

**Audited Financial Statements of**

**BC TRANSPORTATION  
FINANCING AUTHORITY**

**Year ended March 31, 2006**

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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:*

We have audited the balance sheet of *BC Transportation Financing Authority* as at March 31, 2006 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. 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 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 our opinion, these financial statements present fairly, in all material respects, the financial position of *BC Transportation Financing Authority* as at March 31, 2006 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 19, 2006*

Errol S. Price, CA  
Deputy Auditor General

## BC TRANSPORTATION FINANCING AUTHORITY

Year ended March 31, 2006

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### 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  
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Sheila Taylor  
Executive Director,  
Finance and Corporate Secretary

**BC TRANSPORTATION FINANCING AUTHORITY****Balance Sheet**

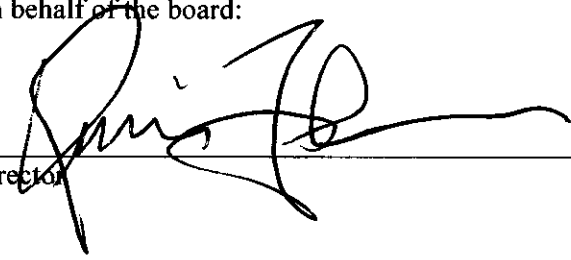
As at March 31	2006	2005
	(\$ 000s)	(\$ 000s)
<b>Assets</b>		
<b>Current assets</b>		
Cash and temporary investments (note 2)	11,091	192,221
Marketable securities (note 3)	174	174
Accounts receivable (note 4)	56,851	65,268
Funds held in trust for capital lease obligations (note 5)	10,871	15,102
	<u>78,987</u>	<u>272,765</u>
Long term receivables (note 6)	5,866	5,865
<b>Investments and funds:</b>		
Funds held in trust for capital lease obligations (note 5)	-	10,610
Sinking funds - to retire capital debt (note 7)	388,952	307,462
Debt issue costs	22,394	16,679
Fixed assets (note 8)	<u>6,943,272</u>	<u>6,554,344</u>
	<u><u>7,439,471</u></u>	<u><u>7,167,725</u></u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	180,982	163,483
Current portion of obligation under capital leases (note 5)	10,871	15,102
Current portion of capital debt (note 7)	237,114	76,646
Interest payable	39,441	37,347
	<u>468,408</u>	<u>292,578</u>
Deferred revenue (note 9)	70,018	71,758
Obligations under capital leases (note 5)	-	10,610
Long term portion of capital debt (note 7)	2,755,326	2,705,225
Public-private partnership obligations (note 10)	96,411	-
Deferred capital contributions (note 11)	<u>2,468,696</u>	<u>2,559,600</u>
	<u><u>5,858,859</u></u>	<u><u>5,639,771</u></u>
<b>Equity</b>		
Retained earnings	1,061,400	1,008,742
Contributed surplus (note 11)	<u>519,212</u>	<u>519,212</u>
	<u><u>1,580,612</u></u>	<u><u>1,527,954</u></u>
	<u><u>7,439,471</u></u>	<u><u>7,167,725</u></u>

Contractual obligations (note 20)

Contingencies (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	2006	2005
	(\$ 000s)	(\$ 000s)
<b>Revenues</b>		
Dedicated taxes (note 12)	429,901	426,928
Amortization of deferred contributions	167,932	175,076
Interest income	27,885	20,618
Provincial grants (note 13)	-	750,000
Other (note 14)	27,778	32,727
	<u>653,496</u>	<u>1,405,349</u>
<b>Expenditures</b>		
Operations		
Grant programs (note 15)	65,763	69,530
Subsidies (note 16)	8,000	8,000
Heartlands roads program	12,964	11,714
Transportation planning	4,840	31,630
Public-private partnership performance payments	5,997	-
First Nations accommodation agreements	10,943	-
Other (note 14)	10,001	19,948
General and administrative expenses (note 17)	3,616	3,499
Amortization	313,590	297,818
Interest expense (note 18)	155,365	155,615
Write down of project costs and disposal of assets (note 19)	9,759	2,020
	<u>600,838</u>	<u>599,774</u>
Earnings before gain on sale of marketable securities	52,658	805,575
Gain on sale of marketable securities	-	85
Net earnings	52,658	805,660
Retained earnings, beginning of year	<u>1,008,742</u>	<u>203,082</u>
Retained earnings, end of year	<u>1,061,400</u>	<u>1,008,742</u>

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

**BC TRANSPORTATION FINANCING AUTHORITY**

## Statement of Cash Flows

Year ended March 31	2006	2005
	(\$ 000s)	(\$ 000s)
<b>Cash provided by (used for)</b>		
<b>Operations</b>		
Net earnings	52,658	805,660
Amortization, which does not involve cash	313,590	297,818
Long term receivables	(1)	(1,313)
Deferred capital contributions	(167,932)	(175,076)
Write down of project costs and disposal of assets	9,759	2,020
Change in non-cash operating working capital:		
Marketable securities	-	143
Accounts receivable	8,417	(19,759)
Assets held for resale	-	10,000
Interest payable	2,094	719
	<u>218,585</u>	<u>920,212</u>
<b>Financing</b>		
Change in capital debt - borrowings	210,569	(221,955)
Change in public-private partnership obligations	96,411	-
Change in payables related to capital infrastructure	17,499	36,381
Contribution to sinking funds	(81,490)	(67,470)
Additions to deferred capital contributions	77,028	36,668
Change in deferred revenue	(1,740)	(716)
Change in debt issue costs	(5,715)	(2,774)
	<u>312,562</u>	<u>(219,866)</u>
<b>Investing</b>		
Additions to fixed assets	<u>(712,277)</u>	<u>(514,313)</u>
	<u>(712,277)</u>	<u>(514,313)</u>
Change in cash and temporary investments	(181,130)	186,033
Cash and temporary investments, beginning of year	<u>192,221</u>	<u>6,188</u>
Cash and temporary investments, end of year	<u>11,091</u>	<u>192,221</u>

**Supplemental disclosure of cash flow information**

Interest paid	158,891	160,341
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The accompanying notes are an integral part of these financial statements.

## BC TRANSPORTATION FINANCING AUTHORITY

Notes to Financial Statements

Year ended March 31, 2006

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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 6 and 7). 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, 2006

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) Federal and provincial taxes:

BCTFA is exempt from corporate income taxes.

h) 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.



**BC TRANSPORTATION FINANCING AUTHORITY**

## Notes to Financial Statements

Year ended March 31, 2006

## i) 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 2.3% to 3.8%.

(\$ 000s)	2006	2005
Cash	2,690	1,914
Temporary investments	8,401	190,307
	11,091	192,221

**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 \$221,763 at March 31, 2006. Due to market price fluctuation, the value of Ballard Power System Inc.'s shares was written down to \$174,020 on March 31, 2005.

**4. Accounts receivable:**

Accounts receivable that mature within one year consist of the following:

(\$ 000s)	2006	2005
Accounts receivable with related parties	36,885	39,951
Ordinary trade receivables	19,966	25,317
	56,851	65,268

Accounts receivable with related parties are mainly tax revenue (\$36.3 million) due from the Province of British Columbia. Ordinary trade receivables are mainly subsidies (\$19.5 million) from the Federal Government and amounts due from partners in economic development projects.

**BC TRANSPORTATION FINANCING AUTHORITY**

Notes to Financial Statements

Year ended March 31, 2006

**5. Obligations under capital leases:**

Effective March 28, 2003, BCTFA assumed obligations under capital leases for the M.V. Queen of Surrey and M.V. Queen of Oak Bay and commitments for the buy-out options. These obligations, including payment for the buy-out options in the leases, are fully offset by irrevocable trust funds with the Province of British Columbia.

In December 2005, BCTFA exercised the buy-out option of M.V. Queen of Surrey for \$5.3 million and transferred the vessel to British Columbia Ferry Services Inc.

(\$ 000s)	2006	2005
M.V. Queen of Surrey	-	9,606
M.V. Queen of Oak Bay	10,871	16,106
	10,871	25,712
Consisting of:		
Current portion	10,871	15,102
Non-current portion	-	10,610
	10,871	25,712

**6. Long term receivables:**

Long term receivables are due from partners in economic development projects. Interest rates range from 0% to 6.825% with terms of 5 to 15 years. The portion of long term receivables that matures within one year is included in current accounts receivable (note 4).

**BC TRANSPORTATION FINANCING AUTHORITY**

Notes to Financial Statements

Year ended March 31, 2006

**7. Capital debt and sinking funds:**

(\$ 000s)	2006	2005
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 6.251% (2005 - 6.326%), maturing at various times to 2044. 2005 interest rate has been restated to conform with 2006's calculations.	2,247,390	2,255,091
Variable-rate debt:		
Various issues at an effective interest rate of 3.997% (2005 - 2.681%), maturing at various times to 2035.	745,050	526,780
	2,992,440	2,781,871
Sinking funds on deposit with the Province of British Columbia	(388,952)	(307,462)
Net capital debt	2,603,488	2,474,409

At March 31, 2006, the coupon rates on fixed-rate debt ranged from 4.57% to 7.88% (2005 - 5.25% to 8.00%) except for \$118 million at 9.50% maturing 2012 and \$11 million at 9.50% maturing 2022 (2005 - \$131 million at 9.50%).

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, 2006 are:

	(\$ 000s)
2007	57,245
2008	50,342
2009	50,342
2010	50,342
2011	50,342

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 has an authorized borrowing limit, until March 31, 2007, of \$3.389 billion, net of sinking funds.

**BC TRANSPORTATION FINANCING AUTHORITY**

Notes to Financial Statements

Year ended March 31, 2006

**8. Fixed assets:**

(\$ 000s)			2006	2005
	Cost	Accumulated amortization	Net book value	Net book value
Land	1,042,819	-	1,042,819	969,363
Work in progress	523,726	-	523,726	309,958
Completed infrastructure	7,331,006	(1,954,279)	5,376,727	5,275,023
	8,897,551	(1,954,279)	6,943,272	6,554,344

**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	Obligation to date	Construction completion date	Interest rate	Contract term
(\$ 000s)			(%)	(Years)
Sea-to-Sky Highway	58,100	2009/10	7.52	25
William R. Bennett Bridge	21,000	2008/09	7.88	27
Kicking Horse Canyon Park (10-Mile) Bridge (net of federal recoveries)	12,500	2008/09	7.40	25
Interest during construction	4,811			
	96,411			

Payments to retire the public-private partnership obligations are stated in note 20 (Contractual obligations).

**BC TRANSPORTATION FINANCING AUTHORITY**

Notes to Financial Statements

Year ended March 31, 2006

**11. Capital contributions:**

(\$ 000s)	Opening balance	Additions/ (Disposals)	Amortization	Closing balance
Deferred capital contributions	2,559,600	77,028	(167,932)	2,468,696
Contributed surplus	519,212	-	-	519,212
<b>Total contributions</b>	<b>3,078,812</b>	<b>77,028</b>	<b>(167,932)</b>	<b>2,987,908</b>
Consisting of:				
Provincial government	2,949,793	683	(165,582)	2,784,894
Federal government	88,155	49,839	(1,568)	136,426
Municipal government	10,719	2,425	(335)	12,809
Other	30,145	24,081	(447)	53,779
	<b>3,078,812</b>	<b>77,028</b>	<b>(167,932)</b>	<b>2,987,908</b>

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

**BC TRANSPORTATION FINANCING AUTHORITY**

Notes to Financial Statements

Year ended March 31, 2006

**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)	2006	2005
Tax revenue earned:		
Motor Fuel Tax Act	417,901	415,928
Social Services Tax Act	12,000	11,000
	429,901	426,928

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	2006	Cumulative total
Revenue:			
3.5 cents/litre motor fuel tax	443,049	216,689	659,738
Provincial expenditures:			
Expansion	314,161	272,165	586,326
Preservation	-	189,098	189,098
Heartlands roads program	110,494	44,398	154,892
Grant programs	15,074	65,763	80,837
Inland ferries	16,000	8,000	24,000
Pre-concession costs	60,848	4,413	65,261
	516,577	583,837	1,100,414
Net balance	(73,528)	(367,148)	(440,676)

**13. Provincial grants:**

Provincial grants in prior year consist of one time transfer payments from BC Rail proceeds (\$200 million) and Provincial general revenue (\$550 million).

**BC TRANSPORTATION FINANCING AUTHORITY**

Notes to Financial Statements

Year ended March 31, 2006

**14. Other revenues and expenses:**

Other revenues and expenses consist of the following:

(\$ 000s)	2006			2005		
	Revenue	Expense	Net	Revenue	Expense	Net
Property sale	22,954	(9,212)	13,742	27,085	(17,187)	9,898
Property rental or leases	3,818	(578)	3,240	1,925	(533)	1,392
Economic development projects	692	-	692	3,346	(2,078)	1,268
Miscellaneous	314	(211)	103	371	(150)	221
	27,778	(10,001)	17,777	32,727	(19,948)	12,779

**15. Grant programs :**

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

(\$ 000s)	2006	2005
Ports and airports	762	11,776
Canada Line Rapid Transit	65,001	53,359
Newly incorporated territories	-	32
Skytrain Millennium Line	-	(200)
Clarke Lake Road bypass	-	3,765
Miscellaneous grants	-	798
	65,763	69,530

**16. Subsidies:**

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

**BC TRANSPORTATION FINANCING AUTHORITY**

Notes to Financial Statements

Year ended March 31, 2006

**17. Related party transactions:**

In 2006, \$3.6 million (2005 - \$3.5 million) was paid to the Ministry of Transportation for general 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.

**18. Interest expense:**

(\$ 000s)	2006	2005
Interest on capital debt and public-private partnership obligations	163,851	159,741
Interest capitalized	(8,486)	(4,126)
	155,365	155,615

**19. Write down of project costs and disposal of assets:**

(\$ 000s)	2006	2005
Project write downs:		
Cache Creek to the Rockies	4,030	
Okanagan Lake Bridge	2,469	
Needles Bridge	1,896	
Other	829	2,020
	9,224	2,020
Highway transfers	535	-
	9,759	2,020

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 government or recently incorporated communities with approval from the provincial government.



**BC TRANSPORTATION FINANCING AUTHORITY**

Notes to Financial Statements

Year ended March 31, 2006

**20. Contractual obligations:**

BCTFA has entered into three multiple-year public-private partnership contracts for the design, build, financing and operation of certain highway infrastructure. The information presented below shows the anticipated cash outflow for all future obligations under these contracts including construction of the capital assets, financing of the projects, 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	2007	2008	2009	2010	Future payments
Public-private partnerships:						
Sea-to-Sky Highway	2005 - 2030	15.0	20.0	30.5	55.7	1,484.8
William R. Bennett Bridge	2009 - 2036			14.8	19.8	551.3
Kicking Horse Canyon Park (10-Mile) Bridge (net of federal recoveries)	2005 - 2030	2.0	4.7	9.5	9.5	226.4
Grants:						
Canada Line Rapid Transit	2005 - 2040	17.2	118.0		6.0	586.6
		34.2	142.7	54.8	91.0	2,849.1

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 2007, which includes public-private partnership contracts and grants above, is \$804 million (2006 - \$657 million).

**21. Contingencies:**

Contingent liabilities of \$103.7 million (2005 - \$94.2 million) remain after deducting the estimated settlement expense currently accrued from gross claims and environmental issues outstanding for capital projects.

**22. Comparative change:**

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