



Paving the Way for the Future

2018 Annual Report





Table of Contents

Introduction	3
2018 Highlights	4
Chairman and CEO Report	5
Executive Team	7
Corporate Governance	8
Auditor's Report	10
Financial Statements	12
Capital Initiatives and Business Plan	25

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.

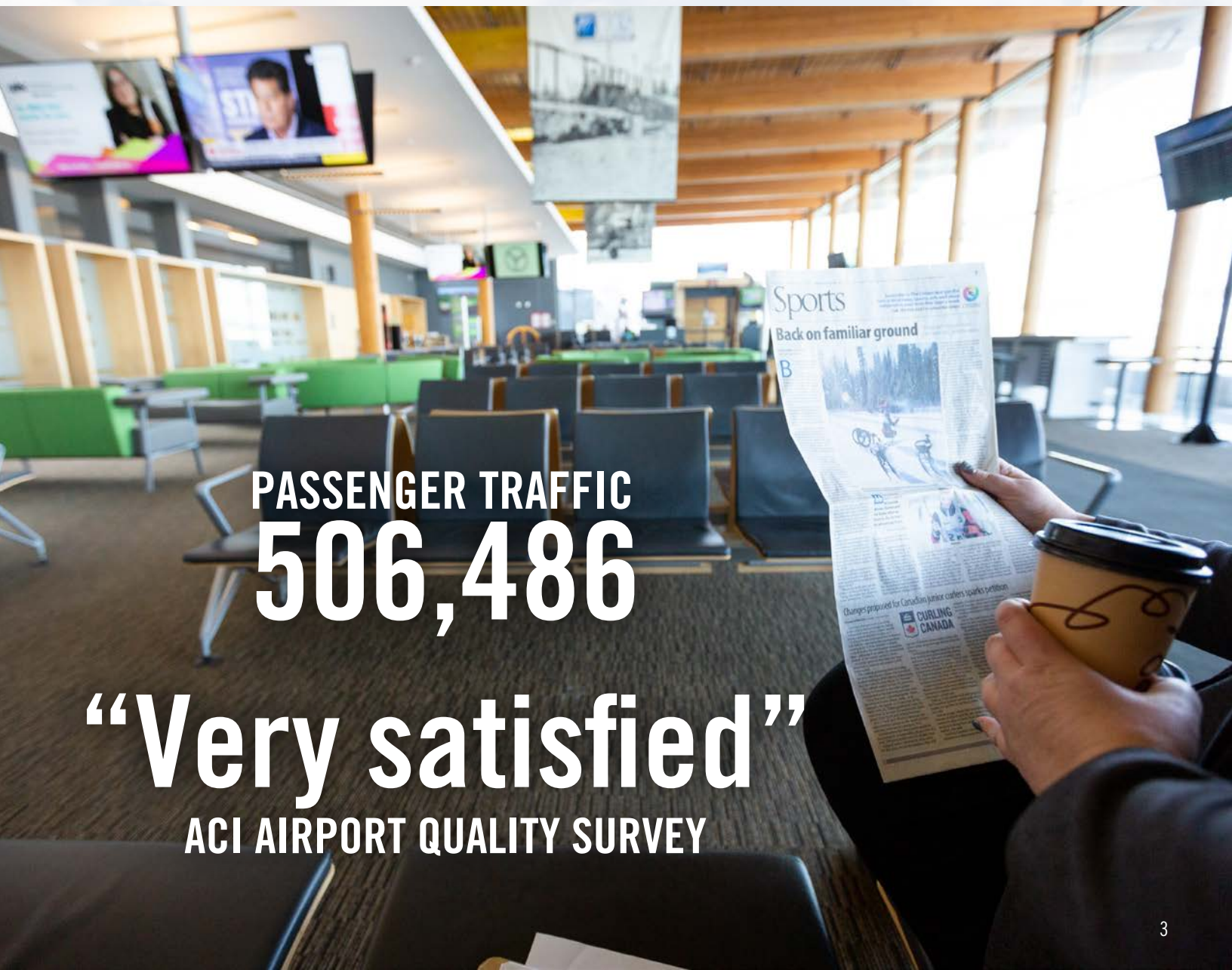
Introduction

The Prince George Airport had a year of impressive accomplishments. Traffic hit an all-time record of 506,486 passengers - the highest in 77 years of operations on the site. After years of lobbying, we were awarded \$2.3 million from the National Trade Corridors Fund for the rehabilitation of runway 01/19 and aprons 3 and 4. Our elevator and covered stairs opened in August, improving passenger accessibility, and the addition of a new Oshkosh airport rescue and firefighting vehicle boosts our rapid-response capability and enhances passenger safety.

Our results of Airport Council International's survey on Airport Service Quality, which questions passengers during their travel experience, showed that customers were "very satisfied" with Prince George Airport. For the third consecutive year, we

outperformed other airports in our category. We use insights from this research to improve our facilities and better serve our passengers, partners and community.

In 2018, we welcomed WestJet Link's non-stop service to Calgary, operated by Pacific Coastal Airlines. At year end, four airlines offered scheduled services from YXS to 12 destinations, including Vancouver, Edmonton, Victoria, Calgary and, seasonally, Puerto Vallarta. In excess of 28 businesses with over 200 employees are based at the airport, including charter and helicopter companies, aircraft maintenance providers and government agencies. We look forward to a successful 2019, continuing to be a gateway and economic driver for our region.



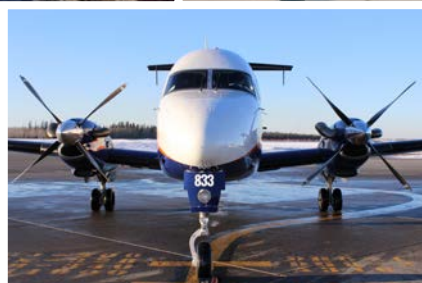
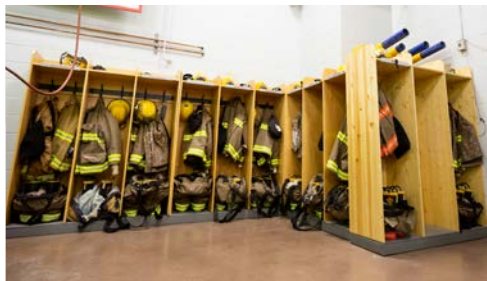
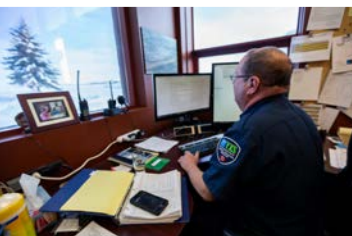
PASSENGER TRAFFIC

506,486

“Very satisfied”

ACI AIRPORT QUALITY SURVEY

2018 Highlights



Chairman and CEO Report

2018 was a memorable year as we exceeded half a million passengers.

The Prince George Airport Authority (PGAA) had very strong financial operating results in 2018, as we have for the past nine years. However, the long-term capital required to maintain the infrastructure inherited from the federal government exceeds our long-term financial capacity. We continue to solicit the federal and provincial governments for assistance.

In 2018 the Federal Government awarded 2.3 million dollars in funding towards the rehabilitation of runway 01/19 and aprons 3 and 4. Since the PGAA took over the responsibility for the airport in 2003, \$99 million of capital has been invested in expansion and rehabilitation.

Although a regular wide-body program has not yet landed, the long runway provides daily benefits for our air carriers. The carriers save fuel by having more efficient engine settings for take-off and shorter, more direct taxiing routes. The high intensity centerline lighting has increased airlines' operating reliability which reduced irregular operations costs. Improved schedule reliability has increased the number of businesses establishing offices in Prince George. The 2015 Canada Winter Games selections committee understood the reliability and capacity offered by the runway/apron configuration.

The PGAA continues to offer large aircraft the ability to land for refueling (like Western Global in February 2019) and other special occasions such as Cargojet for the winter games, the Antonov helicopter lift and potential pipeline servicing.

The PGAA continues to improve safety and increase capacity at YXS. During 2018, PGAA invested \$6.4 million in major capital projects. The largest project was the construction of the elevator and covered stairs from the parking lot. Repaving the staff parking area, reconstruction of the sewer lift house, and re-roofing the administration building were other major projects.

We have conducted reviews for all projects requiring a Canadian Environmental Assessment Act review, and the assessment reports are available on request.

Passenger traffic rose to just over 500,000. The traffic growth was driven by the strong economy. Aircraft movements were up 10% from 2017, reaching 44,911 movements in 2018.

In 2018, the PGAA posted net earnings of almost \$4.5 million. The surplus is due to added flights, increased passenger and air tanker revenues, along with strong cost management. A major change was the addition of WestJet Link flights, which are operated by Pacific Coastal Airlines. Late-2018 winter was mild, which also helped to keep winter overtime and material costs low.

Air service development remains a key priority for the PGAA. The year 2018 saw the return of a daily non-stop flight to Calgary via WestJet Link. In 2019 we are anticipating a twice daily service to Victoria, excluding Saturdays, through Pacific Coastal. We are seeking other sunspot destinations and other non-stop flight options.

On the airport operations side of the business, a new Oshkosh Aircraft Rescue and Firefighting (ARFF) vehicle was purchased and put into service in October 2018. Prince George Airport Authority also purchased a new blower/sweeper combo to help with snow removal operations.

PGAA hosted instructor training for oil and gas emergency services. The Airport Operations Specialists completed OLS training, live fire training, and were certified on the new ARFF vehicle. In addition, crews received updated radio communications training, use of new extrication tools, and new procedures for handling incidents and emergency situations.

The Prince George Airport Authority strives to offer 'best in class' customer service. PGAA participated in the Airport Service Quality measurement program offered by Airport Councils International again in 2018. Our average score from travelers surveyed at YXS ranked at 'High Satisfaction', beating other benchmarked airports. Particular PGAA strengths were friendliness, efficiency, and security. The report also identified areas to work on in 2018, with the main deficiencies being poor access between the parking lot and terminal and lack of food and beverage services in the departure lounge. The Prince George Airport Authority completed the new elevator and stair vestibule in August of 2018 to improve access from the parking lot and food services are scheduled to open in the departures lounge in mid-2019.

Several other customer service initiatives were implemented in 2018, including the repaving of the road in front of the air terminal building and the installation of new television screens in the departures lounge that feature a variety of programs.

The City of Prince George was awarded the Foreign Trade Zone designation in 2018 and further delineated airport lands for the designation. This allows importers and distributors to import goods from overseas into Prince George - and the airport - without paying duties or taxes until the goods are sold or moved within North America. This program will support foreign investment in the region and provide opportunities for international cargo operations in the future, through the development of an Inland Port.

The PGAA stays connected with the community through social media and presentations to local organizations, boards, city and regional councils. In December 2018, the Prince George

Airport held a Home for the Holidays contest, flying someone home to Prince George for the Christmas holidays to spend with their family. There was also a give-away in celebration of surpassing the milestone of 500,000 passengers in a year.

The Prince George Airport Authority is also a tremendous community supporter through the work airport volunteers provide to various charities. The airport's Festival of Trees offering raised \$3800 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.

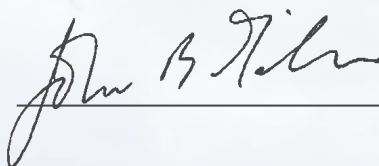
We held our 16th Annual Charity Golf Tournament in June 2018, which was a huge success. Over \$15,000 was raised for Hope Air, which arranges free flights for children seeking medical help in other communities. During 2018, funds were also donated to CIBC Run for the Cure, Salvation Army and Youth Around Prince George.

Board members and staff represent the airport both in the community and throughout Canada on several boards and committees. These include Canadian Airports Council of Chairs, as well as cargo, human resources, marketing and public relations, environmental, security, finance, and operations/safety and technical affairs sub-committees. Additional board and committee participation include the British Columbia Aviation Council and Tourism Prince George.

Looking ahead to 2019, we will continue to develop our cargo, fueling and land development businesses. Major rehabilitation programs for runway 01/19 and aprons 3 and 4 will be completed during the summer. On the groundside, PGAA will be expanding the lower parking lot, including reconstruction of the roadways adjacent to the parking lot. As mentioned earlier, a new licenced deli will be installed in our departure lounge. We also aim to grow our passenger business by targeting new routes.

There are 12 director positions on the Prince George Airport Authority Board of Directors, all of which are currently filled. In 2018, we welcomed Shauna Harper, Regina Toth, Terry Kuzma, and Bill McGill as new directors. We said goodbye with sincere thanks to two directors, Jennifer Brandle-McCall and Ranjit Gill. The Board members remained very active in 2018, serving on six committees: Governance, finance and audit, human resources, economic development, major projects and environmental, and the airline and community consultation.

We thank our board of directors' members, our employees and our partners for helping us deliver our "Best in Class" vision for the Prince George Airport.



John Gibson
President and CEO,
Prince George Airport Authority



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



Michelle Kenny
Manager of Corporate Services



Trevor Gust
Manager of Operations



Lindsay Cotter
Manager of Marketing and Communications (on leave)



Veronica Laass
Accounting Manager



Susan Clarke
Manager of Marketing, Communication and Customer Service



Geoff Stocks
Regulatory Compliance Manager



Chrisie Berry
Executive Assistant



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.



Dean Mason

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



Alice Downing

Chair – Human Resources Committee
Nominated by Prince George Airport Authority
Attendance 3/8 Board, 5/7 Committee



Blair Mayes

Vice Chair – Board of Directors
Chair – Economic Development Committee
Nominated by Prince George Airport Authority
Attendance 6/8 Board, 6/7 Committee



Ranjit Gill

Chair – Airline and Community Consultation Committee
Nominated by Prince George Chamber of Commerce
Attendance 7/8 Board, 3/3 Committee
Term ended December 31, 2018



Al Leier

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



Terry Kuzma

Director
Nominated by Prince George Airport Authority
Attendance 3/8 Board, 3/3 Committee
Term commenced March 19, 2018



Don Zurowski

Treasurer - Board of Directors
Chair - Finance and Audit Committee
Nominated by Prince George Airport Authority
Attendance 8/8 Board, 12/18 Committee



Shauna Harper

Director
Nominated by City of Prince George
Attendance 8/8 Board, 7/10 Committee
Term commenced February 1, 2018



Bill McGill

Chair – Governance Committee
Nominated by the Province of BC
Attendance 8/8 Board, 13/14 Committee



Regina Toth

Director
Nominated by Federal Government
Attendance 4/7 Board, 8/10 Committee
Term commenced March 19, 2018



Emily Cheung

Chair – Major Projects and Environmental Committee
Nominated by Regional District of Fraser-Fort George
Attendance 7/8 Board, 5/5 Committee



Derek Dougherty

Director
Nominated by Regional District of Fraser-Fort George
Attendance 7/8 Board, 5/7 Committee

*The Board Chair attends all committee meetings as required.

Board of Directors

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

Nominating Entities Positions	Number of Board
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.

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 2018, 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 2018, the adjusted value was \$117,430 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 2018 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 Prince George Airport Authority management for the 2018 year was \$791,964.

Independent Auditor's Report

To the Members of
Prince George Airport Authority Inc

Opinion

We have audited the financial statements of Prince George Airport Authority Inc (the "Authority"), which comprise the statement of financial position as at December 31, 2018, and the statements of operations, changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 2018, 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.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Organization in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte LLP

Chartered Professional Accountants

Prince George, British Columbia

April 4, 2019

Statement of Financial Position

As at December 31, 2018

	2018	2017
CURRENT ASSETS		
Cash	\$ 1,103,407	\$ 382,275
Investments	9,293	7,201
Accounts receivable (Note 3)	2,959,252	2,235,750
Government remittances receivable	-	8,211
Inventory	21,406	37,238
Prepaid expenses	437,796	410,284
	4,531,154	3,080,959
CAPITAL ASSETS (Note 4)	67,299,404	64,686,516
DEFINED BENEFIT ASSET (Note 13)	1,053,000	1,194,000
	\$ 72,883,558	\$ 68,961,475
CURRENT LIABILITIES		
Bank demand loans (Note 5)	\$ 5,586,855	\$ 4,819,357
Accounts payable and accrued liabilities (Note 6)	1,737,286	2,028,712
Government remittances payable	2,927	7,002
Deferred revenue and deposits	14,942	10,934
Current portion of long-term debt (Note 7)	1,261,209	1,261,209
	8,603,219	8,127,214
LONG-TERM DEBT (Note 7)	7,041,748	8,302,957
DEFERRED CONTRIBUTIONS RELATED TO CAPITAL ASSETS (Note 8)	19,365,096	19,123,343
	35,010,063	35,553,514
COMMITMENTS (Note 9)		
NET ASSETS		
Invested in capital assets (Note 10)	34,038,286	31,160,645
Restricted airport improvement fee (Note 11)	-	-
Unrestricted (Note 12)	3,835,209	2,247,316
	37,873,495	33,407,961
	\$ 72,883,558	\$ 68,961,475

APPROVED BY THE BOARD:

 Director

 Director

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

Statement of Operations

Year ended December 31, 2018

	2018	2017
Revenue		
Concessions	\$ 748,930	\$ 735,418
General terminal charges	1,624,138	1,544,093
Landing fees	2,867,578	2,793,053
Other	1,984,426	1,535,163
Parking	1,938,109	1,838,154
Rentals	396,706	368,960
	9,559,887	8,814,841
Expenses		
Administration	936,871	811,355
Insurance	217,363	196,536
Operations	2,735,148	2,427,616
Property taxes	231,020	274,311
Salaries and employee benefits	2,863,728	2,711,862
Utilities	438,019	411,780
	7,422,149	6,833,460
Operating surplus	2,137,738	1,981,381
Other revenue (expense)		
Airport improvement fee (net) (Note 11)	5,400,942	5,202,277
Amortization of deferred contributions related to capital assets (Note 8)	1,439,528	1,356,067
Amortization - capital assets	(3,798,955)	(3,535,475)
Gain (loss) on disposal of assets	78	(34,996)
Interest on long-term debt	(501,797)	(446,474)
Remeasurement of pension benefit assets	(212,000)	52,000
	2,327,796	2,593,399
EXCESS OF REVENUE OVER EXPENSES	\$ 4,465,534	\$ 4,574,780

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

Statement of Changes in Net Assets

Year ended December 31, 2018

	Invested in Capital Assets (Note 10)	Restricted Airport Improvement Fee (Note 11)	Unrestricted	2 0 1 8	2 0 1 7
Balance, beginning of year	\$ 31,160,645	\$ -	\$ 2,247,316	\$ 33,407,961	\$ 38,833,181
Excess of revenue over expenses	-	4,899,145	(433,611)	4,465,534	4,574,780
Capital asset additions	6,424,560	(6,424,560)	-	-	-
Gain on disposal of assets	78	-	(78)	-	-
Net repayment of bank demand loan and subsidies	(1,187,570)	1,525,415	(337,845)	-	-
Amortization of capital assets	(3,798,955)	-	3,798,955	-	-
Amortization of deferred contributions	1,439,528	-	(1,439,528)	-	-
Balance, end of year	\$ 34,038,286	\$ -	\$ 3,835,209	\$ 37,873,495	\$ 43,407,961

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

Statement of Cash Flows

Year ended December 31, 2018

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenue over expenses	\$ 4,465,534	\$ 4,574,780
Items not affecting cash		
Amortization	3,798,955	3,535,475
(Gain) loss on disposal of assets	(78)	34,996
Amortization of deferred contributions related to capital assets	(1,439,528)	(1,356,067)
Defined benefit adjustment	141,000	(153,000)
	6,965,883	6,636,184
Changes in non-cash operating working capital		
Accounts receivable	(723,502)	(670,329)
Government remittances receivable	8,211	(8,211)
Inventory	15,832	(12,125)
Prepaid expenses	(27,512)	(64,158)
Accounts payable and accrued liabilities	(291,426)	785,104
Government remittances payable	(4,075)	(3,912)
Deferred revenue and deposits	4,008	98
	5,947,419	6,662,651
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital asset additions	(6,424,560)	(4,611,381)
Proceeds on disposal of capital assets	12,795	-
Increase in investments	(2,092)	(7,100)
	(6,413,858)	(4,618,481)
CASH FLOWS FROM FINANCING ACTIVITIES		
Bank demand loan proceeds	1,500,000	-
Repayment of bank demand loans	(732,502)	(1,874,168)
Repayment of long-term debt	(1,261,209)	(1,261,209)
Increase in deferred contributions related to capital assets	1,681,281	743,300
	1,187,570	(2,392,077)
NET INCREASE (DECREASE) IN CASH	721,132	(347,907)
CASH, BEGINNING OF YEAR	382,275	730,182
CASH, END OF YEAR	\$ 1,103,407	\$ 382,275

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

Notes to the Financial Statements

Year ended December 31, 2018

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 which are measured at cost less any reduction for impairment. Changes in fair value are recognized in the statement of operations.

Financial assets measured at amortized cost include cash 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.

Notes to the Financial Statements

Year ended December 31, 2018

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	5%-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, no actuarial valuations has been 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, 2018

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 8	2 0 1 7
Accounts receivable	\$ 2,959,252	\$ 2,388,315
Allowance for doubtful accounts	-	(152,565)
	<u>\$ 2,959,252</u>	<u>\$ 2,235,750</u>

Notes to the Financial Statements

Year ended December 31, 2018

4. CAPITAL ASSETS

			2 0 1 8		2 0 1 7
	Cost	Accumulated Amortization	Net Book Value		
Land	\$ 15,693,035	\$ -	\$ 15,693,035	\$	15,693,035
Leasehold improvements					
Buildings	26,570,918	9,273,328	17,297,590		13,879,378
Parking facilities and roadway systems	6,201,542	3,470,772	2,730,770		2,271,812
Fuel farm	2,960,884	607,509	2,353,375		2,474,174
Other	2,178,210	529,908	1,648,303		1,449,574
Runway	35,593,033	12,185,177	23,407,855		25,125,906
Computer hardware and software	488,906	335,335	153,570		167,520
Vehicles	158,187	113,323	44,864		64,637
Machinery and other equipment	7,202,850	3,877,665	3,325,185		1,921,012
Construction in progress/ equipment not in use	644,857	-	644,857		1,639,468
	<u>\$ 97,692,422</u>	<u>\$ 30,393,018</u>	<u>\$ 67,299,404</u>	<u>\$</u>	<u>64,686,516</u>

5. BANK DEMAND LOANS

CIBC demand instalment loan - repayable
in monthly instalments of \$18,333 plus interest
at prime rate (3.95% per annum - December 31, 2018)
and bankers acceptances stamping fee
of 1.5%. Secured as described below, and
maturing in 2041.

\$ 4,599,356 \$ 4,819,357

CIBC demand revolving loan repayable
in monthly instalments of \$4,167 plus interest
at prime rate (3.95% per annum - December 31, 2018)
and bankers acceptances stamping fee
of 1.5%. Secured as described below

987,499

-

\$ 5,586,855 \$ 4,819,357

Notes to the Financial Statements

Year ended December 31, 2018

5. BANK DEMAND LOANS (continued)

The Authority has a \$500,000 operating line of credit bearing interest at the prime rate (December 31, 2018 – 3.95%), 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:

	2019	2020	2021	2022	2023
\$	270,004	\$ 270,004	\$ 270,004	\$ 270,004	\$ 270,004

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2018	2017
Trade payables	\$ 1,239,342	\$ 1,546,407
Payroll accruals	497,944	482,305
	<u>\$ 1,737,286</u>	<u>\$ 2,028,712</u>

7. LONG-TERM DEBT

	2018	2017
Northern Development Initiative Trust, unsecured, bearing interest at prime rate (3.95% per annum - December 2018), monthly payments of \$105,101 plus interest maturing July 2025.	\$ 8,302,957	\$ 9,564,166
Current portion	<u>1,261,209</u>	<u>1,261,209</u>
	<u>\$ 7,041,748</u>	<u>\$ 8,302,957</u>

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

	2019	2020	2021	2022	2023
\$	1,261,209	\$ 1,261,209	\$ 1,261,209	\$ 1,261,209	\$ 1,261,209

Notes to the Financial Statements

Year ended December 31, 2018

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 8	2 0 1 7
Opening balance	\$ 19,123,343	\$ 19,736,111
Contributions received from (refunded to)		
British Columbia Air Access	1,431,458	500,000
Canadian Air Transport Security Authority	-	137,494
Northern Development Initiative Trust	249,823	105,805
Amortization	(1,439,528)	(1,356,067)
	<u>\$ 19,365,096</u>	<u>\$ 19,123,343</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 2018 was \$ 312,495 (2017 - \$269,678).

10. INVESTED IN CAPITAL ASSETS

	2 0 1 8	2 0 1 7
Opening balance	<u>\$ 31,160,645</u>	<u>\$ 26,371,591</u>
Capital asset additions, including		
construction in progress	6,424,560	4,611,381
Capital asset disposals	78	(34,996)
Payment of: Long-term debt and deferred		
contributions related to additions	(1,187,570)	2,392,077
	<u>5,237,068</u>	<u>6,968,462</u>
Amortization	(3,798,955)	(3,535,475)
Amortization of deferred contributions		
related to capital assets	1,439,528	1,356,067
	<u>(2,359,427)</u>	<u>(2,179,408)</u>
Closing balance	<u>\$ 34,038,286</u>	<u>\$ 31,160,645</u>

Notes to the Financial Statements

Year ended December 31, 2018

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 \$3,835,209 (\$2,247,316 – December 31, 2017) of unrestricted net assets, \$1,053,000 (\$1,194,000 – December 31, 2017) is associated with the defined benefit asset as shown on the statement of financial position as at December 31, 2018. 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 24 (December 2017 – 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 \$106,621 in 2018 (\$96,650 – 2017) and the defined benefit component was \$24,630 in 2018 (\$98,828 – 2017). 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, 2018 is as follows:

	2018	2017
Market value of plan assets	\$ 3,808,000	\$ 3,922,000
Accrued defined benefit obligation	(2,755,000)	(2,728,000)
Defined benefit asset	<u>\$ 1,053,000</u>	<u>\$ 1,194,000</u>

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

	2018	2017
Discount rate	4.50%	4.50%
Rate of compensation increase	2.50%	2.50%
Rate of inflation	2.00%	2.00%

Notes to the Financial Statements

Year ended December 31, 2018

13. PENSION PLAN (continued)

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

	2 0 1 8	2 0 1 7
Employer contribution	\$ 63,000	\$ 94,000
Employees' contribution	6,000	5,000
Benefits paid	(131,000)	(131,000)

Plan assets consist of:

Equity securities	58.8%	56.3%
Debt securities	38.0%	34.9%
Other	3.2%	9.2%

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, 2018, the most significant financial liabilities are bank demand loans, accounts payable and accrued liabilities and long-term debt.

Notes to the Financial Statements

Year ended December 31, 2018

15. FINANCIAL INSTRUMENTS (continued)

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, 2018, the fees paid to the Board of the Authority for their services as directors amounted to \$101,388 (2017 - \$101,055).

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 2018 the Prince George Airport invested in capital projects totalling \$6.4 million; significant projects completed in 2018 included:

	Thousands \$
Runway overlays	80.0
Elevator barrier free access to long term parking	1,947.4
Fire truck	1,367.2
Employee parking lot repave	697.8
Sewage lift station replacement	710.6
Snow removal equipment attachments	226.0
Utility rehabilitation	268.5
Hold room gate 2 vestibule	213.1
Combined services building roof replacement	100.0
Terminal building HVAC	110.4

2018 Actual vs. Business Plan

Shown in thousands of dollars.

	Actual	Plan	Difference	Explanation
Revenues	\$14,960.8	\$13,706.4	\$1,254.4	Variance largely attributable to increased commercial flights and flights resulting from significant fire activity in 2018.
Expenses	\$7,422.1	\$8,594.2	\$-1,172.1	Variance resulting from savings in employee salaries and benefits, and supplies and maintenance costs.
Capital	\$6,424.6	\$6,406.0	\$18.6	

Business Plan Cash Flow Forecast 2019 - 2023

Shown in thousands of dollars.

YEAR	2019	2020	2021	2022	2023
Revenues	14,841.3	15,138.1	15,440.9	15,749.7	16,064.7
Expenses	8,420.2	8,588.6	8,760.4	8,935.6	9,114.3
Capital	10,695.1	8,992.0	3,095.9	10,929.0	2,695.0

Assumptions:

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



www.pgairport.ca



4141 Airport Road
Prince George, British Columbia
Canada

