

Audited Financial Statements of

BRITISH COLUMBIA TRANSIT

Years ended March 31, 2004 and 2003

REPORT OF MANAGEMENT

Years ended March 31, 2004 and 2003

The financial statements of British Columbia Transit ("BC Transit") have been prepared by management in accordance with accounting principles which are appropriate for the company and generally accepted in Canada. 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.

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 Board of Directors meets regularly with management and the external auditors to satisfy itself that the company's systems of internal control is adequate.

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.

R.H. Irwin
President and Chief Executive Officer

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

AUDITORS' REPORT

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

We have audited the balance sheets of British Columbia Transit as at March 31, 2004 and 2003 and the statements of operations and accumulated surplus, contributed surplus, cash flows and changes in Victoria Regional Transit Fund for the years 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 audits.

We conducted our audits 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, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Victoria, Canada

date

BRITISH COLUMBIA TRANSIT

Balance Sheets

March 31, 2004 and 2003 (\$000)

	2004	2003
Assets		
Current assets:		
Cash and cash equivalents (note 3)	\$ 8,445	\$ 5,775
Accounts receivable:		
Province of British Columbia		
Municipalities	6,384	4,461
Trade and other	2,563	2,639
Parts inventory	3,959	4,012
Prepaid expenditures	1,298	874
	22,649	17,761
Debt sinking funds (note 4)	15,997	13,046
Capital assets (note 5)	173,613	177,717
Capital assets under lease (note 6)	944,902	962,773
Investment in BC Transit Captive Insurance Company Inc.	20	20
	\$ 1,157,181	\$ 1,171,317

Liabilities and Equity

Current liabilities:		
Accounts payable Province of British Columbia	\$ 126	\$ 124
Accounts payable and accrued liabilities	15,885	12,838
Notes payable (note 7)	3,487	-
Current portion of long-term debt		4,274
Current obligations under capital leases	13	12
	19,982	17,248
Long-term debt (note 8)	95,204	95,196
Obligations under capital leases (note 9)	232	247
Deferred contributions (note 10)	9,032	6,929
Deferred capital contributions:		
Capital assets	75,772	76,318
Capital assets under lease	876,684	891,874
	1,076,895	1,087,812

Equity

Contributed surplus	79,761	82,520
Accumulated surplus	985	985
	80,746	83,505
	\$ 1,157,181	\$ 1,171,317

See accompanying notes to financial statements.

Approved on behalf of the Board:

_____ Director

_____ Director

BRITISH COLUMBIA TRANSIT

Statements of Revenue and Expenditures and Accumulated Surplus

Years ended March 31, 2004 and 2003 (\$000)

	2004	2003
Revenue:		
Operations	\$ 41,510	\$ 40,385
Investment and other income	1,123	806
	<u>42,633</u>	<u>41,191</u>
Expenditures:		
Operations and maintenance	96,749	94,116
Administration	7,997	7,930
Interest on long-term debt	6,327	5,931
Amortization of capital assets	10,118	8,671
Vehicle/property leases and taxes	1,748	1,720
Amortization of contributed assets	115	110
Test fuel cell engine	-	3,050
	<u>123,054</u>	<u>121,528</u>
Recoveries:		
Contributions from the Province of British Columbia	45,532	44,458
Provincial Initiative – Fuel Cell	-	3,050
Contributions from municipalities (note 10)	30,647	29,148
Amortization of deferred capital contributions - capital assets	4,146	3,571
	<u>80,325</u>	<u>80,227</u>
Expenditures from transit operations	(96)	(110)
Other:		
Amortization of capital assets under lease	(15,189)	(14,425)
Amortization of deferred capital contributions - capital assets under lease	15,189	14,425
Write-down of non-shareable asset costs	-	(13)
Loss on disposal of capital assets	(19)	(10)
	<u>(19)</u>	<u>(23)</u>
Net expenditures for the year	(115)	(133)
Accumulated surplus, beginning of year	985	1,008
Transfer from contributed surplus	115	110
Accumulated surplus, end of year	<u>\$ 985</u>	<u>\$ 985</u>

See accompanying notes to financial statements.

BRITISH COLUMBIA TRANSIT

Statements of Contributed Surplus

Years ended March 31, 2004 and 2003 (\$000)

	2004	2003
Balance, beginning of year	\$ 82,520	\$ 82,785
Amount transferred to accumulated surplus to offset:		
Amortization charged on contributed assets	(62)	(58)
Operational costs - contributed inventory	(52)	(52)
Reduction of contributed surplus for repayment of contributed land sales proceeds	(2,645)	(155)
Balance, end of year	\$ 79,761	\$ 82,520

See accompanying notes to financial statements.

BRITISH COLUMBIA TRANSIT

Statements of Cash Flows

Years ended March 31, 2004, with comparative consolidated figures for March 31, 2004

	2004	2003
Cash provided by (used for):		
Operations:		
Net expenditures for the year	\$ (115)	\$ (133)
Items not involving cash:		
Amortization of capital assets	10,118	8,671
Amortization of contributed capital assets	62	57
Amortization of capital assets under lease	15,189	14,425
Amortization of deferred capital contributions	(19,335)	(17,997)
Loss on disposal of capital assets	19	10
Net change in non-cash operating working capital	832	(2,560)
	6,770	2,473
Investing:		
Deposit on capital projects		8,631
Proceeds from sale of capital assets	2,765	175
Additions to capital assets	(6,179)	(32,595)
	(3,414)	(23,789)
Financing:		
Repayment to the Province of British Columbia of proceeds on disposal of contributed land	(2,645)	(155)
Increase in deferred capital contributions	2,103	1,873
Increase (decrease) in capital leases	(15)	(11)
Increase (decrease) notes payable	3,487	(11,987)
Increase (decrease) long-term debt	(4,265)	19,824
Increase (decrease) debt sinking funds	(2,951)	(111)
Increase in deferred capital contributions	3,600	12,170
	(686)	21,603
Increase (decrease) in cash	2670	287
Cash, beginning of the year	5,775	5,488
Cash (bank indebtedness), end of year	\$ 8,445	\$ 5,775

See accompanying notes to financial statements.

BRITISH COLUMBIA TRANSIT

Statement of Changes in Regional Transit Funds
Years ended March 31, 2004, with comparative figures for 2003

	2004	2003
Fund balance, beginning of year	\$ 1,947	\$ 1,810
Revenue:		
Gas tax	7,735	7,744
Property tax	8,072	7,999
Interest earned	74	84
	15,881	15,827
	17,828	17,637
Contributions	(16,797)	(15,690)
Fund balance, end of year	\$ 1,031	\$ 1,947
Fund balance represented by:		
Cash and cash equivalents	\$ 1,031	\$ 1,947

See accompanying notes to financial statements.

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Years ended March 31, 2004 and 2003 (\$000)

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 outside of the Greater Vancouver Regional service area. In 2004, BC Transit recovered 37.9% (2003 – 46.02%) 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 during the year in the funds are set out in the statement of changes in Victoria Regional Transit Fund.

2. Summary of significant accounting policies:

The accompanying financial statements are prepared in accordance with Canadian generally accepted accounting principles as appropriate for BC Transit. The significant accounting policies are set out hereunder:

(a) Parts inventory:

Parts inventory is valued at the lower of average cost and replacement cost.

(b) Debt sinking funds:

Debt sinking funds, consisting of pooled investment portfolios and Canada, provincial government and Crown corporation bonds, are recorded at the lower of amortized cost or market, with any premium or discount on purchase being amortized over the term to maturity of each investment.

(c) Capital assets:

(i) All capital assets, except those noted in (ii), (iii) and (iv), are recorded at cost, including capitalized interest as described in note 2(e).

(ii) Capital assets transferred from the Province of British Columbia are recorded at their appraised value. These appraisals were carried out at various dates between June 30, 1979 and August 18, 1987.

(iii) Capital assets acquired from BC Hydro are recorded at their appraised value. These appraisals were carried out at various dates between March 1, 1980 and April 1, 1982.

(iv) 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 by the sinking fund method over a period not exceeding their estimated remaining useful lives. Land is not subject to amortization. The assessment of net recoverable amounts is determined by applying the applicable deferred capital contributions to capital costs.

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Years ended March 31, 2004 and 2003 (\$000)

2. Summary of significant accounting policies (continued):

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

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

(e) Capitalization of interest:

Interest incurred in connection with capital acquisitions from the date of advance of funds until the assets are placed in service for transit purposes is capitalized. \$102,027 in interest was capitalized during the year ended March 31, 2004 (2003 - \$96,491).

(f) Amortization of bond premiums and discounts:

Bond premiums and discounts are amortized on a straight-line basis over the term of the debt.

(g) Amortization of contributed surplus:

Contributed surplus (appraisal increase credits) is being amortized and reflected in net revenue at an amount equal to the amortization charged on those assets for which BC Transit does not have statutory power to obtain full recovery from operations.

(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. These prepaid capital advances are recorded by BC Transit as deferred capital contributions and are recognized in the statement of operations and accumulated surplus 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, a jointly trusted pension plan. Joint trusteeship was established effective January 1, 2001. The board of trustees, representing plan members and employers, is responsible for overseeing the management of the pension plan, including investment of the assets and administration of the plan. The pension plan is a multi-employer contributory defined benefit pension plan with over 58,000 active plan members and approximately 27,000 retired plan members.

Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of plan funding. The latest valuation was at March 31, 2002, and disclosed a \$546 million surplus for funding purposes (\$929 million as at the previous valuation). The actuary does not attribute portions of the surplus to individual employers. Contributions to the plan by BC Transit totaled approximately \$ (2003 - \$1,905).

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Years ended March 31, 2004 and 2003 (\$000)

2. Summary of significant accounting policies (continued):

(j) Financial instruments:

BC Transit is party to certain derivative financial instruments, principally interest rate swap contracts (used to manage the exposure to interest rates and cash flow risk) and forward foreign exchange contracts (used to manage foreign currency exposures on foreign currency debt). These instruments are not recognized in the financial statements on inception. Payments and receipts under interest rate swap contracts are recognized as adjustments to interest expense on long-term debt. Gains and losses on forward foreign exchange contracts are recognized in revenues in the same period as the foreign currency revenues to which they relate.

(k) 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 period. Significant areas requiring the use of management estimates include the determination of amortization and certain accrued liabilities. Actual results could differ from the estimates. Adjustments, if any, are reflected in operations in the period of settlement.

(l) Comparative figures:

Certain 2003 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 short-term investments.

(a) Major components of cash and short-term investments are as follows:

	2004	2003
Cash	\$ 3,152	\$ 2,674
Short-term investments	5,293	3,101
	<u>\$ 8,445</u>	<u>\$ 5,775</u>

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Years ended March 31, 2004 and 2003 (\$000)

3. Cash and cash equivalents (continued):

(b) Supplemental cash flow information:

	2004	2003
Cash paid during the year for:		
Interest on long-term debt and notes payable	\$ 6,320	\$ 5,817
Cash received:		
Interest on investments	922	737

4. Debt sinking funds:

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

Sinking funds and related investments are managed by the British Columbia Investment Management Corporation ("BCIMC"). Investment management fees totaling \$2.9 (2003 - \$5.9) were paid directly from individual portfolios to BCIMC.

5. Capital assets:

March 31, 2004	Carrying value	Accumulated depreciation and amortization	Net book value
Land	\$ 6,088	\$ -	\$ 6,088
Land improvements	1,962	925	1,037
Buildings	23,365	6,238	17,127
Revenue vehicles	191,027	52,841	144,106
Revenue vehicles under capital leases	294	49	245
Equipment	14,924	5,336	9,588
Capital projects in progress	1,342	-	1,342
	\$ 239,002	\$ 65,389	\$ 173,613

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Years ended March 31, 2004 and 2003 (\$000)

5. Capital assets (continued):

March 31, 2003	Carrying value	Accumulated depreciation and amortization	Net book value
Land	\$ 6,088	\$ -	\$ 6,088
Land improvements	1,962	925	1,037
Buildings	23,365	6,238	17,127
Revenue vehicles	191,027	52,841	138,186
Revenue vehicles under capital leases	294	49	245
Equipment	14,924	5,336	9,588
Capital projects in progress	1,342	-	1,342
	\$ 239,002	\$ 65,389	\$ 173,613

At March 31, 2004, a capital expenditure limit of \$11.4 million was committed for capital projects and BC Transit received funding totaling \$7.1 million for approved capital projects. During the 2003/2004 fiscal year these funds were fully expended. Consequently, there were no funds in deposits on capital projects at March 31, 2004.

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 Greater Vancouver Transportation Authority ("GVTA") for their use pursuant to an Order in Council and operating lease, and represents one of the Province's contributions toward public transportation in the Greater Vancouver Regional District.

The operating lease arrangements with GVTA are for \$1 per year under an initial fifteen-year term with additional five-year renewal periods upon the agreement of BC Transit and the GVTA. Cost information of these assets is as follows:

March 31, 2004	Carrying value	Accumulated amortization	Net book value
SkyTrain	\$ 1,208,302	\$ 375,893	\$ 832,409
West Coast Express	128,847	16,354	112,493
Total Assets	\$ 1,337,149	\$ 392,247	\$ 944,902

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Years ended March 31, 2004 and 2003 (\$000)

6. Capital assets under lease (continued):

March 31, 2003	Carrying value	Accumulated amortization	Net book value
SkyTrain	\$ 1,211,102	\$ 363,457	\$ 847,490
West Coast Express	128,848	13,563	115,283
	\$ 1,339,950	\$ 377,020	\$ 962,773

7. Notes payable:

	2004	2003
Commercial paper with the Province of British Columbia, 2004 – 1.82% weighted average interest rate	\$ 3,487	\$ 0

8. Long-term debt:

	2004	2003
Sinking fund bonds, weighted average interest rate of 6.45% (2003 – 6.45%), maturing at various dates from 2003 to 2022, amortized from 4 to 20 years	\$ 81,466	\$ 81,466
Sinking fund bonds under interest rate and currency conversion agreements, effective weighted average interest rate of 5.79% (2003 – 6.1%), maturing at various dates from 2003 to 2010, amortized from 3 to 11 years	13,727	18,000
	95,193	99,466
Add: unamortized bond premium	119	134
Less: unamortized bond discount	(108)	(130)
	95,204	99,470
Less current portion	-	4,274
	\$ 95,204	\$ 95,196

The Minister of Finance, as BC Transit's fiscal agent, arranges financing at BC Transit's request. BC Transit paid fees totaling \$290 (2003 - \$46,525) in the year for these fiscal agent services.

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Years ended March 31, 2004 and 2003 (\$000)

8. Long-term debt (continued):

Long-term debt payments in each of the next five years are as follows:

2005	\$	0
2006		2,745
2007		5,206
2008		10,200
2009		0

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:

2005	\$	34
2006		34
2007		34
2008		34
2009		34
Thereafter		200
		370
Less amount representing interest at 8.36%		125
Present value of capital lease obligations		245
Less current portion		13
	\$	232

Interest incurred during the year with respect to obligations under capital leases included in other interest expenditures amounted to \$21,924 (2003 - \$22,000).

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Years ended March 31, 2004 and 2003 (\$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.

	2004	2003
<u>Balance, beginning of year</u>	\$ 6,929	\$ 5,056
Contributions from municipalities - Victoria	16,797	15,690
Contributions from municipalities - other municipalities	15,973	15,331
<u>Contributions expended from municipalities</u>	<u>(30,667)</u>	<u>(29,148)</u>
Contributions deferred	2,103	1,873
<u>Balance, end of year</u>	<u>\$ 9,032</u>	<u>\$ 6,929</u>

11. 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. The fair values of other financial assets and liabilities included in the balance sheets are as follows:

March 31, 2004	Carrying amount	Fair value
Debt sinking funds	\$ 15,997	\$ 17,376
Long-term debt (including related foreign exchange contracts and interest rate swaps)	95,192	106,304

March 31, 2003	Carrying amount	Fair value
Debt sinking funds	\$ 13,046	\$ 13,611
Long-term debt (including related foreign exchange contracts and interest rate swaps)	95,196	100,715

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Years ended March 31, 2004 and 2003 (\$000)

11. Financial instruments (continued):

(a) Fair value (continued):

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) Concentration of credit risk:

Financial instruments that potentially subject BC Transit to significant concentrations of credit risk consist primarily of cash equivalents and trade accounts receivable. To reduce credit risk, cash equivalents are only held at major financial institutions and management performs ongoing credit evaluations of its customers' financial condition. BC Transit maintains reserves for potential credit losses.

12. Commitments and contingent liability:

(a) Operating lease payments:

BC Transit is committed to make future minimum payments under operating leases for the next five years as follows:

2005	\$	689
2006		705
2007		708
2008		708
2009		708

These expenditures will be recovered from provincial and municipal sources pursuant to cost-sharing agreements.

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Years ended March 31, 2004 and 2003 (\$000)

12. Commitments and contingent liability (continued):

(b) Contingent liability:

BC Transit is party to an agency agreement with Rapid Transit Project 2000 Ltd. ("RTP 2000") for purposes of the expropriation of land under the Expropriation Act. A number of previous owners of expropriated land have challenged the expropriated value. Any differences between the amounts paid and subsequently reassessed will be recorded by RTP 2000 in the period of assessment.

Management is of the opinion that the indemnity provisions of the agency agreement will wholly indemnify BC Transit for any costs incurred as a result of these claims and potential claims. No provision has been made in the financial statements related to this matter.

(c) Fuel management:

BC Transit manages its exposure to fuel price volatility by entering into forward contracts. These arrangements are used solely for the purpose of reducing fuel price risk and not for generating trading profits. Gains and losses resulting from the contracts are recognized as a component of fuel expense. Existing contracts require BC Transit to purchase minimum fuel volumes at an approximate annual commitment of \$9.0 million to March 31, 2005.