

B.C. Ferry Authority

Annual Report 2004/05

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A Message from the Chair

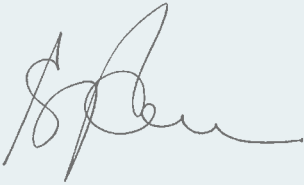
The B.C. Ferry Authority is a corporation without share capital, which owns the only issued common voting share in the operating entity, British Columbia Ferry Services Inc.

In accordance with the *Coastal Ferry Act*, we have a nine-member Board of Directors comprised of experienced individuals, three of whom are appointed each year on a rotating basis for continuity.

Under the *Coastal Ferry Act*, four directors are appointed from nominations received from four appointment areas comprised of thirteen coastal regional districts. In addition, a qualified candidate is nominated by the union representing the employees of British Columbia Ferry Services Inc., two members are appointed from the community-at-large and two additional members are appointed by the provincial government.

The B.C. Ferry Authority appoints the Board of Directors of British Columbia Ferry Services Inc. The members of the B.C. Ferry Authority Board are also directors of British Columbia Ferry Services Inc.

The Board has adopted strict standards of accountability that require the Authority's financial and operating performance to be open to public review.

A handwritten signature in black ink, appearing to read 'Elizabeth J. Harrison'.

Elizabeth J. Harrison, QC
Chair

B.C. Ferry Authority 2004/05 Annual Report

B.C. Ferry Authority ("the Authority") holds an important position in the governance framework of BC Ferries. Established under the *Coastal Ferry Act*, the Authority is a corporation without share capital that owns the single issued common voting share in the operating company, British Columbia Ferry Services Inc. As sole shareholder in the operating company, the Authority is responsible for appointing its Board of Directors.

The Authority is governed by a nine member Board of Directors. Four members are appointed from the nominees of four appointment areas, comprised of coastal regional districts, and one member is appointed from the BC Ferry and Marine Workers' Union, the trade union representing the employees of BC Ferries. The Board also includes two members appointed by the Province of British Columbia and two additional members appointed by the Board from the community-at-large. Directors serve in a dual capacity also being Directors of British Columbia Ferry Services Inc.

By-laws of the Authority

The practices and procedures the Board follows in the conduct of its business are set out in the by-laws of the Authority. The by-laws reflect best practices for Board governance and have remained in effect, without amendment, since their formal adoption by the Board in fall 2003. A copy of the by-laws is available for public review on the Authority's website: www.bcferryauthority.com.

Meetings of the Board

The Board and its Committees met on 18 occasions during the year. In September 2004 the Authority held its first annual general meeting that was open to the public. The annual general meeting was well attended and provided an opportunity for members of the public to obtain information about BC Ferries and ask questions of the Board and senior management. A summary of the meetings of the Board and its Committees is presented in figure 1.

Appointment of New Directors

The *Coastal Ferry Act* requires that the terms of three Directors of the Authority expire each year. To meet this requirement, the first appointments to the Board were staggered such that three appointments were made for each of one, two and three years. Directors appointed from the Southern Mainland and Southern Vancouver Island appointment areas, as well as one Director appointed by the Province of British Columbia, had terms expiring March 31, 2005. During the year the Board sought and received nominations of qualified individuals to serve as Directors from the two appointment areas. Two nominees, one of whom was an incumbent Director, were selected and appointed to serve for three-year terms commencing April 1, 2005. The Province of British Columbia also reappointed its incumbent Director to serve for a further three-year term.

In selecting individuals to serve as new Directors, the Board was cognizant of the importance of having a group of qualified individuals with the appropriate skills, experience and personal attributes to ensure the continued good governance of the Authority. The criteria that guided the Board in the appointment process undertaken during the year are reflected in the Skills and Experience Profile adopted by the Authority as part of its by-laws and presented in figure 2.

Effective April 1, 2005, the Board of Directors comprises members with the following terms of appointment:

B.C. FERRY AUTHORITY BOARD OF DIRECTORS	TERM OF APPOINTMENT
B.C. Ferry Authority Appointments	
Central Vancouver Island and Northern Georgia Strait Appointment Area	April 1, 2004 - March 31, 2006
Northern Coastal and North Island Appointment Area	April 1, 2004 - March 31, 2006
Southern Mainland Appointment Area	April 1, 2005 - March 31, 2008
Southern Vancouver Island Appointment Area	April 1, 2005 - March 31, 2008
BC Ferry and Marine Workers' Union	April 1, 2004 - March 31, 2007
Community-at-large	April 1, 2004 - March 31, 2006
Community-at-large	April 1, 2004 - March 31, 2007
Provincial Appointments	
Province of British Columbia	April 1, 2004 - March 31, 2007
Province of British Columbia	April 1, 2005 - March 31, 2008

B.C. Ferry Authority Summary of Meetings 2004/05

(figure 1)

DATE	TYPE	OUTCOMES
May 20, 2004	Audit and Finance Committee	<ul style="list-style-type: none"> • 2004/05 operating budget for the Authority recommended for approval to the Board • Financial Statements of the Authority for the year ended March 31, 2004 recommended for approval to the Board • Independence letter and oral findings report on the audit process received from the External Auditor
May 20, 2004	Governance Committee	<ul style="list-style-type: none"> • Review of the Board governance manual initiated • Process for Committee composition and selection of members discussed • Process for 2005/06 Director appointments discussed
May 21, 2004	Board of Directors	<ul style="list-style-type: none"> • 2004/05 operating budget for the Authority approved • Financial Statements of the Authority for the year ended March 31, 2004 approved
July 7, 2004	Board of Directors	<ul style="list-style-type: none"> • Annual General Meeting of the Authority discussed; date and location confirmed
August 13, 2004	Audit and Finance Committee	<ul style="list-style-type: none"> • Financial Statements of the Authority for the three months ended June 30, 2004 recommended for approval to the Board • Reappointment of the External Auditor of the Authority for a five-year term recommended to the Board
August 13, 2004	Board of Directors	<ul style="list-style-type: none"> • Financial Statements of the Authority for the three months ended June 30, 2004 approved • External Auditor of the Authority reappointed for a five-year term • Corporate Secretary 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. • 2003/04 Annual Report of the Authority approved
September 14, 2004	Audit and Finance Committee	<ul style="list-style-type: none"> • 2003/04 management letter from the External Auditor reviewed and discussed
September 27, 2004	Board of Directors	<ul style="list-style-type: none"> • Report from the Chair of the Governance Committee on the review of completed conflict of interest forms received for the Directors whose terms commenced April 1, 2004 considered
September 27, 2004	Annual General Meeting	<ul style="list-style-type: none"> • Annual General Meeting held pursuant to the <i>Coastal Ferry Act</i> (section 18)
November 8, 2004	Audit and Finance Committee	<ul style="list-style-type: none"> • Financial Statements of the Authority for the six months ended September 30, 2004 recommended for approval to the Board • 2004/05 terms of engagement for the External Auditor approved • Amended Terms of Reference for the Audit and Finance Committee recommended for approval to the Governance Committee and the Board
November 9, 2004	Governance Committee	<ul style="list-style-type: none"> • Amended Terms of Reference for the Audit and Finance Committee and the Governance Committee recommended for approval to the Board • Process for 2005/06 Director appointments discussed • Review of the Board Governance Manual conducted
November 10, 2004	Board of Directors	<ul style="list-style-type: none"> • Financial Statements of the Authority for the six months ended September 30, 2004 approved • Amended Terms of Reference for the Audit and Finance Committee and the Governance Committee approved
February 14, 2005	Governance Committee	<ul style="list-style-type: none"> • Status and next steps in the consideration of the nominations received from the appointment areas for appointment to the Board effective April 1, 2005 discussed
February 15, 2005	Audit and Finance Committee	<ul style="list-style-type: none"> • Financial Statements of the Authority for the nine months ended December 31, 2004 recommended for approval to the Board
February 16, 2005	Board of Directors	<ul style="list-style-type: none"> • Financial Statements of the Authority for the nine months ended December 31, 2004 approved

DATE	TYPE	OUTCOMES
March 17, 2005	Governance Committee	<ul style="list-style-type: none"> • Appointment of Directors nominated by the Southern Vancouver Island and the Southern Mainland appointment areas for three-year terms effective April 1, 2005 recommended for approval to the Board • Ratification of provincial appointment to Board of Directors for a three-year term effective April 1, 2005 recommended to the Board • Appointments of Chair and Vice Chair effective April 1, 2005 recommended for approval to the Board • Membership of Committees of the Board effective April 1, 2005 recommended for approval to the Board • An increase in the number of Directors of British Columbia Ferry Services Inc. effective April 1, 2005 recommended for approval to the Board • Appointment of Directors for British Columbia Ferry Services Inc. effective April 1, 2005 recommended for approval to the Board • Results of Directors' self-assessment evaluation reviewed and discussed • Compensation levels for Directors reviewed and discussed
March 17, 2005	Audit and Finance Committee	<ul style="list-style-type: none"> • 2005/06 operating budget for the Authority recommended for approval to the Board
March 30, 2005	Board of Directors	<ul style="list-style-type: none"> • 2005/06 operating budget for the Authority approved • Directors nominated by the Southern Vancouver Island and the Southern Mainland appointment areas appointed for three-year terms effective April 1, 2005 • Provincial appointment to Board of Directors for a three-year term effective April 1, 2005 ratified • Chair and Vice Chair effective April 1, 2005 appointed • Committee members effective April 1, 2005 appointed • The number of Directors of British Columbia Ferry Services Inc. increased from nine to twelve effective April 1, 2005 • Directors of British Columbia Ferry Services Inc. effective April 1, 2005 appointed

Skills and Experience Profile

(figure 2)

Appointments to the Board of Directors of the B.C. Ferry Authority will be guided by the following selection criteria.

Statutory Qualifications:

Persons appointed to the Board must be “qualified individuals” as defined in the *Coastal Ferry Act*. Specifically, this means an individual who:

- Is not an employee or an officer, other than the Chief Executive Officer, of British Columbia Ferry Services Inc;
- Does not hold elected public office of any type;
- Is not an employee, steward, officer, director, elected official or member of any union representing employees of British Columbia Ferry Services Inc.; and
- Is not an employee of a municipality, regional district, trust council or greater board, as those terms are defined in the *Local Government Act* (British Columbia), within the appointment areas, as defined by the Lieutenant Governor-in-Council.

As well, all appointments to the Board must comply with the provisions related to Director qualifications and conflicts addressed in sections 8 and 9 of the *Coastal Ferry Act*.

Personal Attributes:

All persons appointed to the Board should possess the following personal attributes:

1. High ethical standards and integrity in professional and personal dealings;
2. Ability and willingness to raise potentially controversial issues in a manner that encourages dialogue;
3. Flexibility, responsiveness and willingness to consider change;
4. Ability and willingness to listen to others;
5. Capability for a wide perspective on issues; and
6. Ability to work as a team member.

Core Competencies:

All Directors should possess the following core competencies:

1. Well-developed faculty for critical analysis;
2. Financial literacy, including an ability to read financial statements and ability to understand the use of financial ratios and other indices to measure performance;
3. Appreciation of the unique role of the B.C. Ferry Authority as the governing body of British Columbia Ferry Services Inc.;
4. Thorough knowledge of the responsibilities and duties of a director; and
5. Ability to distinguish corporate governance from management.

Representation:

The B.C. Ferry Authority Board should, in its composition, reflect the diversity of the people served by coastal ferry services in British Columbia.

Key Skills and Experience:

The Board of Directors of the B.C. Ferry Authority, as a whole, should possess all of the following skills and experience, while individual directors must possess more than one.

1. **Leadership** – experience at a senior level managing the operations of a large or complex commercial or non-profit entity.
2. **Business** – experience in operating a business in British Columbia.
3. **Board Experience** – previous experience as a member of a Board of Directors of a commercial or non-profit entity.
4. **Accounting and Finance** – an accounting or financial advisor designation or senior level experience as a Chief Financial Officer in a large or complex commercial or non-profit entity.
5. **Legal** – a law degree or experience in managing legal issues of a complex commercial nature.
6. **Transportation** – knowledge of and experience in addressing transportation issues, including environmental and safety issues.

7. **Marketing** – experience in developing and/or leading marketing or customer service initiatives.
8. **Tourism** – knowledge of and experience in the tourism industry in British Columbia, including the hospitality and retail sectors.
9. **Labour Management** – knowledge of and experience in human resources and labour relations practices in British Columbia.
10. **Regulatory** – experience working in or significant knowledge of the issues associated with a commercial entity regulated by statute.
11. **Community and Aboriginal Relations** – experience in leading consultation processes with local governments and/or aboriginal interests in British Columbia.

Auditors' Report

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, 2005 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, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The logo for KPMG LLP, featuring the letters 'KPMG' in a large, stylized, handwritten font, with 'LLP' in a smaller, simpler font to the right.

Chartered Accountants

Victoria, Canada
May 13, 2005

Statement of Financial Position

(expressed in thousands)

	As at March 31,	
	2005	2004
Assets		
Investment in British Columbia Ferry Services Inc.	\$ 55,724	\$ 21,948
	\$ 55,724	\$ 21,948
Net Assets		
Invested in common share of British Columbia Ferry Services Inc.	\$ 1	\$ 1
Accumulated undistributed earnings of British Columbia Ferry Services Inc.	55,723	21,947
	\$ 55,724	\$ 21,948

See accompanying notes to financial statements.

On behalf of the Board:

[signed]

Graham M. Wilson
Director

[signed]

Elizabeth J. Harrison, QC
Director

Statement of Operations

(expressed in thousands)

	Years ended March 31,	
	2005	2004
Revenue:		
Distributable earnings of British Columbia Ferry Services Inc. (note 2)	\$ 33,776	\$ 21,947
Contribution from Province of British Columbia	—	1
	33,776	21,948
Expenses:		
Administration	32	17
Directors' fees	—	8
Recovery from British Columbia Ferry Services Inc. (note 3)	(32)	(25)
	—	—
Excess of revenue over expenses	\$ 33,776	\$ 21,948

See accompanying notes to financial statements.

Statement of Changes in Net Assets

(expressed in thousands)

	Invested in BCFSI	Undistributed Earnings of BCFSI	Total
Balance, March 31, 2004	\$ 1	\$ 21,947	\$ 21,948
Excess of revenue over expenses	—	33,776	33,776
Balance, March 31, 2005	\$ 1	\$ 55,723	\$ 55,724

See accompanying notes to financial statements.

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"); and
- 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 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.

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,	
	2005	2004
Net earnings of BCFSI	\$ 39,814	\$ 27,985
Dividends paid on 8% cumulative preferred shares	(6,038)	(6,038)
	\$ 33,776	\$ 21,947

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:

	Years ended March 31,	
	2005	2004
Current assets	\$ 89,519	\$ 53,083
Capital and other assets	673,863	576,704
	\$ 763,382	\$ 629,787
Current liabilities	\$ 115,587	\$ 89,017
Accrued employee future benefits	16,849	15,644
Long-term debt and capital lease obligations	499,745	427,701
	632,181	532,362
Shareholders' equity		
Common share held by the Authority	1	1
Preferred shares (a)	75,477	75,477
Retained earnings	55,723	21,947
	131,201	97,425
	\$ 763,382	\$ 629,787
Revenue (including gains)	\$ 564,455	\$ 533,921
Expenses (including losses)	524,641	505,936
Net earnings	39,814	27,985
Cash flows from operating	102,051	69,475
Cash flows from financing	43,687	(24,440)
Cash flows from investing	(122,153)	(41,653)

- (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.

Corporate Directory

Board of Directors (April 1, 2005)

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

Thomas W. Harris¹
Vice Chair (Central Vancouver Island and 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. Hewitt
(Southern Vancouver Island appointment area)

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

G. Raymond Whitehead
(Organized labour appointment)

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

1. Audit & Finance Committee
2. Governance Committee

Board of Directors (April 1, 2004 to March 31, 2005)

Elizabeth J. Harrison, QC
Chair

Thomas W. Harris
Vice Chair

Douglas E. Allen

Marilyn Baker

Sandy M. Fulton

John R. Henderson, FCA

Maureen V. Macarenko

G. Raymond Whitehead

Graham M. Wilson

Officers

Elizabeth J. Harrison, QC
Chair

Thomas W. Harris
Vice Chair

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