

Consolidated Financial Statements of

BRITISH COLUMBIA TRANSIT

(Expressed in thousands of dollars)

Year ended March 31, 2011

REPORT OF MANAGEMENT

Year ended March 31, 2011

The consolidated 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 consolidated financial statements have, in management's opinion, been properly prepared within the framework of the accounting policies summarized in the notes to the consolidated financial statements and incorporate, within reasonable limits of materiality, all information available as at May 26, 2011.

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 consolidated financial statements have been examined by the Auditor General of British Columbia, BC Transit's independent external auditors. Their responsibility is to express their opinion whether the consolidated 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. The Board of Directors, through its Audit, Finance and Risk Management Committee, has received the consolidated financial statements including the risks thereto with management and the Auditor General. The Board of Directors have approved the information contained in the consolidated financial statements based on the recommendation of the Audit, Finance and Risk Management Committee.

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 consolidated financial statements.



Manuel Achadinha
President and Chief Executive Officer



Michael Kohl, CA
Vice President, Finance and Chief Financial Officer

May 26, 2011



INDEPENDENT AUDITOR'S REPORT

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

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of British Columbia Transit (“the Entity”) and its subsidiaries, which comprise the consolidated balance sheet as at March 31, 2011, and the consolidated statements of operations, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines, is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In my view, the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of British Columbia Transit and its subsidiaries as at March 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Victoria, British Columbia
May 26, 2011

John Doyle, MAcc, CA
Auditor General

BRITISH COLUMBIA TRANSIT

Consolidated Balance Sheet

(Expressed in thousands of dollars)

March 31, 2011, with comparative figures for 2010

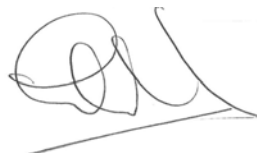
	2011	2010
Assets		
Current assets:		
Cash and cash equivalents (note 3)	\$ 54,034	\$ 36,344
Accounts receivable:		
Provincial and Federal	-	1,078
Municipalities	9,654	10,671
Trade and other	10,569	11,038
Prepaid expenses	1,072	1,331
Inventory	120	267
	<hr/> 75,449	<hr/> 60,729
Debt sinking funds (note 5)	51,531	42,049
Prepaid lease payments (note 6)	877	919
Capital assets (note 7)	336,742	346,209
Vancouver assets - assets under lease (note 8)	713,391	746,045
Investment in Transportation Property and Casualty Company Inc. (note 4)	-	20
	<hr/> \$ 1,177,990	<hr/> \$ 1,195,971
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 31,384	\$ 35,297
Deferred revenue (note 9)	2,035	3,746
Current portion of long-term debt (note 10)	9,918	8,363
Current portion of obligations under capital leases	-	22
	<hr/> 43,337	<hr/> 47,428
Long-term debt (note 10)	196,485	170,782
Obligations under capital leases	-	115
Deferred contributions (note 11)	5,298	4,733
Deferred capital contributions (note 12)	860,046	900,095
	<hr/> 1,105,166	<hr/> 1,123,153
Net Assets		
Contributed surplus	63,224	64,636
Accumulated net assets	9,600	8,182
	<hr/> 72,824	<hr/> 72,818
Commitments and contingencies (note 18)		
	<hr/> \$ 1,177,990	<hr/> \$ 1,195,971

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:



Director



Director

BRITISH COLUMBIA TRANSIT

Consolidated Statement of Operations
(Expressed in thousands of dollars)

Year ended March 31, 2011, with comparative figures for 2010

	2011	2010
Revenue:		
Operations	\$ 65,127	\$ 60,679
Investment and other income	3,404	3,361
Olympic and Paralympic Games – transit operations (note 14)	-	1,019
Olympic and Paralympic Games – VANOC contributions (note 14)	-	5,261
	68,531	70,320
Expenses:		
Operations	134,409	124,025
Maintenance	37,925	37,772
Administration	21,312	20,040
Interest on long-term debt	9,153	7,908
Amortization of capital assets	46,644	28,269
Olympic and Paralympic Games (note 14)	-	6,262
	249,443	224,276
Recoveries:		
Contributions from the Province of British Columbia:		
Operating grants	83,633	79,105
Other	338	844
Contributions from municipalities (note 11)	66,793	60,840
Amortization of deferred capital contributions - capital assets	30,151	14,024
	180,915	154,813
Net revenue from transit operations	3	857
Other:		
Vancouver assets - amortization expense (note 8)	(32,654)	(32,654)
Vancouver assets - amortization of deferred capital contributions (note 12)	31,242	31,242
Gain on disposal of capital assets	242	-
Gain on foreign exchange and derivatives	375	273
	(795)	(1,139)
Net expenses for the year	\$ (792)	\$ (282)

See accompanying notes to consolidated financial statements.

BRITISH COLUMBIA TRANSIT

Consolidated Statement of Changes in Net Assets
(Expressed in thousands of dollars)

Year ended March 31, 2011, with comparative figures for 2010

	Accumulated net assets	Contributed surplus	Total 2011	Total 2010
Balance, beginning of year	\$ 8,182	64,636	72,818	72,812
Net expenses for the year	(792)	-	(792)	(282)
Unrealized gain from change in fair value of debt sinking funds	798	-	798	288
Amortization of contributed surplus – Vancouver assets (note 8)	1,412	(1,412)	-	-
Balance, end of year	\$ 9,600	63,224	72,824	72,818

See accompanying notes to consolidated financial statements.

BRITISH COLUMBIA TRANSIT

Consolidated Statement of Cash Flows
(Expressed in thousands of dollars)

Year ended March 31, 2011, with comparative figures for 2010

	2011	2010
Cash provided by (used in):		
Operations:		
Net expenses for the year	\$ (792)	\$ (282)
Items not involving cash:		
Amortization of capital assets	46,644	28,269
Vancouver assets – amortization expense	32,654	32,654
Amortization of deferred capital contributions	(61,393)	(45,266)
Feasibility project expenses	1,482	-
Gain on disposal of capital assets	(242)	-
Net changes in non-cash operating working capital:		
Accounts receivable	2,564	(4,948)
Prepaid expenses	259	5
Inventory	147	(181)
Accounts payable and accrued liabilities	(3,913)	16,263
Deferred revenue	(1,711)	(7,572)
	15,699	18,942
Investing:		
Proceeds from disposal of investment in TPCC	20	-
Proceeds from sale of capital assets	865	-
Additions to capital assets and prepaid leases	(39,240)	(150,917)
	(38,355)	(150,917)
Financing:		
Increase in deferred contributions	565	2,859
Capital lease payments	(137)	(22)
Proceeds on issuance of long-term debt	35,596	58,158
Repayments on long-term debt	(8,338)	(10,181)
Proceeds on disposition of sinking funds	4,916	6,989
Sinking fund payments	(13,600)	(9,557)
Deferred capital contributions received	21,344	96,533
	40,346	144,779
Increase in cash and cash equivalents	17,690	12,804
Cash and cash equivalents, beginning of year	36,344	23,540
Cash and cash equivalents, end of year	\$ 54,034	\$ 36,344

Supplemental cash flow information (note 3)

See accompanying notes to consolidated financial statements.

BRITISH COLUMBIA TRANSIT

Consolidated Notes to Financial Statements
(Expressed in thousands of dollars)

Year ended March 31, 2011, with comparative figures for 2010

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.

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 13.

2. Summary of significant accounting policies:

The accompanying consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles for not-for-profit organizations and include the accounts of BC Transit and its wholly owned subsidiaries. All inter-company balances and transactions have been eliminated on consolidation. Funds held in trust are excluded from the financial statements.

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

Consolidated Notes to Financial Statements
(Expressed in thousands of dollars)

Year ended March 31, 2011, with comparative figures for 2010

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.

(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

Consolidated Notes to Financial Statements
(Expressed in thousands of dollars)

Year ended March 31, 2011, with comparative figures for 2010

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 trustee 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 57,000 active plan members and approximately 36,000 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 with results available in 2012. BC Transit paid \$4,025 (2010 - \$3,827) for employer contributions to the Plan in fiscal 2011.

(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

Consolidated Notes to Financial Statements
(Expressed in thousands of dollars)

Year ended March 31, 2011, with comparative figures for 2010

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.

(o) Future accounting standards:

Effective April 1, 2011, BC Transit will be transitioning to Public Sector Accounting Standards ("PSAB") on a retrospective basis. BC Transit is reviewing the impact of this change on the consolidated financial statements.

(p) Comparative figures:

Certain 2010 comparative figures have been reclassified to conform with the financial statement presentation for the current year.

BRITISH COLUMBIA TRANSIT

Consolidated Notes to Financial Statements
(Expressed in thousands of dollars)

Year ended March 31, 2011, with comparative figures for 2010

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:

	2011	2010
Cash	\$ 15,616	\$ 4,003
Short-term investments	38,418	32,341
	\$ 54,034	\$ 36,344

(b) Supplemental cash flow information:

	2011	2010
Cash paid during the year for:		
Interest on long-term debt	\$ 9,372	\$ 7,479
Cash received:		
Interest on investments	1,871	1,865

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

During the year, the Board of Directors approved the withdrawal from Transportation Property and Casualty Company Inc. ("TPCC"), including the disposal of its shareholdings of \$20,000, the commencement of an orderly settlement of claims and obtaining a stand-alone insurance coverage. The program was placed effective April 1, 2010.

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 2011 includes \$349 (2010 - \$200) 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 \$20 (2010 - \$11) 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

Consolidated Notes to Financial Statements
(Expressed in thousands of dollars)

Year ended March 31, 2011, with comparative figures for 2010

7. Capital assets:

March 31, 2011	Carrying value	Accumulated depreciation and amortization	Net book value
Land	\$ 2,608	\$ -	\$ 2,608
Leasehold improvements	11,680	2,716	8,964
Buildings	37,361	16,409	20,952
Revenue vehicles:			
Main asset	307,701	140,507	167,194
Major components	47,972	13,333	34,639
Hydrogen fuel cell	52,648	10,923	41,725
Non-revenue vehicles	539	135	404
Hydrogen fuel station	9,810	2,446	7,364
Equipment and other	25,447	17,860	7,587
Capital projects in progress	37,139	-	37,139
Capital inventory	8,166	-	8,166
	\$ 541,071	\$ 204,329	\$ 336,742

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

During the year, \$623 (2010 - \$148) of equipment was recognized as a write-down when the equipment was removed from service.

Interest capitalized for capital projects in 2011 was \$482 (2010 - \$1,903).

BRITISH COLUMBIA TRANSIT

Consolidated Notes to Financial Statements
(Expressed in thousands of dollars)

Year ended March 31, 2011, with comparative figures for 2010

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, 2011	Carrying value	Accumulated amortization	Net book value
SkyTrain	\$ 1,204,098	\$ 553,348	\$ 650,750
West Coast Express	128,848	66,207	62,641
	<u>\$ 1,332,946</u>	<u>\$ 619,555</u>	<u>\$ 713,391</u>

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>

9. Deferred revenue:

	2011	2010
Unexpended contributions:		
Provincial funding	\$ 2,035	\$ 2,350
Public Transit Agreement	-	1,396
	<u>\$ 2,035</u>	<u>\$ 3,746</u>

BRITISH COLUMBIA TRANSIT

Consolidated Notes to Financial Statements
(Expressed in thousands of dollars)

Year ended March 31, 2011, with comparative figures for 2010

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 \$21 (2010 - \$0) 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. \$0 (2010 - \$1,000) 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 \$66 (2010 - \$405) received from the Ministry of Environment and held for retro-fitting diesel motors.

BC Transit earned interest of \$3 (2010 - \$27) 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 \$500,000 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 \$41 (2010 - \$111).

During 2011, BC Transit issued bonds of \$35,596 with a weighted average interest rate of 3.54% and a weighted term to maturity of 11.5 years.

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

	2011	2010
Sinking fund bonds, weighted average interest rate of 4.77% (2010 – 5.04%), maturing at various dates to 2040, amortized from 5 to 30 years	\$ 206,403	\$ 172,282
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
	206,403	179,145
Less current portion	9,918	8,363
	\$ 196,485	\$ 170,782

BRITISH COLUMBIA TRANSIT

Consolidated Notes to Financial Statements
(Expressed in thousands of dollars)

Year ended March 31, 2011, with comparative figures for 2010

10. Long-term debt (continued):

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

2012	\$	9,918
2013		-
2014		9,604
2015		19,275
2016		25,595
Thereafter		142,306

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

2012	\$	15,766
2013		14,332
2014		13,966
2015		12,393
2016		9,746
Thereafter		38,502

11. 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.

	2011	2010
Balance, beginning of year	\$ 4,733	\$ 1,874
Contributions from municipalities - Victoria	29,881	28,684
Contributions from municipalities - other municipalities	37,477	35,015
Contributions from municipalities expended	(66,793)	(60,840)
Balance, end of year	\$ 5,298	\$ 4,733

BRITISH COLUMBIA TRANSIT

Consolidated Notes to Financial Statements
(Expressed in thousands of dollars)

Year ended March 31, 2011, with comparative figures for 2010

12. Deferred capital contributions:

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

	2011	2010
Capital assets:		
Balance, beginning of year	\$ 209,416	\$ 132,394
Contributions and other additions	21,344	91,046
Amortization	(30,151)	(14,024)
Balance, end of year	200,609	209,416
Capital assets under lease:		
Balance, beginning of year	690,679	721,921
Amortization	(31,242)	(31,242)
Balance, end of year	659,437	690,679
	\$ 860,046	\$ 900,095

13. 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 consolidated financial statements. The fund balance and transactions during the year are as follows:

	2011	2010
Fund balance, beginning of year	\$ 1,664	\$ 2,075
Revenue:		
Fuel tax	11,423	11,142
Property tax	19,180	16,993
Interest earned	41	138
Contributions	(29,922)	(28,684)
Fund balance, end of year	\$ 2,386	\$ 1,664

14. Net profit from Olympic and Paralympic games:

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.

BRITISH COLUMBIA TRANSIT

Consolidated Notes to Financial Statements
(Expressed in thousands of dollars)

Year ended March 31, 2011, with comparative figures for 2010

15. 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, 2011 is \$226,259 (2010 - \$194,497).

In evaluating the fair value information, considerable judgment is required to interpret the market data used to develop the estimates. The use of different market assumptions and/or different valuation techniques may have a material effect on the estimated fair value amounts for financial instruments. Accordingly, the estimates of fair value presented herein may not be indicative of the amounts that could be realized in a current market exchange.

(b) Risks associated with financial assets and liabilities:

BC Transit is exposed to financial risks from its financial assets and liabilities. The financial risks include market risk relating to commodity prices, interest rates and foreign exchange risks as well as credit risk and liquidity risk.

Market risk:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of commodity price risk, interest rate risk 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 *British Columbia 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, 2011.

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15. Financial instruments (continued):

(b) Risks associated with financial assets and liabilities (continued):

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. There were no such arrangements outstanding as at March 31, 2011.

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.

	1% Change
Commodity Price Risk	\$ 264
Interest Rate Risk	858
Foreign Exchange Risk	425

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.

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15. Financial instruments (continued):

(b) Risks associated with financial assets and liabilities:

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 18.

16. 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.

17. 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.

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18. Commitments and contingencies:

At March 31, 2011, BC Transit has outstanding letters of credit in the amount of \$231 (2010 – nil) expiring September 19, 2011 and March 6, 2012.

BC Transit has outstanding commitments as summarized below:

As at March 31	2012	2013	2014	2015	2016
Operating leases	\$ 2,445	\$ 1,021	\$ 217	\$ 215	\$ 2
Facilities	9,262	-	-	-	-
Vehicle purchases	1,100	-	-	-	-
Other commitments*	4,909	1,595	1,595	265	-
Total	\$ 17,716	\$ 2,616	\$ 1,812	\$ 480	\$ 2

*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, 2011 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.