

Consolidated Financial Statements of

**BRITISH COLUMBIA TRANSIT**

Year ended March 31, 2023

# MANAGEMENT REPORT

Year ended March 31, 2023

The consolidated financial statements of British Columbia Transit (“BC Transit”) are the responsibility of management and have been prepared in accordance with Canadian public sector accounting standards as required by section 23.1 of the *Budget Transparency and Accountability Act* of the Province of British Columbia except in regard to the accounting for government transfers which is based on the Restricted Contributions Regulation 198/2011.

These consolidated financial statements include some amounts based on management’s best estimates and careful judgment. A precise determination of assets and liabilities is dependent upon future events and, consequently, the preparation of periodic consolidated financial statements necessarily involves the use of management’s judgment in establishing the estimates and approximations used. The consolidated financial statements have, in management’s opinion, been properly prepared within the framework of the accounting policies summarized in the notes to the consolidated financial statements and incorporate, within reasonable limits of materiality, all information available as at May 25, 2023.

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 Code of Conduct applicable to all BC Transit officers and employees.

The consolidated financial statements have been examined by PricewaterhouseCoopers LLP of British Columbia, BC Transit’s independent external auditors. Their responsibility is to express their opinion whether the consolidated financial statements are prepared, in all material respects, in accordance with the accounting requirements of Canadian public sector accounting standards. The Board of Directors meets regularly with management and the external auditors to satisfy itself that BC Transit’s system of internal control is adequate and to ensure that responsibilities for financial reporting are being met.

On behalf of BC Transit:



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Erinn Pinkerton  
President and Chief Executive Officer  
May 25, 2023



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Roland Gehrke, CPA CA  
Vice President, Finance and Chief Financial Officer  
May 25, 2023



## Independent auditor's report

To the Board of Directors of British Columbia Transit and the Minister of Transportation and Infrastructure,  
Province of British Columbia

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### Our opinion

In our opinion, the accompanying consolidated financial statements of British Columbia Transit and its subsidiaries (together, BC Transit) as at March 31, 2023 and for the year then ended are prepared, in all material respects, in accordance with the accounting requirements of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia.

#### What we have audited

BC Transit's consolidated financial statements comprise:

- the consolidated statement of financial position as at March 31, 2023;
- the consolidated statement of operations for the year then ended;
- the consolidated statement of changes in net debt for the year then ended;
- the consolidated statement of remeasurement gains and losses for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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### Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We are independent of BC Transit in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP  
Central City Tower, 13450 102 Avenue, Suite 1400, Surrey, British Columbia, Canada V3T 5X3  
T: +1 604 806 7000, F: +1 604 806 7806

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



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## **Other information**

Management is responsible for the other information. The other information obtained prior to the date of this auditor's report comprises the Annual Service Plan Report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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## **Emphasis of matter – basis of accounting**

We draw attention to note 2(a) to the consolidated financial statements, which describes the basis of accounting and the significant differences between such basis of accounting and Canadian public sector accounting standards. Note 20 to the consolidated financial statements discloses the impact of these differences. Our opinion is not modified in respect of this matter.

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## **Responsibilities of management and those charged with governance for the consolidated financial statements**

Management is responsible for the preparation of the consolidated financial statements in accordance with the accounting requirements of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing BC Transit's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate BC Transit or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing BC Transit's financial reporting process.



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## Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of BC Transit's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on BC Transit's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause BC Transit to cease to continue as a going concern.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within BC Transit to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**/s/PricewaterhouseCoopers LLP**

Chartered Professional Accountants

Surrey, British Columbia  
May 25, 2023

# BRITISH COLUMBIA TRANSIT

Consolidated Statement of Financial Position  
(In thousands of dollars)

March 31, 2023, with comparative figures for March 31, 2022

	March 31, 2023	March 31, 2022
<b>FINANCIAL ASSETS</b>	\$	\$
Cash and cash equivalents (Note 3)	49,936	52,684
Accounts receivable (Note 4)	50,216	71,353
Debt sinking funds (Note 8)	55,855	77,686
	156,007	201,723
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities (Note 5)	57,134	48,031
Due to Province	1,138	641
Deferred revenue and contributions (Note 6)	99,853	120,439
Deferred capital contributions (Note 7)	338,981	316,312
Debt (Note 8)	108,659	132,009
Employee future benefits (Note 9)	21,922	22,758
	627,687	640,190
<b>NET DEBT</b>	(471,680)	(438,467)
<b>NON-FINANCIAL ASSETS</b>		
Tangible capital assets (Note 10)	462,312	431,031
Inventories	22,313	19,113
Prepaid expenses and deposits	4,784	6,174
Prepaid lease payments	2,648	2,995
	492,057	459,313
<b>ACCUMULATED SURPLUS</b>		
Accumulated operating surplus	21,137	19,399
Accumulated remeasurement (losses) gains	(760)	1,447
	20,377	20,846

Commitments, contingent liabilities, and contractual rights (Notes 11, 12 and 13).

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

Approved on behalf of the Board of Directors:



Sherri Bell, Chair  
May 25, 2023



Blair Redlin, Director  
May 25, 2023

# BRITISH COLUMBIA TRANSIT

Consolidated Statement of Operations  
(In thousands of dollars)

Year ended March 31, 2023, with comparative figures for March 31, 2022

	Budget 2023 (Note 16)	March 31, 2023	March 31, 2022
<b>REVENUE</b>	\$	\$	\$
Operations (Note 14)	65,741	74,177	62,656
Government transfers:			
Federal (Note 14)	-	-	14,644
Provincial (Note 14)	140,874	141,067	137,071
Local government (Note 14)	150,192	141,090	112,673
Deferred capital contributions (Note 7)	49,831	46,441	43,961
Investment and other income	5,192	6,207	5,146
	411,830	408,982	376,151
<b>EXPENSES</b> (Note 15)			
Operations	286,910	282,326	260,497
Maintenance	81,285	81,782	75,242
Administration	43,635	45,836	40,406
	411,830	409,944	376,145
<b>NET SURPLUS (DEFICIT)</b> from operations	-	(962)	6
<b>OTHER</b>			
Disposal of capital assets			
(Loss) on disposal of capital assets	-	(472)	(1,346)
Other capital recoveries	-	438	1,188
Contributions for land purchase (Note 14)	-	2,743	216
Gain on investments	-	43	34
Other (expenses)	-	(52)	(32)
	-	2,700	60
<b>ANNUAL SURPLUS</b>	-	1,738	66
Accumulated operating surplus, beginning of year		19,399	19,333
Accumulated operating surplus, end of year		21,137	19,399

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



## BRITISH COLUMBIA TRANSIT

Consolidated Statement of Change in Net Debt  
(In thousands of dollars)

Year ended March 31, 2023, with comparative figures for March 31, 2022

	Budget 2023 (Note 16)	March 31, 2023	March 31, 2022
	\$	\$	\$
Surplus for the year	-	1,738	66
Acquisition of tangible capital assets	(178,018)	(100,544)	(66,768)
Amortization of tangible capital assets	74,699	68,791	67,041
Disposal of tangible capital assets	-	472	1,416
	(103,319)	(29,543)	1,755
Acquisition of inventories of parts	-	(37,157)	(29,613)
Consumption of inventories of parts	-	33,957	28,824
Acquisition of prepaid expenses and deposits	-	(10,617)	(10,926)
Consumption of prepaid expenses and deposits	-	12,007	8,366
Consumption of prepaid leases	-	347	348
	-	(1,463)	(3,001)
Realized gain reclassified to operations	-	(43)	(34)
Unrealized (loss) on portfolio investment	-	(2,164)	(5,016)
	-	(2,207)	(5,050)
Increase in net debt	(103,319)	(33,213)	(6,296)
Net debt, beginning of year	(438,467)	(438,467)	(432,171)
Net debt, end of year	(541,786)	(471,680)	(438,467)

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

## BRITISH COLUMBIA TRANSIT

Consolidated Statement of Remeasurement Gains and Losses  
(In thousands of dollars)

March 31, 2023, with comparative figures for March 31, 2022

	March 31, 2023	March 31, 2022
	\$	\$
Accumulated remeasurement gains, beginning of year	1,447	6,497
Unrealized (loss) on investments	(2,164)	(5,016)
Realized gain on investments, reclassified to Consolidated Statement of Operations	(43)	(34)
Accumulated remeasurement (losses) gains, end of year	(760)	1,447

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

# BRITISH COLUMBIA TRANSIT

Consolidated Statement of Cash Flows  
(In thousands of dollars)

March 31, 2023, with comparative figures for March 31, 2022

	March 31, 2023	March 31, 2022
Cash provided by (used for):	\$	\$
Operating transactions		
Annual surplus	1,738	66
Non-cash charges to operations (Note 17)	22,285	23,965
Changes in non-cash operating working capital (Note 17)	17,820	(389)
Cash received from operating transactions	41,843	23,642
Capital transactions		
Proceeds on disposal of tangible capital assets	91	268
Cash used to acquire tangible capital assets	(110,456)	(69,402)
Cash used for capital transactions	(110,365)	(69,134)
Investing transactions		
Purchase of debt sinking funds and investments	(5,727)	(6,470)
Redemption of debt sinking funds and investments	25,394	17,705
Cash received from investing transactions	19,667	11,235
Financing transactions		
Debt repaid	(23,350)	(15,972)
Capital contributions received	69,457	48,809
Cash received from financing transactions	46,107	32,837
(Decrease) in cash and cash equivalents	(2,748)	(1,420)
Cash and cash equivalents, beginning of year	52,684	54,104
Cash and cash equivalents, end of year	49,936	52,684
Supplemental cash flow information		
Cash paid for interest	5,699	6,874
Cash received from interest	960	342

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

# BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements  
(In thousands of dollars)

Year Ended March 31, 2023, with comparative figures for March 31, 2022

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## 1. Nature of Operations

British Columbia Transit (“BC Transit”) is a Crown corporation, 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. BC Transit is included in the government reporting entity of the Province of British Columbia and reports to the Legislative Assembly through the Ministry of Transportation and Infrastructure. BC Transit is exempt from income taxes under the *Income Tax Act*.

BC Transit, on behalf of the Victoria Regional Transit Commission (“VRTC”), is responsible for the administration of all funds raised by certain tax levies. These funds are recorded as a liability and summarized in Note 6.

## 2. Summary of Significant Accounting Policies

### (a) Basis of Accounting

These consolidated financial statements have been prepared in accordance with Canadian public sector accounting standards as required by section 23.1 of the *Budget Transparency and Accountability Act* of the Province of British Columbia and supplemented by Regulation 198/2011, issued by the Province of British Columbia Treasury Board.

Regulation 198/2011 requires that restricted contributions be recognized as revenue in the period the restriction is met, and that restricted contributions for the purpose of acquiring or developing a depreciable tangible capital asset, be recognized as revenue at the same rate the amortization of the related tangible capital asset is recorded. The reduction of the deferred capital contributions and the recognition of the revenue are accounted for in the fiscal period during which the tangible capital asset is used to provide services.

Canadian public sector accounting standards require government transfers, which do not contain a stipulation that creates a liability, to be recognized as revenue by the recipient when approved by the transferor and the eligibility criteria have been met. The Regulation allows for the deferral of revenue recognition to future years, recognized for non-capital government transfers in the period the restriction the transfer is subject to is met and for capital transfers in income, systematically, over the useful life of the asset, rather than in the year the transfer was made. This results in differences in deferred contributions, deferred capital contributions and accumulated operating surplus on the consolidated statement of financial position, and the government transfers revenue and annual surplus on the statement of operations. The impact of accounting for restricted contributions in accordance with Regulation 198/2011 is disclosed in Note 19.

### (b) Basis of Consolidation

Consolidated Entities

The consolidated financial statements reflect the assets, liabilities, revenues and expenses of organizations which are controlled by BC Transit. Controlled organizations are consolidated with inter-organizational transactions, balances, and activities eliminated on consolidation.

The following organizations are controlled by BC Transit and are fully consolidated in these financial statements:

0915866 B.C. Ltd.

0922667 B.C. Ltd.

0925406 B.C. Ltd.

0928624 B.C. Ltd.

# BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements  
(In thousands of dollars)

Year Ended March 31, 2023, with comparative figures for March 31, 2022

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## 2. Summary of Significant Accounting Policies (continued)

### (c) *Deferred Contributions and Revenue Recognition*

Government transfers received relate to contributions from federal, provincial and local governments to fund capital projects, operating costs, sinking fund, and interest payments.

Under Restricted Contributions Regulation 198/2011, government transfers are reported as revenue based on the nature of the restrictions on the use of the funds by the contributors as follows:

- (i) Contributions for the purpose of acquiring or developing a depreciable tangible capital asset for use in providing services are recorded and referred to as deferred capital contributions and are recognized as revenue at the same rate that amortization of the tangible capital asset is recorded. The reduction of the deferred capital contributions and the recognition of the revenue are accounted for in the fiscal period during which the tangible capital asset is used to provide services.
- (ii) Contributions restricted for specific purposes other than for those to be held in perpetuity or the acquisition or development of a depreciable tangible capital asset are recorded as deferred contributions and recognized as revenue in the year in which the stipulation or restriction on the contribution has been met.

See Note 20 for the impact of this regulation on these consolidated financial statements.

Transit user charges are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated, collection is reasonably assured and when services have been provided to the users. Transit passes purchased in advance of services being performed are deferred and recognized in the month the service is delivered.

### (d) *Investment Income*

Investment income is reported as revenue in the period earned. When required by the funding party or related Act, investment income earned on deferred contributions is added to the investment and forms part of the deferred contributions balance.

### (e) *Financial Instruments*

BC Transit has elected to measure specific financial instruments at fair value, to correspond with how they are evaluated and managed. These financial instruments are identified in this note by financial asset and financial liability classification and are not reclassified for the duration of the period they are held. All other financial assets and financial liabilities are measured at cost or amortized cost. The following classification system is used to describe the basis of the inputs used to measure the fair values of financial instruments in the fair value measurement category:

**Level 1** Quoted prices (unadjusted) in active markets for identical assets or liabilities.

**Level 2** Market-based inputs other than quoted prices that are observable for the asset or liability either directly or indirectly.

**Level 3** Inputs for the asset or liability that are not based on observable market data; assumptions are based on the best internal and external information available and are most suitable and appropriate based on the type of financial instrument being valued, in order to establish what the transaction price would have been on the measurement date in an arm's-length transaction.

Unrealized gains and losses from changes in the fair value of financial instruments are recognized in the statement of remeasurement gains and losses. Upon settlement, the cumulative gain or loss is reclassified from the statement of remeasurement gains and losses and recognized in the statement of operations. Interest and dividends attributable to financial instruments are reported in the statement of operations.

# BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements  
(In thousands of dollars)

Year Ended March 31, 2023, with comparative figures for March 31, 2022

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## 2. Summary of Significant Accounting Policies (continued)

All financial assets are tested annually for impairment. When financial assets are impaired, impairment losses are recorded in the statement of operations. A write-down of an investment to reflect a loss in value is not reversed for a subsequent increase in value.

For financial instruments measured using amortized cost, the effective interest rate method is used to determine interest revenue or expense. Transaction costs are a component of cost for financial instruments measured using cost or amortized cost.

### (i) *Cash and cash equivalents*

Cash and cash equivalents include cash in bank and in transit, certificates of deposit and short-term investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value. These short-term investments generally have no term and are held for the purpose of meeting short-term cash commitments, rather than for investing. They are reported at fair value and are measured using a Level 1 valuation.

### (ii) *Accounts receivable*

Accounts receivable are recorded at cost less any amount for valuation allowance. Valuation allowances are made to reflect accounts receivable at the lower of cost and the net recoverable value when collectability and risk of loss exist. Changes in valuation allowance are recognized in the statement of operations.

### (iii) *Debt sinking funds*

Investments in sinking funds consist of pooled investment portfolios and Canadian, provincial government and Crown corporation bonds managed by the British Columbia Investment Management Corporation ("BCI"), a corporation established under the *Public Sector Pension Plans Act*. Sinking fund investments are recorded at fair value and measured using a Level 1 valuation. Discounts and premiums arising on the purchase of these investments are amortized over the term of the investments.

### (iv) *Debt and other financial liabilities*

All debt and other financial liabilities are recorded using cost or amortized cost. Discounts and premiums arising on the issuance of debt are amortized over the term of the debt.

## (f) **Employee Future Benefits**

- (i) BC Transit and its employees contribute to the Public Service Pension Plan in accordance with the *Public Service Pension Plans Act*. Multi-employer, jointly-trusted pension plans follow defined contribution pension plan accounting. Contributions are expensed as they become payable.
- (ii) Outside of the Public Service Pension Plan, BC Transit maintains various benefit arrangements available to retired employees including non-pension post-retirement benefits (retiree hospital, drugs, vision, medical), post-employment benefits (vacation, overtime) and continuation of long-term disability benefits. The future obligations under these benefit plans are accrued as the employees render the services necessary to earn the benefit. Management, using an estimate of salary escalation and expected retirement ages, calculates the cost of the defined retirement benefit. The recorded liability represents these estimated future costs discounted to a present value using market interest rates applicable to BC Transit, and the cumulative unrecognized actuarial gains and losses are amortized over the expected average remaining service lifetime of active employees covered under the plan. The accrued employee benefit obligations and the net periodic benefit cost were estimated by an actuarial valuation and were effective March 31, 2020.

# BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements  
(In thousands of dollars)

Year Ended March 31, 2023, with comparative figures for March 31, 2022

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## 2. Summary of Significant Accounting Policies (continued)

### **(g) Asset Retirement Obligation**

BC Transit maintains tangible capital assets to deliver transit services. Liabilities are recognized for statutory, contractual, or legal obligations associated with the retirement of tangible capital assets when those obligations result from the acquisition, construction, development, or normal operation of the assets.

A liability is recognized when, as at the financial reporting date:

- (i) there is a legal obligation to incur retirement costs in relation to a tangible capital asset;
- (ii) the past transaction or event giving rise to the liability has occurred;
- (iii) it is expected that future economic benefits will be given up; and
- (iv) a reasonable estimate of the amount can be made.

The obligations are measured initially at fair value, determined using present value methodology with a discount rate of 3.55%, and the resulting costs capitalized into the carrying amount of the related tangible capital asset. In subsequent periods, the liability is adjusted for accretion and any changes in the amount or timing of the underlying future cash flows. The capitalized asset retirement cost is amortized on the same basis as the related asset and accretion expense is included in the Consolidated Statement of Operations.

### **(h) Liability for Contaminated Sites**

Contaminated sites are a result of contamination being introduced into air, soil, water or sediment of a chemical, organic or radioactive material or live organism that exceeds an environmental standard. The liability is recorded net of any expected recoveries. A liability for remediation of contaminated sites is recognized when all of the following criteria are met:

- (v) an environmental standard exists;
- (vi) contamination exceeds the environmental standard;
- (vii) BC Transit is directly responsible or accepts responsibility; and
- (viii) a reasonable estimate of the amount can be made.

As at March 31, 2023, BC Transit has not identified any contaminated sites that meet the criteria for recognition.

### **(i) Non-Financial Assets**

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

# BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements  
(In thousands of dollars)

Year Ended March 31, 2023, with comparative figures for March 31, 2022

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## 2. Summary of Significant Accounting Policies (continued)

### (i) *Tangible capital assets*

Tangible capital assets are recorded at cost, which includes amounts that are directly attributable to the acquisition, design, construction, development, improvement or betterment of the asset. The costs, less the residual value, of the tangible capital assets are amortized on a straight-line basis over their estimated useful lives as follows:

Asset	Useful Life - Years
Land	Indefinite
Exchanges, shelters, and other transit infrastructure	3 – 40
Buildings	3 – 40
Vehicles – including major components	2 – 20
Other equipment	2 – 25

### (ii) *Contributions of tangible capital assets*

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt with a corresponding entry made to deferred capital contributions. The contributed tangible capital assets are then amortized over their estimated useful lives.

### (iii) *Interest capitalization*

Interest is capitalized whenever debt is issued to finance the construction of tangible capital assets. Interest is capitalized from the date of advance of funds until the assets are available for service.

### (iv) *Inventories*

Inventories held for consumption are recorded at the lower of historical cost or replacement cost.

### (v) *Impairment of tangible capital assets*

BC Transit monitors the recoverability of tangible capital assets. Whenever events or changes in circumstances indicate that the tangible capital asset no longer contributes to the ability to provide transit services or that the value of the future economic benefits associated with the tangible capital asset is less than its net book value, the cost of the tangible capital asset is written down to residual value.

### (vi) *Prepaid expenses and leases*

Prepaid expenses and leases include prepaid insurance, parts credits, prepaid software, and prepaid property leases. These are expensed over the period they are expected to benefit.

### (vii) *Intangibles*

Intangible assets are not recognized in BC Transit's financial statements.

## (j) *Use of Estimates*

The preparation of consolidated financial statements 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 consolidated financial statements and the reported amounts of the revenues and expenses during the period.

Estimates are based on the best information available at the time of preparation of the consolidated financial statements and are reviewed annually to reflect new information as it becomes available. Significant measurement uncertainty includes assumptions used in the determination of amortization



# BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements  
(In thousands of dollars)

Year Ended March 31, 2023, with comparative figures for March 31, 2022

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## 2. Summary of Significant Accounting Policies (continued)

periods, employee future benefits and estimating provisions for certain accrued liabilities. Actual results could differ from these estimates.

### **(k) New Accounting Standard**

Effective April 1, 2022, BC Transit adopted PS 3280 Asset Retirement Obligations. PS 3280 defines and establishes standards for recognition, measurement, presentation and disclosure of legal obligations associated with the retirement of tangible capital assets. BC Transit completed a review of legal obligations within the scope of PS 3280 Asset Retirement Obligations and identified asset retirement activities including the dismantling of in-ground hoists and the decommissioning of diesel and CNG fueling equipment. The estimated time for all dismantling and decommissioning activities is at the end of the assets' useful life.

The standard was adopted prospectively resulting in asset retirement obligations of \$339 (2022 - \$nil) which are included in accounts payable and accrued liabilities. The impacted assets, buildings and other equipment, were also increased by the same amount. Amortization expense of \$44 relating to the asset retirement obligations was recognized during the year.

Refer to accounting policy Note 1 (g) for further impacts of this accounting policy adoption.

### **(l) New Accounting Pronouncements**

Standards and interpretations issued that are relevant to the operations of BC Transit, but not yet effective include:

#### **(i) Revenue (PS3400)**

This standard provides guidance on how to account for and report on revenue, and specifically, it addresses revenue arising from exchange transactions and non-exchange transactions. This section applies to fiscal years beginning on or after April 1, 2023. Management is in the process of assessing the impact of this standard.

#### **(ii) PSG 8 Purchased Intangibles**

This standard provides guidelines on how to account for and report on identifiable non-monetary economic resources without physical substance acquired through an arm's length exchange transaction between knowledgeable, willing parties who are under no compulsion to act. This section applies to fiscal years beginning on or after April 1, 2023. Management is in the process of assessing the impact of this standard.

# BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements  
(In thousands of dollars)

Year Ended March 31, 2023, with comparative figures for March 31, 2022

## 3. Cash and Cash Equivalents

Major components of cash and cash equivalents are comprised of the following:

	2023	2022
	\$	\$
Cash	39,369	42,472
Cash equivalents	10,567	10,212
Cash and cash equivalents	49,936	52,684

## 4. Accounts Receivable

Accounts receivable are comprised of the following:

	2023	2022
Provincial:	\$	\$
Operating	4,447	15,202
Capital grants	13,263	11,224
	17,710	26,426
Federal:		
Operating	-	14,327
Capital grants	8,201	8,851
	8,201	23,178
Local governments	16,125	13,009
Trade and other	8,181	8,740
Accounts receivable	50,216	71,353

# BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements  
(In thousands of dollars)

Year Ended March 31, 2023, with comparative figures for March 31, 2022

## 5. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities are comprised of the following:

	2023	2022
	\$	\$
Trade payables	21,084	18,495
Payable to Operating Companies	16,267	15,871
Payroll liabilities	14,140	8,805
Asset retirement obligation	339	-
Other	5,304	4,860
Total deferred revenue and contributions	57,134	48,031

## 6. Deferred Revenue and Contributions

Deferred service funding consists of operating contributions that have been received, but not yet earned.

Deferred contributions for assets relate to the operating costs and capital costs of assets required to provide transit service. Differences between contributions received and costs incurred are deferred and used to fund transit services in future periods.

Deferred Victoria Regional Transit funds are held on behalf of the VRTC. These funds are restricted for the use of funding transit in the Capital Regional District. Inflows to the VRTC fund include property taxes, gas tax, interest and other grants received periodically. Outflows are in the form of municipal billings and occur on a monthly basis.

Deferred sales represent transit fees received in advance of services being performed and are recognized as revenue over the period the service is performed.

The deferred revenue and contributions reported on the consolidated statement of financial position are comprised of the following:

	2023	2022
	\$	\$
Deferred service funding contributions	14,229	19,016
Deferred contributions for assets	52,298	51,371
Deferred Victoria Regional Transit Fund	32,266	49,383
Deferred sales	1,060	669
Total deferred revenue and contributions	99,853	120,439

# BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements  
(In thousands of dollars)

Year Ended March 31, 2023, with comparative figures for March 31, 2022

## 6. Deferred Revenue and Contributions (continued)

Continuity of deferred service funding, contributions and revenue:

	2023	2022
Deferred service funding contributions:	\$	\$
Balance, beginning of year	19,016	33,728
Service funding contributions received	111,215	71,500
Service funding recognized as revenue	(116,002)	(86,212)
Balance, end of year	14,229	19,016
Deferred contributions for assets:		
Balance, beginning of year	51,371	43,445
Contributions received	26,364	35,169
Contributions recognized as revenue	(25,437)	(27,243)
Balance, end of year	52,298	51,371
Deferred Victoria Regional Transit Fund:		
Balance, beginning of year	49,383	50,140
Revenue fuel tax received	17,821	17,945
Revenue property tax received	36,720	34,635
Investment and other income received	1,608	408
Government transfers recognized as revenue	(73,266)	(53,745)
Balance, end of year	32,266	49,383
Deferred sales:		
Balance, beginning of year	669	621
Amounts received	6,516	7,455
Amounts recognized as revenue	(6,125)	(7,407)
Balance, end of year	1,060	669
Balance, end of year	99,853	120,439

# BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements  
(In thousands of dollars)

Year Ended March 31, 2023, with comparative figures for March 31, 2022

## 7. Deferred Capital Contributions

Deferred capital contributions include federal, provincial, and municipal grants subject to amortization on the same basis as the related asset.

	2023	2022
	\$	\$
Balance, beginning of year	316,312	312,384
Contributions and other additions	69,457	48,809
Impairment and disposal of capital assets	(347)	(920)
Amortization	(46,441)	(43,961)
Balance, end of year	338,981	316,312

## 8. 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 guarantee. Under the *British Columbia Transit Act*, BC Transit is subject to a borrowing ceiling limit of \$500 million in total. The Minister of Finance, as BC Transit's fiscal agent, arranges financing at BC Transit's request.

The gross amount of debt and the amount of sinking fund assets available to retire the debt are as follows:

	2023	2022
Debt has a weighted average rate of 5.19%, maturing at various dates to 2040, amortized from 15 to 30 years	\$108,659	\$132,009

The total debt principal and interest payments for the next five years are as follows:

	\$
2024	5,436
2025	4,911
2026	12,902
2027	42,964
2028	5,661
Thereafter	73,275

Investments held in sinking funds, including interest earned, are to be used to repay the related debt at maturity. Gain on investments includes \$43 (2022 - \$34) of realized gains on disposition of investments in sinking funds. Sinking fund investments are managed by the British Columbia Investment Management Corporation and have cost and market values as follows:

	2023		2022	
	Cost	Market Value	Cost	Market Value
	\$	\$	\$	\$
Provincial bonds	56,397	55,636	72,952	74,403
Money market funds	218	219	3,287	3,283
Total	56,615	55,855	76,239	77,686

# BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements  
(In thousands of dollars)

Year Ended March 31, 2023, with comparative figures for March 31, 2022

## 8. Debt (continued)

Debt sinking fund installments in each of the next five years are as follows:

	\$
2024	3,456
2025	3,433
2026	3,433
2027	3,186
2028	1,537
Thereafter	6,171

In April 2017, BC Transit entered into an unsecured revolving credit facility with a Canadian financial institution totaling \$10 million. Interest on the credit facility is based on the prime lending rate which is a variable per annum reference rate of interest for loans made by the Bank of Canada in Canadian dollars. Interest accrues on a day-to-day basis. At March 31, 2023, the facility was not in use.

In November 2002, BC Transit entered into a loan agreement pursuant to section 54(1) of the *Financial Administration Act* with the Minister of Finance and Corporate Relations to lend a maximum principal amount not to exceed \$90 million in Canadian currency. Terms and conditions of the loan state the Minister will use reasonable commercial efforts to comply with the borrowing requirements of BC Transit; however, the terms and conditions of the loan are within the sole discretion of the Minister. The maximum term on the loan is one year and can be renewed for another term as approved by the Minister and is due upon maturity. Interest on the loan is based on money market rates. At March 31, 2023, the facility was not in use.

## 9. Employee Future Benefits

BC Transit provides sick leave and other benefits to its employees. Funding is provided when the benefits are paid and accordingly, there are no plan assets. These employee-related liabilities will require funding in future periods and are set out below.

Continuity of employee future benefits liability:

	2023	2022
Accrued benefit liability:	\$	\$
Balance, beginning of year	22,758	22,859
Current benefit cost and event-driven expense	686	1,397
Interest	248	209
Amortization of actuarial gain	(1,337)	(1,263)
Benefits paid	(433)	(444)
Balance, end of year	21,922	22,758
Unamortized actuarial gain	(12,445)	(12,757)
Employee future benefit obligation	9,477	10,001

# BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements  
(In thousands of dollars)

Year Ended March 31, 2023, with comparative figures for March 31, 2022

## 9. Employee Future Benefits (continued)

The employee future benefits liability reported on the statement of financial position is comprised of:

	2023	2022
	\$	\$
Non-pension post-retirement benefits	5,737	6,128
Post-employment benefits	1,065	1,081
Continuation of long-term disability benefits	2,675	2,792
Total employee future benefit obligation	9,477	10,001
Unamortized actuarial gain	12,445	12,757
Employee future benefit liability	21,922	22,758

The unamortized actuarial gain on future payments is amortized over the expected period of the liability which is 12 years (2022 – 12 years) for post-employment benefits and post-retirement benefits.

The actuarial assumptions adopted in measuring BC Transit's accrued benefit obligations are as follows:

	2023	2022
Discount rate	3.3% - 4.1%	2.5% - 3.3%
Expected future inflationary increases	2.6% - 5.2%	2.6% - 5.2%
Weighted average health care trend – end of year	6.1% in 2023 grading to 3.8% in and after 2040	6.2% in 2022 grading to 3.8% in and after 2040
Dental and MSP trend – end of year	4.0%	4.0%

### Public Service Pension Plan

BC Transit and its employees contribute to the Public Service Pension Plan, a jointly-trusted pension plan. The Public Service Pension Plan Board of Trustees, representing plan members and employers, is responsible for overseeing the management of the plan, including investment of the assets and administration benefits. The plan has approximately 144,547 active and retired members.

Every three years, an actuarial valuation is performed to assess the financial position of the plan and the adequacy of the funding. The latest actuarial valuation as at March 31, 2020, indicated a funding surplus of \$2,667 million for basic pension benefits. The next valuation will be as at March 31, 2023, with data available in Q2 2023/24. Updates will be provided in the financial statements for the year ending March 31, 2024.

Employers participating in the plan record their pension expense as the amount of employer contributions made during the fiscal year. This is because the plan records accrued liabilities and accrued assets for the plan in aggregate, and therefore, there is no consistent and reliable basis for allocating the obligation, assets and costs to individual employers participating in the plan.

The total amount paid into this pension plan by BC Transit for the year ended March 31, 2023, for employer contributions was \$8,267 (2022 – \$7,260).

# BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements  
(In thousands of dollars)

Year Ended March 31, 2023, with comparative figures for March 31, 2022

## 10. Tangible Capital Assets

Cost	Balance, March 31, 2022	Additions	Disposals	Transfers	Balance, March 31, 2023
	\$	\$	\$	\$	\$
Land	31,000	-	-	2,187	33,187
Exchanges, shelters, and other transit infrastructure	69,727	-	(457)	5,715	74,985
Buildings	130,198	233	-	11,384	141,815
Vehicles	556,209	-	(16,880)	47,305	586,634
Other equipment	90,450	106	(1,888)	2,322	90,990
Capital projects in progress	35,108	100,205	(203)	(68,913)	66,197
<b>Total</b>	<b>912,692</b>	<b>100,544</b>	<b>(19,428)</b>	<b>-</b>	<b>993,808</b>

Accumulated amortization	Balance, March 31, 2022	Disposals	Amortization	Transfers	Balance, March 31, 2023
	\$	\$	\$	\$	\$
Exchanges, shelters, and other transit infrastructure	41,731	(447)	5,175	-	46,459
Buildings	39,515	-	6,132	-	45,647
Vehicles	334,850	(16,622)	52,120	-	370,348
Other equipment	65,565	(1,887)	5,364	-	69,042
<b>Total</b>	<b>481,661</b>	<b>(18,956)</b>	<b>68,791</b>	<b>-</b>	<b>531,496</b>

Net book value	Balance, March 31, 2023	Balance, March 31, 2022
	\$	\$
Land	33,187	31,000
Exchanges, shelters, and other transit infrastructure	28,526	27,996
Buildings	96,168	90,683
Vehicles	216,286	221,359
Other equipment	21,948	24,885
Capital projects in progress	66,197	35,108
<b>Total</b>	<b>462,312</b>	<b>431,031</b>



# BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements  
(In thousands of dollars)

Year Ended March 31, 2023, with comparative figures for March 31, 2022

## 10. Tangible Capital Assets (continued)

Cost	Balance, March 31, 2021	Additions	Disposals	Transfers	Balance, March 31, 2022
	\$	\$	\$	\$	\$
Land	30,809	-	-	191	31,000
Exchanges, shelters, and other transit infrastructure	68,966	-	(62)	823	69,727
Buildings	130,620	-	(1,340)	918	130,198
Vehicles	539,595	-	(26,628)	43,242	556,209
Other equipment	85,373	-	(234)	5,311	90,450
Capital projects in progress	18,913	66,768	(88)	(50,485)	35,108
<b>Total</b>	<b>874,276</b>	<b>66,768</b>	<b>(28,352)</b>	<b>-</b>	<b>912,692</b>

  

Accumulated amortization	Balance, March 31, 2021	Disposals	Amortization	Transfers	Balance, March 31, 2022
	\$	\$	\$	\$	\$
Exchanges, shelters, and other transit infrastructure	36,437	(18)	5,312	-	41,731
Buildings	35,660	(1,172)	5,027	-	39,515
Vehicles	308,972	(25,542)	51,420	-	334,850
Other equipment	60,487	(204)	5,282	-	65,565
<b>Total</b>	<b>441,556</b>	<b>(26,936)</b>	<b>67,041</b>	<b>-</b>	<b>481,661</b>

  

Net book value	Balance, March 31, 2022	Balance, March 31, 2021
	\$	\$
Land	31,000	30,809
Exchanges, shelters, and other transit infrastructure	27,996	32,529
Buildings	90,683	94,960
Vehicles	221,359	230,623
Other equipment	24,885	24,886
Capital projects in progress	35,108	18,913
<b>Total</b>	<b>431,031</b>	<b>432,720</b>

Capital projects in progress having a value of \$66,197 (2022 - \$35,108) have not been amortized. Amortization of these assets will commence when the asset is available for service.

During the year, assets with a net book value of \$472 (2022 - \$1,416) were written off.

# BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements  
(In thousands of dollars)

Year Ended March 31, 2023, with comparative figures for March 31, 2022

## 11. Commitments

BC Transit has entered into various contracts as part of the normal course of operations and capital programs. These consist of outstanding commitments from contracts for leased properties (Operating leases), contracts with vendors and operating partners for transit operations (Operating contracts), vehicle purchase, and contracts for construction projects including facilities and equipment, exchanges and on-street infrastructure, and technology (Capital contracts). Amounts are as summarized below:

	2024	2025	2026	2027	2028
	\$	\$	\$	\$	\$
Operating leases	1,919	1,867	1,447	1,443	917
Operating contracts	16,368	9,531	8,781	8,480	2,009
Vehicle purchases	31,266	1,619	-	-	-
Capital contracts	23,592	923	881	881	881
Total	73,145	13,940	11,109	10,804	3,807

## 12. Contingent Liabilities

The nature of BC Transit's activities is such that there may be litigation pending or in process at any time. With respect to unsettled claims at March 31, 2023, management has determined that BC Transit has valid defenses 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.

BC Transit provides secured letters of credit where required for development permits or other activities. The letters of credit are held by a beneficiary who can request a draw on BC Transit's bank account for the specified amount in the event of non-compliance. At March 31, 2023, there were eight letters of credit outstanding for a total amount of \$3,581 (2022 - \$2,231), none of which have been drawn upon.

## 13. Contractual Rights

BC Transit has two contractual rights contribution agreements with the Province of British Columbia which are summarized below:

- (i) Funding to acquire tangible capital assets as part of Canada and British Columbia's Investing in Canada Infrastructure Program. Approved projects under the contribution agreement allow federal funding of up to \$145,040 and provincial funding of up to \$143,526 for future fiscal years to fund eligible expenditures incurred to December 31, 2027, as defined within the agreement.
- (ii) Receipt of carbon credits for meeting milestones in the progression of low-carbon fleet projects including the purchase of light and heavy-duty buses and their charging infrastructure. The phased agreements grant up to 103,534 carbon credits through to December 31, 2025.

# BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements  
(In thousands of dollars)

Year Ended March 31, 2023, with comparative figures for March 31, 2022

## 14. Government Transfers

The transfers reported on the statement of operations are:

	2023	2022
Government transfers:	\$	\$
Provincial contributions:		
Operating transfers	141,067	137,071
Deferred capital contributions	28,162	27,631
Write-off of capital assets	176	627
Contributions for land purchase	1,448	96
	170,853	165,425
Federal contributions:		
Operating transfers	-	14,644
Deferred capital contributions	16,833	15,159
Write-off of capital assets	151	283
	16,984	30,086
Local government contributions:		
Transfers under cost share agreements	141,090	112,673
Deferred capital contributions	1,039	823
Contributions for land purchase	1,295	120
	143,424	113,616
Other:		
Deferred capital contributions	407	348
Write-off of capital assets	21	10
	428	358
<b>Total government transfers</b>	<b>331,689</b>	<b>309,485</b>

In addition to the ongoing government funding programs, BC Transit signed a contribution agreement with the Province under the federal Safe Restart Agreement and the BC Restart Plan. In 2021, this agreement provided for \$88.3 million in a one-time contribution funded 50/50 by the federal and provincial governments to provide financial relief to Local Government Partners and help ensure that affordable transit services continue through the COVID-19 recovery period. Under this agreement, local governments will limit average annual public fare increases to 2.3% and BC Transit will work with local governments to maintain essential transit service levels to March 31, 2024.

In 2022, BC Transit signed an extension to the agreement with the Province, funded 50/50 by the federal and provincial governments. This amendment provided an additional \$28.1 million in funding and extended the terms to March 31, 2025.

Included in operations revenue is \$12,570 (2022 - \$11,685) from the provincial government to pay fares for the BC Bus Pass and the Free Transit for Children 12 and Under programs.

# BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements  
(In thousands of dollars)

Year Ended March 31, 2023, with comparative figures for March 31, 2022

## 15. Classification of Expense By Object

	Budget	2023	2022
	\$	\$	\$
Contracted management fees, wages, and benefits	120,885	118,316	113,450
Salaries, wages, and benefits	109,197	112,539	101,587
Amortization of capital assets	74,699	68,791	67,041
Fuel and lubricants	28,872	36,573	26,949
Fleet maintenance	24,330	24,650	22,378
Interest	6,191	5,956	6,562
Insurance	8,466	6,051	6,436
Facility maintenance	6,637	8,156	6,657
Information systems	8,305	8,275	7,037
Leases and taxes	5,833	5,014	5,020
Major projects and initiatives	3,528	655	586
Local government expenses	2,473	2,462	2,401
Marketing and communications	3,027	3,201	2,693
Taxi programs	1,531	1,717	1,182
Corporate expenses	4,425	4,577	4,038
Contracted and professional fees	2,268	1,826	1,682
Travel and meetings	1,163	1,185	446
Total operating expenses	411,830	409,944	376,145

## 16. Budget Data

The budget data presented in these consolidated financial statements was included in the 2022/23-2024/25 Service Plan, approved by the Board of Directors on February 2, 2022, and by the Government of British Columbia on February 8, 2022.

## 17. Additional Information for the Statement of Cash Flows

	2023	2022
	\$	\$
Non-cash charges to operations:		
Amortization of tangible capital assets	68,791	67,041
Amortization of prepaid lease	347	348
Gain on the disposal of debt sinking funds	(43)	(34)
Loss on the disposal of tangible capital assets	34	228
Amortization of deferred capital contributions	(46,441)	(43,961)
Long-term disability benefits expense	(403)	343
	22,285	23,965
Changes in non-cash operating working capital:		
Accounts receivable	21,137	(8,952)
Accounts payable and accrued liabilities	9,103	17,217
Due to Province	497	-
Deferred revenue and contributions	(20,586)	(7,495)
Employee future benefits	(433)	(444)
Inventories	(3,200)	(789)
Prepaid expenses and deposits	1,390	(2,560)
Net change in accrued acquisition of tangible capital assets	9,912	2,634

# BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements  
(In thousands of dollars)

Year Ended March 31, 2023, with comparative figures for March 31, 2022

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17,820	(389)
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## 18. Financial Instruments

### (a) Fair Value

The carrying value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, approximate their fair value due to the relatively short periods to maturity of the instruments. Debt and debt sinking funds are reflected on the statement of financial position at fair value.

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, foreign exchange risk and credit risk as discussed below.

#### *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, use of alternative fueling technologies, entering into physical fixed-price agreements 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 *Financial Administration Act of British Columbia* to directly enter into financial commodity derivative contracts. 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. No such hedge agreements were entered into during the year.

#### *Interest Rate Risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. BC Transit is exposed to interest rate risk to the extent that there are 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. No such derivative contracts were entered into during the year.

#### *Foreign Exchange Risk*

BC Transit is exposed to currency risk on purchases of various capital assets and parts 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. There were no such arrangements entered into during the year.

# BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements  
(In thousands of dollars)

Year Ended March 31, 2023, with comparative figures for March 31, 2022

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## 18. Financial Instruments (continued)

### *Sensitivity Analysis*

The following table is a sensitivity analysis indicating the impact on net surplus (deficit) 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 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.

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Estimated impact of a 1% change on annual surplus:	\$
Interest rate risk	116
Foreign exchange risk	605
Commodity risk (fuel)	418

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### *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 11.

### *Credit Risk*

Credit risk is the potential for financial loss to BC Transit if the counterparty in a transaction fails to meet its obligations. Financial instruments that potentially give rise to concentrations of credit risk include cash and cash equivalents and debt sinking funds where they are invested in Canadian money market and bond funds. It is management's opinion that BC Transit is not exposed to any significant credit risk due to the credit worthiness of the investments and collectability of accounts receivable.

## (c) Capital Disclosures

BC Transit defines capital as accumulated surplus plus deferred capital contributions. BC Transit receives the majority of these capital funds from federal, provincial and municipal government 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.

# BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements  
(In thousands of dollars)

Year Ended March 31, 2023, with comparative figures for March 31, 2022

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## 19. Related-Party Transactions

There are certain parties that are considered related due to their ability to exercise control over the financial and operating policies of BC Transit. All transactions between BC Transit and its related parties 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.

As a Crown corporation of the Province, BC Transit and the Province are considered related parties. Provincial transactions and balances have been disclosed elsewhere in the financial statements (Note 14).

The BC Transit Board of Directors and Senior Leadership Team are also considered related parties. Transactions consist of remuneration and expense reimbursement.

## 20. Impact of Accounting For Government Transfers in Accordance With Section 23.1 of the *Budget Transparency and Accountability Act*

As noted in the significant accounting policies, Note 2(a), section 23.1 of the *Budget Transparency and Accountability Act* and Restricted Contributions Regulation 198/2011, require BC Transit to recognize non-capital government transfers as revenue in the period the restriction is met, and also require BC Transit to recognize government transfers for the acquisition of capital assets as revenue on the same basis as the related amortization expense. As these transfers do not contain stipulations that create a liability, Canadian public sector accounting standards would require these grants to be fully recognized as revenue.

The impact of correcting this difference on the consolidated financial statements of BC Transit is as follows:

As at March 31, 2023, an increase in deferred capital contributions by \$338,981 (2022 – \$316,312), and a decrease in accumulated surplus by the same amounts.

For the year ended March 31, 2023, an increase in annual surplus by \$22,669 (2022 – increase by \$3,928).

## 21. Investment in Transportation Property and Casualty Company Inc.

In January 2010, the Board of Directors approved the withdrawal from the Transportation Property and Casualty Company Inc. Program (“TPCCP”). As a replacement to TPCCP, BC Transit procured a comprehensive stand-alone insurance coverage program effective April 1, 2010, which is renewed annually. Claims which have been registered and served prior to the withdrawal from the TPCCP program, continue to be settled in an orderly manner and BC Transit will continue to monitor these claims. \$1,828 (2022 - \$1,828) remains in deferred revenue to offset other potential future claims. See Note 12 for further details regarding unsettled claims.

## 22. Economic Dependency

BC Transit is dependent on receiving government transfers from the Province of British Columbia and Local Government Partners for its continued existence and ability to carry out its normal activities.