

Financial Statements of

BRITISH COLUMBIA TRANSIT

Year ended March 31, 2007

REPORT OF MANAGEMENT

Year ended March 31, 2007

The financial statements of British Columbia Transit ("BC Transit") are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles consistently applied and appropriate in the circumstances. A precise determination of many assets and liabilities is dependent upon future events and, consequently, the preparation of periodic financial statements necessarily involves the use of management's judgment in establishing the estimates and approximations used. The financial statements have, in management's opinion, been properly prepared within the framework of the accounting policies summarized in the notes to the financial statements and incorporate, within reasonable limits of materiality, all information available as at May 17, 2007.

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

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

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



Ron Drolet
Senior Vice President, Customer Service & Corporate Secretary



Steve New
Senior Vice President, Municipal Systems Program



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
Fax (250) 480-3539
Internet www.kpmg.ca

AUDITORS' REPORT

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

We have audited the balance sheet of British Columbia Transit as at March 31, 2007 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, stylized font.

Chartered Accountants

Victoria, Canada

May 17, 2007

BRITISH COLUMBIA TRANSIT

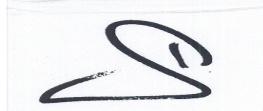
Balance Sheet

March 31, 2007 (\$000)

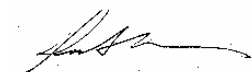
	2007	2006
Assets		
Current assets:		
Cash and cash equivalents (note 3)	\$ 36,756	\$ 16,542
Accounts receivable:		
Municipalities	7,961	5,634
Trade and other	4,276	6,440
Parts inventory	5,817	6,069
Prepaid expenditures	1,409	1,364
	56,219	36,049
Debt sinking funds (note 4)	25,929	25,215
Capital assets (note 5)	180,610	178,058
Capital assets under lease (note 6)	896,138	916,423
Investment in Transportation Property and Casualty Company Inc.	20	20
	\$ 1,158,916	\$ 1,155,765
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 14,353	\$ 15,907
Deferred revenue (note 7)	14,285	9,558
Current portion of long-term debt	10,200	5,206
Current portion of obligations under capital leases	17	17
	38,855	30,688
Long-term debt (note 8)	111,724	100,425
Obligations under capital leases (note 9)	180	198
Deferred contributions (note 10)	15,617	13,961
Deferred capital contributions (note 11)	919,912	936,291
	1,086,288	1,081,563
Net Assets		
Contributed surplus and investment in capital assets	71,644	73,217
General	984	985
	72,628	74,202
	\$ 1,158,916	\$ 1,155,765

See accompanying notes to financial statements.

Approved on behalf of the Board:



Director



Director

BRITISH COLUMBIA TRANSIT

Statement of Operations

Year ended March 31, 2007 (\$000)

	2007	2006
Revenue:		
Operations	\$ 50,917	\$ 47,366
Investment and other income	2,364	1,748
	<u>53,281</u>	<u>49,114</u>
Expenditures:		
Operations and maintenance	118,464	109,969
Administration	10,057	9,754
Interest on long-term debt	6,556	6,486
Amortization of capital assets	15,776	10,464
Vehicle/property leases and taxes	1,756	1,832
	<u>152,609</u>	<u>138,505</u>
Recoveries:		
Contributions from the Province of British Columbia:		
Operating grants	49,641	49,867
Supplementary operating grant	2,424	2,188
Contributions from municipalities (note 10)	39,734	32,948
Amortization of deferred capital contributions - capital assets	5,960	4,266
	<u>97,759</u>	<u>89,269</u>
Expenditures from transit operations	(1,569)	(122)
Other:		
Amortization of capital assets under lease	(15,291)	(14,895)
Amortization of deferred capital contributions - capital assets under lease	15,291	14,895
Gain on disposal of capital assets	26	800
	<u>26</u>	<u>800</u>
Net revenue (expenditures) for the year	\$ (1,543)	\$ 678

See accompanying notes to financial statements.

BRITISH COLUMBIA TRANSIT

Statement of Changes in Net Assets

Year ended March 31, 2007 (\$000)

		Contributed surplus and investments in capital assets	Total 2007	Total 2006
	General			
Balance, beginning of year	\$ 985	73,217	74,202	73,856
Net revenue (expenditures) for the year	(1,543)	-	(1,543)	678
Return of contribution to the Province	-	(31)	(31)	(332)
Internal transfer	1,542	(1,542)	-	-
Balance, end of year	\$ 984	71,644	72,628	74,202

See accompanying notes to financial statements.

BRITISH COLUMBIA TRANSIT

Statement of Cash Flows

Year ended March 31, 2007 (\$000)

	2007	2006
Cash provided by (used for):		
Operations:		
Net revenue (expenditures) for the year	\$ (1,543)	\$ 678
Items not involving cash:		
Amortization of capital assets	15,776	10,464
Amortization of capital assets under lease	15,291	14,895
Amortization of deferred capital contributions	(21,251)	(19,161)
Gain on disposal of capital assets	(26)	(800)
Net changes in non-cash operating working capital:		
Accounts receivable	(163)	(4,154)
Parts inventory	252	(1,395)
Prepaid expenditures	(45)	(350)
Accounts payable to Province of British Columbia	-	(420)
Accounts payable and accrued liabilities	(1,554)	(7,211)
Deferred revenue	4,727	9,558
	<u>3,217</u>	<u>(3,972)</u>
	11,464	2,104
Investing:		
Proceeds from sale of capital assets	26	3,333
Additions to capital assets	(16,786)	(21,413)
Recoveries from capital assets under lease	3,452	-
	<u>(13,308)</u>	<u>(18,080)</u>
Financing:		
Repayment to the Province of British Columbia of proceeds on disposal of contributed land	(31)	(332)
Increase in deferred contributions	1,656	3,588
Capital lease payments	(18)	(16)
Increase in long-term debt	16,293	6,944
Increase in debt sinking funds	(714)	(4,156)
Deferred capital contributions received	4,872	10,800
	<u>22,058</u>	<u>16,828</u>
Increase in cash and cash equivalents	20,214	852
Cash and cash equivalents, beginning of year	16,542	15,690
Cash and cash equivalents, end of year	<u>\$ 36,756</u>	<u>\$ 16,542</u>

See accompanying notes to financial statements.

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Year ended March 31, 2007 (\$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 2007 BC Transit recovered 44.6% (2006 - 46.50%) of its expenditures from the Province of British Columbia with the balance from transit operations and municipalities.

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

2. Summary of significant accounting policies:

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

(a) Short-term investments:

Short-term investments are recorded at the lower of cost and market value.

(b) 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.

(c) 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.

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Year ended March 31, 2007 (\$000)

2. Summary of significant accounting policies (continued):

(d) Capital assets:

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

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

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

(f) Capitalization of interest:

Interest incurred in connection with capital acquisitions from the date of advance of funds until the assets are placed in service for transit purposes is capitalized. In 2007 interest of \$211 was capitalized (2006 - \$153).

(g) Amortization of bond premiums and discounts:

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

(h) 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.

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Year ended March 31, 2007 (\$000)

2. Summary of significant accounting policies (continued):

(i) 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 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.

(j) Employee future benefits:

BC Transit and its employees contribute to the Public Service Pension Plan, a jointly trustee 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 51,000 active plan members and approximately 30,000 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 as at March 31, 2005, and disclosed a \$767 million deficit for funding purposes (\$546 million surplus as at the previous valuation). The actuary does not attribute portions of the deficit to individual employers. The next required valuation will be as of March 31, 2008. Contributions to the plan in 2007 by BC Transit totaled approximately \$2,773 (2006 - \$2,049).

(k) 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.

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Year ended March 31, 2007 (\$000)

2. Summary of significant accounting policies (continued):

(l) 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.

(m) Income and capital taxes:

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

(n) 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 is recognized based on the excess of unamortized cost over fair market value.

(o) Comparative figures:

Certain 2006 comparative figures have been reclassified to conform with the financial statement presentation for the current year.

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Year ended March 31, 2007 (\$000)

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:

	2007	2006
Cash	\$ 4,996	\$ 1,942
Short-term investments	31,760	14,600
	<u>\$ 36,756</u>	<u>\$ 16,542</u>

(b) Supplemental cash flow information:

	2007	2006
Cash paid during the year for:		
Interest on long-term debt and notes payable	\$ 6,404	\$ 6,463
Cash received:		
Interest on investments	2,349	1,733

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 \$20 (2006 - \$6) were paid directly from individual portfolios to BCIMC.

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Year ended March 31, 2007 (\$000)

5. Capital assets:

March 31, 2007	Carrying value	Accumulated depreciation and amortization	Net book value
Land	\$ 5,508	\$ -	\$ 5,508
Land improvements	2,554	1,285	1,269
Buildings	21,960	8,885	13,075
Revenue vehicles	217,719	69,612	148,107
Revenue vehicles under capital leases	294	97	197
Equipment	16,780	7,985	8,795
Capital projects in progress	3,659	-	3,659
	<u>\$ 268,474</u>	<u>\$ 87,864</u>	<u>\$ 180,610</u>

March 31, 2006	Carrying value	Accumulated depreciation and amortization	Net book value
Land	\$ 5,508	\$ -	\$ 5,508
Land improvements	1,955	1,169	786
Buildings	21,960	7,808	14,152
Revenue vehicles	205,716	59,743	145,973
Revenue vehicles under capital leases	294	79	215
Equipment	13,949	6,168	7,781
Capital projects in progress	3,643	-	3,643
	<u>\$ 253,025</u>	<u>\$ 74,967</u>	<u>\$ 178,058</u>

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Year ended March 31, 2007 (\$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 15-year term to 2014, 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, 2007	Carrying value	Accumulated amortization	Net book value
SkyTrain	\$ 1,201,872	\$ 408,924	\$ 792,948
West Coast Express	128,848	25,658	103,190
	<u>\$ 1,330,720</u>	<u>\$ 434,582</u>	<u>\$ 896,138</u>

March 31, 2006	Carrying value	Accumulated amortization	Net book value
SkyTrain	\$ 1,205,324	\$ 395,675	\$ 809,649
West Coast Express	128,848	22,074	106,774
	<u>\$ 1,334,172</u>	<u>\$ 417,749</u>	<u>\$ 916,423</u>

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Year ended March 31, 2007 (\$000)

7. Deferred revenue:

	2007	2006
Unexpended contributions:		
Provincial funding	\$ 8,132	\$ 9,558
Fuel Cells Canada	1,000	-
Public Transit Agreement	5,153	-
	\$ 14,285	\$ 9,558

BC Transit owns certain West Coast Express and SkyTrain infrastructure in Vancouver. The SkyTrain infrastructure included lands surplus to the operation of the Expo Line. In prior years BC Transit disposed of these surplus lands for total proceeds of \$7,384 and realized a \$2,122 tax recovery related to the Expo Line. As these funds were deemed repayable to the provincial government, they were held as an outstanding liability along with other provincial funding.

During the year, the Ministry of Transportation granted these funds to BC Transit to use for operating and capital expenditures. \$2,424 was recognized during the year to fund operating expenditures and \$3,485 was used to purchase capital assets. The remainder along with a net amount of \$4,483 realized on the successful appeal of a GST case to the Tax Court of Canada during the year has been deferred as provincial funding for future operating and capital expenditures.

8. Long-term debt:

	2007	2006
Sinking fund bonds, weighted average interest rate of 6.2%, maturing at various dates from 2006 to 2023, amortized from 10 to 20 years	\$ 108,184	\$ 91,900
Sinking fund bonds under interest rate and currency conversion agreements, effective weighted average interest rate of 6.1%, maturing at various dates to 2010, amortized over 12 years	13,727	13,727
	121,911	105,627
Add unamortized bond premium	73	88
Less unamortized bond discount	(60)	(84)
	121,924	105,631
Less current portion	(10,200)	(5,206)
	\$ 111,724	\$ 100,425

The Minister of Finance, as BC Transit's fiscal agent, arranges financing at BC Transit's request. BC Transit paid fees totaling \$28 (2006 - \$17) in the year for these fiscal agent services.

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Year ended March 31, 2007 (\$000)

8. Long-term debt (continued):

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

2008	\$	10,200
2009		-
2010		9,829
2011		8,363
2012		9,917
Thereafter		83,582

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:

2008	\$	34
2009		34
2010		34
2011		34
2012		34
Thereafter		97
		267
Less amount representing interest at 8.36%		(70)
Present value of capital lease obligations		197
Less current portion		(17)
	\$	180

Interest incurred during the year with respect to obligations under capital leases included in other interest expenditures amounted to \$17 (2006 - \$18).

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Year ended March 31, 2007 (\$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.

	2007	2006
Balance, beginning of year	\$ 13,961	\$ 10,373
Contributions from municipalities - Victoria	20,286	17,346
Contributions from municipalities - other municipalities	21,104	19,190
Contributions from municipalities expended	(39,734)	(32,948)
Balance, end of year	\$ 15,617	\$ 13,961

11. Deferred capital contributions:

	2007	2006
Provincial contributions subject to amortization:		
Capital assets	\$ 83,248	\$ 80,915
Capital assets under lease	836,664	855,376
	\$ 919,912	\$ 936,291

12. Victoria Regional Transit Fund:

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

Fund balance, beginning of year	\$ 3,355
Revenue:	
Fuel tax	8,010
Property tax	11,140
Interest earned	256
Contributions	(20,286)
Fund balance, end of year	\$ 2,475

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Year ended March 31, 2007 (\$000)

13. Financial instruments:

(a) Fair value:

The carrying value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of the instruments. The estimated fair value of obligations under capital leases approximates their carrying value as they bear interest at rates approximating current market rates. The fair values of other financial assets and liabilities included in the balance sheet are as follows:

March 31, 2007	Carrying amount	Fair value
Debt sinking funds	\$ 25,929	\$ 28,548
Long-term debt (including related foreign exchange contracts and interest rate swaps)	121,924	133,954

March 31, 2006	Carrying amount	Fair value
Debt sinking funds	\$ 25,215	\$ 27,362
Long-term debt (including related foreign exchange contracts and interest rate swaps)	105,631	119,641

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 interest rate and credit risk consist primarily of cash equivalents, trade accounts receivable and debt sinking funds. To reduce risk, cash equivalents and debt sinking funds are only held at major financial institutions. Management performs ongoing credit evaluations of its customers' financial condition. As most receivables are from municipal partners, the exposure to credit risk is nominal.

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Year ended March 31, 2007 (\$000)

14. Commitments and contingent liability:

Operating lease payments:

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

2008	\$	1,087
2009		1,266
2010		1,268
2011		1,282
2012		1,295

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