

B.C. FERRY AUTHORITY ANNUAL REPORT 2008/09

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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 composed of individuals with a wide range of experience.

Four directors are appointed from nominations received from four appointment areas, comprising 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.



Elizabeth J. Harrison, QC
Chair

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

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 "Board"), 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, composed of coastal regional districts, and one director is appointed from nominees of the BC Ferry and Marine Workers' Union ("BCFMWU"), the trade union representing the employees of BCF.

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 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, BCF.

During the year, the Board sought and received nominations of qualified individuals to serve as directors from the Central Vancouver Island & Northern Georgia Strait Appointment Area and the Northern Coastal & North Island Appointment Area two Appointment Areas, as well as considered qualified candidates for appointment from members of the community-at-large. Appointments to the Board from the nominees of the two Appointment Areas, as well as from the community-at-large, were made effective April 1, 2009.

In selecting individuals to serve as directors of the Authority, two primary objectives continued to guide the deliberations of the Board. The first objective was to ensure that the composition of the Board met the requirements of the Act and the second was to ensure that collectively, the Board included 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 and included as Schedule "A" to the General Bylaws of the Authority. The General Bylaws of the Authority are available for public view on the Authority's website: www.bcferryauthority.com. There were no amendments made to the bylaws during the year.

MEETINGS

The Board meets regularly to conduct its business. During the year, the Board and its Committees met on 16 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.

SUMMARY OF MEETINGS 2008/09

DATE	TYPE	OUTCOMES
April 25, 2008	Board of Directors	Nil
June 10, 2008	Audit & Finance Committee	<ul style="list-style-type: none"> Financial statements of the Authority for the year ended March 31, 2008 recommended
June 11, 2008	Governance & Nominating Committee	<ul style="list-style-type: none"> Amendments to the Board Governance Manual, including the Committee's terms of reference, recommended Additional membership of certain Committees and change in Chair of the Governance & Nominating Committee recommended Remuneration recommended
June 12, 2008	Board of Directors	<ul style="list-style-type: none"> Financial statements of the Authority for the year ended March 31, 2008 approved Amendments to the Board Governance Manual, including the Governance & Nominating Committee's terms of reference approved Additional members appointed to certain Committees and Chair of the Governance & Nominating Committee appointed Remuneration set 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. 2007/08 annual report of the Authority approved
August 26, 2008	Audit & Finance Committee	<ul style="list-style-type: none"> Financial statements of the Authority for the three months ended June 30, 2008 recommended Amendments to the Committee's terms of reference recommended
August 27, 2008	Governance & Nominating Committee	<ul style="list-style-type: none"> Amendments to the Audit & Finance Committee's terms of reference recommended Additional membership of the Committee recommended

SUMMARY OF MEETINGS 2008/09

DATE	TYPE	OUTCOMES
August 27, 2008	Board of Directors	<ul style="list-style-type: none"> Financial statements of the Authority for the three months ended June 30, 2008 approved Amendments to the Audit & Finance Committee's terms of reference approved Additional members appointed to the Governance & Nominating Committee
August 27, 2008	Annual General Meeting	<ul style="list-style-type: none"> Annual General Meeting held pursuant to the <i>Coastal Ferry Act</i> (section 18)
November 25, 2008	Audit & Finance Committee	<ul style="list-style-type: none"> Financial statements of the Authority for the six months ended September 30, 2008 recommended 2008/09 terms of engagement for the external auditor approved Appointment of the external auditor for the period commencing with the fiscal year ending March 31, 2010 recommended Committee meeting dates for 2011/12 approved
November 25, 2008	Governance & Nominating Committee	<ul style="list-style-type: none"> Appointment of candidate from the community-at-large recommended Amendments to the Board Governance Manual recommended Committee meeting dates for 2011/12 approved
November 26, 2008	Board of Directors	<ul style="list-style-type: none"> Financial statements of the Authority for the six months ended September 30, 2008 approved External auditor for the period commencing with the fiscal year ending March 31, 2010 appointed Candidate from the community-at-large appointed a Director of the Authority effective April 1, 2009 Amendments to the Board Governance Manual approved Board of Directors meeting dates for 2011/12 approved
January 27, 2009	Governance & Nominating Committee	<ul style="list-style-type: none"> Appointment of nominees from the Appointment Areas recommended
February 19, 2009	Audit & Finance Committee	<ul style="list-style-type: none"> Financial statements of the Authority for the nine months ended December 31, 2008 recommended 2009/10 operating budget of the Authority recommended

SUMMARY OF MEETINGS 2008/09

DATE	TYPE	OUTCOMES
February 20, 2009	Governance & Nominating Committee	<ul style="list-style-type: none">• Appointment of the Board Chair effective April 1, 2009 recommended• Committee structure, Chairs and memberships effective April 1, 2009 recommended• Rescinding of the Officer appointments of the Vice Chair and General Counsel recommended
February 20, 2009	Board of Directors	<ul style="list-style-type: none">• Financial statements of the Authority for the nine months ended December 31, 2008 approved• 2009/10 operating budget of the Authority approved• Board Chair appointed effective April 1, 2009• Committee structure, Chairs and memberships effective April 1, 2009 approved• Number of Directors of British Columbia Ferry Services Inc. decreased from fourteen to twelve effective April 1, 2009• Directors of British Columbia Ferry Services Inc. effective April 1, 2009 appointed• Officer appointments of the Vice Chair and General Counsel rescinded
March 23, 2009	Board of Directors	<ul style="list-style-type: none">• Community-at-large appointment made November 26, 2008 rescinded and a new appointment made effective April 1, 2009• Additional members appointed to the Governance & Nominating Committee effective April 1, 2009• Number of Directors of British Columbia Ferry Services Inc. increased from fourteen to fifteen effective March 23, 2009 and set at thirteen effective April 1, 2009• Appointment made to the Board of British Columbia Ferry Services Inc. effective March 23, 2009• Time and location of next Annual General Meeting confirmed

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, 2009 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, 2009 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 15, 2009

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION (expressed in thousands)

As at March 31	2009		2008	
Assets				
Investment in British Columbia Ferry Services Inc.	\$	238,095	\$	235,104
	\$	238,095	\$	235,104
Net Assets				
Invested in common share of British Columbia Ferry Services Inc.	\$	1	\$	1
Accumulated undistributed earnings of British Columbia Ferry Services Inc.		238,094		235,103
	\$	238,095	\$	235,104

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	2009		2008	
Revenue:				
Distributable earnings of British Columbia Ferry Services Inc. (note 2)	\$	2,991	\$	31,534
Expenses:				
Administration		2		51
Recovery from British Columbia Ferry Services Inc. (note 3)		(2)		(51)
		-		-
Excess of revenue over expenses	\$	2,991	\$	31,534

See accompanying notes to financial statements.

STATEMENT OF CHANGES IN NET ASSETS (expressed in thousands)

Years Ended March 31	2009				2008	
	Invested in BCFSI		Undistributed Earnings of BCFSI		Total	Total
Beginning of year	\$	1	\$	235,103	\$ 235,104	\$ 203,570
Excess of revenue over expenses		-		2,991	2,991	31,534
End of year	\$	1	\$	238,094	\$ 238,095	\$ 235,104

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

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 share of BCFSI, a company incorporated under the *Company Act* (British Columbia) by way of conversion on April 2, 2003, and which now validly exists under the *Business Corporations Act* (British Columbia). BCFSI's primary business is the provision of 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) Adoption of new accounting standards:

Effective April 1, 2008, the Authority adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3862 "*Financial Instruments – Disclosure*" and Handbook Section 3863 "*Financial Instruments – Presentation*". Sections 3862 and 3863 replace Handbook Section 3861 "*Financial Instruments – Disclosure and Presentation*". These new Handbook sections require disclosures, by class of financial instrument, and additional qualitative and quantitative information regarding the nature and extent of risks arising from financial instruments to which the Authority is exposed which will enable users to evaluate the significance of financial instruments for the Authority's financial position and performance, including disclosures about fair value. The Authority did not hold any financial instruments at either March 31, 2009 or March 31, 2008. Accordingly the adoption of these standards had no effect on the financial statements for the twelve months ended March 31, 2009.

(c) Revenue recognition:

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

(d) Taxes:

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

(e) Statement of Cash Flows:

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

(f) Comparative figures:

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

(g) Future accounting changes:

Amendments have been made to CICA Handbook Section 4400 – "*Financial Statement Presentation by Not-For-Profit Organizations*" that will become effective for the Authority beginning April 1, 2009. The amendments clarify the reporting requirements for net assets and require not for profit organizations to apply the same standards as profit-oriented enterprises with respect to interim financial statements and statements of cash flows.

The Authority does not expect application of this amendment to have any impact on the financial statements.

NOTES TO FINANCIAL STATEMENTS

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	2009		2008	
Net earnings and comprehensive income of BCFSI	\$	9,029	\$	37,094
Dividends paid on 8% cumulative preferred shares		(6,038)		(6,038)
Adjustment to the accumulated undistributed earnings of BCFSI (a)		–		478
	\$	2,991	\$	31,534

(a) Effective April 1, 2007, BCFSI adopted the Canadian Institute of Chartered Accountants (CICA) Handbook section 3855 "Financial Instruments – Recognition and Measurement". This resulted in a restatement of opening retained earnings at April 1, 2007 to recognize the prior years' earnings effect of accounting for long-term debt using the effective interest method.

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.

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	2009		2008	
Current assets	\$	92,420	\$	209,171
Capital and other assets		1,749,460		1,341,280
	\$	1,841,880	\$	1,550,451
Current liabilities	\$	159,332	\$	180,350
Accrued employee future benefits		12,047		13,020
Regulatory liabilities		–		16,833
Other long-term liabilities		153		76
Long-term debt and capital lease obligations		1,356,776		1,029,591
		1,528,308		1,239,870
Shareholders' equity				
Common share held by the Authority		1		1
Preferred shares (a)		75,477		75,477
Retained earnings		238,094		235,103
		313,572		310,581
	\$	1,841,880	\$	1,550,451

NOTES TO FINANCIAL STATEMENTS

Years ended March 31	2009		2008	
Revenue (including gains)	\$	683,283	\$	640,859
Expenses (including losses)		674,254		603,765
Net earnings and comprehensive income	\$	9,029	\$	37,094
Cash flows from operating	\$	88,562	\$	124,629
Cash flows from financing		347,439		256,452
Cash flows from investing		(539,944)		(437,631)

- (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 BCFSA's ability to issue share capital and to declare dividends.

CORPORATE DIRECTORY

B.C. FERRY AUTHORITY BOARD OF DIRECTORS

(effective April 1, 2009)

Elizabeth J. Harrison, Q.C.

Chair

(Community-at-large appointment)

Christopher C. Gardner

(Province of British Columbia appointment)

Holly A. Haston-Grant

(Central Vancouver Island & Northern Georgia Strait appointment area)

Donald P. Hayes

(Southern Vancouver Island appointment area)

Brian G. Kenning

(Southern Mainland appointment area)

Gordon R. Larkin

(Organized labour appointment)

Jane L. Peverett

(Community-at-large appointment)

Stephen E. Smith

(Northern Coastal & North Island appointment area)

Graham M. Wilson

(Province of British Columbia appointment)

OFFICERS

(effective April 1, 2009)

Elizabeth J. Harrison, Q.C.

Chair

Cynthia M. Lukaitis

Vice President & Corporate Secretary

BOARD OF DIRECTORS

(effective April 1, 2008–March 31, 2009)

Elizabeth J. Harrison, Q.C.

Chair

Thomas W. Harris

Vice Chair

Douglas E. Allen (April 1, 2008–July 31, 2008)

Christopher C. Gardner

Donald P. Hayes

Brian G. Kenning

Gordon R. Larkin

Maureen V. Macarenko

Graham M. Wilson

OFFICERS

(effective April 1, 2008–March 31, 2009)

Elizabeth J. Harrison, Q.C.

Chair

Thomas W. Harris

Vice Chair

William R. Cottick (April 1, 2008–March 15, 2009)

Executive Vice President, Corporate Affairs & General Counsel

Cynthia M. Lukaitis

Vice President & Corporate Secretary