives that will come to fruition in 2017.

In 2016, the Board of Directors went through an RFP process for choosing an auditor and Deloitte was the successful applicant.

There are 12 Board of Director positions on the Prince George Airport Authority Board. At present there are 11 Board members. In 2016, Mitch Houg was nominated to replace Les Waldie as the City of Prince George nomination, effective July 1, 2016. Waldie had completed 4 terms. Andy Clough, nominated by the Federal Government, completed his maximum term March 31, 2016, serving 9 years total. The PGAA nominated Board member Alice Downing, whose term commenced April 1, 2016. Carol Brown, nominated by the Regional District of Fraser Fort George, completed her maximum term on August 31, 2016, serving 9 years total.

The Board members remain very active serving on five Committees: Finance and Audit Committee, Human Resources Committee, Economic Development Committee, Major Projects and Environmental Committee, and Airline and Community Consultation Committee.

We thank our Board members, our employees and our partners for helping develop our "best in class" vision for the airport.



A handwritten signature in black ink, reading "John B. Gibson", written over a horizontal line.

John Gibson
President and CEO, Prince George Airport Authority



A handwritten signature in black ink, reading "D. Mason", written over a horizontal line.

Dean Mason
Board Chair, Prince George Airport Authority

Executive Team



John Gibson
President and CEO



Michelle Kenny
Manager of Corporate Services



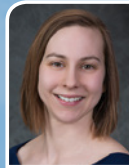
Diane Bertram
Director of Finance and Administration



Veronica Laass
Accounting Manager



Cuyler Green
Director of Operations



Sara Viveiros
Manager of Operations Planning



Allan Ridgway
Consultant Cargo Business Development



Robin Smith
Executive Assistant



Lindsay Cotter
Manager of Marketing and Communications

Board of Directors



Dean Mason

Chair - Board of Directors
Nominated by City of Prince George
Attendance 7/7 Board*



Alice Downing

Chair – Human Resources Committee
Nominated by Prince George Airport Authority
Attendance 4/5 Board, 4/4 Committee



Blair Mayes

Vice Chair – Board of Directors
Chair – Economic Development Committee
Nominated by Prince George Airport Authority
Attendance 6/7 Board, 10/13 Committee



Ranjit Gill

Chair – Airline and Community
Consultation Committee
Nominated by Prince George
Chamber of Commerce
Attendance 5/7 Board, 3/3 Committee



Al Leier

Secretary - Board of Directors
Nominated by Prince George Airport Authority
Attendance 7/7 Board, 5/5 Committee



Tejinder Grewal

Director
Nominated by City of Prince George
Attendance 5/7 Board, 10/12 Committee



Don Zurowski

Treasurer - Board of Directors
Chair - Finance and Audit Committee
Nominated by Provincial Government
Attendance 7/7 Board, 15/16 Committee



Mitch Houg

Director
Nominated by City of Prince George
Attendance 1/3 Board, 4/4 Committee



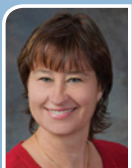
Jennifer Brandle-McCall

Chair – Governance Committee
Nominated by Prince George Airport Authority
Attendance 7/7 Board, 6/7 Committee



Michelle Marrelli

Director
Nominated by Federal Government
Attendance 5/7 Board, 6/8 Committee



Emily Cheung

Chair – Major Projects and
Environmental Committee
Nominated by Regional District of
Fraser-Fort George
Attendance 7/7 Board, 6/6 Committee

*The Board Chair attends all committee meetings as required.

Corporate Governance

Board Governance

The Prince George Airport Authority Inc. (PGAA) was incorporated on July 27, 2000 under the Canada Corporations Act.

On July 28, 2014 the Society received its Certificate of Continuance with the Canada Not-for-profit Corporations Act, under which it is currently incorporated.

Conflict-of-Interest Rules and Code of Conduct Rules

The PGAA is acutely aware of the trust that has been placed in it by the community and all stakeholders involved in the airport industry. The principles of public accountability and conflict of interest are detailed in the Transport Canada lease and the PGAA policies and guidelines. The Bylaws of the Authority state clearly that every member of the Society is bound by the Authority's conflict of interest guidelines.

In addition, the Board has a Conflict of Interest policy which requires each Board member to disclose any real, perceived or potential areas of conflict. The disclosure must be in writing and each Board member updates acknowledgement of these guidelines annually. The policy also addresses the appropriate procedures to be followed should a Director propose independently to provide services to the Authority on a contractual basis. The Board ensured that all Directors, Officers and employees complied with these rules in 2016.

Code of Conduct guidelines for Board members is an integral component of the Authority's policy direction.

Public Tenders

Bylaw 14.5 (a) states that contracts in excess of a total value of \$75,000 (subject to an annual adjustment for inflation according to the Consumer Price Index based on 1994 dollars) shall be awarded based on a competitive public process. For 2016, the adjusted value was \$110,453 and all contracts valued at or over the adjusted value were awarded by competitive bid.

Goals and Objectives

1. Support of Staff

- The Prince George Airport Authority (PGAA) supports its staff by ensuring the establishment of organizational values, individualized training plans and career development plans.
- The PGAA is committed to maintaining a workplace where respect and fairness is demonstrated openly and all staff strive towards providing professional first class service. The PGAA involves staff in strategic planning and decision making.

2. Operate in a Safe, Secure and Environmentally Responsible Manner

- The PGAA is committed to meeting or exceeding all requirements for the safety and security of all users of the airport (YXS). In addition, the PGAA maintains an effective and proactive environmental program.

3. Provide Our Customers with a User-Friendly, First-Class Facility

- The Prince George Airport Authority is dedicated to providing a user-friendly first-class facility which promotes good service and a positive experience for customers.
- The PGAA maintains and plans for upgrades of existing airside and groundside facilities to support growth and new opportunities.
- The PGAA maintains a competitive cost environment for airlines and strives to drive down the cost of travel using the YXS Gateway.

4. Operate as a Financially Viable Entity

- The PGAA operates as a financially viable entity by maximizing all sources of revenue, providing cost effective service, and minimizing expenditures without compromising safety, security or customer service.
- The PGAA operates within established budgets and generated revenues. Capital programs are funded from operating surpluses, government funding and Airport Improvement Fees.

5. Ensure Public Accountability

- The PGAA will maintain its public accountability through the interaction of Board committees (e.g. Airline and Community Consultation Committee, and the Major Projects and Environment Committee) annual reporting and regular communication and engagement with community groups.

6. Maintain Partnership Stakeholder Relationships with the Community, Airport Tenants and Users

- The PGAA has formed a partner stakeholder relationship with the community, airport tenants and users. As well, a Protocol Agreement with the City of Prince George has been established.

This protocol illustrates the philosophy of co-operation and good communications while addressing a common vision. The partnership aims at maintaining and growing existing relationships with the Regional District of Fraser Fort George, City of Prince George, The Northwest Corridor Development Corporation, Northern BC Tourism Association, Prince George Chamber of Commerce and other organizations with the goal of improving the economic climate of Northern British Columbia.

- As well, the PGAA has developed a strong relationship with Northern Development Initiative Trust, whose mandate is economic development and job creation in central and northern British Columbia.
- The PGAA also ensures that good communication and cooperation are maintained with airline partners through the continuation of the Airline and Community Consultation Committee.
- The PGAA encourages open communication with community members through the Airline and Community Consultation Committee.

7. Pursue Marketing Initiatives and Economic Development

- The PGAA will pursue marketing initiatives and economic growth through a strategic marketing plan which includes retaining and strengthening existing air services, the promotion of new national and international markets, and developing airport land while supporting community objectives.
- The PGAA continues actively to pursue its cargo and tech stop initiatives.

8. Cultivate and Promote the Airport's Role and Image with the Community

- The PGAA will cultivate and promote the airport's role and image within the community by strengthening media relationships with the establishment of focused information campaigns, tradeshow, promotion of school programs, and by continuing to develop expertise on northern transportation issues.

Governance Guidelines

Introduction

The Prince George Airport Authority believes it has a responsibility to model Governance practices as if the PGAA were a listed company on a Canadian Securities Exchange. The following points demonstrate the PGAA's application of such practices.

1. Board Mandate

Guideline

The Board should explicitly assume responsibility for the stewardship of the organization by:

- 1.1 Overseeing the operation of the organization and satisfying itself as to the integrity of the management team
- 1.2 Adopting a strategic planning process
- 1.3 Identifying the principal risks and ensuring the implementation of appropriate systems to manage these risks
- 1.4 Having a management succession plan in place
- 1.5 Adopting a communications policy
- 1.6 Having internal controls and management information systems operational
- 1.7 Having governance guidelines and principles in place

Disclosure

- 1.1 The mandate of the Board is to act primarily as a policy and governance board. The Board approves all significant decisions that affect the organization before implementation, as well as monitoring and reviewing outcomes.
- 1.2 The PGAA has a strategic planning process, which includes a long-term Master Plan, a five year Strategic Operating Plan and annual operating and capital budgets with goals and expectations reviewed and revised annually. The Board is actively involved in the strategic planning process and is responsible for reviewing and approving the plan.
- 1.3 While management is mandated to keep the Board apprised of risks facing the PGAA, the Board also arranged for management to undertake an independent Enterprise Risk Management audit, the results of which form the basis for a continuous improvement process to address identified risks. Board members and management also monitor industry risks by participating in a network of industry groups such as Canadian Airport Council (CAC) and Airport Council International (ACI) both of whom have several technical subgroups which deal with specific aspects of the airport industry. The Finance and Audit Committee meets regularly to monitor the financial risks, and ensure proper management systems are in place. Operational risks are mitigated through continual updates and implementation of necessary changes to safety and security management functions relating to aircraft and passenger movement and protection of airport assets through:

- a) An environmental management plan and policies that address all airport environmental issues including aircraft de-icing and the use and application of fertilizers and pesticides.
 - b) An airport emergency evacuation plan, a disaster recovery plan and Airport Safety and Security plans.
 - c) A comprehensive insurance program to protect the airport assets and its financial viability to meet the ground lease obligations.
 - d) An organizational structure with dedicated safety, security and emergency planning and response personnel.
 - e) Risk transfer through contract.
 - f) Incident reporting and response procedures.
 - g) An Airport Safety Committee.
- 1.4 The Board is responsible for hiring and overseeing the CEO. The PGAA is developing a formal management succession plan process. Senior management positions can be temporarily covered either from existing PGAA personnel or with a temporary replacement until a competition could be held. In addition, the Board Chair is available and capable of assuming an important role in the transition process.
 - 1.5 An extensive communication policy is in place identifying the prime contacts, their roles and responsibilities. The policy defines the process for stakeholders to contact the PGAA and for airlines and industry service providers to communicate with the PGAA. The Board approves all major communications such as annual reports and financing documents. The PGAA communicates with stakeholders through information on its website and meetings held by the Board's Airline and Community Consultation Committee.
 - 1.6 The PGAA has an in-depth monthly, quarterly and annual reporting and performance measurement system, including regular Board presentations from management and the ongoing monitoring, comparison, analysis and explanation of results and expectations. External professional resources are employed to test the integrity of internal control systems.
 - 1.7 The Board, through the Governance Committee, has implemented applicable governance guidelines and principles.

2. Composition of the Board

Guideline – The Board should have a majority of independent Directors, defined as being non-management and/or having no conflict of interest.

Disclosure – The Board is composed exclusively of independent Directors. The Board Chair and other officers are elected biennially from the members of the Board.

3. Nomination of Directors

Guideline – The Board should appoint a Nominating Committee comprised exclusively of independent Directors who will have a clear mandate established for them including the manner in which they report to the Board.

Disclosure – The Governance Committee is responsible for the nominating process and proposing new nominees to the Board. New nominees must exhibit expertise in an area of strategic interest to the PGAA, the ability to devote the time required and a willingness to serve the organization.

The Nominating Committee communicates with the various nominating entities to seek Directors with the required skills. The Board Chair has implemented an annual one on one feedback session with each director.

In accordance with Bylaw No. 1, a bylaw relating generally to the transaction of the business and affairs of the Prince George Airport Authority Inc. and based on the principles of accountability and transparency desired by the Federal Government and endorsed by the Board of Directors, each of the following entities has consented to act as a nominator with the right to nominate candidates to be members as follows:

- Two members nominated by the Federal Government
- One member nominated by the Provincial Government
- Three members nominated by the City of Prince George
- Two members nominated by the Regional District of Fraser Fort George
- One member nominated by the Prince George Chamber of Commerce
- Three members nominated by the Prince George Airport Authority

The members represent consumer interests, the business community and organized labour.

It includes Directors having legal, engineering, accounting, commercial banking, human resources expertise as well as experience and skills from various industries and relevant professions.

4. Regular Board Assessments

Guideline – Every Board of Directors should implement a process for assessing the effectiveness of the board as a whole, the committees of the board and the contribution of individual directors.

Disclosure – The Governance Committee conducts a formal evaluation process annually in which each Director completes an assessment of the effectiveness of the Board and individual committees. The Governance Committee recommends changes to enhance the performance of the Board based on the survey feedback.

5. Orientation & Continuing Education

Guideline – Every organization should provide an orientation and education program for new Directors to the Board.

Disclosure – All new PGAA Directors take part in a comprehensive orientation session, and are provided with a copy of the Director's Manual which contains a record of the history of the airport, the mission statement, goals and objectives, the current PGAA policies and procedures, the Director's roles and responsibilities, an overview of the committees, governance guidelines, the current bylaws and strategic plan and the latest PGAA annual report. In addition, a behind-the-scenes tour of the airport is provided.

The Director's Manual is available online for all directors to access and is updated on a regular basis. Senior management makes regular presentations to the Board on the main areas of the organization's business. Management and staff receive initial job orientation and follow-up specific professional training as required.

Board members have, and will continue to, attend both Canadian and International Airline conferences.

6. Effective Board Size

Guideline – Every Board of Directors should examine its size and determine the appropriate number of Directors to facilitate effective decision making.

Disclosure – The Governance Committee reviews the composition and size of the board once a year.

7. Compensation

Guideline – The Board of Directors should review the adequacy and form of the compensation of directors and ensure the compensation realistically reflects the responsibilities involved in being an effective director.

Disclosure – The Governance Committee reviews Directors' compensation annually, and makes its recommendation to the Board. The committee takes into account all appropriate information including the compensation levels at similar airports to reach its determination.

The Human Resources Committee is responsible for bringing an annual recommendation to the Board regarding the method and level of compensation the CEO should receive, based on market comparisons and performance.

The annual remuneration for the Board during 2016 was as follows:

Chair	\$ 8,500
Vice Chair	\$ 1,500
Secretary	\$ 1,000
Treasurer and Chair Finance Committee	\$ 2,000
Chair Governance Committee	\$ 3,000
Chair Human Resources Committee	\$ 3,000
Chair Major Projects & Environment Committee	\$ 2,000
Chair Economic Development Committee	\$ 2,000
Chair Airline and Community Consultation Committee	\$ 1,000

In addition to the position premiums listed above, all Board Directors receive \$ 3,500 annually as well as \$200 for each Board and Committee meeting attended. Combined compensation during 2016 for all Board Members was \$100,717.

The combined salaries of the Senior Managers [i.e.] President and CEO, Director of Finance and Administration and Director of Operations in the year 2016 were \$460,111.76

8. Committees

Guideline – Committees of the Board of Directors should generally be composed of outside directors although some board committees, such as the executive committee may include one or more inside directors.

Disclosure – The Board had five committees in 2016, comprised entirely of independent directors:

- Airline and Community Consultation Committee
3 members with Ranjit Gill as Chair
- Audit and Finance Committee
3 members with Don Zurowski as Chair
- Governance and Nominating Committee
3 members with Jennifer Brandle-McCall as Chair
- Human Resources Committee
3 members with Alice Downing as Chair
- Major Projects & Environment Committee
3 members with Emily Cheung as Chair
- Economic Development Committee
3 members with Blair Mayes as Chair

Committees are structured to support management and the Board of Directors and to act in accordance with the Board's requirements and decisions.

9. Approach to Corporate Governance

Guidelines – Every Board of Directors should expressly assume responsibility for, or assign a committee of directors to, develop the corporation's approach to governance issues.

Disclosure – The Governance Committee is responsible for reviewing the overall governance principles of the organization, recommending any changes to these principles and monitoring their disclosure. The Committee is responsible for the statement of corporate governance.

10. Position Descriptions

Guideline – The Board of Directors should develop position descriptions for the Board and CEO.

Disclosure – Terms of reference have been developed for Directors, Board Chair, and the committees, and are reviewed as required. Job descriptions are in place for the CEO, management team and staff.

The CEO Job Description is approved by the Board.

11. Meetings of Independent Directors

Guideline – Every Board of Directors should be able to function independent of management and should meet on a regular basis without management present.

Disclosure – The Board Chair is an independent Director, voted in by the Board. Board members meet independent of management at the conclusion of all regularly scheduled Board meetings and other times as necessary.

12. Audit Committee

Guideline – The Audit Committee should be composed only of independent directors, with the roles and responsibilities specifically defined. The committee should have direct communication channels with the internal and external auditors to discuss and review specific issues as appropriate and to ensure effective system of internal controls are in place.

Disclosure – The Finance and Audit Committee is comprised of independent Directors, all are financially literate. The Committee responsibilities are outlined in the PGAA Committee Terms of Reference. The Committee and/or the Committee Chair have regular meetings with internal finance personnel. They engage in open communication with external auditors, with or without management present, whenever required.

13. Outside Advisors

Guideline – The Board of Directors enables an individual Director to engage an outside advisor at the expense of the organization.

Disclosure – Outside advisors are engaged by the Board as a whole based on specific needs at any given time.

Independent Auditor's Report

To the Members of
Prince George Airport Authority Inc.

We have audited the accompanying financial statements of Prince George Airport Authority Inc., which comprised the statement of financial position as at December 31, 2016 and the statement 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 Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 controls relevant to the entity'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 entity's internal controls. 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 Prince George Airport Authority Inc. as at December 31, 2016 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.



Chartered Professional Accountants

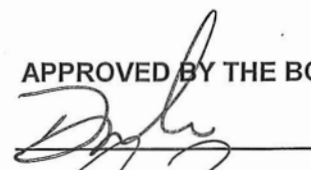
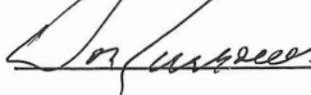
Prince George, British Columbia
April 10, 2017

Statement of Financial Position

As at December 31, 2016

	2016	2015
CURRENT ASSETS		
Cash	\$ 730,182	\$ 5,106,822
Investments	110	108
Accounts receivable (Note 3)	1,565,421	1,203,728
Government remittances receivable	-	60,578
Inventory	25,113	17,676
Prepaid expenses	346,126	363,586
	<u>2,666,952</u>	<u>6,752,498</u>
CAPITAL ASSETS (Note 4)	63,645,817	64,650,424
DEFINED BENEFIT ASSET (Note 13)	<u>1,041,000</u>	<u>914,000</u>
	<u>\$ 67,353,769</u>	<u>\$ 72,316,922</u>
CURRENT LIABILITIES		
Bank demand loans (Note 5)	\$ 6,693,525	\$ 11,470,833
Accounts payable and accrued liabilities (Note 6)	1,243,827	2,680,492
Government remittances payable	10,914	5,068
Deferred revenue and deposits	10,836	145,180
Current portion of long-term debt (Note 7)	<u>1,261,209</u>	<u>1,261,209</u>
	<u>9,220,311</u>	<u>15,562,782</u>
LONG-TERM DEBT (Note 7)	9,564,166	10,825,374
DEFERRED CONTRIBUTIONS RELATED TO CAPITAL ASSETS (Note 8)	<u>19,736,111</u>	<u>20,644,695</u>
	<u>38,520,588</u>	<u>47,032,851</u>
COMMITMENTS (Note 9)		
NET ASSETS		
Invested in capital assets (Note 10)	26,371,591	20,448,023
Restricted airport improvement fee (Note 11)	-	1,076,202
Unrestricted (Note 12)	<u>2,461,590</u>	<u>3,759,846</u>
	<u>28,833,181</u>	<u>25,284,071</u>
	<u>\$ 67,353,769</u>	<u>\$ 72,316,922</u>

APPROVED BY THE BOARD:

 Director
 Director

The accompanying notes are an integral part of these financial statements.

Statement of Operations

Year ended December 31, 2016

	2 0 1 6	2 0 1 5
Revenue		
Concessions	\$ 137,416	\$ 141,813
General terminal charges	1,441,506	1,516,464
Landing fees	2,435,847	2,617,815
Other	1,237,765	880,658
Parking	1,796,082	1,602,991
Rentals	826,533	873,142
	<u>7,875,149</u>	<u>7,632,883</u>
Expenses		
Administration	982,429	929,674
Insurance	192,319	195,794
Operations	2,203,934	2,186,335
Property taxes	278,736	239,369
Salaries and employee benefits	2,608,591	2,699,916
Utilities	371,775	377,475
	<u>6,637,784</u>	<u>6,628,563</u>
Operating surplus	<u>1,237,365</u>	<u>1,004,320</u>
Other revenue (expense)		
Airport improvement fee (net) (Note 11)	4,835,380	4,051,505
Amortization of deferred contributions related to capital assets (Note 8)	1,312,006	1,311,367
Amortization - capital assets	(3,356,302)	(2,612,668)
Gain on disposal of assets	11,336	26,868
Interest on long-term debt	(505,675)	(392,357)
Remeasurement of pension benefit assets	15,000	-
	<u>2,311,745</u>	<u>2,384,715</u>
EXCESS OF REVENUE OVER EXPENSES	<u><u>\$ 3,549,110</u></u>	<u><u>\$ 3,389,035</u></u>

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Net Assets

Year ended December 31, 2016

	Invested in Capital Assets (Note 10)	Restricted Airport Improvement Fee (Note 11)	Unrestricted	2016	2015
Balance, beginning of year	\$ 20,448,023	\$ 1,076,202	\$ 3,759,846	\$ 25,284,071	\$ 21,895,036
Excess of revenue over expenses	-	4,329,705	(780,595)	3,549,110	3,389,035
Capital asset additions	2,369,380	(2,369,380)	-	-	-
Book value of capital asset disposals	(36,609)	-	36,609	-	-
Net repayment of bank demand loan and subsidies	5,635,093	(3,036,527)	(2,598,566)	-	-
Amortization of capital assets	(3,356,302)	-	3,356,302	-	-
Amortization of deferred contributions	1,312,006	-	(1,312,006)	-	-
Balance, end of year	\$ 26,371,591	\$ -	\$ 2,461,590	\$ 28,833,181	\$ 25,284,071

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

Year ended December 31, 2016

	2 0 1 6	2 0 1 5
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenue over expenses	\$ 3,549,110	\$ 3,389,035
Items not affecting cash		
Amortization	3,356,302	2,612,668
Gain on disposal of assets	(11,336)	(26,868)
Amortization of deferred contributions related to capital assets	(1,312,006)	(1,311,367)
Defined benefit adjustment	(127,000)	35,000
	5,455,070	4,698,468
Changes in non-cash operating working capital		
Accounts receivable	(361,693)	132,088
Government remittances receivable	60,578	(60,578)
Inventory	(7,437)	4,714
Prepaid expenses	17,460	(43,145)
Accounts payable and accrued liabilities	(1,436,665)	1,840,562
Government remittances payable	5,846	(21,543)
Deferred revenue and deposits	(134,344)	119,121
	3,598,815	6,669,687
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital asset additions	(2,369,380)	(16,674,022)
Proceeds on disposal of capital assets	29,020	34,546
(Increase) decrease in investments	(2)	2,566,819
	(2,340,362)	(14,072,657)
CASH FLOWS FROM FINANCING ACTIVITIES		
Bank demand loan proceeds	759,360	11,500,000
Repayment of bank demand loans	(5,536,668)	(29,167)
Repayment of long-term debt	(1,261,209)	(525,504)
Increase in deferred contributions related to capital assets	403,424	13,479
	(5,635,093)	10,958,808
NET (DECREASE) INCREASE IN CASH	(4,376,640)	3,555,838
CASH, BEGINNING OF YEAR	5,106,822	1,550,984
CASH, END OF YEAR	\$ 730,182	\$ 5,106,822

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

Year ended December 31, 2016

1. NATURE OF OPERATIONS

The Prince George Airport Authority Inc. (the “Authority”) is incorporated under Part II of the Canada Corporations Act as a non-share capital, not-for-profit corporation and all earnings from operations are reinvested in airport development.

The Authority signed a 60-year ground lease with Transport Canada effective March 31, 2003 (“Canada Lease”) and assumed responsibility for the management, operations and development of the Prince George Airport. The lease provides for an option to extend the term a further 20 years.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations (“ASNPO”) and include the following significant accounting policies:

Financial instruments

The Authority initially measures its financial assets and financial liabilities at fair value. The Authority subsequently measures all its financial assets and financial liabilities at amortized cost, except for investments in equity instruments that are quoted in an active market, which are measured at fair value. Changes in fair value are recognized in the statement of operations.

Financial assets measured at amortized cost include cash, investments and accounts receivable.

With respect to financial assets measured at cost or amortized cost, the Authority recognizes an impairment loss, if any, in the statement of operations when there are indicators of impairment and it determines that a significant adverse change has occurred during the period in the expected timing or amount of future cash flows. When the extent of impairment of a previously written-down asset decreases and the decrease can be related to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the statement of operations in the period the reversal occurs.

Financial liabilities measured at amortized cost include bank demand loans, accounts payable and accrued liabilities, government remittances payable, and long-term debt.

Inventory

The inventory of consumable supplies is recorded at the lower of cost, determined on a first-in first-out basis, and estimated net realizable value.

Canada Lease

The Canada Lease (see Note 1) is accounted for as an operating lease.

Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is provided when put in use, using the straight-line method at the following annual rates:

Leasehold improvements:	
Buildings	4%
Parking facilities and roadway systems	5%
Fuel farm	2.5%
Other	5%-33%

Notes to the Financial Statements

Year ended December 31, 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Computer hardware and software	33%
Vehicles	10%
Machinery and other equipment	10%-20%
Runway	5-50 years

Impairment of long-lived assets

Long-lived assets, such as capital assets, are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value at the date of impairment.

Employee future benefits

The cost of the Authority's defined benefit pension plans is determined periodically by independent actuaries. The Authority uses the most recently completed actuarial valuation prepared for funding purposes (but not one prepared using a solvency, wind-up, or similar valuation basis) for measuring its defined benefit plan obligations. A funding valuation is prepared in accordance with pension legislation and regulations, generally to determine required cash contributions to the plan.

The Authority recognizes:

- a) the defined benefit obligation, net of the fair value of any plan assets, adjusted for any valuation allowance in the balance sheet; and
- b) the cost of the plan for the year.

The Authority also contributes to a defined contribution pension plan for which the Authority pays fixed contributions into a separate pension plan. The Authority has no legal obligation to pay further contributions if the plan is not fully funded.

Income taxes

The Authority is exempt from federal and provincial income taxes as well as capital tax.

Revenue recognition

The Authority follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when they are received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Unrestricted interest is recognized as revenue when earned.

Revenues are recorded when services are performed, the facilities are utilized, or the amounts are earned pursuant to the related agreements. Airport Improvement Fee revenue (Note 11) is recognized when passengers depart the terminal building.

Government contributions

Contributions towards capital expenditures are accounted for under the deferral method whereby the contributions are deferred and brought into income on a basis consistent with the amortization of the related capital assets.

Notes to the Financial Statements

Year ended December 31, 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates

The preparation of the financial statements in conformity with ASNPO requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Key components of the financial statements requiring management to make estimates are potential collectability of accounts receivable, useful life of capital assets, and employee future benefits. Actual results could differ from the estimates.

3. ACCOUNTS RECEIVABLE

	2 0 1 6	2 0 1 5
Accounts receivable	\$ 1,717,986	\$ 1,203,728
Allowance for doubtful accounts	(152,565)	-
	<u>\$ 1,565,421</u>	<u>\$ 1,203,728</u>

4. CAPITAL ASSETS

	2 0 1 6		2 0 1 5	
	Cost	Accumulated Amortization	Net Book Value	
Land	\$ 15,654,236	\$ -	\$ 15,654,236	15,654,236
Leasehold improvements				
Buildings	21,111,186	7,361,198	13,749,988	14,546,334
Parking facilities and roadway systems	5,316,286	2,845,606	2,470,680	2,661,746
Fuel farm	2,838,289	378,025	2,460,264	2,230,186
Other	740,933	235,896	505,037	480,074
Runway	34,266,750	8,625,737	25,641,013	26,058,049
Computer hardware and software	389,766	230,621	159,145	171,348
Vehicles	158,187	73,776	84,411	96,280
Machinery and other equipment	5,416,844	3,460,682	1,956,162	2,357,711
Construction in progress/ equipment not in use	964,881	-	964,881	394,460
	<u>\$ 86,857,358</u>	<u>\$ 23,211,541</u>	<u>\$ 63,645,817</u>	<u>\$ 64,650,424</u>

Notes to the Financial Statements

Year ended December 31, 2016

5. BANK DEMAND LOANS

	2016	2015
CIBC demand revolving loan - repayable in monthly instalments of \$12,500 plus interest at prime rate (2.7% per annum - December 31, 2016) and bankers acceptances stamping fee of 1.5%. Secured as described below, and maturing in 2036.	\$ 1,654,166	\$ 6,970,833
CIBC demand instalment loan - repayable in monthly instalments of \$18,333 plus interest at prime rate (2.7% per annum - December 31, 2016) and bankers acceptances stamping fee of 1.5%. Secured as described below, and maturing in 2041.	<u>5,039,359</u>	<u>4,500,000</u>
	<u>\$ 6,693,525</u>	<u>\$ 11,470,833</u>

The Authority has a \$500,000 operating line of credit bearing interest at the prime rate (December 31, 2016 – 2.7%), and the demand revolving loan has an authorized limit of \$9,000,000. The line of credit is secured by a demand collateral first mortgage of the Authority's leasehold interest and assignment of rents for an unlimited amount. Under the terms of the agreements, the principle repayments required in each of the next five years are estimated as follows:

	2018	2019	2020	2021	2022
	\$ 370,000	\$ 370,000	\$ 370,000	\$ 370,000	\$ 370,000

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2016	2015
Trade payables	\$ 839,260	\$ 2,306,598
Payroll accruals	<u>404,567</u>	<u>373,894</u>
	<u>\$ 1,243,827</u>	<u>\$ 2,680,492</u>

7. LONG-TERM DEBT

	2016	2015
Northern Development Initiative Trust, unsecured, bearing interest at prime rate (2.7% per annum - December 2016), monthly payments of \$105,101	\$ 10,825,375	\$ 12,086,583
Current portion	<u>1,261,209</u>	<u>1,261,209</u>
	<u>\$ 9,564,166</u>	<u>\$ 10,825,374</u>

Notes to the Financial Statements

Year ended December 31, 2016

7. LONG-TERM DEBT (continued)

Under the terms of the agreement, the principal payments required in each of the next five years are estimated as follows:

	2018	2019	2020	2021	2022
\$	1,261,209	\$ 1,261,209	\$ 1,261,209	\$ 1,261,209	\$ 1,261,209

8. DEFERRED CONTRIBUTIONS RELATED TO CAPITAL ASSETS

Deferred contributions represent the unamortized balance of contributions received from government and other entities to fund capital projects.

	2016	2015
Opening balance	\$ 20,644,695	\$ 21,942,583
Contributions received from		
Canadian Air Transport Security Authority	365,055	13,479
Northern Development Initiative Trust	38,367	-
Amortization	(1,312,006)	(1,311,367)
	<u>\$ 19,736,111</u>	<u>\$ 20,644,695</u>

9. COMMITMENTS

The Authority has a 60 year lease of the Prince George airport facilities with Transport Canada which expires in 2063, with an option to renew for an additional 20 years. At the end of the renewal term, unless otherwise extended, the Authority is obligated to return control of the airport to the landlord. The rent is calculated based on a formula reflecting annual gross revenues less Government contributions, with the first \$5,000,000 exempt from the calculation. The formula is applied at a rate of 1% of adjusted gross revenues in excess of \$5,000,000 and 5% of adjusted gross revenues in excess of \$10,000,000, up to \$25,000,000. Rent charged for 2016 was \$203,748 (2015 - \$149,138).

Notes to the Financial Statements

Year ended December 31, 2016

10. INVESTED IN CAPITAL ASSETS

	2 0 1 6	2 0 1 5
Opening balance	<u>\$ 20,448,023</u>	<u>\$ 16,041,789</u>
Capital asset additions, including construction in progress	2,369,380	16,674,022
Capital asset disposals	(36,609)	(7,679)
Payment (proceeds) of: Long-term debt and deferred contributions related to additions	<u>5,635,093</u>	<u>(10,958,808)</u>
	<u>7,967,864</u>	5,707,535
Amortization	(3,356,302)	(2,612,668)
Amortization of deferred contributions related to capital assets	<u>1,312,006</u>	<u>1,311,367</u>
	<u>(2,044,296)</u>	<u>(1,301,301)</u>
Closing balance	<u>\$ 26,371,591</u>	<u>\$ 20,448,023</u>

11. AIRPORT IMPROVEMENT FEE (“AIF”)

On January 30, 2003 the Authority entered into an agreement (the “AIF Agreement”) with the Air Transport Association of Canada and major air carriers serving the Prince George International Airport. The AIF Agreement provides for a consultation process with the air carriers on airport development as well as the collection of an AIF by air carriers. AIF revenues can only be used to pay for airport passenger service facilities development and related financing costs. Earned AIF is net of a 7% handling fee withheld by the airlines.

12. UNRESTRICTED NET ASSETS

Of the \$2,461,590 (\$3,759,846 – December 31, 2015) of unrestricted net assets, \$1,041,000 (\$914,000 – December 31, 2015) is associated with the defined benefit asset as shown on the statement of financial position as at December 31, 2016. In accordance with the terms of the pension plan, the Authority is not able to utilize this asset to pay any regular or other contributions.

13. PENSION PLAN

The Authority sponsors a pension plan on behalf of its employees, which has defined benefit and defined contribution components. The defined contribution component of the pension plan currently has 25 (December 2015 – 24) participating employees. The defined benefit component of the pension plan has 2 participating employees. The Authority pension contributions for the defined contribution component was \$93,964 in 2016 (\$94,086 – 2015) and the defined benefit component was \$105,305 in 2016 (\$170,240 – 2015). The defined benefit component applies to employees employed by the Authority on the date of airport transfer, including former Transport Canada employees who may elect to transfer their pensionable service credits under the Public Service Superannuation Act plan to the Authority plan.

Notes to the Financial Statements

Year ended December 31, 2016

13. PENSION PLAN (continued)

Information about the Authority's defined benefit plan contained in the actuarial report prepared as at December 31, 2016 is as follows:

	2 0 1 6	2 0 1 5
Market value of plan assets	\$ 3,694,000	\$ 3,569,000
Accrued defined benefit obligation	(2,653,000)	(2,655,000)
Defined benefit asset	\$ 1,041,000	\$ 914,000

The significant actuarial assumptions adopted in measuring the Authority's accrued benefit obligations are as follows:

	2 0 1 6	2 0 1 5
Discount rate	4.75%	5.25%
Rate of compensation increase	2.50%	3.00%
Rate of inflation	2.00%	2.50%

Other information about the Authority's defined benefit plan is as follows:

	2 0 1 6	2 0 1 5
Employer contribution	\$ 104,000	\$ 149,000
Employees' contribution	5,000	5,000
Benefits paid	133,000	133,000

Plan assets consist of:

Equity securities	56.0%	59.2%
Debt securities	34.9%	32.8%
Other	9.1%	8.0%

Notes to the Financial Statements

Year ended December 31, 2016

14. CAPITAL MANAGEMENT

The Authority's objectives when managing capital are to safeguard the entity's ability to operate and develop the airport in a high quality manner while maintaining reasonable rates and charges for its users. The Authority meets this objective by generating adequate resources from operations to minimize the need for long-term debt financing.

The Authority determines the amount of capital that may be required by monitoring the long-term airport infrastructure development plans to meet the needs of passengers, tenants and other airport users and stakeholders. The Authority maintains and manages an internally restricted fund in anticipation of those plans. Under its borrowing agreements, the Authority must satisfy certain restrictive covenants. During the year, the Authority complied with all such covenants.

15. FINANCIAL INSTRUMENTS

Interest rate risk

The interest rate risk is the risk to the Authority's earnings from fluctuations in interest rates and the degree of volatility of these rates. The Authority does not use derivative instruments to reduce its exposure to interest rate risk.

Liquidity risk

Liquidity risk is the risk of being unable to meet a demand for cash or fund obligations as they come due. It stems from the possibility of the lender demanding repayment in full of their demand loans.

The Authority manages its liquidity risk by constantly monitoring forecasted and actual cash flow and financial liability maturities, and by holding assets that can be readily converted into cash.

Accounts payable and accrued liabilities are generally repaid within 30 days. As at December 31, 2016, the most significant financial liabilities are bank demand loans, accounts payable and accrued liabilities and long-term debt.

Financial assets

The Authority's financial assets consist of cash, accounts receivable and investments. All of these financial assets are measured at amortized cost.

Credit risk

The Authority is subject to credit risk through its accounts receivable. A significant portion of the Authority's revenues, and resulting receivable balances, are derived from airlines. The Authority performs ongoing credit valuations of receivable balances and maintains provisions for potential credit losses. The Authority does not have significant exposure to any individual customer.

16. OTHER INFORMATION

During the year ended December 31, 2016, the fees paid to the Board of the Authority for their services as directors amounted to \$100,717 (2015 - \$110,000).

Capital Initiatives and Business Plan

During 2016 the Prince George Airport invested in capital projects totalling \$1.95 million; significant projects completed in 2016 included:

	Thousands \$
Runway overlays	61.9
Apron I paving	1,208.7
Replace PAPI 33	56.9
Runway 06-24 rehabilitation & lighting	109.0
Groundside engineering	68.7
Airport zoning	38.6
Parking pay machines upgrade	14.6
Fuel trucks (2)	180.0
Security / IT	75.4

2016 Actual vs. Business Plan

Shown in thousands of dollars.

	Actual	Plan	Difference	Explanation
Revenues	\$12,710.5	\$13,538.3	\$-827.8	Variance largely attributable to reduced aeronautical revenues related to loss of scheduled flights.
Expenses	\$6,637.8	\$7,661.6	\$-1,023.8	Variance mainly attributable to savings in employee salaries, fuel and contracted service costs.
Capital	\$1,951.5	\$4,010.0	\$-2,058.5	Timing due to reallocation of projects to subsequent years; and projects started, but not complete at year end.

Business Plan Cash Flow Forecast 2017 - 2021

Shown in thousands of dollars.

YEAR	2017	2018	2019	2020	2021
Revenues	13,070.4	13,331.8	13,598.4	13,870.4	14,147.8
Expenses	7,707.0	7,861.1	8,018.3	8,178.7	8,342.3
Capital	5,382.2	12,397.0	3,983.1	9,272.7	3,197.0

Assumptions:

1. Forecasted revenues and expenses assume annual growth of 2%.
2. Amortization is not included.



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