



YXS

prince george airport authority 

PEOPLE

The Core of Our Business

2017 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 (YXS) has seen healthy steady growth in our passenger numbers over the years. Prince George's economy is extremely diverse which bodes well for a steady increase in passenger traffic. 2017 was a record year for YXS, with a total of 499,125 people enplaning and deplaning; an increase of 8% over the previous year. With Prince George's population steady around the 72,000 mark, airport traffic numbers show just how important air service is for both business and leisure travel.

The Prince George Airport Authority continues to look to the future in terms of terminal enhancements, new routes and opportunities to enhance the passenger experience at YXS. We look forward to being a key economic driver and being a part of Prince George's bright future.



PASSENGER TRAFFIC RECORD!
499,125



2017 Highlights



Chairman and CEO Report

2017 was a memorable year as we nearly hit half a million passengers.

The Prince George Airport Authority (PGAA) had very strong financial operating results in 2017, as we have for the past eight years.

Our long-term capital requirements to maintain the infrastructure we inherited from the federal government continue to exceed our long term financial capacity. We continue to solicit the federal and provincial governments for assistance.

In 2017 the provincial government came forward with 50% of the funding required to rehabilitate our main air terminal building apron and construct an elevator from our parking lot to the main arrival/departure areas. We continue to apply for funding from the federal government to rehabilitate runway 01/19 and Aprons 3 and 4. We anticipate that will return the Prince George Airport Authority tangible results in 2018. Since 2003, when the PGAA took over the responsibility for the airport, \$93 million of capital has been invested in expansion and rehabilitation.

The PGAA continues to improve safety and increase capacity at the Prince George Airport (YXS). In 2017, the PGAA invested \$4.6 million in major capital development. The largest project was the rehabilitation of the main aircraft parking area at the terminal. Phase two of a two-phase program was completed in 2017 which came in at \$1.1 million. Airport office space expansion, rehabilitation of the terminal roof, the start of a new elevator and stairs vestibules, and an upgrade to the baggage screening system were other capital projects undertaken in 2017. All projects requiring a Canadian Environmental Assessment Act review have had the review conducted. Assessment reviews are available on request.

2017 was a strong financial year for the Prince George Airport (YXS). Passenger traffic rising to 499,150 was an 8% improvement from 2016. We were just short of the half a million mark. The traffic growth was spurred by the summer wildfires as people who normally drove, flew. The growth continued through the last quarter of the year driven by the economy. Aircraft movements were similar to 2016 at 40,511.

In 2017, the PGAA posted net earnings before other income of \$1,981,381. This is the eighth 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 \$4,574,780. The surplus can be attributed to increased flights, passengers and air tanker revenue along with strong continued cost management. Another mild winter also helped to keep winter maintenance costs low in early 2017.

Air service development remains a key priority for the PGAA. The year 2017 saw Central Mountain Air build YXS as a hub for BC flights with route additions to Edmonton and Dawson Creek. In December, WestJet announced the return of Calgary in June 2018.

On the airport operations side of the business, the Authority hosted training for wildlife control, quality assurance training, and aircraft movement surface condition reporting. Our 3-year safety

management system quality assurance audit and 2-year OLS survey and obstacle removal were completed.

The PGAA's emergency response division increased collaboration with the City of Prince George Emergency Services and attended an emergency communications tabletop hosted by the City. A new emergency response vehicle for YXS was also ordered with delivery to take place in 2018 at a projected cost of \$1.4 million.

Our Director of Operations, Cuyler Green, left the PGAA and accepted a promotion at the Ft. McMurray Airport as their VP of Operations.

The Airport Authority strives to offer 'Best in Class' customer service. In 2016 we implemented an Airport Service Quality measurement program, which benchmarked surveyed responses from various airports around North America. The Prince George Airport participated in the program again in 2017. The average score from the traveling public at YXS in both years 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. This accessibility friendly project started in 2017 and will be complete in the spring of 2018.

Several customer service initiatives were implemented in 2017 including installing water bottle filling stations in the departure lounge and main foyer. Touchless water faucets were also installed in all public washrooms and the YXS Gallery Program was also refreshed this past year with new art on display.

To complement cargo development, the PGAA worked with the City of Prince George in its application for Foreign Trade Zone designation. This designation will 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 support foreign investment in the region and provide opportunities for international cargo operations in the future.

The PGAA stays connected with the community through social media and presentations to local organizations, boards, city and regional councils.

This past summer's historic wildfire season saw 262 fires across 77 days resulting in the evacuation of over 45,000 people. Nearly 10,000 evacuees sought refuge in Prince George. The Prince George Airport participated in the relief through the air tanker base, relief flights with fire crews and supplies, storing Red Cross supplies in the PGAA cargo facility, and providing air access for evacuees to leave the region. The air carriers provided special evacuee fares, while the airport provided free parking.

The Prince George Airport Authority is also a tremendous community supporter through the work airport volunteers provide various charities. 2017 was a record year for funds raised through our annual charity golf tournament. Over \$25,000 was raised for Hope

Air, which arranges free flights for children seeking medical help in other communities.

Donations were also given to the Spirit of the North Healthcare Foundation, the Salvation Army, Native Friendship Center, Kelly Road Senior Secondary Dry Grad, Blackburn Community Association, Spruce City Wildlife Association, PG Public Library, BC Aviation Council, CIBC Run for the Cure and many others.

PGAA 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 2018, we continue to develop our cargo, fueling and land development businesses. The City of Prince George is a significant partner in obtaining Foreign Trade Zone status for the City and Airport which will enhance future inland port initiatives.

We also aim to grow our passenger business by targeting new routes. With John Gibson's previous role as Canadian Airports Council Chair, we continue to push the federal government for

funding for safety related capital programs, which would support operations at YXS. We are extremely hopeful funding will be available in 2018 from the federal government. The PGAA was successful with the provincial government in obtaining funding through the BC Air Access Program in 2017. Northern Development Initiative Trust has been a supporter of economic development initiatives that came to fruition in 2017. These included parking equipment upgrades, office space expansion and holding room gate upgrade which will be complete in 2018.

There are 12 board of director positions on the Prince George Airport Authority Board. At present there are 12 board members. In 2017, two federal government positions remained vacant, while a new federal government nominating process was being developed. Michelle Marrelli and Mitch Houg resigned during the year due to other commitments. Board members remain very active serving on six committees: Governance, Finance and Audit, Human Resources, Economic Development, Major Projects and Environmental, and Airline and Community Consultation.

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



Diane Bertram
Director of Finance and Administration



Allan Ridgway
Consultant Cargo Business Development



Lindsay Cotter
Manager of Marketing and Communications



Trevor Gust
Acting Manager of Operations



Michelle Kenny
Manager of Corporate Services



Veronica Laass
Accounting Manager



Robin Smith
Executive Assistant



Sara Viveiros
Manager of Operations Planning

Corporate Governance

The Mission of the Prince George Airport Authority is to 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.

The primary responsibility of the Board of Directors ('Board') is to foster the long-term success of the Prince George Airport Authority ('Authority') consistent with the Board's responsibilities to the communities it serves.

The Board has the responsibility to oversee the conduct of the business of the Authority and to direct and oversee management which is responsible for the day-to-day conduct of business. In performing its functions, the Board also considers the legitimate interests which others such as employees, suppliers, customers and communities have in the Authority. In overseeing the conduct of the business, the Board, through the President & CEO, will set the standards of conduct for the Authority and ensure the safety of its operations.

Board of Directors

The Prince George Airport Authority is governed by a board consisting of 12 directors nominated by the following entities:

Nominating Entities	Number of Board Positions
Government of Canada	2
Province of British Columbia	1
Regional District of Fraser-Fort George	2
City of Prince George	3
Prince George Chamber of Commerce	1
Prince George Airport Authority	3

The Prince George Airport Authority has the ability to appoint up to three additional directors, at the discretion of the Board. Each board member may serve up to a total of 9 years on the board.



Dean Mason
Chair - Board of Directors
Nominated by City of Prince George
Attendance 8/8 Board*



Blair Mayes
Vice Chair – Board of Directors
Chair – Economic Development Committee
Nominated by Prince George Airport Authority
Attendance 6/8 Board, 11/14 Committee



Al Leier
Secretary - Board of Directors
Nominated by Prince George Airport Authority
Attendance 8/8 Board, 9/12 Committee



Don Zurowski
Treasurer - Board of Directors
Chair - Finance and Audit Committee
Nominated by Prince George Airport Authority
Attendance 8/8 Board, 16/20 Committee



Jennifer Brandle-McCall
Chair – Governance Committee
Nominated by Prince George Airport Authority
Attendance 8/8 Board, 7/8 Committee



Emily Cheung
Chair – Major Projects and Environmental Committee
Nominated by Regional District of Fraser-Fort George
Attendance 6/8 Board, 6/6 Committee



Alice Downing
Chair – Human Resources Committee
Nominated by Prince George Airport Authority
Attendance 7/8 Board, 11/11 Committee



Ranjit Gill
Chair – Airline and Community Consultation Committee
Nominated by Prince George Chamber of Commerce
Attendance 8/8 Board, 3/3 Committee



Tejinder Grewal
Director
Nominated by City of Prince George
Attendance 3/8 Board, 3/3 Committee



Mitch Houg
Director
Nominated by City of Prince George
Attendance 4/4 Board, 5/8 Committee
Term ended September 2017



Michelle Marrelli
Director
Nominated by Federal Government
Attendance 2/4 Board, 4/5 Committee
Term ended June 2017



Derek Dougherty
Director
Nominated by Regional District of Fraser-Fort George
Attendance 2/3 Board, 3/4 Committee
Term commenced August 2017

*The Board Chair attends all committee meetings as required.

Skills and Experience

Directors on the Board collectively possess skills, experiences and expertise that will help advance the mandate and mission of the Airport Authority while demonstrating governance best practices and fiscal responsibility. In addition, they include at least one representative from each of: the business community, organized labour, and consumer interests.

Committees

The work of the Board was supported by six committees in 2017, consisting entirely of independent directors. The following committees meet regularly throughout the year:

- Airline and Community Consultation Committee
- Audit and Finance Committee
- Governance and Nominating Committee
- Human Resources Committee
- Major Projects and Environment Committee
- Economic Development Committee

Accountability

The Prince George Airport Authority is acutely aware of the trust that has been placed in it by the community and its stakeholders. The Board of Directors has adopted a Code of Conduct. Board members review and sign annual disclosures of potential conflicts of interest while adhering to the Board's Conflict of Interest policy guidelines throughout the year.

Maintaining transparency and openness with the public is an integral piece of good governance. The Board of Directors adheres to bylaw 17.3 (a) which states that contracts in excess of a total value of \$75,000 (subject to annual adjustment for inflation according to the Consumer Price Index based on 1994 dollars) shall be awarded based on a public tendering process. For 2017, the adjusted value was \$114,877 and all contracts valued at or over this value were awarded by bid.

Compensation

The compensation of the Board is reviewed annually by the Governance Committee. In 2017 the officers of the corporation and directors received the following annual retainers:

Chair	\$ 12,000
Vice Chair	\$ 5,000
Secretary	\$ 4,500
Treasurer and Chair Finance Committee	\$ 5,500
Chair Governance Committee	\$ 6,500
Chair Human Resources Committee	\$ 6,500
Chair Major Projects & Environment Committee	\$ 5,500
Chair Airlines and Community Consultation Committee	\$ 4,500
Board Members	\$ 3,500

*All Board members receive \$200 per Board and Committee meeting attended

Acting upon the recommendation of the Human Resources and Compensation Committee, the Board has the responsibility to approve the appointment and compensation of senior management, to approve the total compensation arrangements for excluded staff, and to ensure that plans are made for management succession and development. The combined salaries of the senior managers including President and CEO, Director of Finance and Administration and Director of Operations in the year 2017 was \$467,533.

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, 2017 and the statements of operations, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the 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, 2017 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

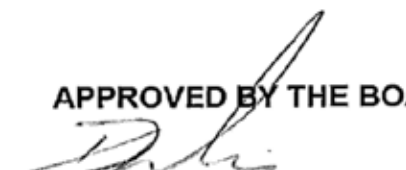
Prince George, British Columbia
April 5, 2018

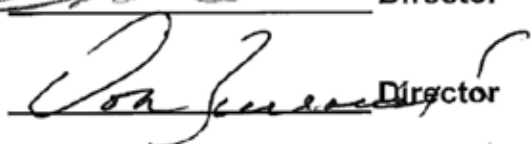
Statement of Financial Position

As at December 31, 2017

	2 0 1 7	2 0 1 6
CURRENT ASSETS		
Cash	\$ 382,275	\$ 730,182
Investments	7,201	110
Accounts receivable (Note 3)	2,235,750	1,565,421
Government remittances receivable	8,211	-
Inventory	37,238	25,113
Prepaid expenses	410,284	346,126
	<u>3,080,959</u>	2,666,952
CAPITAL ASSETS (Note 4)	64,686,516	63,645,817
DEFINED BENEFIT ASSET (Note 13)	1,194,000	1,041,000
	<u>\$ 68,961,475</u>	<u>\$ 67,353,769</u>
CURRENT LIABILITIES		
Bank demand loans (Note 5)	\$ 4,819,357	\$ 6,693,525
Accounts payable and accrued liabilities (Note 6)	2,028,712	1,243,827
Government remittances payable	7,002	10,914
Deferred revenue and deposits	10,934	10,836
Current portion of long-term debt (Note 7)	1,261,209	1,261,209
	<u>8,127,214</u>	9,220,311
LONG-TERM DEBT (Note 7)	8,302,957	9,564,166
DEFERRED CONTRIBUTIONS RELATED TO CAPITAL ASSETS (Note 8)	19,123,343	19,736,111
	<u>35,553,514</u>	38,520,588
COMMITMENTS (Note 9)		
NET ASSETS		
Invested in capital assets (Note 10)	31,160,645	26,371,591
Restricted airport improvement fee (Note 11)	-	-
Unrestricted (Note 12)	2,247,316	2,461,590
	<u>33,407,961</u>	28,833,181
	<u>\$ 68,961,475</u>	<u>\$ 67,353,769</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, 2017

	2 0 1 7	2 0 1 6
Revenue		
Concessions	\$ 158,793	\$ 137,416
General terminal charges	1,544,093	1,441,506
Landing fees	2,793,053	2,435,847
Other	1,642,829	1,237,765
Parking	1,838,154	1,796,082
Rentals	837,919	826,533
	<u>8,814,841</u>	<u>7,875,149</u>
Expenses		
Administration	811,355	982,429
Insurance	196,536	192,319
Operations	2,427,616	2,203,934
Property taxes	274,311	278,736
Salaries and employee benefits	2,711,862	2,608,591
Utilities	411,780	371,775
	<u>6,833,460</u>	<u>6,637,784</u>
Operating surplus	<u>1,981,381</u>	<u>1,237,365</u>
Other revenue (expense)		
Airport improvement fee (net) (Note 11)	5,202,277	4,835,380
Amortization of deferred contributions related to capital assets (Note 8)	1,356,067	1,312,006
Amortization - capital assets	(3,535,475)	(3,356,302)
(Loss) gain on disposal of assets	(34,996)	11,336
Interest on long-term debt	(446,474)	(505,675)
Remeasurement of pension benefit assets	52,000	15,000
	<u>2,593,399</u>	<u>2,311,745</u>
EXCESS OF REVENUE OVER EXPENSES	<u><u>\$ 4,574,780</u></u>	<u><u>\$ 3,549,110</u></u>

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

Statement of Changes in Net Assets

Year ended December 31, 2017

	Invested in Capital Assets (Note 10)	Restricted Airport Improvement Fee (Note 11)	Unrestricted	2017	2016
Balance, beginning of year	\$ 26,371,591	\$ -	\$ 2,461,590	\$ 28,833,181	\$ 25,284,071
Excess of revenue over expenses	-	4,755,803	(181,023)	4,574,780	3,549,110
Capital asset additions	4,611,381	(4,611,381)	-	-	-
Book value of capital asset disposals	(34,996)	-	34,996	-	-
Net repayment of bank demand loan and subsidies	2,392,077	(144,422)	(2,247,655)	-	-
Amortization of capital assets	(3,535,475)	-	3,535,475	-	-
Amortization of deferred contributions	1,356,067	-	(1,356,067)	-	-
Balance, end of year	\$ 31,160,645	\$ -	\$ 2,247,316	\$ 33,407,961	\$ 28,833,181

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

Statement of Cash Flows

Year ended December 31, 2017

	2 0 1 7	2 0 1 6
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenue over expenses	\$ 4,574,780	\$ 3,549,110
Items not affecting cash		
Amortization	3,535,475	3,356,302
Loss (gain) on disposal of assets	34,996	(11,336)
Amortization of deferred contributions related to capital assets	(1,356,067)	(1,312,006)
Defined benefit adjustment	(153,000)	(127,000)
	<u>6,636,184</u>	5,455,070
Changes in non-cash operating working capital		
Accounts receivable	(670,329)	(361,693)
Government remittances receivable	(8,211)	60,578
Inventory	(12,125)	(7,437)
Prepaid expenses	(64,158)	17,460
Accounts payable and accrued liabilities	785,104	(1,436,665)
Government remittances payable	(3,912)	5,846
Deferred revenue and deposits	98	(134,344)
	<u>6,662,651</u>	3,598,815
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital asset additions	(4,611,381)	(2,369,380)
Proceeds on disposal of capital assets	-	29,020
Increase in investments	(7,100)	(2)
	<u>(4,618,481)</u>	(2,340,362)
CASH FLOWS FROM FINANCING ACTIVITIES		
Bank demand loan proceeds	-	759,360
Repayment of bank demand loans	(1,874,168)	(5,536,668)
Repayment of long-term debt	(1,261,209)	(1,261,209)
Increase in deferred contributions related to capital assets	743,300	403,424
	<u>(2,392,077)</u>	(5,635,093)
NET DECREASE IN CASH	(347,907)	(4,376,640)
CASH, BEGINNING OF YEAR	730,182	5,106,822
CASH, END OF YEAR	\$ 382,275	\$ 730,182

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

Notes to the Financial Statements

Year ended December 31, 2017

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 the exception of investments which are measured at amortized cost less reduction for impairment.

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.

Investments

The Authority investments are accounted for on the amortized cost basis less any reduction for impairment.

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.

Notes to the Financial Statements

Year ended December 31, 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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%
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 the carrying value exceeds the total undiscounted cash flows expected from the use and eventual disposition of the item. 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.

Notes to the Financial Statements

Year ended December 31, 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 7	2 0 1 6
Accounts receivable	\$ 2,388,315	\$ 1,717,986
Allowance for doubtful accounts	<u>(152,565)</u>	<u>(152,565)</u>
	<u>\$ 2,235,750</u>	<u>\$ 1,565,421</u>

Notes to the Financial Statements

Year ended December 31, 2017

4. CAPITAL ASSETS

			2017		2016	
	Cost	Accumulated Amortization	Net Book Value			
Land	\$ 15,693,035	\$ -	\$ 15,693,035			15,654,236
Leasehold improvements						
Buildings	22,132,338	8,252,960	13,879,378			13,749,988
Parking facilities and roadway systems	5,451,595	3,179,783	2,271,812			2,470,680
Fuel farm	2,960,884	486,710	2,474,174			2,460,264
Other	1,879,300	429,726	1,449,574			505,037
Runway	35,509,861	10,383,955	25,125,906			25,641,013
Computer hardware and software	445,806	278,286	167,520			159,145
Vehicles	158,187	93,550	64,637			84,411
Machinery and other equipment	5,515,790	3,594,778	1,921,012			1,956,162
Construction in progress/ equipment not in use	1,639,468	-	1,639,468			964,881
	\$ 91,386,264	\$ 26,699,748	\$ 64,686,516	\$		63,645,817

5. BANK DEMAND LOANS

	2017		2016	
CIBC demand instalment loan - repayable in monthly instalments of \$18,333 plus interest at prime rate (3.2% per annum - December 31, 2017) and bankers acceptances stamping fee of 1.5%. Secured as described below, and maturing in 2041.		4,819,357		5,039,359
CIBC demand revolving loan	\$ -	\$	\$	1,654,166
	\$ 4,819,357	\$	\$	6,693,525

The Authority has a \$500,000 operating line of credit bearing interest at the prime rate (December 31, 2017 – 3.2%), 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
\$	220,000	\$ 220,000	\$ 220,000	\$ 220,000	\$ 220,000

Notes to the Financial Statements

Year ended December 31, 2017

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2 0 1 7	2 0 1 6
Trade payables	\$ 1,546,407	\$ 839,260
Payroll accruals	482,305	404,567
	<u>\$ 2,028,712</u>	<u>\$ 1,243,827</u>

7. LONG-TERM DEBT

	2 0 1 7	2 0 1 6
Northern Development Initiative Trust, unsecured, bearing interest at prime rate (3.2% per annum - December 2017), monthly payments of \$105,101 plus interest	\$ 9,564,166	\$ 10,825,375
Current portion	<u>1,261,209</u>	<u>1,261,209</u>
	<u>\$ 8,302,957</u>	<u>\$ 9,564,166</u>

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.

	2 0 1 7	2 0 1 6
Opening balance	\$ 19,736,111	\$ 20,644,695
Contributions received from (refunded to)		
British Columbia Air Access	500,000	-
Canadian Air Transport Security Authority	137,494	365,055
Northern Development Initiative Trust	105,805	38,367
Amortization	<u>(1,356,067)</u>	<u>(1,312,006)</u>
	<u>\$ 19,123,343</u>	<u>\$ 19,736,111</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 2017 was \$269,678 (2016 - \$203,748).

Notes to the Financial Statements

Year ended December 31, 2017

9. COMMITMENTS (continued)

During the year, the Authority has committed to a capital project costing approximately \$2,998,501. A remaining balance of \$1,930,465 is to be spent by the expected completion date of May 31, 2018.

10. INVESTED IN CAPITAL ASSETS

	2 0 1 7	2 0 1 6
Opening balance	<u>\$ 26,371,591</u>	<u>\$ 20,448,023</u>
Capital asset additions, including construction in progress	4,611,381	2,369,380
Capital asset disposals	(34,996)	(36,609)
Payment of: Long-term debt and deferred contributions related to additions	<u>2,392,077</u>	<u>5,635,093</u>
	<u>6,968,462</u>	<u>7,967,864</u>
Amortization	(3,535,475)	(3,356,302)
Amortization of deferred contributions related to capital assets	<u>1,356,067</u>	<u>1,312,006</u>
	<u>(2,179,408)</u>	<u>(2,044,296)</u>
Closing balance	<u>\$ 31,160,645</u>	<u>\$ 26,371,591</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 \$2,247,316 (\$2,461,590 – December 31, 2016) of unrestricted net assets, \$1,194,000 (\$1,041,000 – December 31, 2016) is associated with the defined benefit asset as shown on the statement of financial position as at December 31, 2017. 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.

Notes to the Financial Statements

Year ended December 31, 2017

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 24 (December 2016 – 25) participating employees. The defined benefit component of the pension plan has 2 participating employees. The Authority pension contributions for the defined contribution component was \$96,950 in 2017 (\$93,964 – 2016) and the defined benefit component was \$98,828 in 2017 (\$105,305 – 2016). 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.

Information about the Authority's defined benefit plan contained in the actuarial report prepared as at December 31, 2017 is as follows:

	2 0 1 7	2 0 1 6
Market value of plan assets	\$ 3,922,000	\$ 3,694,000
Accrued defined benefit obligation	(2,728,000)	(2,653,000)
Defined benefit asset	\$ 1,194,000	\$ 1,041,000

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

	2 0 1 7	2 0 1 6
Discount rate	4.50%	4.75%
Rate of compensation increase	2.50%	2.50%
Rate of inflation	2.00%	2.00%

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

	2 0 1 7	2 0 1 6
Employer contribution	\$ 94,000	\$ 104,000
Employees' contribution	5,000	5,000
Benefits paid	(131,000)	(133,000)

Plan assets consist of:

Equity securities	56.3%	56.0%
Debt securities	34.5%	34.9%
Other	9.2%	9.1%

Notes to the Financial Statements

Year ended December 31, 2017

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, 2017, 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, with the exception of investments which are measured at cost less any reduction for impairment.

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, 2017, the fees paid to the Board of the Authority for their services as directors amounted to \$101,055 (2016 - \$100,717).

17. COMPARATIVE FIGURES

Certain of the prior year's comparative figures have been reclassified to conform to the current year's presentation.

Capital Initiatives and Business Plan

During 2017 the Prince George Airport invested in capital projects totalling \$4.6 million; significant projects completed in 2017 included:

	Thousands \$
Runway overlays	92.3
Apron I concrete cement replacement	1,080.7
Elevator barrier free access to long term parking	1,033.2
Mini loader	177.9
Oshkosh snow blower	703.3
Varec fuel management system	122.6
Utility rehabilitation	203.1
Terminal building roof replacement	223.5
Terminal building office renovation	306.6

2017 Actual vs. Business Plan

Shown in thousands of dollars.

	Actual	Plan	Difference	Explanation
Revenues	\$14,017.1	\$13,200.4	\$816.7	Variance largely attributable to increased flights resulting from significant fire activity and increased passenger traffic in 2017.
Expenses	\$7,279.9	\$8,177.5	\$-897.6	Variance mainly attributable to savings in employee salaries, supplies and fuel usage.
Capital	\$4,611.4	\$8,551.4	\$-3,940.0	Timing due to projects started, but not complete at year end.

Business Plan Cash Flow Forecast 2018 - 2022

Shown in thousands of dollars.

YEAR	2018	2019	2020	2021	2022
Revenues	13,706.4	13,980.5	14,186.7	14,470.4	14,759.8
Expenses	8,594.2	8,766.1	8,941.4	9,120.2	9,302.6
Capital	6,406.0	7,428.1	6,959.7	5,876.0	4,897.0

Assumptions:

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



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