

B.C. Ferry Authority 2006/07 Annual Report

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A Message From The Chair

The B.C. Ferry Authority is an independent, no-share corporation that holds the single issued voting share of British Columbia Ferry Services Inc. The Authority appoints the Board of Directors of British Columbia Ferry Services Inc. Currently, the members of the B.C. Ferry Authority Board are also directors of British Columbia Ferry Services Inc.

The B.C. Ferry Authority is governed by the *Coastal Ferry Act*, which establishes a process for the appointment of directors to ensure broad regional representation. In accordance with the Act, the Authority has a nine-member Board of Directors comprised of individuals with a wide range of experience.

Four directors are appointed from nominations received from four appointment areas, comprised of 13 coastal regional districts. In addition, one director is appointed from nominations from the union representing the employees of British Columbia Ferry Services Inc., two directors are appointed from the community-at-large and two additional directors are appointed by the provincial government.

The Board adheres to the highest corporate governance standards in its deliberations.

A handwritten signature in black ink, appearing to read 'E. Harrison', written in a cursive style.

Elizabeth J. Harrison, QC
Chair

B.C. Ferry Authority 2006/07 Annual Report

The B.C. Ferry Authority (the "Authority") is a corporation without share capital that owns the single issued voting share of the operating company, British Columbia Ferry Services Inc. ("BCFS"). The Province of British Columbia is the holder of all of the preferred shares of BCFS. The Authority appoints the Board of Directors of BCFS.

The Authority is established and governed by the *Coastal Ferry Act* (the "Act"). In accordance with the Act, the Authority has adopted high standards of public and stakeholder accountability that require the Authority's financial and operating performance, as well as its process for appointing qualified individuals to serve as directors, to be open to public view.

Appointment of Directors

The Authority has a nine-member Board of Directors, the required composition of which is set out in the Act and includes regional and stakeholder representation. Four directors are appointed by the Board from nominees of four Appointment Areas, comprised of coastal regional districts, and one director is appointed from the nominees of the BC Ferry & Marine Workers' Union, the trade union representing the employees of BCFS. The Board also includes two directors appointed by the Province of British Columbia and two additional directors appointed by the Board from members of the community-at-large.

The *Coastal Ferry Act* requires that the terms of three Directors of the Authority expire each year. The first appointments to the Board were staggered such that three appointments were made for each of one, two and three years. Directors may serve for up to two consecutive terms (or three consecutive terms in the case of current Directors who served on the first Board of the Authority). At present, as a matter of Board policy, the directors of the Authority are also directors of the operating company, BCFS.

The appointment terms of three directors expired March 31, 2007. During the year, the Board sought

and received nominations for appointment to the Board from the BC Ferry & Marine Workers' Union and also considered qualified candidates for appointment from the community-at-large. The nominations from the BC Ferry & Marine Workers' Union included the incumbent director who, together with the incumbent director from the community-at-large, was selected and re-appointed to the Board. The Province of British Columbia also reappointed its incumbent director. All three appointments took effect April 1, 2007 for terms of three years.

During the year, two primary objectives continued to guide the deliberations of the Board in selecting the individuals to serve as directors of the Authority. Firstly, it was to ensure that the composition of the Board meets the requirements of the Act and, secondly, it was to ensure that collectively, the Board includes individuals with the skills and experience necessary to ensure the sound performance of the Authority and the effective interaction and operation of the Board. The specific criteria that guided the Board in its appointment process during the year are reflected in the Skills and Experience Profile adopted by the Authority.

By-Laws of the Authority

As part of the Director appointment process undertaken in the previous year, the Board identified certain amendments to the Skills and Experience Profile in the areas of "Statutory Qualifications", "Personal Attributes" and "Key Skills" that it considered would enhance the effective operation of the Board. The Skills and Experience Profile is included as Schedule A to the General Bylaws of the Authority and, in accordance with the Act, the amendments were posted for public view on the Authority's website prior to their taking effect on September 1, 2006. There were no other amendments made to the General Bylaws of the Authority during the year.

Meetings

The Board meets regularly to conduct its business. During the year, the Board and its Committees met on 17 occasions. This included the Annual General Meeting of the Authority held in accordance with section 18 of the Act. A summary of the meetings of the Board and its Committees follows.

B.C. Ferry Authority Summary of Meetings 2006/07

Date	Type	Outcomes
June 6, 2006	Audit & Finance Committee	<ul style="list-style-type: none"> · Financial statements of the Authority for the year ended March 31, 2006 recommended for approval to the Board · Independence letter and findings report on the audit process received from the External Auditor · Results and comments for the Committee, as contained in the Board Self Assessment Evaluation Report, reviewed
June 7, 2006	Governance Committee	<ul style="list-style-type: none"> · Report from the Chair of the Governance Committee on the review of conflict of interest forms completed by Directors and Officers of the Authority · Report from the Chair of the Governance Committee on written declarations for the Directors of BCFA attesting to their independence · Process for appointment of Directors effective April 1, 2007 discussed
June 8, 2006	Board of Directors	<ul style="list-style-type: none"> · Financial statements of the Authority for the year ended March 31, 2006 approved · General Counsel authorized to execute, on behalf of the Authority, the shareholder's unanimous consent resolutions pertaining to all of the business required to be transacted at the Annual General Meeting of British Columbia Ferry Services Inc. · Process for appointment of Directors effective April 1, 2007 discussed · 2006 Annual General Meeting of the Authority discussed; date, time and location confirmed
August 16, 2006	Audit & Finance Committee	<ul style="list-style-type: none"> · Financial statements of the Authority for the three months ended June 30, 2006 recommended for approval to the Board
August 17, 2006	Board of Directors	<ul style="list-style-type: none"> · Financial statements of the Authority for the three months ended June 30, 2006 approved · 2005/06 Annual Report of the Authority approved
September 20, 2006	Audit & Finance Committee	<ul style="list-style-type: none"> · Discussion with the External Auditor
September 20, 2006	Governance Committee	<ul style="list-style-type: none"> · Process for appointment of Directors effective April 1, 2007 discussed · Communications protocol reviewed and confirmed · Timeline for next external review of Director compensation confirmed · Progress made in responding to the recommendations from the 2005/06 Board of Directors self assessment evaluation discussed · Process for the 2006/07 Board of Directors Self Assessment Evaluation discussed
September 21, 2006	Board of Directors	<ul style="list-style-type: none"> · Process for appointment of Directors effective April 1, 2007 discussed · Process for the 2006/07 Board of Directors self assessment evaluation confirmed
September 21, 2006	Annual General Meeting	<ul style="list-style-type: none"> · Annual General Meeting held pursuant to the <i>Coastal Ferry Act</i> (section 18)
November 27, 2006	Audit & Finance Committee	<ul style="list-style-type: none"> · Financial statements of the Authority for the six months ended September 30, 2006 recommended for approval to the Board · 2006/07 terms of engagement for the External Auditor approved · Committee meeting dates for 2007/08, 2008/09 and 2009/10 approved

B.C. Ferry Authority Summary of Meetings 2006/07

Date	Type	Outcomes
November 28, 2006	Governance Committee	<ul style="list-style-type: none"> · Process for appointment of Directors effective April 1, 2007 discussed · Committee meeting dates for 2007/08, 2008/09 and 2009/10 approved
November 29, 2006	Board of Directors	<ul style="list-style-type: none"> · Financial statements of the Authority for the six months ended September 30, 2006 approved · Board meeting dates for 2007/08, 2008/09 and 2009/10 approved
February 20, 2007	Audit & Finance Committee	<ul style="list-style-type: none"> · 2007/08 operating budget for the Authority recommended for approval to the Board · Financial statements of the Authority for the nine months ended December 31, 2006 recommended for approval to the Board
February 21, 2007	Governance Committee	<ul style="list-style-type: none"> · Process for appointment of Directors effective April 1, 2007 discussed · Skills and experience of the Board reviewed · Committee composition discussed
February 27, 2007	Board of Directors	<ul style="list-style-type: none"> · 2007/08 operating budget for the Authority approved · Financial statements of the Authority for the nine months ended December 31, 2006 approved · Process for appointment of Directors effective April 1, 2007 discussed
March 28, 2007	Governance Committee	<ul style="list-style-type: none"> · Results of Board of Directors' 2006/07 self assessment evaluation reviewed and discussed · Appointment of Director from the community-at-large for a three-year term commencing April 1, 2007 recommended for approval to the Board · Appointment of Director nominated by the trade union representing the employees of British Columbia Ferry Services Inc. for a three-year term commencing April 1, 2007 recommended for approval to the Board · Ratification of provincial appointment to the Board of Directors for a three-year term commencing April 1, 2007 recommended to the Board subject to confirmation of such appointment from the Province · Appointments of Chair and Vice Chair effective April 1, 2007 recommended for approval to the Board · Establishment of a Nominating Committee recommended for approval to the Board · Committee Chairs and membership effective April 1, 2007 recommended for approval to the Board
March 29, 2007	Board of Directors	<ul style="list-style-type: none"> · Results of Board of Directors' 2006/07 self assessment evaluation reviewed and discussed · Director from the community-at-large appointed for a three-year term commencing April 1, 2007 · Director nominated by the trade union representing the employees of British Columbia Ferry Services Inc. appointed for a three-year term commencing April 1, 2007 · Provincial appointment to the Board of Directors for a three-year term commencing April 1, 2007 ratified subject to confirmation of such appointment from the Province · Nominating Committee established effective April 1, 2007 · Chair and Vice Chair effective April 1, 2007 appointed · Committee Chairs and members effective April 1, 2007 appointed · Decrease in the number of Directors of British Columbia Ferry Services Inc. from twelve to eleven effective April 1, 2007, approved · Directors of British Columbia Ferry Services Inc. effective April 1, 2007 appointed

To the Board of Directors, B.C. Ferry Authority

We have audited the statement of financial position of B.C. Ferry Authority as at March 31, 2007 and the statements of operations and changes in net assets 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 the 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.



Chartered Accountants

Victoria, Canada
May 17, 2007

Statement of Financial Position (expressed in thousands)

Assets As at March 31	2007	2006
Investment in British Columbia Ferry Services Inc.	\$ 203,570	\$ 99,551
	\$ 203,570	\$ 99,551
Net Assets		
Invested in common share of British Columbia Ferry Services Inc.	\$ 1	\$ 1
Accumulated undistributed earnings of British Columbia Ferry Services Inc.	203,569	99,550
	\$ 203,570	\$ 99,551

See accompanying notes to financial statements.

On behalf of the Board:



Director, Graham M. Wilson



Director, Elizabeth J. Harrison, QC

Statement of Operations (expressed in thousands)

Years ended March 31

Revenue:	2007	2006
Distributable earnings of British Columbia Ferry Services Inc. (note 2)	\$ 104,019	\$ 43,827
Expenses:		
Administration	14	100
Recovery from British Columbia Ferry Services Inc. (note 3)	(14)	(100)
	-	-
Excess of revenue over expenses	\$ 104,019	\$ 43,827

Statement of Changes in Net Assets (expressed in thousands)

	Invested in BCFSI	Undistributed Earnings of BCFSI	Total
Balance, March 31, 2006	\$ 1	\$ 99,550	\$ 99,551
Excess of revenue over expenses	-	104,019	104,019
Balance, March 31, 2007	\$ 1	\$ 203,569	\$ 203,570

See accompanying notes to financial statements.

Statement of Financial Position

Notes to Financial Statements

(expressed in thousands)

B.C. Ferry Authority (the "Authority") was established by the *Coastal Ferry Act* (British Columbia) (the "Act") on April 1, 2003 as a corporation without share capital. The Authority is governed by a board of nine directors. The board of directors appoints replacements for outgoing directors for seven of the positions as follows:

- four appointed from nominees provided to the board by each of the four appointment areas consisting of those coastal regional districts that the Lieutenant Governor in Council for British Columbia may prescribe, with one director appointed from each area;
- one appointed from nominees provided by the trade union representing the employees of the British Columbia Ferry Services Inc. ("BCFSI");
- two appointed from qualified individuals as defined in the Act.

The Lieutenant Governor in Council for British Columbia appoints the other two director positions from qualified individuals as terms expire. The terms of three director positions expire each fiscal year.

The Authority's primary purpose is to hold the shares of BCFSI, a company incorporated under the Business Corporations Act (British Columbia), which provides coastal ferry services in British Columbia. The Province of British Columbia (the "Province") contributed the initial capital to the Authority to fund the purchase of the BCFSI common share. The Act provides that upon a sale of the common share of BCFSI held by the Authority, the Province is to be repaid its initial contribution and the Authority is dissolved. The Act also provides that upon dissolution of the Authority, all remaining assets of the Authority, if any, vest in the Province.

1. Significant accounting policies:

(a) Basis of presentation:

The financial statements are prepared in accordance with Canadian generally accepted accounting principles for not-for-profit entities. The Authority's investment in its wholly owned subsidiary, BCFSI is accounted for by the equity method. Under the equity method the original cost of the investment is adjusted for the Authority's share of post-acquisition earnings or losses less dividends.

(b) Revenue recognition:

The Authority follows the deferral method of accounting for contributions. The Authority does not expect to receive endowment contributions.

(c) Taxes:

The Authority and BCFSI are exempt from federal and provincial income taxes.

(d) Statement of Cash Flows:

A statement of cash flows has not been included with these statements as it does not provide additional information.

(e) Comparative figures:

Certain comparative figures have been reclassified to conform to the presentation adopted for the current period.

2. Distributable earnings of British Columbia Ferry Services Inc.:

The distributable earnings of BCFSI consist of the current period net earnings, less any dividends paid in the current period and less a reserve for undeclared preferred share dividend, if any.

Years ended March 31	2007	2006
Net earnings of BCFSI	\$ 110,057	\$ 49,865
Dividends paid on 8% cumulative preferred shares	(6,038)	(6,038)
	\$ 104,019	\$ 43,827

3. Recovery from British Columbia Ferry Services Inc.:

The Act provides that BCFSI is responsible for paying any expenses that are incurred by the Authority.

Statement of Financial Position

4. Subsidiary supplemental information:

The consolidated financial position and operating results for BCFSI and its wholly-owned subsidiaries are summarized below:

As at March 31	2007	2006
Current assets	\$ 237,590	\$ 63,093
Capital and other assets	978,185	770,584
	\$ 1,215,775	\$ 833,677
Current liabilities	\$ 170,402	\$ 142,170
Accrued employee future benefits	13,755	16,737
Unrealized losses on derivative instruments	2,831	-
Long-term debt and capital lease obligations	749,740	499,742
	936,728	658,649
Shareholders' equity		
Common share held by the Authority	1	1
Preferred shares (a)	75,477	75,477
Retained earnings	203,569	99,550
	279,047	175,028
	\$ 1,215,775	\$ 833,677
Years ended March 31	2007	2006
Revenue (including gains)	\$ 657,895	\$ 579,411
Expenses (including losses)	547,838	529,546
Net earnings	110,057	49,865
Cash flows from operating	160,460	98,752
Cash flows from financing	266,775	(6,730)
Cash flows from investing	(249,403)	(131,255)

(a) The outstanding non-voting, 8% cumulative preferred shares are held by the Province and are convertible to common shares upon a sale of the outstanding common share. Special rights attached to the preferred shares restrict BCFSI's ability to issue share capital and to declare dividends.

B.C. Ferry Authority
Board of Directors (April 1, 2006 – March 31, 2007)

Elizabeth J. Harrison, QC
Chair
(Community-at-large appointment)

Thomas W. Harris¹
Vice Chair
(Central Vancouver Island & Northern Georgia Strait
appointment area)

Douglas E. Allen^{1,2}
(Community-at-large appointment)

Sandy M. Fulton
(Province of B.C. appointment)

John R. Henderson, FCA^{1,2}
(Southern Mainland appointment area)

Doreen J. Hewitt²
(Southern Vancouver Island appointment area)

Maureen V. Macarenko¹
(Northern Coastal & North Island appointment area)

G. Raymond Whitehead
(Organized labour appointment)

Graham W. Wilson^{1,2}
(Province of B.C. appointment)

1. Audit & Finance Committee
2. Governance Committee

Officers

Elizabeth J. Harrison, QC
Chair

Thomas W. Harris
Vice Chair

William R. Cottick
Executive Vice President, Corporate Affairs &
General Counsel

Cynthia M. Lukaitis
Vice President & Corporate Secretary