

Financial Statements of

BRITISH COLUMBIA TRANSIT

Year ended March 31, 2010

REPORT OF MANAGEMENT

Year ended March 31, 2010

The financial statements of British Columbia Transit ("BC Transit") are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles and include some amounts based on management's best estimates and careful judgment. A precise determination of many assets and liabilities is dependent upon future events and, consequently, the preparation of periodic financial statements necessarily involves the use of management's judgment in establishing the estimates and approximations used. The financial statements have, in management's opinion, been properly prepared within the framework of the accounting policies summarized in the notes to the financial statements and incorporate, within reasonable limits of materiality, all information available as at May 20, 2010.

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

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

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



Manuel Achadinha
President and Chief Executive Officer



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

May 20, 2010



KPMG LLP
Chartered Accountants

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AUDITORS' REPORT

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

We have audited the balance sheet of British Columbia Transit as at March 31, 2010 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, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Victoria, Canada

May 20, 2010

BRITISH COLUMBIA TRANSIT

Balance Sheet

March 31, 2010 (\$000)

	2010	2009
Assets		
Current assets:		
Cash and cash equivalents (note 3)	\$ 36,344	\$ 23,540
Accounts receivable:		
Provincial and Federal	1,078	5,487
Municipalities	10,671	10,219
Trade and other	11,038	7,620
Prepaid expenses	1,331	1,336
Inventory	267	86
	60,729	48,288
Debt sinking funds (note 5)	42,049	39,193
Prepaid lease payments (note 6)	919	-
Capital assets (note 7)	346,209	224,480
Vancouver assets - assets under lease (note 8)	746,045	778,699
Investment in Transportation Property and Casualty Company Inc. (note 4)	20	20
	\$ 1,195,971	\$ 1,090,680
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 35,297	\$ 19,034
Deferred revenue (note 9)	3,746	11,318
Current portion of long-term debt (note 10)	8,363	9,829
Current portion of obligations under capital leases (note 11)	22	22
	47,428	40,203
Long-term debt (note 10)	170,782	121,339
Obligations under capital leases (note 11)	115	137
Deferred contributions (note 12)	4,733	1,874
Deferred capital contributions (note 13)	900,095	854,315
	1,123,153	1,017,868
Net Assets		
Contributed surplus	64,636	66,048
Accumulated net assets	8,182	6,764
	72,818	72,812
Commitments and contingencies (note 19)		
	\$ 1,195,971	\$ 1,090,680

See accompanying notes to financial statements.

Approved on behalf of the Board:



Director



Director

BRITISH COLUMBIA TRANSIT

Statement of Operations

Year ended March 31, 2010 (\$000)

	2010	2009
Revenue:		
Operations	\$ 60,679	\$ 59,632
Investment and other income	3,361	2,859
Olympic and Paralympic Games – transit operations (note 15)	1,019	-
Olympic and Paralympic Games – VANOC contributions (note 15)	5,261	-
	<u>70,320</u>	<u>62,491</u>
Expenses:		
Operations	124,025	114,438
Maintenance	37,772	36,236
Administration	20,040	18,752
Interest on long-term debt	7,908	6,856
Amortization of capital assets	28,269	21,397
Olympic and Paralympic Games (note 15)	6,262	-
	<u>224,276</u>	<u>197,679</u>
Recoveries:		
Contributions from the Province of British Columbia:		
Operating grants	79,105	71,874
Other	844	-
Contributions from municipalities (note 12)	60,840	53,847
Amortization of deferred capital contributions - capital assets	14,024	9,743
	<u>154,813</u>	<u>135,464</u>
Revenue from transit operations	857	276
Other:		
Vancouver assets - amortization expense (note 8)	(32,654)	(32,654)
Vancouver assets - amortization of deferred capital contributions (note 8)	31,242	31,242
Loss on disposal of capital assets	-	(329)
Gain (loss) on foreign exchange and derivatives	273	(1,073)
	<u>(1,139)</u>	<u>(2,814)</u>
Net revenue (expenses) for the year	\$ (282)	\$ (2,538)

See accompanying notes to financial statements.

BRITISH COLUMBIA TRANSIT

Statement of Changes in Net Assets

Year ended March 31, 2010 (\$000)

	Accumulated net assets	Contributed surplus	Total 2010	2009
Balance, beginning of year	\$6,764	\$66,048	\$72,812	\$76,403
Net revenue (expenses) for the year	(282)	-	(282)	(2,538)
Unrealized gain (loss) from change in fair value of debt sinking funds	288	-	288	(952)
Return of contribution to the Province	-	-	-	(101)
Amortization of contributed surplus – Vancouver assets (note 8)	1,412	(1,412)	-	-
Balance, end of year	\$8,182	\$64,636	\$72,818	\$ 72,812

See accompanying notes to financial statements.

BRITISH COLUMBIA TRANSIT

Statement of Cash Flows

Year ended March 31, 2010 (\$000)

	2010	2009
Cash provided by (used for):		
Operations:		
Net revenue (expenses) for the year	\$ (282)	\$ (2,538)
Items not involving cash:		
Amortization of capital assets	28,269	21,397
Vancouver assets – amortization expense	32,654	32,654
Amortization of deferred capital contributions	(45,266)	(40,985)
Loss on disposal of capital assets	-	329
Unrealized loss on foreign exchange derivative	-	1,073
Net changes in non-cash operating working capital:		
Accounts receivable	(4,948)	(3,733)
Prepaid expenditures	5	(52)
Inventory	(181)	(86)
Accounts payable and accrued liabilities	16,263	1,814
Deferred revenue	(7,572)	1,493
	18,942	11,366
Investing:		
Proceeds from sale of capital assets	-	20
Additions to capital assets and prepaid leases	(150,917)	(69,888)
Recoveries from capital assets under lease	-	101
	(150,917)	(69,767)
Financing:		
Repayment to the Province of British Columbia of proceeds on disposal of contributed land	-	(101)
Increase in deferred contributions	2,859	2,077
Capital lease payments	(22)	(20)
Proceeds on issuance of long-term debt	58,158	17,235
Repayments on long-term debt	(10,181)	-
Proceeds on disposition of sinking funds	6,989	-
Sinking fund payments	(9,557)	(7,592)
Deferred capital contributions received	96,533	48,676
	144,779	60,275
Increase in cash and cash equivalents	12,804	1,874
Cash and cash equivalents, beginning of year	23,540	21,666
Cash and cash equivalents, end of year	\$ 36,344	\$ 23,540

Supplemental cash flow information (note 3)

See accompanying notes to financial statements.

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Year ended March 31, 2010 (\$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 (the "Province") outside of the Metro Vancouver Regional service area. In 2010, BC Transit recovered 49.28% (2009 - 49.6%) 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 14.

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 disclosed below:

(a) Short-term investments:

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

(b) Parts inventory:

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

(c) Debt sinking funds:

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

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Year ended March 31, 2010 (\$000)

2. Summary of significant accounting policies (continued):

(d) Capital assets:

- (i) All capital assets, including major replacements and improvements, are recorded at cost, including capitalized interest as described in note 2(f).
- (ii) Amortization is provided on the basis that results in a matching of these charges with BC Transit's statutory power to recover the cost of the related assets. Contributed assets are not subject to recovery and are amortized over their estimated useful lives. All assets are amortized on a straight line basis. Estimated useful lives for capital assets are as follows:

Category:	Estimated Useful Life:
Land	not applicable
Leasehold improvements	term of lease
Buildings	5 – 30 years
Revenue vehicles	
- Main asset	2 - 20 years
- Major components	2 – 11 years
- Hydrogen fuel cell fleet	5 – 10 years
Non-revenue vehicles	10 years
Hydrogen fueling station	5 years
Equipment and other capital assets	4 – 20 years

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

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

(f) Capitalization of interest:

Interest incurred in connection with capital acquisitions and construction is capitalized based on actual interest costs incurred.

(g) Revenue recognition:

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

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Year ended March 31, 2010 (\$000)

2. Summary of significant accounting policies (continued):

(h) Leases or arrangements containing a lease:

Leases or other arrangements entered into for use of property, plant and equipment are classified as either capital or operating leases. Leases or other arrangements that transfer substantially all of the benefits and risks of ownership of property to BC Transit are classified as capital leases. Equipment acquired under capital leases is amortized over the lesser of the term of the lease and estimated useful life. Rental payments under operating leases are expensed as incurred.

(i) Deferred capital contributions:

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

(j) Employee future benefits:

BC Transit and its employees contribute to the Public Service Pension Plan (the "Plan"), a jointly trusted pension plan. The Board of Trustees, representing Plan members and employers, is responsible for overseeing the management of the Plan, including investment of the assets and administration of the benefits. The pension plan is a multi-employer contributory pension plan. Basic pension benefits provided are defined. The Plan has about 58,000 active plan members and approximately 35,000 retired plan members. Required contributions to the Plan are expensed as incurred.

Every three years an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of Plan funding. The most recent valuation as at March 31, 2008, indicated a \$486,591 surplus for basic pension benefits. The actuary does not attribute portions of the surplus to individual employers. The next required valuation is March 31, 2011. BC Transit paid \$3,827 (2009 - \$3,357) for employer contributions to the Plan in fiscal 2010.

(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 or when revisions to estimates are made.

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Year ended March 31, 2010 (\$000)

2. Summary of significant accounting policies (continued):

(l) Income and capital taxes:

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

(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 asset no longer has service potential. When a capital asset no longer contributes to BC Transit's ability to provide transit services, its carrying value is written down to residual value with the write-down recorded as an expense in the period.

(n) Financial instruments:

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

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

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

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

BC Transit has elected to continue to apply the financial instruments disclosure and presentation standards in accordance with Section 3861 – Financial Instruments – Disclosure and Presentation.

(o) Changes in accounting policy:

(i) Goodwill and intangible assets

Effective April 1, 2009, BC Transit adopted CICA Handbook section 3064, "Goodwill and Intangible Assets". The new standard replaces the previous standard and revises the requirement for the recognition, measurement, presentation and disclosure of intangible assets. The adoption of this standard has not had a material impact on BC Transit's financial statements.

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Year ended March 31, 2010 (\$000)

2. Summary of significant accounting policies (continued):

(ii) Amendments to Section 1000, Financial Statement Concepts

Effective April 1, 2009, BC Transit adopted CICA amendments to Section 1000 of the Handbook. These amendments clarify the criteria for recognition of an asset or liability removing the ability to recognize assets or liabilities solely on the basis of matching revenues and expenses. Adoption of these recommendations has not had a material impact on BC Transit's financial statements.

(p) Future accounting standards:

(i) Financial reporting by government organizations

The Public Sector Accounting Board ("PSAB"), which is the body governing accounting standards for government entities, recently approved changes to the scope of public sector accounting standards. Under these changes, BC Transit is considered an "other government organization" and accordingly has a choice of whether to adopt International Financial Reporting Standards ("IFRS") or public sector accounting standards.

BC Transit is continuing to assess and evaluate IFRS and public sector accounting standards and the changes required to comply to either accounting framework. Throughout 2010/11, BC Transit will revisit its timelines, processes and accounting policy choices to ensure it is fully prepared to comply with PSAB directions.

(q) Comparative figures:

Certain 2009 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:

	2010	2009
Cash	\$ 4,003	\$ 4,872
Short-term investments	32,341	18,668
	\$ 36,344	\$ 23,540

(b) Supplemental cash flow information:

	2010	2009
Cash paid during the year for:		
Interest on long-term debt	\$ 7,479	\$ 6,554
Cash received:		
Interest on investments	1,865	2,860

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Year ended March 31, 2010 (\$000)

4. Investment in Transportation Property and Casualty Company Inc.:

During the year, BC Transit undertook a review of its insurance program including its continued participation in the Transportation Property and Casualty Company Inc. ("TPCC") Program. BC Transit's Captive insurance includes a significant component of self-insurance backed by segregated reserves. BC Transit holds a 10% interest in the Captive and the remaining interest is held by the South Coast British Columbia Transportation Authority ("SCBCTA"). Management considered maintaining the current TPCC program, augmenting the TPCC coverage to mitigate risks inappropriate to BC Transit's risk retention capacity or replacing the TPCC coverage in an open market with a stand-alone insurance program.

In January 2010, the Board of Directors approved the withdrawal from TPCC, the commencement of an orderly settlement of claims and obtaining a stand-alone insurance coverage. The program was placed effective April 1, 2010.

Wind down and withdrawal from TPCC, including settlement of claims incurred to March 31, 2010, will be completed in the year.

5. Debt sinking funds:

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

Investment income in 2010 includes \$200 (2009 - \$8) of realized gains on disposition of investments in the sinking funds.

Sinking funds and related investments are managed by the British Columbia Investment Management Corporation ("BCIMC"). Investment management fees totaling \$11 (2009 - \$26) were paid directly from individual portfolios to BCIMC.

6. Prepaid lease payments:

BC Transit has long term operating leases over land, which do not qualify for capitalization and as such, prepayments of lease costs have been deferred and are amortized on a straight line basis over the term of the operating lease agreement. The amortization periods range from 5 to 40 years.

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Year ended March 31, 2010 (\$000)

7. Capital assets:

March 31, 2010	Carrying value	Accumulated depreciation and amortization	Net book value
Land	\$ 2,608	\$ –	\$ 2,608
Leasehold improvements	10,103	2,087	8,016
Buildings	36,707	14,942	21,765
Revenue vehicles:			
Main asset	310,624	130,819	179,805
Major components	44,508	6,628	37,880
Under capital lease	294	158	136
Hydrogen fuel cell	51,624	1,237	50,387
Non-revenue vehicles	337	121	216
Hydrogen fuel station	10,807	180	10,627
Equipment and other	23,030	14,876	8,154
Capital projects in progress	18,086	–	18,086
Capital inventory	8,529	–	8,529
	\$ 517,257	\$ 171,048	\$ 346,209

March 31, 2009	Carrying value	Accumulated depreciation and amortization	Net book value
Land	\$ 2,608	\$ –	\$ 2,608
Leasehold improvements	3,304	1,744	1,560
Buildings	22,292	13,894	8,398
Revenue vehicles:			
Main asset	264,102	118,546	145,556
Major components	28,457	2,946	25,511
Under capital lease	294	135	159
Non-revenue vehicles	106	106	-
Equipment and other	19,157	12,672	6,485
Capital projects in progress	27,242	–	27,242
Capital inventory	6,961	–	6,961
	\$ 374,523	\$ 150,043	\$ 224,480

During the year, \$148 (2009 - \$329) of equipment was recognized as a write-down when the equipment was removed from service.

Interest capitalized for capital projects in 2010 was \$1,903 (2009 - \$906).

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Year ended March 31, 2010 (\$000)

8. Vancouver assets - assets under lease:

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

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

Amortization on the Vancouver assets under lease is offset in part, by amortization of capital grants and in part by the amortization of contributed surplus. As a result of this treatment, there is a \$1,412 expense in excess of related amortization of deferred capital contributions that is recognized in net income each year over the life of these assets. This difference reverses in Net Assets through the transfer of the related contributed surplus.

March 31, 2010	Carrying value	Accumulated amortization	Net book value
SkyTrain	\$ 1,204,098	\$ 524,988	\$ 679,110
West Coast Express	128,848	61,913	66,935
	<u>\$ 1,332,946</u>	<u>\$ 586,901</u>	<u>\$ 746,045</u>

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

9. Deferred revenue:

	2010	2009
Unexpended contributions:		
Provincial funding	\$ 2,350	\$ 3,717
Fuel Cells Canada	-	1,045
Public Transit Agreement	1,396	6,556
	<u>\$ 3,746</u>	<u>\$ 11,318</u>

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Year ended March 31, 2010 (\$000)

9. Deferred revenue (continued):

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 has disposed of certain surplus lands. The total proceeds of \$0 (2009 - \$101) are included in deferred revenue. The Ministry of Transportation and Infrastructure granted these and other accumulated funds to BC Transit to use for operating and capital expenditures. \$1,000 (2009 - \$2,000) was used to purchase capital assets in the year. The remaining unexpended amounts represent funds designated for capital and special projects.

Deferred revenue also includes \$405 (2009 - \$775) received from the Ministry of Environment and held for retro-fitting diesel motors.

BC Transit earned interest of \$27 (2009 - \$152) on deferred capital grants from the Public Transit Agreement. As required under the related contribution agreements, this interest has been deferred.

10. Long-term debt:

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

Total fees paid for these fiscal agency services were \$111 (2009 - \$26).

During 2010, BC Transit issued bonds of \$58.2M with a weighted average interest rate of 4.36% and a weighted term to maturity of 16.5 years.

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

	2010	2009
Sinking fund bonds, weighted average interest rate of 5.04%, maturing at various dates to 2023, amortized from 5 to 30 years	\$ 172,282	\$ 117,410
Sinking fund bonds under interest rate and currency conversion agreements, effective weighted average interest rate of 5.74 %, maturing at July 2010 amortized over 12 years	6,863	13,758
	179,145	131,168
Less current portion	8,363	9,829
	\$ 170,782	\$ 121,339

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Year ended March 31, 2010 (\$000)

10. Long-term debt (continued):

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

2011	\$	8,364
2012		9,918
2013		-
2014		9,604
2015		19,273
Thereafter		132,306

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

2011	\$	11,383
2012		10,899
2013		9,466
2014		9,466
2015		7,892
Thereafter		44,802

11. 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:

2011	\$	34
2012		34
2013		34
2014		34
2015		29
Thereafter		-
		165
Less amount representing interest at 8.36%		(28)
Present value of capital lease obligations		137
Less current portion		(22)
	\$	115

Interest incurred during the year with respect to obligations under capital leases amounted to \$12 (2009 - \$14).

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Year ended March 31, 2010 (\$000)

12. 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.

	2010	2009
Balance, beginning of year	\$ 1,874	\$ (203)
Contributions from municipalities - Victoria	28,684	24,782
Contributions from municipalities - other municipalities	35,015	31,142
Contributions from municipalities expended	(60,840)	(53,847)
Balance, end of year	\$ 4,733	\$ 1,874

13. Deferred capital contributions:

Deferred capital contributions include Federal and Provincial grants subject to amortization on the same basis as the related asset.

	2010	2009
Capital assets:		
Balance, beginning of year	\$ 132,394	\$ 100,120
Contributions and other additions	91,046	42,017
Amortization	(14,024)	(9,743)
Balance, end of year	209,416	132,394
Capital assets under lease:		
Balance, beginning of year	721,921	753,165
Amortization	(31,242)	(31,242)
Balance, end of year	690,679	721,921
	\$ 900,095	\$ 854,315

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Year ended March 31, 2010 (\$000)

14. 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:

	2010	2009
Fund balance, beginning of year	\$ 2,075	\$ 987
Revenue:		
Fuel tax	11,142	11,145
Property tax	16,993	14,663
Interest earned	138	62
Contributions	(28,684)	(24,782)
Fund balance, end of year	\$ 1,664	\$ 2,075

15. Net profit from Olympic and Paralympic games:

During the year, BC Transit was contracted to provide public transit services along the Sea to Sky corridor during the 2010 Olympic and Paralympic Winter Games. The service provided was incremental to the core service provided in the area during the months of the Games. Operational results have been separately disclosed on the Statement of Operations.

16. Financial instruments:

(a) Fair value:

The carrying value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of the instruments. The estimated fair value of obligations under capital leases approximates their carrying value as they bear interest at rates approximating current market rates. Debt sinking funds are reflected on the balance sheet at fair value. The fair value of long-term debt at March 31, 2010 is \$194,497 (2009 - \$144,480).

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.

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Year ended March 31, 2010 (\$000)

16. Financial instruments (continued):

Market risk:

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

Commodity price risk:

BC Transit is exposed to commodity price risk. Commodity price risk and volatility has a significant impact on BC Transit's fuel costs. Management continually monitors the exposure to commodity price volatility and assesses possible risk mitigation strategies including continuing to buy at rack prices, entering into a physical fixed price agreement to fix all or a portion of fuel prices with a supplier and / or the potential to enter into financial commodity derivative contracts. Management does not have the authority under the BC Transit Act to enter into financial commodity derivative contracts directly. The ability for management to execute physical hedge agreements with suppliers is governed under formal policies and is subject to limits established by the Board of Directors. Management entered into a fixed price physical supply contract during the year which expired on March 31, 2010. No other fixed price agreements are in place as at March 31, 2010.

Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate from changes in market interest rates. BC Transit is exposed to interest rate risk to the extent of changes in the prime interest rate. BC Transit may from time to time enter into interest rate swap contracts to manage exposure to interest rates and cash flow risk. No such derivative contracts were entered into during the year.

Foreign exchange risk:

BC Transit is exposed to currency risk on purchases and loans denominated in the U.S dollar and U.K. pound sterling. BC Transit periodically makes commitments to acquire certain capital assets, primarily transit vehicles, from suppliers requiring payment in either US dollars or pounds sterling. These risks are monitored and can be mitigated by management by entering into foreign currency option agreements. These arrangements with respect to long term debt are \$6,863 maturing in July 2010. The net fair value of these derivative instruments is nominal at March 31, 2010 and 2009.

Sensitivity analysis:

The following table is a sensitivity analysis indicating the impact on net revenue (expenditures) of a change in each type of market risk discussed above. The sensitivity analysis is based on reasonable possible movement within the forecast period, being one year. These assumptions may not be representative of actual movements in these risks and should not be relied upon. Given the 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.

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Year ended March 31, 2010 (\$000)

16. Financial instruments (continued):

	1% Change
Commodity Price Risk	\$ 240
Interest Rate Risk	394
Foreign Exchange Risk	428

Credit Risk:

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

Liquidity Risk:

Liquidity risk is the risk that BC Transit will encounter difficulty in meeting obligations associated with financial liabilities as they come due. BC Transit manages liquidity risk through its cash, debt, sinking fund and funding management initiatives. Accounts payable and accrued liabilities are due in the next fiscal year. Maturity of long term debt is disclosed in note 10. Other commitments with future minimum payments are disclosed in note 19.

17. Capital disclosures

BC Transit defines capital as net assets plus deferred capital contributions. BC Transit receives the majority of these operating and capital funds from Federal, Provincial or from 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.

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Notes to Financial Statements

Year ended March 31, 2010 (\$000)

18. Related party transactions

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

19. Commitments and contingencies:

BC Transit has outstanding commitments as summarized below:

As at March 31	2011	2012	2013	2014	2015
Operating leases	\$ 1,279	\$ 1,352	\$ 1,309	\$ 1,349	\$ 1,349
Facilities	3,494	254	-	-	-
Vehicle purchases	4,109	-	-	-	-
Other commitments*	6,140	2,086	2,086	2,086	750
Total	\$ 15,022	\$ 3,692	\$ 3,395	\$ 3,435	\$ 2,099

*Other commitments include fuel, machinery and equipment

The nature of BC Transit's activities is such that there is usually litigation pending or in process at any time. With respect to unsettled claims at March 31, 2010 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.