



Your Passport To The World

Prince George Airport Authority 2010 Annual Report

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Introduction



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"The Prince George Airport Authority provides leadership as a regional economic driver and a gateway for passengers and cargo by providing exceptional customer services and facilities."

Since its inception on March 31, 2003, the airport community has laboured to provide an airport that promotes trade, tourism and industry in our region. It is our goal to develop an airport that is truly representative of our community and one that connects the world to Northern British Columbia.

In 2010 the Prince George Airport Authority once again aligned itself with the mission, and with the help of community partnerships we continue to strive to provide exceptional customer services and facilities.

Whether it's connecting business around the world, that special family vacation or a relaxing getaway...

"YXS is your Passport to the World"



Table of Contents

INTRODUCTION	3
CHAIRMAN & CEO REPORT	6
PG AIRPORT AUTHORITY: OVERVIEW OF OPERATIONS	8
PG AIRPORT AUTHORITY: GROWTH & DEVELOPMENT	10
2010 AUDITED FINANCIAL STATEMENTS	13
CORPORATE GOVERNANCE	29
GOVERNANCE GUIDELINES	30
GOALS & OBJECTIVES	34
PG AIRPORT AUTHORITY: BOARD OF DIRECTORS	36



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Chairman and CEO Report 2010

“Passport to the World” is the perfect description for the Prince George Airport. There is a saying in the aviation industry that “a mile of road gives you a mile of road. A mile of runway gives you the world.” The Prince George Airport has over two miles of runway that give our Northern communities the world and allow the world to access our communities with aviation’s largest aircraft.

In 2010 the Prince George Airport Authority (PGAA) continued to attack the hurdles that constrain our ability to compete for the transpacific refueling and cargo business. The PGAA announced the construction of a new cargo facility which will enable freight to be connected to the North American road network and a new Jet A fuels storage facility which will allow for competitive fuel pricing. Both facilities will be complete in 2011. The cargo facility will allow us to connect cargo from Western Canada destined to Asia and to integrate into the northern corridor of the Asia Pacific Gateway with the Port of Prince Rupert and CN Rail. The Boundary Road project that will service the airport’s adjacent Logistics Park started construction in 2010 and will also be completed in 2011.

The PGAA, with support from the Canadian Airports Council, continues to put pressure on Nav Canada to initiate a new tech stop fee structure and on Canada Border Services Agency to work on lower cost solutions for passenger and cargo flights. The PGAA also continued discussions with a variety of Asian carriers who continue to monitor our cargo initiatives.

At present, the airport through its passenger carriers offers access to the world through BC’s world class international airport at Vancouver. There are eighteen flights a day between Vancouver and Prince George with WestJet and Air Canada Jazz, connecting Northern BC to the world. These core services are also supplemented by Central Mountain Air’s eight flights among Terrace, Smithers, Fort. St. John, Kamloops, and Kelowna. The PGAA continued in 2010 to work with our partner airlines to expand services along the northern corridor; between Prince George and Alberta; and to the US and Mexican sun and fun spots. PGAA also aligned with Vancouver and other BC airports to promote provincial cargo and tourism initiatives. In 2010 our passenger traffic increased 3.8% over 2009.

The PGAA's financial objectives were exceeded in 2010. A \$90,000 operating margin was delivered because of a mild winter, increased water bomber activity due to the heavy forest fire season and tightly managed costs. Our net earnings inclusive of Airport Improvement Fees and costs of capital increased to \$1.8 million. Financing costs were also renegotiated to reflect the cost of borrowing in 2010.

Our capital program delivered an expanded Fire Hall to house our three emergency vehicles; a base infrastructure to allow Nav Canada to improve the approach limits on Runway 33; a new environmental water sampling station; and two new airside vehicles. PGAA also came to an agreement with the Public Service Alliance of Canada (PSAC) on a new three year collective agreement. This agreement solidified an excellent working relationship with our employees.

The PGAA continues to be proud to represent the airport and the community within Canada and around the world in various associations, tradeshow and conferences.

Jim Blake represents the airport at the BC Aviation Council and the Canadian Airports Council (Council of Chairs).

John Gibson is a Tourism Prince George Board member, a Board Director of the Canadian Airports Council (CAC), the Vice Chair of the CAC Small Airports Caucus, and a member of the CAC Governance Committee.

Todd Doherty, Director Business Development and Marketing, is a member of the CAC committees involving Air Policy, CBSA, and Cargo.

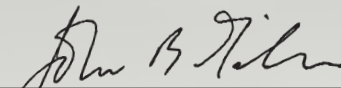
Cuyler Green is a Vice-Chair of the IAAE Canada and member of three CAC Committees, the Environmental, Security, and Operations/Safety/Technical Affairs Committees.

Diane Bertram is a member of the Human Resources Committee of the CAC.

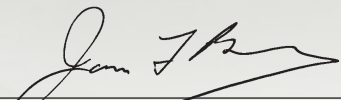
The airport also participated in the world-wide Routes conference in Vancouver. This conference brings together passenger and cargo airlines and airports to share objectives, plans and aviation opportunities. Prince George also had a tradeshow booth where 2,000 attendees passed by with many stopping to share in our vision.

Looking ahead for 2011, we will see the completion of our cargo and fuel facilities. Development will also start on the Logistics Park in 2011. We will see more Chinese investors come to our city and view the investment opportunities. With the assistance of Tourism Prince George, we will work on plans that bring more air travelers to our region. We will also start the planning for the 2015 Canada Winter Games, a real opportunity to change our image and bring thousands of new visitors to our city.

Again, we thank our employees, our partners and our Board members for building our success at Prince George International Airport, your Passport to the World!



John B. Gibson
President and CEO, Prince George Airport Authority



Jim Blake
Chair, Prince George Airport Authority



Overview of Operations

2010 brought incremental changes to our facilities and operations that continue to improve our operational safety, effectiveness and efficiency. The emergency response bays were extended by 5m for a total increase of 77m² to allow for the PGAA's Oshkosh T2500 aircraft fire fighting truck (RED 1) to be stored with our other aircraft fire fighting vehicles (RED 3 and RED 4). RED 1's overall length of 11.6m compared to the 7.9m length of RED 3 and 4 meant that it had to be parked in the maintenance portion of the building before the expansion. Other projects included a replacement of a snow plow/dump truck, replacement forklift and the continued phased replacement of old heating and cooling equipment in the Air Terminal Building to improve energy efficiency.

The second of four phases of the Airport's Safety Management System was put in place in the spring of 2010. The Safety Management System is an industry wide mandated program to provide comprehensive management of safety risks to complement the specific programs already in place.

The University of Northern BC (UNBC), in cooperation with the PGAA, continued for the fourth year in a row their studies on bird and mammal activities and this research has provided significant information to the PGAA to mitigate better those bird and wildlife

hazards. These studies are being presented at North American wildlife conferences and are of great interest to other airports and airport associations. UNBC is also in its third year of testing a vegetation seed mix that provides protection against soil erosion but does not attract wildlife and requires less mowing maintenance. Two new automatic water sampling stations were installed to enhance the regular collection of storm water samples. These samples are then tested for the possible presence of different pollutants to ensure that the PGAA is meeting or exceeding environmental water quality standards.

The community's and the airport's response to emergency situations was tested this year with a table-top exercise that involved more than ten different agencies including the PGAA, RCMP, Canada Border Services Agency, City of Prince George Fire Department, Pine View Fire Department and BC Ambulance. The scenario this year had a security component as it simulated a hi-jacked international aircraft which crashes on landing. Having to deal with a security threat and fire and medical issues at the same time made for a complicated response that required close coordination by all responding agencies. This exercise was in addition to the PGAA's regular practical emergency response training that saw ten staff successfully complete their annual aircraft fire fighting qualifications.





Growth and Development

It was a pinnacle year for British Columbia as we hosted the world with the 2010 Olympic and Para-Olympic Games held in Vancouver. Prince George and the PGAA are proud of all the athletes' accomplishments and the attention the games brought to our province and communities. 2010 also saw the PGAA refocus its attention on our passengers and their air carriers, with the result that we posted a 3.8% gain in passengers over 2009.

We continue to work with our carriers, WestJet, Air Canada Jazz, Central Mountain Air and Northern Thunderbird Air to provide our region with safe and reliable air service. WestJet extended the extremely popular Puerto Vallarta seasonal sun spot service from four months to six. The PGAA has been working with our partners to increase frequency and add additional direct service destinations such as Calgary, Edmonton, Victoria and Las Vegas. With our long runway and north aircraft parking area, we see potential in marketing European and Asian passenger charter flights to serve the growing world interest in nature tourism. Northern BC and YXS are perfectly positioned to offer quick and easy access to our super natural wilderness areas.

British Columbia's Olympic moment and the Provincial Government's business to business host program allowed the PGAA to meet and present our story to a number of air carriers that would not have been possible a few years ago. As a result of this program, Air China, the Province of British Columbia, the Prince George Airport Authority, and the Vancouver Airport Authority announced that YXS would become their

primary alternate airport for north Pacific flights.

In the months after the Olympics, Prince George and our region hosted numerous trade missions from Russia, Japan, Korea, China, and South America. Through our partnership with Initiatives Prince George, the PGAA hosted seven trade missions with international passenger and cargo air carriers, logistics and freight organizations as well as property developers from around the globe.

In the late fall the PGAA and its development partners Western Star Ventures and Sand Bulk Sales announced agreements to develop a 2,322m² multi-tenant cargo facility and common source jet fuel storage facility to be located beside the north aircraft parking area. The common source jet fuel tanks will allow air carriers to store fuel purchased under their own bulk supply agreements at YXS. The development's addition of 600,000 litres of storage eliminates fuel availability and spot fuel pricing concerns. A further 600,000 litres of fuel can be stored at an off airport rail siding for a total of 1.2 million litres of jet fuel storage capacity.

The PGAA is still pushing forward with its tech-stop and cargo product. The PGAA attended and presented at numerous industry forums and conferences throughout North America and Asia. Of particular note, was the BC Week conference at the 2010 World Expo in Shanghai, China where the PGAA along with the Port of Prince Rupert and Initiatives Prince George made a joint presentation outlining the economic benefits of the Northern Pacific Gateway Transportation Corridor.

To capitalize on British Columbia's increased world awareness the BC Government developed a provincial airport strategy. This strategy, encompassing 12 BC airports, aims to strengthen our provincial route network and air service capacity. This is a significant development that will see industry and government working to enhance air service with one voice and unified goals.

The PGAA and its partners in 2010 have made great strides in bringing the world to us and being your **passport to the world.**



Puerto Vallarta, MX

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Audited Financial Statements 2010

AUDITOR'S REPORT	14
STATEMENT OF FINANCIAL POSITION	15
STATEMENT OF OPERATIONS	16
STATEMENT OF CHANGES IN NET ASSETS	17
STATEMENT OF CASH FLOWS	18
NOTES TO THE FINANCIAL STATEMENTS	19



Independent Auditor's Report

To the Members of
Prince George Airport Authority Inc.

We have audited the accompanying financial statements of Prince George Airport Authority Inc., which comprise the statement of financial position as at December 31, 2010, and the statements of operations, changes in the net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, 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 or fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's

judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Prince George Airport Authority Inc. as at December 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Prince George, British Columbia
March 28, 2011

Statement of Financial Position - Year ended December 31, 2010

	2 0 1 0	2 0 0 9
CURRENT ASSETS		
Cash (Note 4)	\$ 488,736	\$ 168,411
Investments (Note 5)	950,000	-
Accounts receivable (Note 6)	586,831	988,973
Inventory	42,296	44,398
Prepaid expenses	280,461	289,247
	<u>2,348,324</u>	<u>1,491,029</u>
CAPITAL ASSETS (Note 7)	<u>54,197,138</u>	<u>55,271,077</u>
	<u>\$ 56,545,462</u>	<u>\$ 56,762,106</u>
CURRENT LIABILITIES		
Bank demand loan (Note 8)	\$ 5,751,905	\$ 7,023,085
Accounts payable and accrued liabilities (Note 9)	976,970	1,073,606
Deferred revenue and deposits	72,207	89,507
	<u>6,801,082</u>	<u>8,186,198</u>
LONG-TERM DEBT (Note 10)	<u>11,973,994</u>	<u>11,507,455</u>
DEFERRED CONTRIBUTIONS RELATED TO CAPITAL ASSETS (Note 11)	<u>28,119,674</u>	<u>29,191,126</u>
	<u>46,894,750</u>	<u>48,884,779</u>
COMMITMENTS (Note 12)		
NET ASSETS		
Invested in capital assets (Note 13)	8,351,282	7,549,170
Restricted airport improvement fee (Note 14)	2,160,274	1,285,037
Unrestricted	(860,844)	(956,880)
	<u>9,650,712</u>	<u>7,877,327</u>
	<u>\$ 56,545,462</u>	<u>\$ 56,762,106</u>

APPROVED BY THE BOARD


 _____ Director


 _____ Director

Statement of Operations - Year ended December 31, 2010

	2 0 1 0	2 0 0 9
Revenue		
Landing fees	\$ 1,676,241	\$ 1,585,498
General terminal charges	1,046,038	967,552
Concessions	211,453	106,751
Parking	1,108,784	1,059,277
Rentals	494,426	535,808
Other	345,089	340,154
	<u>4,882,031</u>	<u>4,595,040</u>
Expenses		
Salaries and employee benefits	1,847,837	1,919,975
Services, supplies and administration	2,435,800	2,516,681
Property taxes	211,911	190,554
Utilities	296,347	319,282
	<u>4,791,895</u>	<u>4,946,492</u>
Operating surplus (deficit)	<u>90,136</u>	<u>(351,452)</u>
Other revenue (expense)		
Airport improvement fee (Note 14)	3,124,075	2,534,061
Amortization of deferred contributions (Note 11)	1,679,532	1,645,637
Amortization	(2,450,922)	(2,362,032)
Gain (loss) on disposal of assets	2,482	(11,865)
Interest on long-term debt	(671,918)	(784,578)
	<u>1,683,249</u>	<u>1,021,223</u>
EXCESS OF REVENUE OVER EXPENSES	<u>\$ 1,773,385</u>	<u>\$ 669,771</u>

Statement of Changes in Net Assets - Year ended December 31, 2010

	Invested in Capital Assets (Note 13)	Restricted Airport Improvement Fee (Note 14)	Unrestricted	2 0 1 0	2 0 0 9
Balance, beginning of year	\$ 7,549,170	\$ 1,285,037	\$ (956,880)	\$ 7,877,327	\$ 7,207,556
Excess (deficiency) of revenue over expenditure	-	2,452,157	(678,772)	1,773,385	669,771
Capital asset additions	1,380,359	(1,380,359)	-	-	-
Net repayment of related debt	196,561	(196,561)	-	-	-
Capital asset disposals, net book value	(3,418)	-	3,418	-	-
Amortization of capital assets	(2,450,922)	-	2,450,922	-	-
Amortization of deferred contributions	1,679,532	-	(1,679,532)	-	-
Balance, end of year	\$ 8,351,282	\$ 2,160,274	\$ (860,844)	\$ 9,650,712	\$ 7,877,327

Statement of Cash Flows - Year ended December 31, 2010

	2 0 1 0	2 0 0 9
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenue over expenses	\$ 1,773,385	\$ 669,771
Items not affecting cash		
Amortization	2,450,922	2,362,032
(Gain) loss on disposal of assets	(2,482)	11,865
Amortization of deferred contributions	(1,679,532)	(1,645,637)
	<u>2,542,293</u>	<u>1,398,031</u>
Changes in non-cash operating working capital		
Increase in investments	(950,000)	-
Decrease in accounts receivable	402,142	299,747
Decrease (increase) in inventory	2,102	(1,795)
Decrease (increase) in prepaid expenses	8,788	(51,314)
Decrease in accounts payable and accrued liabilities	(96,679)	(3,020,871)
(Decrease) increase in deferred revenue and deposits	(17,300)	730
	<u>1,891,346</u>	<u>(1,375,472)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital asset additions	(1,380,359)	(4,709,955)
Proceeds on disposal of capital assets	5,900	-
	<u>(1,374,459)</u>	<u>(4,709,955)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Bank demand loan proceeds	-	1,420,000
Repayment of bank demand loan	(1,271,180)	(7,396,915)
Proceeds from long-term debt	466,539	1,985,422
Decrease in construction payables	-	(259,521)
Increase in deferred contributions related to capital assets	608,080	7,539,143
	<u>(196,561)</u>	<u>3,288,129</u>
INCREASE (DECREASE) IN CASH	320,325	(2,797,298)
CASH, BEGINNING OF YEAR	168,411	2,965,709
CASH, END OF YEAR	\$ 488,736	\$ 168,411
Supplementary disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 205,379</u>	<u>\$ 288,833</u>

Notes to the Financial Statements - Year ended December 31, 2010

1. NATURE OF OPERATIONS AND TRANSFER OF AIRPORT 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. BASIS OF PRESENTATION

These financial statements have been prepared on a going concern basis which contemplates the realization of assets and satisfaction of liabilities and commitments in the normal course of business.

The Authority's borrowing arrangements with the Canadian Imperial Bank of Commerce (CIBC) are on a demand basis while at the same time the bank is accepting payments on an instalment basis pursuant to the banking agreement. As a result of the demand feature, Canadian generally accepted accounting principles require the full amount of the debt to be included in current liabilities. This has contributed to a working capital deficiency of \$4,452,758 at December 31, 2010. Reduction of the working capital deficiency and satisfaction of other liabilities and commitments is dependent upon the Authority continuing to maintain profitable operations.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The financial statements of the Authority are prepared in accordance with Canadian generally accepted accounting principles.

Financial Instruments – Recognition and Measurement

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below:

- * Cash is classified as a financial asset held for trading and is measured at fair value. Fair value fluctuations in these assets including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in investment income;
- * Accounts receivable are classified as loans and receivables and are recorded at amortized cost using the effective interest method;
- * Accounts payable and accrued liabilities and other long-term liabilities are classified as other liabilities and measured at amortized cost using the effective interest method.

The fair values of cash, accounts receivable, and accounts payable and accrued liabilities approximate their carrying values due to their short-term maturity.

Notes to the Financial Statements - Year ended December 31, 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventory

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

Canada Lease

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

Capital assets

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

Leasehold improvements:	
Buildings	4%
Parking facilities and roadway systems	5%
Other	5%-33%
Computer hardware and software	33%
Vehicles	10%
Machinery and other equipment	10%-20%
Runway	5-50 years

Impairment of long-lived assets

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

Income taxes

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

Revenue recognition

The Authority follows the deferral method of accounting for contributions whereby unrestricted revenue is recognized when received or receivable if the amount can be reasonably estimated and collection is reasonably assured.

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 14) is recognized when passengers depart the terminal building.

Government Contributions

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

Notes to the Financial Statements - Year ended December 31, 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

Future accounting changes

The CICA has issued a new accounting framework applicable to Not-for-profit entities. Effective for fiscal years beginning on January 1, 2012, entities will have to choose between International Financial Reporting Standards (IFRSs) or accounting standards for Not-for-profit organizations, whichever suits them best. Early adoption of these standards is permitted. The Authority currently plans to adopt the new accounting standards for Not-for-profit entities for its fiscal year beginning on January 1, 2012. The impact of this transition has not yet been determined.

4. CASH

	2010	2009
Cash and term deposits	\$ 488,736	\$ 168,411

The Authority has a \$500,000 operating line of credit bearing interest at the prime lending rate plus 1% (December 31, 2010 – 4%). The operating 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. The Authority has a bank covenant of cash coverage of capital expenditure and debt repayment, with which it is in compliance.

5. INVESTMENTS

During the year, the Authority has invested surplus cash of \$950,000 in a one year GIC redeemable at an interest rate of .85% maturing on July 4, 2011.

6. ACCOUNTS RECEIVABLE

	2010	2009
Trade receivables	\$ 586,831	\$ 930,848
GST recoverable	-	58,125
	<u>\$ 586,831</u>	<u>\$ 988,973</u>

Notes to the Financial Statements - Year ended December 31, 2010

7. CAPITAL ASSETS

			2 0 1 0	2 0 0 9
	Cost	Accumulated Amortization	Net Book Value	
Land	\$ 15,556,473	\$ -	\$ 15,556,473	\$ 15,376,424
Leasehold improvements				
Buildings	14,660,960	3,333,161	11,327,799	11,541,047
Parking facilities and roadway systems	4,875,557	1,160,751	3,714,806	3,950,208
Other	624,352	22,125	602,227	48,921
Runway	21,949,128	1,928,697	20,020,431	20,982,798
Computer hardware and software	489,241	413,509	75,732	53,267
Vehicles	29,540	29,540	-	-
Machinery and other equipment	6,307,950	3,865,272	2,442,678	3,011,120
Construction in progress/ equipment not in use	456,992	-	456,992	307,292
	<u>\$ 64,950,193</u>	<u>\$ 10,753,055</u>	<u>\$ 54,197,138</u>	<u>\$ 55,271,077</u>

8. BANK DEMAND LOAN

	2 0 1 0	2 0 0 9
CIBC demand instalment loan - payable in monthly principal payments of \$54,265, secured by a general security agreement and a first leasehold mortgage by way of a sublease over all of the Authority's assets, bearing interest at the Bankers Acceptance Rate (1.12% - December 31, 2010) plus a 225 basis point stamping fee.	\$ 5,751,905	\$ 6,403,085
CIBC demand instalment loan	-	620,000
	<u>\$ 5,751,905</u>	<u>\$ 7,023,085</u>

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

	2011	2012	2013	2014	2015
	\$ 651,180	\$ 651,180	\$ 651,180	\$ 651,180	\$ 651,180

Notes to the Financial Statements - Year ended December 31, 2010

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2 0 1 0	2 0 0 9
Trade payables	\$ 674,220	\$ 682,461
Payroll accruals	<u>302,750</u>	<u>391,145</u>
	<u>\$ 976,970</u>	<u>\$ 1,073,606</u>

10. LONG-TERM DEBT

Northern Development Initiative Trust, unsecured, bearing interest at prime (3% - December 2010), interest only payments commencing November 2012, for 34 months. Commencing November 2015 as 120 monthly payments of principal plus accrued interest.

	<u>\$ 11,973,994</u>	<u>\$ 11,507,455</u>
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Under the terms of the agreement, the principal payments required in each of the next five years would be as follows:

	2011	2012	2013	2014	2015
\$	-	-	-	-	422,711

11. 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 0	2 0 0 9
Opening balance	\$ 29,191,126	\$ 23,297,385
Contributions received from		
Ministry of Transportation	-	2,710,963
Western Economic Diversification	608,080	4,828,415
Amortization	<u>(1,679,532)</u>	<u>(1,645,637)</u>
	<u>\$ 28,119,674</u>	<u>\$ 29,191,126</u>

Notes to the Financial Statements - Year ended December 31, 2010

12. 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 review 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 Authority will begin to pay rent on January 1, 2011. 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.

13. INVESTED IN CAPITAL ASSETS

	2 0 1 0	2 0 0 9
Opening balance	\$ 7,549,170	\$ 6,187,641
Capital asset additions, including construction in progress	1,380,359	4,709,955
Payment of (increase): Long-term debt, accounts payable and deferred contributions related to additions	196,561	(2,620,166)
	<u>1,576,920</u>	<u>2,089,789</u>
Capital asset disposals at net book value	(3,418)	(11,865)
Amortization	(2,450,922)	(2,362,032)
Amortization of deferred contributions	1,679,532	1,645,637
	<u>(774,808)</u>	<u>(728,260)</u>
Closing balance	<u>\$ 8,351,282</u>	<u>\$ 7,549,170</u>

14. 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. Effective January 1, 2010 the AIF was set at \$18 to further help fund capital expansion. Earned AIF is net of a 7% handling fee withheld by the airlines.

Notes to the Financial Statements - Year ended December 31, 2010

15. PENSION

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 has five current participating employees. The Authority pension expense for the defined contribution component was \$36,898 in 2010 (\$27,839 in 2009) and for the defined benefit component was \$228,231 in 2010 (\$295,477 in 2009). 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.

Based on an actuarial valuation as at December 31, 2010 of the Authority's defined benefit plan under CICA Handbook Section 3461, the net pension expense is as follows:

	2 0 1 0	2 0 0 9
Service costs	\$ 77,000	\$ 60,000
Interest cost on accrued benefit obligation	157,000	136,000
Expected return on assets	(98,000)	(111,000)
	<hr/>	<hr/>
Pension expense	<u>\$ 136,000</u>	<u>\$ 85,000</u>

Information about the Authority's defined benefit plan contained in the actuarial report prepared as at December 31, 2010 is as follows:

	2 0 1 0	2 0 0 9
Market value of plan assets	\$ 2,390,000	\$ 2,026,000
Accrued benefit obligation	(2,876,000)	(2,453,000)
	<hr/>	<hr/>
Deficiency of plan assets	(486,000)	(427,000)
Unamortized net actuarial gain	794,000	651,000
	<hr/>	<hr/>
Net pension asset	<u>\$ 308,000</u>	<u>\$ 224,000</u>

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

	2 0 1 0	2 0 0 9
Discount rate	5.50%	6.25%
Expected long-term rate of return on plan assets	6.50%	6.50%
Rate of compensation increase	4.00%	4.00%
Rate of inflation	2.50%	2.50%

Notes to the Financial Statements - Year ended December 31, 2010

15. PENSION (continued)

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

	2 0 1 0	2 0 0 9
Employer contribution	\$ 220,000	\$ 218,000
Employees' contribution	24,000	25,000
Benefits paid	74,000	29,000

Plan assets consist of:

Equity securities	63.7%	65.8%
Debt securities	36.3%	34.2%

16. 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 Capital 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.

17. FINANCIAL INSTRUMENTS

Fair value

The Authority's cash, investments, accounts receivable and accounts payable and accrued liabilities are reflected in the financial statements at carrying values which approximate fair values due to the immediate and short-term maturity of these financial instruments. The fair value of the bank demand loan and long-term debt approximates their carrying values as the loans bear interest at current market rates.

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 described in Note 9, the demand instalment loan requires regular principal payments which do not pose a cashflow concern, however, the lender does have the right to demand payment in full.

Notes to the Financial Statements - Year ended December 31, 2010

17. FINANCIAL INSTRUMENTS (continued)

Interest rate risk

The Authority is exposed to interest rate risk on its floating interest rate financial instruments, as changes in these rates could significantly impact cash flows.

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.

18. OTHER INFORMATION

During the year ended December 31, 2010, the fees paid to the Board of the Authority for their services as directors amounted to \$80,850 (2009 - \$80,409).





Corporate Governance

Board Governance - The Prince George Airport Authority Inc. was incorporated on July 27, 2000.

In accordance with Bylaw No. 3, a bylaw relating generally to the transaction of the business and affairs of the Prince George Airport Authority (PGAA), and based on the principles of accountability and transparency desired by the Federal Government and endorsed by the Board of Directors, the Board is composed of twelve members who are nominated or appointed by:

- The Federal Government [2 Reps]
- The Provincial Government [1 Rep]
- The City of Prince George [3 Reps]
- The Regional District of Fraser-Fort George [2 Reps]
- Prince George Chamber of Commerce . . . [1 Rep]
- The Prince George Airport Authority . . . [3 Reps]

The Board members represent consumer interests, the business community and organized labour. It includes Directors having legal, engineering, accounting, commercial banking and experience and skills from various other industries.

Committees are structured to support management and the Board of Directors and to act in accordance with the Board's requirements and decisions. The following standing Committees have been established:

- Finance and Audit Committee
- Governance / Nominating Committee
- Community Consultation Committee
- Human Resource Committee
- Airline Consultation Committee
- Environment / Noise Committee

The Prince George Airport Authority holds annual Governance & Strategic Planning Workshops. The guidelines for the workshops have been approved at the Board level.

Conflict-of-Interest Rules

The PGAA is acutely aware of the trust that has been placed in it by the community and all stakeholders involved in the airport industry. The principles of public accountability and conflict of interest are detailed in the Transport Canada lease and our bylaws. It is, therefore, prudent that proper controls and policies be adopted by the Authority that ensure due diligence and maintain the integrity of future management of the Prince George Airport.

In keeping with the spirit of the public accountability guidelines of the National Airports Policy, section 6.12 of the PGAA's operating bylaws have a very thorough section dealing with conflict of interest guidelines.

The policy requires each Board member to disclose any real, perceived or potential areas of conflict. This disclosure must be in writing and updated annually.

The policy also addresses the appropriate procedures to be followed, should a Director propose independently to provide services to the Authority on a contractual basis.

The Board has ensured that all Directors, officers and employees complied with these rules in 2010.

Contracts Over \$75,000

In 2010 all contracts valued at over \$75,000 (based on 1993 dollars) were awarded by bid.



Governance Guidelines

While not obligated to do so, The Prince George Airport Authority believes it to be a responsibility of its accountability to the community to model its Governance practices as if it were a listed company on a Canadian Securities Exchange.

Following is the Authority's application of those guidelines.

1. Composition of the Board

Guideline – The Board should have a majority of independent Directors, in that being independent means non-management or having no conflict.

Disclosure – The Board is composed exclusively of independent Directors. The Board Chair and other officers are to be elected bi-annually from within the members of the Board.

2. Meetings of Independent Directors

Guideline – The independent Directors should hold regularly scheduled meetings at which non-independent Directors and members of management are not present.

Disclosure – A meeting of Board members only is held at the conclusion of regularly scheduled Board meetings or other times if necessary.

3. Board Mandate

Guideline – The Board should adopt a written mandate in which it explicitly acknowledges responsibility for the stewardship of the organization by:

3.1 Satisfying itself as to the integrity of the management team

3.2 Adopting a strategic planning process

3.3 Identifying the principal risks

3.4 Having a management succession plan in place

3.5 Adopting a communications policy

3.6 Having internal controls and information systems operational

3.7 Having Governance guidelines and principles in place

Disclosure – The PGAA Mission Statement reads – “The Prince George Airport Authority provides leadership as a regional economic driver and a gateway for passengers and cargo by providing exceptional customer services and facilities.” To achieve this mandate:

3.1 The Authority has an in-depth monthly and quarterly reporting and performance measurement system, including regular Board presentations from all levels of management and the ongoing monitoring, comparison, analysis and explanation of results and expectations. External professional resources are employed to test the integrity of internal control systems.

3.2 The Authority has a strategic planning process, which includes a long-term Airport Master Plan, a dynamic five year Strategic Operating Plan and annual operating and capital budgets with goals and expectations reviewed and revised annually.

3.3 The Authority continuously implements necessary changes to safety and security management functions relating to aircraft and passenger movement and protection of airport assets through consideration of:

- a) An environmental management plan and policies addressing all airport environmental issues including aircraft de-icing and the use and application of fertilizers and pesticides.
- b) An airport emergency evacuation plan, a disaster recovery plan and Airport Safety and Security plans.
- c) A comprehensive insurance program to protect the airport assets and its financial viability to meet the ground lease obligations.
- d) An organizational structure with dedicated safety, security and emergency planning and response personnel.
- e) Risk transfer through contract.
- f) Incident reporting and response procedures.
- g) An Airport Safety Committee.

3. Board Mandate

3.4 A management organizational structure has been approved by the Board.

3.5 An extensive communication policy is in place

identifying the prime contacts, their roles and responsibilities. The policy defines the process for stakeholders to contact the Authority and for Airlines and Industry service providers to communicate with the Authority.

3.6 A comprehensive Management Information and Reporting System which tracks, measures and monitors the integrity of the financial statistics, to provide reliable data for decision-making. Service improvement, safety, environmental and security statistics are regularly tracked and monitored.

3.7 The Board has established a Governance Committee and a policy and procedure manual has been completed for the Authority's Directors and employee's guidance.

4. Position Descriptions

Guideline – The Board should develop clear position descriptions for the Chair, each Committee and the CEO.

Disclosure – Detailed position descriptions have been developed for the Authority's Board and for each Board officer's position. The CEO's job description is in place, as are job descriptions for each of the management team.

Staff job descriptions are also in place and specific job training is conducted continuously.

5. Orientation & Continuing Education

Guideline – The Board should ensure that all new Directors receive a comprehensive orientation.

Disclosure – Each new PGAA Director receives a Director's manual that contains current PGAA policies and procedures at the airport as well as the Director's role and responsibilities. Tours of the airport including Nav Canada and Canadian Air Transport Security

Authority site tours as well as procedures are part of the orientation. Subsequent presentations on airport maintenance and safety procedures are provided. Management and staff receive initial job orientation and follow up specific job element training as required.

6. Code of Business Conduct & Ethics

Guideline – The Board should develop a written code of business conduct and ethics applicable to Directors and employees of the Authority.

The code should address in particular:

- 6.1 Conflicts of interest.
- 6.2 Protection of corporate assets.
- 6.3 Confidentiality of corporate information.
- 6.4 Fair dealing with customers, suppliers, competitors and employees.
- 6.5 Compliance with laws and regulations.
- 6.6 Reporting of any illegal or unethical behaviour.

Disclosure – 6.1 Directors annually complete conflict of interest disclosure documents.

- 6.2 Purchases and approval of payments to employees and customers have established approval protocols in place.
- 6.3 Confidential corporate information is disseminated on a need-to-know basis.
- 6.4 Equal opportunity is stressed for suppliers and contractors and employee working agreements provide equity for employees.

6.5 No Director or employee will be required to break any law and compliance with regulations is paramount for employees.

6.6 Directors and employees are encouraged to report any behaviour that is outside legal or ethical circumstance to management.

7. Nomination of Directors

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

Disclosure – It is the duty of the Chair of the Governance Committee to chair the Nominating Committee and the remaining members of the Nominating Committee are also to be members of the Governance Committee. The Nominating Committee communicates with the various nominating entities and appointers to seek Director's with the required skills.

8. Compensation

Guideline – The Board should appoint a Compensation Committee composed entirely of independent Directors to make recommendations to the Board with respect to CEO's and the Directors' compensation.

Disclosure – The Board has charged the Human Resources Committee with the responsibility to bring a recommendation annually to the Board as to the method and level of compensation the CEO should receive, based on market comparisons and personal performance.

The Governance Committee has the responsibility to bring a recommendations to the Board with respect to the CEO's and the Directors' compensation.

9. Regular Board Assessments

Guideline – The Board, its Committees, and each individual Director should be regularly assessed regarding his or her effectiveness and contribution.

Disclosure – The Board has adopted a formal evaluation process in which each Director annually completes an assessment of the Board’s effectiveness. Attendance expectation objectives for Directors have been established.

10. Board & Management Compensation

The annual remuneration for the Board during 2010 was as follows:

Chair \$12,000
Vice Chair \$7,000
Directors \$3,500

Committee Chairs receive \$200 per Board and Committee meeting.

Directors receive \$150 per Board and Committee meeting.

Compensation during 2010 for all Directors was \$74,750

The combined salaries of the Senior Managers [i.e.] President and CEO, Director of Finance and Administration, Director of Marketing & Business Development and Director of Operations in the year 2010 was \$444,585.77.

11. YXS Senior Management

President and CEO

John Gibson • Email: jgibson@pgairport.ca

Director of Finance & Administration

Diane Bertram • Email: dbertram@pgairport.ca

Director of Marketing & Business Development

Todd Doherty • Email: tdoherty@pgairport.ca

Director of Operations

Cuyler Green • Email: cgreen@pgairport.ca



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Goals and Objectives

1. Support of Staff

- a. Establish organizational values and obtain employee commitment.
- b. Establish a career development plan and implement individualized training plans.
- c. Maintain a workplace where respect and fairness is demonstrated openly: a workplace free of harassment plus fun for everyone, while still providing professional and first-class services.
- d. Involve all staff in strategic planning and decision-making.

2. Operate In A Safe, Secure and Environmentally Responsible Manner

- a. Maintain and exceed any required safety programs.
- b. Maintain and exceed all security requirements.
- c. Develop and apply an effective and proactive environmental management program.

3. Provide Our Customers With A User-Friendly, First-Class Facility

- a. Maintain a competitive cost environment for airlines.
- b. Maintain and upgrade existing airside and groundside facilities.

- c. Improve facilities to support growth and new opportunities.
- d. Improve the customer experience by developing great customer service.
- e. Minimizing the cost of travel using the YXS Gateway.

4. Operate As A Financially Viable Entity

- a. Maximize all sources of revenue.
- b. Provide cost-effective service, minimizing expenditures without compromising safety, security or customer service.
- c. Operate within operational revenues.
- d. Capital program will be funded through the Airport Improvement Fee.

5. Ensure Public Accountability

- a. Establish public accountability mechanisms.
- b. Implement a commitment to excellence through strategic planning.

6. Form Partnership Stakeholder Relationships With the Community, Airport Tenants and Users

- a. Develop a Protocol Agreement with the City of Prince George and the Regional District that illustrates the philosophy of co-operation, good communications and addresses a common vision.

- b. Maintain and grow existing relationships with Initiatives PG, the Northwest Corridor Development Corporation, Northwest Tourism Association, Chamber of Commerce and other organizations to work at improving the economic climate of Northern British Columbia.
- c. Ensure good communications and co-operation are maintained with airline partners by continuing the Airline Operating Committee and through the Airline Consultation Committee.
- d. Encourage open communication with community members through the Community Consultation Committee.

7. Pursue Marketing Initiatives and Economic Development

- a. Develop and implement a strategic marketing plan.
- b. Develop airport lands while supporting community objectives.
- c. Retain and strengthen existing air services.
- d. Develop new markets (international, national and transborder).

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

- a. Focus information campaigns regionally.
- b. Continue trade shows regionally and locally.
- c. Continue developing expertise on northern transportation issues.
- d. Strengthen media relationships.
- e. Promote school programs.



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Board of Directors



James (Jim) Blake

Chair

Nominated by City of Prince George

Attendance: 8/8 Board*



Les Waldie

Vice-Chair

Chair, Human Resource Committee

Nominated by Initiatives Prince George

Attendance: 7/8 Board, 9/9 Committee



Tom Newell

Secretary

Nominated by Federal Government

Attendance: 7/8 Board, 8/10 Committee



Ron Epp

Treasurer

Chair, Finance & Audit Committee

Nominated by City of Prince George

Attendance: 8/8 Board, 5/6 Committee



Neil King

Chair, Governance & Nominating Committee

Chair, Airline Consultation Committee

Nominated by Initiatives Prince George

Attendance: 8/8 Board, 6/7 Committee



Don Gould

Chair, Community Consultation Committee

Nominated by Provincial Government

Attendance: 8/8 Board, 3/3 Committee



Mike Tkachuk

Chair, Environment / Noise Committee

Nominated by Regional District of Fraser-Fort George

Attendance: 6/8 Board, 1/2 Committee



Andy Clough

Director

Appointed by Federal Government

Attendance: 5/8 Board, 5/7 Committee



Marion Bartlett

Director

Nominated by Prince George Airport Authority

Attendance: 6/8 Board, 5/10 Committee



Al Leier

Director

Nominated by Prince George Airport Authority

Attendance: 8/8 Board, 5/5 Committee



Tejinder Grewal

Director

Nominated by City of Prince George

Attendance: 7/8 Board, 5/6 Committee



Carol Brown

Director


Nominated by Regional District of Fraser-Fort George

Attendance: 8/8 Board, 4/5 Committee

**The Board Chair attends all Committee meetings as required.*



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Prince George Airport Authority 2010 Annual Report



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