

NO: R058

COUNCIL DATE: May 1, 2023

REGULAR COUNCIL

TO: **Mayor & Council**

DATE: **April 25, 2023**

FROM: **General Manager, Finance**

FILE: **1880-20**

SUBJECT: **2022 Annual Consolidated Financial Statements**

RECOMMENDATION

The Finance Department recommends that Council:

1. Receive this report for information; and
2. Approve the 2022 Audited Financial Statements as presented in Appendix “I”.

INTENT

The purpose of this report is to provide Council with information about the results of the City of Surrey’s 2022 annual consolidated financial statements (“Financial Statements”), which will then be included in the City’s 2022 Annual Financial Report.

DISCUSSION

Sections 98 and 167 of the Community Charter require the City produce audited annual consolidated financial statements. The City of Surrey’s Financial Statements, including the auditor’s report, for the year ended December 31, 2022, are attached to this report as Appendix “I”. These will be included in the City’s 2022 Annual Financial Report that will be published by the end of June.

The Financial Statements included in Appendix “I” have been audited and prepared in accordance with Canadian Public Sector Accounting Standards as prescribed by the Public Sector Accounting Board (“PSAB”). City staff continue to stay abreast of new PSAB standards in preparation for future impacts. Attached as Appendix “II” is a summary of evolving and approved future standards. The City maintains a comprehensive system of internal controls to safeguard City assets and to provide reliable financial information.

The accounting firm of BDO Canada LLP (“BDO”) was retained to conduct the 2022 audit and to express an opinion as to whether the Financial Statements present fairly, in all material respects, the Financial Position of the City of Surrey as at December 31, 2022, and the results of its Operations, changes in Net Financial Assets, and Cash Flows for the year 2022.

Audit Results

Based on the auditor's opinion, the City's 2022 Financial Statements have been fairly stated in all material respects. The audit included consideration of financial controls relevant to the preparation of the Financial Statements and designing appropriated audit procedures. The auditors identified no significant internal control deficiencies during the audit.

Executive Summary

In early 2022, the Province took steps to ease certain COVID-19 restrictions impacting the operation of City Parks, Recreation & Culture ("PRC") and Library facilities. As a result, PRC programs resumed operations and Library branches returned to full-service hours, adjusted to community needs and activity levels. The City continued to monitor capacity levels and hire and train staff to restore operations.

2022 was marked by aggressive and swift interest rate increases by the Bank of Canada ("BOC") as a means to temper the effects of high inflation. The BOC increased its Target Overnight Rate seven times last year, adding 3.75%. The Prime Rate at Canadian financial institutions climbed to 6.45%, the highest level over the past 20-plus years. The cost to the City for goods and services rose as a result of inflation, while investment income benefitted from enhanced yields with a year-over-year increase of \$23.180 million.

Surrey experienced strong development activity in 2022 with \$2.1 billion worth of building permits issued during the year. The real estate market remains active with Surrey continuing its appeal as an affordable destination for young families to settle and thrive.

The City has continued to invest in significant capital projects to provide citizens with access to safe, inviting, high quality facilities, programs and services. In 2022, construction commenced for the Cloverdale Sport & Ice Complex, Bear Creek Athletics Centre, and the Newton Community Centre. Investing in major capital projects spurs economic activity that can catalyze growth while supporting our vision of a thriving, green and inclusive community.

On November 14, 2022, Council directed staff to prepare a plan for maintaining the RCMP as the Police of Jurisdiction ("POJ") in Surrey. In December 2022, Council endorsed a report that outlined the plan to retain the RCMP as POJ in Surrey. This final report was forwarded to the provincial Solicitor General and the provincial Minister of Public Safety for endorsement. In January 2023, the Province advised the City, the RCMP, and the Surrey Police Service ("SPS") that further information was required from all parties prior to an endorsement by the Minister of Public Safety of Council's decision to retain the RCMP as POJ. As of the date of this report, the decision from the Province is still pending.

During the course of 2022, the City strengthened its financial position and is well poised to continue delivering a high quality of service to our residents and businesses in 2023 and years beyond.

Explanation of Variances between 'Budget' Amounts and Year End 'Actuals'

The annual audited Financial Statements included in Appendix "I", are presented in the format required by the Chartered Professional Accountants of Canada, which reports the amortization expense in each functional area.

The Consolidated Statement of Operations – Revenues & Expenses, included as Table 1, has been reclassified to adjust the budgeted development cost charges ("DCC") revenue to reflect only the current year portion of the budget (as denoted by *) and to remove the amortization expense, interest on debt and general fiscal services, and write down of tangible capital assets from each functional area to better compare actual revenues and expenses to budget.

Table 1 – Consolidated Statement of Operations – Revenues & Expenses

<i>For the year ended December 31, 2022 (in thousands of dollars)</i>	<i>2022 Budget</i>	<i>2022 Actual</i>	<i>2022 Budget Variance</i>
REVENUES			
1 Taxation revenue	\$ 524,529	\$ 533,006	\$ 8,477
2 Sales of goods and services	296,470	301,948	5,478
3 Development cost charges	* 79,125	122,761	43,636
4 Developer contributions	160,208	251,365	91,157
5 Investment income	16,823	40,003	23,180
6 Transfers from other governments	55,541	69,391	13,850
7 Other	55,160	106,069	50,909
	1,187,856	1,424,543	236,687
EXPENSES			
8 Police services	199,471	229,987	30,516
9 Parks, recreation and culture	109,628	104,270	(5,358)
10 General government	67,474	69,192	1,718
11 Roads & traffic safety	36,629	39,238	2,609
12 Water	71,845	81,965	10,120
13 Fire services	68,512	75,431	6,919
14 Sewer	69,128	67,486	(1,642)
15 Solid waste	37,599	34,780	(2,819)
16 Drainage	14,469	14,667	198
17 Planning and development	33,030	33,944	914
18 Library services	21,134	22,151	1,017
19 Engineering	9,854	9,780	(74)
20 Surrey City Energy	3,220	3,533	313
21 Parking	1,365	1,104	(261)
22 Amortization	144,029	142,440	(1,589)
23 Interest on debt and general fiscal services	12,229	12,840	611
24 Write down of tangible capital assets	-	2,389	2,389
	899,616	945,197	45,581
25 EXCESS REVENUES OVER EXPENDITURE *	288,240	479,346	191,106

The Consolidated Statement of Operations – Change in Equity, included as Table 2, has been reclassified to reflect the adjusted budgeted DCC revenue referenced in the previous table (as denoted by *). This table shows the change in equity as a result of excess revenues over expenses.

Table 2 - Consolidated Statement of Operations – Change in Equity

<i>For the year ended December 31, 2022 (in thousands of dollars)</i>		<i>2022 Budget</i>	<i>2022 Actual</i>	<i>2022 Budget Variance</i>
26	Accumulated Surplus (Equity), beginning of year	9,917,853	9,917,853	-
	Excess revenues over expenditures	288,240	479,346	191,106
27	Accumulated Surplus (Equity), end of year	\$10,206,093	\$ 10,397,199	\$ 191,106

The line items in Table 1 and 2 have been numerically referenced on the left side of each table. An explanatory note on the variance related to each line item is provided on the following pages with corresponding numbering between each note and Table 1 and 2.

Revenues:

1. *Taxation revenue:* The actual taxation revenue received in 2022 was approximately \$8.477 million higher than budget. This variance was a result of higher physical growth than budget, which resulted in additional parcel and assessment value taxation revenues, including tax levies and grants-in-lieu.
2. *Sales of goods and services:* Sales revenues were \$5.478 million higher than budget. PRC revenues were \$7.618 million lower than budget due to reduced programming and facility hours during the first half of 2022, as a result of COVID-19 related impacts on operations. Metered water and sewer utility fees also came in less than budget by \$1.887 million as water consumption was lower than expected due to employers recalling staff back to their offices, reversing COVID-19 work from home arrangements, leading to reduced residential water usage. These negative variances were offset by higher than budgeted revenues related to development driven application and public hearing fees, Surrey Fire Service dispatch services revenues, secondary suite fees, security clearance fees, proceeds from statutory right of ways, FortisBC operating agreement revenues, and Recycle BC revenues, totalling \$14.983 million.
3. *Development cost charges:* The adjusted budget of \$79.125 million for the 2022 DCC program, combined with \$50.073 million in funding that was committed to projects in prior years but had not yet been spent, equals the total budget of \$129.198 million (as found on the Consolidated Statement of Operations in Appendix “I”). The ‘Actual’ figure of \$122.761 million in 2022 is the revenue required to match the capital costs of expanding and upgrading the City’s water, sewer, transportation, and drainage infrastructure and meeting its parkland needs. The resulting positive variance of \$43.636 million between the actual and adjusted budget reflects the timing difference between construction and acquisitions and the related payments. These funds will be used to complete projects and acquisitions that are currently in progress or slated for completion in the future.

4. *Developer contributions:*

The detailed breakdown of this variance is as follows:

	Budget	Actual	Variance
(a) NCP Contributions	\$3.100M	\$12.237M	\$9.137M
(b) Cash-in-Lieu of Parkland	\$10.000M	\$4.910M	(\$5.090M)
(c) Private Contributions	\$47.108M	\$51.753M	\$4.645M
(d) Contributed Assets	\$100.000M	\$182.465M	\$82.465
Total:	\$160.208M	\$251.365M	\$91.157M

- (a) The budget for Neighbourhood Concept Plan (“NCP”) contributions is based on the anticipated usage of the reserve. Comparatively, the actual results are based on NCP contributions received during the year. The variance is the result of higher than anticipated contributions relative to budgeted usage.
- (b) Cash-in-Lieu of Parkland is a contribution by developers in accordance with *Surrey Subdivision and Development Bylaw, 1986, No. 8830, Amendment Bylaw, 2015, No. 18602* with funding utilized for the purchase of parkland. The budget is based on the anticipated usage of the reserve. The actual results are based on the Cash-in-Lieu contributions received during the year. The variance is the result of lower than anticipated contributions relative to budgeted usage.
- (c) Private Contributions consist of payments that are expected to be received and applied to capital projects within the year and includes carry forward amounts from prior year. This category includes contributions from non-Provincial or non-Federal sources and miscellaneous contributions from various sources (including the Insurance Corporation of British Columbia, other Municipalities, and private sources) towards amenities, paving, road cutting services, signal installations and miscellaneous contributions to parks development and other capital projects. Community Amenity Contributions (“CAC”) and Density Bonus payments are also included within this category. The favourable variance of \$4.645 million is largely attributable to greater than budgeted developer contributions for cash-in-lieu of parking spaces, affordable housing contributions and revenue recognized for capital projects, offset by less than budgeted receipts of CAC and Density Bonus payments in 2022.
- (d) Contributed Assets are indicative of development activity. These assets are comprised of land and constructed infrastructure that are part of a development and subsequently turned over to the City as a public asset. The budget is an estimate based on historical contributions and is subject to uncertainty as Contributed Asset activity is reliant on private development activity, which can be cyclical and subject to market forces which dictate the timing and magnitude of developments.
5. *Investment income:* Investment income was \$23.180 million higher than budget. The budget utilized a conservative approach based on market condition forecasts, available at the end of 2021, which indicated a stable yet relatively subdued outlook for investment yields throughout 2022. As the Bank of Canada (“BOC”) determined that rising inflation could no longer be deemed transitory, swift action was taken to increase the BOC’s key interest rate by 3.75% between March and December of last year. The rapid BOC rate

increases translated to escalating investment yields which proved beneficial for the City's investment portfolio, resulting in a favorable variance.

6. *Transfers from other governments:*

The detailed breakdown of this variance is as follows:

	Budget	Actual	Variance
(a) Rapid Housing Initiative	\$0.000M	\$6.846M	\$6.846M
(b) Traffic Fine Revenue Sharing	\$6.560M	\$6.368M	(\$0.192M)
(c) TransLink	\$22.439M	\$28.527M	\$6.088M
(d) Gaming Revenue Sharing	\$2.121M	\$3.313M	\$1.192M
(e) Other Government Transfers	\$1.861M	\$5.362M	\$3.501M
Subtotal:	\$32.981M	\$50.415	\$17.435M
(f) Capital Infrastructure Grants	\$22.560M	\$18.975M	(\$3.585M)
Total:	\$55.541M	\$69.391M	\$13.850M

- (a) The Federal government's National Housing Strategy seeks to help address the urgent housing needs of vulnerable Canadians. As part of this strategy, the first two rounds of the Rapid Housing Initiative provided the City with \$30.0 million in grants to develop a number of affordable and supportive housing units for vulnerable populations. This represents flow-through grant revenue for the City where the amount of funding received is fully offset by the expenditures incurred to deliver housing units, in partnership with external service providers. \$6.846 million represents the portion of this total funding received that was spent on housing projects and recognized as revenue in 2022. A budget was not included for 2022 as the timing for the usage of this grant funding was uncertain.
- (b) Traffic Fine Revenue is slightly lower than budgeted, representing the total traffic fines collected and distributed by the Province for their fiscal year ending March 31, 2021.
- (c) The transfer from TransLink budget approximates anticipated expenditures for which TransLink is providing funding, while the actual results represent the funding that the City has received and spent on specific partnership projects. The difference between budget and actual represents a timing difference between the estimated and actual funding receipts.
- (d) The 2022 budget for Gaming Revenue Sharing was based on a conservative approach which assumed a gradual return to normalized operations for the Elements Casino after the effects of COVID-19 related restrictions. The positive variance of \$1.192 million is attributable to the casino resuming higher levels of gaming activity sooner than was anticipated in the budget.
- (e) The favourable variance of \$3.501 million in Other Government Transfers is partially attributable to the unbudgeted grant of \$1.175 million from the provincial Local Government Climate Action Program. This grant was unbudgeted as no further climate action funding was expected after the sudden cancellation of the Climate Action Revenue Incentive Program ("CARIP") program in 2021. Other transfers

contributing to the favourable variance include provincial and federal grants for Parks, Recreation & Culture programs, grants for the Transportation and Drainage utilities, and a provincial Victim Services grant for Policing Services.

- (f) The budget for Capital Infrastructure Grants represents infrastructure sharing grants from the Federal and Provincial Governments. Examples include the federal Disaster Mitigation and Adaption Fund and provincial Ministry of Transportation and Infrastructure funding. The negative variance reflects a difference between the estimated timing of construction and the related payments. These funds will be used to complete projects that are currently in progress or slated for completion in the future.

7. *Other:*

The detailed breakdown of this variance is as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
(a) Licenses & Permits	\$31.710M	\$44.319M	\$12.609M
(b) Leases & Rentals	\$12.276M	\$15.371M	\$3.095M
(c) Penalties & Interest on Taxes	\$5.214M	\$7.572M	\$2.358M
(d) Donations, Sponsorship, & Other	\$1.876M	\$12.240M	\$10.364M
(e) Fines	\$2.084M	\$0.883M	(\$1.201M)
(f) Gain on disposal of assets	\$2.000M	\$25.684M	\$23.684M
Total:	<u><u>\$55.160M</u></u>	<u><u>\$106.069M</u></u>	<u><u>\$50.909M</u></u>

- (a) The favourable variance for Licenses & Permits is primarily attributable to higher than budgeted revenues for Building, Electrical and Plumbing permits driven by increased activity in residential and industrial, commercial, & institutional construction. Business license revenues were also stronger than budget due to enhanced business activity in the City.
- (b) The 2022 Leases & Rentals budget was based on a conservative approach which assumed a gradual return to normalized operations after the effects of COVID-19 related restrictions. The favourable variance was partly due to better-than-expected revenues from the City's lease with the Fraser Downs Racetrack & Casino, which includes payments based on gaming activity. The additional revenue resulted from the resumption of higher levels of gaming activity sooner than was anticipated in the budget. The favourable variance is also caused by stronger than expected lease revenues for the City's commercial & residential property holdings and filming sites.
- (c) The favorable variance is a result of higher than anticipated revenues for penalties and interest on property taxes and utility charges, including water, sewer, District Energy, and solid waste. The budget is based on an average of prior year actual results.

- (d) The favorable variance for Donations, Sponsorship & Other was primarily the result of revenue recognized from the Strengthening Communities' Services Program COVID-19 Safe Restart Funding received in 2021.
- (e) The unfavourable variance for Fines is due to lower than budgeted revenues for parking violations and bylaw infractions.
- (f) The Gain on disposal of assets is typically related to the disposal of City infrastructure, such as road right of ways or used assets such as fleet and minor parks equipment, which occurs annually as part of ongoing City operations. The favourable variance of \$23.684 million is attributable to the sale of City-owned property located at 9810 - 192 Street to the Greater Vancouver Sewerage and Drainage District for the expansion of the North Surrey Recycling and Waste Centre.

Expenses

8. *Police services:* The 2022 Police services budget was based on the member deployment projections presented to the Surrey Policing Transition Trilateral Committee ("SPTTC") by the Surrey Police Service ("SPS") and approved by the Surrey Police Board. These deployment numbers were based on a Joint RCMP/SPS Human Resources Strategy and Plan (the "HR Plan"). According to the HR Plan, in phase one, beginning in November 2021, a group of 29 SPS sworn members assumed some operational policing duties with the RCMP. During 2022, additional groups of SPS officers were required to be deployed, and RCMP members were required to be demobilized.

The 2022 Police services budget was predicated on the unilateral budget that SPS proposed to the City in November 2021. The 2022 budget allocation for the RCMP was then derived assuming a proportionate reduction to RCMP members as SPS ramps up. However, on November 14, 2022, Council directed staff to maintain the RCMP as the Police of Jurisdiction ("POJ") in Surrey and cease the policing transition process.

The budget for Police services in 2022 was comprised of three separate components - RCMP Contract, City Police Support Service and SPS.

- RCMP Contract had an unfavourable variance of \$25.929 million. When the 2022 Police services budget was adopted in 2021, it was expected that the distribution of the budget between the RCMP and the SPS would be generally reflective of the policing services provided to the City by each of these agencies. The RCMP was expected to provide 55% of policing services by the end of December 2022, relative to the targeted strength of 734 members. However, at December 31, 2022, RCMP represented 77% of the total deployed members within Police services.
- City Police Support Service had an unfavourable variance of \$11.778 million primarily due to one-time policing transition expenses, offset by the funding applied from the approved 2022 capital budget. Additional factors included expenses related to six City initiatives aimed at addressing rising unsheltered homelessness in Surrey City Centre, offset by the revenue recognized from the Strengthening Communities' Services Program grant, discussed in section 7(d).

- SPS had a favourable variance relative to budget of \$7.191 million. This was primarily due to recoveries for expenses included under one-time transition costs, and lower than expected training costs and IT maintenance costs, offset by higher than budgeted overtime costs.

The key drivers of the overall unfavorable variance of \$30.516 million include the lack of alignment between the expenditures incurred and the relative share of policing services being provided between the two agencies, along with additional costs between the two agencies stemming from maintaining levels of policing personnel greater than the budgeted member strength of 734.

9. *Parks, recreation & culture:* The \$5.358 million favorable variance primarily resulted from a loss of revenues due to reduced programming and facility hours during the first half of 2022, as a result of COVID-19 related impacts on operations, offset by cost avoidance in relation to salaries and operating costs. Cost savings included \$6.805 million for salaries and benefits, \$2.387 million for various expenses related to parks improvements & renovations and other PRC facilities, and \$1.432M in advertising & media, utilities & maintenance costs, and other cost savings. These savings were offset by increased costs of \$5.266 million in grants and sponsorships, professional and consultants' charges, leases and rentals and other various cost increases.

10. *General government:*

The detailed breakdown of this variance is as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
(a) Mayor and Council	\$1.845M	\$1.741M	(\$0.104M)
(b) Grants and Council Initiatives	\$1.073M	\$0.483M	(\$0.590M)
(c) City Manager	\$1.565M	\$1.269M	(\$0.296M)
(d) Bylaws	\$8.663M	\$9.482M	\$0.819M
(e) Corporate Services (HR, IT, Leg. Services & Legal)	\$35.294M	\$37.466M	\$2.172M
(f) Investment & Intergovernmental Relations	\$1.658M	\$1.413M	(\$0.245M)
(g) Finance	\$14.621M	\$13.452M	(\$1.169M)
(h) SCDC	\$0.156M	\$0.093M	(\$0.063M)
(i) Other (contingency, misc. items)	\$2.599M	\$3.793M	\$1.194M
Total	<u>\$67.474M</u>	<u>\$69.192M</u>	<u>\$1.718M</u>

- (a) Mayor and Council had a favorable variance due to lower operating costs related to communication, training & recruiting, and travel.
- (b) Grants and Council Initiatives had a favorable variance due to various grant funding categories which were not fully utilized in 2022.
- (c) City Manager had a favorable variance due to savings from staffing vacancies and lower operating costs related to consulting & professional services, training & recruiting, and special projects.

- (d) Bylaws had an unfavorable variance due to higher operating costs for salaries and benefits, uniforms, office supplies, and consultant and professional services. The overages in these expenses were offset by staffing vacancies and higher than budgeted revenues in Bylaws.
 - (e) Corporate Services had an unfavorable variance, due in part to higher than budgeted municipal election related costs in Legislative Services and Information Technology (“IT”). IT also incurred higher than expected staffing expenditures and higher overtime than expected, related to additional support provided to SPS. Increased costs for delivery and postage, leases and rentals, advertising, and contract payment expenses were also noted.
 - (f) Investment & Intergovernmental Relations had a favorable variance due to savings from staffing vacancies and consulting and professional fees.
 - (g) Finance had a favorable variance due to savings from staffing vacancies and lower than expected claims related expenses.
 - (h) In April 2020, Surrey City Council gave support to a motion to dissolve the Surrey City Development Corporation (“SCDC”) and transfer its operations to the City. During 2022, the dissolution and transition of the Corporation’s assets and liabilities to the City continued. SCDC had a favorable variance primarily due to the winding down of operational activities during the year. Based on recent direction from current City Council, SCDC will be re-operationalized and is expected to resume development activities by the end of 2023.
 - (i) Other had an unfavorable variance for the year of \$1.194 million. As noted in section 6(a), \$6.846 million of Rapid Housing Initiative flow-through grant expenditure represents the portion of the total federal funding received that was spent on housing projects in 2022, in partnership with external service providers. This unbudgeted expenditure was offset by favourable variance of \$1.793 million due to unutilized budgeted operating contingency, \$0.723 million in favourable variances from other entities and other minor miscellaneous favourable variances related to consolidation.
11. *Roads & traffic safety:* The unfavorable variance of \$2.609 million is partially due to additional costs incurred for the City’s snow removal and sand/salt application activities in response to severe winter road conditions last year. These added expenditures were offset against savings from staffing vacancies and other operating costs.
 12. *Water:* The unfavorable variance of \$10.120 million is primarily related to costs associated with the Metro Vancouver Jericho Reservoir project. The Jericho Reservoir is Metro Vancouver’s tangible capital asset. Accordingly, the City’s cost-sharing expenditures over the past five years towards the construction of the asset were tracked separately in a non-capitalized project. Upon completion of the project in 2022, the City’s total cost-sharing contributions were transferred to Water operations’ expenditures. Funding to offset these expenditures was set aside in prior years and was applied from the approved Water capital program to Water operations in 2022.
 13. *Fire services:* The unfavorable variance of \$6.919 million is mostly due to \$4.900 million of salaries and benefits costs for the retroactive impact of the last three-year (2020–2022)

Surrey International Association of Fire Fighters (“IAFF”) Collective Agreement. The retroactive impact budget was included within General government services and subsequently reallocated to Fire services, resulting in a zero variance on an overall consolidated basis. The remaining negative variance of \$2.019 million can be attributed to greater than expected salaries and benefits costs, primarily resulting from backfill costs related to sustained elevated absenteeism levels of staff beyond the normal existing capacity and inflationary cost increases associated with supplies and materials, including fuel costs.

14. *Sewer*: The favorable variance of \$1.642 million is predominately the result of operating savings through lower than expected costs for consulting and professional services, hydro electricity costs on sewer/drainage/water stations and maintenance costs.
15. *Solid waste*: The favorable variance of \$2.819 million is mainly due to lower than budgeted garbage collection and disposal costs. The 2022 budget anticipated an upward trajectory in these costs as the pandemic led to more waste being diverted as a result of changes to residents’ habits and patterns for their household activities. As pandemic restrictions eased in 2022, waste trends changed once again as workers returned to their offices and spent less time at home, resulting in less garbage collection and disposal costs for the City.
16. *Drainage*: The unfavorable variance \$0.198 million resulted from higher than budgeted costs for supplies and material. These variances were offset by savings in consulting and professional services due to timing differences between actual and budgeted project activity.
17. *Planning & development*: The unfavorable variance of \$0.914 million is primarily the result of additional consulting & professional services costs on various projects along with supplies and materials cost increases related to facilities maintenance activities. These negative variances were partially offset by savings from staffing vacancies.
18. *Library services*: The unfavorable variance of \$1.017 million is primarily due to higher than budgeted costs for library related subscriptions, microfilm, books, and audio-visual materials. COVID-19 resulted in a shift from physical books and materials that were capital in nature to digital services which are considered operating costs. The corresponding underutilized Library capital funding was transferred across to Library operations to offset the additional expenditures.
19. *Engineering*: The favorable variance of \$0.074 million is predominantly the result of savings from staffing vacancies, offset by higher than budgeted operating costs, primarily associated with equipment rentals and contractor payments.
20. *Surrey City Energy*: The unfavorable variance of \$0.313 million is largely the result of higher than budgeted utility charges and other inflationary cost increases.
21. *Parking*: The favorable variance of \$0.261 million is mostly the result of savings from staffing vacancies, and cost savings from scope changes resulting in lower than budgeted City Hall parkade maintenance costs.

22. *Amortization*: This expense represents the annual consumption or usage of the City's tangible capital assets. The 2022 budget was estimated based on the actual assets owned by the City in 2021 as well as an estimate of the value of new assets that would be added in 2022. Although amortization for major upcoming projects was estimated, variances are related to the timing and mix of new assets added in each category during 2022. Amortization by asset type is as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Land Improvements	\$5.224M	\$5.242M	\$0.018M
Building & Leasehold Improv.	\$24.200M	\$23.248M	(\$0.952M)
Infrastructure	\$90.241M	\$93.459M	\$3.218M
Equipment	\$24.364M	\$20.491M	(\$3.873M)
	<u>\$ 144.029M</u>	<u>\$ 142.440M</u>	<u>(\$1.589M)</u>

23. *Interest on debt and general fiscal services*: This line item includes interest expense on long-term borrowing. The unfavorable variance of \$0.611 million is due to higher than budgeted mortgage interest on an income property which was transferred to the City from SCDC, along with increased costs for electronic payment processing fees.
24. *Write down of tangible capital assets*: This line item represents adjustments to tangible capital assets which are impaired or fully amortized.
25. *Excess Revenues over Expenditures*: This item represents the current year's revenue that has been recognized to support capital acquisitions and to contribute to reserve funds. For example, recognition of revenues such as DCCs and Developer contributions are used to fund the addition of tangible capital assets, representing the most significant component of this line item. This item also represents funds reserved for future spending obligations and debt repayment. The anticipated excess is higher than budgeted, primarily due to significant favorable variances in Developer contributions, Development cost charges and Gain on disposal of assets.
26. *Accumulated Surplus (Equity), beginning of year*: This line item represents all City equity (monetary, property, other assets and infrastructure). This is, in essence, the City's net worth which includes the historical cost of tangible capital assets, net of amortization, and both committed and uncommitted surplus funds at the beginning of 2022. It reflects the balance under the "Accumulated Surplus" line of the City's 2021 financial statements.
27. *Accumulated Surplus (Equity), end of year*: This line item represents the City's net worth which includes the cost of tangible capital assets, net of amortization, and both committed and uncommitted surplus funds.

General Comment

Overall, the City continues to be in a relatively strong financial position. As noted in Appendix "I" Note 12. Accumulated surplus, the City's accumulated surplus has increased from prior year. This schedule includes components of the City's accumulated surplus, providing information on the various fund balances, surpluses, and investment in tangible capital assets that make up the ending accumulated surplus.

94% of the City's accumulated surplus consists of the City's investments in tangible capital assets such as land and land improvements, along with transportation and utilities infrastructure. The remainder of the accumulated surplus is made up of discretionary and statutory Reserves set aside by Council and Other appropriated funds which are earmarked for specific purposes and commitments. For example, the Capital projects reserve balance, consisting of CAC and Density Bonus developer contributions, is committed towards the construction of City facilities and various amenities.

Staff will continue to provide Council with updated financial information on a quarterly basis during 2023 through the Quarterly Financial Reporting process.

CONCLUSION

The Financial Statements that are included in Appendix "I" have been prepared in accordance with Canadian Public Sector Accounting Standards as prescribed by the Public Sector Accounting Board. The City maintains a comprehensive system of internal controls to safeguard City assets and to provide reliable financial information. It is recommended Council approve the 2022 Audited Financial Statements as presented in Appendix "I". These statements will be included in the published version of the City of Surrey's 2022 Annual Financial Report that will be distributed to Council and posted on the City's website in June 2023.

All the variances outlined in this report will be considered when formulating future Financial Plans.

Kam Grewal, CPA, CMA
General Manager, Finance

Appendix "I": 2022 Financial Statements of City of Surrey
Appendix "II": PSAB Reporting Standards – Current Developments

Consolidated Financial Statements of

CITY OF SURREY

Year ended December 31, 2022

DRAFT

Independent Auditor's Report

To the Mayor and Council of the City of Surrey

Opinion

We have audited the consolidated financial statements of the City of Surrey and its controlled entities (the "City") which comprise the Consolidated Statement of Financial Position as at December 31, 2022 and the Consolidated Statements of Operations, Changes in Net Financial Assets, and Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the City financial statements present fairly, in all material respects, the financial position of the City as at December 31, 2022 and its results of operations, its changes in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the City in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the City's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the City, or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the City's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally-accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with Canadian generally-accepted auditing standards we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 City's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the City's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However future events or conditions may cause the City to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Consolidated Entity to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Chartered Professional Accountants

Vancouver, British Columbia

DATE OF APPROVAL OF FS

City of Surrey

Consolidated Statement of Financial Position

As at December 31, 2022, with comparative figures for 2021
(in thousands of dollars)

	2022	2021
FINANCIAL ASSETS		
Cash and cash equivalents	\$ 80,851	\$ 591,508
Accounts receivable (note 2)	208,927	160,974
Portfolio investments (note 3(a))	1,619,901	1,015,623
Investment in business partnership (note 3(b))	533	738
	<u>1,910,212</u>	<u>1,768,843</u>
LIABILITIES		
Trade and other accounts payable (note 4)	123,732	104,121
Due to other governments (note 5)	129,913	144,997
Employee future benefits (note 6)	31,446	30,765
Deposits and prepayments (note 7)	381,456	351,295
Deferred revenue (note 8)	123,229	130,994
Deferred development cost charges (note 9)	333,558	371,704
Debt (note 10)	333,471	356,970
	<u>1,456,805</u>	<u>1,490,846</u>
NET FINANCIAL ASSETS	<u>453,407</u>	<u>277,997</u>
NON-FINANCIAL ASSETS		
Tangible capital assets (note 11)	9,934,411	9,631,885
Inventories of supplies	1,917	1,195
Prepaid expenses	7,464	6,776
	<u>9,943,792</u>	<u>9,639,856</u>
ACCUMULATED SURPLUS (note 12)	<u>\$ 10,397,199</u>	<u>\$ 9,917,853</u>

Commitments and contingencies (note 14)

Kam Grewal, BBA, CPA, CMA
CFO/General Manager, Finance

To be read in conjunction with the Notes to the Consolidated Financial Statements

City of Surrey

Consolidated Statement of Operations

For the year ended December 31, 2022, with comparative figures for 2021
(in thousands of dollars)

	2022		2021
	Budget		
	(note 22)		
REVENUES			
Taxation revenue (note 17)	\$ 524,529	\$ 533,006	\$ 518,400
Sales of goods and services	296,470	301,948	275,990
Development cost charges (note 9)	129,198	122,761	44,991
Developer contributions	160,208	251,365	208,220
Investment income	16,823	40,003	18,015
Transfers from other governments (note 21)	55,541	69,391	49,839
Other (note 18)	55,160	106,069	67,666
TOTAL REVENUES	1,237,929	1,424,543	1,183,121
EXPENSES			
Police services	202,579	231,311	219,702
Parks, recreation and culture	131,086	124,607	100,743
General government	91,500	92,874	98,020
Roads and traffic safety	80,113	85,995	79,186
Water	82,014	92,642	80,088
Fire services	71,585	77,781	70,670
Sewer	82,155	81,243	77,091
Solid waste	41,843	39,247	41,719
Drainage	36,355	37,420	35,206
Planning and development	33,238	34,162	31,081
Library services	23,445	24,035	22,360
Engineering	16,354	16,707	15,623
Surrey City Energy	4,675	4,932	3,892
Parking	2,674	2,241	2,224
TOTAL EXPENSES	899,616	945,197	877,605
ANNUAL SURPLUS	338,313	479,346	305,516
Accumulated surplus, beginning of year	9,917,853	9,917,853	9,612,337
Accumulated surplus, end of year	\$ 10,256,166	\$ 10,397,199	\$ 9,917,853

To be read in conjunction with the Notes to the Consolidated Financial Statements

City of Surrey

Consolidated Statement of Changes in Net Financial Assets

As at December 31, 2022, with comparative figures for 2021
(in thousands of dollars)

	2022 Budget (note 22)	2022	2021
ANNUAL SURPLUS	\$ 338,313	\$ 479,346	\$ 305,516
Acquisition of tangible capital assets	(579,334)	(449,537)	(303,857)
Amortization of tangible capital assets	144,029	142,440	142,707
Gain on disposal of tangible capital assets	-	(25,684)	(778)
Proceeds on disposal of tangible capital assets	-	30,255	4,351
	<u>(96,992)</u>	<u>176,820</u>	<u>147,939</u>
Acquisition of inventories of supplies	-	(1,917)	(1,195)
Consumption of inventories of supplies	-	1,195	988
Acquisition of prepaid expenses	-	(7,464)	(6,776)
Use of prepaid expenses	-	6,776	5,352
	<u>-</u>	<u>(1,410)</u>	<u>(1,631)</u>
CHANGE IN NET FINANCIAL ASSETS	<u>(96,992)</u>	<u>175,410</u>	<u>146,308</u>
Net financial assets, beginning of year	277,997	277,997	131,689
Net financial assets, end of year	<u>\$ 181,005</u>	<u>\$ 453,407</u>	<u>\$ 277,997</u>

To be read in conjunction with the Notes to the Consolidated Financial Statements

City of Surrey

Consolidated Statement of Cash Flows

For the year ended December 31, 2022, with comparative figures for 2021
(in thousands of dollars)

	2022	2021
OPERATING TRANSACTIONS		
Annual Surplus	\$ 479,346	\$ 305,516
Non-Cash items:		
Amortization of tangible capital assets	142,440	142,707
Gain on disposal of tangible capital assets	(25,684)	(778)
Developer contributions of tangible capital assets (note 11(a))	(182,466)	(158,122)
Change in non-cash operating working capital:		
Accounts receivable	(47,953)	(321)
Inventories of supplies	(722)	(207)
Prepaid expenses	(688)	(1,424)
Trade and other accounts payable	19,611	29,783
Due to other governments	(15,084)	(128,782)
Employee future benefits	681	1,027
Deposits and prepayments	30,161	56,562
Deferred revenue	(7,765)	16,706
Deferred development cost charges	(38,146)	57,194
Net increase in cash from operating transactions	<u>353,731</u>	<u>319,861</u>
CAPITAL TRANSACTIONS		
Acquisition of tangible capital assets	(267,071)	(145,735)
Proceeds on disposal of tangible capital assets	30,255	4,351
Cash used by capital transactions	<u>(236,816)</u>	<u>(141,384)</u>
FINANCING TRANSACTIONS		
Proceeds from issuance of debt	-	150,600
Repayment of MFA debt and loans payable	(23,499)	(7,860)
Cash (used) / provided by financing transactions	<u>(23,499)</u>	<u>142,740</u>
INVESTING TRANSACTIONS		
Purchase of portfolio investments	(604,278)	(636,874)
Cash distributed from other investments	205	(114)
Cash used by investing transactions	<u>(604,073)</u>	<u>(636,988)</u>
DECREASE IN CASH	(510,657)	(315,771)
Cash and cash equivalents, beginning of year	591,508	907,279
Cash and cash equivalents, end of year	<u>\$ 80,851</u>	<u>\$ 591,508</u>

To be read in conjunction with the Notes to the Consolidated Financial Statements

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022
(tabular amounts in thousands of dollars)

GENERAL

The City of Surrey (the "City") is incorporated under the Local Government Act of British Columbia. The City's principal activities include the provision of local government services to residents of the incorporated area. These include administrative, protective, infrastructure, environmental, recreational, and utility services.

1. Significant accounting policies

(a) Basis of accounting

These consolidated financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards as prescribed by the Public Sector Accounting Board ("PSAB").

(b) Basis of consolidation

The consolidated financial statements reflect the assets, liabilities, revenues, and expenditures of the reporting entity. The reporting entity is comprised of all the City funds, including the Surrey Public Library ("Library") and Surrey Police Service ("SPS"), and other entities controlled by the City. Inter-fund and inter-corporate transactions and balances have been eliminated. The other entities included are as follows:

- Surrey City Development Corporation ("SCDC") and its controlled entities; and
- Surrey Homelessness and Housing Society ("SHHS").

The following funds account for the resources and operations of the City:

- i) Operating Funds - These funds are used to record the general operating costs of the services provided by the City, including drainage, sewer, water, solid waste, parking, transportation, and Surrey City Energy.
- ii) Capital Funds - These funds are used to record the acquisition costs of tangible capital assets and any related debt outstanding, including all lands and infrastructure owned by the City.
- iii) Reserve Funds - Under the Community Charter of British Columbia, City Council may, by by-law, establish reserve funds for specified purposes. Money in a reserve fund and interest earned thereon must be expended only for the purpose for which the fund was established. If the amount in a reserve fund is greater than required for the purposes for which it was established, City Council may transfer all or part of the amount to another reserve fund.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022
(tabular amounts in thousands of dollars)

1. Significant accounting policies (continued)

(b) Basis of consolidation (continued)

iv) Surrey City Development Corporation

The consolidated financial statements reflect the assets, liabilities, revenues and expenses of SCDC. SCDC has the following wholly owned subsidiaries and government partnerships, which are accounted for as follows:

- (i) Grove Limited Partnership and Grove (G.P.) Inc. - (50% owned and proportionately consolidated)
- (ii) Surrey City Investment (Industrial) Corporation ("SCIIC") - (100% owned and fully consolidated)

SCIIC has a 50% ownership in the Beedie SCDC (34A Ave) Limited Partnership ("Beedie LP") and has 50% ownership in Beedie SCDC (34A Ave) G.P. Ltd., the General Partner of Beedie LP. Beedie LP and Beedie GP are accounted for using the modified equity method.

- (iii) Surrey City Investment Corporation ("SCIC") and Kwantlen Park Development Corporation ("KPDC") – (100% owned and fully consolidated)

SCIC and KPDC were inactive as at December 31, 2022 and December 31, 2021.

v) Surrey Homelessness and Housing Society

In 2007, the City of Surrey incorporated the SHHS. The purposes of the Society are to raise funds for financing programs and projects that address homelessness in Surrey. The City is considered to have control over the Society's functions by virtue of the ability to appoint the society's board members; therefore, the Society's financial information is fully consolidated within the City's financial statements.

The consolidated financial statements include the assets, liabilities, revenues, and expenses of the SHHS. The City provided initial funding to the SHHS and oversees its operations through the council appointed board.

(c) Cash and cash equivalents

Cash and cash equivalents include cash and short-term investments with maturities of three months or less at the date of acquisition, are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022
(tabular amounts in thousands of dollars)

1. Significant accounting policies (continued)

(d) Trust Funds

These funds account for assets which must be administered as directed by agreement or statute for certain beneficiaries. In accordance with PSAS recommendations on financial statement presentation for local governments, trust funds are not included in the City's consolidated financial statements. Trust funds administered by the City are presented in Note 19.

(e) Revenue recognition

Revenues are recognized in the period in which the transaction or event occurs that gives rise to the revenues or when the goods or services are delivered. All revenues are recorded on an accrual basis, except when the amounts cannot be determined with a reasonable degree of certainty.

Revenue recognition on sales of properties occurs when the City has transferred the significant risks and rewards of ownership. Property lease revenue includes all amounts earned from tenants, including property tax and operating cost recoveries. Property lease revenues are recognized on a straight-line basis over the term of the lease.

(f) Taxation revenue

Taxes are recorded at estimated amounts when they meet the definition of an asset, have been authorized and the taxable event occurs. Annual property tax levies, including parcel taxes and grants-in-lieu of taxes, are recorded as taxes for municipal services in the year they are levied. Taxes receivable are recognized net of an allowance for anticipated future appeal adjustments.

Through the BC Assessments' appeal process, current year property assessments may be adjusted by way of supplementary roll adjustments. The effects of these adjustments on taxes are recognized either at the time they are awarded during the year or accrued as can be reasonably estimated at the end of the year.

(g) Transfers from other governments

Government transfers are recognized as revenue in the financial statements when the transfer is authorized and any eligibility criteria are met, except to the extent that transfer stipulations give rise to any obligation that meets the definition of a liability. In that case, the transfer of revenue is initially deferred and then recognized in the statement of operations as the stipulation liabilities are settled.

When the City is deemed the transferor, the transfer expense is recognized when the recipient is authorized and has met the eligibility criteria.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

(tabular amounts in thousands of dollars)

1. Significant accounting policies (continued)

(h) Collection on behalf of other authorities

The City is required to act as the agent for the collection of certain taxes and fees imposed by other authorities. Collections for other authorities are excluded from the City's taxation revenues.

(i) Development cost charges

Development cost charges are recorded as deferred revenue at the time they are received as there is a future obligation to be fulfilled. When qualifying development expenditures are incurred, they are recognized into revenue.

(j) Developer contributions

Tangible capital assets are contributed by developers as a condition of the development approval process. The timing of delivery of tangible capital assets is dependent upon the developer. Tangible capital assets received as contributions are recorded at their estimated fair value at the date of receipt and recognized as developer contributions revenue.

(k) Investment income

Investment income is reported as revenue in the period earned.

(l) Deferred revenue

The City defers the portion of the funds collected from permits, licenses, leases, and other fees relating to services not yet rendered. Revenue is recognized in the year in which related inspections are performed or other related services are provided.

(m) Expenses

Expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and/or the creation of a legal obligation to pay. Interest expense is accrued using the effective interest method.

(n) Portfolio investments

City investments with an original maturity date of more than three months are reported as portfolio investments and consist of short-term investments, bonds, and debentures, which are recorded at amortized cost. Discounts and premiums arising on the purchase of these investments are amortized over the term of the investments on an effective interest method.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022
(tabular amounts in thousands of dollars)

1. Significant accounting policies (continued)

(o) 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 over one or more future periods 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 related to the acquisition, design, construction, development, improvement, or betterment of the assets. Cost includes overhead charges related to construction and development that are directly attributable to the acquisition or construction of the asset. The City does not capitalize interest associated with the acquisition or construction of a tangible capital asset.

The cost, less residual value, of the tangible capital assets, excluding land, are amortized on a straight-line basis over their estimated useful lives as follows:

Asset	Useful life – Years
Land improvements	12 to 100
Buildings and building improvements	10 to 60
Leasehold improvements	2 to 25
Infrastructure:	
Roads and road structures	5 to 100
Water, Sewer and Drainage systems	10 to 100
Machinery and equipment:	
Vehicles	5 to 30
Technology	4 to 25
Furniture & equipment	3 to 50

Annual amortization commences on the date the asset is acquired or available for use. Assets under construction are not amortized until the asset is put into service and available for productive use.

Tangible capital assets received as contributions are recorded at their estimated fair value at the date of receipt and are recorded as revenue.

Works of art and historic assets are not recorded as assets in the consolidated financial statements.

Where an estimate of fair value is not determinable, the tangible capital asset is recognized at a nominal value.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

(tabular amounts in thousands of dollars)

1. Significant accounting policies (continued)

(o) Non-financial assets (continued)

(ii) Inventories of supplies

Inventories of supplies held for consumption are recorded at the lower of cost and replacement cost.

(iii) Prepaid expenses

Prepaid expenses of supplies or services held for consumption are recorded at the lower of cost and replacement cost.

(p) Employee future benefits

(i) City and its employees participate in the Municipal Pension Plan. The Municipal Pension Plan is a multi-employer contributory defined benefit pension plan. Payments in the year are expensed.

(ii) Sick leave, retirement pay, dental benefits, and post-employment benefits also accrue to the City's employees. The liability relating to these benefits is actuarially determined based on length of service, best estimates of retirement ages and expected future salary and wage increases. The liabilities under these benefit plans are accrued based on projected benefits pro-rated as employees render services necessary to earn the future benefits.

Actuarial gains or losses are amortized over the expected average remaining service life of the related employee group.

The liability for event driven benefits, such as disability benefits, is calculated when the event occurs. The expense is recognized in the year the event occurs.

(q) Budget data

The budget data presented in these consolidated financial statements was included in the City of Surrey 2022-2026 Consolidated Financial Plan and was adopted through By-law #20484 on December 24, 2021.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022
(tabular amounts in thousands of dollars)

1. Significant accounting policies (continued)

(r) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Significant estimates include assumptions used in estimating contributed tangible capital assets, developer contributions, useful lives for amortization, provisions for accrued liabilities, contingencies, and actuarial valuations of employee future benefits. Actual results could differ from these estimates.

(s) Segment disclosure

A segment is defined as a distinguishable activity or group of activities of a government for which it is appropriate to separately report financial information to achieve the objectives of the standard. The City of Surrey has provided definitions of segments used by the City as well as presented financial information in a segmented format (Note 20).

(t) Liabilities 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. A liability for remediation of contaminated sites is recognized when a site is not in productive use and all of the following criteria are met:

- An environmental standard exists;
- Contamination exceeds an environmental standard;
- The City is directly responsible or accepts responsibility;
- The City expects that future economic benefits will be given up; and,
- A reasonable estimate of the amount can be made.

The liability is measured as management's estimate of the cost of remediation and post remediation, including operations, maintenance, and monitoring, which are an integral part of the remediation strategy for a contaminated site. The liability is recorded net of any expected recoveries. No liability for contaminated sites exists as at December 31, 2021 or 2022.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022
(tabular amounts in thousands of dollars)

2. Accounts receivable

	<u>2022</u>	<u>2021</u>
General and other accounts receivable	\$ 88,382	\$ 40,191
Development cost charges	55,195	64,909
Property taxes	26,499	20,964
Utility charges	22,689	18,104
Local area improvement receivable	8,732	9,027
Due from other authorities	3,092	3,536
MFA debt reserve fund receivable	4,338	4,243
	<u>\$ 208,927</u>	<u>\$ 160,974</u>

3. Investments

(a) Portfolio Investments

	<u>2022</u>	<u>2021</u>
Maturing within one year	\$ 783,990	\$ 439,028
Maturing within two years	375,591	282,058
Maturing within three to seven years	457,761	290,482
City investments (i)	<u>1,617,342</u>	<u>1,011,568</u>
SCDC investments	-	955
SHHS investments (ii)	2,559	3,100
	<u>\$ 1,619,901</u>	<u>\$ 1,015,623</u>

(a) Portfolio Investments

- (i) City investments includes term deposits, GICs, bonds, and high interest savings accounts and have an average portfolio yield of 2.27% (2021 – 1.73%). All City investments can be liquidated on demand but may have associated penalties on liquidation.
- (ii) SHHS investments includes a diversified portfolio of fixed income and equity securities held by the SHHS with an average yield rate of (8.43%) (2021 – 6.15%), for the purpose of supporting programs and projects related the objectives of the SHHS.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022
(tabular amounts in thousands of dollars)

3. Investments (continued)

(b) Investment in business partnership

	<u>2022</u>	<u>2021</u>
Business partnership	<u>\$ 533</u>	<u>\$ 738</u>

SCDC's joint-venture partnership in Beedie Limited Partnership ("Beedie LP") meets the criteria of a business partnership and results are accounted for under the modified equity method. Beedie LP owns and operates a build-to-suit industrial building in the City that has been occupied by a tenant under a long-term lease. The liability is limited to the cash held in the partnership and land which it contributed to Beedie LP. The City's proportionate share in respect of this entity is as follows:

	<u>2022</u>	<u>2021</u>
Financial assets	\$ 805	\$ 732
Liabilities	(8,446)	(8,471)
Non-financial assets	<u>8,174</u>	<u>8,477</u>
	<u>\$ 533</u>	<u>\$ 738</u>

Revenues and expenditures for the year ended December 31, 2022 were \$1.15 million (2021 – \$1.10 million) and \$0.81 million (2021 – \$0.77 million), respectively.

4. Trade and other accounts payable

	<u>2022</u>	<u>2021</u>
Trade accounts payable	\$ 55,599	\$ 39,954
Payroll accounts payable	19,540	22,951
RCMP retroactive contract accrual (i)	32,007	32,007
Contractors' holdbacks	14,211	6,838
Interest payable on debt	<u>2,415</u>	<u>2,371</u>
	<u>\$ 123,732</u>	<u>\$ 104,121</u>

- (i) In 2016, the Government of Canada introduced Bill C-7 to create a new labour relations regime for RCMP members and reservists. This bill received royal assent in 2017 and an application for certification at the Federal Public Service Labour Relations and Employment Board. In August 2021, RCMP members ratified the collective agreement, resulting in retroactive pay increases for over 19,000 RCMP regular members.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022
(tabular amounts in thousands of dollars)

4. Trade and other accounts payable (i) (continued)

As at December 31, 2021, the City of Surrey recorded a liability of \$32.007 million related to the RCMP collective agreement retroactive salary increase impact. The estimate was provided to the City by Public Safety Canada.

In March 2023, the City received an invoice from the RCMP in the amount of \$30.851 million, representing the total finalized retroactive pay raise amount for the period April 1, 2017 to March 31, 2021.

5. Due to other governments

	<u>2022</u>	<u>2021</u>
Due to Federal Government (RCMP)	\$ 46,228	\$ 58,438
Due to TransLink (note 13)	39,000	39,000
Due to Regional Districts	25,773	29,321
Due to Province of British Columbia	10,486	9,066
Due to other government entities	8,426	9,172
	<u>\$ 129,913</u>	<u>\$ 144,997</u>

6. Employee future benefits

The City provides certain post-employment and sick leave benefits to its employees. These benefits include accumulated non-vested sick leave, post-employment service pay and post-retirement top-ups for dental, life insurance accidental death and dismemberment insurance, vacation deferral, supplementary vacation, and benefit continuation for disabled employees. The liability associated with these benefits is calculated based on the present value of expected future payments pro-rated for services.

Accrued benefit liability:

	<u>2022</u>	<u>2021</u>
Balance, beginning of year	\$ 30,765	\$ 29,738
Current service cost	2,445	2,114
Interest cost	761	659
Amortization of net actuarial gain	(314)	(154)
Benefits paid	<u>(2,211)</u>	<u>(1,592)</u>
Accrued benefit liability, end of year	<u>\$ 31,446</u>	<u>\$ 30,765</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022
(tabular amounts in thousands of dollars)

6. Employee future benefits (continued)

An actuarial valuation for these benefits was performed to determine the City's accrued benefit obligation as at December 31, 2022. The difference between the actuarially determined accrued benefit obligation of \$31.162 million and the accrued benefit liability of \$31.446 million as at December 31, 2022 is an unamortized actuarial gain as noted below. The actuarial gain is amortized over a period equal to the employees' average remaining service life of 12 years (2021 – 12 years).

Reconciliation of accrued benefit liability to accrued benefit obligation:

	<u>2022</u>	<u>2021</u>
Actuarial benefit liability, end of year	\$ 31,446	\$ 30,765
Unamortized actuarial gain	(284)	(1,779)
Accrued benefit obligation, end of year	<u>\$ 31,162</u>	<u>\$ 28,986</u>

Actuarial assumptions used to determine the City's accrued benefit obligation are as follows:

	<u>2022</u>	<u>2021</u>
Discount rate	4.50%	2.55%
Expected future inflation rate	2.50%	1.80%
Employee average remaining service life (years)	12.00	12.00

7. Deposits and prepayments

	<u>2022</u>	<u>2021</u>
Deposits:		
Future works	\$ 66,979	\$ 61,720
Planning and development	108,939	98,702
Engineering	139,175	127,100
Pavement cuts	4,576	4,536
Boulevard trees	735	1,232
Latecomer	2,422	3,416
Other deposits	3,727	2,443
Total deposits	<u>\$ 326,553</u>	<u>\$ 299,149</u>
Prepayments:		
Taxes	\$ 50,073	\$ 47,119
Utilities	4,533	4,475
Other prepayments	297	552
Total prepayments	<u>54,903</u>	<u>52,146</u>
Total deposits and prepayments	<u>\$ 381,456</u>	<u>\$ 351,295</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022
(tabular amounts in thousands of dollars)

8. Deferred revenue

	<u>2022</u>	<u>2021</u>
Development/building permits	\$ 41,426	\$ 39,461
Deferred capital works	46,860	49,828
Deferred lease revenue	23,103	25,606
Other	11,840	16,099
	<u>\$ 123,229</u>	<u>\$ 130,994</u>

9. Deferred development cost charges

Development Cost Charges (“DCCs”) are collected to pay for costs that will be incurred by the City to support growth, such as development projects related to infrastructure, parks, or amenities. DCCs cover 99% (2021 – 99%) of those costs based on rates as recommended by the Engineering Department. In accordance with the Local Government Act, these funds must be held in separate reserve funds and accumulate interest until spent. DCCs are deferred and recognized as revenue when the related costs are incurred.

	<u>2022</u>	<u>2021</u>
Deferred DCCs:		
Arterial roads	\$ 81,108	\$ 91,493
Parkland	39,706	75,043
Drainage/storm water detention	50,142	48,773
Sanitary sewer	33,619	37,404
Collector roads	23,652	20,695
Water	25,271	24,230
Area specific	76,200	71,045
Park development	3,860	3,021
	<u>\$ 333,558</u>	<u>\$ 371,704</u>
Deferred DCCs, beginning of year	<u>\$ 371,704</u>	<u>\$ 314,510</u>
DCCs levied for the year	83,818	101,301
Investment income	797	884
Increase in Deferred DCCs	<u>84,615</u>	<u>102,185</u>
Revenue recognized:		
General Capital	(103,514)	(36,103)
Water Capital	(4,429)	(2,080)
Sewer & Drainage Capital	(14,818)	(6,808)
DCCs recognized as revenue	<u>(122,761)</u>	<u>(44,991)</u>
Deferred DCCs, end of year	<u>\$ 333,558</u>	<u>\$ 371,704</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022
(tabular amounts in thousands of dollars)

10. Debt

	<u>2022</u>	<u>2021</u>
MFA debt (i)	\$ 300,185	\$ 311,608
Loans payable (ii)	<u>33,286</u>	<u>45,362</u>
	<u>\$ 333,471</u>	<u>\$ 356,970</u>

(i) MFA debt

Pursuant to security issuing by-laws under authority of the Community Charter, the City obtains debt instruments through the Municipal Finance Authority of British Columbia ("MFA") to finance certain capital expenditures.

Gross amount of the debt less sinking fund installments and actuarial adjustments to date are as follows:

MFA Issue	<i>Gross debt</i>	<i>Sinking fund installments and actuarial adjustments</i>	<i>Net debt 2022</i>	<i>Net debt 2021</i>
116	\$ 100,000	\$ 32,517	\$ 67,483	\$ 71,170
121	45,000	12,973	32,027	33,565
126	67,335	12,706	54,629	56,273
156	150,600	4,554	146,046	150,600
	<u>\$ 362,935</u>	<u>\$ 62,750</u>	<u>\$ 300,185</u>	<u>\$ 311,608</u>

Current borrowing includes:

MFA Issue	Issue Date	Term (yrs.)	Maturity	Interest Rate	* Refinancing Date
116	April 4, 2011	25	April 4, 2036	1.47%	April 4, 2026
121	October 4, 2012	25	October 4, 2037	3.39%	October 4, 2027
126	Sept. 26, 2013	30	Sept. 26, 2043	3.85%	Sept. 26, 2023
156	Sept. 27, 2021	25	Sept. 27, 2045	2.58%	Sept. 27, 2041

*On the Refinancing Date, the City has the option to retire the debt early or refinance the borrowing at a new interest rate.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022
(tabular amounts in thousands of dollars)

10. Debt (continued)

(ii) Loans payable

	2022	2021
Loan payable (Cedar Hills Shopping Plaza), Citizen's Bank of Canada, 25-year capital financing expiring Nov 1, 2037, payable in monthly payments of \$78,497, including interest calculated at a rate of 3.95% per annum, secured by a mortgage on the commercial property. This loan was paid off in full on Oct 11, 2022.	\$ -	\$ 11,141
Biofuel Processing Facility, 25-year capital financing expiring December 31, 2042, payable in monthly payments of \$221,516 including interest calculated at a rate of 5.10% per annum.	33,286	34,221
Total Loans Payable	\$ 33,286	\$ 45,362

MFA payments and loan payments over the next five years and thereafter are as follows:

	MFA payments (i)	Loan payments (ii)	Total
2023	\$ 11,782	\$ 983	\$ 12,765
2024	12,153	1,035	13,188
2025	12,534	1,089	13,623
2026	12,932	1,146	14,078
2027	13,340	1,205	14,545
2028 and thereafter	237,444	27,828	265,272
Total	\$ 300,185	\$ 33,286	\$ 333,471

Total interest expense recorded for the year ended December 31, 2022 was \$11.3 million (2021 - \$9.3 million).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022
(tabular amounts in thousands of dollars)

11. Tangible capital assets

Net Book Value by category	<u>2022</u>	<u>2021</u>
Land and land improvements	\$ 2,171,718	\$ 2,059,626
Land under roads	3,580,548	3,427,817
Buildings and building improvements	468,615	488,716
Infrastructure	3,309,183	3,298,574
Machinery and equipment	126,968	132,645
Assets under construction	277,379	224,507
	<u>\$ 9,934,411</u>	<u>\$ 9,631,885</u>
Net Book Value by fund	<u>2022</u>	<u>2021</u>
General	\$ 2,864,117	\$ 2,734,811
Transportation	4,678,937	4,474,047
Water	655,632	661,990
Sewer	611,604	602,505
Drainage	1,115,150	1,111,500
Library	5,067	4,787
Surrey Police Service	2,782	398
Surrey City Development Corp.	1,122	41,847
	<u>\$ 9,934,411</u>	<u>\$ 9,631,885</u>

For additional detailed information, see the Schedule of Tangible Capital Assets (Schedule 1).

a) Contributed tangible capital assets

Contributed tangible capital assets have been recognized at fair value at the date of contribution. The value of contributed assets received during the year was \$182.5 million (2021 - \$158.1 million) comprised of roads infrastructure in the amount of \$163.7 million (2021 - \$129.8 million), water and wastewater infrastructure in the amount of \$15.0 million (2021 - \$17.5 million) and land in the amount of \$3.8 million (2021 - \$10.8 million), including improvements.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022
(tabular amounts in thousands of dollars)

12. Accumulated surplus

Accumulated surplus consists of individual fund surpluses, reserves and equity in tangible capital assets. The City's accumulated surplus is as follows:

	<u>2022</u>				<u>2021</u>	
Tangible Capital Assets	\$ 9,934,411				\$9,631,885	
Debt funded assets	(208,464)				(208,519)	
Invested in tangible capital assets	<u>9,725,947</u>				<u>9,423,366</u>	
	<u>Gross Allocations</u>				<u>Gross Allocations</u>	
Reserves set aside by Council						
Capital legacy	49,539	(49,539)	-	49,317	(49,317)	-
Municipal land	112,928	(27,454)	85,474	69,894	(38,311)	31,583
Equipment and building replacement	39,336	(5,044)	34,292	37,959	(9,354)	28,605
Neighborhood concept plans	53,534	(6,863)	46,671	41,618	(10,255)	31,363
Park land acquisition	6,217	(797)	5,420	13,600	(3,351)	10,249
Local improvement financing	18,372	(2,355)	16,017	18,104	(4,461)	13,643
Environmental stewardship	6,958	(892)	6,066	6,945	(1,711)	5,234
Parking space	9,410	(1,206)	8,204	3,746	(923)	2,823
Water claims	1,386	(178)	1,208	1,382	(341)	1,041
Affordable housing	3,715	(476)	3,239	2,100	(517)	1,583
Capital projects	65,176	(8,356)	56,820	30,412	(7,494)	22,918
	<u>366,571</u>		<u>263,411</u>	<u>275,077</u>		<u>149,042</u>
Internal borrowing to fund capital		<u>(103,160)</u>			<u>(126,035)</u>	
Other appropriated funds						
Infrastructure replacement	43,475	-	43,475	19,616	-	19,616
Revenue stabilization	13,490	-	13,490	13,490	-	13,490
Self insurance	12,193	-	12,193	12,328	-	12,328
Operating contingency and emergencies	8,610	-	8,610	8,610	-	8,610
Environmental emergencies	7,244	-	7,244	7,210	-	7,210
Prepaid expenses	7,464	-	7,464	6,776	-	6,776
Inventories of supplies	1,917	-	1,917	1,195	-	1,195
Committed funds	321,251	-	321,251	288,311	-	288,311
	<u>415,644</u>	<u>-</u>	<u>415,644</u>	<u>357,536</u>	<u>-</u>	<u>357,536</u>
Other Entities						
Surrey City Development Corporation			(10,153)			(15,252)
Surrey Homelessness and Housing Society			2,350			3,161
			<u>(7,803)</u>			<u>(12,091)</u>
Accumulated Surplus per Statement of Financial Position			<u>\$ 10,397,199</u>			<u>\$9,917,853</u>

Notes to the Consolidated Financial Statements

*For the year ended December 31, 2022
(tabular amounts in thousands of dollars)*

13. Due to TransLink

In January 2020, TransLink and City of Surrey signed a Memorandum of Understanding (“MOU”) to advance the development of several Project Partnership Agreements (“PPAs”) related to the Surrey portion of the South of Fraser Rapid Transit - Surrey Langley SkyTrain (“SLS”) project. The PPAs to be entered would include (a) Supportive Policies Agreement; (b) Municipal Access Agreement; and (c) Reimbursement Agreement.

In September 2020, TransLink and the City signed a compensation agreement, defined as the Reimbursement Agreement in the MOU. The agreement required that the City would contribute \$39.0M to the SLS project, comprised of property contributions valuing \$16.9 million; parking contributions valuing \$12.8 million; and a financial contribution of \$9.3 million. The City and TransLink will determine the timing and manner of payment of the financial contribution, but the payment from the City to TransLink shall be no later than 90 days after TransLink executes the Project agreement for the construction of the Project.

As at December 31, 2022 the City has recorded a liability due to TransLink in the amount of \$39.0 million relating to this compensation agreement. (Note 5)

14. Commitments and contingencies

- a) The City has significant future contractual commitments for incomplete capital acquisitions and capital construction projects in progress. The City records the capital costs incurred to the end of the year on these projects as work in progress under tangible capital assets. To provide for the completion of the projects, unexpended budget money for incomplete projects is appropriated as Committed Funds (see Note 12). The Financial Plan, updated annually, provides for the financing of these and future obligations within the estimated financial resources of the City.
- b) The City as a member of Metro Vancouver is directly, jointly and severally liable with the other member municipalities for the net capital liabilities of those authorities. Any liability which may arise as a result will be accounted for in the period in which the required payment is known and can be estimated, no liability was recorded during 2021 or 2022.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022
(tabular amounts in thousands of dollars)

14. Commitments and contingencies (continued)

- c) The City is a shareholder and member of E-Comm Emergency Communications for British Columbia Incorporated (E-Comm), whose services include a regional 9-1-1 call centre for the Greater Vancouver Regional District, Area Wide Radio emergency communications network, dispatch operations, and records management. The City holds 2 Class "A" shares and 1 Class "B" share (of a total of 37 Class "A" and 18 Class "B" shares issued and outstanding as at December 31, 2022). As a Class "A" shareholder, the City is committed to paying levies for services received under a cost sharing formula to fund the operating and capital costs of E-Comm operations. In addition, the City is contingently liable to cover its proportionate share of such costs should any member be unable to fulfill its funding obligations. Annual levy amounts fluctuate based on various factors under the cost sharing formula and amounted to \$1.4 million during the year (2021 - \$1.3 million). No liability was recorded during 2021 or 2022.
- d) The City is, from time to time, engaged in or party to certain legal actions, assessment appeals and other existing conditions involving uncertainty which may result in material losses. The outcome and amounts that may be payable, if any, under some of these claims, cannot be determined, and accordingly, only those claims in which a payment is considered likely and the amounts can be reasonably estimated have been recorded in the financial statements as a liability.
- e) The City insures itself through a combination of insurance policies and self-insurance. The City has a funded self-insurance appropriation included in accumulated surplus (Note 12). Based on estimates, this appropriation reasonably provides for all outstanding claims where the outcome is not currently determinable and already recognized as a liability.
- f) Debt Reserve Fund Demand Note

The City has a contingent liability with respect to the MFA Debt Reserve Fund Demand Notes. This contingent liability is a condition of the borrowings undertaken by the City.

As a condition for each debenture issue, the City is required to execute demand notes in connection with each debenture whereby the City may be required to loan certain amounts to the MFA. The debt agreement with the MFA provides that if at any time the scheduled payments provided for in the agreement are not sufficient to meet the MFA's obligations in respect to such borrowing, the resulting deficiency becomes the joint and several liability of the City and all other participants to the agreement through the MFA. The City is similarly liable on a contingent basis for the debt of other municipalities secured through the MFA.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022
(tabular amounts in thousands of dollars)

14. Commitments and contingencies (continued)

f) Debt Reserve Fund Demand Note (continued)

Demand note amounts are as follows:

Issue	LA	SI	Rgn SI	Purpose	Term	DRF Demand Note
116	17173	R10-2022	1139	Other	25	\$ 319
116	17180	R10-2357	1141	Other	25	637
116	17231	R11-124	1142	Other	25	1,035
121	17231	R11-124	1142	Other	25	743
126	17928	R13-1059	1188	Other	30	943
126	17929	R13-1061	1188	Other	30	280
156	20270	R21-541	1323	Other	25	721
156	20271	R21-543	1323	Other	25	371
156	20272	R21-545	1323	Other	25	1,622
Total						\$ 6,671

Management does not consider payment under this contingency to be likely and therefore no amounts have been accrued.

g) Policing services

The City is responsible under the Provincial Police Act for providing policing and law enforcement services within the municipality in accordance with the policing model selected by the City. The Province, through the Minister of Public Safety, and with delegated authority to the Director of Police Services, is responsible to superintend policing and ensure adequate and effective policing in BC.

In November 2018, the City initiated a transition of its policing model from the RCMP Contract to a municipal police service. Subsequently, in July 2020, the Province established the Surrey Police Board (the "Board"), and in August 2020 the Board created the SPS.

In November 2022, Council directed City staff to prepare a plan to retain the RCMP as Police of Jurisdiction ("POJ") in Surrey and request the Province to wind down the SPS. In December 2022, a report outlining the plan was submitted to the provincial Solicitor General and provincial Minister of Public Safety.

In January 2023, the Province advised the City that further information was required from all parties prior to an endorsement by the Minister of Public Safety of Council's decision to retain the RCMP as POJ.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022
(tabular amounts in thousands of dollars)

14. Commitments and contingencies (continued)

g) Policing services (continued)

In February 2023, the City provided further information as requested by the Province. As of the date of this report, the status of the Provincial endorsement of Council's decision to retain the RCMP as POJ cannot be determined.

h) Biofuel processing facility

The City entered a 25-year agreement in 2015 to design, build, finance, operate and maintain the Surrey Organics Biofuel Processing facility. Under the agreement, the City guaranteed to provide a minimum tonnage of City organic waste (as defined in the agreement) for processing. In return the City will receive 100% of the biomethane produced at the facility and will share in certain other revenues generated at the facility.

In 2018, the City recorded the facility as a tangible capital asset in the amount of its construction cost of \$50.0 million. The City also recorded a loan payable liability for an equal amount representing the capital financing for the facility. The liability will be reduced over the term of the agreement as payments are made to the operator for the City organic waste processed by the facility (note 10(ii)).

15. Contractual rights

Contractual rights are rights to economic resources arising from contracts or agreements that will result in revenues and assets in the future. The following table summarizes the contractual rights that existed at December 31, 2022:

	2023	2024	2025	2026	Thereafter
Lease revenue (a)	\$ 7,169	\$ 6,366	\$ 5,620	\$ 3,772	\$ 21,480
Government agreements (b)	4,916	2,712	140	141	458
Total	\$ 12,085	\$ 9,078	\$ 5,760	\$ 3,913	\$ 21,938

a) Lease revenue

The City has entered into a number of fixed term lease agreements for the use of City owned land and/or buildings that are anticipated to provide the City with future revenues. These agreements are for terms that vary from 1 to 22 years.

Notes to the Consolidated Financial Statements

*For the year ended December 31, 2022
(tabular amounts in thousands of dollars)*

15. Contractual rights (continued)

b) Government agreements

The City has entered into various government agreements with senior government and other agencies related to contractual rights expected to be realized as stipulations are met including when eligible expenditures are incurred or funding is received based on terms of agreement.

c) Developer contributions

The City has entered into a number of public works development agreements which require the developers to contribute various infrastructure assets to the City, including roads and underground utilities. The timing and extent of these future contributions vary depending on development activity and fair value of the assets received at the time of contribution, which cannot be determined with certainty at this time.

d) Other contractual rights

The City is entitled to receive revenue from certain other agreements. The revenue from these agreements cannot be quantified and has not been included in the amounts noted above.

16. Pension plan

The City and its employees contribute to the Municipal Pension Plan (the "Plan"), a jointly trustee pension plan. The Board of Trustees, representing plan members and employers, is responsible for administering the Plan, including investment of the assets and administration of benefits. The Plan is a multi-employer defined benefit pension plan. Basic pension benefits are based on a formula. As at December 31, 2021, the Plan has about 227,000 active members and approximately 118,000 retired members. Active members include approximately 42,000 contributors from local government.

Every three years, an actuarial valuation is performed to assess the financial position of the plan and adequacy of plan funding. The actuary determines an appropriate combined employer and member contribution rate to fund the plan. The actuary's calculated contribution rate is based on the entry-age normal cost method, which produces the long-term rate of member and employer contributions sufficient to provide benefits for average future entrants to the plan. This rate may be adjusted for the amortization of any actuarial funding surplus and will be adjusted for the amortization of any unfunded actuarial liability.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022
(tabular amounts in thousands of dollars)

16. Pension plan (continued)

The most recent valuation for the Plan as at December 31, 2021, indicated a \$3.761 million funding surplus for basic pension benefits on a going concern basis.

The City paid \$21.8 million (2021 - \$20.9 million) for employer contributions while employees contributed \$18.9 million (2021 - \$17.5 million) to the Plan in fiscal 2022.

The next valuation will be as at December 31, 2024, with results available in 2025.

Employers participating in the Plan record their pension expense as the amount of employer contributions made during the fiscal year (defined contribution pension plan accounting). This is because the Plan records accrued liabilities and accrued assets for the Plan in aggregate, resulting in no consistent and reliable basis for allocating the obligation, assets and cost to the individual employers participating in the Plan.

17. Taxation revenue

	<u>2022</u>	<u>2021</u>
Tax collected:		
Property taxes	\$ 416,702	\$ 400,630
Collections for other authorities	464,940	416,256
Parcel taxes	93,965	91,189
Grants-in-lieu of taxes	21,751	25,632
Other	589	949
	<u>997,947</u>	<u>934,656</u>
Less transfers to other authorities:		
Province of BC - School Taxes	(334,776)	(295,169)
Metro Vancouver Regional District	(13,971)	(11,509)
BC Assessment Authority	(10,197)	(9,021)
TransLink	(68,902)	(60,400)
Other	(37,095)	(40,157)
	<u>(464,941)</u>	<u>(416,256)</u>
Taxation revenue	<u>\$ 533,006</u>	<u>\$ 518,400</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022
(tabular amounts in thousands of dollars)

18. Other revenue

	<u>2022</u>		<u>2021</u>
Licenses and permits	\$ 44,319	\$	40,746
Leases and rentals	15,371		12,948
Penalties and interest on taxes	7,572		7,036
Miscellaneous	13,123		6,158
Gain on disposal of tangible capital assets	25,684		778
	<u>\$ 106,069</u>	<u>\$</u>	<u>67,666</u>

19. Trust funds

These assets must be administered as directed by agreement or statute for certain beneficiaries. In accordance with PSAS, trust funds are not included in the City's Consolidated Financial Statements.

Amounts administered by the City as trust funds are as follows:

	<u>2022</u>		<u>2021</u>
Cemetery Perpetual Care Fund	\$ 5,093	\$	4,652
Employee Benefits Fund	790		769
	<u>\$ 5,883</u>	<u>\$</u>	<u>5,421</u>

20. Segmented information

The City of Surrey is a diversified municipal government institution that provides a wide range of services to the citizens of Surrey, including Police Services; Parks, Recreation and Culture Services; General Government Services; Water Services; Fire Services; Sewer Services; Engineering Services; Drainage Services; Solid Waste Management Services; Roads & Traffic Safety Services; Planning and Development Services; Parking Services; Surrey City Energy Services; and Surrey Public Library Services. For management reporting purposes, the Government's operations and activities are organized and reported by Service Area. Service Areas were created for the purpose of recording specific activities and related objectives in accordance with legislated requirements.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022
(tabular amounts in thousands of dollars)

20. Segmented information (continued)

City Departments and the activities for which they are responsible are reported in these Service Areas. The Departments listed in the segmented information, along with the services that each Department provides are listed below:

Police Services

The mandate of the Police Service includes enforcing laws, preventing crime, and maintaining peace, order, and security.

Parks, Recreation and Culture Services

The Parks, Recreation and Culture Department is responsible for planning, facilitating the development of, operating and maintaining high quality parks, recreation and cultural facilities and services.

General Government Services – Mayor & Councillors’ Department, City Manager’s Department, Finance Department, Corporate Services Department, Surrey City Development Corporation, and Surrey Homelessness and Housing Society

General Government Services includes those elements of the organization with responsibility for adopting by-laws, adopting administrative policy, levying taxes, acquiring, disposing and managing City assets, ensuring effective financial management, monitoring performance and ensuring that high quality City service standards are met. The Surrey City Development Corporation, which engages in land development activities, and the Surrey Homelessness and Housing Society, which focuses on addressing homelessness in Surrey through raising funds and the provision of grants to worthy projects, also form part of General Government Services.

Roads and Traffic Safety Services

The Roads & Traffic Safety Utility provides effective managed transportation systems that serve the mobility needs of individuals and businesses and are safe, secure and support the economic vitality of the City, and protect and enhance the environment.

Water Services

The Water Utility operates the water system and its primary responsibility, in partnership with the Operations Division and Metro Vancouver, is to supply clean, safe drinking water to the residences and businesses of Surrey.

Fire Services

The mandate of the Fire Department is to enforce codes and maintain security by protecting life, property and the environment through the provision of emergency response services.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022
(tabular amounts in thousands of dollars)

20. Segmented information (continued)

Sewer Services

The Sewer Utility operates the network of sewer mains, to collect sewage and convey such sewage to treatment plants. The utility also plans, designs, and constructs sanitary sewer infrastructure; manages inflow and infiltration controls; and undertakes initiatives in support of the region's Integrated Liquid Waste Resource Management Plan.

Solid Waste Management Services

The Solid Waste Utility provides weekly residential curbside organic waste collection with alternating bi-weekly garbage and recycling collection services via a fully automated cart-based collection system.

Drainage Services

The Drainage Utility operates the network of storm sewers and pump stations for storm water management. Its primary responsibility is to manage the City's storm water runoff in partnership with Metro Vancouver.

Planning and Development Services

The Planning and Development Department is responsible for preparing land use plans, by-laws and policies for sustainable development of the City and for reviewing and approving new land and building development.

Surrey Public Library Services

The Surrey Public Library provides access to local and global information through its 11 Library branches located throughout the City.

Engineering Services

The Engineering Department is responsible for providing timely and effective services relating to water, sewer, drainage, solid waste collection, transportation systems, and corporate real estate.

Surrey City Energy

Surrey City Energy Utility operates a network of thermal energy systems. This utility provides these systems to new and existing developments throughout the Surrey City Centre area.

Parking

The Parking Authority Utility that plans, manages and enforces the City's on and off-street parking assets, employing leading edge technologies, such as license plate recognition and pay stations that provide a user-friendly interface, improved theft security and efficient enforcement.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

(tabular amounts in thousands of dollars)

For the year ended December 31, 2022

(in thousands of dollars)

NOTE	Police Services	Parks, Recreation and Culture	General Government	Roads & Traffic Safety	Water	Fire Services	Sewer	Solid Waste Management	Drainage	Planning and Development	Library Services	Engineering	Surrey City Energy	Parking	2022
20 SEGMENTED INFORMATION															
REVENUES															
Taxation, grants-in-lieu, assessments \$	-	-	\$ 921,794	\$ 32,166	\$ 1	\$ (1)	\$ 426	\$ -	\$ 43,561	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 997,947
Collections for other authorities	-	-	(464,941)	-	-	-	-	-	-	-	-	-	-	-	(464,941)
Taxation revenue	-	-	456,853	32,166	1	(1)	426	-	43,561	-	-	-	-	-	533,006
Sales of goods and services	1,990	25,795	35,064	1,564	86,995	5,216	74,703	48,800	37	5,213	224	8,335	4,827	3,185	301,948
Development cost charges	-	-	122,761	-	-	-	-	-	-	-	-	-	-	-	122,761
Developer contributions	-	537	69,528	164,632	2,308	-	3,946	-	9,022	-	30	244	1,100	18	251,365
Investment income	-	-	39,719	-	142	-	71	21	50	-	-	-	-	-	40,003
Transfers from other governments	6,835	2,135	14,946	37,927	-	-	8	-	6,540	-	982	-	-	18	69,391
Other	6,849	3,322	55,058	2,555	1,334	34	677	204	354	31,618	103	3,796	36	129	106,069
	15,674	31,789	793,929	238,844	90,780	5,249	79,831	49,025	59,564	36,831	1,339	12,375	5,963	3,350	1,424,543
EXPENSES															
Salaries and benefits	76,891	63,325	43,526	5,158	1,247	70,431	937	-	1,956	25,407	16,997	44,480	778	673	351,806
RCMP contracted services	134,780	-	-	-	-	-	-	-	-	-	-	-	-	-	134,780
Consulting and professional services	6,857	4,240	2,873	1,754	592	333	472	545	1,943	1,254	159	1,127	84	99	22,332
Telephone and communications	523	310	537	35	14	185	22	6	18	85	36	235	6	55	2,067
Regional district utility charges	-	-	-	-	68,569	-	56,570	-	-	-	-	-	-	-	125,139
Utilities	603	4,543	53	3,943	107	432	1,643	197	18	528	367	1,011	2,320	4	15,769
Garbage collection and disposal	17	1,075	2	1	-	25	-	25,523	-	-	6	58	-	-	26,707
Maintenance and small equipment	1,414	8,922	8,548	429	403	1,464	421	421	18	4,906	313	1,277	99	68	28,703
Insurance and claims	27	1	4,955	-	-	16	-	557	-	8	-	23	-	-	5,587
Leases and rentals	2,301	1,904	457	1,272	735	10	1,067	216	1,536	56	45	2,452	32	9	12,092
Supplies and materials	1,888	8,937	2,811	6,054	1,541	2,668	1,715	866	1,045	744	549	6,163	78	28	35,087
Advertising and media	125	201	433	3	-	-	-	37	1	11	2,112	18	-	-	2,941
Grants and sponsorships	1	2,470	7,693	-	-	-	-	-	-	-	9	-	-	-	10,173
Contract payments	1,165	5,795	723	8,903	851	264	531	2,425	1,614	105	55	2,738	138	213	25,520
Other	2,647	2,185	3,724	309	337	1,917	1,013	9	1,335	1,314	841	1,028	51	-	16,710
Cost recoveries, net	748	391	(7,043)	11,522	7,883	(2,284)	3,658	3,978	6,318	(474)	662	(50,757)	(53)	(45)	(25,496)
Interest on debt	-	-	8,695	-	-	-	-	2,658	-	-	-	-	-	-	11,353
Other interests and fiscal services	24	374	764	-	(31)	-	2	-	-	183	10	11	117	33	1,487
Amortization expense	1,300	19,934	14,123	46,612	10,394	2,320	13,192	1,809	21,618	35	1,874	6,843	1,282	1,104	142,440
	231,311	124,607	92,874	85,995	92,642	77,781	81,243	39,247	37,420	34,162	24,035	16,707	4,932	2,241	945,197
Excess (deficiency) of revenues over expenses	(215,637)	(92,818)	701,055	152,849	(1,862)	(72,532)	(1,412)	9,778	22,144	2,669	(22,696)	(4,332)	1,031	1,109	479,346
Transfer from (to) operating funds	66,574	3,055	(124,176)	25,639	(8,344)	4,900	9,534	(6,158)	(7,536)	1,124	22,768	1,911	11,178	(469)	-
Transfer from (to) reserve funds	(962)	(601)	(57,644)	42,342	5,268	(1,377)	11,760	(35)	3,268	(293)	100	(3,337)	96	1,415	-
Transfer from (to) capital funds	1,209	(6,265)	39,616	(9,286)	2,462	-	(9,081)	-	(5,332)	-	(17)	58	(11,473)	(1,891)	-
Annual surplus (deficit)	\$(148,816)	\$(96,629)	\$ 558,851	\$ 211,544	\$ (2,476)	\$ (69,009)	\$ 10,801	\$ 3,585	\$ 12,544	\$ 3,500	\$ 155	\$ (5,700)	\$ 832	\$ 164	\$ 479,346

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

(tabular amounts in thousands of dollars)

For the year ended December 31, 2021
(in thousands of dollars)

NOTE	Police Services	Parks, Recreation and Culture	General Government	Roads & Traffic Safety	Water	Fire Services	Sewer	Solid Waste Management	Drainage	Planning and Development	Library Services	Engineering	Surrey City Energy	Parking	2021
20 SEGMENTED INFORMATION															
REVENUES															
Taxation, grants-in-lieu, assessments	\$ -	\$ -	\$ 860,677	\$ 31,700	\$ 13	\$ -	\$ 504	\$ -	\$ 41,762	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 934,656
Collections for other authorities	-	-	(416,256)	-	-	-	-	-	-	-	-	-	-	-	(416,256)
Taxation revenue	-	-	444,421	31,700	13	-	504	-	41,762	-	-	-	-	-	518,400
Sales of goods and services	2,007	13,457	31,524	820	86,808	3,796	71,438	46,547	2	5,512	140	7,680	3,699	2,560	275,990
Development cost charges	-	-	44,991	-	-	-	-	-	-	-	-	-	-	-	44,991
Developer contributions	-	413	58,281	131,477	4,343	-	4,055	-	9,440	-	23	-	181	7	208,220
Investment income	-	8	17,689	-	167	-	96	28	27	-	-	-	-	-	18,015
Transfers from other governments	8,064	1,627	15,875	17,976	(1)	-	178	-	4,986	-	1,008	-	-	126	49,839
Other	147	2,217	27,273	1,384	1,323	(115)	668	195	190	29,557	44	3,778	46	959	67,666
	10,218	17,722	640,054	183,357	92,653	3,681	76,939	46,770	56,407	35,069	1,215	11,458	3,926	3,652	1,183,121
EXPENSES															
Salaries and benefits	40,614	49,588	50,883	6,524	-	64,281	-	-	-	23,738	14,519	43,572	715	584	295,018
RCMP contracted services	169,623	-	-	-	-	-	-	-	-	-	-	-	-	-	169,623
Consulting and professional services	2,857	3,279	1,733	1,997	363	175	623	953	1,997	2,760	167	1,036	155	116	18,211
Telephone and communications	456	281	943	49	11	164	18	7	8	80	29	249	3	56	2,354
Regional district utility charges	-	-	-	-	56,575	-	52,921	-	-	-	-	-	-	-	109,496
Utilities	607	3,653	36	4,026	76	391	1,732	180	10	539	336	1,476	1,471	4	14,537
Garbage collection and disposal	17	923	12	59	1	23	-	26,283	-	-	6	55	-	-	27,379
Maintenance and small equipment	354	7,284	8,092	258	455	1,535	21	312	4	1,450	241	776	97	74	20,953
Insurance and claims	-	-	3,628	-	-	-	-	434	-	18	-	56	-	-	4,136
Leases and rentals	1,003	734	(134)	1,096	690	27	1,004	222	1,412	17	43	2,135	-	12	8,261
Supplies and materials	997	7,005	1,901	3,083	1,709	2,662	1,652	1,272	731	1,480	473	5,073	20	59	28,117
Advertising and media	51	245	199	48	-	3	-	46	-	28	3,013	27	-	-	3,660
Grants and sponsorships	1	1,301	9,717	-	-	-	-	-	-	3	12	-	-	-	11,034
Contract payments	5	4,649	611	7,634	739	114	746	2,423	1,508	21	36	2,203	157	197	21,043
Other	1,722	1,599	3,977	186	192	1,984	650	3	580	1,221	969	939	71	1	14,094
Cost recoveries, net	8	36	(5,840)	8,455	9,206	(2,914)	4,492	4,406	7,603	(484)	640	(48,983)	(4)	(13)	(23,392)
Interest on debt	-	-	6,651	-	-	-	-	2,658	-	-	-	-	-	-	9,309
Other interests and fiscal services	23	175	520	-	(4)	-	(10)	-	-	175	4	11	141	30	1,065
Amortization expense	1,364	19,991	15,091	45,771	10,075	2,225	13,242	2,520	21,353	35	1,872	6,998	1,066	1,104	142,707
	219,702	100,743	98,020	79,186	80,088	70,670	77,091	41,719	35,206	31,081	22,360	15,623	3,892	2,224	877,605
Excess (deficiency) of revenues over expenses	(209,484)	(83,021)	542,034	104,171	12,565	(66,989)	(152)	5,051	21,201	3,988	(21,145)	(4,165)	34	1,428	305,516
Transfer from (to) operating funds	27,303	-	(71,099)	24,635	1,794	-	3,425	(6,737)	(3,602)	-	21,462	-	3,925	(1,106)	-
Transfer from (to) reserve funds	(2,278)	(747)	(27,800)	27,396	2,341	(1,297)	2,537	(619)	3,933	(263)	100	(3,303)	-	-	-
Transfer from (to) capital funds	446	(10,080)	45,318	(16,751)	(3,524)	-	(9,165)	-	(3,790)	1,885	(40)	24	(4,148)	(175)	-
Annual surplus (deficit)	\$ (184,013)	\$ (93,848)	\$ 488,453	\$ 139,451	\$ 13,176	\$ (68,286)	\$ (3,355)	\$ (2,305)	\$ 17,742	\$ 5,610	\$ 377	\$ (7,444)	\$ (189)	\$ 147	\$ 305,516

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

(tabular amounts in thousands of dollars)

21. Transfers from other governments

The Government transfers reported on the Consolidated Statement of Operations are comprised of the following:

	2022	2021
Revenue		
BC Provincial government grants:		
Ministry of Transportation and Infrastructure	\$ 8,207	\$ 341
Traffic fines revenue sharing	6,368	7,528
Casino revenue sharing	3,313	1,750
Flood mitigation funding	2,739	2,132
Childcare and seniors	1,422	1,707
Arts, Communities, and Sundry	1,398	94
Local government climate action program	1,175	-
Library operating and BC one Card	981	1,008
ICBC road improvement	655	1,003
Victim services	219	210
Roads	213	49
Clean energy vehicle fast charging stations	18	83
Climate action revenue incentive program	-	215
Subtotal BC Provincial government grants	26,708	16,120
Federal government grants:		
Rapid housing initiative	6,846	9,694
Water, drainage and sewer	3,407	3,031
Roads and parking	658	123
Building & facility improvements	656	198
SAFE program	487	533
Arts and heritage grants	213	109
Keep of prisoners	115	136
Childcare and youth	61	94
Summer students	35	16
Subtotal Federal government grants	12,478	13,934
TransLink:		
Arterial widening and intersection improvements	168	214
Arterial paving	8,659	939
Arterial bridges	2,891	6,643
Structures	5,436	-
Road operating and maintenance	4,477	4,002
Road general rehabilitation	2,265	1,797
Traffic signals, signs, and markings	1,936	2,399
Bicycle street network and other transit projects	2,695	508
Subtotal TransLink grants	28,527	16,502
UBCM community works fund:	1,678	3,283
Total transfers from other government revenues	\$ 69,391	\$ 49,839

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022
(tabular amounts in thousands of dollars)

22. Budget data

The budget data presented in these consolidated financial statements was included in the City of Surrey 2022-2026 Consolidated Financial Plan and was adopted through By-law #20484 on December 24, 2021. The following table reconciles the approved budget to the budget figures reported in these consolidated financial statements.

	Budget Amount
Approved consolidated budgeted revenues	\$ 1,237,929
Approved consolidated budgeted expenditures	1,489,399
Transfers between funds	(230,970)
	1,258,429
Less:	
Capital expenditures	(579,334)
Municipal debt principal repayments	(10,449)
Add:	
Transfers between funds	230,970
Total Expenses:	899,616
Annual surplus per statement of operations	\$ 338,313

23. Comparative figures

Certain comparative information has been reclassified to conform to the financial statement presentation adopted in the current year.

24. Subsequent Events

- (i) On February 14, 2023, the City of Surrey received \$11.3 million from the Canada Mortgage and Housing Corporation as part of Rapid Housing Initiative flow-through grant funding to assist with the development of supportive housing units for vulnerable populations, in partnership with external service providers.

Notes to the Consolidated Financial Statements

*For the year ended December 31, 2022
(tabular amounts in thousands of dollars)*

24. Subsequent Events (continued)

- (ii) On March 3, 2023, the Province of BC's Ministry of Municipal Affairs announced the Growing Communities Fund which provides a one-time total of \$1.0 billion in grants to all 188 BC municipalities and regional districts to help local governments prioritize local infrastructure and amenities projects. \$89.9 million was allocated to the City of Surrey based on the province's distribution formula incorporating population size and per-capita population growth.

25. Changes in Accounting Standards

Effective January 1, 2023, the City will be required to apply the new PSAS standard PS3280 Asset Retirement Obligations. Under this standard, a liability for an asset retirement obligation is recognized when there is a legal obligation to incur retirement costs in relation to a tangible capital asset; the past transaction or event giving rise to the liability has occurred; it is expected that future economic benefits will be given up; and a reasonable estimate of the amount can be made. The liability is recorded at an amount that is the best estimate of the expenditure required to retire a tangible capital asset at the financial statement date. This liability is subsequently reviewed at each financial reporting date and adjusted for the passage of time and for any revisions to the timing, amount required to settle the obligation or the discount rate. Upon the initial measurement of an asset retirement obligation, a corresponding asset retirement cost is added to the carrying value of the related tangible capital asset if it is still in productive use. This cost is amortized over the useful life of the tangible capital asset. If the related tangible capital asset is unrecognized or no longer in productive use, the asset retirement cost is expensed.

The City believes that the primary obligations will be associated with the removal of asbestos, disposal of certain equipment with hazardous materials, and remediating leased sites to their original condition. The City has not completed its estimate of the future liabilities related to these obligations, primarily the removal and disposal of asbestos which is believed to be prevalent throughout the City's buildings and infrastructure assets that were built prior to the mid-1980s.

At present, only rough estimates are available and the processes to ensure completeness of the obligations are still being performed. Over the remainder of 2023, the City will work on establishing reliable estimates and ensuring all obligations are captured, in order to recognize managements best estimate under the Standard.

City of Surrey

Schedule 1 - Tangible Capital Assets

As at December 31, 2022

(in thousands of dollars)

	Land and land improvements	Land under road	Buildings and building improvements	Infrastructure	Machinery and equipment	Assets under construction	Balance at December 31, 2022
COST							
Opening Balance	\$ 2,161,128	\$ 3,427,817	\$ 807,514	\$ 5,187,648	\$ 324,121	\$ 224,507	\$ 12,132,735
Additions and transfers	119,622	152,731	3,260	106,223	14,829	52,872	449,537
Disposals	(3,680)	-	(3,079)	(5,972)	(7,181)	-	(19,912)
Ending Balance	2,277,070	3,580,548	807,695	5,287,899	331,769	277,379	12,562,360
ACCUMULATED AMORTIZATION							
Opening Balance	101,502	-	318,798	1,889,074	191,476	-	2,500,850
Amortization	5,241	-	23,251	93,458	20,490	-	142,440
Accum. amort. on disposals	(1,391)	-	(2,969)	(3,816)	(7,165)	-	(15,341)
Ending Balance	105,352	-	339,080	1,978,716	204,801	-	2,627,949
NET BOOK VALUE	\$ 2,171,718	\$ 3,580,548	\$ 468,615	\$ 3,309,183	\$ 126,968	\$ 277,379	\$ 9,934,411
	Land and land improvements	Land under road	Buildings and building improvements	Infrastructure	Machinery and equipment	Assets under construction	Balance at December 31, 2021
COST							
Opening Balance	\$ 2,106,924	\$ 3,311,025	\$ 791,081	\$ 5,051,243	\$ 316,750	\$ 266,493	\$ 11,843,516
Additions and transfers	57,462	116,792	16,433	139,694	15,462	(41,986)	303,857
Disposals	(3,258)	-	-	(3,289)	(8,091)	-	(14,638)
Ending Balance	2,161,128	3,427,817	807,514	5,187,648	324,121	224,507	12,132,735
ACCUMULATED AMORTIZATION							
Opening Balance	96,670	-	294,793	1,799,944	177,801	-	2,369,208
Amortization	5,145	-	24,005	91,939	21,618	-	142,707
Accum. amort. on disposals	(313)	-	-	(2,809)	(7,943)	-	(11,065)
Ending Balance	101,502	-	318,798	1,889,074	191,476	-	2,500,850
NET BOOK VALUE	\$ 2,059,626	\$ 3,427,817	\$ 488,716	\$ 3,298,574	\$ 132,645	\$ 224,507	\$ 9,631,885

PSAB Reporting Standards – Current Developments

To ensure the City is prepared for future financial statement changes as mandated by Public Sector Accounting Board (“PSAB”), staff stay informed of new and evolving initiatives.

New standards that have been adopted by PSAB and affect financial reporting in the current and future years include the following:

Section PS 3280, Asset Retirement Obligations

This new Section establishes standards on how to account for and report a liability for asset retirement obligations. The main features of the new Section are:

- An asset retirement obligation is a legal obligation associated with the retirement of a tangible capital asset.
- Asset retirement costs associated with a tangible capital asset controlled by the entity increase the carrying amount of the related tangible capital asset (or a component thereof) and are expensed in a rational and systematic manner.
- Asset retirement costs associated with an asset no longer in productive use are expensed.
- Measurement of a liability for an asset retirement obligation should result in the best estimate of the amount required to retire a tangible capital asset (or a component thereof) at the financial statement date.
- Subsequent measurement of the liability can result in either a change in the carrying amount of the related tangible capital asset (or a component thereof), or an expense, depending on the nature of the re-measurement and whether the asset remains in productive use.
- A present value technique is often the best method with which to estimate the liability.
- As a consequence of the issuance of Section PS 3280:
 - editorial changes have been made to other standards; and
 - Section PS 3270, Solid Waste Landfill Closure and Post-Closure Liability has been withdrawn.

This Section applies to fiscal years beginning on or after April 1, 2022. Earlier adoption is permitted. Section PS 3270 will remain in effect until the adoption of Section PS 3280 for fiscal periods beginning on or after April 1, 2022, unless a public sector entity elects earlier adoption.

Staff anticipate that this new standard will have an impact on the City’s financial statements and have commenced review of any procedures or policies that will be required to be implemented in order to apply this new PSAB standard prior to the effective date, which for the City will be January 1, 2023.

Section PS 3400 Revenue

This section is related to revenue recognition principles that apply to revenues of governments and government organizations other than government transfers and tax revenue.

The Public Sector Accounting (“PSA”) Handbook has two Sections that address two major sources of government revenues, government transfers and tax revenue. Revenues are defined in Section PS 1000, Financial Statement Concepts. Recognition and disclosure of revenues are described in general terms in Section PS 1201, Financial Statement Presentation.

This section addresses recognition, measurement and presentation of revenues that are common in the public sector. It is less complex than the comparable new IFRS standard, although generally consistent in philosophy.

This new Section will be effective for fiscal years beginning on or after April 1, 2023. Earlier adoption is permitted.

Staff anticipate that this new standard will have some impact on the City's financial statements and have commenced review of any procedures or policies that will be required to be implemented in order to apply this new PSAB standard prior to the effective date, which for the City will be January 1, 2024.

Section PS 3450, Financial Instruments

This new Section establishes standards for recognizing and measuring financial assets, financial liabilities, and non-financial derivatives.

The main features of the new Section are:

- Items within the scope of the Section are assigned to one of two measurement categories: fair value, or cost or amortized cost.
- Almost all derivatives, including embedded derivatives that are not closely related to the host contract, are measured at fair value.
- Fair value measurement also applies to portfolio investments in equity instruments that are quoted in an active market.
- Other financial assets and financial liabilities are generally measured at cost or amortized cost.
- Until an item is derecognized, gains and losses arising due to fair value re-measurement are reported in the statement of re-measurement gains and losses.
- Budget-to-actual comparisons are not required within the statement of re-measurement gains and losses.
- When the reporting entity defines and implements a risk management or investment strategy to manage and evaluate the performance of a group of financial assets, financial liabilities or both on a fair value basis, the entity may elect to include these items in the fair value category.
- New requirements clarify when financial liabilities are derecognized.
- The offsetting of a financial liability and a financial asset is prohibited in absence of a legally enforceable right to set off the recognized amounts and an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.
- New disclosure requirements of items reported on and the nature and extent of risks arising from financial instruments.

The new requirements are to be applied at the same time as PS 2601, Foreign Currency Translation and are effective for fiscal years beginning on or after April 1, 2022. Earlier adoption is permitted. This Standard should be adopted with prospective application except for an accounting policy related to embed derivatives within contracts, which can be applied retroactively or prospectively.

Staff anticipate that this new standard will have little impact on the City's financial statements; however, staff will review the standards and assess if there are any procedures or policies that will

need to be implemented for these standards prior to their effective date, which for the City will be January 1, 2023.

Section PS 3041, Portfolio Investments

This Section revises and replaces Section PS 3040, Portfolio Investments. The following changes have been made:

- The scope is expanded to include interests in pooled investment funds.
- Definitions are conformed to those in PS 3450, Financial Instruments.
- The requirement to apply the cost method is removed, as the recognition and measurement requirements within Section PS 3450 apply, other than to the initial recognition of an investment with significant concessionary terms.
- Other terms and requirements are conformed to Section PS 3450, including use of the effective interest method.

The new requirements are effective for fiscal years beginning on or after April 1, 2022. Earlier adoption is permitted.

Staff anticipate that this new standard will have little impact on the City's financial statements; however, staff will review the standards and assess if there are any procedures or policies that will need to be implemented for these standards prior to their effective date, which for the City will be January 1, 2023.

Section PS 2601, Foreign Currency Translation

This Section revises and replaces PS 2600, Foreign Currency Translation. The following changes have been made to the Section:

- The definition of currency risk is amended to conform to the definition in PS 3450, Financial Instruments;
- The exception to the measurement of items on initial recognition that applies when synthetic instrument accounting is used is removed;
- At each financial statement date subsequent to initial recognition, non-monetary items denominated in a foreign currency that are included in the fair value category in accordance with Section PS 3450 are adjusted to reflect the exchange rate at that date;
- The deferral and amortization of foreign exchange gains and losses relating to long-term foreign currency denominated monetary items is discontinued;
- Until the period of settlement, exchange gains and losses are recognized in the statement of re-measurement gains and losses rather than the statement of operations; and
- Hedge accounting and the presentation of items as synthetic instruments are removed.

The new requirements are to be applied at the same time as PS 3450, Financial Instruments, and are effective for fiscal years beginning on or after April 1, 2022. Earlier adoption is permitted.

Staff anticipate that this new standard will have little impact on the City's financial statements; however, staff will review the standards and assess if there are any procedures or policies that will need to be implemented for these standards prior to their effective date, which for the City will be January 1, 2023.

Public Private Partnerships

This project has been underway since 2014 and is nearing completion. PSAB is currently deliberating feedback received on the exposure draft which closed at the end of February 2020.

The exposure draft recommends the following:

- an asset would be recorded when the public sector entity controls:
 - the purpose and use of the infrastructure;
 - access to the infrastructure; and
 - any significant interest accumulated in the infrastructure when the public private partnership's term ends.
- asset to be recorded at cost/fair value - usually based on present value of future payments related to construction/acquisition of asset
- record liability at same amount as asset
- liability a financial liability when cash/asset consideration, but if non-financial consideration may be:
 - a non-financial liability such as unearned revenue
 - or if no performance obligations may be immediate recognition of proceeds from grants of rights for use
- where a liability is recorded, it should be reduced as performance obligations are settled
- fairly detailed disclosure requirements.

The Public Private Partnerships standard, Section PS 3160, was approved in December 2020. The standard was issued in the PSA Handbook in April 2021, and is effective for fiscal years beginning on or after April 1, 2023.

Staff anticipate that this new standard will have little to no impact on the City's financial statements; however, staff will review the standards and assess if there are any procedures or policies that will need to be implemented for these standards prior to their effective date, which for the City will be January 1, 2024.

Financial Statement Presentation

Section PS 1201 will require public sector entities to present any remeasurement gains and losses related to financial instruments in a new statement of remeasurement gains and losses. This standard was introduced in conjunction with PS 2601 and PS 3450, therefore are linked to the adoption of those standards. This standard becomes effective for years commencing on or after April 1, 2022, although early adoption is encouraged. In accordance with the City's investment policy, the City does not invest in equity instruments or free-standing derivatives.

Staff anticipate that this new standard will have little to no impact on the City's financial statements; however, staff will review the standards and assess if there are any procedures or policies that will need to be implemented for these standards prior to their effective date, which for the City will be January 1, 2023.