

Financial Statements of

**BRITISH COLUMBIA TRANSIT**

Year ended March 31, 2009

## **REPORT OF MANAGEMENT**

### **Year ended March 31, 2009**

The financial statements of British Columbia Transit ("BC Transit") are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles and include some amounts based on management's best estimates and careful judgment. A precise determination of many assets and liabilities is dependent upon future events and, consequently, the preparation of periodic financial statements necessarily involves the use of management's judgment in establishing the estimates and approximations used. The financial statements have, in management's opinion, been properly prepared within the framework of the accounting policies summarized in the notes to the financial statements and incorporate, within reasonable limits of materiality, all information available as at May 22, 2009.

BC Transit's system of internal controls is designed to provide reasonable assurance that assets are safeguarded, transactions are properly recorded and executed in accordance with management's authorization, financial information is reliable and ethics codes are observed. Inherent to the concept of reasonable assurance is the recognition that there are limits in all internal control systems and that system costs should not exceed the expected benefits. The system includes the selection, training and development of qualified personnel, organizational division of responsibilities, appropriate delegation of authority and formal written company policies and procedures including the conflict of interest policy of all BC Transit officers and employees.

The financial statements have been examined by KPMG LLP, BC Transit's independent external auditors. Their responsibility is to express their opinion whether the financial statements in all material respects, present fairly the financial position, results of operations and cash flows in accordance with Canadian generally accepted accounting principles. Their report follows. The Board of Directors meets regularly with management and the external auditors to satisfy itself that the company's system of internal control is adequate, to ensure that responsibilities for financial reporting are being met, and to provide an opportunity for full and open access to the Board of Directors in respect to financial reporting matters.

Management is responsible for all of the information in this Annual Report. Financial information presented elsewhere in this Annual Report is consistent with that in the financial statements.



Manuel Achadinha  
President and Chief Executive Officer  
May 22, 2009



Tony Sharp, CA  
Vice President, Finance and Chief Financial Officer



**KPMG LLP**  
**Chartered Accountants**

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## **AUDITORS' REPORT**

To the Members of the Board of Directors of  
British Columbia Transit

We have audited the balance sheet of British Columbia Transit as at March 31, 2009 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the company'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 company 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.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style.

Chartered Accountants

Victoria, Canada

May 22, 2009

# BRITISH COLUMBIA TRANSIT

## Balance Sheet

March 31, 2009 (\$000)

	2009	2008 (restated - note 2(n))
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (note 3)	\$ 23,540	\$ 21,666
Accounts receivable:		
Federal Capital Grants	5,487	12,148
Municipalities	10,219	9,675
Trade and other	7,620	4,431
Prepaid expenditures	1,336	1,284
Derivative financial instruments (note 13)	-	737
	48,202	49,941
Deferred contributions (note 10)	-	203
Debt sinking funds (note 4)	39,193	32,553
Capital assets (note 5)	224,566	176,674
Capital assets under lease (note 6)	778,699	811,454
Investment in Transportation Property and Casualty Company Inc.	20	20
	\$ 1,090,680	\$ 1,070,845
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 19,034	\$ 17,220
Deferred revenue (note 7)	11,318	9,825
Current portion of long-term debt (note 8)	9,829	-
Current portion of obligations under capital leases (note 9)	22	17
	40,203	27,062
Long-term debt (note 8)	121,339	113,933
Obligations under capital leases (note 9)	137	162
Deferred contributions (note 10)	1,874	-
Deferred capital contributions (note 11)	854,315	853,285
	1,017,868	994,442
<b>Net Assets</b>		
Contributed surplus	66,048	67,561
Accumulated net assets	6,764	8,842
	72,812	76,403
Commitments and contingencies (note 15)		
	\$ 1,090,680	\$ 1,070,845

See accompanying notes to financial statements.

Approved on behalf of the Board:



Director



Director

# BRITISH COLUMBIA TRANSIT

## Statement of Operations

Year ended March 31, 2009 (\$000)

	2009	2008 (restated - note 2(n))
Revenue:		
Operations	\$ 59,632	\$ 55,925
Investment and other income	2,859	3,380
	<u>62,491</u>	<u>59,305</u>
Expenditures:		
Operations	114,438	98,031
Maintenance	36,236	30,226
Administration	18,752	16,600
Interest on long-term debt	6,856	7,022
Amortization of capital assets	21,397	18,105
	<u>197,679</u>	<u>169,984</u>
Recoveries:		
Contributions from the Province of British Columbia:		
Operating grants	69,874	52,029
Supplementary operating grant	2,000	6,097
Contributions from municipalities (note 10)	53,847	47,606
Amortization of deferred capital contributions - capital assets	9,743	7,237
	<u>135,464</u>	<u>112,969</u>
Revenue from transit operations	276	2,290
Other:		
Amortization of capital assets under lease	(32,654)	(32,654)
Amortization of deferred capital contributions - capital assets under lease	31,242	31,242
Loss on disposal of capital assets	(329)	(94)
(Loss) gain on foreign exchange and derivatives	(1,073)	821
	<u>(2,814)</u>	<u>(685)</u>
Net revenue (expenditures) for the year	\$ (2,538)	\$ 1,605

See accompanying notes to financial statements.

# BRITISH COLUMBIA TRANSIT

## Statement of Changes in Net Assets

Year ended March 31, 2009 (\$000)

	Accumulated net assets	Contributed surplus	Total 2009	2008 (restated - note 2(n))
Balance, beginning of year as restated (note 2(n))	\$ 8,842	\$ 67,561	\$ 76,403	\$ 72,630
Transitional adjustment for fair value of investments (note 2(m))	-	-	-	2,616
Net revenue (expenditures) for the year	(2,538)	-	(2,538)	1,605
Unrealized gain (loss) from change in fair value of debt sinking funds	(952)	-	(952)	125
Return of contribution to the Province (note 7)	-	(101)	(101)	(573)
Internal transfer	1,412	(1,412)	-	-
Balance, end of year	\$ 6,764	\$ 66,048	\$ 72,812	\$ 76,403

See accompanying notes to financial statements.

# BRITISH COLUMBIA TRANSIT

## Statement of Cash Flows

Year ended March 31, 2009 (\$000)

	2009	2008 (restated – note 2(n))
Cash provided by (used for):		
Operations:		
Net revenue (expenditures) for the year	\$ (2,538)	\$ 1,605
Items not involving cash:		
Amortization of capital assets	21,397	18,105
Amortization of capital assets under lease	32,654	32,654
Amortization of deferred capital contributions	(40,985)	(38,479)
Loss on disposal of capital assets	329	94
Unrealized loss (gain) on foreign exchange derivative	1,073	(737)
Net changes in non-cash operating working capital:		
Accounts receivable	(3,733)	(1,869)
Prepaid expenditures	(52)	125
Accounts payable and accrued liabilities	1,814	2,867
Deferred revenue	1,493	(4,460)
	11,452	9,905
Investing:		
Proceeds from sale of capital assets	20	537
Additions to capital assets	(69,974)	(38,292)
Recoveries from capital assets under lease	101	573
	(69,853)	(37,182)
Financing:		
Repayment to the Province of British Columbia of proceeds on disposal of contributed land	(101)	(573)
Increase in deferred contributions	2,077	609
Capital lease payments	(20)	(18)
Proceeds on issuance of (repayments of) long-term debt	17,235	(7,991)
Increase in debt sinking funds	(7,592)	(3,883)
Deferred capital contributions received	48,676	24,043
	60,275	12,187
Increase (decrease) in cash and cash equivalents	1,874	(15,090)
Cash and cash equivalents, beginning of year	21,666	36,756
Cash and cash equivalents, end of year	\$ 23,540	\$ 21,666

See accompanying notes to financial statements.

# BRITISH COLUMBIA TRANSIT

## Notes to Financial Statements

Year ended March 31, 2009 (\$000)

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### 1. Purpose:

British Columbia Transit ("BC Transit") was established under the British Columbia Transit Act, as amended in 1998, to operate the urban transit systems in the Province of British Columbia (the "Province") outside of the Metro Vancouver Regional service area. In 2009 BC Transit recovered 49.6% (2008 - 48.4%) of its expenditures from the Province of British Columbia with the balance from transit operations and municipalities.

BC Transit, on behalf of the Victoria Regional Transit Commission, is responsible for the administration of all funds raised by certain tax levies. The financial position and changes in the funds during the year are set out in note 12.

### 2. Summary of significant accounting policies:

The accompanying financial statements are prepared in accordance with Canadian generally accepted accounting principles for not-for-profit organizations. The significant accounting policies are set out here under:

#### (a) Short-term investments:

Short-term investments are classified as held for trading and carried at fair value.

#### (b) Parts inventory:

Parts inventory is recorded at cost and included in capital assets as it has an estimated useful life greater than the normal operating cycle. Provision is made for assets that no longer have service potential or are removed from service.

#### (c) Debt sinking funds:

Debt sinking funds, consisting of pooled investment portfolios and Canada, Provincial government and Crown Corporation bonds, are classified as available for sale and recorded at fair value. Fair values are determined on the basis of quoted bid price.

#### (d) Capital assets:

(i) All capital assets, including major replacements and improvements, are recorded at cost, including capitalized interest as described in note 2(f).

# BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Year ended March 31, 2009 (\$000)

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## 2. Summary of significant accounting policies (continued):

- (ii) Amortization is provided on the basis that results in a matching of these charges with BC Transit's statutory power to recover the cost of the related assets. Contributed assets are not subject to recovery and are amortized over their estimated useful lives. All assets are amortized on a straight line basis (see Note 2(n)(ii)). Estimated useful lives for the majority of BC Transit's capital assets are as follows:

Category:	Estimated Useful Life:
Land	Indefinite – not amortized
Leasehold Improvements	term of lease
Buildings	
- main asset	40 years
- major components	10 – 20 years
Revenue Vehicles	
- main asset	20 years
- major components	3 – 15 years
Equipment and Other	3 – 15 years

- (e) Investment in Transportation Property and Casualty Company Inc.:

BC Transit's 10% interest in Transportation Property and Casualty Company Inc. is recorded on the cost basis of accounting.

- (f) Capitalization of interest:

Interest incurred in connection with capital acquisitions from the date of advance of funds until the assets are placed in service is capitalized.

- (g) Revenue recognition:

BC Transit follows the deferral method of accounting for contributions. Contributions from third parties for defined purposes are recognized as revenue in the year in which the related expenses are incurred. Contributions restricted for the purchase of capital assets are deferred and amortized into revenue at a rate corresponding with the amortization rate for the related capital assets. Unrestricted contributions and other revenue are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated, collection is reasonably assured, and performance has been met.

# BRITISH COLUMBIA TRANSIT

## Notes to Financial Statements

Year ended March 31, 2009 (\$000)

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(h) Deferred capital contributions:

Deferred capital contributions include the unamortized portions of capital asset contributions. Contributions for capital projects are provided by prepaid capital advances from the Province and capital grants from the federal government. These are recorded by BC Transit as deferred capital contributions and are recognized in the statement of operations on the same basis as the related assets are amortized. This matches the amortization of the deferred capital contributions with the expenditures incurred through amortization of the capital assets acquired with the funds.

(i) Employee future benefits:

BC Transit and its employees contribute to the Public Service Pension Plan (the "Plan"), a jointly trustee pension plan. The Board of Trustees, representing Plan members and employers, is responsible for overseeing the management of the Plan, including investment of the assets and administration of the benefits. The pension plan is a multi-employer contributory pension plan. Basic pension benefits provided are defined. The Plan has about 54,000 active plan members and approximately 33,000 retired plan members. Required contributions to the Plan are expensed as incurred.

Every three years an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of Plan funding. The most recent valuation as at March 31, 2008, indicated a \$486,591 surplus for basic pension benefits. The actuary does not attribute portions of the surplus to individual employers. The next required valuation is March 31, 2011. BC Transit paid \$3,357 (2008 - \$3,031) for employer contributions to the Plan in fiscal 2009.

(j) Use of estimates:

The preparation 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 and the reported amounts of revenue and expenditures during the reported periods. Significant areas requiring the use of management estimates include the determination of amortization periods and certain accrued liabilities. Actual results could differ from the estimates. Adjustments, if any, are reflected in operations in the period of settlement or when revisions to estimates are made.

# BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Year ended March 31, 2009 (\$000)

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## 2. Summary of significant accounting policies (continued):

### (k) Income and capital taxes:

BC Transit is exempt from Canadian federal and British Columbia provincial income and capital taxes.

### (l) Impairment of long-lived assets:

BC Transit monitors the recoverability of long-lived assets, including capital assets, whenever events or changes in circumstances indicate that the asset no longer has service potential. When a capital asset no longer contributes to BC Transit's ability to provide transit services, its carrying value is written down to residual value.

### (m) Financial Instruments:

A financial instrument is any contract that gives rise to a financial asset of one party and a financial liability or equity of another party. Financial assets include cost and rights to receive cash or another financial instrument from another party. Financial liabilities represent contractual obligations to deliver cash or other financial instruments to another party.

Cash and cash equivalents, including short-term investments and all derivative financial instruments are classified as held for trading and carried at fair value with unrealized gains or losses recorded in current year operations.

Accounts receivable, accounts payable and accrued liabilities and long-term debt are all initially recorded at fair value and then carried at amortized cost thereafter. Transaction costs and debt premiums or discounts are reflected in the carrying amount of long-term debt and amortized on an effective interest rate basis.

Investments in sinking funds are classified as available for sale and carried at fair value. The unrealized change in fair value is reflected as an adjustment to accumulated net assets to be recorded in income when realized.

BC Transit adopted CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement* and related financial instrument sections effective April 1, 2007. The impact to the opening fund balances as a result of this change in accounting policy in the preceding year was to increase debt sinking funds and accumulated net assets by \$2,616 representing the adjustment to fair value of investments.

### (n) Changes in Accounting Policy:

#### (i) Componentization of Capital Assets

Effective April 1, 2008, BC Transit changed its accounting policy with respect to the capitalization and amortization of assets to a "component" approach from a "single asset" approach. Under a component approach, an asset is broken down into its major

# BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Year ended March 31, 2009 (\$000)

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## 2. Summary of significant accounting policies (continued):

components that have significantly different useful lives. As a result of the change, a significant portion of the expenditures incurred under BC Transit's long range maintenance plan which were previously expensed are now capitalized and amortized over their estimated useful lives. BC Transit's long range maintenance plan was implemented effective April 1, 2008. In management's view, the change to component based capitalization and amortization more accurately reflects asset capitalization principles and the useful life of the long range maintenance plan expenditures. Management believes that the change in accounting policy will also provide increased comparability between both current and future industry practice.

The change in accounting policy was applied retrospectively and the comparative period March 31, 2008 has been restated. The effect of the change on the March 31, 2008 comparative year is as follows:

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	Increase (Decrease)
Maintenance Expense	\$ (1,357)
Amortization Expense	520
Capital Assets	2,936
Opening Accumulated Net Assets	2,099

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### (ii) Amortization of Capital Assets

Effective April 1, 2008, BC Transit changed its accounting policy for the amortization of capital assets from the sinking fund method to straight line amortization. In management's view, the change to straight line amortization more accurately reflects the charge of the asset over its useful economic life and is more consistent with industry practice resulting in greater comparability.

This accounting change has been adopted retrospectively and the comparative period March 31, 2008 has been restated. The effect of the change on the March 31, 2008 comparative year is as follows:

# BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Year ended March 31, 2009 (\$000)

## 2. Summary of significant accounting policies (continued):

	Increase (Decrease)
Capital assets	\$ (30,050)
Capital assets under lease	<u>(69,702)</u>
	(99,752)
Deferred contributions	(17,276)
Deferred capital contributions	(79,827)
Contributed surplus	<u>( 2,649)</u>
	(99,752)

### (iii) Inventory

Effective April 1, 2008, BC Transit adopted Section 3031, "Inventories" which replaced Section 3030, "Inventories". The new standard replaces the previous inventory standard and requires inventory to be measured at the lower of cost and net realizable value. Cost is determined on a first-in, first-out or weighted average cost basis. Net realizable value is determined as the selling price less costs to complete and sell. Under the new standard, major spare parts having a life greater than the normal operating cycle are reclassified from inventory to capital assets. The impact as a result of this accounting policy change is that inventory of \$7,048 has been reclassified to capital assets (2008 - \$6,215).

### (o) Future Accounting Standards:

#### (i) Financial Reporting by Government Organizations

In 2006, Canada's Accounting Standards Board ratified a strategic plan that would result in Canadian generally accepted accounting principles, as used by publicly accountable enterprises, being fully converged with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board over a transitional period to be complete by 2011. This raised the question as to whether government entities were considered publicly accountable enterprises and whether they should adopt IFRS or a separate set of accounting standards.

Based on comments received in 2007 by the Public Sector Accounting Board ("PSAB"), the body governing accounting standards for government entities, PSAB concluded that certain government entities would follow IFRS. Subsequent to that decision, certain stakeholders expressed concerns about this change and requested PSAB to re-evaluate

# BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Year ended March 31, 2009 (\$000)

## 2. Summary of significant accounting policies (continued):

this decision. PSAB decided to re-examine their conclusions and on February 24, 2009, PSAB released an Invitation to Comment on Financial Reporting by Government Organizations. The comment period closed on April 17, 2009 and final approval is anticipated in September 2009.

The Invitation to Comment provides various alternatives with respect to the future accounting framework for government organizations other than a government not-for-profit. Based on the definitions of government organizations and the alternatives available, the Invitation to Comment would allow management to self-select between the Public Sector Accounting Handbook or IFRS.

Once the Invitation to Comment is complete and upon final approvals from PSAB, management will be able to complete its evaluation process. Accordingly, BC Transit is not able to determine the potential impact of this changeover or its impact at this date.

### (p) Comparative figures:

Certain 2008 comparative figures have been reclassified to conform with the financial statement presentation for the current year.

## 3. Cash and cash equivalents:

BC Transit considers deposits in banks, certificates of deposit and short-term investments with original maturities of three months or less as cash and cash equivalents.

### (a) Major components of cash and cash equivalents are as follows:

	2009	2008
Cash	\$ 4,872	\$ 3,783
Short-term investments	18,668	17,883
	\$ 23,540	\$ 21,666

### (b) Supplemental cash flow information:

	2009	2008
Cash paid during the year for:		
Interest on long-term debt and notes payable	\$ 6,554	\$ 6,936
Cash received:		
Interest on investments	2,860	3,338

# BRITISH COLUMBIA TRANSIT

## Notes to Financial Statements

Year ended March 31, 2009 (\$000)

#### 4. Debt sinking funds:

Investments held in the sinking funds, including interest earned, are to be used to repay the related debt at maturity.

Investment income in 2009 includes \$8 (2008 - \$286) of realized gains on disposition of investments in the sinking funds.

Sinking funds and related investments are managed by the British Columbia Investment Management Corporation ("BCIMC"). Investment management fees totaling \$26 (2008 - \$19) were paid directly from individual portfolios to BCIMC.

#### 5. Capital assets:

March 31, 2009	Carrying value	Accumulated depreciation and amortization	Net book value
Land	\$ 2,608	\$ -	\$ 2,608
Leasehold improvements	3,304	1,744	1,560
Buildings	22,292	13,894	8,398
Revenue vehicles – main asset	264,208	118,652	145,556
Revenue vehicles – major components	28,457	2,946	25,511
Revenue vehicles – under capital lease	294	135	159
Equipment and other	19,157	12,672	6,485
Capital projects in progress	27,242	-	27,242
Capital inventory	7,047	-	7,047
	\$ 374,609	\$ 150,043	\$ 224,566

March 31, 2008 (restated – note 2(n))	Carrying value	Accumulated depreciation and amortization	Net book value
Land	\$ 2,608	\$ -	\$ 2,608
Leasehold improvements	2,554	1,576	978
Buildings	22,292	12,797	9,495
Revenue vehicles – main asset	239,607	106,765	132,842
Revenue vehicles – major components	3,942	1,006	2,936
Revenue vehicles – under capital lease	294	115	179
Equipment and other	18,345	10,995	7,350
Capital projects in progress	14,071	-	14,071
Capital inventory	6,215	-	6,215
	\$ 309,928	\$ 133,254	\$ 176,674

During the year, \$329 of equipment was recognized as a write-down when the equipment was removed from service.

Interest capitalized for capital projects in 2009 was \$906 (2008 - \$207).

# BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Year ended March 31, 2009 (\$000)

## 6. Capital assets under lease:

These capital assets under lease consist of land, land improvements, stations, guideways and other assets related to the SkyTrain system and West Coast Express. These assets are made available to the South Coast British Columbia Transportation Authority ("SCBCTA") for their use pursuant to an Order in Council and operating lease and represent one of the Province's contributions toward public transportation in the Metro Vancouver service area.

The operating lease arrangements with SCBCTA are for one dollar per year under an initial 15-year term to 2014, with additional five-year renewal periods upon the agreement of BC Transit and the SCBCTA.

March 31, 2009	Carrying value	Accumulated amortization	Net book value
SkyTrain	\$ 1,204,098	\$ 496,629	\$ 707,469
West Coast Express	128,848	57,618	71,230
	<u>\$ 1,332,946</u>	<u>\$ 554,247</u>	<u>\$ 778,699</u>

March 31, 2008 (restated – note 2(n))	Carrying value	Accumulated amortization	Net book value
SkyTrain	\$ 1,204,199	\$ 468,270	\$ 735,929
West Coast Express	128,848	53,323	75,525
	<u>\$ 1,333,047</u>	<u>\$ 521,593</u>	<u>\$ 811,454</u>

## 7. Deferred revenue:

	2009	2008
Unexpended contributions:		
Provincial funding	\$ 3,717	\$ 3,390
Fuel Cells Canada	1,045	1,045
Public Transit Agreement	6,556	5,390
	<u>\$ 11,318</u>	<u>\$ 9,825</u>

# BRITISH COLUMBIA TRANSIT

## Notes to Financial Statements

Year ended March 31, 2009 (\$000)

BC Transit owns certain West Coast Express and SkyTrain infrastructure in Vancouver. The SkyTrain infrastructure included lands surplus to the operation of the Expo Line. As in prior years BC Transit has disposed of certain surplus lands. The total proceeds of \$101 (2008 - \$573) are included in deferred revenue. The Ministry of Transportation and Infrastructure granted these and other accumulated funds to BC Transit to use for operating and capital expenditures. \$ - (2008 - \$6,097) was recognized in operations during the year and \$2,000 (2008 - \$458) was used to purchase capital assets. The remaining unexpended amounts represent funds designated for capital and special projects.

Deferred revenue also includes \$775 received from the Ministry of Environment and held for retro-fitting diesel motors.

BC Transit earned interest of \$ - (2008 - \$45) and \$152 (2008 - \$237) respectively on deferred capital grants from Fuel Cells Canada and the Public Transit Agreement. As required under the related contribution agreements, this interest has been deferred.

### 8. Long-term debt:

BC Transit's debt, including principal and interest, is either held or guaranteed by the Province. BC Transit has not experienced any losses to date under this indemnity. Under the British Columbia Transit Act, BC Transit is subject to a borrowing limit of \$500 million in total. The Minister of Finance, as BC Transit's fiscal agent, arranges financing at BC Transit's request.

Total fees paid for these fiscal agency services were \$26 (2008 - \$17).

During 2009, BC Transit issued bonds of \$17,235 with a weighted average interest rate of 4.47% and a weighted term to maturity of 14 years.

Long-term debt outstanding at March 31 is as follows:

	2009	2008
Sinking fund bonds, weighted average interest rate of 5.49%, maturing at various dates to 2023, amortized from 10 to 20 years	\$ 117,410	\$ 100,184
Sinking fund bonds under interest rate and currency conversion agreements, effective weighted average interest rate of 6.06%, maturing at various dates to 2011, amortized over 12 years	13,758	13,749
	131,168	113,933
Less current portion	9,829	-
	\$ 121,339	\$ 113,933

# BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Year ended March 31, 2009 (\$000)

## 8. Long-term debt (continued):

Schedule of long-term debt maturities in each of the next five years are as follows:

2010	\$	9,829
2011		8,364
2012		9,918
2013		-
2014		9,604
Thereafter		93,453

Schedule of long-term debt sinking fund installments in each of the next five years are as follows:

2010	\$	7,465
2011		7,155
2012		6,672
2013		5,238
2014		4,783
Thereafter		29,898

## 9. Obligations under capital leases:

BC Transit leases equipment under leases which are classified as capital leases. The future minimum annual lease payments are as follows:

2010	\$	34
2011		34
2012		34
2013		34
2014		34
Thereafter		29
		199
Less amount representing interest at 8.36%		(40)
Present value of capital lease obligations		159
Less current portion		(22)
	\$	137

Interest incurred during the year with respect to obligations under capital leases amounted to \$14 (2008 - \$16).

# BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Year ended March 31, 2009 (\$000)

## 10. Deferred contributions:

Debt service contributions to fund sinking fund and interest payments are recovered from municipal partners over the estimated service life of the related assets. These contributions may differ from the annual amortization of the related assets. Such differences are deferred to be recognized as a recovery in future periods.

	2009	2008 (restated – note 2(n))
Balance, beginning of year	\$ (203)	\$ (811)
Contributions from municipalities - Victoria	24,782	22,688
Contributions from municipalities - other municipalities	31,142	25,526
Contributions from municipalities expended	(53,847)	(47,606)
Balance, end of year	\$ 1,874	\$ (203)

## 11. Deferred capital contributions:

	2009	2008 (restated – note 2(n))
Federal and Provincial contributions subject to amortization		
Capital assets:		
Balance, beginning of year	\$ 100,120	\$ 71,096
Contributions	42,017	36,351
Amortization	(9,743)	(7,327)
Balance, end of year	132,394	100,120
Capital assets under lease:		
Balance, beginning of year	\$ 753,165	\$ 784,406
Amortization	(31,242)	(31,242)
Balance, end of year	721,921	753,165
	\$ 854,315	\$ 853,285

# BRITISH COLUMBIA TRANSIT

## Notes to Financial Statements

Year ended March 31, 2009 (\$000)

### 12. Victoria Regional Transit Fund:

BC Transit holds funds in trust on behalf of the Victoria Regional Transit Commission. These funds are not included in the financial statements. The fund balance and transactions during the year are as follows:

	2009	2008
Fund balance, beginning of year	\$ 987	\$ 2,475
Revenue:		
Fuel tax	11,145	8,085
Property tax	14,663	12,888
Interest earned	62	227
Contributions	(24,782)	(22,688)
Fund balance, end of year	\$ 2,075	\$ 987

### 13. Financial instruments:

(a) Fair value:

The carrying value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of the instruments. The estimated fair value of obligations under capital leases approximates their carrying value as they bear interest at rates approximating current market rates. Debt sinking funds are reflected on the balance sheet at fair value. The fair value of long-term debt at March 31, 2009 is \$144,480 (2008 - \$126,528).

In evaluating the fair value information, considerable judgment is required to interpret the market data used to develop the estimates. The use of different market assumptions and/or different valuation techniques may have a material effect on the estimated fair value amounts for financial instruments. Accordingly, the estimates of fair value presented herein may not be indicative of the amounts that could be realized in a current market exchange.

(b) Risks associated with financial assets and liabilities:

BC Transit is exposed to financial risks from its financial assets and liabilities. The financial risks include market risk relating to commodity prices, interest rates and foreign exchange risks as well as credit risk and liquidity risk.

Market Risk:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of commodity price risk, interest rate risk and foreign exchange risk and is discussed below.

# BRITISH COLUMBIA TRANSIT

## Notes to Financial Statements

Year ended March 31, 2009 (\$000)

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### Commodity Price Risk:

BC Transit is exposed to commodity price risk. Commodity price risk and volatility has a significant impact on BC Transit's fuel costs. Management continually monitors the exposure to commodity price volatility and assesses possible risk mitigation strategies including continuing to buy at rack prices, entering into a physical hedge agreement to fix all or a portion of fuel prices with a supplier and / or the potential to enter into financial commodity derivative contracts. Management does not have the authority under the BC Transit Act to enter into financial commodity derivative contracts directly. The ability for management to execute physical hedge agreements with suppliers is governed under formal policies and is subject to limits established by the Board of Directors.

### Interest Rate Risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate from changes in market interest rates. BC Transit is exposed to interest rate risk to the extent of changes in the prime interest rate. BC Transit may from time to time enter into interest rate swap contracts to manage exposure to interest rates and cash flow risk. These arrangements with respect to long term debt are \$13,758 maturing in 2010 and 2011. The net fair value of these derivative instruments is nominal at March 31, 2009 and 2008.

### Foreign exchange risk:

BC Transit is exposed to currency risk on purchases and loans denominated in the U.S dollar and U.K. pound sterling. BC Transit periodically makes commitments to acquire certain capital assets, primarily transit vehicles, from suppliers requiring payment in either US dollars or pounds sterling. These risks are monitored and can be mitigated by management by entering into foreign currency option agreements. No such derivative contracts were entered into during the year.

### Sensitivity Analysis:

The following table is a sensitivity analysis indicating the impact on net revenue (expenditures) of a change in each type of market risk discussed above. The sensitivity analysis is based on reasonable possible movement within the forecast period, being one year. These assumptions may not be representative of actual movements in these risks and should not be relied upon. Given the recent volatility in the financial and commodity markets, the actual percentage changes may differ significantly from the outcomes noted below. Each risk is contemplated independent of other risks.

	1% Change
Commodity Price Risk	\$ 236
Interest Rate Risk	1,300
Foreign Exchange Risk	160

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## Notes to Financial Statements

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### Credit Risk:

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. A substantial portion of BC Transit's accounts receivable are with government entities, either Federal, Provincial or from municipal government partners. The maximum credit risk exposure is the total carrying value of accounts receivable. BC Transit monitors the creditworthiness and concentration of credit. Cash and cash equivalents and debt sinking funds are held only at major financial institutions.

### Liquidity Risk:

Liquidity risk is the risk that BC Transit will encounter difficulty in meeting obligations associated with financial liabilities as they come due. BC Transit manages liquidity risk through its cash, debt, sinking fund and funding management initiatives. Accounts payable and accrued liabilities are due in the next fiscal year. Maturity of long term debt is disclosed in note 8. Other commitments with future minimum payments are disclosed in note 15.

## 14. Capital Disclosures

BC Transit defines capital as net assets plus deferred capital contributions. BC Transit receives the majority of these operating and capital funds from the Province and municipal partners.

BC Transit's objective when managing capital is to meet its current Service Plan initiatives with the current funding available. BC Transit manages its capital structure in conjunction with the Province and makes adjustments to its Service Plan and related budgets based on available government funding. The focus is to ensure that service levels are preserved within the funding restrictions by the Province and municipal partners.

BC Transit is not subject to debt covenants or other restrictions with respect to operating funding. Funding received for designated purposes must be used for the purpose outlined by the funding party. BC Transit has complied with the external restrictions on any external funding provided.

## 15. Related Party Transactions

As a Crown Corporation of the Province, BC Transit and the Province are considered related parties. All transactions between BC Transit and the Province are considered to possess commercial substance and are consequently recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Related party transactions and balances have been disclosed elsewhere in the financial statements.

# BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Year ended March 31, 2009 (\$000)

## 16. Commitments and Contingencies:

BC Transit has outstanding commitments as summarized below:

<b>As at March 31</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Operating leases	\$ 1,318	\$ 1,323	\$ 1,310	\$ 1,332	\$ 1,264
Facilities	2,515	-	-	-	-
Vehicle purchases	100,816	-	-	-	-
Other capital commitments	1,044	-	-	-	-
<b>Total</b>	<b>\$ 105,693</b>	<b>\$ 1,323</b>	<b>\$ 1,310</b>	<b>\$ 1,332</b>	<b>\$ 1,264</b>

The nature of BC Transit's activities is such that there is usually litigation pending or in process at any time. With respect to unsettled claims at March 31, 2009, management has determined that BC Transit has valid defences and appropriate insurance coverage in place. In the event any claims are successful, management believes that such claims are not expected to have a material effect on the financial position of BC Transit.