

Appendix 2: BC Transportation Financing Authority Financial Statements

BC TRANSPORTATION FINANCING AUTHORITY

Notes to Consolidated Financial Statements

Year ended March 31, 2004

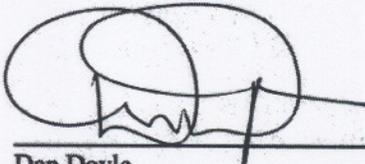
MANAGEMENT REPORT

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

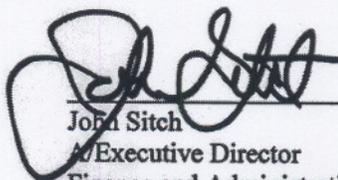
Management is responsible for the preparation of the financial statements and has established a system of internal control to provide reasonable assurance that assets are safeguarded, transactions are properly authorized, and financial records provide reliable information for the preparation of financial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

The Board of Directors 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 Board of Directors 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.



Dan Doyle
Chief Executive Officer



John Sitch
Executive Director
Finance and Administration and
Corporate Secretary



Report of the Auditor General of British Columbia

*To the Chair of the Board of the BC Transportation
Financing Authority*

I have audited the consolidated balance sheet of *BC Transportation Financing Authority* as at March 31, 2004 and the consolidated statements of earnings and retained earnings and of 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 consolidated financial statements present fairly, in all material respects, the financial position of *BC Transportation Financing Authority* as at March 31, 2004 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Victoria, British Columbia
May 14, 2004*

Wayne Strelieff, FCA
Auditor General

BC TRANSPORTATION FINANCING AUTHORITY

Consolidated Balance Sheet

As at March 31	2004	2003
	(\$ 000s)	(\$ 000s)
Assets		
Current assets		
Cash and temporary investments (Note 2)	3,912	4,036
Marketable securities (Note 3)	317	317
Accounts receivable	45,509	37,378
Assets held for resale (Note 4)	10,000	8,000
	<u>59,738</u>	<u>49,731</u>
Long term receivables (Note 5)	4,552	5,897
Corridor protection (Note 6)	32,978	33,507
Capital assets (Note 7)	6,309,167	6,128,042
Debt issue costs	13,905	10,694
	<u>6,420,340</u>	<u>6,227,871</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	127,102	94,357
Interest payable	36,628	34,496
	<u>163,730</u>	<u>128,853</u>
Deferred revenue (Note 8)	72,474	-
Capital debt net of sinking funds (Note 9)	2,763,834	2,660,755
Deferred capital contributions (Note 10)	2,698,008	2,841,414
	<u>5,698,046</u>	<u>5,631,022</u>
Equity		
Retained earnings	203,082	77,637
Contributed surplus	519,212	519,212
	<u>722,294</u>	<u>596,849</u>
	<u>6,420,340</u>	<u>6,227,871</u>

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

BC TRANSPORTATION FINANCING AUTHORITY

Consolidated Statement of Earnings and Retained Earnings

Year Ended March 31	2004	2003
	(\$ 000s)	(\$ 000s)
Revenues		
Dedicated Taxes (Note 11)	415,598	223,224
Contractor fees (Note 12)	-	753
Amortization of deferred contributions (Note 10)	176,313	187,457
Other (Note 13)	12,090	7,668
	<u>604,001</u>	<u>419,102</u>
Expenditures		
Operations		
Construction wages and benefits (Note 12)	-	753
Grant programs (Note 14)	11,834	377
Heartlands roads program	10,339	-
Sierra Yoyo Desan Road improvements (Note 15)	2,563	2,830
Transportation planning	17,694	-
General and administrative expenses		
Ministry of Transportation (Note 16)	3,525	2,832
Salaries and benefits	66	98
Professional services	34	7
Office	24	16
Rent	5	8
Travel	6	10
Amortization	284,654	286,275
Interest (Note 17)	133,743	126,078
Write down of project costs and disposal of assets (Note 18)	14,069	12,848
	<u>478,556</u>	<u>432,132</u>
Earnings (Loss) before extraordinary item	125,445	(13,030)
Extraordinary item	-	6,739
Net earnings (loss) after extraordinary item	125,445	(19,769)
Retained earnings, beginning of year	77,637	97,406
Retained earnings, end of year	<u>203,082</u>	<u>77,637</u>

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

BC TRANSPORTATION FINANCING AUTHORITY

Consolidated Statement of Cash Flows

Year ended March 31	2004	2003
	(\$ 000s)	(\$ 000s)
Cash provided by (used in)		
Operations		
Net earnings (loss) after extraordinary items	125,445	(19,769)
Amortization, which does not involve cash	284,654	286,275
Deferred capital contributions	(176,313)	(187,457)
Extraordinary items	0	6,739
Write down of project costs and disposal of assets	14,069	12,848
Change in non-cash operating working capital	(7,999)	69,271
	239,856	167,907
Financing		
Increase in capital debt - borrowings	168,135	195,265
Change in payables related to capital infrastructure	32,745	(40,684)
Contribution to sinking funds	(65,056)	(48,349)
Additions to deferred revenue	32,907	1,735
Change in debt issue costs	(3,211)	(2,233)
	165,520	105,734
Investments		
Additions to capital assets	(406,845)	(274,618)
Long term receivables	1,345	379
	(405,500)	(274,239)
Decrease in cash and temporary investments	(124)	(598)
Cash and temporary investments, beginning of year	4,036	4,634
Cash and temporary investments, end of year	3,912	4,036

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

BC TRANSPORTATION FINANCING AUTHORITY

Notes to Consolidated Financial Statements
Year ended March 31, 2004

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

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.

Highway Constructors Ltd. (HCL), a wholly owned subsidiary, was formed to provide the labour force and labour relations structure for contractors working on major transportation infrastructure projects. During 2003/2004 HCL completed its legal obligation to provide the labour force for contractors and effective January 2, 2004 ceased operations.

1. Significant accounting policies:

a) Basis of presentation:

As prescribed by Section 18(8) of the *Build BC Act*, the consolidated financial statements of BCTFA are prepared in accordance with Canadian generally accepted accounting principles.

b) Principles of consolidation:

The consolidated financial statements include the assets, liabilities and operating results of BCTFA and its wholly owned subsidiary, HCL. Inter-company accounts and transactions are eliminated. General and administrative costs of HCL that relate directly to the provision of labour and associated services of BCTFA projects are capitalized as part of the cost of constructing the related infrastructure.

c) Temporary investments and marketable securities:

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

d) Corridor protection:

Corridor protection properties are stated at cost. These properties are held for future highway development. The cost of these properties will become part of work in progress when the applicable projects commence.

BC TRANSPORTATION FINANCING AUTHORITY

Notes to Consolidated Financial Statements

Year ended March 31, 2004

1. Significant accounting policies (continued):

e) Capital assets:

Land is stated at cost.

Work in progress consists of direct project expenditures and related financing costs. Capitalization of interest during construction ceases semi-annually when a project is substantially complete and ready to use. Project costs are written down in the year it is determined no tangible asset will result.

Highway infrastructure transferred from the Province of British Columbia is recorded at net book value and, where necessary, estimates were used.

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

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:

Both the BCTFA and HCL are exempt from corporate income taxes. HCL is subject to the Goods and Services Tax.

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.

i) Related party transactions:

The BCTFA is related through common ownership to all 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.

BC TRANSPORTATION FINANCING AUTHORITY

Notes to Consolidated Financial Statements
Year ended March 31, 2004

1. Significant accounting policies (continued):

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.

(\$ 000s)	2004	2003
Cash	1,609	911
Temporary investments	2,303	3,125
	3,912	4,036

3. Marketable securities:

As part of the Ballard Power Systems Inc. and Province of BC Fuel Cell Program Agreement, BCTFA holds 28,250 shares with a market value of \$0.3 million at March 31, 2004 (2003 — \$0.4 million).

On February 3, 2004, BCTFA redeemed its holding of 499,720 share purchase warrants in Hillsborough Resources Ltd and purchased 499,720 common shares at a price of \$0.36 each. These shares were subsequently sold on February 27, 2004, for a gain of \$0.2 million.

4. Assets held for resale:

BCTFA, on behalf of the Province, purchased the Bombardier Centre for Advanced Transit Systems pursuant to a contractual commitment between Bombardier and Rapid Transit Project 2000 Ltd. The contract set out certain circumstances under which Bombardier could unilaterally elect to sell the Centre at a fixed amount to the Province. The assets are being held for resale and are recorded at net realizable value.

5. Long term receivables:

Long term receivables are due from partners in economic development projects. Interest rates range from 0 per cent to 9.325 per cent with terms from 8 to 17 years.

BC TRANSPORTATION FINANCING AUTHORITY

Notes to Consolidated Financial Statements

Year ended March 31, 2004

6. Corridor protection:

A corridor protection fund has been established to support the acquisition of properties in advance of need as part of a corridor protection strategy. The assessed value of corridor protected lands at March 31, 2004 was \$246.6 million.

(\$ 000s)	2004	2003
Cash	2,276	4,006
Properties - Purchased by BCTFA	7,354	5,624
	9,630	9,630
Properties - Transferred from the Province	23,348	23,877
	32,978	33,507

7. Capital assets:

(\$ 000s)	Cost	Accumulated Amortization	2004 Net Book Value	2003 Net Book Value
Land	890,217		890,217	782,820
Work in progress	174,621		174,621	106,487
Completed infrastructure	6,589,703	1,345,374	5,244,329	5,238,735
	7,654,541	1,345,374	6,309,167	6,128,042

8. Deferred revenue:

Bill 18 (*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 market value and subsequently lease these assets back to BCFC for a term of 60 years. BCFC has prepaid this lease obligation, and the revenue is being amortized on a straight line basis over the 60 years.

BC TRANSPORTATION FINANCING AUTHORITY

Notes to Consolidated Financial Statements
Year ended March 31, 2004

9. Capital debt and sinking funds:

(\$ 000s)	2004	2003
Bonds and notes payable to the Province of British Columbia		
Fixed-rate debt: Various issues at an average effective interest rate of 6.359 per cent (2003 – 6.444 per cent) maturing at various times to 2043.	2,114,122	1,966,227
Variable-rate debt: Various issues at an average effective interest rate of 2.469 per cent (2003 – 2.606 per cent), maturing at various times to 2027.	889,704	869,464
	3,003,826	2,835,691
Sinking funds on deposit with the Province of British Columbia	(239,992)	(174,936)
Net capital debt	2,763,834	2,660,755

At March 31, 2004, the coupon rates on fixed-rate debt ranged from 5.25 per cent to 9.50 per cent (2003 — 5.70 per cent to 9.50 per cent). All foreign currency debt has been swapped to Canadian dollars.

Sinking funds are established to retire debt. Projected sinking fund contributions for each of the next five years are (in 000s):

2005	\$69,506
2006	\$78,295
2007	\$86,749
2008	\$88,670
2009	\$91,800

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

Pursuant to Section 23(1) of the Build BC Act, BCTFA may borrow the sums of money considered necessary to carry out its mandate. At March 31, 2004, the BCTFA was authorized to borrow up to \$2,874 million, net of sinking funds.

BC TRANSPORTATION FINANCING AUTHORITY

Notes to Consolidated Financial Statements

Year ended March 31, 2004

10. Capital Contributions:

(\$ 000s)	Opening Balance	Additions/ (Disposal)	Amortization	Closing Balance
Deferred Capital Contributions	2,841,414	32,907	(176,313)	2,698,008
Contributed Surplus	519,212			519,212
Total Contributions	3,360,626	32,907	(176,313)	3,217,220
Consisting of:				
Provincial government	3,296,522		(174,692)	3,121,830
Federal government	28,446	29,117	(538)	57,025
Municipal governments	7,826	841	(278)	8,389
Other	27,832	2,949	(805)	29,976
	3,360,626	32,907	(176,313)	3,217,220

Contributed surplus represents the offset for land contributed to BCTFA by the province of British Columbia and is not amortized.

BC TRANSPORTATION FINANCING AUTHORITY

Notes to Consolidated Financial Statements
Year ended March 31, 2004

11. Dedicated taxes:

Under the *Build BC Act*, the Province of British Columbia collects gasoline and motor fuel taxes on behalf of BCTFA under Section 13 of the *Motor Fuel Tax Act* (3.25 cents per litre, increased by 3.5 cents March 1, 2003 to 6.75 cents per litre), and car rental taxes under Section 26 of the *Social Services Tax Act* (\$1.50 per car rental day).

(\$ 000s)	2004	2003
Tax revenues earned:		
Motor Fuel Tax Act	404,598	212,224
Social Services Tax Act	11,000	11,000
	<u>415,598</u>	<u>223,224</u>

Funds from the 3.5 cents per litre increase March 1, 2003 are dedicated to expenditures under the multi-year Transportation Investment Plan (TIP).

TIP Dedicated Tax Revenue and Expenditures

(\$ 000s)	Prior Years	2004	Cumulative total
Revenue:			
3.5 cents/litre motor fuel tax	19,586	207,797	227,383
Provincial Expenditures:			
Expansion	27,142	55,028	82,170
Heartlands roads program		73,254	73,254
Grant programs		11,297	11,297
Pre-concession costs		29,218	29,218
	<u>27,142</u>	<u>168,797</u>	<u>195,939</u>
Net Balance:	<u>(7,556)</u>	<u>39,000</u>	<u>31,444</u>

12. HCL operations:

During 2003/2004 HCL completed its legal obligation to provide the labour force for contractors and effective January 2, 2004 ceased operations.

13. Other revenue:

(\$ 000s)	2004	2003
Sierra Yoyo Desan Road tolls (Note 15)	2,563	2,830
Properties	8,462	3,460
Economic development projects	807	1,130
Other	258	248
	<u>12,090</u>	<u>7,668</u>

BC TRANSPORTATION FINANCING AUTHORITY

Notes to Consolidated Financial Statements
Year ended March 31, 2004

14. Grant programs:

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

(\$ 000s)	2004	2003
Newly Incorporated Territory Program	336	757
Skytrain Millennium Line	201	(380)
Ports and Airports	2,297	
Richmond Airport Vancouver	1,000	
Inland Ferries	8,000	
	11,834	377

15. Sierra Yoyo Desan Road:

In 1999, BCTFA entered into a five year contract with Walter Construction (Canada) Ltd. for improvements to the Sierra Yoyo Desan Road, an industrial access road in north-eastern BC primarily serving petroleum, forest and pipeline companies. Costs are recovered from an annual contribution by the Ministry of Energy and Mines and from tolls levied on industrial users. Recovered costs are included in Other Revenue. This contract ended November 2003.

16. Ministry of Transportation services:

In 2004, \$3.5 million (2003 — \$2.8 million) was paid to the Ministry of Transportation for general services not specifically attributable to individual capital construction projects.

In addition to the services above, the Ministry of Transportation provided BCTFA the non-monetary services of the use of Ministry staff and related overhead estimated at \$0.25 million.

17. Interest expense:

(\$ 000s)	2004	2003
Interest on capital debt	156,657	140,097
Interest income	(18,509)	(9,797)
	138,148	130,300
Capitalized interest	(4,405)	(4,222)
Net interest expense	133,743	126,078

18. Write down of project costs:

Deferred costs of \$14.1 million for various public-private-partnership (P3) initiatives were written off in 2003/2004. These costs relate to aspects of the projects that will not proceed.

BC TRANSPORTATION FINANCING AUTHORITY

Notes to Consolidated Financial Statements
Year ended March 31, 2004

19. Commitments:

At the end of each year, the BCTFA has a number of general commitments outstanding for ongoing infrastructure projects. Such future expenditures are charged to the capital program of the year in which the work or service is performed. The approved capital program for 2004/05 is \$458 million.

20. Contingencies:

Contingent liabilities of \$97.6 million remain after deducting the estimated settlement expense currently accrued from gross claims and environmental issues outstanding for capital projects.

21. Obligations under Capital Leases:

Effective March 28, 2003, the BCTFA has assumed obligations under capital leases for the M.V. Queen of Surrey and the M.V. Queen of Oak Bay. These obligations are fully offset by irrevocable trust funds with the Province of British Columbia.

	2004	2003	Maturity Date
MV Queen of Surrey	13,644	17,525	December 2005
MV Queen of Oak Bay	20,939	25,420	March 2008
	34,583	42,945	

22. 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 5 and 9). Management are aware of no circumstances 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.

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.

23. Comparative Change:

Where necessary prior years figures have been restated to conform to the current year's presentation.