

Audited Financial Statements of

**BRITISH COLUMBIA TRANSIT**

Years ended March 31, 2005 and 2004

## **REPORT OF MANAGEMENT**

### **Years ended March 31, 2005 and 2004**

The financial statements of British Columbia Transit ("BC Transit") have been prepared by management in accordance with Canadian generally accepted accounting principles. 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 system 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



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

St. Andrew's Square II  
800-730 View Street  
Victoria BC V8W 3Y7

Telephone (250) 480-3500  
Telefax (250) 480-3539  
www.kpmg.ca

## 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, 2005 and 2004 and the statements of operations, changes in net assets, 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, 2005 and 2004 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

May 20, 2005

# BRITISH COLUMBIA TRANSIT

Balance Sheets

March 31, 2005 and 2004 (\$000)

	2005	2004
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (note 3)	\$ 15,690	\$ 8,445
Accounts receivable:		
Municipalities	4,831	6,384
Trade and other	3,089	3,131
Parts inventory	4,674	3,959
Prepaid expenditures	1,014	1,180
	<u>29,298</u>	<u>23,099</u>
Debt sinking funds (note 4)	21,059	15,997
Capital assets (note 5)	169,693	173,613
Capital assets under lease (note 6)	925,945	944,902
Investment in Transportation Property and Casualty Company Inc.	20	20
	<u>\$ 1,146,015</u>	<u>\$ 1,157,631</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable to Province of British Columbia	\$ 471	\$ 126
Accounts payable and accrued liabilities	23,067	16,335
Notes payable (note 7)	-	3,487
Current portion of long-term debt	2,745	-
Current portion of obligations under capital leases	16	13
	<u>26,299</u>	<u>19,961</u>
Long-term debt (note 8)	95,942	95,204
Obligations under capital leases (note 9)	215	232
Deferred contributions (note 10)	10,373	9,032
Deferred capital contributions:		
Capital assets	74,382	75,772
Capital assets under lease	860,823	876,684
	<u>1,068,034</u>	<u>1,076,885</u>
<b>Net Assets</b>	<b>77,981</b>	<b>80,746</b>
Commitments and contingent liability (note 12)		
	<u>\$ 1,146,015</u>	<u>\$ 1,157,631</u>

See accompanying notes to financial statements.

Approved on behalf of the Board:



\_\_\_\_\_  
Director



\_\_\_\_\_  
Director

# BRITISH COLUMBIA TRANSIT

## Statements of Operations

Years ended March 31, 2005 and 2004 (\$000)

	2005	2004
Revenue:		
Operations	\$ 44,996	\$ 41,510
Investment and other income	1,486	1,123
	<u>46,482</u>	<u>42,633</u>
Expenditures:		
Operations and maintenance	100,573	96,749
Administration	8,451	7,997
Interest on long-term debt	6,276	6,327
Amortization of capital assets	12,618	10,118
Vehicle/property leases and taxes	1,831	1,748
Amortization of contributed assets	120	114
	<u>129,869</u>	<u>123,053</u>
Recoveries:		
Contributions from the Province of British Columbia	47,102	45,532
Contributions from municipalities (note 10)	30,877	30,647
Amortization of deferred capital contributions - capital assets	5,185	4,146
	<u>83,164</u>	<u>80,325</u>
Expenditures from transit operations	(223)	(95)
Other:		
Amortization of capital assets under lease	(15,861)	(15,189)
Amortization of deferred capital contributions - capital assets under lease	15,861	15,189
Gain (loss) on disposal of capital assets	103	(19)
	<u>103</u>	<u>(19)</u>
Net expenditures for the year	\$ (120)	\$ (114)

See accompanying notes to financial statements.

# BRITISH COLUMBIA TRANSIT

## Statements of Changes in Net Assets

Years ended March 31, 2005 and 2004 (\$000)

	General	Investment in capital assets	Total 2005	Total 2004
Balance, beginning of year	\$ 985	\$ 79,761	\$ 80,746	\$ 83,505
Net expenditures for the year	(120)	-	(120)	(114)
Return of contribution to the Province	-	(2,645)	(2,645)	(2,645)
Internal transfer	120	(120)	-	-
Balance, end of year	\$ 985	\$ 76,996	\$ 77,981	\$ 80,746

See accompanying notes to financial statements.

# BRITISH COLUMBIA TRANSIT

## Statements of Cash Flows

Years ended March 31, 2005 and 2004 (\$000)

	2005	2004
Cash provided by (used for):		
Operations:		
Net expenditures for the year	\$ (120)	\$ (114)
Items not involving cash:		
Amortization of capital assets	12,618	10,118
Amortization of contributed assets	68	62
Amortization of capital assets under lease	15,861	15,189
Amortization of deferred capital contributions	(21,046)	(19,335)
(Gain) loss on disposal of capital assets	(103)	19
Net changes in non-cash operating working capital:		
Accounts receivable	1,595	(2,415)
Parts inventory	(715)	53
Prepaid expenditures	166	(306)
Accounts payable to Province of British Columbia	345	2
Accounts payable and accrued liabilities	6,732	3,497
	8,123	831
	15,401	6,770
Investing:		
Proceeds from sale of capital assets	2,645	2,765
Additions to capital assets	(8,212)	(6,179)
	(5,567)	(3,414)
Financing:		
Repayment to the Province of British Columbia of proceeds on disposal of contributed land	(2,645)	(2,645)
Increase in deferred contributions	1,341	2,103
Capital lease payments	(14)	(14)
Increase (decrease) in notes payable	(3,487)	3,487
Increase (decrease) in long-term debt	3,483	(4,266)
Increase in debt sinking funds	(5,062)	(2,951)
Deferred capital contributions received	3,795	3,600
	(2,589)	(686)
Increase in cash and cash equivalents	7,245	2,670
Cash and cash equivalents, beginning of year	8,445	5,775
Cash and cash equivalents, end of year	\$ 15,690	\$ 8,445

See accompanying notes to financial statements.

# BRITISH COLUMBIA TRANSIT

## Statements of Changes in Victoria Regional Transit Fund

Years ended March 31, 2005 and 2004 (\$000)

	2005	2004
Fund balance, beginning of year	\$ 1,031	\$ 1,947
Revenue:		
Fuel tax	7,924	7,735
Property tax	9,486	8,072
Interest earned	83	74
	17,493	15,881
	18,524	17,828
Contributions	(15,663)	(16,797)
Fund balance, end of year	\$ 2,861	\$ 1,031
Fund balance represented by:		
Cash and cash equivalents - held in trust	\$ 2,861	\$ 1,031

See accompanying notes to financial statements.



# BRITISH COLUMBIA TRANSIT

## Notes to Financial Statements

Years ended March 31, 2005 and 2004 (\$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 outside of the Greater Vancouver Regional service area. In 2005, BC Transit recovered 46.85% (2004 - 47.01%) 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 for not-for-profit organizations. The significant accounting policies are set out hereunder:

#### (a) Parts inventory:

Parts inventory is valued at the lower of cost on a first-in first-out basis, and replacement cost. Inventories are recorded net of any obsolescence provisions.

#### (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, 2005 and 2004 (\$000)

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### 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 recorded 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. In 2005, interest of \$16 was capitalized (2004 - \$102).

(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) Revenue recognition:

All sources of revenue are recognized on the accrual basis.

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 are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

(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.

# BRITISH COLUMBIA TRANSIT

## Notes to Financial Statements

Years ended March 31, 2005 and 2004 (\$000)

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

(i) Employee future benefits:

BC Transit and its employees contribute to the Public Service Pension Plan, a jointly trusted pension plan. 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 in 2005 by BC Transit totaled approximately \$1,997 (2004 - \$1,965).

(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 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.

(l) Income and capital taxes:

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

# BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Years ended March 31, 2005 and 2004 (\$000)

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

(m) 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 carrying amount of an asset may not be recoverable. BC Transit reviews factors such as current market value, future asset utilization and business climate and compares the carrying value of the assets to the future undiscounted cash flows expected to result from the use of the related asset. If such cash flows are less than the carrying value, the impairment charge to be recognized equals the excess.

(n) Comparative figures:

Certain 2004 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:

	2005	2004
Cash	\$ 7,300	\$ 3,153
Short-term investments	8,390	5,292
	\$ 15,690	\$ 8,445

(b) Supplemental cash flow information:

	2005	2004
Cash paid during the year for:		
Interest on long-term debt and notes payable	\$ 6,183	\$ 6,329
Cash received:		
Interest on investments	1,352	922

# BRITISH COLUMBIA TRANSIT

## Notes to Financial Statements

Years ended March 31, 2005 and 2004 (\$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.

Sinking funds and related investments are managed by the British Columbia Investment Management Corporation ("BCIMC"). Investment management fees totaling \$3.4 (2004 - \$2.9) were paid directly from individual portfolios to BCIMC.

### 5. Capital assets:

March 31, 2005	Carrying value	Accumulated depreciation and amortization	Net book value
Land	\$ 6,088	\$ -	\$ 6,088
Land improvements	1,962	1,045	917
Buildings	23,959	7,230	16,729
Revenue vehicles	188,650	54,000	134,650
Revenue vehicles under capital leases	294	64	230
Equipment	13,134	4,452	8,682
Capital projects in progress	2,397	-	2,397
	<u>\$ 236,484</u>	<u>\$ 66,791</u>	<u>\$ 169,693</u>

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	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
	<u>\$ 239,002</u>	<u>\$ 65,389</u>	<u>\$ 173,613</u>

# BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Years ended March 31, 2005 and 2004 (\$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 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 one dollar per year under an initial fifteen-year term commencing April 1, 1999, 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, 2005	Carrying value	Accumulated amortization	Net book value
SkyTrain	\$ 1,205,182	\$ 388,818	\$ 816,364
West Coast Express	128,848	19,267	109,581
	\$ 1,334,030	\$ 408,085	\$ 925,945

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
	\$ 1,337,149	\$ 392,247	\$ 944,902

## 7. Notes payable:

	2005	2004
Commercial paper with the Province of British Columbia, 2004 - 1.82% weighted average interest rate	\$ -	\$ 3,487

# BRITISH COLUMBIA TRANSIT

## Notes to Financial Statements

Years ended March 31, 2005 and 2004 (\$000)

### 8. Long-term debt:

	2005	2004
Sinking fund bonds, weighted average interest rate of 6.4%, maturing at various dates from 2006 to 2023, amortized from 10 to 20 years	\$ 84,965	\$ 81,466
Sinking fund bonds under interest rate and currency conversion agreements, effective weighted average interest rate of 6.1%, maturing at various dates from 2009 to 2010, amortized over 12 years	13,727	13,727
	98,692	95,193
Add: unamortized bond premium	103	119
Less: unamortized bond discount	(108)	(108)
	98,687	95,204
Less current portion	(2,745)	-
	\$ 95,942	\$ 95,204

The Minister of Finance, as BC Transit's fiscal agent, arranges financing at BC Transit's request. BC Transit paid fees totaling \$20 (2004 - \$20) in the year for these fiscal agent services.

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

2006	\$ 2,745
2007	5,206
2008	10,200
2009	-
2010	2,966
Thereafter	77,575

# BRITISH COLUMBIA TRANSIT

## Notes to Financial Statements

Years ended March 31, 2005 and 2004 (\$000)

### 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:

2006	\$	34
2007		34
2008		34
2009		34
2010		34
Thereafter		166
		336
Less amount representing interest at 8.36%		105
Present value of capital lease obligations		231
Less current portion		16
	\$	215

Interest incurred during the year with respect to obligations under capital leases included in other interest expenditures amounted to \$20 (2004 - \$21).

### 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.

	2005	2004
Balance, beginning of year	\$ 9,032	\$ 6,929
Contributions from municipalities - Victoria	15,663	16,797
Contributions from municipalities - other municipalities	16,555	15,953
Contributions from municipalities expended	(30,877)	(30,647)
Balance, end of year	\$ 10,373	\$ 9,032



# BRITISH COLUMBIA TRANSIT

## Notes to Financial Statements

Years ended March 31, 2005 and 2004 (\$000)

### 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, 2005	Carrying amount	Fair value
Debt sinking funds	\$ 21,059	\$ 22,615
Long-term debt (including related foreign exchange contracts and interest rate swaps)	98,687	112,507

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)	95,204	106,304

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.

# BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Years ended March 31, 2005 and 2004 (\$000)

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## 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:

2006	\$	1,118
2007		1,129
2008		1,218
2009		1,305
2010		1,305

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

### (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 purchase commitments with Petro Canada. 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.