

Audited Financial Statements of

**BC TRANSPORTATION
FINANCING AUTHORITY**

Year ended March 31, 2007

BC TRANSPORTATION FINANCING AUTHORITY
Year ended March 31, 2007

MANAGEMENT REPORT

The financial statements of the BC Transportation Financing Authority have been prepared by management in accordance with Canadian generally accepted accounting principles.

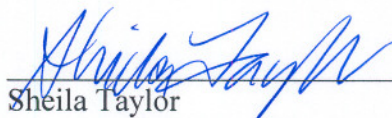
Management is responsible for the preparation of the financial statements and has established a system of internal control to provide reasonable assurance that assets are safeguarded, transactions are properly authorized, and financial records provide reliable information for the preparation of financial statements.

The Director is responsible for the review and approval of the financial statements and meets with management and the external auditor to discuss the results of the audit examination and financial reporting matters. The external auditor has full access to the Director with and without the presence of management.

The Auditor General of British Columbia has performed an independent audit of the financial statements. The Auditor's report outlines the scope of his examination and expresses an opinion on the financial statements of the BC Transportation Financing Authority.



John Dyble
Chief Executive Officer



Sheila Taylor
Executive Director, Finance
and Corporate Secretary



Report of the
Office of the Auditor General
of British Columbia

*To the Board of Directors of
BC Transportation Financing Authority, and*

To the Shareholder of BC Transportation Financing Authority:

I have audited the balance sheet of *BC Transportation Financing Authority* as at March 31, 2007 and the statements of earnings and retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of *BC Transportation Financing Authority* as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Victoria, British Columbia
May 25, 2007*

Errol S. Price, CA
Acting Auditor General

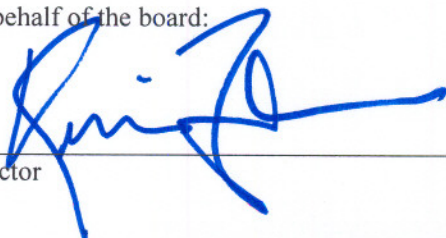
BC TRANSPORTATION FINANCING AUTHORITY
Balance Sheet

As at March 31	2007	2006
	(\$ 000s)	(\$ 000s)
Assets		
Current assets		
Cash and temporary investments (note 2)	7,372	11,091
Marketable securities (note 3)	174	174
Accounts receivable (note 4)	38,331	56,851
Funds held in trust for capital lease obligation (note 5)	-	10,871
	<u>45,877</u>	<u>78,987</u>
Long term receivables (note 4)	5,076	5,866
Sinking funds - to retire capital debt (note 6)	380,256	388,952
Debt issue costs	22,318	22,394
Fixed assets (note 7)	<u>7,445,513</u>	<u>6,943,272</u>
	<u><u>7,899,040</u></u>	<u><u>7,439,471</u></u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 8)	129,736	143,499
Obligation under capital lease (note 5)	-	10,871
Current portion of capital debt (note 6)	362,019	237,114
Interest payable	<u>41,934</u>	<u>39,441</u>
	<u>533,689</u>	<u>430,925</u>
Long term payables and accrued liabilities (note 8)	32,943	37,483
Deferred revenue (note 9)	68,789	70,018
Long term portion of capital debt (note 6)	2,902,340	2,755,326
Public-private partnership obligations (note 10)	353,182	96,411
Deferred capital contributions (note 11)	<u>2,394,274</u>	<u>2,468,696</u>
	<u>6,285,217</u>	<u>5,858,859</u>
Equity		
Retained earnings	1,094,669	1,061,400
Contributed surplus (note 11)	<u>519,154</u>	<u>519,212</u>
	<u>1,613,823</u>	<u>1,580,612</u>
	<u><u>7,899,040</u></u>	<u><u>7,439,471</u></u>
Contractual obligations (note 19)		
Contingencies (note 20)		
Subsequent events (note 21)		

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

On behalf of the board:

Director



BC TRANSPORTATION FINANCING AUTHORITY

Statement of Earnings and Retained Earnings

Year ended March 31	2007	2006
	(\$ 000s)	(\$ 000s)
Revenues		
Dedicated taxes (note 12)	429,229	429,901
Amortization of deferred contributions	158,363	168,285
Interest income	27,403	27,885
Other (note 13)	29,922	27,425
	<u>644,917</u>	<u>653,496</u>
Expenditures		
Operations		
Grant programs (note 14)	44,577	65,763
Subsidies (note 15)	8,000	8,000
Heartlands roads program	29,143	12,964
Transportation planning	2,777	4,840
Public-private partnership performance payments	9,182	5,997
First Nations accommodation agreements	9,635	10,943
Other (note 13)	8,703	10,001
General and administrative expenses (note 16)	3,989	3,616
Amortization	318,854	313,590
Interest expense (note 17)	176,474	155,365
Write down of project costs and disposal of assets (note 18)	314	9,759
	<u>611,648</u>	<u>600,838</u>
Net earnings	33,269	52,658
Retained earnings, beginning of year	<u>1,061,400</u>	<u>1,008,742</u>
Retained earnings, end of year	<u>1,094,669</u>	<u>1,061,400</u>

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

BC TRANSPORTATION FINANCING AUTHORITY**Statement of Cash Flows**

Year ended March 31	2007	2006
Cash provided by (used for)	(\$ 000s)	(\$ 000s)
Operations		
Net earnings	33,269	52,658
Amortization, which does not involve cash	318,854	313,590
Deferred capital contributions	(158,363)	(167,932)
Write down of project costs and disposal of assets	314	9,759
Change in non-cash operating working capital:		
Accounts receivable	19,310	8,416
Interest payable	2,493	2,094
	<u>215,877</u>	<u>218,585</u>
Financing		
Change in capital debt - borrowings	271,919	210,569
Change in public-private partnership obligations	256,771	96,411
Change in payables related to capital infrastructure	(18,303)	17,499
Contribution to sinking funds	8,696	(81,490)
Additions to deferred capital contributions	83,941	77,028
Change in contributed surplus	(58)	-
Change in deferred revenue	(1,229)	(1,740)
Change in debt issue costs	76	(5,715)
	<u>601,813</u>	<u>312,562</u>
Investing		
Additions to fixed assets	<u>(821,409)</u>	<u>(712,277)</u>
	<u>(821,409)</u>	<u>(712,277)</u>
Change in cash and temporary investments	(3,719)	(181,130)
Cash and temporary investments, beginning of year	<u>11,091</u>	<u>192,221</u>
Cash and temporary investments, end of year	<u>7,372</u>	<u>11,091</u>
Supplemental disclosure of cash flow information		
Interest paid	175,271	158,891

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

BC TRANSPORTATION FINANCING AUTHORITY

Notes to Financial Statements

Year ended March 31, 2007

BC Transportation Financing Authority (BCTFA) was established in 1993 as a Crown Corporation of the Province of British Columbia, by the enactment of *Build BC Act*, with a mandate to plan, acquire, construct, hold and improve transportation infrastructure throughout British Columbia. On December 31, 2004, the *Build BC Act* was repealed and the *Transportation Act* became the legislative authority to continue the mandate of BCTFA.

While BCTFA owns all provincial highways and lands held for future highway development, administration regulatory responsibility and operational authority for management of the highways, as set out in the *Highway Act*, are the responsibility of the Minister and the Ministry of Transportation.

The chair of the BCTFA is the Minister of Transportation, and the CEO is the Deputy Minister of Transportation. The BCTFA has no dedicated full-time staff. Management is provided by staff at the Ministry of Transportation.

1. Significant accounting policies:

a) Basis of presentation:

As prescribed by section 33(5) of the *Transportation Act*, the financial statements of BCTFA are prepared in accordance with Canadian generally accepted accounting principles.

b) Financial instruments:

Fair Value: The carrying values of cash and temporary investments, accounts receivable, accounts payable and accrued liabilities approximate their fair value.

Interest rate risk: Financial instruments include long term receivables and long term debt with varying terms and interest rates (notes 4 and 6). Management is aware of no circumstance that would indicate that fair values differ substantially from carrying values. Interest rate risk of temporary investments is limited due to the short term nature of the investments held.

Effective interest rate: Effective interest rate is the weighted average cost of capital of fixed and variable rate debts, based on the notional principle amount, net of premium or discount.

Credit risk: The majority of receivables are due from government ministries or other government entities. Credit risk is limited due to the stability of these entities.

c) Temporary investments and marketable securities:

Temporary investments and marketable securities are carried at the lower of cost or fair value.

BC TRANSPORTATION FINANCING AUTHORITY

Notes to Financial Statements

Year ended March 31, 2007

1. Significant accounting policies (continued):

d) Fixed assets:

Land is stated at cost.

Work in progress consists of direct project expenditures and related financing costs. When project substantial completion is attained (assessed semi-annually), capitalization of interest during construction ceases. Project costs are written down in the year it is determined no tangible asset will result.

Completed infrastructure is stated at cost. Assets are amortized on a straight-line basis over their estimated useful lives, as follows:

Asset	Useful life
Completed infrastructure - surfacing, safety improvements, and equipment	15 years
- all other completed infrastructure costs (excluding land)	40 years

e) Capitalization of public-private partnership projects:

Major capital projects contracted under a public-private partnership model, are delivered by private sector partners selected to design, build, finance and operate the assets. Upon completion of construction, the partners will receive payments based upon specified performance criteria. These payments will cover the partners' operating costs and a return of their capital costs. The cost of these assets is estimated at fair-value and is accounted for as construction progresses. Correspondingly, an equal obligation is recorded as a liability. These assets will be amortized over their useful lives and the corresponding obligations will be met as part of the performance payments.

f) Deferred capital contributions:

Deferred capital contributions include the offset for the highway infrastructure transferred to the BCTFA from the Province of British Columbia and other capital contributions received from outside agencies. These contributions are amortized to income at the same rate as the related highway infrastructure is amortized to expense.

g) Revenue from dedicated taxes:

Revenue from dedicated taxes is recognized monthly based upon allocations of taxes collected by the Minister of Finance.

h) Federal and provincial taxes:

BCTFA is exempt from corporate income taxes.

BC TRANSPORTATION FINANCING AUTHORITY

Notes to Financial Statements

Year ended March 31, 2007

1. Significant accounting policies (continued):**i) Bond discounts, premiums and issue costs:**

Bond discounts and premiums are amortized using the effective yield method over the term of the related debt. Fiscal agency fees are expensed in the year incurred. Other issue costs are deferred and written off on a straight-line basis over the term of the related debt.

j) Use of estimates:

The presentation 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 disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from amounts estimated.

2. Cash and temporary investments:

Cash and temporary investments at the end of the period consist of deposits with banks and investments in money market instruments which are redeemable within a day's notice and earn interest at rates of 3.4% to 5.0%.

(\$ 000s)	2007	2006
Cash	1,873	2,690
Temporary investments	5,499	8,401
	7,372	11,091

3. Marketable securities:

As part of the Ballard Power Systems Inc. and the Province of British Columbia Fuel Cell Program Agreement, BCTFA holds 28,250 shares of Ballard Power Systems Inc. with a market value of \$179,952 at March 31, 2007 (2006 - \$221,763). Due to market price fluctuation, the value of Ballard Power System Inc.'s shares was written down to \$174,020 on March 31, 2005.

BC TRANSPORTATION FINANCING AUTHORITY

Notes to Financial Statements

Year ended March 31, 2007

4. Accounts receivable:

Current portion of accounts receivable includes receivables maturing within one year. Long term receivables are mainly due from partners in economic development projects. Interest rates range from 0% to 6.825% with terms of 4 to 14 years.

(\$ 000s)	2007	2006
Current portion of accounts receivable	38,331	56,851
Long term receivables	5,076	5,866
	43,407	62,717

Of the accounts receivable with related parties, \$37.0 million are tax revenue due from the Province of British Columbia. Of the ordinary trade receivables, \$5.1 million are due from partners in economic development projects.

(\$ 000s)	2007	2006
Accounts receivable with related parties	37,538	37,254
Ordinary trade receivables	5,869	25,463
	43,407	62,717

5. Obligation under capital lease:

Effective March 28, 2003, BCTFA assumed an obligation under a capital lease for the M.V. Queen of Oak Bay and committed for the buy-out option. This obligation was fully offset by an irrevocable trust fund with the Province of British Columbia. In January 2007, BCTFA exercised the buy-out option for \$5.1 million and transferred the vessel to British Columbia Ferry Services Inc. (formerly named British Columbia Ferry Corporation).

(\$ 000s)	2007	2006
M.V. Queen of Oak Bay	-	10,871

BC TRANSPORTATION FINANCING AUTHORITY

Notes to Financial Statements

Year ended March 31, 2007

6. Capital debt and sinking funds:

Current portion of capital debt represents debt maturing within the current fiscal year.

(\$ 000s)	2007	2006
Current portion of capital debt	362,019	237,114
Long term portion of capital debt	2,902,340	2,755,326
	3,264,359	2,992,440

At March 31, 2007, the coupon rates on fixed-rate debt ranged from 4.57% to 7.88% (2006 - 4.57% to 7.88%) except for \$115 million at 9.50% maturing 2012 and \$11 million at 9.50% maturing 2022 (2006 - \$129 million at 9.50%).

(\$ 000s)	2007	2006
Capital debt consists of bonds and notes payable to the Province of British Columbia:		
Fixed-rate debt:		
Various issues at an effective interest rate of 6.105% (2006 - 6.251%), maturing at various times to 2044.	2,293,224	2,247,390
Variable-rate debt:		
Various issues at an effective interest rate of 4.233% (2006 - 3.997%), maturing at various times to 2035.	971,135	745,050
	3,264,359	2,992,440
Sinking funds on deposit with the Province of British Columbia	(380,256)	(388,952)
Net capital debt	2,884,103	2,603,488

BC TRANSPORTATION FINANCING AUTHORITY

Notes to Financial Statements

Year ended March 31, 2007

6. Capital debt and sinking funds (continued):

Sinking funds are established to retire debt. Projected sinking fund contributions for each of the next five years based upon the debt portfolio at March 31, 2007 are:

	(\$ 000s)
2008	60,495
2009	60,495
2010	60,495
2011	60,495
2012	60,495

The Minister of Finance is the fiscal agent of BCTFA. Debt borrowed through the provincial government's fiscal agency program carries a provincial guarantee.

Pursuant to section 38(1) of the *Transportation Act*, BCTFA may borrow the sums of money considered necessary to carry out its mandate. BCTFA had an authorized borrowing limit until March 31, 2007 of \$3.389 billion, net of sinking funds. This limit was removed by legislation introduced in February 2007 and replaced by annual approval by Treasury Board. The approved limit for 2008 is \$4.058 billion.

7. Fixed assets:

(\$ 000s)	Cost	Accumulated amortization	2007 Net book value	2006 Net book value
Land	1,107,737	-	1,107,737	1,042,819
Work in progress	691,786	-	691,786	523,726
Completed infrastructure	7,671,828	(2,025,838)	5,645,990	5,376,727
	9,471,351	(2,025,838)	7,445,513	6,943,272

8. Accounts payable and accrued liabilities:

Current portion of accounts payable includes payables due within one year. Long term payables are liabilities mostly related to expropriation claims.

(\$ 000s)	2007	2006
Current portion of accounts payable and accrued liabilities	129,736	143,499
Long term payables and accrued liabilities	32,943	37,483
	162,679	180,982

BC TRANSPORTATION FINANCING AUTHORITY

Notes to Financial Statements

Year ended March 31, 2007

8. Accounts payable and accrued liabilities (continued):

Accounts payable with related parties are mainly capital project accruals due to the Province of British Columbia.

(\$ 000s)	2007	2006
Accounts payable with related parties and accrued liabilities	162,449	180,750
Ordinary trade payables	230	232
	162,679	180,982

9. Deferred revenue:

The *Coastal Ferry Act* passed on March 26, 2003, provided for the restructuring of BC Ferries. In April, 2003 the Province retained ownership of the ferry terminal lands by having BCTFA purchase them from British Columbia Ferry Corporation (BCFC) at fair value and subsequently lease these assets back to BCFC for a term of 60 years. BCFC prepaid this lease obligation, and the revenue is being amortized on a straight line basis over 60 years.

10. Public-private partnership obligations:

Project	Construction completion date	Interest rate	Contract term	Capital obligations 2007	Capital obligations 2006
		(%)	(Years)	(\$ 000s)	(\$ 000s)
Sea-to-Sky Highway	2009/10	7.52	25	222,391	60,503
William R. Bennett Bridge	2008/09	7.88	27	76,692	22,200
Kicking Horse Canyon Park (10-Mile) Bridge (net of federal recoveries)	2008/09	7.40	25	54,099	13,708
				353,182	96,411

Payments for the operating portion of these public-private partnership contracts are stated in note 19 (Contractual obligations).

BC TRANSPORTATION FINANCING AUTHORITY

Notes to Financial Statements

Year ended March 31, 2007

11. Deferred capital contributions and Contributed surplus:

(\$ 000s)	Opening balance	Additions/ (Disposals)	Amortization	Closing balance
Deferred capital contributions	2,468,696	83,941	(158,363)	2,394,274
Contributed surplus	519,212	(58)	-	519,154
Total contributions	2,987,908	83,883	(158,363)	2,913,428
Consisting of:				
Provincial government	2,784,894	2,454	(155,100)	2,632,248
Federal government	136,426	77,870	(1,680)	212,616
Municipal government	12,809	1,716	(486)	14,039
Other	53,779	1,843	(1,097)	54,525
	2,987,908	83,883	(158,363)	2,913,428

Contributed surplus represents the value of land contributed to BCTFA by the Province of British Columbia at March 31, 1999.

12. Dedicated taxes:

Under the *Transportation Act*, the Province of British Columbia collects taxes on behalf of BCTFA. Under section 13 of the *Motor Fuel Tax Act*, BCTFA receives motor fuel tax of 6.75 cents per litre and, under section 26 of the *Social Services Tax Act*, BCTFA receives social service tax of \$1.50 per car rental day.

(\$ 000s)	2007	2006
Tax revenue earned:		
Motor Fuel Tax Act	417,229	417,901
Social Services Tax Act	12,000	12,000
	429,229	429,901

BC TRANSPORTATION FINANCING AUTHORITY

Notes to Financial Statements

Year ended March 31, 2007

12. Dedicated taxes (continued):

Of the 6.75 cents per litre motor fuel tax received, funds from 3.50 cents per litre are dedicated to expenditures under the multi-year Transportation Investment Plan (TIP).

TIP dedicated tax revenue and expenditures:

(\$ 000s)	Prior years	2007	Cumulative total
Revenue:			
3.5 cents/litre motor fuel tax	659,738	216,341	876,079
Provincial expenditures:			
Expansion	586,326	225,725	812,051
Preservation	189,098	198,165	387,263
Heartlands roads program	154,892	36,344	191,236
Grant programs	80,837	44,577	125,414
Inland ferries	24,000	8,000	32,000
Pre-concession costs	65,261	2,596	67,857
	1,100,414	515,407	1,615,821
Net balance	(440,676)	(299,066)	(739,742)

13. Other revenues and expenses:

Other revenues and expenses consist of the following:

(\$ 000s)	2007			2006		
	Revenue	Expense	Net	Revenue	Expense	Net
Property sale	25,423	(5,741)	19,682	22,954	(9,212)	13,742
Property rental or leases	3,091	(503)	2,588	3,818	(578)	3,240
Economic development projects	762	(163)	599	339	-	339
Miscellaneous	646	(2,296)	(1,650)	314	(211)	103
	29,922	(8,703)	21,219	27,425	(10,001)	17,424

BC TRANSPORTATION FINANCING AUTHORITY

Notes to Financial Statements

Year ended March 31, 2007

14. Grant programs :

The BCTFA provided grants during the year under the following programs:

(\$ 000s)	2007	2006
Ports and airports	26,702	762
Canada Line Rapid Transit	17,200	65,001
Cycling Infrastructure Partnerships Program	547	-
Newly Incorporated Territories Program	128	-
	44,577	65,763

15. Subsidies:

Subsidies are to the Ministry of Transportation for operation of the Inland Ferries.

16. General and administrative expenses (Related party transactions):

In 2007, \$4.0 million (2006 - \$3.6 million) was paid to the Ministry of Transportation for general and administrative services not specifically attributable to individual capital construction projects.

The BCTFA is related through common ownership to all other Province of British Columbia ministries, agencies and crown corporations. Transactions with these entities, unless disclosed separately in these financial statements, are generally considered to be in the normal course of operations and are recorded at the exchange amount.

17. Interest expense:

(\$ 000s)	2007	2006
Interest on capital debt and public-private partnership obligations	199,472	163,851
Interest capitalized	(22,998)	(8,486)
	176,474	155,365

BC TRANSPORTATION FINANCING AUTHORITY

Notes to Financial Statements

Year ended March 31, 2007

18. Write down of project costs and disposal of assets:

(\$ 000s)	2007	2006
Project write downs:	-	9,224
Highway transfers	314	535
	314	9,759

Project write off amounts are costs related to aspects of the project that will not proceed.

Highways that no longer serve a provincial need were transferred to local governments or recently incorporated communities with approval from the provincial government.

19. Contractual obligations:

BCTFA has entered into three multiple-year public-private partnership contracts for the designing, building, financing and operating of certain highway infrastructure. The information presented below shows the anticipated cash outflow for all future obligations under these contracts including the remaining construction and financing of the capital assets, rehabilitation of the infrastructure, annual operation and maintenance as well as the assumption of risks formerly underwritten by the Province. As construction proceeds, the asset values are recorded as work in progress and the corresponding liabilities are reported in BCTFA's balance sheet and disclosed in note 10 (Public-private partnership obligations). Payments to private sector concessionaires are contingent on specified performance criteria and include an estimation of inflation where applicable.

(\$ millions)	Contract Term	2008	2009	2010	2011	Future payments
Public-private partnerships:						
Sea-to-Sky Highway	2005 - 2030	20.0	8.3	33.5	42.1	931.8
William R. Bennett Bridge	2009 - 2036		7.3	12.3	12.4	351.0
Kicking Horse Canyon Park (10-Mile) Bridge (net of federal recoveries)	2005 - 2030	4.7	4.2	4.3	2.8	103.5
Grants:						
Canada Line Rapid Transit	2005 - 2040	118.0	-	6.0	20.0	566.6
		142.7	19.8	56.1	77.3	1,952.9

At the end of each year, BCTFA has a number of multi-year contractual obligations for both the operating and capital components of the Transportation Investment Plan. Such future expenditures will be accounted for in the year the work or service is performed. The approved Transportation Investment Plan for 2008, which includes public-private partnership contracts and grants above, is \$1.004 billion (2007 - \$804 million).

BC TRANSPORTATION FINANCING AUTHORITY

Notes to Financial Statements

Year ended March 31, 2007

20. Contingencies:

Contingent liabilities of \$101.7 million (2006 - \$103.7 million) remain after deducting the estimated settlement expense currently accrued from gross claims and environmental issues outstanding for capital projects.

21. Subsequent events:

Effective April 1st, 2007 BCTFA purchased the inland ferry assets at net book value from the Ministry of Transportation for \$13.6 million, of which \$6 million is related to a vessel under capital lease.

22. Comparative change:

Certain prior year's figures have been restated to conform to the current year's presentation.