# THUNDER BAY INTERNATIONAL AIRPORTS AUTHORITY

## 2018 ANNUAL REPORT

# CONTENTS



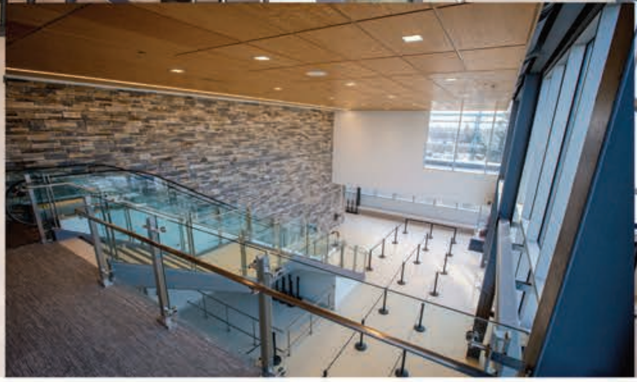

## THE BOARD OF DIRECTORS STATED OBJECTIVES WE CONTINUE TO SPOTLIGHT ARE:

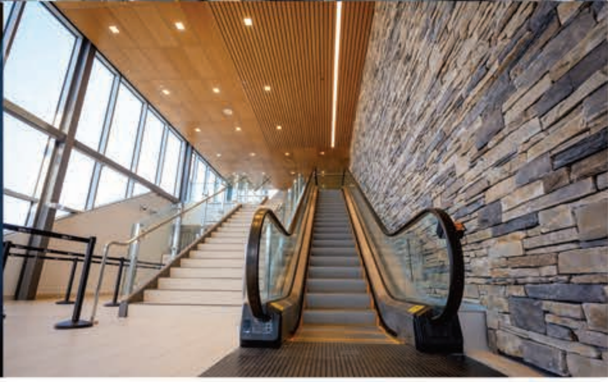
1. TO INCREASE THE NUMBER OF AIRCRAFT AVAILABLE, IN TURN STEADILY INCREASE OUR PASSENGER VOLUMES

2. KEEP ALL EMPLOYEES, PASSENGERS, AND VISITORS SAFE, SERVICED, AND COMFORTABLE

3. WHENEVER POSSIBLE, SUPPORT OUR LOCAL ECONOMY

# TERMINAL EXPANSION



✓ Updated aesthetics include the incorporation of natural stone and wood to resemble the Canadian Shield landscape.

With the help of many partners along with our own staff, 2018 became a transformative year at Thunder Bay Airport.

**Air Service**

Passenger volumes hit an all-time high for a third consecutive year. After exceeding 844,000 passengers in 2017, 2018 saw volumes grow by 2.9% to reach 869,404.

**Terminal Expansion**

Renovations in the Air Terminal Building (ATB) were substantially completed in 2018. The secure departure lounge grew by 55% to provide passengers with comfort while that they wait for their flights. The Customs Hall grew by 450% to accommodate Thunder Bay's vibrant winter charter activities. We would like to thank Tom Jones Construction and our in-house Facilities Team for all their efforts to minimize customer service impacts throughout the construction phase.

**Going Local**

TBIAA thanks both Aramark and Pinetree Catering for sharing our vision of making some of Thunder Bay's tremendous food offerings available throughout the ATB. At last count, eighteen different companies now have products available in the ATB. TBIAA is proud to support the local economy in this way.

TBIAA's spending policies necessitate strong consideration of local vendors. Each year, TBIAA tabulates the amount it has spent through local suppliers. With the majority of the Terminal Expansion work completed by local contractors, 2018 was among the highest years for dollars spent locally.

**Airport Safety & Operational Performance**

Numerous advances have been made in the area of airfield electronic data collection. This data monitors numerous incidents such as weather conditions, bird and wildlife sightings and foreign object debris (FOD) clean up to assist us adjusting activities towards improving operational safety.

**Emergency Preparedness**

TBIAA continued its ongoing emergency preparedness efforts through the course of the year by hosting a table top exercise involving most of the community's mutual aid agencies. The exercise highlighted the importance of communications in all phases of response.


# GOING LOCAL



In 2018, food service was revamped to include more locally sourced goods.

### Environmental Stewardship

TBIAA is committed to environmental quality. Activities include glycol (de-icing fluid) collection and re-cycling, continuous monitoring of the water quality of storm water effluent, and audits of fuel tanks using the Storage Tank Systems for Petroleum Products and Allied Petroleum Products Regulations.

Sustainability projects in 2018 included the continued installation of additional LED (Light Emitting Diode) lighting in various airside locations.

In accordance with requirements of Section 67 of the Canadian Environmental Assessment Act, TBIAA evaluates all construction projects, to determine their potential effect on the environment, including both Socio-economic factors and Bio-physical effects, especially those that could affect fish and fish habitat, species at risk, and migratory birds. The evaluation includes a checklist to help safeguard air, water, and soil quality. In 2018, we determined that no projects were likely to cause significant adverse environmental effects.

### A Community Partner

For the second consecutive year, CBC broadcasted live from the Air Terminal Building to promote its "Sounds of the Season" food drive.

A full day of local and national radio broadcasting was hosted in the Air Terminal Building. Four companies donated aircraft to deliver food to a number of fly-in communities. The generosity of Bearskin / Perimeter Aviation, KBM Aviation, North Star Air and Wasaya Airways was inspirational.

TBIAA canvassed many friends on and off the airport to help the Regional Food Distribution Association (RFDA) with other out-of-pocket expenses associated with getting food to their clients. We would like to thank them for raising nearly $24,000 for this worthy cause.

TBIAA would also like to thank the students and staff of the Dennis Franklin Cromarty High School for agreeing to share their art with the traveling public. Examples of this artwork completed by these gifted students can be seen in the main atrium and in the ground floor departure lounge.

# TERMINAL ARTWORK

**ARTWORK IN THE TERMINAL RECEIVED A FACE-LIFT THANKS TO THE STUDENTS OF DENNIS FRANKLIN CROMARTY HIGH SCHOOL**

### A Special Thank You to Synergy North

A three way partnership between Synergy North, Nav Canada and the Airport Authority lead to the installation of the latest technologies resulting in the greatest possible degree of uninterruptible power to the airport. Synergy North installed smart switches that automatically reroute power to the airport in the event of an outage on the active feeder line. This project was cost shared across the three partners and has made power at the airport as reliable as possible.

### Cyber Security

TBIAAI recognizes that there has been a significant increase in cyber-based threats which can have a significant impact on business operations. These threats can be directed at any technical or human level within any company. TBIAA is investing in technology and Security Awareness Training for all employees as important steps towards minimizing the impact of technological advances in cyberattack vectors.

### Financial Results

TBIAA reported another strong year of consolidated earnings. The year finished with a surplus in excess of operations of $2.1 million.

Pursuant to the public accountability principles for Canadian Airport Authorities, general by- laws, and Thunder Bay International Airports Authority Inc. procurement policy for goods and services, all contracts valued at more than $75,000 (1994 dollars subject to annual adjustment for inflation) shall be awarded following a competitive public tendering process unless the Board of Directors, for reasons of efficiency and practicality, decides otherwise. There were no exceptions to the policy in 2018.

### Employee Performance

Although mentioned elsewhere, the many transformative changes that occurred in 2018 would not have been possible without the daily commitment to excellence from our employees. By ensuring that day-to-day activities keep the airport safe, efficient and comfortable for our customers, our employees have set the condition and created a reputation that creates new partnerships and new relationships that improve the airport experience. We appreciate everything they do.

### Thank You

During this year of record setting aviation activity, we would like to thank all of our customers and partners for their continued support.

*TBIAA would like to dedicate this year's achievements to the memory of Margaret Rooney.*

**Dave Siciliano**

Chair of the Board

**Ed Schmidtke**

President &

Chief Executive Officer

## TBIAA BOARD OF DIRECTORS, 2018








**Top row:** Rick Trochimchuk, Ken Boshcoff, Paul Inksetter

**Middle row:** Gary Woodbeck, Craig Urquhart, Dave Siciliano

**Bottom row:** Lynn Peterson, Mary Long-Irwin

## MANAGEMENT TEAM







**Top row:** Ed Schmidtke, Sharon Kelly, Ryan Brading

**Middle row:** Sarah Parkes, Darren Watts, TJ Ahvenniemi

**Bottom row:** Duane Riddell

# GOVERNANCE

The Thunder Bay International Airports Authority Inc. (TBIAA) is a non-share capital corporation incorporated under the Canada Corporation Act. Members of the Board of Directors are community leaders nominated by government and non-government organizations who meet monthly to fulfill their strategic and fiduciary responsibilities.

The Board has overall responsibility for the management of the affairs of the Corporation and is fortunate to have attracted Board members who offer a wealth of knowledge and experience. The Board has established an administrative procedure outlined in the TBIAA General Operating by-Law and Letters Patent.

**Compliance with Code of Conduct**

TBIAA has adopted conflict of interest guidelines to govern the conduct of, and the disclosure and avoidance of conflicts of interest for, all officers and directors. These disclosures are updated as required.

**NOMINATOR'S REPRESENTATIVES AS OF DECEMBER 31, 2018:**

**Government of Canada (2)**
Mary Long-Irwin*
Lynn Peterson*

**Government of Ontario (1)**
Rick Trochimchuk

**City of Thunder Bay (2)**
Ken Boshcoff
Dave Siciliano

**Thunder Bay Chamber of Commerce (2)**
Gary Woodbeck
Craig Urquhart

**Thunder Bay and District Labour Council / Labour Affiliated Organizations (1)**
Paul Inksetter

Board Compensation for 2018

| | |
|---|---|
| Ken Boshcoff | $12,933 |
| Paul Inksetter | $13,233 |
| Mary Long-Irwin | $2,633* |
| Lynn Peterson | $2,633* |
| Dave Siciliano (Chair) | $18,183 |
| Rick Trochimchuk | $14,833 |
| Gary Woodbeck | $12,933 |
| Craig Urquhart | $14,183 |

* appointed October 31, 2018

**MANAGEMENT TEAM**

**President & Chief Executive Officer**

Ed Schmidtke

**Controller**
Sharon Kelly

**Manager, Airport Services -** Ryan Brading

**Manager, Quality Assurance & Safety -** Sarah Parkes

**Interim Manager, Quality Assurance & Safety -** Darren Watts

**Manager, Facilities**
TJ Ahvenniemi

**SGE ,a Division of TBAS Inc.-** Malcolm Armstrong

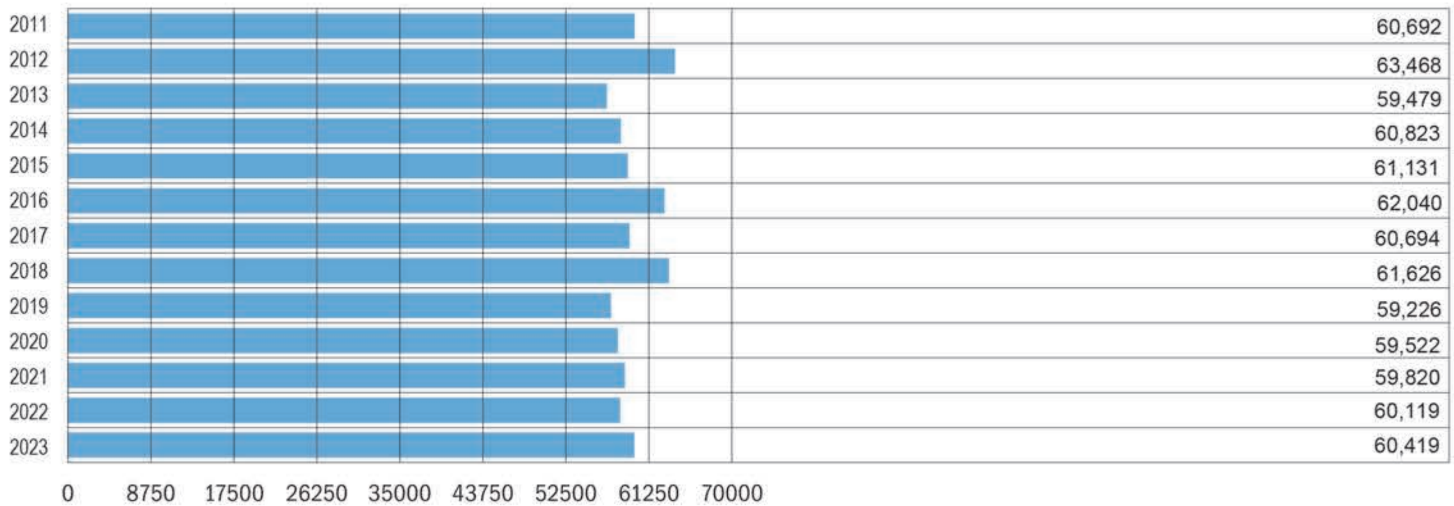
**TBAS, Inc.**
Red Lake Airport-Duane Riddell

*The annual compensation for the senior management team for the year ending December 31, 2018 was $683,594*

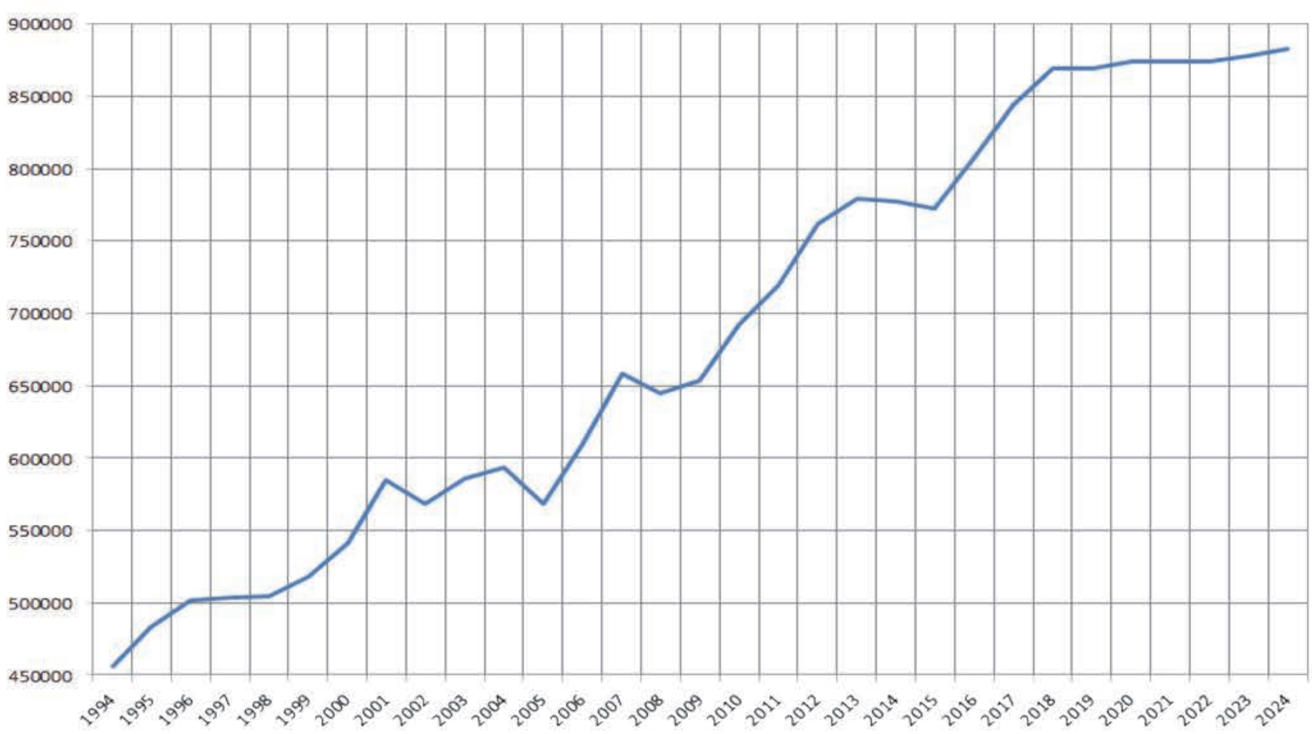

# MOVEMENTS & FORECASTS

# MOVEMENTS & FORECASTS

## Itinerant Aircraft Movements and Forecasts

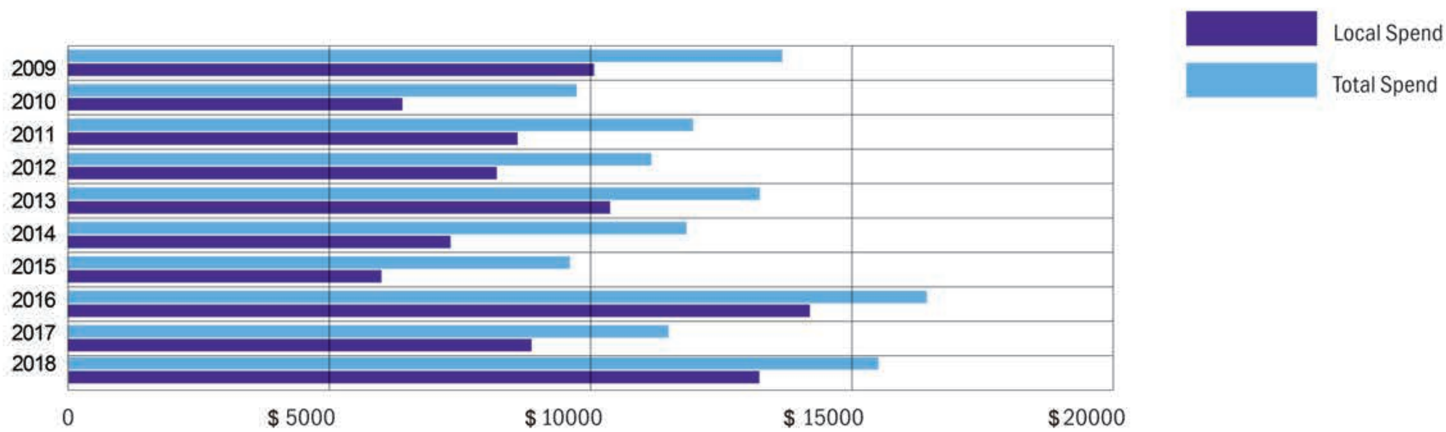



## Passenger Volume and Forecasts



## Total Expenditures to Local Suppliers

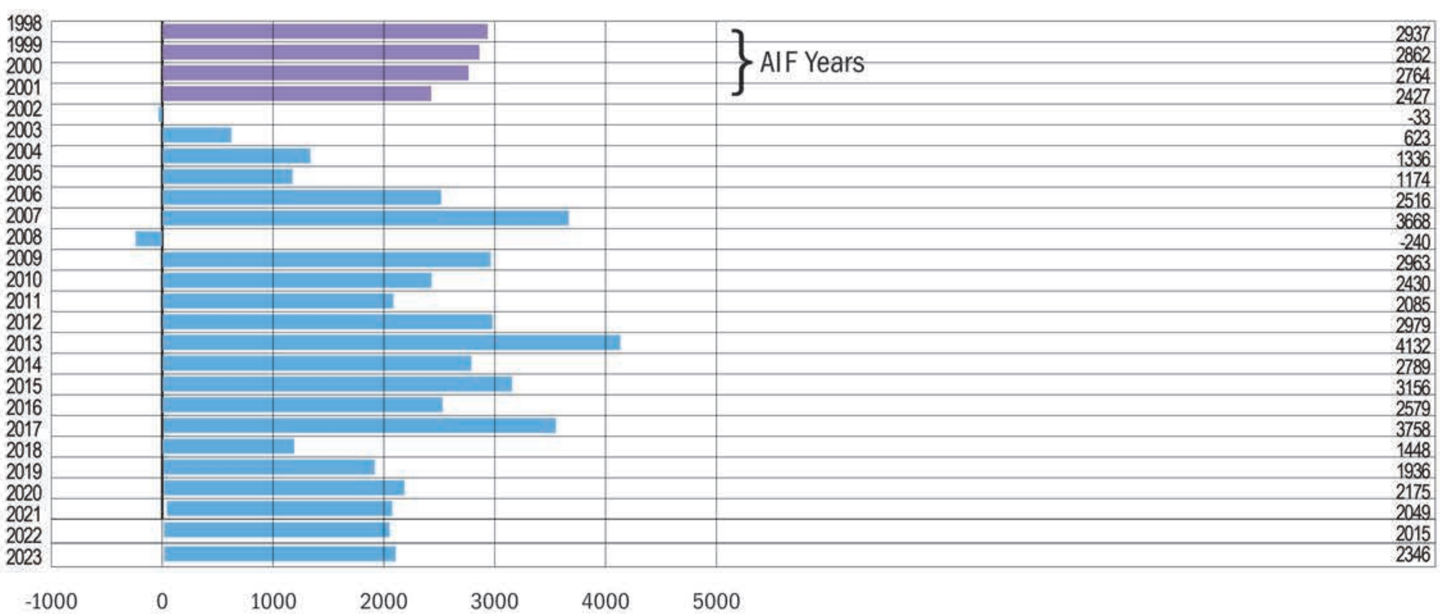
($000)



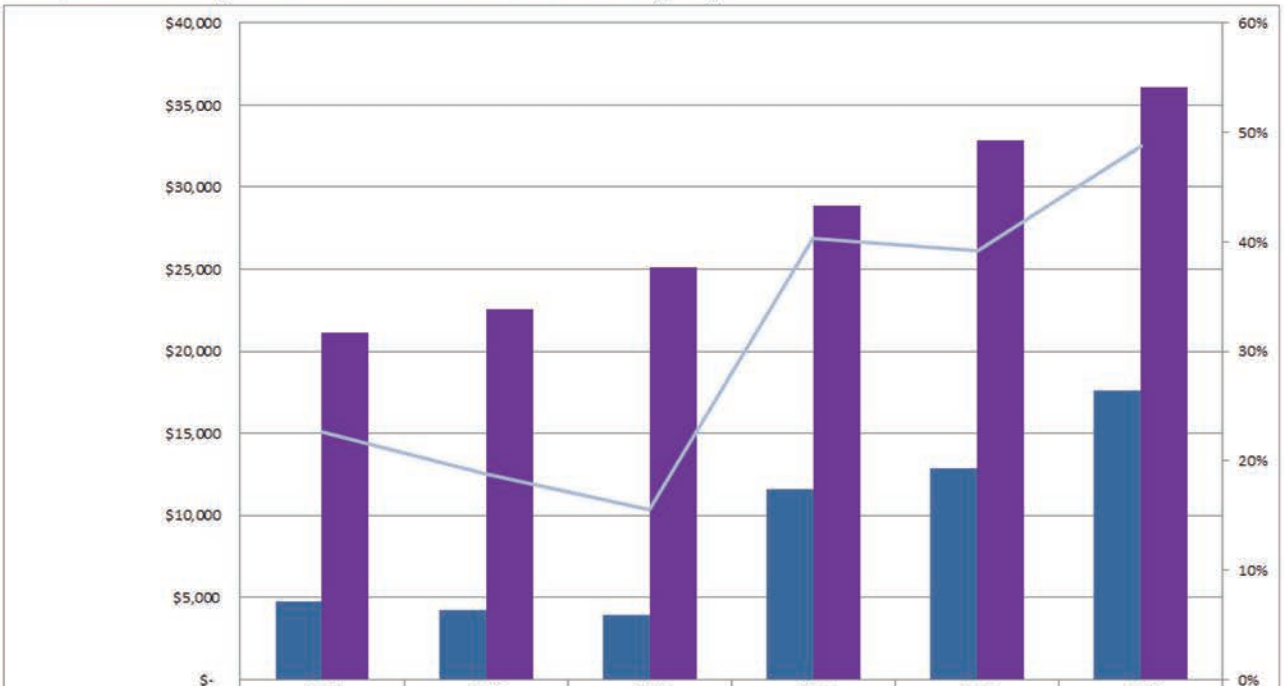

| Year | *2009* | *2010* | *2011* | *2012* | *2013* | *2014* | *2015* | *2016* | *2017* | *2018* |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Spend | $13,670 | $9,733 | $11,960 | $11,162 | $13,233 | $11,836 | $9,602 | $16,432 | $10,583 | $15,451 |
| Local Spend | $10,063 | $6,397 | $8,601 | $8,203 | $10,372 | $7,317 | $5,995 | $14,194 | $9,259 | $13,302 |
| Percentage Local | 74% | 66% | 72% | 73% | 78% | 62% | 62% | 86% | 87% | 86% |

## Annual Surplus (Deficit) History & Forecasts

($000)



**Comparison of Long Term Debt to Unrestricted Net Assets ($000)**




| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|
| Long Term Debt | $4,788 | $4,257 | $3,907 | $11,629 | $12,869 | $17,606 |
| Unrestricted Net Assets | $21,123 | $22,569 | $25,110 | $28,853 | $32,867 | $36,091 |
| Percentage Local | 23% | 19% | 16% | 40% | 39% | 49% |

# Independent Auditor's Report

**Grant Thornton LLP**
Suite 300
979 Alloy Drive
Thunder Bay, ON
P7B 5Z8

T +1 807 345 6571
F +1 807 345 0032

To the Directors of
Thunder Bay International Airports Authority Inc.

## Opinion

We have audited the consolidated financial statements of Thunder Bay International Airports Authority Inc. ("the Organization"), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statements of operations, changes in net assets and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Thunder Bay International Airports Authority Inc. as at December 31, 2018, and its consolidated results of operations and its consolidated 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. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated 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 consolidated 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 opinion.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Organization'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 Organization or to cease operations, or has no realistic alternative but to do so.

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

# Independent Auditor's Report Cont'd

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 generally accepted auditing standards 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 consolidated financial statements.

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

Identify and assess the risks of material misstatement of the consolidated 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 Organization'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 Organization'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 consolidated 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 Organization to cease to continue as a going concern.

Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Organization and the organizations it controls to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

Grant Thornton LLP

Thunder Bay, Canada
March 26, 2019

Chartered Professional Accountants
Licensed Public Accountants

## Consolidated Statement of Operations

| Year ended December 31 | **2018** | 2017 |
|---|---|---|
| | $ | $ |
| **REVENUE *[schedule]*** | **12,420,232** | 11,754,065 |
| | | |
| **EXPENSES** | | |
| **Direct** | | |
| Advertising and promotion | **105,250** | 125,922 |
| Benefits | **395,847** | 497,340 |
| Contracted maintenance | **542,891** | 364,087 |
| Contracted services | **628,889** | 751,673 |
| Equipment rentals | **1,076** | 1,074 |
| Federal rent | **185,685** | 136,005 |
| Materials and supplies | **528,242** | 481,465 |
| Office and administration | **100,314** | 148,470 |
| Professional and consulting fees | **339,878** | 161,011 |
| Purchased repairs | **142,697** | 135,233 |
| Salaries | **2,920,179** | 2,986,548 |
| Telephone | **30,998** | 24,246 |
| Training and meetings | **63,497** | 41,288 |
| Travel | **48,659** | 52,251 |
| Utilities | **535,169** | 597,280 |
| | **6,569,271** | 6,503,893 |
| | | |
| **Indirect** | | |
| Amortization | **2,586,575** | 2,487,166 |
| Bad debts | **1,083** | 2,235 |
| Directors' fees | **96,884** | 91,050 |
| Payment in lieu of property taxes | **417,528** | 405,624 |
| Insurance | **120,007** | 122,422 |
| Interest and bank charges | **49,278** | 56,096 |
| Interest on long-term debt | **468,023** | 269,113 |
| | **3,739,378** | 3,433,706 |
| **Total expenses** | **10,308,649** | 9,937,599 |
| | | |
| **Earnings before the following** | **2,111,583** | 1,816,466 |
| Realized earnings on investments | **1,073,052** | 1,042,366 |
| Fair market value adjustment | **(1,736,190)** | 898,885 |
| | | |
| **Excess of revenue over expenses** | **1,448,445** | 3,757,717 |

See accompanying notes to the consolidated financial statements.

# Consolidated Statement of Financial Position

| As at December 31 | **2018** | 2017 |
|---|---|---|
| | $ | $ |
| **ASSETS** | | |
| **Current** | | |
| Cash and cash equivalents | **1,791,704** | 305,477 |
| Accounts receivable *[note 3]* | **2,486,327** | 2,022,303 |
| Inventory, at cost | **49,520** | 35,790 |
| Prepaid expenses and deposits | **140,425** | 175,310 |
| Due from the Municipality of Red Lake | **305,378** | 356,380 |
| **Total current assets** | **4,773,354** | 2,895,260 |
| **Property and equipment, net *[note 4]*** | **36,928,360** | 31,148,194 |
| **Other** | | |
| Investments *[note 5]* | **33,640,895** | 31,033,900 |
| Defined benefit asset *[note 6]* | **1,811,000** | 1,795,000 |
| **Total other assets** | **35,451,895** | 32,828,900 |
| | **77,153,609** | 66,872,354 |
| **LIABILITIES AND NET ASSETS** | | |
| **Current** | | |
| Accounts payable and accrued liabilities *[note 7]* | **3,105,343** | 1,838,403 |
| Current portion of long-term debt *[note 8[a]]* | **1,658,132** | 1,573,308 |
| Deferred revenue | **208,865** | 125,595 |
| **Total current liabilities** | **4,972,340** | 3,537,306 |
| **Non-current** | | |
| Security deposits | **40,530** | 40,480 |
| Long-term debt *[note 8[a]]* | **17,606,681** | 12,869,382 |
| Retirement allowance liability *[note 9]* | **338,566** | 442,771 |
| Deferred capital contributions *[note 10]* | **6,848,031** | 3,799,399 |
| **Total non-current liabilities** | **24,833,808** | 17,152,032 |
| **Net assets** | | |
| Investment in property and equipment *[note 11[a]]* | **10,815,516** | 12,906,105 |
| Unrestricted | **36,531,945** | 33,276,911 |
| **Net assets** | **47,347,461** | 46,183,016 |
| | **77,153,609** | 66,872,354 |

See accompanying notes to the consolidated financial statements.

On behalf of the Board:

Director

C. Urquhart

Director, Chair Finance,
Audit Committee

R. Trochimchuk

# Consolidated Statement of Changes in Net Assets

| Year ended December 31 | | | 2018 | 2017 |
|---|---|---|---|---|
| | **Investment in property and equipment** $ *[note 11]* | **Unrestricted** $ | **Total** $ | Total $ |
| **Net assets, beginning of year** | **12,906,105** | **33,276,911** | **46,183,016** | 42,470,299 |
| Excess (shortfall) of revenue over expenses | **(2,430,260)** | **3,878,705** | **1,448,445** | 3,757,717 |
| Net change in investment in property and equipment | **339,671** | **(339,671)** | **-** | - |
| Pension remeasurement and other items *[note 6]* | **-** | **(284,000)** | **(284,000)** | (45,000) |
| **Net assets, end of year** | **10,815,516** | **36,531,945** | **47,347,461** | 46,183,016 |

See accompanying notes to the consolidated financial statements.

## Consolidated Statement of Cash Flows

Year ended December 31

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| **OPERATING ACTIVITIES** | | |
| Excess of revenue over expenses | **1,448,445** | 3,757,717 |
| Add charges (deduct credits) to earnings not involving a current payment (receipt) of cash | | |
| Amortization | **2,586,575** | 2,487,166 |
| Amortization of deferred capital contributions | **(156,315)** | (156,315) |
| Increase in accrued benefit asset | **(300,000)** | (263,000) |
| Increase in retirement allowance liability | **(104,204)** | (47,170) |
| Fair market value adjustment | **1,736,190** | (898,885) |
| Loss on sale of property and equipment | **-** | 9,065 |
| | **5,210,691** | 4,888,578 |
| Net change in non-cash working capital balances related to operations *[note 12[a]]* | **958,392** | (529,396) |
| **Cash provided by operating activities** | **6,169,083** | 4,359,182 |
| **INVESTMENT ACTIVITIES** | | |
| Purchase of property and equipment *[note 12[b]]* | **(8,366,741)** | (3,669,999) |
| Increase in investments, net | **(4,343,185)** | (3,117,283) |
| Proceeds on disposal of property and equipment | **-** | 1,780 |
| **Cash used in investment activities** | **(12,709,926)** | (6,785,502) |
| **FINANCING ACTIVITIES** | | |
| Loan proceeds | **6,661,823** | 2,891,290 |
| Repayment of long-term debt | **(1,839,700)** | (1,340,356) |
| Deferred capital contributions | **3,204,947** | 487,740 |
| **Cash provided by financing activities** | **8,027,070** | 2,038,674 |
| **Increase (decrease) in cash and cash equivalents during year** | **1,486,227** | (387,646) |
| Cash and cash equivalents, beginning of year | **305,477** | 693,123 |
| **Cash and cash equivalents, end of year** | **1,791,704** | 305,477 |

See accompanying notes to the consolidated financial statements.

## GENERAL

The Thunder Bay International Airports Authority Inc. (the "Authority") was incorporated without share capital on August 3, 1995 under the laws of Canada.

On September 1, 1997, the Authority signed a sixty year ground lease, with a renewal term of twenty years with Transport Canada and assumed the responsibility for the management, operation and development of the Thunder Bay International Airport.

The Authority is exempt from income tax in accordance with the Airport Transfer (Miscellaneous Matters) Act.

## 1. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements of the Authority have been prepared in accordance with Canadian accounting standards for not-for-profit organizations. The more significant of these accounting policies are summarized below.

### Basis of consolidation

The accompanying financial statements are prepared on a consolidated basis to include the accounts of the Authority and its subsidiaries, Thunder Bay Airport Services Inc. and Superior Aerospace Services Ltd. which are wholly-owned.

### Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks.

### Inventory

Inventory consists of fuel products, foam agents and parts. Inventory is measured at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis. Net realizable value is the estimated selling price in the ordinary course of business less selling costs.

### Property and equipment

Property and equipment are initially recorded at cost and subsequently measured at cost less accumulated amortization.

Amortization is provided on the basis and at the rates below. It is expected these procedures will charge earnings with the cost of the property and equipment over their estimated useful lives. Gain or loss on disposal of individual assets is recognized in earnings in the year of disposal.

| | |
|---|---|
| Airside equipment | 1/15 straight-line - salvage value 10% |
| Computer hardware | 1/3 straight-line |
| Computer software | 1/3 straight-line |
| Land transfer costs | 1/60 straight-line |
| Land development costs | 1/30 straight-line |
| Leasehold improvements | 1/5 to 1/20 straight-line |
| Office furniture and equipment | 1/5 straight-line |
| Runway upgrades | 1/5 to 1/40 straight-line |
| Security upgrades | 1/5 straight-line |
| Vehicles and equipment | 1/5 straight-line - salvage value 10% |

Property and equipment acquired during the year and not ready for productive use are not amortized.

Normal maintenance and repairs are expensed as incurred.

## Revenue recognition

Landing fees, terminal fees and parking fees revenue are recognized as airport facilities are used.

Lease revenue is recognized in the period in which it was earned.

The Authority follows the deferral method of accounting for contributions, which include government grants. Restricted contributions are reflected as deferred contributions and are recognized as revenue in the year in which the related expenses are incurred. Restricted contributions for the purchase of property and equipment that will be amortized are deferred and recognized as revenue at the same rate of amortization as the related property and equipment. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

All other revenue is recognized at point of sale or when the good or service has been provided and collectability is reasonably assured.

## Financial instruments

The Authority considers any contract creating a financial asset, liability or equity instrument as a financial instrument, except in certain limited circumstances. The Authority accounts for the following as financial instruments:

- cash and cash equivalents
- accounts receivables
- investments
- due to/from the Municipality of Red Lake
- accounts payable and accrued liabilities
- security deposits
- long-term debt

A financial asset or liability is recognized when the Authority becomes party to contractual provisions of the instrument.

### Measurement

Financial assets or liabilities obtained in arm's-length transactions are initially measured at their fair value. In the case of a financial asset or liability not being subsequently measured at fair value, the initial fair value will be adjusted for financing fees and transaction costs that are directly attributable to its origination, acquisition, issuance or assumption.

Financial assets or liabilities obtained in related party transactions are measured in accordance with the accounting policy for related party transactions except for those transactions that are with a person or entity whose sole relationship with the Authority is in the capacity of management in which case they are accounted for in accordance with financial instruments.

Financial assets and financial liabilities are subsequently measured according to the following methods:

| **Financial instrument** | **Subsequent measurement** |
|---|---|
| Cash and cash equivalents | Amortized cost (which approximates fair value) |
| Accounts receivable | Amortized cost |
| Investments | Fair value |
| Due to/from the Municipality of Red Lake | Amortized cost |
| Accounts payable and accrued liabilities | Amortized cost |
| Security deposits | Amortized cost |
| Long-term debt | Amortized cost |

**Derecognition**

The Authority removes financial liabilities, or a portion of, when the obligation is discharged, cancelled or expires.

**Impairment**

Financial assets measured at cost are tested for impairment when there are indicators of impairment. Previously recognized impairment losses are reversed to the extent of the improvement provided the asset is not carried at an amount, at the date of the reversal, greater than the amount that would have been the carrying amount had no impairment loss been recognized previously. The amounts of any write-downs or reversals are recognized in the consolidated statement of operations.

## Employee future benefits

The Authority sponsors two pension plans for its employees: a defined benefit plan and a defined contribution plan.

**Defined benefit pension plan**

For the Authority's defined benefit pension plan, the defined benefit obligations are determined using the most recent actuarial valuation report prepared for funding purposes.

Plan assets are measured at fair value.

The Authority recognizes the plan's funded surplus, which is the net amount of the defined benefit obligations and the fair value of plan assets, on the consolidated statement of financial position.

Actuarial gains and losses and past service costs are included in the cost of the plan for the year in the consolidated statement of operations.

The Authority only recognizes a plan funded surplus on the consolidated statement of financial position to the extent it is expected to be realized. A valuation allowance is recognized for any excess of the plan surplus over the expected future benefit.

**Defined contribution pension plan**

Under the defined contribution pension plan, an expense is recorded in the period when the Authority is obligated to make contributions for services rendered by the employee. Any unpaid contributions are included on the consolidated statement of financial position as an accrued liability.

## Foreign currency translation

Foreign currency transactions entered into directly by the Authority are translated using the temporal method. Under this method, monetary assets and liabilities are translated at the consolidated statement of financial position exchange rates. Other statement of financial position items are translated at historical exchange rates. Revenue and expense items are translated at average rates of exchange prevailing during the year. Any resulting exchange gains and losses are included in the consolidated statement of operations in the current year. At year-end, monetary assets and liabilities denominated in U.S. dollars are translated using the exchange rate of U.S. $1 = Cdn $1.3565.

## Management estimates

Management reviews the carrying amounts of items in the consolidated financial statements at each consolidated statement of financial position date to assess the need for revisions or any possibility of impairment. Many items in the preparation of these consolidated financial statements require management's best estimate based on assumptions that reflect the most probable set of economic conditions and planned courses of action.

These estimates are reviewed periodically and adjustments are made to earnings as appropriate in the year they become known.

Significant items subject to management estimates include:

| Financial statement element | Management estimate |
|---|---|
| Accounts receivable | Allowance for doubtful accounts |
| Inventory | Obsolete inventory provision |
| Property and equipment | Asset useful lives |
| Defined benefit asset | Actuarial assumptions *[note 6]* |

## 2. BANK INDEBTEDNESS

**Toronto-Dominion Bank**

The Authority has available a demand operating loan of $500,000 [2017 - $500,000] bearing interest at the bank's prime lending rate plus 0.5% per annum [4.45% at December 31, 2018]. $Nil [2017 - $50,000] was outstanding at year-end.

The security for all indebtedness with Toronto-Dominion Bank consists of the following:

- General security agreement representing a first charge on all of the Authority's present and after acquired property.
- Assignment of fire insurance;
- Security Postponement agreement between the Bank and Ministry of Transport and Thunder Bay International Airports Authority Inc., dated August 29, 1997 giving the Ministry of Transport first position on all assets except "account, chattel paper, document of title, instrument and money," and subsequently amended granting the Bank priority on various equipment.

December 31, 2018

The Authority has guaranteed bank advances of its subsidiary, Thunder Bay Airport Servicecs Inc. up to a limit of $1,500,000. At December 31, 2018, advances of $nil [2017 - $nil] were outstanding.

## 3. ACCOUNTS RECEIVABLE

| | **2018** $ | 2017 |
|---|---|---|
| Trade accounts receivable | **2,533,981** | 2,073,206 |
| Allowance for doubtful accounts | **(47,654)** | (50,903) |
| | **2,486,327** | 2,022,303 |

## 4. PROPERTY AND EQUIPMENT

Details of year-end property and equipment balances are as follows:

| | **Cost** $ | **Accumulated amortization** $ | **2018 Net book value** $ | 2017 Net book value $ |
|---|---|---|---|---|
| Airside equipment | **3,968,423** | **2,045,698** | **1,922,725** | 1,922,725 |
| Computer hardware | **370,186** | **366,209** | **3,977** | 5,396 |
| Computer software | **661,416** | **603,465** | **57,951** | 34,260 |
| Land and land transfer costs | **1,158,108** | **64,306** | **1,093,802** | 1,096,864 |
| Land development costs | **6,919,989** | **2,210,331** | **4,709,658** | 4,900,393 |
| Leasehold improvements | **25,775,438** | **9,103,320** | **16,672,118** | 10,520,864 |
| Office furniture and equipment | **292,097** | **276,369** | **15,728** | 25,354 |
| Runway upgrades | **17,635,506** | **5,637,261** | **11,998,245** | 11,998,245 |
| Security upgrades | **3,183,786** | **3,183,786** | **-** | - |
| Vehicles and equipment | **2,972,753** | **2,518,597** | **454,156** | 644,093 |
| | **62,937,702** | **26,009,342** | **36,928,360** | 31,148,194 |

Amortization for the year is $2,586,575 [2017 - $2,487,166]. Included in property and equipment balances are $9,006,218 of assets not being amortized as they are not ready for productive use.

## 5. INVESTMENTS

| | **2018 Cost** $ | **2018 Market** $ | 2017 Cost $ | 2017 Market $ |
|---|---|---|---|---|
| Cash and cash equivalents | **1,280,257** | **1,280,737** | 1,070,807 | 1,071,102 |
| Fixed income * | **19,841,707** | **19,184,498** | 18,172,816 | 18,307,250 |
| Equity * | **11,167,589** | **13,175,660** | 8,703,359 | 11,655,548 |
| **Total** | **32,289,553** | **33,640,895** | 27,946,982 | 31,033,900 |

* quoted in an active market or derived from inputs other than quoted prices that are observable

## 6. EMPLOYEE FUTURE BENEFITS

The Authority is a participating employer in the Canadian Airport Authorities and Canadian Port Authorities Pension Plan, a multi-employer pension plan. The Plan provides pension benefits for those individuals who transferred employment from the federal public service at the time operation of the airport was transferred to the Authority in 1997. The federal government remains responsible for all pension benefits accrued in respect of those individuals up to that time.

The most recent actuarial valuation of the Plan is as at January 1, 2018. The following information concerning the Plan is from an extrapolation of the January 1, 2018 valuation to December 31, 2018.

| | **2018** $ | 2017 |
|---|---|---|
| Benefit obligation, end of year Plan | **(8,456,000)** | (8,073,000) |
| assets fair value, end of year | **10,565,000** | 10,626,000 |
| **Plan surplus** | **2,109,000** | 2,553,000 |
| Valuation allowance adjustment | **(298,000)** | (758,000) |
| **Defined benefit asset** | **1,811,000** | 1,795,000 |

The changes in accrued pension benefits obligations are:

| | **2018** $ | 2017 |
|---|---|---|
| Balance, beginning of year | **1,795,000** | 1,577,000 |
| Total current service and finance cost expense | **(1,000)** | (115,000) |
| Remeasurement and other items | **(284,000)** | (45,000) |
| Employer contributions | **301,000** | 378,000 |
| **Balance, end of year** | **1,811,000** | 1,795,000 |

The significant actuarial assumptions adopted in measuring the Authority's accrued benefit obligations as of January 1, 2018 are as follows:

| | |
|---|---|
| Discount rate | 4.50% |
| Expected long-term rate of return on plan assets Rate of | 4.50% |
| compensation increase | 2.50% |
| Inflation rate | 2.00% |

The Authority pays into a defined contribution plan with Great-West Life for certain employees. During the year, the Authority made total payments of $51,979 [2017 - $49,411] to the plan which was recognized as an expense during the year.

## 7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | **2018** $ | 2017 |
|---|---|---|
| Accounts payable and accrued liabilities | **3,093,343** | 1,741,637 |
| Government remittances | **4,044** | 5,314 |
| Income taxes payable | **199** | 34,870 |
| Harmonized sales tax payable | **7,757** | 56,582 |
| | **3,105,343** | 1,838,403 |

## 8. LONG-TERM DEBT

[a]

| | 2018 $ | 2017 $ |
|---|---|---|
| **Toronto-Dominion Bank** | | |
| Term loan repayable in monthly instalments of $20,232 plus interest and a stamping fee of 0.93% per annum [3.11% combined at year-end] maturing January 31, 2022. | **1,699,358** | 1,942,142 |
| Term loan repayable in monthly instalments of $52,571 plus interest and a stamping fee of 0.93% per annum [3.11% combined at year-end], maturing 5 years from the date of each draw down which is being repaid over 10 years. | **5,835,276** | - |
| Term loan repayable in monthly instalments of $9,405 plus interest and a stamping fee of 0.93% per annum [3.11% combined at year-end], maturing January 1, 2022 by way of a committed term loan which will be payable over 20 years. | **1,521,105** | 1,621,965 |
| Term loan repayable in monthly instalments of $108,524 plus interest and a stamping fee of 0.93% per annum [3.11% combined at year-end], maturing 5 years from the date of each draw down which is being repaid over 10 years. | **10,209,074** | 10,878,583 |
| | **19,264,813** | 14,442,690 |
| Less amounts included in current liabilities | **1,658,132** | 1,573,308 |
| **Long-term portion** | **17,606,681** | 12,869,382 |

As collateral for the Toronto-Dominion Bank term loans, the Authority has provided a general security agreement and other security as described in note 2.

[b] Although the term loans mature in 2022, the principal repayments are based on management's intentions to renew terms loans under similar terms. The undiscounted cash flows required over the next five years are as follows:

| | $ |
|---|---|
| 2019 | 2,288,984 |
| 2020 | 2,288,756 |
| 2021 | 2,288,756 |
| 2022 | 2,288,756 |
| 2023 | 2,288,756 |
| Thereafter | 7,820,805 |
| | 19,264,813 |

## 9. RETIREMENT ALLOWANCE LIABILITY

Under the terms of the transfer agreement with Transport Canada, the Authority assumed the Government of Canada's obligation to pay its former employees compensation upon retirement or termination in accordance with the collective agreements. The Authority has continued to record the liability in accordance with the agreements on the assumption that the qualifying conditions will be met.

Information about the Authority's retirement allowance liability is as follows:

| | **2018** | 2017 |
|---|---|---|
| | **$** | $ |
| **Balance, beginning of year** | **442,771** | 489,941 |
| Expense for the year Benefits | **24,864** | 25,029 |
| paid during the year | **(129,069)** | (72,199) |
| **Balance, end of year** | **338,566** | 442,771 |

## 10. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions consist of the unamortized balance of contributions received by the Authority which have been expended on capital assets as approved by the contributors. The amortization of capital contributions is recorded as revenue in the consolidated statement of operations.

| | **2018** | 2017 |
|---|---|---|
| | **$** | $ |
| **Balance, beginning of year** | **3,799,399** | 3,467,974 |
| Contributions received during year | **3,204,947** | 487,740 |
| Amortization | **(156,315)** | (156,315) |
| **Balance, end of year** | **6,848,031** | 3,799,399 |

## 11. INVESTMENT IN PROPERTY AND EQUIPMENT

[a] Investment in property and equipment is calculated as follows:

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Property and equipment at net book value | **36,928,360** | 31,148,194 |
| Amounts financed by: | | |
| Deferred capital contributions | **(6,848,031)** | (3,799,399) |
| Long-term debt | **(19,264,813)** | (14,442,690) |
| | **10,815,516** | 12,906,105 |

[b] Change in net assets investment in property and equipment is calculated as follows:

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| **Excess (shortfall) of revenue over expenses** | | |
| Amortization of deferred capital contributions | **156,315** | 156,315 |
| Amortization of property and equipment | **(2,586,575)** | (2,487,166) |
| Gain (loss) on sale of property and equipment | **-** | (9,065) |
| | **(2,430,260)** | (2,339,916) |

[c] Net change in investment in property and equipment:

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Purchase of property and equipment | **8,366,741** | 3,669,999 |
| Amounts funded by: | | |
| Restricted contributions | **(3,204,947)** | (487,740) |
| Loan proceeds | **(6,661,823)** | (2,891,290) |
| Repayment of long-term debt | **1,839,700** | 1,340,356 |
| Proceeds on disposal of property and equipment | **-** | (1,780) |
| | **339,671** | 1,629,545 |

## 12. STATEMENT OF CASH FLOWS

[a] The net change in non-cash working capital accounts related to operations is represented by the following:

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| **Decrease (increase) in current assets** | | |
| Accounts receivable | **(464,024)** | (916,073) |
| Inventory, at cost | **(13,730)** | (9,478) |
| Prepaid expenses and deposits | **34,885** | 9,569 |
| Due from the Municipality of Red Lake | **51,002** | (256,893) |
| | **(391,867)** | (1,172,875) |
| **Increase (decrease) in current liabilities** | | |
| Accounts payable and accrued liabilities | **1,266,940** | 741,633 |
| Due to Marcel Boschung AG | **-** | (8,045) |
| Deferred revenue | **83,319** | (90,109) |
| | **1,350,259** | 643,479 |
| | **958,392** | (529,396) |

[b] During the year, property and equipment were acquired at an aggregate cost of $8,366,741 [2017 - $3,669,999] of which $6,661,823 [2017 - $2,891,290] were funded by debt and $1,704,918 [2017 - $778,709] by cash.

## 13. COMMITMENTS

The Authority has a Ground Lease with Transport Canada which calculates rent as a percentage of revenue using an escalating percentage of Airport Revenue which has the following ranges: 0% for revenue below $5 million, 1% for revenue between $5 and $10 million, 5% for revenue between $10 and $25 million, 8% for revenue between $25 and $100 million, 10% for revenue between $100 and $250 million, and 12% for revenue in excess of $250 million.

The Authority has entered into contracts for upgrades to the Airport Terminal. The contracts are valued at $8.5 million. At year-end, $700,000 remains to be incurred in future periods with respect to the project.

## 14. FINANCIAL INSTRUMENTS

The Authority is exposed to various risks through its financial instruments. The following analysis provides a measure of the Authority's risk exposure and concentration at December 31, 2018.

[a] Credit risk

Credit risk is the risk that a third party will fail to discharge its obligation to the Authority reducing the expected cash inflow from the Authority assets recorded at the consolidated statement of financial position date. Credit risk can be concentrated debtors that are similarly affected by economic or other conditions. 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. There was no significant change in exposure from the prior year.

[b] Liquidity risk

Liquidity risk is the risk that the Authority will encounter difficulty in raising funds to meet its obligations to suppliers and debtors. The Authority is exposed to this risk mainly in respect of its long-term debt, contributions to the pension plan and accounts payable. To manage liquidity, the Authority maintains sufficient cash balances and has sufficient credit facilities in place should cash requirements exceed cash generated from operating activities. There was no significant change in exposure from the prior year.

[c] Market risk

Market risk is the risk that the fair value or expected future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

i) Currency risk

Exposure to currency risk arises due to fluctuations in foreign exchange rates, which will affect the cash flows of financial instruments. At year-end, equities of $2,800,000 and cash and cash equivalents of $766,882 are denominated in U.S. dollars and translated to Canadian dollars. There was no significant change in exposure from the prior year.

ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Authority is exposed to interest rate risk on its floating interest rate financial instruments. Given the current composition of long-term debt, floating-rate instruments subject it to a cash flow risk. There was no significant change in exposure from the prior year.

ii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Authority is exposed to other price risk through its investments quoted in an active market.

## 15. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2018 consolidated financial statements.

# Consolidated Schedule of Revenue

| Year ended December 31 | **2018** | 2017 |
|---|---|---|
| | $ | $ |
| Airside | **3,279,968** | 3,088,671 |
| Industrial land leases | **831,387** | 783,673 |
| Miscellaneous | **183,617** | 148,416 |
| Parking and ground transportation | **2,002,921** | 1,798,814 |
| Terminal | **4,907,382** | 4,561,936 |
| Amortization of deferred capital contributions *[note 10]* | **156,315** | 156,315 |
| Federal rent recovery | **202,355** | 54,190 |
| | **11,563,945** | 10,592,015 |
| Revenue from business initiatives | **856,287** | 1,162,050 |
| | **12,420,232** | 11,754,065 |

Included in revenue from business initiatives are net sales and commissions as follows:

| | **2018** | 2017 |
|---|---|---|
| | $ | $ |
| Part sales | **175,606** | 94,403 |
| Consignment part sales | **10,154** | 8,611 |
| | **185,760** | 103,014 |
| **Direct costs** | | |
| Cost of parts | **136,130** | 75,718 |
| Cost of consignment parts | **18,902** | 5,567 |
| | **155,032** | 81,285 |
| **Net sales and commissions** | **30,728** | 21,729 |

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