



2015/16
Management Discussion and Analysis

Management Discussion and Analysis

Dated: May 26, 2016

The following is management's discussion and analysis of the consolidated financial position and results of operations for BC Transit as of March 31, 2016. This management discussion and analysis should be read in conjunction with our audited consolidated financial statements and related notes for the year ended March 31, 2016 (fiscal 2015/16) included in the 2015/2016 Annual Service Plan Report.

The information provided in the table below is consistent with the presentation in previous years and may be different from the information presented in the audited consolidated financial statements due to the separate disclosure of debt service. Under Canadian public sector accounting standards, costs are allocated by function (operations, maintenance and administration) and include the allocation of debt service. The format of the information presented above is consistent with industry practice and allows for historical and industry benchmarking.

BC Transit

Management Discussion and Analysis

Financial Report

Figures in thousands

As at March 31, 2016

	2010/11 Actual	2011/12 Actual	2012/13 Actual	2013/14* Actual	2014/15 Actual	2015/16			
						Actual	Budget	Variance Year over Year (Un)Favourable	Variance to Budget
Revenue	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Operations	65,127	67,847	67,944	69,192	69,182	70,494	68,912	1,312	1,582
Government transfers									
Provincial	83,971	88,065	89,013	95,415	96,211	103,862	103,862	7,651	-
Local government**	66,793	75,483	76,312	84,984	88,315	81,433	98,408	(6,882)	(16,975)
Deferred capital contributions	30,151	27,183	28,805	38,746	23,449	30,587	27,591	7,138	2,996
Investment and other income	3,404	2,947	4,152	5,219	4,030	3,294	4,654	(736)	(1,360)
Total Revenues	249,446	261,525	266,226	293,556	281,187	289,670	303,427	8,483	(13,757)
Expenses									
Operations									
Operations (excl. fuel)	113,307	114,236	116,269	124,105	124,105	129,048	131,693	(4,943)	2,645
Fuel	23,795	28,416	28,392	30,021	27,969	22,353	31,200	5,616	8,847
Total operations	137,102	142,652	144,661	154,126	152,074	151,401	162,893	673	11,492
Maintenance									
Fleet	31,230	32,122	33,053	35,824	37,332	38,566	41,122	(1,234)	2,556
Facilities	6,895	7,253	8,206	8,521	9,776	9,476	10,112	300	636
Total maintenance	38,125	39,375	41,259	44,345	47,108	48,042	51,234	(934)	3,192
Administration	21,457	22,009	21,735	23,455	24,579	25,981	26,457	(1,402)	476
Total operating expenses	196,684	204,036	207,655	221,926	223,761	225,424	240,584	(1,663)	15,160
Debt Service									
Interest	9,153	10,902	11,045	10,794	10,478	9,478	11,380	1,000	1,902
Amortization	46,644	47,218	47,739	60,597	46,372	54,835	51,463	(8,463)	(3,372)
	55,797	58,120	58,784	71,391	56,850	64,313	62,843	(7,463)	(1,470)
Total Expenses	252,481	262,156	266,439	293,317	280,611	289,737	303,427	(9,126)	13,690
Net Income (Loss) from Operations	(3,035)	(631)	(213)	239	576	(67)	-	(643)	(67)
Non-Operating Items:									
Vancouver assets									
Amortization expense	(32,654)	(32,654)	(14,769)	(15,010)	(15,187)	(2,494)	(14,924)	12,693	12,430
Deferred capital contributions	31,242	31,242	14,340	14,581	14,757	2,494	14,924	(12,263)	(12,430)
Disposal and impairment of capital assets									
Impairment of capital assets	-	-	-	-	(4,600)	-	-	4,600	-
Loss on disposal of capital assets	-	-	(370)	-	(716)	(177)	-	539	(177)
Deferred capital contributions	-	-	-	-	2,881	-	-	(2,881)	-
Provincial government transfers	-	-	-	-	1,985	-	-	(1,985)	-
Other capital recoveries	242	11	-	16	450	405	-	(45)	405
Other income	-	-	-	-	39	62	-	23	62
Gain (loss) on investments and foreign exchange	375	620	578	699	285	167	-	(118)	167
Total Non-Operating Items	(795)	(781)	(221)	286	(106)	457	-	563	457
Annual surplus (deficit)	(3,830)	(1,412)	(434)	525	470	390	-	(81)	390
Non-routine loss on transfer of Vancouver assets	-	-	-	-	-	(65,875)	-	(65,875)	(65,875)
Annual surplus (deficit) after non-routine loss	(3,830)	(1,412)	(434)	525	470	(65,485)	-	(65,956)	(65,485)
Capital expenditures									
Vehicle	12,394	10,474	29,871	39,386	49,405	42,027	57,515	7,378	15,488
Non-Vehicle	26,846	27,687	17,760	40,027	33,807	7,479	61,356	26,328	53,877
	39,240	38,161	47,631	79,413	83,212	49,506	118,871	33,706	69,365
Total Liabilities	1,117,760	1,121,722	1,107,356	1,094,608	1,087,418	473,313	1,202,041	614,105	728,728
Accumulated Surplus	56,878	59,071	60,268	60,657	85,659	18,276	60,282	(67,383)	(42,006)

Financial Overview

Total revenues for the year ending March 31, 2016 were \$289.7 million, an increase of \$8.5 million from fiscal 2014/15 and \$13.8 million lower than budget. The increase in total revenue from fiscal 2014/15 can be attributed to higher passenger revenues due to more passenger trips, fare changes and a new advertising contract in 2015/16. Local government transfers revenue was below budget by \$17.0 million as a result of lower than budgeted operating expenses and increased passenger revenues.

Total operating expenses (excluding debt service) for the year ending March 31, 2016 were \$225.4 million, an increase of \$1.7 million over 2014/15 and \$15.2 million lower than budget. Cost efficiency, as measured on a cost per hour basis, was favourable to budget by 5.7 per cent and decreased year-over-year by 0.7 per cent. The improvement in cost efficiencies from fiscal 2014/15 and budget reflects management's continued focus to contain costs.

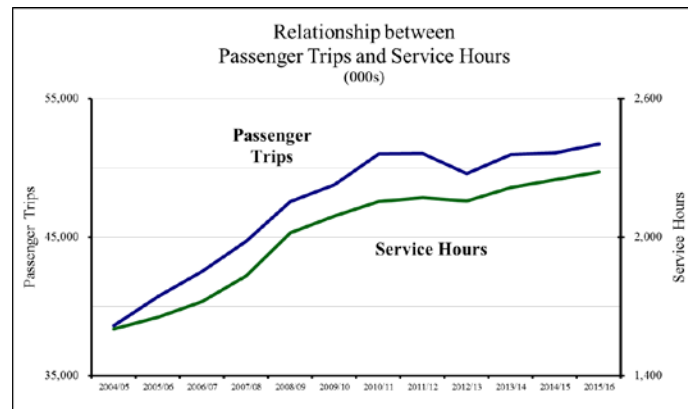
The total operating expenses increased over fiscal 2014/15, which can be attributed to the annualization of 2014/15 service expansions (33,500 service hours), general inflationary pressures on materials, parts, wages and benefits, and contracted services. Total operating expenses decreased from budget, which can be attributed to savings in fuel due to a significant drop in diesel prices, lower vehicle maintenance costs and lower labour costs.

Debt service (interest and amortization) for the year ending March 31, 2016, was \$64.3 million, an increase of \$7.5 million from fiscal 2014/15. The increase over fiscal 2014/15 can be attributed to an increase in amortization expense resulting from the completion of numerous capital projects during the year, including \$62.6 million of new vehicles, \$20.4 million towards rapid transit exchanges and \$6.8 million invested in major vehicle components. The increase over budget is due to timing of capitalization.

On May 14, 2015, *Bill 2 – 2015 BC Transportation Financing Authority Transit Assets and Liabilities Act* (the “Act”) was granted Royal Assent. The Bill called for all of BC Transit’s tangible capital assets under lease in the Greater Vancouver Regional District to be transferred to BC Transportation Financing Authority (“BCTFA”). Effective May 21, 2015, BC Transit transferred all related assets and liabilities to BCTFA. Upon the transfer, BC Transit recognized a reduction in annual surplus of \$65.9 million. The transfer was an extraordinary item within the financial statements and zero proceeds were received. The transaction is non-recurring and had no impact to the ongoing operations or financial assets of BC Transit.

Passenger Trips and Service Hours

Changes in passenger trips are strongly correlated with changes in service hours but are also impacted by other factors including service frequency and reliability, fare changes, investments in public transit (transit exchanges, park & rides and technology) and general economic conditions such as employment, demographics, economic development, fuel prices and population changes. The relationship between passenger trips and service hours is illustrated in the attached chart.



Total system passenger trips across the province were in line with service hour-growth with an overall year-over-year increase of 1.5 per cent and lower than budget by 0.6 per cent. The Victoria Regional Transit System (VRTS) conventional passenger trips increased year-over-year by 0.4 per cent and Regional Transit Systems' (RTS) conventional passenger trips increased year-over-year by 2.5 per cent. Total custom/paratransit system passenger trips increased year-over-year 1.2 per cent

Although service hours were lower than budget by 0.6 per cent, total service hours delivered increased year-over-year by 33,500 hours or 1.5 per cent. Service hours were below budget primarily in the custom/paratransit systems. The increase in service hours is due to the annualization of 2014/15 service expansions. During 2015/16, significant focus was placed on continuing to improve existing levels of service through service planning and optimization.

Over the last year, BC Transit worked with local government partners on several short and long-term planning initiatives that would ensure transit systems were effectively structured to meet the needs of customers, as well as encourage new ridership. The last of the Transit Future Plans, which align local land use plans and decision making with investments in transit services and infrastructure, was completed in the Sea-to-Sky region. In addition, service optimization reviews were completed in 31 transit systems.

Total Revenue

Transit service is primarily funded through two funding parties: the Provincial and Local Governments. Per capita Provincial operating transfers are the highest in Canada and are based on contractual cost share formulae for both operating and capital expenditures.

Operations revenue

Operations revenue (passenger and advertising, including BC Bus Pass) for the year ending March 31, 2016 was \$70.49 million, an increase of \$1.3 million over 2014/15 and \$1.6 million higher than budget. The increase from budget can be attributed to an increase in pass product sales in Victoria, a province-wide increase in BC Bus Pass revenue, a new advertising contract and passenger revenue increases in Regional Transit systems due to higher passenger trips and fare increases.

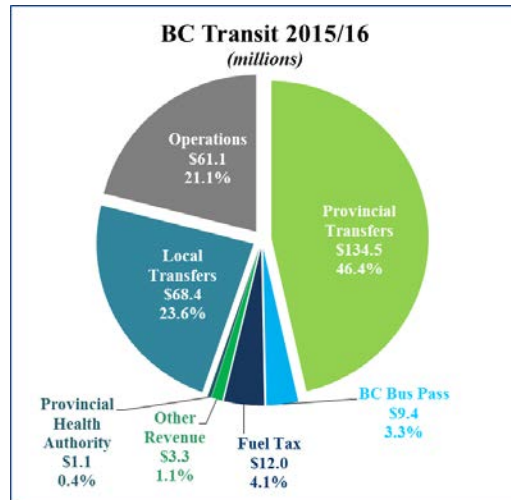
Provincial

The Provincial operating transfer for the year ending March 31, 2016 was consistent with budget at \$103.9 million. The increase in Provincial government transfers from fiscal 2014/15 is attributable to a change in the service delivery contract. The Province committed to a fixed amount of funding based on the delivery of 2.2 million service hours. A corresponding decrease was realized in the local government transfer revenues as described below.

Local Government

Local government transfers were \$81.4 million, a decrease of \$6.9 million from fiscal 2014/15 and \$17.0 million below budget. The revenue was lower than budget as a result of operating expenses being below budget by \$15.2 million.

During the year BC Transit Regulation B.C. Reg.30/91 was amended, establishing the legislated authority for BC Transit to carry an operating reserve. As part of the regulatory change, local government contributions were billed based on budgeted operating expenses. Any unspent local government transfer revenue is held within the operating reserve and treated as deferred revenue. Unspent contributions amounted to \$15.8 million and will be expended in future years to maintain current service levels in the respective transit system for which they were contributed.



Reconciliation to Consolidated Statement of Operations

- Operations revenue = Operations + **BC Bus Pass**
- Provincial government transfers = **Provincial transfers**
- Local government transfers = Local transfers + Provincial Health Authority + Fuel tax
- Deferred capital contributions = **Provincial transfers**
- Investment and other Income = **Other Revenue**

Deferred Capital Contributions

The Provincial and Federal amortization of deferred capital contributions were \$30.6 million, an increase of \$7.1 million over fiscal 2014/15 and \$3.0 million over budget. The increase over prior year and budget can be attributed to the completion of numerous capital projects during the year including \$62.6 million of new vehicles, \$20.4 million towards rapid transit exchanges and \$6.8 million invested in major vehicle components. The increase over budget is due to timing of capitalization.

Investment and Other Income

Investment and other income for the year ending March 31, 2016 was \$3.3 million, a decrease of \$0.7 million over fiscal 2014/15 and \$1.4 million under budget. This balance consists of rental income on strategic properties held for long-term transit development, which are being leased in the short-term, commercial revenues associated with a bus lease to the Greater Victoria Harbor Authority, interest earned on sinking funds and other miscellaneous income.

The decrease is primarily related to lower investment returns and allocation of interest earned on the new operating reserve towards deferred revenue.

Total Operating Expenses

Total operating expenses are defined as the sum of all costs associated with the operation, maintenance and administration of transit service, excluding amortization and interest on debt for capital expenditures. Total operating expenses for the year ending March 31, 2016 were \$225.4 million, an increase of \$1.7 million over 2014/15 and \$15.2 million lower than budget.

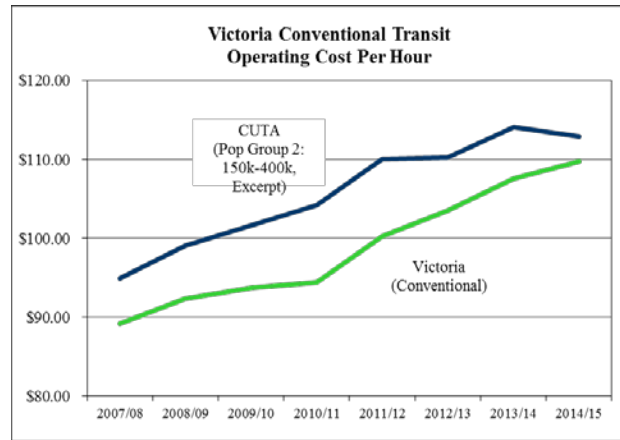
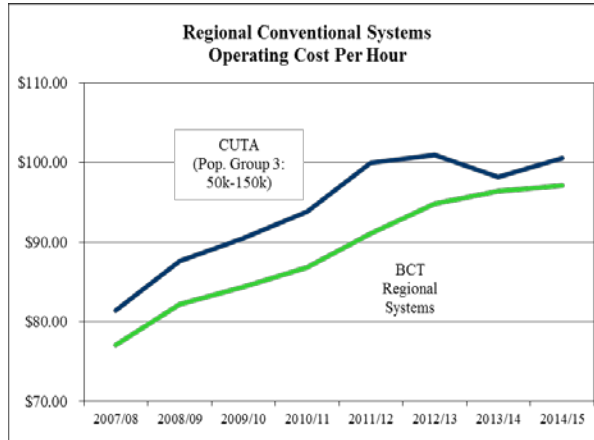
The total operating expense increase over fiscal 2014/15 can be attributed to the annualized service expansion of 33,500 service hours, inflationary pressures on materials, wages and benefits, operating expenditures related to the Enterprise Resource Planning project and other IT costs. These increases were offset against lower fuel prices in 2015/16 compared to 2014/15 and lower consulting expenses and legal fees.

The total operating expense decrease from budget can be attributed to fuel savings due to a significant drop in diesel prices, the delivery of lower than anticipated service hours, lower labour costs due to structural savings and vacancies, lower than budgeted vehicle maintenance costs in the Regional Transit systems and corporate initiatives.

	2014/15 Actual	2015/16 Actual	2015/16 Budget	Variance Year over Year		Variance to Budget	
	(\$)	(\$)	(\$)	(\$)	(%)	(\$)	(%)
Operating Cost Per Hour	99.54	98.83	104.88	0.71	0.7	6.05	5.7
Operating Cost Per Passenger Trip	4.38	4.36	4.68	0.02	0.5	0.32	6.8

Cost efficiency, as measured on a cost per hour basis, was favourable to budget by 5.7 per cent and decreased year-over-year by 0.7 per cent. The decrease from fiscal 2014/15 and budget reflects lower fuel costs than anticipated and management's continued focus to contain costs and pursue cost efficiency measures.

The Canadian Urban Transit Association (CUTA) publishes average operating cost per hour statistics. Based on the most recent information available, BC Transit continues to outperform the average operating cost per hour both in respect of Regional Conventional Transit Systems (populations of 50k- 150k) and Conventional Transit Systems (populations of 150k – 400k).



Operations Expense (excluding fuel)

Operations expenses (excluding fuel) consist of the costs required to operate and manage transit systems and include operator wages and benefits, third party contracted operations and other operational costs. Operations expenses (excluding fuel) for the year ending March 31, 2016 were \$129.0 million; \$4.9 million over fiscal 2014/15 and \$2.6 million lower than budget. Operations expenses increased over fiscal 2014/15 due to annualized service expansion of 33,500 service hours, inflationary pressures on materials, wages and benefits, and operating expenditures related to the Enterprise Resource Planning project. Expenses were lower than budget due to lower labour costs resulting from structural savings and vacancies and fewer service hours provided than budget.

Fuel Expense

Fuel expense for the year ending March 31, 2016 was \$22.4 million, a decrease of \$5.6 million over fiscal 2014/15 and \$8.8 million lower than budget. The decrease from fiscal 2014/15 and budget is attributable to significantly lower market rates for diesel fuel, a new fuel contract with Chevron containing a volume discount and the implementation of 25 additional compressed natural gas buses in Kamloops. For 2015/16, the average diesel fuel price paid was \$0.95 per litre, compared to a budget of \$1.25 per litre and \$1.18 per litre in fiscal 2014/15.

Fuel	2014/15 Actual	2015/16 Actual	2015/16 Budget	Variance		Variance	
				Year over Year		to Budget	
					(%)		(%)
Diesel volume (000s litres)	23,262	22,698	24,144	564	2.4	1,446	6.0
Diesel price per litre (\$)	1.18	0.95	1.25	0.23	19.1	0.30	23.6
Total Diesel cost (\$000s)	27,449	21,676	30,181	5,773	21.0	8,504	28.2
CNG volume (000s DLE*)	1,060	1,806	2,210	(746)		404	18.3
CNG price per litre (\$)	0.49	0.37	0.46	0.12	23.6	0.09	18.8
Total CNG cost (\$000s)	519	676	1,019	(157)	-	343	33.7
Total Fuel Cost (\$000s)	27,969	22,353	31,200	5,616	20.1	8,847	28.4

*DLE - Diesel litre equivalents

Management obtains favourable fuel pricing by aggregating BC Transit's provincial fuel volumes under a successful fuel procurement process resulting in a volume discount from posted rack rates. Management continues to explore other strategies to manage the cost pressure and volatility associated with fuel prices including strategic procurement partnerships, developing reserves and alternative technologies.

Maintenance Expense

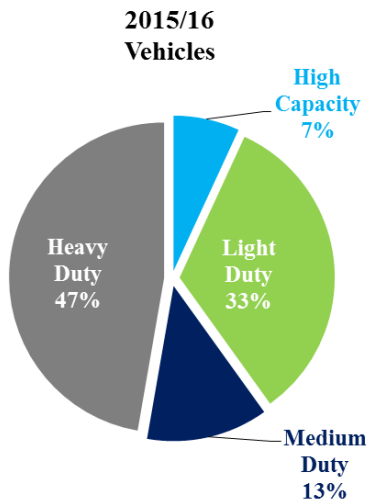
Fleet Maintenance

Fleet maintenance expenses (excluding facilities maintenance) for the year ending March 31, 2016 were \$38.6 million, an increase of \$1.2 million over fiscal 2014/15 and \$2.6 million lower than budget. The increase over fiscal 2014/15 is attributed primarily to inflationary pressures on materials, wages and benefits and increased service hours. The favourable variance from budget is primarily attributable to lower than anticipated service hours, an ongoing focus to reduce costs through regular fleet inspections, major capital maintenance program, preventative maintenance and warranty recoveries.

Fleet maintenance expenditures are a function of expansion, inflationary costs, fleet age and fleet diversity. Maintenance costs are incurred for repairs, major component overhauls and mid-life tune-ups. These costs are largely a function of the age of the fleet (increasing costs of parts, labour and outside service providers) and the technological complexity of newer vehicles including increasingly stringent environmental standards. Maintenance costs are also impacted by exchange rates, higher shipping costs, diminishing options in the supply chain network and

base commodity costs. Most parts originate from American or European suppliers. BC Transit's fleet replacement and expansion capital plan will in part mitigate some of these cost pressures in future years.

As at March 31, 2016, BC Transit had 1,003 buses in service (not including contingency vehicles). The fleet is comprised of 69 high capacity buses, 474 heavy duty buses, 127 medium duty buses and 333 light duty buses.



At the time of this report:

- High capacity buses have an amortization period of 20 years;
- Heavy duty buses have an amortized life of 13 or 20 years;
- Medium duty buses have an amortized life of 10 or 17 years; and,
- Light duty buses have an amortized life of 5 years.

Heavy duty buses purchased in 2009 or later are amortized over a 13 year period and medium duty buses purchased after 2014 are amortized over a 10 year period. This useful life is consistent with industry standard.

The fleet replacement plan indicates that 50 per cent of the fleet will require replacement over the next five years. Maintenance costs for older fleets increase significantly as they near the end of their useful life. However, depending on the costs of major capital investment, life cycle analysis can indicate it is still economical to maintain these vehicles rather than replace them outright and incur write-offs and accelerated debt service charges. Environmental performance and passenger comfort requirements have also created a more diverse transit fleet, contributing to higher parts costs and resource demands.

To best manage and maintain the fleet, management has developed a Long Range Maintenance Plan (LRMP). The LRMP includes analysis of the existing and planned future fleet, maintenance requirements, capacity and labour constraints, and funding requirements. Future fleet maintenance will be conducted under the LRMP to ensure the most efficient and effective use of assets. It is a maintenance program that is proactive rather than reactive in nature. Asset componentization continues to be management's approach to managing vehicle assets as component-based capitalization and amortization more accurately reflect the useful life of the LRMP expenditures.

Facilities Maintenance

Facilities maintenance expenses for the year ending March 31, 2016 were \$9.5 million, a decrease of \$0.3 million over fiscal 2014/15 and \$0.6 million lower than budget. The decrease from fiscal 2014/15 can be attributed primarily to one-time costs in 2014/15 for Nanaimo's facility to accommodate the delivery of 25 new CNG buses. The decrease from budget is due to lower general property maintenance costs in the Regional Transit systems.

Many of BC Transit's facilities are near the end of their useful lives and require increasing repair and modifications to meet the physical requirements of expanding service levels. In addition, a number of facilities are at or operating beyond capacity, which is a driver for maintenance costs and future facilities expansion. Increased growth and expansion of the fleet will put additional pressure on existing facilities.

Strategic planning initiatives are underway with a number of local partners in order to respond to capacity issues and draft a Facilities Master Plan. These plans identify bus parking, maintenance and storage growth projections, provide options for maximizing the capacity and efficiency of existing facilities and identify recommendations for the construction of future infrastructure requirements.

Replacement or expansion of an operations and maintenance facility is often a challenge for local government partners who are balancing competing asset investment requirements. As consultation with local government partners occurs and affordability permits, the capital plan will be updated to reflect individual construction projects identified within the Master Plans. Should additional funding opportunities become available, these will be utilized in order to expedite the facility replacement and expansion process.

Administration Expense

Total administrative expenses for the year ending March 31, 2016 were \$26.0 million, an increase of \$1.4 million over fiscal 2014/15 and \$0.5 million lower than budget. The increase over fiscal 2014/15 can be attributed to both contracted and internal labour costs, Enterprise Resource Planning project costs, offset by lower marketing and consulting expenditures. Costs were lower than budget due to reduced labour costs from structural organizational changes, vacancies, lower consulting and travel expenses, offset with higher than budget IT expenses due to an IT outage in December 2015.

Administrative costs include supporting shared services for all transit systems. BC Transit provides a wide range of management services that benefit all of transit systems throughout the province. The shared services model:

- Pools expertise and capacity in areas such as planning, financial management and reporting;
- Provides an opportunity to lower costs through bulk purchases of supplies and assets, such as fuel, inventory and buses;
- Provides efficiencies in contract management for third party contract management companies; and
- Manages the distribution of provincial and local government funding.

Administrative costs face on-going pressures, many of which include increasing requirements for technology support and services. Other cost drivers are regulatory, including compliance with increasing environmental, procurement, accounting and legal standards. Regardless of these cost pressures, BC Transit's cost efficiency benchmarks are well below national averages, primarily due to the shared services business model.

BC Transit will continue to leverage the strength of the shared services model and achieve greater operational, capital and financial efficiencies as it continues to experience significant demand for both public transit and shared services expertise.

Debt Service

Debt service (interest and amortization) for the year ending March 31, 2016 was \$64.3 million, an increase of \$7.5 million over fiscal 2014/15 and \$1.5 million higher than budget. The increase over fiscal 2014/15 and budget can be attributed to completion of numerous capital projects, earlier than expected, resulting in an increase in amortization expense of \$3.4 million. This was partially offset by \$1.9 million of lower than expected interest costs as a result of a management strategy to utilize the company's cash position to fund tangible capital asset additions and defer the immediate need for fiscal agency loans.

Non-Operating Items

Other expenses and recoveries for the year ending March 31, 2016 resulted in a recovery of \$0.5 million, an increase in net recovery of \$0.6 million over fiscal 2014/15. Minor losses, impairments and recoveries were incurred during fiscal 2015/16.

On May 14, 2015, *Bill 2 – 2015 BC Transportation Financing Authority Transit Assets and Liabilities Act* (the “Act”) was granted Royal Assent. The Bill called for all of BC Transit's tangible capital assets under lease in the Greater Vancouver Regional District to be transferred to BC Transportation Financing Authority (BCTFA). Effective May 21, 2015 this transfer was completed.

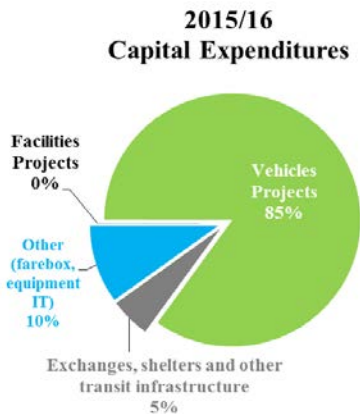
The difference between the related assets and liabilities transferred under the Act was \$65.9 million which represents the carrying value of the land. Public sector accounting standards require that, when restructuring transactions occur, the difference between the related assets and liabilities be treated as a gain or a loss. Accordingly, the difference of \$65.9M was recognized as a non-routine loss in fiscal 2015/16. The loss is non-recurring and has no impact to the financial assets or ongoing operations of BC Transit.

Capital Expenditures

The capital program and its related financing is a major Consolidated Statement of Financial Position driver. The Province provides deferred capital contributions based on cost sharing percentages identified in contribution agreements and the local government's share is funded through debt obtained by BC Transit. The Minister of Finance, as BC Transit's fiscal agent, arranges financing at BC Transit's request. Debt service costs are recovered from local government partners through annual lease fees.

The 2015/16 capital program focused primarily on the acquisition of buses, including replacement buses and the delivery of 20 heavy duty expansion buses. Significant expenditures were also incurred on the continued refurbishment of existing vehicles and the replacement of key components, including transmissions, engines and differentials. Major construction was completed on the Kelowna RapidBus project and the Kamloops CNG fueling facility and implementation began on major system upgrades, including the replacement of BC Transit's Enterprise Resource Planning (ERP) system.

The following illustrates the categories of capital project expenditures in fiscal 2015/16 (in thousands of dollars):



	(\$)
Facilities Projects	18
Vehicles Projects	42,027
Exchanges, shelters and other transit infrastructure	2,521
Other (farebox, equipment IT)	4,940
Total Capital Expenditures (excluding Vancouver Assets)	49,506

Consolidated Statement of Financial Position

Changes in the Consolidated Statement of Financial Position for the year ending March 31, 2016 are listed below:

AS OF MARCH 31, \$ (000)'s	2015/16	2014/15	Variance Year over Year		Explanation of Change
	(\$)	(\$)	(\$)	(%)	
FINANCIAL ASSETS					
Cash and cash equivalents	47,481	38,056	(9,425)	(19.9)	See Consolidated Statement of Cash Flows
Assets available for sale	-	1,000	1,000	100.0	Sale of Hydrogen Fuel cell buses
Accounts receivable:					
Provincial and federal capital grants	1,289	2,735	1,446	112.2	Fewer capital projects in progress at year-end
Local government	15,081	13,622	(1,459)	(9.7)	Increase relates to timing of payments
Trade and other	5,324	5,627	303	5.7	Consistent with comparative year
Debt sinking funds	90,993	101,289	10,296	11.3	Decrease relates to redemptions less sinking fund installments made
	160,168	162,329	2,161	1.3	
LIABILITIES					
Accounts payable and accrued liabilities	28,582	40,722	12,140	42.5	Decrease relates to large accruals for capital projects in progress at March 31, 2015
Provincial funding payable	2,177	1,503	(674)	(31.0)	Consistent with comparative year
Deferred revenue and contributions	35,096	14,555	(20,541)	(58.5)	Increase relates to the newly created reserve for deferred service funding contributions
Deferred capital contributions	202,858	802,089	599,231	295.4	Decrease is a result of the transfer of Vancouver Assets to BCTFA
Debt	186,346	211,903	25,557	13.7	Decrease relates to 2015/16 debt repayments
Employee future benefits	18,254	16,646	(1,608)	(8.8)	Increase in current benefit cost and event-driven expenses
	473,313	1,087,418	614,105	129.7	
NET DEBT	(313,145)	(925,089)	(611,944)	195.4	
NON FINANCIAL ASSETS					
Tangible capital assets	314,157	319,661	5,504	1.8	Capital additions were offset by amortization expense resulting in a decrease in the overall balance
Tangible capital assets under lease	-	676,584	676,584	-	Decrease is a result of the transfer of Vancouver Assets to BCTFA
Inventories	8,739	9,353	614	7.0	Consistent with comparative year
Prepaid expenses	3,302	1,509	(1,793)	(54.3)	Increase relates to a parts credit and other prepaid expenses
Prepaid lease payments	5,223	3,641	(1,582)	(30.3)	Increase relates to a new prepaid lease for Kelowna rapid transit
	331,421	1,010,748	679,327	205.0	
ACCUMULATED SURPLUS					
Accumulated operating surplus	7,852	73,337	65,485	834.0	Decrease is a result of the transfer of Vancouver Assets to BCTFA
Accumulated remeasurement gains	10,424	12,322	1,898	18.2	Decrease relates to unrealized mark-to-market loss on sinking funds and cash and cash equivalents
	18,276	85,659	67,383	368.7	

*Fiscal 2014/15 has been restated.

Liquidity and Capital Resources

Cash Flows and Liquidity

Throughout the year ending March 31, 2016, BC Transit utilized its cash position to fund a portion of the tangible capital asset additions. This management strategy deferred the requirement for fiscal agency loans; therefore, reducing interest on debt in fiscal 2015/16.

The net change in cash and cash equivalents in the year was an increase of 9.4 million (2015 – decrease of \$2.6 million). Net cash outflow for tangible capital assets was \$6 million (2015 – \$26 million) being the difference between cash used to acquire tangible capital assets and the deferred capital contributions received. The decrease relates to timing of receipt of capital contributions. No fiscal agency loans were drawn in the year as a result of the above noted management strategy to reduce interest on debt. The net change in cash from operations significantly increased in fiscal 2015/16 by \$34.4 million (2015 – \$42.7 million) as a result of changes in non-cash working capital activities, including establishment of the municipal operating reserve for contributions in excess of actual budgeted operating expenditures. A total of \$25.6 million (2015 - \$19.3 million) of debt was repaid in the year.

BC Transit has adequate financial resources for 2016/17 between working capital, operating and capital grants, and forecasted new fiscal agency loans in 2016/17 to proceed with its service plan. Management is expecting to acquire new fiscal agency loans in 2016/17 to fund its capital plan and to replenish its cash position.

Debt

Total debt outstanding as at March 31, 2016 is \$186.3 million (March 31, 2015 - \$211.9 million). Under the *British Columbia Transit Act*, BC Transit is subject to a \$500 million borrowing limit. The Minister of Finance, as BC Transit's fiscal agent, arranges financing at BC Transit's request. Debt has a weighted average interest rate of 4.96 per cent, maturing at various dates to 2040 and amortized from five to thirty years.

Investments in sinking funds, including interest earned, will be used to repay the related debt at maturity. Sinking fund balances at March 31, 2016 were \$91.0 million (March 31, 2015 - \$101.3 million).

Working Capital Changes

The net increase in working capital for the year ending March 31, 2016 was \$9.3 million (2015 - \$18.5 million). The significant changes in working capital for the year ending March 31, 2016 can be attributed to an increase in deferred revenue and contributions of \$19.0 million offset by a decrease in accounts payable and accrued liabilities of \$12.1 million. The increase in deferred revenue and contributions is attributable to the newly established municipal operating reserve described previously. Accounts payable and accrued liabilities decreased due to amounts owing at March 31, 2015 related to the purchase of new buses and to the Kelowna Rapid Transit project.

Accumulated Surplus

Accumulated surplus as at March 31, 2016 was \$18.3 million, a decrease of \$67.4 million over fiscal 2015/16. The decrease in the accumulated surplus primarily relates to the transfer of all of BC Transit's tangible capital assets under lease in the Greater Vancouver Regional District to be transferred to BCTFA (\$65.9 million). The remaining decrease relates to \$1.8 million of unrealized mark-to-market losses on debt sinking funds due to changes in market interest rates. The overall portfolio of debt sinking funds remains in an accumulated gain position of \$10.4 million. The British Columbia Investment Management Corporation (bcIMC) provides BC Transit with investment management services, which consist of mandatory sinking funds administered by the debt management branch (DMB), as well as investments of BC Transit's cash equivalents. For Sinking Fund investments, the installments are invested in financial assets which enable the Sinking Fund investments to have a duration which is similar to the underlying debt. Due to the longer term nature of the Sinking Fund investments they are exposed to unrealized fair value movements caused by market conditions. As the Sinking Fund investments are held to maturity any unrealized gain or loss over the term of the debt will be reversed by the maturity date.

bcIMC manages pooled funds that are eligible investments for BC Transit's cash equivalents and debt sinking funds, and that meet BC Transit's investment objectives and risk management standards.