

**BC Transit**

**2017/18**

**ANNUAL SERVICE PLAN REPORT**

July 2018



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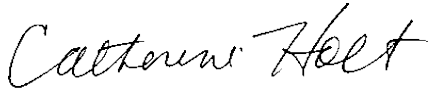
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## **Board Chair's Accountability Statement**

The *BC Transit 2017/18 Annual Service Plan Report* compares the corporation's actual results to the expected results identified in the *BC Transit 2017/18 – 2019/20 Service Plan* established in September 2017. I am accountable for those results as reported.



Catherine Holt  
Board Chair (Appointed December 2017)

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## Chair/CEO Report Letter

In 2017/18, BC Transit aligned its performance with the government's policy objectives as defined in its Mandate Letter issued in August 2017. BC Transit coordinated the provision of transit services in support of government's commitments to make life more affordable, to deliver the services that people count on and to build a strong, sustainable, innovative economy that works for everyone. In keeping with government's commitment to adopt and implement the United Nations Declaration on the Rights of Indigenous Peoples and the calls to action of the Truth and Reconciliation Commission of Canada, BC Transit supported the Ministry's efforts to respectfully consult and collaborate with Indigenous peoples in British Columbia to develop and deliver transportation projects, policies and services. In alignment with government's public policy objectives, BC Transit made transit improvements across the province, including improvements to handyDART service.

BC Transit's strategic and proactive engagement with the Ministry during 2017/18 included discussions between the President/Chief Executive Officer and the Deputy Minister as well as regular consultations at the staff level throughout the year, beginning with the development of the *BC Transit 2017/18 – 2019/20 Service Plan*. This engagement enabled BC Transit to work more effectively with the Ministry while increasing the Ministry's ability to hold BC Transit accountable for the outcomes and measures identified.

BC Transit provided orientation and training in 2017/18 for its Board members. New Board member orientation was provided to Board Chair Catherine Holt and Board Director Wendal Milne in January 2018. Additionally, Board Director Susan Brice participated in a cybersecurity oversight training session provided by the Institute of Corporate Directors (ICD) in February 2018. Board Director Kelly Cairns also participated in the ICD cybersecurity oversight training in March 2018.

Noting our respective appointments as Board Chair in December 2017, and as Interim President and Chief Executive Officer in April 2018, we are accountable for BC Transit's performance with respect to those expectations established in BC Transit's 2017/18 Mandate Letter, and have exercised due diligence in understanding the current state of the Corporation and its overall performance over the reporting period.



Catherine Holt  
Board Chair



Erinn Pinkerton  
Interim President and Chief Executive Officer

## Purpose of the Organization

BC Transit is the provincial Crown agency charged with coordinating the delivery of public transportation across British Columbia with the exception of those areas serviced by TransLink (Metro Vancouver). More than 1.8 million British Columbians in over 130 communities across the province have access to BC Transit local and regional transit services.

BC Transit operates under the [British Columbia Transit Act](#), which provides it with a [mandate](#) to plan, implement, maintain and operate public transportation systems which support growth, community planning, and economic development. BC Transit's operations reflect the priorities and values of the government and its shareholders—the citizens of B.C.

BC Transit's shared services model helps to ensure the most efficient and effective delivery of transit services across all transit systems. In most Regional Transit Systems, service is provided through a partnership between BC Transit, local government, and a contracted transit management company. Under this partnership model, BC Transit provides a variety of shared services available for all transit systems such as asset management and construction, procurement, marking, planning and scheduling, and safety and training expertise.

BC Transit's activities include planning, financial management, marketing, asset management, supply chain management, the provision of safety and human resources expertise, and contracting for the operation of transit services. BC Transit also operates the conventional service in the Victoria Regional Transit System. The funding of transit service is provided by customer fares, advertising revenues, regional motor fuel tax (in the Victoria system) and through a partnership of local government and the Province through BC Transit. Information about BC Transit's Corporate Governance is provided in Appendix A.

## Strategic Direction and Operating Environment

BC Transit's strategic direction, as defined in its [Mandate Letter](#) issued in August 2017, is to coordinate the provision of transit services in support of government's priorities, providing effective transit services to the people of British Columbia. In alignment with provincial goals and objectives, BC Transit made transit improvements across the province, including improving handyDART service.

The provincial operating investment in BC Transit, which saw an increase over the 2017/18 reporting period, remains the highest per capita in Canada and enabled accelerated growth in transit services in response to increasing demand. BC Transit delivered efficient and effective transit service to over 130 communities across the province. While the operating costs for most transit systems across Canada are primarily funded by local governments, BC Transit systems' costs are shared between the Province and local governments.

BC Transit continued to work with its partners to optimize and grow existing services in 2017/18 to ensure they remained cost-effective while still meeting increasing customer demand. Provincial funding increases supported expanded transit services, in consultation with local government partners, to enhance existing services and to provide coverage to new areas in communities across the province. This included over 70,000 annualized new service hours in 2017/18.

Service expansion improvements were made in 31 transit systems across the province, including new and enhanced transit services along the Highway 16 corridor, to better connect communities in support of the Province's efforts to enable residents of Indigenous communities and municipalities to travel safely along the corridor.

Over the reporting period, BC Transit began delivery of the Public Transit Infrastructure Fund projects announced in 2016 by the Province and the Government of Canada including new and expanded transit facilities and procurement of new buses. Also, a new Smart Bus program was launched which will provide accurate, timely and reliable service data to better serve partner communities and allow customers to access real time information on the location of their bus and its predicted arrival time at a stop.

BC Transit continued its fleet replacement program to reduce the increasing maintenance costs of an aging fleet while reducing emissions by implementing more fuel-efficient technology. This included building on the successful deployment of Compressed Natural Gas (CNG) buses in Nanaimo, Kamloops and Whistler to identify opportunities to deploy CNG buses in communities throughout the province. BC Transit also continued to develop information management and technology solutions to support effective management and open government initiatives, including the implementation of a new Enterprise Resource Planning system to improve the integration and use of business information across the organization.

## **Report on Performance**

BC Transit's service delivery in 2017/18 was conducted in accordance with the specific accountabilities prescribed in BC Transit's 2017/18 Mandate Letter issued in August 2017. Performance measures for 2017/18 include measures of transit system performance that reflect the overall health of transit in communities across the province, and corporate performance measures which reflect the overall success of BC Transit in providing transit services. Performance of BC Transit's systems consistently benchmark well against comparable Canadian transit systems.

### ***Goals, Strategies, Measures and Targets***

This performance report highlights BC Transit's results achieved for the fiscal year ending March 31, 2018. The four goals and their corresponding objectives, strategies and performance measures presented in this section are unchanged from the *BC Transit 2017/18 – 2019/20 Service Plan* established in September 2017. The performance measure targets for 2018/19 and 2019/20 have been updated to reflect the corresponding targets identified in the *BC Transit 2018/19 – 2020/21 Service Plan*. See Appendix A for a listing of the performance measure definitions and calculation methodologies for these measures.

### **Goal 1: Increased Ridership**

In support of the Province's commitment to increase transit ridership, BC Transit will increase ridership by developing, delivering and continuously improving transit services, which enhance value

for its customers. BC Transit will improve perceptions of public transit by connecting with customers, community groups and stakeholders to build awareness of BC Transit services.

### Objective 1.1: Service Effectiveness (Transit System)

BC Transit will increase transit ridership by optimizing the service effectiveness of provincial transit systems.

#### Strategies

BC Transit will optimize transit service effectiveness by developing, delivering and continuously improving conventional and custom transit services. Conventional transit serves the general population in more urban settings and offer scheduled bus service that operates on fixed routes. Custom transit services use light duty buses and taxis for dial-a-ride service and door-to-door handyDART service for passengers with disabilities who cannot use conventional transit.

#### Performance Measure 1.1: Service Effectiveness

Performance Measure(s)		2015/16 Actuals	2016/17 Actuals	2017/18 Target	2017/18 Actuals	2018/19 Target	2019/20 Target
1.1a	Conventional passenger trips per service hour	27.5	27.8	27.3	28.4	27.6	27.7
1.1b	Custom passenger trips per service hour (excluding taxi)	4.1	4.0	4.0	3.9	3.9	3.9

**Data Source:** BC Transit internal tracking data.

#### Discussion

Passenger trips per service hour is a measure of the effectiveness of, and the demand for, transit services as provided. Conventional passenger trips per service hour exceeded the target identified in the *BC Transit 2017/18 – 2019/20 Service Plan* while custom passenger trips per service hour declined from 2016/17 and was slightly below the Service Plan target.

The 2017/18 conventional result reflects that the development, delivery and improvement of transit services has been effective in increasing ridership within conventional transit systems. The 2017/18 custom result was likely the result of the continued introduction of the custom registration program<sup>1</sup>, which has successfully transitioned many former custom transit users to accessible conventional services. In addition, new expansion hours in some systems were used to improve evening and weekend services which tend to yield lower ridership results.

### Objective 1.2: Planning and Integration (Corporate)

<sup>1</sup> The custom registration process provides individual assessments to better match customers to the most appropriate transit service to meet their needs.



BC Transit will increase transit ridership by ensuring transit system plans are integrated with community plans and deliver services in the most efficient and effective manner.

## Strategies

BC Transit will conduct transit system reviews regularly to ensure services respond to community needs, promote ridership growth and continue to be affordable.

### Performance Measure 1.2: Planning and Integration

Performance Measure(s)		2015/16 Actuals	2016/17 Actuals	2017/18 Target	2017/18 Actuals	2018/19 Target	2019/20 Target
1.2	Communities with service optimization review completed in past five years	95%	93%	85%	88%	85%	85%

**Data Source:** BC Transit internal tracking data.

## Discussion

The percentage of communities with a service optimization review completed in the past five years, a measure of BC Transit's effort to provide transit systems across the province with timely reviews and recommendations to increase transit system efficiency and effectiveness, exceeded the target identified in the *BC Transit 2017/18 – 2019/20 Service Plan*. This measure demonstrates BC Transit's continued efforts to work with local government partners to ensure that reviews are completed in an efficient manner and take into account local transit needs and priorities. The 2017/18 result was achieved while balancing corporate planning resources dedicated to support optimization reviews of existing transit service with planning support for transit service expansions implemented during the reporting period.

### Objective 1.3: Service Delivery (Transit System)

BC Transit will increase transit ridership by maintaining service delivery of provincial transit systems.

## Strategies

BC Transit will maintain service delivery by improving perceptions of public transit.

### Performance Measure 1.3: Service Delivery

Performance Measure(s)		2015/16 Actuals	2016/17 Actuals	2017/18 Target	2017/18 Actuals	2018/19 Target	2019/20 Target
1.3	Customer satisfaction	3.72	3.50	3.65	3.50	3.69	3.72

**Data Source:** Annual customer survey, conducted by a third party research firm.

## Discussion

While customer satisfaction, a measure of the effectiveness of BC Transit in meeting customer expectations for service delivery, was targeted to improve, the 2017/18 survey result remained stable from 2016/17. Customer satisfaction is determined by the average rating of customer tracking survey respondents when asked to rate their overall transit experience from one ("very poor") to five ("excellent"). While results are consistent with last year, it is expected that this should improve in the upcoming year with continued service expansions and customer-focused Smart Bus planning tools.

### Objective 1.4: Information Effectiveness (Corporate)

BC Transit will increase transit ridership by enhancing online information effectiveness.

### Strategies

BC Transit will enhance online information effectiveness by connecting with customers, community groups and stakeholders to build awareness of BC Transit services.

### Performance Measure 1.4: Information Effectiveness

Performance Measure(s)		2015/16 Actuals	2016/17 Actuals	2017/18 Target	2017/18 Actuals	2018/19 Target	2019/20 Target
1.4	Online communication strategy effectiveness	3.83	3.70	3.85	3.70	3.87	3.91

**Data Source:** Annual customer survey, conducted by a third party research firm.

## Discussion

While online communication strategy effectiveness, a measure of customers' perception of BC Transit's online information resources, was targeted to improve, the 2017/18 survey result remained stable from 2016/17. Online communication strategy effectiveness is the average rating of customer tracking survey respondents rating the quality of the online information, ranging from one ("very poor") to five ("excellent"). While results are consistent with last year, it is expected that this will improve in the upcoming year with the introduction of customer-focused Smart Bus planning tools.

### Objective 1.5: Brand Awareness (Corporate)

BC Transit will increase transit ridership by building awareness of BC Transit's brand.

### Strategies

BC Transit will build awareness of BC Transit's brand by highlighting BC Transit's leadership role in providing transit services in local communities across the province.

## Performance Measure 1.5: Brand Awareness

Performance Measure(s)		2015/16 Actuals	2016/17 Actuals	2017/18 Target	2017/18 Actuals	2018/19 Target	2019/20 Target
1.5	Brand recognition	29%	53%	29%	56%	54%	55%

**Data Source:** Annual customer survey, conducted by a third party research firm.

### Discussion

Brand recognition, a measure of customers' awareness of BC Transit's role in the delivery of transit service in their local community, continued to improve from 2016/17 and exceeded the target identified in the *BC Transit 2017/18 – 2019/20 Service Plan*. The 2017/18 result suggests that corporate marketing and communication programs, which highlight BC Transit's leadership role in providing transit services, continue to improve customer awareness.

## Goal 2: Financial Management

BC Transit will practice sound financial management, which balances the needs and expectations of customers with the affordable provision of transit service. BC Transit will contain costs and maximize efficiencies while expanding the contribution of sustainable sources of revenue.

### Objective 2.1: Increase Revenue (Corporate)

BC Transit will practice sound corporate financial management by increasing corporate revenue.

### Strategies

BC Transit will increase revenue by expanding the contribution of sustainable sources of revenue.

## Performance Measure 2.1: Revenue

Performance Measure(s)		2015/16 Actuals	2016/17 Actuals	2017/18 Target	2017/18 Actuals	2018/19 Target	2019/20 Target
2.1a	Conventional operating cost recovery	36.1%	37.4%	34.2%	36.9%	33.0%	32.3%
2.1b	Custom operating cost recovery	9.1%	9.1%	8.3%	8.4%	7.8%	7.5%

**Data Source:** BC Transit financial system and audited financial statements.

### Discussion

Conventional and custom operating cost recovery exceeded the targets identified in the *BC Transit 2017/18 – 2019/20 Service Plan*. A strong level of cost recovery reduces the subsidy from local government taxpayers. The 2017/18 results outperformed the expectations identified in the Service

Plan as input costs (e.g., fuel, labour, maintenance and technology costs) were less than expected and passenger revenues exceeded expectations.

## Objective 2.2: Cost Efficiency (Corporate)

BC Transit will practice sound corporate financial management by focusing on corporate cost efficiency.

### Strategies

BC Transit will increase operating cost efficiency by containing costs and maximizing operating efficiencies.

## Performance Measure 2.2: Cost Efficiency

Performance Measure(s)		2015/16 Actuals	2016/17 Actuals	2017/18 Target	2017/18 Actuals	2018/19 Target	2019/20 Target
2.2a	Conventional operating cost per passenger trip	\$3.76	\$3.79	\$4.16	\$3.84	\$4.23	\$4.32
2.2b	Custom operating cost per passenger trip	\$16.36	\$16.77	\$18.13	\$18.34	\$19.47	\$20.27

**Data Source:** BC Transit financial system and audited financial statements.

## Discussion

Operating cost per passenger trip, a measure of the cost efficiency of providing transit service, outperformed the target identified in the *BC Transit 2017/18 – 2019/20 Service Plan*, for conventional transit service while slightly underperforming the Service Plan target for custom transit service. Improvements in conventional operating cost per passenger trip reflect efforts to increase ridership while containing operating costs. The custom operating cost per passenger trip result was mainly the result of improvements in custom service (such as expansions in service areas and in evening and weekend service) which are intended to increase access in areas and at times where lower ridership is expected.

## Goal 3: Operational Excellence

BC Transit will develop, deliver and continuously improve transit services which ensure the safety of its employees and customers. These services will exceed the expectations of its customers while respecting the expectations of taxpayers and community stakeholders. BC Transit will also be accountable for its environmental impact.

## Objective 3.1: Accessibility (Transit System)

BC Transit will deliver operational excellence by expanding conventional and custom services in provincial transit systems.

## Strategies

BC Transit will expand transit service accessibility by developing, delivering and continuously improving transit services that exceed the expectations of our customers.

### Performance Measure 3.1: Accessibility

Performance Measure(s)		2015/16 Actuals	2016/17 Actuals	2017/18 Target	2017/18 Actuals	2018/19 Target	2019/20 Target
3.1a	Conventional service hours per capita	1.43	1.44	1.45	1.44	1.51	1.49
3.1b	Custom service hours per capita	0.25	0.25	0.26	0.26	0.27	0.26

**Data Source:** BC Transit internal tracking data.

## Discussion

Conventional service hours per capita, a measure based on the level of investment and provision of transit service relative to the population within a reasonable distance of transit routes, did not quite meet the target identified in the *BC Transit 2017/18 – 2019/20 Service Plan* while custom service hours per capita met the Service Plan target. Service hours per capita is a measure of accessibility to transit. The 2017/18 conventional result suggests that expansions in conventional service in 2017/18 did not quite keep pace with population growth. The 2017/18 custom result suggests that expansions in custom service were effective in increasing access.

### Objective 3.2: Safety (Corporate)

BC Transit will deliver operational excellence by ensuring passenger and employee safety.

## Strategies

BC Transit will ensure passenger and employee safety by developing, delivering and continuously improving transit services which ensure the safety of our employees and customers.

### Performance Measure 3.2: Passenger and Employee Safety

Performance Measure(s)		2015/16 Actuals	2016/17 Actuals	2017/18 Target	2017/18 Actuals	2018/19 Target	2019/20 Target
3.2a	Passenger injury claims per million passenger trip	1.0	1.0	2.0	1.4	1.9	1.9
3.2b	Workplace injuries per 100 employees	5.2	3.1	5.2	2.9	5.1	5.0

**Data Source:** Passenger injury claims as reported by the Insurance Corporation of British Columbia (ICBC) and workplace injuries per BC Transit internal tracking data.

## Discussion

Passenger injury claims per million passenger trips, a measure of passenger safety performance that reflects passenger injury claims through ICBC, remained lower than the target identified in the *BC Transit 2017/18 – 2019/20 Service Plan*. The passenger injury claims per million passenger trips performance measure is consistent with the industry standard. The 2017/18 result suggests that BC Transit's focused improvements in driver training continued to be successful.

Workplace injuries per one hundred employees, a measure of employee safety using the Total Recordable Injury Rate (TRIR), improved from 2016/17 and remained under the target identified in the *BC Transit 2017/18 – 2019/20 Service Plan*. TRIR is a measure of the rate of recordable workplace injuries, normalized per 100 workers per year. The 2017/18 result suggests that BC Transit's enhanced focus on workplace safety protocols and improved communication of safety initiatives continue to be successful.

### Objective 3.3: Quality of Service (Corporate)

BC Transit will deliver operational excellence by maintaining quality of service.

### Strategies

BC Transit will maintain the quality of transit service by delivering consistent and reliable transit services which exceed the expectations of its customers.

### Performance Measure 3.3: Quality of Service

Performance Measure(s)		2015/16 Actuals	2016/17 Actuals	2017/18 Target	2017/18 Actuals	2018/19 Target	2019/20 Target
3.3	Planned service delivered in conventional transit systems	99.8%	99.9%	99.7%	99.9%	99.7%	99.7%

**Data Source:** BC Transit internal tracking data and reports from BC Transit operating partners.

## Discussion

Planned service delivered in conventional transit systems, a measure of the quality and reliability of transit service, exceeded the target identified in the *BC Transit 2017/18 – 2019/20 Service Plan*. Planned service delivered in conventional transit systems is based upon the percentage of transit vehicle trips that were delivered as scheduled. The 2017/18 result reflects BC Transit's ability to respond to emerging operational challenges while delivering transit services that are expected, and relied upon, by transit customers.

### Objective 3.4: Environmental Impact Accountability (Transit System)

BC Transit will deliver operational excellence by being accountable for the environmental impact of its provincial transit systems.

#### Strategies

BC Transit will be accountable for its environmental impact by monitoring its operational carbon intensity.

### Performance Measure 3.4: Environmental Impact

Performance Measure(s)		2015/16 Actuals	2016/17 Actuals	2017/18 Target	2017/18 Actuals	2018/19 Target	2019/20 Target
3.4	Carbon (GHG) intensity per service hour	28.88	28.85	28.83	28.50	28.82	28.81

**Data Source:** BC Government SMARTTool data and BC Transit internal tracking data.

#### Discussion

Carbon intensity per service hour, a measure of BC Transit's Greenhouse Gas Emissions (GHG), outperformed the target identified in the *BC Transit 2017/18 – 2019/20 Service Plan*. Carbon intensity per service hour is calculated using the Provincial Government's SMARTTool methodology and is measured by calculating the total emissions of BC Transit's fleet, facilities, and paper usage in carbon dioxide equivalent tonnes. The 2017/18 result was primarily achieved through a combination of the right-sizing of BC Transit's fleet to better match vehicle types to transit service needs, the introduction of newer, more fuel-efficient diesel vehicles across the province and the deployment of CNG buses to transit systems in Nanaimo, Kamloops and Whistler.

### Goal 4: Strong People and Partnerships

BC Transit will develop its existing employees and attract new employees while enhancing value for its customers and reflecting the Province's priorities of having labour stability and affordable service delivery throughout British Columbia. BC Transit will cultivate strong relationships with local governments and other community partners and explore new opportunities to enhance value for its customers and improve affordability for B.C. taxpayers.

### Objective 4.1: Employee Engagement (Corporate)

BC Transit will strengthen its people and partnerships by improving employee engagement.

#### Strategies

BC Transit will strengthen employee engagement by developing its existing employees and attracting new employees while enhancing value for our customers.

## Performance Measure 4.1: Employee Engagement

Performance Measure(s)		2015/16 Actuals	2016/17 Actuals	2017/18 Target	2017/18 Actuals	2018/19 Target	2019/20 Target
4.1	Employee engagement <sup>1</sup>	63	N/A	65	67	N/A	68

**Data Source:** Biennial employee survey.

<sup>1</sup>The *BC Transit 2017/18 – 2019/20 Service Plan* identified Employee Engagement results and targets as percentage values but this performance measure is actually a calculated value (which happens to have a maximum value of 100) and not a percentage measure.

### Discussion

Employee engagement, a measure of an employee's involvement with, commitment to, and satisfaction with work, exceeded the target identified in the *BC Transit 2017/18 – 2019/20 Service Plan*. Employee engagement reflects continued efforts to implement BC Transit's Human Resources Action Plan. A link to the Human Resources Action Plan is provided in Appendix A.

## Objective 4.2: Partner Satisfaction (Corporate)

BC Transit will strengthen its people and partnerships by sustaining partner satisfaction.

### Strategies

BC Transit will strengthen partner satisfaction by cultivating strong relationships with local governments and other community partners.

## Performance Measure 4.2: Partner Satisfaction

Performance Measure(s)		2015/16 Actuals	2016/17 Actuals	2017/18 Target	2017/18 Actuals	2018/19 Target	2019/20 Target
4.2	Partner satisfaction	4.06	4.31	4.00	4.31	4.15	4.17

**Data Source:** Annual partner survey, conducted by a third party research organization.

### Discussion

Partner satisfaction, a measure of local government partners' perception of BC Transit's customer service, remained stable from 2016/17 and exceeded the target identified in the *BC Transit 2017/18 – 2019/20 Service Plan*. Partner satisfaction is determined by the average rating of local government partner respondents when asked to rate their customer service received from BC Transit from one ("very poor") to five ("excellent"). The 2017/18 result suggests that BC Transit's efforts to work with its local government partners to implement service expansion and enhancements over the reporting period continued to meet partners' expectations.



## Financial Report

### *Discussion of Results*

The following is management's discussion and analysis of the consolidated financial position and results of operations for BC Transit as of March 31, 2018. This management discussion and analysis should be read in conjunction with BC Transit's audited consolidated financial statements and related notes for the year ended March 31, 2018 included within this 2017/2018 Annual Service Plan Report.

The information provided in the table below is consistent with the presentation in previous years, however a difference exists 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 below is consistent with industry practice and allows for historical and industry benchmarking.

### **Highlights**

Total revenues for the year ending March 31, 2018 were \$307.4 million, an increase of \$14.3 million from fiscal 2016/17 and \$11.9 million lower than budget. The increase in operations revenue from fiscal 2016/17 can be attributed to service expansion and fare increases along with an increase in ticket and prepaid product sales and UPASS enrollment increases. The increase in government transfer revenue is a result of service expansions and increased operating expenses.

Total operating expenses (excluding debt service) for the year ending March 31, 2018 were \$242.6 million, an increase of \$13.0 million over 2016/17. This can be attributed to service expansions, the increased price of fuel, inflationary labour increases and inflation on general operating expenses. Total operating costs (excluding debt service) were \$10.8 million lower than budget. This can be attributed to lower than budgeted fuel prices, lower labour and benefit costs, and the delayed implementation of the Victoria Transit Priority project, the Enterprise Resource Planning project and Sea to Sky highway service. In addition, maintenance savings were realized on the new CNG fleet.

Debt service (interest and amortization) for the year ending March 31, 2018, totaled \$64.9 million, an increase of \$1.3 million from fiscal 2016/17 and \$1.1 million lower than budget. The increase can be attributed to an increase in amortization expense resulting from the \$97.0 million of tangible capital assets placed in service during the year. The debt service was lower than budget due to the timing of completion of capital projects.

Contributions received for the purchase of land for the year ending March 31, 2018 totaled \$5.1 million. This revenue represents provincial funding for properties purchased during the year. The acquired properties will be used to build future transit facilities and meet increased demands for transit services.

## Financial Report

Figures in thousands  
As at March 31, 2018

	2014/15 Actual	2015/16 Actual	2016/17 Actual	2017/18			
				Actual	Budget	Variance Year over Year (Un)Favourable	Variance to Budget
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
<b>Revenue</b>							
Operations	69,182	70,494	74,495	76,970	75,025	2,475	1,945
Government transfers							
Provincial	96,211	103,862	104,903	108,978	110,209	4,075	(1,231)
Local government*	88,315	81,433	80,095	86,863	99,152	6,768	(12,289)
Deferred capital contributions	23,449	30,587	30,150	30,414	31,457	264	(1,043)
Investment and other income	4,030	3,294	3,536	4,206	3,517	670	689
<b>Total Revenues</b>	<b>281,187</b>	<b>289,670</b>	<b>293,179</b>	<b>307,431</b>	<b>319,360</b>	<b>14,252</b>	<b>(11,929)</b>
<b>Expenses</b>							
Operations							
Operations (excl. fuel)	124,105	129,048	133,203	139,734	144,567	(6,531)	4,833
Fuel	27,969	22,353	20,965	22,609	26,033	(1,644)	3,424
Total operations	152,074	151,401	154,168	162,343	170,600	(8,175)	8,257
Maintenance							
Fleet	37,332	38,566	41,859	44,549	45,842	(2,690)	1,293
Facilities	9,776	9,476	8,966	9,135	9,767	(169)	632
Total maintenance	47,108	48,042	50,825	53,684	55,609	(2,859)	1,925
Administration	24,579	25,981	24,655	26,581	27,223	(1,926)	642
Total operating expenses	223,761	225,424	229,648	242,608	253,432	(12,960)	10,824
Debt Service							
Interest	10,478	9,478	9,192	9,106	9,153	86	47
Amortization	46,372	54,835	54,395	55,764	56,822	(1,369)	1,058
Total expenses	56,850	64,313	63,587	64,870	65,975	(1,283)	1,105
<b>Total Expenses</b>	<b>280,611</b>	<b>289,737</b>	<b>293,235</b>	<b>307,478</b>	<b>319,407</b>	<b>(14,243)</b>	<b>11,929</b>
<b>Net Income (Loss) from Operations</b>	<b>576</b>	<b>(67)</b>	<b>(56)</b>	<b>(47)</b>	<b>(47)</b>	<b>9</b>	<b>-</b>
<b>Non-Operating Items:</b>							
Vancouver assets							
Amortization expense	(15,187)	(2,494)	-	-	-	-	-
Deferred capital contributions	14,757	2,494	-	-	-	-	-
Disposal and impairment of capital assets							
Impairment of capital assets	(4,600)	-	-	-	-	-	-
Loss on disposal of capital assets	(716)	(177)	(1,592)	(117)	(13)	1,475	(104)
Deferred capital contributions	2,881	-	-	-	-	-	-
Provincial government transfers	1,985	-	88	5,067	5,810	4,979	(743)
Other capital recoveries	450	405	1,645	212	10	(1,433)	202
Other income/(expense)	39	102	(28)	13	-	41	13
Gain (loss) on investments	285	127	10	1	-	(9)	1
<b>Total Non-Operating Items</b>	<b>(106)</b>	<b>457</b>	<b>123</b>	<b>5,176</b>	<b>5,807</b>	<b>5,053</b>	<b>(631)</b>
<b>Annual surplus (deficit)</b>	<b>470</b>	<b>390</b>	<b>67</b>	<b>5,129</b>	<b>5,760</b>	<b>5,062</b>	<b>(631)</b>
<b>Non-routine transfer:</b>							
Loss on transfer of Vancouver assets	-	(675,120)	-	-	-	-	-
Recognition of deferred capital contributions	-	609,245	-	-	-	-	-
Non-routine loss on transfer of Vancouver assets	-	(65,875)	-	-	-	-	-
<b>Annual surplus (deficit) after non-routine loss</b>	<b>470</b>	<b>(65,485)</b>	<b>67</b>	<b>5,129</b>	<b>5,760</b>	<b>5,062</b>	<b>(631)</b>
Capital expenditures	83,212	49,506	40,674	114,865	151,915	(74,191)	37,050
Total Liabilities	1,087,418	473,313	477,022	533,585	574,910	(56,563)	41,325
Accumulated Surplus	85,659	18,276	16,246	19,085	21,679	2,839	(2,594)

\* Includes Provincial Health Authority and fuel tax funding

**Note 1:** The above financial information was prepared based on current Generally Accepted Accounting Principles.

## Variance and Trend Analysis

### 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 table below:

<b>SUMMARY</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>
<i>Figures in thousands</i>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>
Service hours (000s)	2,248	2,281	2,297	2,334
% increase		1.5%	0.7%	1.6%
Passenger trips (000s)	51,078	51,716	52,338	54,114
% increase		1.2%	1.2%	3.4%

Passenger trip growth across the province was double service hour growth with an overall year-over-year increase of 3.4 per cent. The Victoria Regional Transit System (VRTS) conventional passenger trips increased year-over-year by 2.0 per cent and Regional Transit Systems' (RTS) conventional passenger trips increased year over year by 5.1 per cent. Total custom/paratransit system passenger trips increased year over year by 0.4 per cent.

Total service hours delivered increased year-over-year by 37,000 hours<sup>2</sup> or 1.6 per cent (reflecting over 70,000 annualized full year service hours phased in over the 2017/18 fiscal year). The increase in service hours is due to service expansions in 31 transit systems and the annualized full year effect of 2016/17 handyDART service expansion.

### 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, 2018 was \$77.0 million, an increase of \$2.5 million over 2016/17 and \$1.9 million higher than budget. The increase from budget can be attributed to the higher than budgeted ticket and prepaid product sales and an increase in UPASS enrollment. Fare increases in the Regional Transit Systems also contributed to higher passenger revenue.

<sup>2</sup> Service expansions implemented part way through the fiscal year result in part-year hours, versus "annualized" hours which represent the full number of service hours required for a full twelve months.

### Provincial

The Provincial operating transfer for the year ending March 31, 2018 was \$109.0 million. The increase in Provincial government transfers of \$4.1 million from fiscal 2016/17 is attributable to funding for service expansions and approved labour increases in line with the provincial mandate.

### Local Government

Local government transfers were \$86.9 million, an increase of \$6.8 million from fiscal 2016/17 and \$12.3 million below budget. Local government transfers were lower than budget by \$12.3 million as a result of higher operations revenue by \$1.9 million and lower than budgeted operating expenses of \$10.8 million.

In 2015/16, 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 contributions are held within the operating reserve and treated as deferred revenue. Net additions to the operating reserves for the year ending March 31, 2018 were \$10.2 million. Operating reserves will be expended in future years to offset inflationary increases for current service levels in the respective transit system for which they were contributed.

### Deferred Capital Contributions

The amortization of deferred capital contribution revenues was \$30.4 million for the year ending March 31, 2018, an increase of \$0.3 million over fiscal 2016/17 and \$1.0 million lower than budget. The increase over prior year can be attributed to capitalized assets during the year. Revenues were lower than budget due to timing of project completion.

### Investment and Other Income

Investment and other income for the year ending March 31, 2018 was \$4.2 million, an increase of \$0.7 million over fiscal 2016/17 and \$0.7 million over budget. This balance consists of interest earned on sinking funds, rental income on strategic properties held for long-term transit development being leased in the short-term, and other miscellaneous income. The increase can be attributed to higher earnings on sinking fund investments.

## **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, 2018 were \$242.6 million, an increase of \$13.0 million over 2016/17 and \$10.8 million lower than budget.

The total operating expense increase over fiscal 2016/17 can be attributed to service expansions of 37,000 service hours, higher fuel costs, inflationary increases in wages and benefits, higher insurance costs, higher software costs, costs related to the Enterprise Resource Planning project and the Victoria Transit Priority Project.

The total operating expenses were lower than budget due to fuel price less than forecast, delayed implementation of the Victoria Transit Priority project and Sea to Sky Highway service, savings for

new CNG fleet, lower labour and benefit costs, and delayed implementation of the Enterprise Resource Planning project.

## Operations Expense

<i>Figures in thousands</i>	2016/17 Actual	2017/18 Actual	2017/18 Budget	Variance Year over Year		Variance to Budget	
	(\$)	(\$)	(\$)	(\$)	(%)	(\$)	(%)
Operations							
Operations ( <i>excl fuel</i> )	133,203	139,734	144,567	(6,531)	(4.9)	4,833	3.3
Fuel	20,965	22,609	26,033	(1,644)	(7.8)	3,424	13.2
<b>Total Operations</b>	<b>154,168</b>	<b>162,343</b>	<b>170,600</b>	<b>(8,175)</b>	<b>(5.3)</b>	<b>8,257</b>	<b>4.8</b>

### Operations Expense (excluding fuel)

Operations expenses (excluding fuel) consist of the costs required to operate and manage transit systems including operator wages and benefits, third party contracted operations and other operational costs. Operations expenses (excluding fuel) for the year ending March 31, 2018 were \$139.7 million, \$6.5 million over fiscal 2016/17 and \$4.8 million lower than budget. Operations expenses increased over fiscal 2016/17 due to higher service hours, labour increases in line with PSEC guidelines and collective agreements, reduced vacancies, higher insurance costs and costs related to the Victoria Transit Priority project. Expenses were lower than budget due to lower labour and benefit costs, lower employee benefit costs, and delayed timing of the CREST radio system upgrade, Enterprise Resource Planning project, and Transit Priority Project in Victoria.

### Fuel Expense

Fuel expense for the year ending March 31, 2018 was \$22.6 million, an increase of \$1.6 million over fiscal 2016/17 and \$3.4 million lower than budget. The increase from fiscal 2016/17 is attributable to higher market rates for diesel fuel. This is partially offset by the addition of 25 compressed natural gas buses in Whistler. For 2017/18, the average diesel fuel price was \$1.02 per litre, compared to a budget of \$1.16 per litre and \$0.94 per litre in fiscal 2016/17.

Fuel	2016/17 Actual	2017/18 Actual	2017/18 Budget	Variance Year over Year		Variance to Budget	
					(%)		(%)
Diesel volume (000s litres)	21,617	21,342	21,569	275	1.3	227	1.1
Diesel price per litre (\$)	0.94	1.02	1.16	(0.08)	(8.3)	0.14	12.0
<b>Total Diesel cost (\$000s)</b>	<b>20,367</b>	<b>21,785</b>	<b>25,008</b>	<b>(1,418)</b>	<b>(7.0)</b>	<b>3,222</b>	<b>12.9</b>
CNG volume (000s DLE*)	2,273	3,527	3,557	(1,254)	(55.2)	30	0.8
CNG price per litre (\$)	0.26	0.23	0.29	0.03	11.2	0.05	18.9
<b>Total CNG cost (\$000s)</b>	<b>598</b>	<b>824</b>	<b>1,025</b>	<b>(226)</b>	<b>(37.8)</b>	<b>201</b>	<b>19.6</b>
<b>Total Fuel Cost (\$000s)</b>	<b>20,965</b>	<b>22,609</b>	<b>26,033</b>	<b>(1,644)</b>	<b>(7.8)</b>	<b>3,424</b>	<b>13.2</b>
*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 and alternative fueling technologies.

## Maintenance Expense

<i>Figures in thousands</i>	2016/17 Actual	2017/18 Actual	2017/18 Budget	Variance Year over Year		Variance to Budget	
	(\$)	(\$)	(\$)	(\$)	(%)	(\$)	(%)
Maintenance							
Fleet	41,859	44,549	45,842	(2,690)	(6.4)	1,293	2.8
Facilities	8,966	9,135	9,767	(169)	(1.9)	632	6.5
<b>Total Maintenance</b>	<b>50,825</b>	<b>53,684</b>	<b>55,609</b>	<b>(2,859)</b>	<b>(5.6)</b>	<b>1,925</b>	<b>3.5</b>

### Fleet Maintenance

Fleet maintenance expenses for the year ending March 31, 2018 were \$44.5 million, an increase of \$2.7 million over fiscal 2016/17 and \$1.3 million lower than budget. The increase over fiscal 2016/17 is attributed primarily to increased service hours, wages and benefits, and increased complexity of the fleet. The favourable variance from budget is primarily attributable to savings on the CNG fleet in Nanaimo, Kamloops and Whistler, labour shortages in Fort St. John, Whistler and Terrace, lower labour costs due to vacancies, and timing of maintenance activities.

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 refits. 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, 2018, BC Transit had 1,048 buses in service (not including contingency vehicles). The fleet is comprised of 69 high capacity buses, 486 heavy duty buses, 149 medium duty buses and 344 light duty buses.

	2017/18		
	Total	Victoria Region	Other Regions
High Capacity	69	62	7
Heavy Duty	486	181	305
Medium Duty	149	25	124
Light Duty	344	78	266
<b>Total</b>	<b>1048</b>	<b>346</b>	<b>702</b>

At the time of this report:

- High capacity buses have an amortized life of 20 years;
- Heavy duty buses have an amortized life of 13 to 20 years;
- Medium duty buses have an amortized life of 10 or 17 years; and,
- Light duty buses have 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 the industry standard.

The fleet replacement plan indicates that 48 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 lives. However, 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, labour constraints and funding requirements. Future fleet maintenance will be conducted under the LRMP to ensure the most efficient and effective use of assets. 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, 2018 were \$9.1 million, an increase of \$0.2 million over fiscal 2016/17 and \$0.6 million lower than budget. The increase from fiscal 2016/17 can be primarily attributed to CNG facility expenses in Nanaimo, Kamloops and Whistler. The favourable variance from budget is primarily attributable to vacancies, lower than budgeted expenses for strategic properties, lower CNG facility costs and property taxes.

Many of BC Transit's operations and maintenance facilities are near the end of their useful lives, and require increasing repairs and modifications to meet the physical requirements of current and expanding service levels. In addition, a number of facilities are operating at or beyond their designed capacity and, as such, limit the expansion of services. Growth and expansion of the fleet will continue to put additional pressure on existing facilities.

Strategic planning initiatives are underway with a number of local partners in order to respond to capacity issues identified in the Transit Future Plans and draft a Facilities Master Plan. These plans identify bus parking, maintenance and storage requirements, 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. Additional funding

opportunities were made available during the 2016/17 year through the Public Transit Infrastructure Fund ("PTIF"). Five new operations and maintenance facilities were identified for funding and the planning, consultation and development of new operating and maintenance facilities is underway in each respective community. These new facilities will also consider infrastructure to support future CNG bus deployment wherever feasible.

**Administration Expense**

<i>Figures in thousands</i>	<b>2016/17</b>	<b>2017/18</b>	<b>2017/18</b>	<b>Variance</b>		<b>Variance</b>	
	<b>Actual</b>	<b>Actual</b>	<b>Budget</b>	<b>Year over Year</b>		<b>to Budget</b>	
	(\$)	(\$)	(\$)	(\$)	(%)	(\$)	(%)
<b>Administration</b>	24,655	26,581	27,223	(1,926)	(7.8)	642	2.4

Total administrative expenses for the year ending March 31, 2018 were \$26.6 million, an increase of \$1.9 million over fiscal 2016/17 and \$0.6 million lower than budget. The increase from fiscal 2016/17 can be attributed to inflationary salary increases, filled vacancies, marketing expenses related to service expansion implementation, higher software costs and expenses related to the Enterprise Resource Planning project.

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. BC Transit's cost efficiency benchmarks continue to rank better than 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

<i>Figures in thousands</i>	2016/17	2017/18	2017/18	Variance		Variance	
	Actual	Actual	Budget	Year over Year		to Budget	
	(\$)	(\$)	(\$)	(\$)	(%)	(\$)	(%)
Debt Service							
Interest	9,192	9,106	9,153	86	0.9	47	0.5
Amortization	54,395	55,764	56,822	(1,369)	(2.5)	1,058	1.9
<b>Total Debt Service</b>	63,587	64,870	65,975	(1,283)	(2.0)	1,105	1.7

Debt service (interest and amortization) for the year ending March 31, 2018 was \$64.9 million, an increase of \$1.3 million from fiscal 2016/17 and \$1.1 million lower than budget. Interest expense was consistent with budget expectations. The decrease from prior year is the result of \$6.4M of debt repaid in the 2016/17 fiscal year.

Amortization expense was lower than budget due to projects being completed later than planned. Budgeted capital expenditures were \$151.9M and actual capital expenditures were \$114.9M. Amortization expense has increased from fiscal 2016/17 as a result of the \$97.0 million of tangible capital assets placed into service during the year.

## Non-Operating Items

Provincial contributions for the purchase of land were received during the year totaling \$5.1 million. This revenue represents provincial funding for land acquired during the year including properties in Abbotsford, Cowichan Valley and Campbell River. Transit facilities will be constructed on the acquired properties to assist with meeting the increased demand for transit services in those communities.

## Capital Expenditures

The capital program and its related financing is a major driver on the Consolidated Statement of Financial Position. Under traditional funding arrangements, the Province provides deferred capital contributions based on cost sharing percentages identified in contribution agreements and the local government's share is recovered by way of lease fees over the useful life of the related asset. The Minister of Finance, as BC Transit's fiscal agent, arranges financing for capital purchases at BC Transit's request.

In 2016/17, additional funding opportunities were made available through a three-year contribution agreement with the Federal and Provincial Governments ("PTIF funding"). The funding from this agreement will be used toward the acquisition and construction of transit infrastructure, buses and technologies. These assets will enhance the efficiency, convenience, safety and security of BC Transit and allow for future expansion opportunities. Planning, consultation and development of these projects initiated in fiscal 2016/17 and continued in fiscal 2017/18.

2017/18 capital expenditures focused primarily on the acquisition of buses, the ongoing refurbishment of existing buses, including interior and exterior refits, and the planned replacement of key bus components, including transmissions, engines and differentials. The capital program also developed Smart Bus technologies including passenger counting technology, CCTV and NextRide, a technology

to provide customers with access to real time information on the location of their bus and its predicted arrival time at a stop. Capital expenditures were also incurred towards the ongoing upgrade of BC Transit's Enterprise Resource Planning system, and the development of enhanced maintenance facilities in Victoria, and new facilities for Campbell River, the Central Fraser Valley and the Cowichan Valley.

The following illustrates the categories of capital project expenditures in fiscal 2017/18 (in thousands of dollars):

<b>2017/18 Capital Expenditures</b>	
Vehicle Projects	\$ 84,554
Land	10,089
IT, equipment, technology & other	8,401
Buildings	7,904
Exchanges, shelters & other transit infrastructure	3,917
<b>Total Capital Expenditures</b>	<b>\$ 114,865</b>

## Liquidity and Capital Resources

### Cash Flows and Liquidity

The net change in cash and cash equivalents in the year was a decrease of \$30.4 million (2016/17 – decrease of \$7.8 million). Net cash outflow for tangible capital assets was \$43.9 million (2016/17 – \$15.1 million) being the difference between cash used to acquire tangible capital assets and the deferred capital contributions received. There was a significant increase in the volume of capital acquisitions during the year as a result of the PTIF funding program mentioned previously.

Throughout the year ending March 31, 2018, BC Transit utilized its cash position to fund the net cash outflow for tangible capital asset additions. This deferred the requirement for fiscal agency loans.

BC Transit has adequate financial resources for 2018/19 between working capital, operating and capital grants, and forecasted new fiscal agency loans in 2018/19 to proceed with its service plan. Management is expecting to acquire new fiscal agency loans in 2018/19 to fund the capital plan and to replenish the cash position.

### Debt

Total debt outstanding as at March 31, 2018 is \$180.0 million (March 31, 2018 - \$180.0 million). Under the *British Columbia Transit Act*, BC Transit is subject to a \$500.0 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 5.06 per cent, maturing at various dates to 2040 and amortized from nine to thirty years.

### Debt Sinking Funds

Investments in sinking funds, including interest earned, will be used to repay the related debt at maturity. Sinking fund balances at March 31, 2018 were \$101.8 million (March 31, 2017 - \$94.0 million). The increase in debt sinking funds relates to sinking fund installments of \$6.8 million paid into the fund along with interest income earned of \$3.3M. These increases were partially offset by

mark-to-market losses of \$2.3 million during the period. The overall portfolio of debt sinking funds remains in an accumulated gain position of \$6.0 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). These installments are invested in financial assets which have a duration 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, it is anticipated that any unrealized gain or loss over the term of the debt will be substantially reversed by the maturity date.

### Working Capital Changes

The net decrease in working capital for the year ending March 31, 2018 was \$7.4 million (2016/17 – decrease of \$6.0 million). The significant changes in working capital for the year ending March 31, 2018 can be attributed to an increase in accounts receivable of \$23.7 million, a net decrease to accounts payable and provincial funding payable of \$1.7 million. This was partially offset by an increase in deferred revenue and contributions of \$16.2 million. Accounts receivable increased due to contributions receivable from the Provincial and Federal governments as part of the PTIF capital program. The increase in deferred revenue and contributions is primarily attributable to the continued growth of the municipal operating reserve as a result of contributions in excess of actual budgeted operating expenditures due to the low cost of fuel. The decreases to accounts payable and provincial funding payable are related to the timing of payment transmissions.

### Accumulated Surplus

Accumulated surplus as at March 31, 2018 was \$19.1 million, an increase of \$2.8 million from March 31, 2017. The increase in the accumulated surplus primarily relates to Provincial capital funding for land purchases totaling \$5.1 million. The increase was offset by \$2.3 million of unrealized mark-to-market losses on debt sinking funds due to changes in market interest rates.

## **Risks and Uncertainties**

BC Transit is exposed to risks and budgeting uncertainties relating to commodity prices (primarily fuel), interest rate risk, foreign exchange risk, credit risk and liquidity 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, use of alternative fueling technologies, entering into physical fixed price agreements to fix all or a portion of fuel prices with a supplier, and/or the potential to enter into financial commodity derivative contracts.

BC Transit is exposed to interest rate risk to the extent that there are increases in interest rates at the time funding is required. Management monitors this exposure and charges an interest rate on leased assets to mitigate this risk.

Foreign exchange risk exists on purchases of various capital assets and parts from suppliers requiring payment in either US dollars or pounds sterling. Management monitors this risk and mitigates in part by negotiating contracts with payments in Canadian dollars wherever possible.

Credit risk is the potential for financial loss to BC Transit if the counterparty in a transaction fails to meet its obligations. Financial instruments that potentially give rise to concentrations of credit risk include cash and cash equivalents and debt sinking funds where they are invested in Canadian Money Market and Bond Funds. It is management's opinion that BC Transit is not exposed to any significant credit risk due to the credit worthiness of the investments.

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 a rigorous budgeting process that aligns with available funding.

***Auditor's Report***

Consolidated Financial Statements of

**BRITISH COLUMBIA TRANSIT**

Year ended March 31, 2018

# MANAGEMENT REPORT

Year ended March 31, 2018


The consolidated financial statements of British Columbia Transit ("BC Transit") are the responsibility of management and have been prepared in accordance with Canadian public sector accounting standards as required by Section 23.1 of the *Budget Transparency and Accountability Act* of the Province of British Columbia except in regard to the accounting for government transfers which is based on the Restricted Contributions Regulation 198/2011.

These consolidated financial statements include some amounts based on management's best estimates and careful judgment. A precise determination of assets and liabilities is dependent upon future events and, consequently, the preparation of periodic consolidated 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 31, 2018.

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 Code of Conduct applicable to all BC Transit officers and employees.

The consolidated financial statements have been examined by the Office of the Auditor General of British Columbia, BC Transit's independent external auditors. Their responsibility is to express their opinion whether the consolidated financial statements are prepared, in all material respects, in accordance with the accounting requirements of Canadian public sector accounting standards. The Board of Directors meets regularly with management and the external auditors to satisfy itself that BC Transit's system of internal control is adequate and to ensure that responsibilities for financial reporting are being met.

On behalf of BC Transit:



Erinn Pinkerton  
Interim President and Chief Executive Officer  
Date: May 31, 2018



Alan Thomas, CPA, CMA  
Vice President, Finance and Chief Financial Officer  
Date: May 31, 2018



## **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*

I have audited the accompanying consolidated financial statements of British Columbia Transit ("the entity"), which comprise the consolidated statement of financial position as at March 31, 2018 and the consolidated statements of operations, change in net debt, remeasurement gains and losses 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 Public Sector Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated 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 judgement, 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 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 consolidated financial statements.

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

*Basis for Qualified Opinion*

As described in Note 2(a) to the consolidated financial statements, the entity's accounting treatment for contributions received from governments and for externally restricted contributions received from non-government sources is to initially record them as deferred revenue (a liability) and then recognize revenue in the statement of operations either on the same basis as the related expenditures occur or, in the case of funds for the purchase or construction of capital assets, to recognize revenue on the same basis as the related assets are amortized. The entity was required to adopt this accounting policy as prescribed by Province of British Columbia Treasury Board Regulation 198/2011.

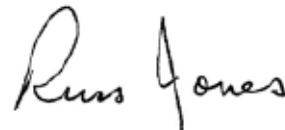
Under Canadian Public Sector Accounting Standards, the entity's method of accounting for contributions is only appropriate in circumstances where the funding meets the definition of a liability. Otherwise, the appropriate accounting treatment is to record contributions as revenue when they are received or receivable. In our opinion, certain contributions of the entity do not meet the definition of a liability, and as such the entity's method of accounting for those contributions represents a departure from Canadian Public Sector Accounting Standards.

This departure has existed since the inception of the standard, which applies to periods beginning on or after April 1, 2012. When the cumulative effects of this departure to date are adjusted through opening accumulated surplus, the entity's records indicate that the effects of this departure on the current year consolidated financial statements is an overstatement of the liability for deferred revenue and contributions of \$30 million and for deferred capital contributions of \$236 million, an understatement of opening accumulated surplus of \$218.3 million, and a current year understatement of revenue of \$47.7 million. Accordingly, the current year surplus is understated by \$47.7 million and net debt is overstated by \$266.0 million.

*Qualified Opinion*

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of British Columbia Transit as at March 31, 2018, and the results of its operations, change in its net debt, remeasurement gains and losses and its cash flows for the year then ended in accordance with Canadian Public Sector Accounting Standards.

Victoria, British Columbia  
May 31, 2018



Russ Jones, FCPA, FCA  
Deputy Auditor General



**BRITISH COLUMBIA TRANSIT**

Consolidated Statement of Financial Position  
(In thousands of dollars)

March 31, 2018, with comparative figures for March 31, 2017

	March 31, 2018	March 31, 2017
<b>FINANCIAL ASSETS</b>		
Cash and cash equivalents (note 3)	\$ 9,264	\$ 39,663
Accounts receivable (note 4)	68,086	44,368
Debt sinking funds (note 7)	101,833	94,001
	<u>179,183</u>	<u>178,032</u>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	23,604	25,611
Due to Province	332	-
Deferred revenue and contributions (note 5)	72,567	55,211
Deferred capital contributions (note 6)	236,016	196,737
Debt (note 7)	180,044	180,006
Employee future benefits (note 8)	21,022	19,457
	<u>533,585</u>	<u>477,022</u>
<b>NET DEBT</b>	<b>\$ (354,402)</b>	<b>\$ (298,990)</b>
<b>NON FINANCIAL ASSETS</b>		
Tangible capital assets (note 9)	357,622	298,748
Inventories	9,008	9,334
Prepaid expenses	2,431	2,347
Prepaid lease payments	4,426	4,807
	<u>373,487</u>	<u>315,236</u>
<b>ACCUMULATED SURPLUS</b>		
Accumulated operating surplus	13,048	7,919
Accumulated remeasurement gains	6,037	8,327
	<u>\$ 19,085</u>	<u>\$ 16,246</u>

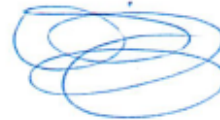
Commitments, contingent liabilities, contractual rights and contingent assets (notes 11,12,13 and 14).

The accompanying notes are an integral part of these consolidated financial statements.

Approved on behalf of the Board:



Catherine Holt, Chair  
May 31, 2018



Kelly Cairns, Director  
May 31, 2018

# BRITISH COLUMBIA TRANSIT

Consolidated Statement of Operations  
(In thousands of dollars)

Year ended March 31, 2018, with comparative figures for March 31, 2017

	Budget 2018 (Note 17)	March 31, 2018	March 31, 2017
<b>Revenue:</b>			
Operations	\$ 75,025	\$ 76,970	\$ 74,495
Government transfers:			
Provincial (note 15)	110,209	108,978	104,903
Local government (note 15)	99,152	86,863	80,095
Deferred capital contributions (note 6)	31,457	30,414	30,150
Investment and other income	3,517	4,206	3,536
	<u>319,360</u>	<u>307,431</u>	<u>293,179</u>
<b>Expenses: (note 16)</b>			
Operations	231,922	222,404	213,357
Maintenance	59,245	57,393	54,292
Administration	28,240	27,681	25,586
	<u>319,407</u>	<u>307,478</u>	<u>293,235</u>
Net deficit from operations	(47)	(47)	(56)
<b>Other:</b>			
Disposal and impairment of capital assets:			
Loss on disposal of capital assets	(13)	(117)	(1,592)
Other capital recoveries	10	212	1,645
Contributions for land purchase (note 15)	5,810	5,067	88
Gain on investments	-	14	10
Other expense	-	-	(28)
	<u>5,807</u>	<u>5,176</u>	<u>123</u>
<b>Annual surplus</b>	<u>5,760</u>	<u>5,129</u>	<u>67</u>
Accumulated operating surplus, beginning of year	7,919	7,919	7,852
Accumulated operating surplus, end of year	\$ 13,679	\$ 13,048	\$ 7,919

The accompanying notes are an integral part of these consolidated financial statements.

## BRITISH COLUMBIA TRANSIT

Consolidated Statement of Change in Net Debt  
(In thousands of dollars)

Year ended March 31, 2018, with comparative figures for March 31, 2017

	Budget 2018	March 31, 2018	March 31, 2017
	(Note 17)		
Surplus for the year	\$ -	\$ 5,129	\$ 67
Acquisition of tangible capital assets	(151,915)	(114,865)	(40,269)
Amortization of tangible capital assets	56,822	55,764	54,395
Disposal of tangible capital assets	13	227	1,782
	(95,080)	(53,745)	15,975
Acquisition of inventories of parts	-	(27,660)	(24,071)
Consumption of inventories of parts	-	27,987	23,476
Acquisition of prepaid expenses	-	(12,046)	(9,420)
Consumption of prepaid expenses	-	11,961	9,876
Consumption of prepaid leases	-	381	416
	-	623	277
Realized gain reclassified to operations	-	-	(10)
Unrealized loss on portfolio investment	-	(2,290)	(2,087)
	-	(2,290)	(2,097)
(Increase) decrease in net debt	(95,080)	(55,412)	14,155
Net debt, beginning of year	(298,990)	(298,990)	(313,145)
Net debt, end of year	\$ (394,070)	\$ (354,402)	\$ (298,990)

The accompanying notes are an integral part of these consolidated financial statements.

**BRITISH COLUMBIA TRANSIT**

Consolidated Statement of Remeasurement Gains and Losses  
(In thousands of dollars)

Years ended March 31, 2018, with comparative figures for March 31, 2017

	March 31, 2018	March 31, 2017
Accumulated remeasurement gains, beginning of year	\$ 8,327	\$ 10,424
Unrealized loss on investments	(2,290)	(2,087)
Realized gain on investments, reclassified to Consolidated Statement of Operations	-	(10)
Accumulated remeasurement gains, end of year	\$ 6,037	\$ 8,327

The accompanying notes are an integral part of these consolidated financial statements.

## BRITISH COLUMBIA TRANSIT

Consolidated Statement of Cash Flows  
(In thousands of dollars)

Years ended March 31, 2018, with comparative figures for March 31, 2017

	March 31, 2018	March 31, 2017
Cash provided by (used for):		
Operating transactions		
Annual surplus	\$ 5,129	\$ 67
Non-cash charges to operations (note 18)	25,785	24,646
Changes in non-cash operating working capital (note 18)	(7,434)	(5,998)
Cash provided by operating transactions	23,480	18,715
Capital transactions		
Proceeds on disposal of tangible capital assets	173	95
Cash used to acquire tangible capital assets	(113,662)	(39,776)
Cash applied to capital transactions	(113,489)	(39,681)
Investing transactions		
Increase in debt sinking funds and investments net of unrealized gain	(10,121)	(5,106)
Cash applied to investing transactions	(10,121)	(5,106)
Financing transactions		
Debt repaid	-	(6,378)
Deferred capital contributions received	69,731	24,632
Cash provided by financing transactions	69,731	18,254
Decrease in cash and cash equivalents	(30,399)	(7,818)
Cash and cash equivalents, beginning of year	39,663	47,481
Cash and cash equivalents, end of year	\$ 9,264	\$ 39,663
Supplemental cash flow information:		
Cash paid for interest	\$ 9,106	\$ 9,178
Cash received from interest	\$ 192	\$ 241

The accompanying notes are an integral part of these consolidated financial statements.

# BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements  
(In thousands of dollars)

Year ended March 31, 2018, with comparative figures for 2017

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## 1. Nature of Operations:

British Columbia Transit ("BC Transit") is a Crown corporation, 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 is included in the government reporting entity of the Province of British Columbia and reports to the Legislative Assembly through the Ministry of Transportation and Infrastructure. BC Transit is exempt from income taxes under the *Income Tax Act*.

BC Transit, on behalf of the Victoria Regional Transit Commission, is responsible for the administration of all funds raised by certain tax levies. These funds held in trust are excluded from the consolidated financial statements and are summarized in note 10.

## 2. Summary of Significant Accounting Policies:

### (a) Basis of accounting:

These consolidated financial statements have been prepared in accordance with Canadian public sector accounting standards as required by Section 23.1 of the *Budget Transparency and Accountability Act* of the Province of British Columbia and supplemented by Regulation 198/2011 issued by the Province of British Columbia Treasury Board.

Regulation 198/2011 requires that restricted contributions be recognized as revenue in the period the restriction is met, and that restricted contributions for the purpose of acquiring or developing a depreciable tangible capital asset, be recognized in revenue at the same rate the amortization of the related tangible capital asset is recorded. The reduction of the deferred capital contributions and the recognition of the revenue are accounted for in the fiscal period during which the tangible capital asset is used to provide services.

Canadian public sector accounting standards require government transfers, which do not contain a stipulation that creates a liability, to be recognized as revenue by the recipient when approved by the transferor and the eligibility criteria have been met. The Regulation allows for the deferral of revenue recognition to future years, recognized for non-capital government transfers in the period the restriction the transfer is subject to is met and for capital transfers in income systematically over the useful life of the asset, rather than in the year the transfer was made. This results in differences in deferred contributions, deferred capital contributions and accumulated operating surplus on the consolidated statement of financial position, and the government transfers revenue and annual surplus on the statement of operations.

### (b) Basis of consolidation:

#### (i) Consolidated entities:

The consolidated financial statements reflect the assets, liabilities, revenues, and expenses of organizations which are controlled by BC Transit. Controlled organizations are consolidated with inter-organizational transactions, balances, and activities eliminated on consolidation.

*Audited Financial Statements***BRITISH COLUMBIA TRANSIT**

Notes to Consolidated Financial Statements  
(In thousands of dollars)

Year ended March 31, 2018, with comparative figures for 2017

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**2. Summary of Significant Accounting Policies (continued):**

## (b) Basis of consolidation (continued):

## (i) Consolidated entities:

The following organizations are controlled by BC Transit and are fully consolidated in these financial statements:

TBC Vehicle Management Inc.

TBC Operations Inc.

TBC Properties Inc.

0915866 B.C. Ltd.

0922667 B.C. Ltd.

0925406 B.C. Ltd.

0928624 B.C. Ltd.

## (c) Deferred contributions and revenue recognition:

Government transfers received relate to contributions from federal, provincial and local governments to fund capital projects, operating costs, sinking fund and interest payments.

Under Restricted Contributions Regulation 198/2011, government transfers are reported as revenue depending on the nature of the restrictions on the use of the funds by the contributors as follows:

- (i) Contributions for the purpose of acquiring or developing a depreciable tangible capital asset for use in providing services are recorded and referred to as deferred capital contributions and recognized in revenue at the same rate that amortization of the tangible capital asset is recorded. The reduction of the deferred capital contributions and the recognition of the revenue are accounted for in the fiscal period during which the tangible capital asset is used to provide services.
- (ii) Contributions restricted for specific purposes other than for those to be held in perpetuity or the acquisition or development of a depreciable tangible capital asset are recorded as deferred contributions and recognized in revenue in the year in which the stipulation or restriction on the contribution has been met.

See note 21 for the impact of this regulation on these consolidated financial statements.

Transit user charges are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated, collection is reasonably assured and when services have been provided to the users.

## (d) Investment income:

Investment income is reported as revenue in the period earned. When required by the funding party or related Act, investment income earned on deferred contributions is added to the investment and forms part of the deferred contributions balance.

# BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements

(In thousands of dollars)

Year ended March 31, 2018, with comparative figures for 2017

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## 2. Summary of Significant Accounting Policies (continued):

### (e) Financial instruments:

BC Transit has elected to measure specific financial instruments at fair value, to correspond with how they are evaluated and managed. These financial instruments are identified in this note by financial asset and financial liability classification and are not reclassified for the duration of the period they are held. All other financial assets and financial liabilities are measured at cost or amortized cost. The following classification system is used to describe the basis of the inputs used to measure the fair values of financial instruments in the fair value measurement category:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Market based inputs other than quoted prices that are observable for the asset or liability either directly or indirectly.
- Level 3 - Inputs for the asset or liability that are not based on observable market data; assumptions are based on the best internal and external information available, and are most suitable and appropriate based on the type of financial instrument being valued, in order to establish what the transaction price would have been on the measurement date in an arm's length transaction.

Unrealized gains and losses from changes in the fair value of financial instruments are recognized in the statement of remeasurement gains and losses. Upon settlement, the cumulative gain or loss is reclassified from the statement of remeasurement gains and losses and recognized in the statement of operations. Interest and dividends attributable to financial instruments are reported in the statement of operations.

All financial assets are tested annually for impairment. When financial assets are impaired, impairment losses are recorded in the statement of operations. A write down of an investment to reflect a loss in value is not reversed for a subsequent increase in value.

For financial instruments measured using amortized cost, the effective interest rate method is used to determine interest revenue or expense. Transaction costs are a component of cost for financial instruments measured using cost or amortized cost.

### (i) Cash and cash equivalents:

Cash and cash equivalents include cash in bank and in transit, certificates of deposit and short-term investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value. These short-term investments generally have a term to maturity of 90 days or less at acquisition, are held for the purpose of meeting short term cash commitments rather than for investing, are reported at fair value and are measured using a Level 1 valuation.



# BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements  
(In thousands of dollars)

Year ended March 31, 2018, with comparative figures for 2017

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## 2. Summary of Significant Accounting Policies (continued):

### (e) Financial instruments (continued):

#### (ii) Accounts receivable:

Accounts receivable are recorded at cost less any amount for valuation allowance. Valuation allowances are made to reflect accounts receivable at the lower of cost and the net recoverable value, when collectability and risk of loss exists. Changes in valuation allowance are recognized in the statement of operations.

#### (iii) Debt sinking funds:

Investments in sinking funds consist of pooled investment portfolios and Canadian, Provincial government and Crown Corporation bonds managed by the British Columbia Investment Management Corporation ("BCI"), a corporation established under the *Public Sector Pension Plans Act*. Sinking fund investments are recorded at fair value and measured using a Level 1 valuation. Discounts and premiums arising on the purchase of these investments are amortized over the term of the investments.

#### (iv) Debt and other financial liabilities:

All debt and other financial liabilities are recorded using cost or amortized cost. Discounts and premiums arising on the issuance of debt are amortized over the term of the debt.

### (f) Employee future benefits:

(i) BC Transit and its employees contribute to the Public Service Pension Plan in accordance with the *Public Service Pension Plans Act*. Multi-employer, jointly-trusted pension plans follow defined contribution pension plan accounting. Contributions are expensed as they become payable.

(ii) Outside of the Public Service Pension Plan, BC Transit maintains various benefit arrangements available to retired employees including non-pension post-retirement benefits (retiree hospital, drugs, vision, medical, MSP), post-employment benefits (vacation, overtime) and continuation of long term disability benefits. The future obligations under these benefit plans are accrued as the employees render the services necessary to earn the benefit. Management, using an estimate of salary escalation and expected retirement ages, calculates the cost of the defined retirement benefit. The recorded liability represents these estimated future costs discounted to a present value using market interest rates applicable to BC Transit, and the cumulative unrecognized actuarial gains and losses are amortized over the expected average remaining service lifetime of active employees covered under the plan. The accrued employee benefit obligations and the net periodic benefit cost were estimated by an actuarial valuation completed effective for March 31, 2017.

# BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements  
(In thousands of dollars)

Year ended March 31, 2018, with comparative figures for 2017

## 2. Summary of Significant Accounting Policies (continued):

### (g) Liability for contaminated sites:

Contaminated sites are a result of contamination being introduced into air, soil, water or sediment of a chemical, organic or radioactive material or live organism that exceeds an environmental standard. The liability is recorded net of any expected recoveries. A liability for remediation of contaminated sites is recognized when all of the following criteria are met:

1. An environmental standard exists;
2. Contamination exceeds the environmental standard;
3. British Columbia Transit:
  - a. is directly responsible; or
  - b. accepts responsibility; and
4. A reasonable estimate of the amount can be made.

As at March 31, 2018, BC Transit has not identified any contaminated sites that meet the criteria for recognition.

### (h) Non-financial assets:

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

### (i) Tangible capital assets:

Tangible capital assets are recorded at cost, which includes amounts that are directly attributable to the acquisition, design, construction, development, improvement or betterment of the asset. The costs, less the residual value, of the tangible capital assets are amortized on a straight line basis over their estimated useful lives as follows:

Asset	Useful Life - Years
Land	Indefinite
Exchanges, shelters, and other transit infrastructure	3 – 40
Buildings	5 – 40
Vehicles – including major components	2 – 20
Other Equipment	4 – 20

### (ii) Contributions of tangible capital assets:

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt with a corresponding entry made to deferred capital contributions. The contributed tangible capital assets are then amortized over their estimated useful lives.

## **BRITISH COLUMBIA TRANSIT**

Notes to Consolidated Financial Statements  
(In thousands of dollars)

Year ended March 31, 2018, with comparative figures for 2017

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### **2. Summary of Significant Accounting Policies (continued):**

#### (h) Non-financial assets (continued):

##### (iii) Interest capitalization:

Interest is capitalized whenever debt is issued to finance the construction of tangible capital assets. Interest is capitalized from the date of advance of funds until the assets are available for service.

##### (iv) Inventories:

Inventories held for consumption are recorded at the lower of historical cost or replacement cost.

##### (v) Impairment of tangible capital assets:

BC Transit monitors the recoverability of tangible capital assets. Whenever events or changes in circumstances indicate that the tangible capital asset no longer contributes to the ability to provide transit services or that the value of the future economic benefits associated with the tangible capital asset is less than its net book value, the cost of the tangible capital asset is written down to residual value.

##### (vi) Prepaid expenses and leases:

Prepaid expenses and leases include prepaid insurance, parts credits and prepaid property leases. These are charged to expense over the period they are expected to benefit.

##### (vii) Intangibles:

Intangible assets are not recognized in BC Transit's financial statements.

#### (i) Measurement uncertainty:

The preparation of consolidated financial statements 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 consolidated financial statements and the reported amounts of the revenues and expenses during the period.

Estimates are based on the best information available at the time of preparation of the consolidated financial statements and are reviewed annually to reflect new information as it becomes available. Significant measurement uncertainty includes assumptions used in the determination of amortization periods, employee future benefits and estimating provisions for certain accrued liabilities. Actual results could differ from these estimates.

# BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements  
(In thousands of dollars)

Year ended March 31, 2018, with comparative figures for 2017

## 2. Summary of Significant Accounting Policies (continued):

### (j) Adoption of accounting policies:

BC Transit has adopted the following accounting policies on a prospective basis for the year ended March 31, 2018:

PS2200 on Related Party Disclosures which defines a related party and establishes disclosures required for related party transactions. There was no impact as a result of this new standard.

PS3210 on Assets which provides guidance for applying the definition of assets and establishes general disclosure standards for assets. There was no impact as a result of this new standard.

PS3320 on Contingent Assets which defines and establishes disclosure standards on contingent assets. Additional note disclosure is included in these financial statements to reflect the standard.

PS3380 on Contractual Rights which defines and establishes disclosure standards on contractual rights. Additional note disclosure is included in these financial statements to reflect the standard.

## 3. Cash and cash equivalents:

Major components of cash and cash equivalents are comprised of the following:

	2018	2017
Cash	\$ 9,242	\$ 18,646
Cash equivalents	22	21,017
	<b>\$ 9,264</b>	<b>\$ 39,663</b>

## 4. Account receivable:

Accounts receivable are comprised of the following:

	2018	2017
Provincial:		
Operating	\$ 11,261	\$ 10,048
Capital grants	9,242	7,030
	<b>\$ 20,503</b>	<b>\$ 17,078</b>
Federal capital grants	21,218	\$ 4,744
Local governments	19,664	17,187
Trade and other	6,701	5,359
	<b>\$ 68,086</b>	<b>\$ 44,368</b>

## BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements  
(In thousands of dollars)

Year ended March 31, 2018, with comparative figures for 2017

### 5. Deferred revenue and contributions:

Operating contributions that have been received but not yet earned are reflected as deferred service funding.

Debt service contributions to fund sinking fund and interest payments are recovered from local government partners over the estimated service life of the related assets. These contributions may differ from the annual amortization of the related assets. Differences are deferred to be recognized as a recovery in future periods.

Deferred revenue is restricted for a specific purpose and recognized in revenue in the year in which the stipulation or restriction on the contribution has been met.

The deferred revenue and contributions, reported on the consolidated statement of financial position, are comprised of the following:

	2018	2017
Deferred service funding contributions	\$ 41,644	\$ 32,493
Deferred contributions	25,948	17,736
Deferred revenue	4,975	4,982
<b>Total deferred revenue and contributions</b>	<b>\$ 72,567</b>	<b>\$ 55,211</b>

Continuity of deferred service funding, contributions and revenue:

	2018	2017
Deferred service funding contributions:		
Balance, beginning of year	\$ 32,493	\$ 15,790
Service funding contributions received	65,979	63,360
Service funding contributions applied	(56,828)	(46,657)
Balance, end of year	41,644	32,493
Deferred contributions:		
Balance, beginning of year	\$ 17,736	\$ 13,217
Contributions received	39,329	37,956
Contributions used	(31,117)	(33,437)
Balance, end of year	25,948	17,736
Deferred revenue:		
Balance, beginning of year	4,982	6,089
Amounts received	786	1,058
Amounts recognized as revenue	(793)	(2,165)
Balance, end of year	4,975	4,982
<b>Balance, end of year</b>	<b>\$ 72,567</b>	<b>\$ 55,211</b>

## BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements  
(In thousands of dollars)

Year ended March 31, 2018, with comparative figures for 2017

### 6. Deferred capital contributions:

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

		2018	2017
Balance, beginning of year	\$	196,737	\$ 202,858
Contributions and other additions		69,731	24,632
Impairment and disposals of capital assets		(38)	(603)
Amortization		(30,414)	(30,150)
Balance, end of year	\$	236,016	\$ 196,737

### 7. 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 ceiling limit of \$500 million in total. The Minister of Finance, as BC Transit's fiscal agent, arranges financing at BC Transit's request.

The gross amount of debt and the amount of sinking fund assets available to retire the debt are as follows:

	2018	2017
Debt has a weighted average rate of 5.06%, maturing at various dates to 2040, amortized from 9 to 30 years	\$ 180,044	\$ 180,006

The total debt maturities for the next five years are as follows:

2019	11,200
2020	1,828
2021	19,070
2022	15,972
2023	23,350
Thereafter	108,624

Investments held in sinking funds, including interest earned, are to be used to repay the related debt at maturity. There was no gain on disposition of investments in sinking funds during the year (2017 - \$10). Sinking fund investments are managed by the British Columbia Investment Management Corporation and have cost and market values as follows:

	2018		2017	
	Cost	Market value	Cost	Market value
Provincial bonds	\$ 93,640	\$ 99,636	\$ 83,375	\$ 91,611
Money market funds	184	184	387	387
Corporate bonds	1,972	2,013	1,912	2,003
Total	\$ 95,796	\$ 101,833	\$ 85,674	\$ 94,001

# BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements  
(In thousands of dollars)

Year ended March 31, 2018, with comparative figures for 2017

## 7. Debt (continued):

Debt sinking fund installments in each of the next five years are as follows:

2019	6,083
2020	4,631
2021	4,279
2022	3,971
2023	3,766
Thereafter	21,217

In April 2017, BC Transit entered into an unsecured revolving credit facility with a Canadian Financial Institution totaling \$10 million. The credit facility may be terminated in whole or in part and shall be due on demand. Interest on the credit facility is based on the prime lending rate which is a variable per annum reference rate of interest for loans made by the Bank of Canada in Canadian dollars. Interest accrues on a day to day basis. As of March 31, 2018 BC Transit has not drawn on the facility.

In November 2002, BC Transit entered into a loan agreement pursuant to section 54(1) of the *Financial Administration Act* with the Minister of Finance and Corporate Relations to lend a maximum principal amount not to exceed \$90 million in Canadian currency. Term and conditions of the loan state the Minister will use reasonable commercial efforts to comply with the borrowing requirements of BC Transit; however, the terms and conditions of the loan are within the sole discretion of the Minister. The maximum term on the loan is one year and can be another term as approved by the Minister and is due upon maturity. Interest on the loan is based on money market rates. As of March 31, 2018 BC Transit has not drawn on the facility.

# BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements  
(In thousands of dollars)

Year ended March 31, 2018, with comparative figures for 2017

## 8. Employee future benefit obligations:

BC Transit provides sick leave and other various benefits to its employees. These amounts and other employee related liabilities will require funding in future periods and are set out below.

Continuity of employee future benefits liability:

	2018	2017
Accrued benefit obligation:		
Balance, beginning of year	\$ 19,457	\$ 18,254
Current benefit cost and event-driven expense	1,315	996
Interest	563	506
Actuarial loss	64	69
Benefits paid	(377)	(368)
Balance, end of year	21,022	19,457
Unamortized actuarial gain	(3,686)	-
Liability for benefits	\$ 17,336	\$ 19,457

The employee future benefits liability reported on the statement of financial position is comprised of:

	2018	2017
Non-pension post-retirement benefits	\$ 14,492	\$ 16,648
Post-employment benefits	815	928
Continuation of long term disability benefits	2,029	1,881
Total liability for benefits	\$ 17,336	\$ 19,457
Unamortized actuarial gain	3,686	-
Employee future benefit obligation	\$ 21,022	\$ 19,457

The unamortized actuarial gain on future payments is amortized over the expected period of the liability which is 10 years (2017 – 9 years) for post-employment benefits and 10 years (2017 – 10 years) for post-retirement benefits.

The actuarial assumptions adopted in measuring BC Transit's accrued benefit obligations are as follows:

	2018	2017
Discount rate	2.9% - 3.1%	2.9% - 3.1%
Expected future inflationary increases	2.6% - 5.15%	2.6% - 5.15%
Weighted average health care trend - end of year	6.56% in 2018 grading to 4.29% in and after 2029	6.94% in 2017 grading to 4.29% in and after 2029
Dental and MSP trend – end of year	4.5%	4.5%



## **BRITISH COLUMBIA TRANSIT**

Notes to Consolidated Financial Statements  
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Year ended March 31, 2018, with comparative figures for 2017

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### **8. Employee future benefit obligations (continued):**

#### **Public Service Pension Plan**

BC Transit and its employees contribute to the Public Service Pension Plan, a jointly trusted pension plan. The Public Service Pension Plan Board of Trustees, representing plan members and employers, is responsible for overseeing the management of the plan, including investment of the assets and administration benefits. The plan has approximately 119,000 active and retired members.

Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of the funding. The latest actuarial valuation as at March 31, 2017, indicated a funding surplus of \$1,896 million for basic pension benefits. The next valuation will be March 31, 2020 with results available later in 2020.

Employers participating in the plan record their pension expense as the amount of employer contributions made during the fiscal year. This is because the plan records accrued liabilities and accrued assets for the plan in aggregate, and therefore there is no consistent and reliable basis for allocating the obligation, assets and costs to individual employers participating in the plan.

The total amount paid into this pension plan by BC Transit for the year ended March 31, 2018 for employer contributions was \$5,290 (2017 – \$5,223).

# BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements  
(In thousands of dollars)

Year ended March 31, 2018, with comparative figures for 2017

## 9. Tangible capital assets:

Cost	Balance, March 31, 2017	Additions	Disposals	Balance, March 31, 2018
Land	\$ 15,694	\$ 10,150	\$ -	\$ 25,844
Exchanges, shelters and other transit infrastructure	61,908	2,644	-	64,552
Buildings	51,151	6,133	-	57,284
Vehicles	462,998	75,629	(41,047)	497,580
Other equipment	58,921	2,452	-	61,373
Capital projects in progress	20,717	114,865	(97,186)	38,396
<b>Total</b>	<b>\$ 671,389</b>	<b>\$ 211,873</b>	<b>\$ (138,233)</b>	<b>\$ 745,029</b>

Accumulated amortization	Balance, March 31, 2017	Disposals	Amortization	Balance, March 31, 2018
Exchanges, shelters and other transit infrastructure	\$ 16,116	\$ -	\$ 4,879	\$ 20,995
Buildings	26,488	-	1,875	28,363
Vehicles	290,506	(40,998)	43,637	293,145
Other equipment	39,531	-	5,373	44,904
Capital projects in progress	-	-	-	-
<b>Total</b>	<b>\$ 372,641</b>	<b>\$ (40,998)</b>	<b>\$ 55,764</b>	<b>\$ 387,407</b>

Net book value	Balance, March 31, 2017	Balance, March 31, 2018
Land	\$ 15,694	\$ 25,844
Exchanges, shelters, and other transit infrastructure	45,792	43,557
Buildings	24,663	28,921
Vehicles	172,492	204,435
Other equipment	19,390	16,469
Capital projects in progress	20,717	38,396
<b>Total</b>	<b>\$ 298,748</b>	<b>\$ 357,622</b>

## BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements  
(In thousands of dollars)

Year ended March 31, 2018, with comparative figures for 2017

### 9. Tangible capital assets (continued):

Cost	Balance, March 31, 2016	Additions	Disposals	Balance, March 31, 2017
Land	\$ 15,694	\$ -	\$ -	\$ 15,694
Exchanges, shelters and other transit infrastructure	59,018	2,890	-	61,908
Buildings	50,252	899	-	51,151
Vehicles	451,602	25,532	(14,136)	462,998
Other equipment	56,948	1,973	-	58,921
Capital projects in progress	11,353	40,673	(31,309)	20,717
<b>Total</b>	<b>\$ 644,867</b>	<b>\$ 71,967</b>	<b>\$ (45,445)</b>	<b>\$ 671,389</b>

Accumulated amortization	Balance, March 31, 2016	Disposals	Amortization	Balance, March 31, 2017
Exchanges, shelters and other transit infrastructure	\$ 11,389	\$ -	\$ 4,727	\$ 16,116
Buildings	24,662	-	1,826	26,488
Vehicles	260,003	(12,464)	42,967	290,506
Other equipment	34,656	-	4,875	39,531
Capital projects in progress	-	-	-	-
<b>Total</b>	<b>\$ 330,710</b>	<b>\$ (12,464)</b>	<b>\$ 54,395</b>	<b>\$ 372,641</b>

Net book value	Balance, March 31, 2016	Balance, March 31, 2017
Land	\$ 15,694	\$ 15,694
Exchanges, shelters, and other transit infrastructure	47,629	45,792
Buildings	25,590	24,663
Vehicles	191,599	172,492
Other equipment	22,292	19,390
Capital projects in progress	11,353	20,717
<b>Total</b>	<b>\$ 314,157</b>	<b>\$ 298,748</b>

Assets under construction having a value of \$38,396 (2017 - \$20,717) have not been amortized. Amortization of these assets will commence when the asset is available for service.

During the year, assets with a net book value of \$227 (2017 - \$1,672) were written off.

Interest capitalized for capital projects in 2018 was \$439 (2017 - \$738).

# BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements  
(In thousands of dollars)

Year ended March 31, 2018, with comparative figures for 2017

## 10. Victoria Regional Transit Commission:

BC Transit holds funds in trust on behalf of the Victoria Regional Transit Commission. These funds are not included in the consolidated statement of financial position. The cash held in trust and transactions during the year are as follows:

	2018	2017
Cash held in trust, beginning of year	\$ 9,023	\$ 9,801
Revenue:		
Fuel tax	12,558	12,321
Property tax	29,114	30,155
Investment and other income	112	135
Government transfers	(47,047)	(43,389)
Cash held in trust, end of year	\$ 3,760	\$ 9,023

## 11. Commitments:

BC Transit has outstanding commitments as summarized below:

	2019	2020	2021	2022	2023
Operating Leases	\$ 1,448	\$ 1,379	\$ 1,593	\$ 1,307	\$ 1,208
Facilities	3,915	321	171	140	140
Vehicle Purchases	37,544	578	-	-	-
Information Technology	1,854	297	297	297	297
Other	6,902	-	-	-	-
	\$ 51,663	\$ 2,575	\$ 2,061	\$ 1,744	\$ 1,645

## 12. Contingent liabilities:

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, 2018 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.

# BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements  
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Year ended March 31, 2018, with comparative figures for 2017

## 13. Contractual rights:

BC Transit has contractual rights as summarized below:

A contribution agreement with the Province of British Columbia committing funding to acquire tangible capital assets as part of Canada and British Columbia's Public Transit Infrastructure Fund. The contribution agreement allows Federal funding of up to \$22,400 and Provincial funding of up to \$15,420 in the 2018/19 fiscal year to fund eligible expenditures as defined within the agreement. Extensions have been approved by the Federal and Provincial governments and additional funding is expected to be received with respect to the agreement.

## 14. Contingent assets:

BC Transit occasionally experiences losses which are expected to be covered by insurance. Current claims are in process for losses on tangible capital assets totaling \$1,430.

## 15. Government transfers:

The transfers reported on the statement of operations are:

	2018	2017
Government transfers:		
Provincial contributions:		
Operating transfers	\$ 108,978	\$ 104,903
Deferred capital contributions	25,211	24,798
Write-off capital assets	38	603
Contributions for land purchase	5,067	88
	<u>139,294</u>	<u>130,392</u>
Federal contributions:		
Deferred capital contributions	3,833	4,162
	<u>3,833</u>	<u>4,162</u>
Local government contributions:		
Transfers under cost share agreements	86,863	80,095
Deferred capital contributions	1,160	1,066
	<u>88,023</u>	<u>81,161</u>
Other:		
Deferred capital contributions	210	124
<b>Total government transfers</b>	<b>\$ 231,360</b>	<b>\$ 215,839</b>

# BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements  
(In thousands of dollars)

Year ended March 31, 2018, with comparative figures for 2017

## 16. Classification of expense by object:

	Budget	2018	2017
Contracted salaries, wages and benefits	\$ 88,643	\$ 88,471	\$ 84,683
Salaries, wages and benefits	73,175	72,917	69,667
Amortization of capital assets	56,822	55,764	54,395
Fuel and lubricants	26,497	22,960	21,301
Fleet maintenance	31,938	31,091	28,841
Interest	9,153	9,106	9,192
Insurance	5,776	5,721	5,348
Leases and taxes	2,979	2,742	2,723
Major projects and initiatives	5,479	1,154	708
Local government expenses	2,221	2,221	2,148
Marketing and communications	2,243	2,124	1,972
Taxi programs	1,872	1,735	1,722
Facility maintenance	3,895	3,647	3,446
Information systems	3,829	3,630	3,498
Corporate expenses	2,342	2,490	2,054
Professional fees	1,234	852	780
Travel and meetings	1,309	853	757
<b>Total operating expenses</b>	<b>\$ 319,407</b>	<b>\$ 307,478</b>	<b>\$ 293,235</b>

## 17. Budget Data:

The budget data presented in these consolidated financial statements was included in the 2017/18-2019/20 Service Plan approved by the Board of Directors on August 3, 2017 and by the Government of British Columbia on September 11, 2017. Prior to that, the Board of Directors approved an original Service Plan on January 26, 2017. BC Transit has elected to present the amended Service Plan as it reflects the budget approved by the current Government of British Columbia.

	Original Budget	Amended Budget
<b>Revenue:</b>		
Operations	\$ 73,241	\$ 75,025
<b>Government transfers:</b>		
Provincial	108,663	110,209
Local government	108,107	99,152
Deferred capital contributions	31,457	31,457
Investment and other income	3,517	3,517
	<b>324,985</b>	<b>319,360</b>
<b>Expenses:</b>		
Operations	236,882	231,922
Maintenance	59,294	59,245
Administration	28,809	28,240
	<b>324,985</b>	<b>319,407</b>
Net (deficit)/surplus from operations	-	(47)
Other non-operational revenue	-	5,807
<b>Total annual surplus</b>	<b>-</b>	<b>5,760</b>

# BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements

(In thousands of dollars)

Year ended March 31, 2018, with comparative figures for 2017

## 18. Additional information for the Statement of cash flows:

	2018	2017
Non-cash charges to operations:		
Amortization of debt discount	\$ 38	\$ 38
Amortization of tangible capital assets	55,764	54,395
Amortization of prepaid lease	381	416
Loss (gain) on the disposal of tangible capital assets	16	(53)
Amortization of deferred capital contributions	(30,414)	(30,150)
	<u>\$ 25,785</u>	<u>\$ 24,646</u>
Changes in non-cash operating working capital:		
Accounts receivable	\$ (23,718)	\$ (22,674)
Accounts payable and accrued liabilities	(2,007)	(2,971)
Provincial revenue and funding payable	332	(2,177)
Deferred revenue and contributions	16,153	20,760
Employee future benefits	1,565	1,203
Inventories of parts	326	(595)
Prepaid expenses	(85)	456
	<u>\$ (7,434)</u>	<u>\$ (5,998)</u>

## 19. Financial instruments:

### (a) Fair value:

The carrying value of cash and cash equivalents, assets held for sale, accounts receivable and accounts payable and accrued liabilities, approximate their fair value due to the relatively short periods to maturity of the instruments. Debt sinking funds are reflected on the statement of financial position at fair value.

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, foreign exchange risk and credit risk as discussed below.

# BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements  
(In thousands of dollars)

Year ended March 31, 2018, with comparative figures for 2017

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## 19. Financial instruments (continued):

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

#### *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, use of alternative fueling technologies, entering into physical fixed price agreements 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. No such hedge agreements were entered into during the year.

#### *Interest rate risk:*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. BC Transit is exposed to interest rate risk to the extent that there are 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 of various capital assets and parts 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 entered into during the year.

#### *Sensitivity analysis:*

The following table is a sensitivity analysis indicating the impact on net surplus (deficit) 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.

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Estimated impact of a 1% change on annual surplus:	
Interest rate risk	\$ 482
Foreign exchange risk	376
Commodity risk (fuel)	306

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# BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements  
(In thousands of dollars)

Year ended March 31, 2018, with comparative figures for 2017

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## 19. Financial instruments (continued):

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

#### *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 7. Other commitments with future minimum payments are disclosed in note 11.

#### *Credit risk:*

Credit risk is the potential for financial loss to BC Transit if the counterparty in a transaction fails to meet its obligations. Financial instruments that potentially give rise to concentrations of credit risk include cash and cash equivalents and debt sinking funds where they are invested in Canadian Money Market and Bond Funds. It is management's opinion that BC Transit is not exposed to any significant credit risk due to the credit worthiness of the investments.

### (c) Capital disclosures:

BC Transit defines capital as accumulated surplus plus deferred capital contributions. BC Transit receives the majority of these 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.

## 20. Related party transactions:

There are certain parties that are considered related due to their ability to exercise control over the financial and operating policies of BC Transit. All transactions between BC Transit and its' related parties 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.

As a Crown Corporation of the Province, BC Transit and the Province are considered related parties. Provincial transactions and balances have been disclosed elsewhere in the financial statements (note 15).

The BC Transit Board of Directors and Senior Leadership Team are also considered related parties. Transactions consist of remuneration and expense reimbursement.

# BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements  
(In thousands of dollars)

Year ended March 31, 2018, with comparative figures for 2017

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## 21. Impact of accounting for Government Transfers in accordance with Section 23.1 of the *Budget Transparency and Accountability Act*:

As noted in the significant accounting policies, note 2(a), Section 23.1 of the *Budget Transparency and Accountability Act* and Restricted Contributions Regulation 198/2001, require BC Transit to recognize non-capital government transfers into revenue in the period the restriction is met, and also require BC Transit to recognize government transfers for the acquisition of capital assets into revenue on the same basis as the related amortization expense. As these transfers do not contain stipulations that create a liability, Canadian public sector accounting standards would require these grants to be fully recognized into revenue. The impact of correcting this difference on the consolidated financial statements of BC Transit is as follows:

March 31, 2018 – decrease in deferred revenue and contributions by \$30,031 (2017 - \$21,639) and a decrease in deferred capital contributions by \$236,016 (2017 - \$196,737), and an increase in accumulated surplus by \$266,047 (2017 – \$218,376)

As at March 31, 2018 – increase in annual surplus (deficit) by \$47,670 (2017 – decrease by 2,461).

## 22. Investment in Transportation Property and Casualty Company Inc:

In January 2010, the Board of Directors approved the withdrawal from the Transportation Property and Casualty Company Inc. Program (“TPCCP”). As a replacement to TPCCP, BC Transit procured a comprehensive stand-alone insurance coverage program effective April 1, 2010 which is renewed annually. Claims which have been registered and served prior to the withdrawal from the TPCCP program, continue to be settled in an orderly manner and BC Transit will continue to monitor these claims. \$1,828 (2017 - \$1,828) remains in cash equivalents to offset other potential future claims. See note 12 for further details regarding unsettled claims.

## 23. Economic Dependency:

BC Transit is dependent on receiving government transfers from the Province of BC and Local Government Partners for its continued existence and ability to carry out its normal activities.

## **Appendix A – Additional Information**

### ***Corporate Governance***

More information about BC Transit's Senior Leadership Team can be found at:

[http://bctransit.com/\\*/about/executive](http://bctransit.com/*/about/executive)

More information about BC Transit's governance and funding model can be found at:

[http://bctransit.com/\\*/about/funding-and-governance](http://bctransit.com/*/about/funding-and-governance)

### ***Organizational Overview***

More information about BC Transit's vision, mission and values can be found at:

[http://bctransit.com/\\*/about](http://bctransit.com/*/about)

More information about BC Transit's program scope can be found at:

[http://bctransit.com/\\*/about/facts/corporate](http://bctransit.com/*/about/facts/corporate)

A list of BC Transit systems can be found at:

[http://bctransit.com/\\*/choose-transit-system](http://bctransit.com/*/choose-transit-system)

BC Transit's corporate reports, including provincial Service Plans and Annual Reports, can be found at:

[http://bctransit.com/\\*/corporate-reports](http://bctransit.com/*/corporate-reports)

BC Transit's Human Resources Action Plan can be found at:

[https://bctransit.com/\\*/human-resources-action-plan](https://bctransit.com/*/human-resources-action-plan)

### ***Contact Information***

The location of BC Transit's head office can be found at [http://bctransit.com/\\*/about/contact](http://bctransit.com/*/about/contact).

### ***Performance Measure Definitions***

Goal 1: Increased Ridership

- Performance Measure 1.1a: *Conventional passenger trips per service hour* measures the effectiveness of, and the demand for, conventional transit services as provided and is determined by dividing conventional passenger trips by conventional service hours.

- Performance Measure 1.1b: *Custom passenger trips per service hour* measures the effectiveness of, and the demand for, custom transit services as provided and is determined by dividing custom passenger trips by custom service hours (does not include taxi trips).
- Performance Measure 1.2: *Communities that have had a service optimization review completed in the past five years* measures BC Transit's efforts to provide transit systems with timely reviews and recommendations to increase transit system efficiency and effectiveness. These may include discussion documents, service reviews, evaluations and other reviews.
- Performance Measure 1.3: *Customer Satisfaction* measures customers' perception of their transit experience and is determined by the average rating of customer tracking survey respondents when asked to rate their overall transit experience from one ("very poor") to five ("excellent")
- Performance Measure 1.4: *Online communication strategy effectiveness* measures customers' perception of BC Transit's online communication and is determined by the average rating of customer tracking survey respondents when asked to rate the quality of the online information, ranging from one ("very poor") to five ("excellent").
- Performance Measure 1.5: *Brand recognition* measures awareness of BC Transit service and is based on the per cent of customer tracking survey respondents who recognize BC Transit's role in the delivery of transit service in their local transit system.

#### Goal 2: Financial Management

- Performance Measure 2.1a: *Conventional operating cost recovery* measures the self-sufficiency and financial performance of the conventional transit system and is determined by dividing annual conventional passenger and advertising revenue by conventional operating costs.
- Performance Measure 2.1b: *Custom operating cost recovery* measures the self-sufficiency and financial performance of the custom transit system and is determined by dividing annual custom passenger and advertising revenue by custom operating cost (includes taxi trip revenues and costs).
- Performance Measure 2.2a: *Conventional operating cost per passenger trip* measures the efficiency of providing conventional transit service and reflects annual conventional operating cost divided by conventional passengers carried.
- Performance Measure 2.2b: *Custom operating cost per passenger trip* measures the efficiency of providing custom transit service and reflects annual custom operating cost divided by custom passengers carried (includes taxi trip costs and passengers).

#### Goal 3: Operational Excellence

- Performance Measure 3.1a: *Conventional service hours per capita* measures the amount of conventional service provided, and is determined by the number of conventional service hours delivered divided by the population that lives within 400 m of fixed route bus service.
- Performance Measure 3.1b: *Custom service hours per capita* measures the amount of custom service provided, and is determined by the number of custom service hours delivered divided by the population that lives within 1 km of fixed route bus service (does not include taxi trips).
- Performance Measure 3.2a: *Passenger injury claims per million passenger trips* measures passenger safety with respect to travel-related injuries. The way in which this measure is calculated reflects passenger injury claims through ICBC and is consistent with industry standard.
- Performance Measure 3.2b: *Workplace injuries per 100 employees* measures employee safety using the Total Recordable Injury Rate (TRIR). TRIR is a measure of the rate of recordable workplace injuries, normalized per 100 workers per year.

- Performance Measure 3.3: *Planned service delivered in conventional transit systems* measures the quality of transit service and is based upon the percentage of trips that delivered as scheduled.
- Performance Measure 3.4: *Carbon intensity per service hour* measures BC Transit's Greenhouse Gas Emissions (GHG). Carbon intensity is calculated using the Provincial Government's SMARTTool methodology and is measured by calculating the total emissions of BC Transit's fleet, facilities, and paper usage in carbon dioxide equivalent tonnes.

Goal 4: Strong People and Partnerships

- Performance Measure 4.1: *Employee engagement* measures an employee's involvement with, commitment to, and satisfaction with work. Engagement is assessed through a survey that models what aspects of the workplace influence employee engagement characteristics.
- Performance Measure 4.2: *Partnership satisfaction* measures local government partners' perception of BC Transit's customer service and is determined by the average rating of local government transit partner respondents when asked to rate their customer service received from BC Transit from one ("very poor") to five ("excellent").

**Consolidated Performance Measure Results**

Performance Measure(s)		2015/16 Actuals	2016/17 Actuals	2017/18 Target	2017/18 Actuals	2018/19 Target	2019/20 Target
1.1a	Conventional passenger trips per service hour	27.5	27.8	27.3	28.4	27.6	27.7
1.1b	Custom passenger trips per service hour (excluding taxi)	4.1	4.0	4.0	3.9	3.9	3.9
1.2	Communities with service optimization review completed in past five years	95%	93%	85%	88%	85%	85%
1.3	Customer satisfaction	3.72	3.50	3.65	3.50	3.69	3.72
1.4	Online communication strategy effectiveness	3.83	3.70	3.85	3.70	3.87	3.91
1.5	Brand recognition	29%	53%	29%	56%	54%	55%
2.1a	Conventional operating cost recovery	36.1%	37.4%	34.2%	36.9%	33.0%	32.3%
2.1b	Custom operating cost recovery	9.1%	9.1%	8.3%	8.4%	7.8%	7.5%
2.2a	Conventional operating cost per passenger trip	\$3.76	\$3.79	\$4.16	\$3.84	\$4.23	\$4.32
2.2b	Custom operating cost per passenger trip	\$16.36	\$16.77	\$18.13	\$18.34	\$19.47	\$20.27
3.1a	Conventional service hours per capita	1.43	1.44	1.45	1.44	1.51	1.49
3.1b	Custom service hours per capita	0.25	0.25	0.26	0.26	0.27	0.26
3.2a	Passenger injury claims per million passenger trip	1.0	1.0	2.0	1.4	1.9	1.9
3.2b	Workplace injuries per 100 employees	5.2	3.1	5.2	2.9	5.1	5.0
3.3	Planned service delivered in conventional transit systems	99.8%	99.9%	99.7%	99.9%	99.7%	99.7%
3.4	Carbon (GHG) intensity per service hour	28.88	28.85	28.83	28.50	28.82	28.81
4.1	Employee engagement <sup>1</sup>	63	N/A	65	67	N/A	68
4.2	Partner satisfaction	4.06	4.31	4.00	4.31	4.15	4.17

## Appendix B – Subsidiaries and Operating Segments

The *BC Transit 2017/18 – 2019/20 Service Plan* did not include information on BC Transit's active or inactive subsidiaries.

### *Active Subsidiaries*

Incorporated in 2011, BC Transit had four wholly owned subsidiaries that held properties intended for future transit development. In the interim period, they operate as rental properties with net revenues attributed back to the province. The subsidiaries are:

- 0928624 BC Ltd.
- 0925406 BC Ltd.
- 0922667 BC Ltd.
- 0915866 BC Ltd.

### *Inactive Subsidiaries*

<b>Subsidiary</b>	<b>Incorporated</b>	<b>Date became dormant</b>	<b>Activity</b>
TBC Properties Inc.	16-Nov-10	Incorporation	N/A
TBC Operations Inc.	16-Nov-10	Incorporation	N/A
TBC Vehicle Management Inc.	16-Nov-10	Incorporation	N/A

### *Operating Segments*

BC Transit has no operating segments.