

NO: R086

COUNCIL DATE: May 6, 2024

REGULAR COUNCIL

TO: **Mayor & Council**

DATE: **April 30, 2024**

FROM: **General Manager, Finance**

FILE: **1880-20**

SUBJECT: **2023 Annual Consolidated Financial Statements**

RECOMMENDATION

The Finance Department recommends that Council:

1. Receive this report for information; and
2. Approve the 2023 Audited Consolidated 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 2023 annual consolidated financial statements ("Financial Statements"), which will then be included in the City's 2023 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, 2023, are attached to this report as Appendix "I". These will be included in the City's 2023 Annual Financial Report that will be published by the end of June.

The Consolidated 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 informed 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 2023 audit and to express an opinion as to whether the Consolidated Financial Statements present fairly, in all material respects, the Financial Position of the City of Surrey as at December 31, 2023, and the results of its Operations, changes in Net Financial Assets, and Cash Flows for the year 2023.

Audit Results

Preparation of the consolidated financial statements is management's responsibility. As part of an audit in accordance with Canadian generally accepted auditing standards, the auditors obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. Based on the auditor's opinion, the City's 2023 Consolidated Financial Statements have been fairly stated in all material respects.

Executive Summary

At the beginning of 2023, Council followed through on its priority to seek input on the City's Financial Plan. The community feedback received influenced the 2023-2027 Financial Plan through five in-person open house events, an online survey, and a budget engagement webpage. The outreach resulted in 5,781 web and open house visits and 3,304 online survey responses.

Stakeholders also participated in the 2024-2028 Financial Plan budget engagement process in Fall 2023. Staff teams in central business district areas and high traffic commercial locations facilitated budget engagement efforts. Business leaders participated in focused meetings and provided input. Overall, 50,725 community members were reached through this budget engagement.

The Bank of Canada ("BOC") increased its Target Overnight Rate by 0.75% in 2023, bringing it up to 5.00%. The Prime Rate climbed to 7.20%, the highest level over the past 22 years. Inflation decelerated by the end of quarter three last year and then ticked back up again in December. The City's goods and services costs experienced inflationary pressures, despite improvements in price levels. Due primarily to relatively high interest rates, investment income increased by \$45.200 million in 2023, as compared to the prior year. However, it must be noted that investment income revenue is subject to significant volatility and may in fact be considerably lower in future years.

Surrey experienced strong development activity in 2023; building permits with a construction value of \$1.900 billion were issued during the year. The real estate market remains active with Surrey continuing its appeal as an affordable destination for young families. Businesses showed their confidence in Surrey as a destination for commerce, as evidenced by a 10% increase in business license revenue during 2023.

Council revived the City's subsidiaries; Surrey City Development Corporation ("SCDC"), and Surrey Homelessness and Housing Society ("SHHS"). SCDC was re-operationalized and will act as a catalyst for positive real-estate development. SHHS was revitalized with community board members and will work to make a difference in the lives of people who are homeless or at risk of homelessness in Surrey.

In December 2022, Council approved a plan to retain Surrey RCMP as Police of Jurisdiction. The plan was provided to the Province of British Columbia's ("BC") Minister of Public Safety and Solicitor General ("Minister") for endorsement. In July 2023, the Minister directed that the transition to the Surrey Police Service continue. In October 2023, the City filed a petition with the Supreme Court of BC for a judicial review of the Minister's order.

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

The annual audited Consolidated 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 remove the amortization expense, interest on debt, 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

City of Surrey

Consolidated Statement of Operations

	<i>For the year ended December 31, 2023 (in thousands of dollars)</i>	<i>2023 Budget</i>	<i>2023 Actual</i>	<i>2023 Budget Variance</i>
REVENUES				
1	Taxation revenue	\$ 589,558	\$ 600,073	\$ 10,515
2	Sales of goods and services	319,179	341,138	21,959
3	Development cost charges	94,986	62,625	(32,361)
4	Developer contributions	140,537	273,323	132,786
5	Investment income	59,544	85,179	25,635
6	Transfers from other governments	151,364	200,104	48,740
7	Other	64,403	88,108	23,705
		1,419,571	1,650,550	230,979
EXPENSES				
8	Police services	338,049	248,223	(89,826)
9	Parks, recreation and culture	113,415	118,572	5,157
10	General government	101,696	93,808	(7,888)
11	Roads & traffic safety	38,474	46,230	7,756
12	Water	73,640	78,490	4,850
13	Fire services	78,089	80,130	2,041
14	Sewer	74,438	73,181	(1,257)
15	Solid waste	40,973	40,210	(763)
16	Drainage	15,903	14,594	(1,309)
17	Planning and development	35,070	35,522	452
18	Library services	22,683	23,706	1,023
19	Engineering	10,629	9,249	(1,380)
20	Surrey City Energy	4,323	4,032	(291)
21	Parking	1,379	1,072	(307)
22	Amortization	149,732	147,244	(2,488)
23	Interest on debt	11,148	11,083	(65)
24	Write down of tangible capital assets	-	1,022	1,022
		1,109,641	1,026,368	(83,273)
25	EXCESS REVENUES OVER EXPENDITURE	309,930	624,182	314,252

The Consolidated Statement of Operations – Change in Equity, included as Table 2, 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, 2023</i>		<i>2023</i>	<i>2023</i>	<i>2023 Budget</i>
<i>(in thousands of dollars)</i>		<i>Budget</i>	<i>Actual</i>	<i>Variance</i>
26	Accumulated Surplus (Equity), beginning of year	10,398,130	10,398,130	-
	Excess revenues over expenditures	309,930	624,182	314,252
27	Accumulated Surplus (Equity), end of year	\$ 10,708,060	\$ 11,022,312	\$ 314,252

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 2023 was approximately \$10.515 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 \$21.959 million higher than budget. Parks, Recreation and Culture (“PRC”) revenues were \$1.658 million lower than budget due to reduced programming and facility hours. Metered water and sewer utility fees came in higher than budget by \$4.265 million as water consumption and the number of users was higher than expected. Planning & Development and Engineering application fees had a positive variance of \$2.595 million due to elevated levels of subdivision and rezoning activity. The COVID-19 pandemic resulted in a backlog of enforcement activities for unregistered secondary suites. In 2023, Bylaw Services cleared all pending inspections which resulted in a favorable variance of \$7.138 million in secondary suite fees and fines for unregistered suites. These positive variances were further supplemented by higher than budgeted revenues related to land development activity, Surrey Fire Service dispatch services revenues, security clearance fees, proceeds from statutory right of ways, false alarm fees, FortisBC operating agreement revenues, and Recycle BC revenues, totalling \$9.619 million.
3. *Development cost charges (“DCC”):* The budget of \$94.986 million for the 2023 DCC program is based on the anticipated usage of the reserve to deliver growth related capital projects. The actual result of \$62.625 million in 2023 is the revenue recognized from the various DCC reserves to fund the expansion and upgrading of the City’s water, sewer, drainage, and transportation infrastructure and acquire parkland. The resulting negative variance of \$32.361 million reflects the timing difference between forecasted timelines for construction and acquisitions and the related disbursements from the reserves. 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:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
(a) NCP Contributions	\$0.200M	\$15.166M	\$14.966M
(b) Cash-in-Lieu of Parkland	\$10.250M	\$6.802M	(\$3.448M)
(c) Private Contributions	\$30.087M	\$34.160M	\$4.073M
(d) Contributed Assets	\$100.000M	\$217.195M	\$117.195M
Total:	<u>\$140.537M</u>	<u>\$273.323M</u>	<u>\$132.786M</u>

- (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 \$14.966 million favorable 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 \$3.448 million unfavorable 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. 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, along with Affordable Housing contributions, are also included within this category with budgeted amounts representing anticipated usage of these reserves. The favorable variance of \$4.073 million is largely attributable to greater than anticipated affordable housing contributions, relative usage, and revenue recognized for capital projects. This was offset by less than anticipated receipts of CAC and Density Bonus payments in 2023 as compared to budgeted usage.
- (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 \$100.000 million budget is a conservative estimate 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. Actual 2023 Contributed Assets, mainly consisting of transportation infrastructure and road allowances, came in at \$217.195 million, resulting in a favorable variance of \$117.195 million.

5. *Investment income:* Investment income was \$25.635 million higher than budget. After rapid interest rate increases which added 4.00% to the central bank’s Target Overnight Rate during 2022, the Bank of Canada (“BOC”) added a further 0.75% in the first half of

2023, bringing its key interest rate to 5.00%. At the time of budget formulation, a conservative approach was utilized based on market condition forecasts and the uncertainty surrounding the inflation outlook and the BOC's resulting monetary policy responses. The continued 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:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
(a) Growing Communities Fund	\$89.928M	\$89.928M	\$0.000M
(b) Rapid Housing Initiative	\$16.425M	\$8.219M	(\$8.206M)
(c) Housing Accelerator Fund	\$0.000M	\$23.910M	\$23.910M
(d) Traffic Fine Revenue Sharing	\$6.367M	\$6.678M	\$0.311M
(e) TransLink	\$18.001M	\$26.364M	\$8.363M
(f) Gaming Revenue Sharing	\$3.308M	\$3.269M	(\$0.039M)
(g) Other Government Transfers	\$4.516M	\$22.896M	\$18.380M
Subtotal:	<u>\$138.545M</u>	<u>\$181.264M</u>	<u>\$42.719M</u>
(h) Capital Infrastructure Grants	\$12.819M	\$18.840M	\$6.021M
Total:	<u><u>\$151.364M</u></u>	<u><u>\$200.104M</u></u>	<u><u>\$48.740M</u></u>

- (a) In March 2023, the City received a \$89.928 million Growing Communities Fund ("GCF") grant from the Province of British Columbia for use in the delivery of infrastructure and amenity projects necessary to enable community growth. GCF funding was allocated across multiple capital projects including parks and recreation related amenities, public safety facilities, and childcare facilities. The budget and actual results reflect the addition of the full grant proceeds to the City's GCF reserve. Actual utilization of the grant funding will take place within the provincially mandated five-year expenditure timeframe.
- (b) The Federal government's National Housing Strategy seeks to help address the urgent housing needs of vulnerable Canadians. As part of this strategy, the Rapid Housing Initiative provided the City with \$41.600 million, beginning in 2021, across three separate 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. \$16.425 million represents the budgeted portion of this total funding received that was expected to be spent on housing projects and recognized as revenue in 2023. The negative variance of \$8.206 million is due to differences between budget timing estimates and the submission of requests for grant disbursements, in conjunction with project milestones, by external service providers.
- (c) The Canada Mortgage and Housing Corporation's ("CMHC") Housing Accelerator Fund ("HAF") provides incentives to local governments by encouraging initiatives aimed at increasing the housing supply. The HAF will help improve the

- development approval process through the City's action plan, implemented over the next three years, designed to facilitate the delivery of housing in the short and long term, increase access to affordable housing, and support the development of complete communities that are sustainable and inclusive. The actual result of \$23.910 million represents the first of four annual instalments as part of the total \$95.642 million HAF grant award. A budget was not included for this payment as the grant was applied for and was awarded to the City after adoption of the 2023 budget.
- (d) Traffic Fine Revenue is slightly higher than budgeted, representing the total traffic fines collected and distributed by the Province for their fiscal year ending March 31, 2022.
 - (e) The budgeted transfer from TransLink 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.
 - (f) Local governments that host casinos or community gaming centres receive a 10 percent share of net gaming income generated by those facilities. The 2023 actual results of \$3.269 million was the City's share of the net gaming income generated at Elements Casino Surrey, which differed slightly from the estimated budget.
 - (g) The favorable variance of \$18.380 million in Other Government Transfers is related to the timing of receipts and revenue recognition in relation to a \$7.350 million Union of BC Municipalities Strengthening Communities' Services grant, \$5.000 million from provincial funding towards the Nicomekl River Bridge replacement project, and \$1.915 million related to a provincial Library Enhancement grant. The remaining favorable variance of \$4.115 million is attributable to grant proceeds for the Transportation and Drainage utilities, provincial and federal grants for Parks, Recreation & Culture programs and a provincial Victim Services grant for Policing Services.
 - (h) 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 positive variance, attributable to Transportation utility grant funding for arterial road improvements, 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	\$34.591M	\$47.930M	\$13.339M
(b) Leases & Rentals	\$16.831M	\$17.894M	\$1.063M
(c) Fines	\$2.145M	\$1.343M	(\$0.802M)
(d) Penalties & Interest on Taxes	\$6.954M	\$10.089M	\$3.135M
(e) Donations, Sponsorship, & Other	\$1.882M	\$2.184M	\$0.302M
(f) Gain on disposal of assets	\$2.000M	\$8.668M	\$6.668M
Total:	<u><u>\$64.403M</u></u>	<u><u>\$88.108M</u></u>	<u><u>\$23.705M</u></u>

- (a) The favorable variance for Licenses & Permits is primarily attributable to higher than budgeted revenues for Building, Electrical and Plumbing permits driven by continued strength in residential and industrial, commercial, & institutional construction activity in the City. Business license revenues were also stronger than budget due to enhanced business activity in the City.
- (b) The favorable variance for Leases & Rentals is primarily attributable to higher than budgeted revenues at PRC facilities.
- (c) The unfavorable variance for Fines is due to lower than budgeted revenues for parking violations and bylaw infractions.
- (d) 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.
- (e) The favorable variance for Donations, Sponsorship & Other was primarily the result of greater than budgeted sponsorship receipts for PRC special events and donations to PRC cultural facilities.
- (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 favorable variance is mainly attributable to the sale of several City-owned parcels of surplus land and road closures.

Expenses

It is important to note that that variances presented in the following analysis for City Departments and Utilities relate to budget vs. actual results for expenditures only. Revenues for each of these functional areas is grouped within one or more of the Revenue line items in the Consolidated Statement of Operations and are not considered in the following variance analyses. Accordingly, the variances presented are not indicative of the overall net departmental budget vs. actual performance for each respective Department or Utility during the fiscal year.

8. *Police services:* The 2023 Police Services budget was made up of three components – RCMP Contract, Surrey Police Service (“SPS”) and City Police Support Service.

The detailed breakdown of this variance is as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
(a) RCMP Contract	\$165.225M	\$137.293M	\$27.932M
(b) SPS	\$48.750M	\$70.786M	(\$22.036M)
(c) City Police Support Service	\$124.074M	\$40.144M	\$83.930M
Total:	<u>\$338.049M</u>	<u>\$248.223M</u>	<u>\$89.826M</u>

Due to Council’s decision to maintain the RCMP as Police of Jurisdiction, the RCMP Contract budget included funding for an increase of an additional 25 sworn members in 2023, bringing the total budgeted strength to 759. However, the actual RCMP full time employee utilization was lower than this budgeted strength, resulting in a favorable variance at year-end.

The City Police Support Service budget included operational cost increases for the wind down of SPS in the amount of \$89,500 million. Since SPS was not dissolved, these unspent operating costs, along with savings from staffing vacancies in the Support Service team, resulted in a favorable variance.

9. *Parks, recreation and culture:* The \$5.157 million unfavorable variance primarily resulted from higher than anticipated costs for special events, parks improvements and landscaping, and renovations and maintenance at pools and arenas at PRC facilities. Some offsetting cost savings, due to vacancies were noted in salaries and benefits.

10. *General government:*

The detailed breakdown of this variance is as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
(a) Grants and Council Initiatives	\$1.179M	\$1.006M	(\$0.173M)
(b) Mayor and Council	\$2.123M	\$2.080M	(\$0.043M)
(c) City Manager	\$1.712M	\$1.836M	\$0.124M
(d) Bylaws	\$10.619M	\$11.080M	\$0.461M
(e) Corporate Services (HR, IT, Leg. Services & Legal)	\$37.825M	\$41.187M	\$3.362M
(f) Finance	\$16.485M	\$13.403M	(\$3.082M)
(g) Investment & Intergovernmental Relations	\$2.050M	\$2.059M	\$0.009M
(h) Community Services	\$3.921M	\$11.337M	\$7.416M
(i) SCDC	\$0.532M	\$0.742M	\$0.210M
(j) Other (contingency, misc. items, fiscal services)	\$25.250M	\$9.078M	(\$16.172M)
Total:	<u><u>\$101.696M</u></u>	<u><u>\$93.808M</u></u>	<u><u>(\$7.888M)</u></u>

- (a) Grants and Council Initiatives had a favorable variance due to various grant funding categories which were not fully utilized in 2023.
- (b) Mayor and Council had a favorable variance due to lower than budgeted operating costs related to communications.
- (c) City Manager had an unfavorable variance due to higher costs for salaries and benefits, partially offset by savings in operating costs, including, communications and special projects.
- (d) Bylaws had an unfavorable variance due to higher operating costs for bylaw officer uniforms, office supplies, and training expenses. The overages in these expenses were offset by staffing vacancies.
- (e) Corporate Services had an overall unfavorable variance. Costs within the IT division exceeded budget in the areas of consultant and professional fees, security services, maintenance contracts, and hardware & software. Increased costs for payment processing fees, postage, delivery, leases and rentals, advertising, and supplies and materials were also noted in other divisions.
- (f) Finance had a favorable variance due to savings from staffing vacancies, lower consultant and professional fees and lower than expected claims related expenses.
- (g) Investment & Intergovernmental Relations had an unfavorable variance due to increased consulting and professional fees, partially offset by savings in advertising and supplies and materials.

- (h) Community Services' unfavorable variance is due to unbudgeted expenditures for Strengthening Communities' Services ("SCS") grant program activities. These expenditures were fully offset by SCS grant revenues.
- (i) In April 2023, Council moved forward with re-operationalizing Surrey City Development Corporation ("SCDC") through the approval of Directors on the Board of SCDC and the appointment of a President and Chief Operating Officer. The unfavorable variance is due to higher than expected consulting and professional fees as SCDC returned to fulfilling its mandate to develop City-owned surplus lands in ways that advance the City into a more modern and complete community and advance the City's economic, social, physical and community objectives.
- (j) Other had a favorable variance for the year of \$16.172 million. As noted in section 6(b), \$8.206 million of Rapid Housing Initiative flow-through grant expenditure was not incurred in 2023 due to differences between budget timing estimates and the submission of requests for grant disbursements, in conjunction with project milestones, by external service providers. This was supplemented by an unutilized contingency included within the operating budget, fringe benefit adjustments related to collective agreement modifications, and corporate expenditures which were not incurred as expected.
11. *Roads & traffic safety:* The unfavorable variance of \$7.756 million is predominantly due to higher than expected contract payments for major projects driven by timing differences, including, Surrey Langley Skytrain related works, Nicomekl River Bridge projects, and Scott Road improvements. This was offset by savings in staffing vacancies and other operating costs.
12. *Water:* The unfavorable variance of \$4.850 million is primarily related to costs associated with Greater Vancouver Water District utility charges, as 2023 water consumption exceeded budgeted expectations for the year.
13. *Fire services:* The unfavorable variance of \$2.041 million is mostly due to backfill costs related to sustained elevated absenteeism levels of staff beyond the normal existing capacity, along with unbudgeted retroactive salary costs resulting from collective agreement adjustments. Some of this variance was offset by salary cost savings due to the timing of filling newly added fire personnel positions. Cost increases were also noted in general supplies, uniforms and safety equipment, fleet repairs and maintenance, and securing of distressed properties.
14. *Sewer:* The favorable variance of \$1.257 million is predominately the result of savings through less than estimated sewer connection work, and sewer main repair and maintenance work. This is offset by greater than estimated costs from the operation of sewer pump stations.
15. *Solid waste:* The favorable variance of \$0.763 million is mainly due to lower than budgeted garbage collection and disposal costs. The 2023 budget took a conservative approach to estimating the pace and magnitude of the ongoing post-pandemic return to work. As more workers returned to their offices, garbage collection and disposal costs for the City came in less than expected. Savings were also noted in supplies purchases, such as, yard waste bags and kitchen catcher liners.

16. *Drainage*: The favorable variance \$1.309 million resulted from lower than budgeted costs for consulting and professional services due to timing differences between actual and budgeted project activity.
17. *Planning and development*: The unfavorable variance of \$0.452 million is primarily the result of additional consulting and 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 \$1.023 million is primarily due to higher than budgeted costs for library related subscriptions, microfilm, books, and audio-visual materials. There has been a recent 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 \$1.380 million is predominantly the result of savings from staffing vacancies and lower than expected fuel usage, offset by higher than budgeted operating costs, primarily associated with utilities charges, equipment rentals and contractor payments.
20. *Surrey City Energy*: The favorable variance of \$0.291 million is largely attributable to cost savings in utility charges as a result of efficiencies gained from upgrades to the district energy network.
21. *Parking*: The favorable variance of \$0.307 million is mostly attributable to savings from staffing vacancies, and cost savings from lower than budgeted parking patrol costs and reduced fees as a result of decommissioned pay stations.
22. *Amortization*: This expense represents the annual consumption or usage of the City's tangible capital assets. The 2023 budget was estimated based on the actual assets owned by the City in 2022 as well as an estimate of the value of new assets that would be added in 2023. Although amortization for major upcoming projects was estimated, variances are related to the timing and mix of new assets added in each category during 2023. Amortization by asset type is as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Land Improvements	\$5.987M	\$5.541M	(\$0.446M)
Building & Leasehold Improv.	\$24.833M	\$23.495M	(\$1.338M)
Infrastructure	\$95.148M	\$97.958M	\$2.810M
Equipment	\$23.764M	\$20.250M	(\$3.514M)
Total:	<u>\$ 149.732M</u>	<u>\$ 147.244M</u>	<u>(\$2.488M)</u>

23. *Interest on debt*: This line item includes interest expense on long-term borrowing. The slight favorable variance of \$0.07 million is due to minor variations between year-end interest accrual amounts between fiscal years 2022 and 2023.
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, Developer contributions, and Transfers from Other Governments 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, Transfers from Other Governments, and Investment Income.
26. *Accumulated Surplus (Equity), beginning of year*: This line item represents all City equity (monetary, property, other assets and infrastructure) as on January 1, 2023. 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 2023. It reflects the balance under the "Accumulated Surplus" line of the City's 2022 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 13 Accumulated surplus, the City's accumulated surplus has increased significantly, as compared to 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.

91.0% 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 GCF reserve balance, consisting of the remaining balance of provincial GCF grant funding, is committed towards the construction of parks and recreation related amenities, public safety facilities, and childcare facilities.

Staff will continue to provide Council with updated financial information on a quarterly basis during 2024 through the Quarterly Financial Reporting process.

CONCLUSION

The Consolidated 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 2023 Audited Consolidated Financial Statements as presented in Appendix “I”. These statements will be included in the published version of the City of Surrey’s 2023 Annual Financial Report that will be distributed to Council and posted on the City’s website in June 2024.

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

Kam Grewal
CFO/General Manager, Finance

Appendix “I”: 2023 Consolidated Financial Statements of City of Surrey
Appendix “II”: PSAB Reporting Standards – Current Developments

Consolidated Financial Statements of

CITY OF SURREY

Year ended December 31, 2023

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, 2023 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, 2023 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
Council Approval Date

City of Surrey

Consolidated Statement of Financial Position

As at December 31, 2023, with comparative figures for 2022

(in thousands of dollars)

	2023	(Restated) 2022
FINANCIAL ASSETS		
Cash and cash equivalents	\$ 117,289	\$ 81,307
Accounts receivable (note 2)	250,872	208,927
Portfolio investments (note 3(a))	1,903,221	1,625,686
Investment in business partnership (note 3(b))	423	533
	<u>2,271,805</u>	<u>1,916,453</u>
LIABILITIES		
Trade and other accounts payable (note 4)	112,736	91,725
Due to other governments (note 5)	165,980	161,920
Employee future benefits (note 6)	32,469	31,446
Deposits and prepayments (note 7)	377,563	381,456
Deferred revenue (note 8)	130,190	123,229
Deferred development cost charges (note 9)	374,689	333,558
Debt (note 10)	308,515	333,471
Asset retirement obligation (note 11)	7,375	6,847
	<u>1,509,517</u>	<u>1,463,652</u>
NET FINANCIAL ASSETS	<u>762,288</u>	<u>452,801</u>
NON-FINANCIAL ASSETS		
Tangible capital assets (note 12)	10,249,683	9,935,948
Inventories of supplies	1,828	1,917
Prepaid expenses	8,513	7,464
	<u>10,260,024</u>	<u>9,945,329</u>
ACCUMULATED SURPLUS (note 13)	<u>\$ 11,022,312</u>	<u>\$ 10,398,130</u>

Commitments and contingencies (note 15)

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, 2023, with comparative figures for 2022
(in thousands of dollars)

	2023 Budget (note 24)	2023	(Restated) 2022
REVENUES			
Taxation revenue (note 18)	\$ 589,558	\$ 600,073	\$ 533,006
Sales of goods and services	319,179	341,138	301,948
Development cost charges (note 9)	94,986	62,625	122,761
Developer contributions	140,537	273,323	251,365
Investment income	59,544	85,179	40,003
Transfers from other governments (note 21)	151,364	200,104	76,188
Other (note 19)	64,403	88,108	105,513
TOTAL REVENUES	1,419,571	1,650,550	1,430,784
EXPENSES			
Police services	339,682	249,745	231,334
Parks, recreation and culture	135,716	140,080	124,741
General government	126,216	115,014	92,876
Roads and traffic safety	84,611	96,066	86,103
Water	84,296	88,886	92,642
Fire services	81,513	82,568	77,803
Sewer	88,260	87,065	81,243
Solid waste	43,747	43,940	39,247
Drainage	38,204	37,411	37,472
Planning and development	35,276	35,731	34,162
Library services	24,947	25,583	24,066
Engineering	18,352	16,140	16,715
Surrey City Energy	6,206	5,908	4,932
Parking	2,615	2,231	2,241
TOTAL EXPENSES	1,109,641	1,026,368	945,577
ANNUAL SURPLUS	309,930	624,182	485,207
Accumulated surplus, beginning of year	10,398,130	10,398,130	9,912,923
Accumulated surplus, end of year	\$ 10,708,060	\$ 11,022,312	\$ 10,398,130

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, 2023, with comparative figures for 2022
(in thousands of dollars)

	2023 <i>Budget</i> <i>(note 24)</i>	2023	<i>(Restated)</i> 2022
ANNUAL SURPLUS	\$ 309,930	\$ 624,182	\$ 485,207
Acquisition of tangible capital assets	(494,330)	(462,034)	(449,537)
Increase in tangible capital assets for ARO	-	(342)	(3,442)
Amortization of tangible capital assets	149,732	147,244	142,649
Gain on disposal of tangible capital assets	-	(6,906)	(25,684)
Proceeds on disposal of tangible capital assets	-	8,303	30,255
	<u>(34,668)</u>	<u>310,447</u>	<u>179,448</u>
Acquisition of inventories of supplies	-	(1,828)	(1,917)
Consumption of inventories of supplies	-	1,917	1,195
Acquisition of prepaid expenses	-	(8,513)	(7,464)
Use of prepaid expenses	-	7,464	6,776
	<u>-</u>	<u>(960)</u>	<u>(1,410)</u>
CHANGE IN NET FINANCIAL ASSETS	<i>(34,668)</i>	309,487	178,038
Net financial assets, beginning of year	<u>452,801</u>	<u>452,801</u>	<u>274,763</u>
Net financial assets, end of year	<u>\$ 418,133</u>	<u>\$ 762,288</u>	<u>\$ 452,801</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, 2023, with comparative figures for 2022
(in thousands of dollars)

	(Restated)	
	2023	2022
OPERATING TRANSACTIONS		
Annual Surplus	\$ 624,182	\$ 485,207
Non-Cash items:		
Amortization of tangible capital assets	147,244	142,649
Gain on disposal of tangible capital assets	(6,906)	(25,684)
Developer contributions of tangible capital assets (note 12(a))	(217,195)	(182,466)
Accretion expense	185	171
Change in non-cash operating working capital:		
Accounts receivable	(41,945)	(47,953)
Inventories of supplies	89	(722)
Prepaid expenses	(1,049)	(688)
Trade and other accounts payable	21,011	19,611
Due to other governments	4,060	(15,084)
Employee future benefits	1,023	681
Deposits and prepayments	(3,893)	30,161
Deferred revenue	6,961	(7,765)
Deferred development cost charges	41,131	(38,146)
Net increase in cash from operating transactions	<u>574,898</u>	<u>359,972</u>
CAPITAL TRANSACTIONS		
Acquisition of tangible capital assets	(244,839)	(267,071)
Proceeds on disposal of tangible capital assets	8,303	30,255
Cash used by capital transactions	<u>(236,536)</u>	<u>(236,816)</u>
FINANCING TRANSACTIONS		
Repayment of MFA debt and loans payable	(24,956)	(23,499)
Cash used by financing transactions	<u>(24,956)</u>	<u>(23,499)</u>
INVESTING TRANSACTIONS		
Purchase of portfolio investments	(277,534)	(610,063)
Cash distributed from other investments	110	205
Cash used by investing transactions	<u>(277,424)</u>	<u>(609,858)</u>
INCREASE (DECREASE) IN CASH	35,982	(510,201)
Cash and cash equivalents, beginning of year	81,307	591,508
Cash and cash equivalents, end of year	<u>\$ 117,289</u>	<u>\$ 81,307</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, 2023
(tabular amounts in thousands of dollars)*

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, 2023
(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, 2023 and December 31, 2022.

v) Surrey Homelessness and Housing Society

In 2007, the City of Surrey incorporated the SHHS. The purpose of the Society is to raise funds and distribute funds to finance 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 that is controlled by SHHS and oversees the Society's operations through the Board that is appointed by Council and senior City employees.

(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, 2023
(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 Public Sector Accounting Standards ("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 disclosed in Note 23.

(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, 2023
(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 recorded as earned, including interest earned at the effective interest rate, realized gains on investments recorded at fair market value, and any impairments of financial instruments reported at amortized cost.

(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 guaranteed investment certificates, and term deposits, 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. SHHS investment has pooled investments that includes equity investments. These equity investments are valued based on quote from active market.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2023
(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 tangible capital assets, excluding land, are amortized on a straight-line basis over the 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 structures	5 to 50
Road	40 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, 2023

(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) The City and its employees participate in the Municipal Pension Plan, 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) 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, asset retirement obligations, contingencies, and actuarial valuations of employee future benefits. Actual results could differ from these estimates.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2023
(tabular amounts in thousands of dollars)

1. Significant accounting policies (continued)

(r) Budget data

The budget data presented in these consolidated financial statements was included in the City of Surrey 2023-2027 Consolidated Financial Plan and was adopted through By-law #20886 on April 17, 2023.

(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 relate to the introduction into the air, soil, water or sediment of a chemical, organic or radioactive material or live organism that exceeds an existing 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, 2023 or 2022.

(u) New accounting standards

Effective January 1, 2023, the City adopted the new Public Sector Accounting Standards, PS3450 Financial Instruments ("FI") and PS 3280 Asset Retirement Obligations ("ARO").

Under the Financial Instruments standard, cash and cash equivalents, accounts receivable, trades and other accounts payable, due to other governments, and debt are measured at cost or amortized cost. The carrying amount of these financial instruments are presented on the statement of financial position. Portfolio investments in equity instruments related to SHHS are measured at fair value as quoted in an active market. A change in fair value must be remeasured at the end of each fiscal year.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2023
(tabular amounts in thousands of dollars)

1. Significant accounting policies (continued)

(u) New accounting standard (continued)

Under the ARO standard, the City is required to record legal obligations associated with the retirement of tangible capital assets by public sector entities.

Upon initial recognition of the asset retirement obligation, the City recorded the liability at an amount that is the best estimate of the expenditure required to retire the tangible capital asset at the financial statement date, adjusted for accumulated accretion. An asset retirement cost was also recognized by increasing the carrying amount of the related tangible capital asset. The asset cost is allocated to expense over the useful life of the asset. Asset retirement costs associated with fully amortized tangible capital assets and unrecognized tangible capital assets were recorded to accumulated surplus.

This standard was applied on a modified retroactive basis which required the City to apply the standard to events and transactions from the date of origin using current assumptions and discount rate. The impact has been summarized below:

Impact of Adoption of PS3280 ("ARO") and PS3450 ("FI")	December 31, 2022 (Previously Stated)	ARO Adjustments	Financial Instrument Adjustment	December 31, 2022 (Restated)
Liabilities				
Asset Retirement Obligations	\$ -	6,847	-	\$ 6,847
Net Financial Assets (Net Debt)	\$ 453,407	(6,847)	6,241	\$ 452,801
Non-Financial Assets				
Tangible Capital Assets	\$ 9,934,411	1,537	-	\$ 9,935,948
Annual Surplus	\$ 479,346	(380)	6,241	\$ 485,207
Opening Accumulated Surplus	\$ 9,917,853	(4,930)	-	\$ 9,912,923
Ending Accumulated Surplus	\$ 10,397,199	(5,310)	6,241	\$ 10,398,130

2. Accounts receivable

	<u>2023</u>	<u>2022</u>
General and other accounts receivable	\$ 87,333	\$ 88,382
Development cost charges	82,426	55,195
Property taxes	37,473	26,499
Utility charges	25,035	22,689
Local area improvement receivable	8,648	8,732
Due from other authorities	5,684	3,092
MFA debt reserve fund receivable	4,273	4,338
	<u>\$ 250,872</u>	<u>\$ 208,927</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2023
(tabular amounts in thousands of dollars)

3. Investments

(a) Portfolio Investments

	<u>2023</u>	<u>2022</u>
Maturing within one year	\$ 713,532	\$ 783,990
Maturing within two years	433,890	375,591
Maturing within three to ten years	747,190	457,761
City investments (i)	<u>1,894,612</u>	<u>1,617,342</u>
Maturing within one year	1,162	1,481
Equity Investments quoted in active market	7,447	6,863
SHHS investments (ii)	<u>8,609</u>	<u>8,344</u>
Total Portfolio Investments	<u>\$ 1,903,221</u>	<u>\$ 1,625,686</u>

- (i) City investments includes guaranteed investment certificates, and term deposits and have an average portfolio yield of 4.29% (2022 – 2.27%). All City investments can be liquidated on demand but may have associated penalties on liquidation.
- (ii) SHHS investments largely consist of a diversified portfolio of fixed income and equity securities held by the SHHS with an average yield rate of 8.56% (2022 – (8.43%)), for the purpose of supporting programs and projects related the objectives of the SHHS.

(b) Investment in business partnership

	<u>2023</u>	<u>2022</u>
Business partnership	<u>\$ 423</u>	<u>\$ 533</u>

SCDC's joint-venture partnership in 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. SCDC's 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>2023</u>	<u>2022</u>
Financial assets	\$ 696	\$ 805
Liabilities	(8,147)	(8,446)
Non-financial assets	7,874	8,174
	<u>\$ 423</u>	<u>\$ 533</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2023
(tabular amounts in thousands of dollars)

3. Investments (continued)

(b) Investment in business partnership (continued)

Revenues and expenditures for the year ended December 31, 2023 were \$1.1 million (2022 – \$1.1 million) and \$1.1 million (2022 – \$0.8 million), respectively.

4. Trade and other accounts payable

	<u>2023</u>	<u>2022</u>
Trade accounts payable	\$ 69,036	\$ 55,559
Payroll accounts payable	25,691	19,540
Contractors' holdbacks	15,658	14,211
Interest payable on debt	2,350	2,415
	<u>\$ 112,735</u>	<u>\$ 91,725</u>

5. Due to other governments

	<u>2023</u>	<u>2022</u>
Due to Federal Government (RCMP)	\$ 81,279	\$ 78,235
Due to TransLink (note 14)	39,000	39,000
Due to Regional Districts	22,832	25,773
Due to Province of British Columbia	13,927	10,486
Due to other government entities	8,942	8,426
	<u>\$ 165,980</u>	<u>\$ 161,920</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>2023</u>	<u>2022</u>
Balance, beginning of year	\$ 31,446	\$ 30,765
Current service cost	2,232	2,445
Interest cost	1,423	761
Amortization of net actuarial gain	(216)	(314)
Benefits paid	<u>(2,416)</u>	<u>(2,211)</u>
Accrued benefit liability, end of year	<u>\$ 32,469</u>	<u>\$ 31,446</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2023
(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, 2023. The difference between the actuarially determined accrued benefit obligation of \$33.5 million and the accrued benefit liability of \$32.5 million as at December 31, 2023 is an unamortized actuarial loss as noted below. The actuarial loss is amortized over a period equal to the employees' average remaining service life of 12 years (2022 – 12 years).

Reconciliation of accrued benefit liability to accrued benefit obligation:

	<u>2023</u>	<u>2022</u>
Accrued benefit liability, end of year	\$ 32,469	\$ 31,446
Unamortized actuarial loss (gain)	1,074	(284)
Accrued benefit obligation, end of year	<u>\$ 33,543</u>	<u>\$ 31,162</u>

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

	<u>2023</u>	<u>2022</u>
Discount rate	4.10%	4.50%
Expected future inflation rate	2.50%	2.50%
Employee average remaining service life (years)	12.00	12.00

7. Deposits and prepayments

	<u>2023</u>	<u>2022</u>
Deposits:		
Engineering	\$ 130,174	\$ 139,175
Planning and development	112,225	108,939
Future works	65,466	66,979
Pavement cuts	4,398	4,576
Latecomer	2,296	2,422
Boulevard trees	991	735
Other deposits	5,503	3,727
Total deposits	<u>\$ 321,053</u>	<u>\$ 326,553</u>
Prepayments:		
Taxes	\$ 52,314	\$ 50,073
Utilities	4,196	4,533
Other prepayments	-	297
Total prepayments	<u>56,510</u>	<u>54,903</u>
Total deposits and prepayments	<u>\$ 377,563</u>	<u>\$ 381,456</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2023
(tabular amounts in thousands of dollars)

8. Deferred revenue

	<u>2023</u>	<u>2022</u>
Deferred capital works	\$ 56,963	\$ 46,860
Development/building permits	39,053	41,426
Deferred lease revenue	20,644	23,103
Other	13,530	11,840
	<u>\$ 130,190</u>	<u>\$ 123,229</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% (2022 – 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>2023</u>	<u>2022</u>
Deferred DCCs:		
Arterial roads	\$ 82,944	\$ 81,108
Parkland	60,404	39,706
Drainage	53,203	50,142
Sewer	33,309	33,619
Collector roads	29,023	23,652
Water	24,047	25,271
Area specific	86,761	76,200
Park development	4,998	3,860
Deferred DCCs, end of year	<u>\$ 374,689</u>	<u>\$ 333,558</u>
Deferred DCCs, beginning of year	<u>\$ 333,558</u>	<u>\$ 371,704</u>
DCCs levied for the year	101,541	83,818
Investment income	2,215	797
Increase in Deferred DCCs	<u>103,756</u>	<u>84,615</u>
Revenue recognized:		
Arterial and Collector Roads	(30,083)	(39,676)
Water, Sewer, Drainage	(19,611)	(19,247)
Parkland and Park Development	(10,002)	(60,253)
Area Specific	(2,929)	(3,585)
DCCs recognized as revenue	<u>(62,625)</u>	<u>(122,761)</u>
Deferred DCCs, end of year	<u>\$ 374,689</u>	<u>\$ 333,558</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2023
(tabular amounts in thousands of dollars)

10. Debt

	<u>2023</u>	<u>2022</u>
MFA debt (i)	\$ 276,212	\$ 300,185
Loans payable (ii)	<u>32,303</u>	<u>33,286</u>
	<u>\$ 308,515</u>	<u>\$ 333,471</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	Gross debt	Sinking fund installments and actuarial adjustments	Net debt 2023	Net debt 2022
116	\$ 100,000	\$ 36,335	\$ 63,665	\$ 67,483
121	45,000	14,633	30,367	32,027
126	51,900	11,110	40,790	54,629
156	150,600	9,210	141,390	146,046
	<u>\$ 347,500</u>	<u>\$ 71,288</u>	<u>\$ 276,212</u>	<u>\$ 300,185</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	4.52%	Sept. 26, 2028
156	Sept. 27, 2021	25	Sept. 27, 2046	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, 2023
(tabular amounts in thousands of dollars)

10. Debt (continued)

(ii) Loans payable

	2023	2022
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.	32,303	33,286
Total Loans Payable	\$ 32,303	\$ 33,286

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

	MFA payments (i)	Loan payments (ii)	Total
2024	\$ 11,933	\$ 1,035	\$ 12,968
2025	12,305	1,089	13,394
2026	12,689	1,146	13,835
2027	13,085	1,205	14,290
2028	13,586	1,268	14,854
2029 and thereafter	212,614	26,560	239,174
Total	\$ 276,212	\$ 32,303	\$ 308,515

Total interest expense recorded for the year ended December 31, 2023 was \$11.1 million (2022 - \$11.3 million).

11. Asset retirement obligations

The City's financial statements include an asset retirement obligation for remediation of asbestos related to wood and concrete building assets and remediation of vegetation on land associated with capital projects. The related asset retirement costs are being amortized on a straight-line basis.

	<u>2023</u>	<u>2022</u>
Opening balance	\$ 6,847	\$ 6,676
Accretion expense	185	171
Change in assumptions	343	-
Total	\$ 7,375	\$ 6,847

Notes to the Consolidated Financial Statements

For the year ended December 31, 2023
(tabular amounts in thousands of dollars)

11. Asset retirement obligations (continued)

The liability has been estimated using a net present value technique with a discount rate of 2.58% and inflation rate of 4.17% (2022 - 2.58%). The estimated total undiscounted future expenditures are \$10.5 million (2022 - \$10.1 million), which are to be incurred over 44 years from 2024 to 2067.

12. Tangible capital assets

Net Book Value by category	<u>2023</u>	<u>2022</u>
Land and land improvements	\$ 2,215,789	\$ 2,171,718
Land under roads	3,730,016	3,580,548
Buildings and building improvements	451,798	469,771
Infrastructure	3,393,630	3,309,566
Machinery and equipment	125,516	126,966
Assets under construction	332,934	277,379
	<u>\$ 10,249,683</u>	<u>\$ 9,935,948</u>
Net Book Value by fund	<u>2023</u>	<u>2022</u>
General	\$ 2,932,491	\$ 2,865,277
Transportation	4,884,404	4,679,206
Water	667,286	655,632
Sewer	618,736	611,603
Drainage	1,133,223	1,115,261
Library	5,138	5,066
Surrey Police Service	6,465	2,781
Surrey City Development Corp.	1,940	1,122
	<u>\$ 10,249,683</u>	<u>\$ 9,935,948</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 \$217.2 million (2022 - \$182.5 million) comprised of roads infrastructure in the amount of \$178.0 million (2022 - \$163.7 million), water and wastewater infrastructure in the amount of \$32.5 million (2022 - \$15.0 million) and land in the amount of \$6.8 million (2022 - \$3.8 million), including improvements.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2023

(tabular amounts in thousands of dollars)

13. Accumulated surplus

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

ACCUMULATED SURPLUS	2023		2022		Restated	
					2022	
Tangible Capital Assets	\$ 10,249,683				\$ 9,935,948	
Debt funded assets	(206,323)				(215,311)	
Invested in tangible capital assets	<u>10,043,360</u>				<u>9,720,637</u>	
	<u>Gross Allocations</u>		<u>Gross Allocations</u>			
Reserves set aside by Council						
Capital legacy	50,121	(50,121)	-	49,539	(49,539)	-
Municipal land	108,115	-	108,115	112,928	(27,454)	85,474
Equipment and building replacement	37,391	(2,029)	35,362	39,336	(5,044)	34,292
Neighborhood concept plans	67,829	(3,680)	64,149	53,534	(6,863)	46,671
Park land acquisition	10,067	(546)	9,521	6,217	(797)	5,420
Local improvement financing	18,648	(1,012)	17,636	18,372	(2,355)	16,017
Environmental stewardship	7,040	(382)	6,658	6,958	(892)	6,066
Parking space	9,398	(510)	8,888	9,410	(1,206)	8,204
Water claims	1,396	(76)	1,320	1,386	(178)	1,208
Affordable housing	7,101	(385)	6,716	3,715	(476)	3,239
Capital projects	79,088	(4,291)	74,797	65,176	(8,356)	56,820
BC Growing Communities Fund	64,879	-	64,879	-	-	-
	<u>461,073</u>	<u>(63,032)</u>	<u>398,041</u>	<u>366,571</u>	<u>(103,160)</u>	<u>263,411</u>
Internal borrowing to fund capital						
Other appropriated funds						
Infrastructure replacement	58,571	-	58,571	43,475	-	43,475
Revenue stabilization	22,390	-	22,390	13,490	-	13,490
Self insurance	13,540	-	13,540	12,193	-	12,193
Operating contingency and emergencies	14,510	-	14,510	8,610	-	8,610
Environmental emergencies	7,277	-	7,277	7,244	-	7,244
Prepaid expenses	8,513	-	8,513	7,464	-	7,464
Inventories of supplies	1,828	-	1,828	1,917	-	1,917
Committed funds	436,298	-	436,298	300,945	-	300,945
	<u>562,927</u>	<u>-</u>	<u>562,927</u>	<u>395,338</u>	<u>-</u>	<u>395,338</u>
Other Entities						
Surrey City Development Corporation			9,551			10,153
Surrey Homelessness and Housing Society			8,433			8,591
			<u>17,984</u>			<u>18,744</u>
Accumulated Surplus per Statement of Financial Position			<u>\$ 11,022,312</u>			<u>\$ 10,398,130</u>

Notes to the Consolidated Financial Statements

*For the year ended December 31, 2023
(tabular amounts in thousands of dollars)*

14. 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 requires the City 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, with the payment from the City to TransLink due no later than 90 days after TransLink executes the Project Agreement for the construction of the Project.

As at December 31, 2023 the City has recorded a liability due to TransLink in the amount of \$39.0 million relating to this compensation agreement (Note 5).

15. 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 asset under construction 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 13). The Five-Year 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 2023 or 2022.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2023

(tabular amounts in thousands of dollars)

15. 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 Metro Vancouver, 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, 2023). 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 \$1.3 million during the year (2022 - \$1.4 million). No liability was recorded during 2023 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 13). 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, 2023
(tabular amounts in thousands of dollars)

15. 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
156	20270	R21-541	1323	Other	25	721
156	20271	R21-543	1323	Other	25	371
156	20272	R21-542	1323	Other	25	1,622
Total						\$ 6,391

Management does not consider payment under this contingency to be likely and therefore no amounts have been accrued as a liability in the financial statements.

g) Policing services

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 Surrey Police Service ("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 stop the transition and to wind down the SPS. In December 2022, a report outlining the plan was submitted to the provincial Minister of Public Safety and Solicitor General ("Minister").

In June 2023, Council voted to reaffirm their decision to retain the RCMP as the POJ.

On July 19, 2023, the Minister directed that the transition to the SPS continue. The Minister also appointed a strategic implementation advisor to aid all parties on the transition to the SPS. At that time, the Province has committed to providing the City with \$150.0 million to help offset the additional costs associated with the transition to the SPS; however, to date, no funding from the Province has been received.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2023
(tabular amounts in thousands of dollars)

15. Commitments and contingencies (continued)

g) Policing services (continued)

In October 2023, the City launched a petition in the Supreme Court of BC for a judicial review of the provincial government's July 2023 decision to continue the police transition to the SPS. The matter is before the Supreme Court and a decision is pending.

On April 23, 2024, the Province announced a transition date of November 29, 2024 for SPS to become the POJ. The Supreme Court hearing and decision is still pending. Due to the uncertainty of these matters, the financial impacts cannot be determined and have not been reflected in the financial statements.

h) Biofuel processing facility

The City entered a 25-year agreement in 2015 to design, build, finance, operate and maintain the Surrey Biofuel 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)).

16. 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, 2023:

	2024	2025	2026	2027	Thereafter
Lease revenue (a)	\$ 10,688	\$ 6,159	\$ 4,234	\$ 3,965	\$ 18,741
Government agreements (b)	26,622	24,050	24,051	152	306
Total	\$ 37,310	\$ 30,209	\$ 28,285	\$ 4,117	\$ 19,047

Notes to the Consolidated Financial Statements

For the year ended December 31, 2023
(tabular amounts in thousands of dollars)

16. Contractual rights (continued)

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 17 years.

b) Government agreements

The City has entered into various government agreements with senior governments 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 agreements.

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.

17. 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, 2022, the Plan has about 240,000 active members and approximately 124,000 retired members. Active members include approximately 43,000 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2023
(tabular amounts in thousands of dollars)

17. Pension plan (continued)

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.

The most recent valuation for the Plan as at December 31, 2021, indicated a \$3.8 billion funding surplus for basic pension benefits on a going concern basis.

The City paid \$22.5 million (2022 - \$21.8 million) for employer contributions while employees contributed \$19.6 million (2022 - \$18.9 million) to the Plan in fiscal 2023.

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.

18. Taxation revenue

	<u>2023</u>	<u>2022</u>
Tax collected:		
Property taxes	\$ 477,058	\$ 416,702
Collections for other authorities	533,367	464,940
Parcel taxes	96,557	93,965
Grants-in-lieu of taxes	26,113	21,751
Other	345	589
	<u>1,133,440</u>	<u>997,947</u>
Less transfers to other authorities:		
Province of BC - School Taxes	(387,798)	(334,776)
TransLink	(77,413)	(68,902)
Metro Vancouver Regional District	(16,618)	(13,971)
BC Assessment Authority	(11,520)	(10,197)
Other	(40,018)	(37,095)
	<u>(533,367)</u>	<u>(464,941)</u>
Taxation revenue	<u>\$ 600,073</u>	<u>\$ 533,006</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2023
(tabular amounts in thousands of dollars)

19. Other revenue

	<u>2023</u>		<u>2022</u>
Licenses and permits	\$ 47,931	\$	44,319
Leases and rentals	17,893		15,371
Penalties and interest on taxes	10,089		7,572
Miscellaneous	5,292		12,567
Gain on disposal of tangible capital assets	6,903		25,684
	<u>\$ 88,108</u>	<u>\$</u>	<u>105,513</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 City'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.

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, Investment and Intergovernmental Relations, Corporate Services Department, Community Services Department, Surrey City Development Corporation, and Surrey Homelessness and Housing Society

Notes to the Consolidated Financial Statements

For the year ended December 31, 2023
(tabular amounts in thousands of dollars)

20. Segmented information (continued)

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 residences, businesses, and institutions in 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.

Sewer Services

The Sewer Utility operates the network of sewer mains, to collect and convey 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 through 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2023

(tabular amounts in thousands of dollars)

20. Segmented information (continued)

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

The 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 community.

Parking

The Parking Authority Utility 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 security and efficient enforcement.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2023
(tabular amounts in thousands of dollars)

For the year ended December 31, 2023
(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	2023
20 SEGMENTED INFORMATION															
REVENUES															
Taxation, grants-in-lieu, assessments	\$ -	\$ -	\$ 1,050,771	\$ 37,062	\$ 4	\$ -	\$ 168	\$ -	\$ 45,435	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,133,440
Collections for other authorities	-	-	(533,367)	-	-	-	-	-	-	-	-	-	-	-	(533,367)
Taxation revenue	-	-	517,404	37,062	4	-	168	-	45,435	-	-	-	-	-	600,073
Sales of goods and services	2,177	32,606	38,991	3,274	94,646	5,830	87,227	52,044	111	5,635	342	8,978	6,390	2,887	341,138
Development cost charges	-	-	62,625	-	-	-	-	-	-	-	-	-	-	-	62,625
Developer contributions	-	1,270	54,926	180,875	6,390	-	11,566	-	17,360	-	55	-	881	-	273,323
Investment income	-	40	84,066	-	494	-	245	107	227	-	-	-	-	-	85,179
Transfers from other governments	7,289	2,555	138,573	41,292	-	-	-	-	7,411	-	2,898	81	-	5	200,104
Other	103	2,565	41,572	2,357	1,434	(13)	852	234	412	34,457	119	3,885	71	60	88,108
	9,569	39,036	938,157	264,860	102,968	5,817	100,058	52,385	70,956	40,092	3,414	12,944	7,342	2,952	1,650,550
EXPENSES															
Salaries and benefits	97,794	71,959	52,210	4,823	1,170	74,261	922	-	1,992	26,876	18,238	47,008	885	631	398,769
Police contracted services	138,030	-	-	-	-	-	-	-	-	-	-	-	-	-	138,030
Consulting and professional services	3,832	5,264	11,189	987	2,852	308	673	435	2,657	850	236	868	174	1	30,326
Telephone and communications	750	331	626	34	18	197	28	9	18	81	34	147	5	96	2,374
Regional district utility charges	-	-	-	-	62,675	-	61,062	-	-	-	-	-	-	-	123,737
Utilities	641	4,904	81	3,979	144	431	1,576	544	8	575	385	1,543	2,699	4	17,514
Garbage collection and disposal	23	1,045	1	-	-	29	-	29,666	-	-	7	62	-	-	30,833
Maintenance and small equipment	1,817	9,985	9,040	239	80	1,609	136	357	130	4,812	432	1,249	113	59	30,058
Insurance and claims	37	1	4,231	27	-	13	-	637	-	-	-	69	-	-	5,015
Leases and rentals	1,122	1,675	4,420	1,500	904	8	986	270	1,385	53	57	1,997	2	9	14,388
Supplies and materials	1,405	9,772	3,215	3,924	1,552	3,099	1,768	1,130	586	697	565	5,967	29	29	33,738
Advertising and media	80	325	497	31	4	3	-	51	1	8	2,061	20	-	1	3,082
Grants and sponsorships	-	3,312	9,589	-	-	-	-	-	-	-	2	-	-	-	12,903
Contract payments	79	6,133	979	19,139	901	422	705	1,604	1,715	176	21	2,375	51	268	34,568
Other	3,118	2,921	2,815	430	46	1,545	1,316	260	730	1,376	892	977	126	1	16,553
Cost recoveries, net	(505)	1,082	(9,017)	11,270	8,169	(1,727)	4,376	5,247	5,751	18	776	(53,140)	(52)	(27)	(27,779)
Interest on debt	-	-	8,425	-	-	-	-	2,658	-	-	-	-	-	-	11,083
Other interests and fiscal services	42	557	2,704	20	(84)	12	(14)	-	14	178	11	22	430	40	3,932
Amortization expense	1,480	20,814	14,009	49,663	10,455	2,358	13,531	1,072	22,424	31	1,866	6,976	1,446	1,119	147,244
	249,745	140,080	115,014	96,066	88,886	82,568	87,065	43,940	37,411	35,731	25,583	16,140	5,908	2,231	1,026,368
Excess (deficiency) of revenues over expenses	(240,176)	(101,044)	823,143	168,794	14,082	(76,751)	12,993	8,445	33,545	4,361	(22,169)	(3,196)	1,434	721	624,182
Transfer from (to) operating funds	70,785	-	(123,694)	30,569	1,269	-	(2,497)	(7,766)	850	(1)	22,114	-	8,532	(161)	-
Transfer from (to) reserve funds	3,832	(264)	(53,561)	32,756	7,793	(1,377)	9,939	-	4,476	(373)	100	(3,537)	-	216	-
Transfer from (to) capital funds	661	262	43,846	(16,561)	(9,387)	-	(6,017)	-	(3,722)	164	(19)	-	(8,926)	(301)	-
Annual surplus (deficit)	\$ (164,898)	\$ (101,046)	\$ 689,734	\$ 215,558	\$ 13,757	\$ (78,128)	\$ 14,418	\$ 679	\$ 35,149	\$ 4,151	\$ 26	\$ (6,733)	\$ 1,040	\$ 475	\$ 624,182

Notes to the Consolidated Financial Statements

For the year ended December 31, 2023
(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	21,743	37,927	-	-	8	-	6,540	-	982	-	-	18	76,188
Other	6,849	3,322	54,502	2,555	1,334	34	677	204	354	31,618	103	3,796	36	129	105,513
	15,674	31,789	800,170	238,844	90,780	5,249	79,831	49,025	59,564	36,831	1,339	12,375	5,963	3,350	1,430,784
EXPENSES															
Salaries and benefits	76,891	63,325	43,525	5,158	1,247	70,431	937	-	1,956	25,407	16,997	44,480	778	673	351,805
Police 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	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	2,302	1,905	457	1,272	735	10	1,067	216	1,536	56	45	2,452	32	9	12,094
Supplies and materials	1,888	8,937	2,811	6,053	1,541	2,667	1,715	866	1,045	744	549	6,163	78	28	35,085
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	39	465	766	20	(31)	12	2	-	5	183	31	17	117	33	1,659
Amortization expense	1,307	19,976	14,124	46,701	10,394	2,331	13,192	1,809	21,665	35	1,884	6,845	1,282	1,104	142,649
	231,334	124,741	92,876	86,103	92,642	77,803	81,243	39,247	37,472	34,162	24,066	16,715	4,932	2,241	945,577
Excess (deficiency) of revenues over expenses	(215,660)	(92,952)	707,294	152,741	(1,862)	(72,554)	(1,412)	9,778	22,092	2,669	(22,727)	(4,340)	1,031	1,109	485,207
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)	\$ (148,839)	\$ (96,763)	\$ 565,090	\$ 211,436	\$ (2,476)	\$ (69,031)	\$ 10,801	\$ 3,585	\$ 12,492	\$ 3,500	\$ 124	\$ (5,708)	\$ 832	\$ 164	\$ 485,207

Notes to the Consolidated Financial Statements

For the year ended December 31, 2023

(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:

	2023	2022
Revenue		
BC Provincial government grants:		
BC Growing Communities Fund Grant (Schedule 2)	\$ 89,928	\$ -
UBCM Strengthening Communities Services	7,352	6,797
Ministry of Transportation and Infrastructure	6,953	8,207
Traffic fines revenue sharing	6,678	6,368
Roads	5,206	213
Casino revenue sharing	3,269	3,313
Flood mitigation funding	2,736	2,739
Childcare and seniors	1,743	1,422
Library Enhancement Grant	1,634	-
Arts, Communities, and Sundry	1,558	1,398
Library operating and BC one Card	1,264	981
Local government climate action program	1,175	1,175
ICBC road improvement	602	655
Others	333	237
Subtotal BC Provincial government grants	130,431	\$33,505
Federal government grants:		
Housing Accelerator Fund	23,910	-
Rapid housing initiative	8,219	6,846
Water, drainage and sewer	4,552	3,407
Roads and parking	2,290	658
Building & facility improvements	824	656
Childcare and youth	545	61
Arts and heritage grants	543	213
SAFE program	444	487
Others	231	150
Subtotal Federal government grants	41,558	12,478
TransLink grants	26,364	28,527
UBCM community works fund:	1,751	1,678
Total transfers from other government revenues	\$ 200,104	\$ 76,188

Notes to the Consolidated Financial Statements

For the year ended December 31, 2023
(tabular amounts in thousands of dollars)

22. Financial instrument risks

The fair value of a financial instrument is the estimated amount that the City would receive or pay to settle a financial asset or liability at the reporting date. The financial instruments and nature of risks that they may be subject to are as follows:

Financial Instruments	Credit Risks	Liquidity Risks	Market Risks	
			Foreign Exchange	Interest Rate
Cash and cash equivalents			X	
Accounts receivable	X			
Portfolio investments				X
Accounts payable and due to other government		X	X	
Debt				X

(a) Credit risk

The City is exposed to credit risk resulting from the possibility that parties may default on their financial obligations. The City holds deposits based on estimated work for services performed.

Accounts receivable

The City's accounts receivable balance is made up of folio and non-folio balances. Folio balances are associated with invoices related to real property within the City and non-folio balances consist of all other categories of invoices.

For folio accounts receivable balances, outstanding amounts are transferred to the property tax account associated with the invoiced real property at the end of each fiscal year and form all or part of the tax arrears for the property. The City is required by the Local Government Act to conduct an annual tax sale by offering for sale by public auction each parcel of real property on which taxes are delinquent. Registered charge holders have the full right to redeem the property. To redeem the property, the charge holder must remit the full upset price, plus interest on the purchase price at a rate set by the Province, within one year of the tax sale.

For non-folio accounts receivable balances, the City maintains allowances for potential credit losses, with results to date within the City's expectations. In making estimates in respect of the allowance for doubtful accounts, current economic conditions, historical information, reasons for the accounts being past due, and operational nature of invoices are all considered in the determination of when to record allowances for past due accounts. The same factors are considered when determining whether to write off amounts charged to the allowance account against amounts receivables.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2023
(tabular amounts in thousands of dollars)

22. Financial instrument risks (continued)

(b) Liquidity risk

Liquidity risk is the risk that the City will not be able to meet a demand for cash or fund its obligations as they come due.

Accounts payable and due to other government

The City meets its liquidity requirements by holding assets that can be readily converted into cash and preparing annual operating and capital expenditure budgets, which are monitored and updated as required. Ongoing cash flow forecasting is utilized to ensure that liquidity levels are sufficient to meet demand.

(c) Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or factors affecting financial instruments traded in the market. The market risks to which the City is exposed are foreign exchange risks, and interest rate risks.

(i) Foreign exchange risk

Foreign exchange risk refers to the risk that the fair value of financial instruments, or future cash flows associated with the instruments, will fluctuate in Canadian dollar value due to changes in foreign exchange rates.

Cash and Accounts payable

The functional currency of the City is the Canadian dollar. The City receives some US dollar payments and incurs some US dollar operating and capital costs. These US dollar transactions represent an insignificant volume and value of total overall transactions, resulting in minimal risk.

(ii) Interest rate risk

Interest rate risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instrument will fluctuate due to changes in market interest rates.

Portfolio investment

The interest rate risk exposure of portfolio investments arises from investments held by the Surrey Homelessness and Housing Society entity. The Society's equity and fixed income investments are comprised of a diversified group of pooled funds managed by a third-party professional portfolio management firm, who actively oversees the existing holdings and evaluates future investment opportunities, with the objectives of delivering strong long-term compounding returns for the charitable organization.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2023
(tabular amounts in thousands of dollars)

22. Financial instrument risks (continued)

(ii) Interest rate risk (continued)

The remaining portfolio investments balance relates to the City's investment holdings. All investments comply with the requirements of the Community Charter. Investment objectives include preservation of capital, minimization of default and interest rate risk, sufficient liquidity to meet operating and capital requirements, and generation of a stable return on investments. The City's investments held as at December 31, 2023 are comprised of guaranteed investment certificates ("GICs"), and term deposits, and are not subject to fluctuations in market prices.

Debt

The City obtains debt instruments through the MFA to finance certain capital expenditures. Every year, the MFA is reviewed by the three major credit rating agencies, with the goal of maintaining the highest credit rating possible ("AAA"). This allows the City to access capital financing at the lowest rates possible. Three rating agencies, Moody's Investor Services, Standard & Poor's, and Fitch Ratings have each reaffirmed MFA's AAA credit rating status.

Loans with terms of five years will maintain the initial interest rate for the entire term of the loan. Loans with terms of ten years or longer will generally maintain the initial interest rate for the first ten years. The interest rate is then reset at the current market rate for a period to be determined at that point in time, generally five years.

The remaining balance of debt as at December 31, 2023 relates to the capital component of costs incurred under a public-private partnership for the construction of a City facility. The interest rate is fixed for the entire term of the loan and is not subject to fluctuation.

Through legislation, the Province of BC limits municipalities on the amount of borrowing they can incur. The liability limit states that a municipality's annual aggregate debt servicing costs cannot exceed 25% of annual calculation revenue, as defined by the legislation. The City's total debt servicing cost is monitored against the liability servicing limit to ensure reasonable levels of utilization.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2023
(tabular amounts in thousands of dollars)

23. 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>2023</u>	<u>2022</u>
Cemetery Perpetual Care Fund	\$ 5,506	\$ 5,093
Employee Benefits Fund	817	790
	<u>\$ 6,323</u>	<u>\$ 5,883</u>

24. Budget data

The budget data presented in these consolidated financial statements was included in the City of Surrey 2023-2027 Consolidated Financial Plan and was adopted through By-law #20886 on April 17, 2023. The following table reconciles the approved budget to the budget figures reported in these consolidated financial statements.

	<u>Budget Amount</u>
Approved consolidated budgeted revenues	<u>\$ 1,419,571</u>
Approved consolidated budgeted expenditures	1,626,724
Transfers between funds	<u>(207,153)</u>
	1,419,571
Less:	
Capital expenditures	(494,330)
Municipal debt principal repayments	(22,753)
Add:	
Transfers between funds	<u>207,153</u>
Total Expenses:	<u>1,109,641</u>
Annual surplus per statement of operations	<u>\$ 309,930</u>

25. Comparative figures

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

Notes to the Consolidated Financial Statements

*For the year ended December 31, 2023
(tabular amounts in thousands of dollars)*

26. Changes in Accounting Standards

The revenue standard PS 3400 will be effective for fiscal years beginning on or after April 1, 2023. The new standard is related to revenue recognition principles for revenues of governments and government organizations other than government transfers and tax revenue. Specifically, it differentiates between revenue arising from transactions that do not have performance obligations, referred to as "non-exchange transactions," and transactions that include performance obligations, referred to as "exchange transactions."

The Public Private Partnerships standard PS 3160 will be effective for fiscal years beginning on or after April 1, 2023. This section is related to public private partnerships used as alternate finance and procurement model by public sector entities, where such entities procure infrastructure using a private sector partner.

At present, the City is assessing the impact of the changes to the accounting standards. Over the remainder of 2024, the City will continue to evaluate the current accounting treatments against the new changes in standards to ensure the financial statements are prepared in accordance with the Canadian Public Sector Accounting Standards as prescribed by PSAB.

City of Surrey

Schedule 1 - Tangible Capital Assets

As at December 31, 2023
(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, 2023
COST							
Opening Balance	\$ 2,277,070	\$ 3,580,548	\$ 808,299	\$ 5,288,745	\$ 331,769	\$ 277,379	\$ 12,563,810
Additions and transfers	49,874	149,468	5,522	182,944	19,013	55,555	462,376
Disposals	(447)	-	(278)	(8,277)	(22,154)	-	(31,156)
Ending Balance	2,326,497	3,730,016	813,543	5,463,412	328,628	332,934	12,995,030
ACCUMULATED AMORTIZATION							
Opening Balance	105,352	-	338,528	1,979,179	204,803	-	2,627,862
Amortization	5,541	-	23,495	97,958	20,250	-	147,244
Accum. amort. on disposals	(185)	-	(278)	(7,355)	(21,941)	-	(29,759)
Ending Balance	110,708	-	361,745	2,069,782	203,112	-	2,745,347
NET BOOK VALUE	\$ 2,215,789	\$ 3,730,016	\$ 451,798	\$ 3,393,630	\$ 125,516	\$ 332,934	\$ 10,249,683
	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	\$ 805,522	\$ 5,187,648	\$ 324,121	\$ 224,507	\$ 12,130,743
Additions and transfers	119,622	152,731	5,856	107,069	14,829	52,872	452,979
Disposals	(3,680)	-	(3,079)	(5,972)	(7,181)	-	(19,912)
Ending Balance	2,277,070	3,580,548	808,299	5,288,745	331,769	277,379	12,563,810
ACCUMULATED AMORTIZATION							
Opening Balance	101,502	-	318,172	1,889,404	191,476	-	2,500,554
Amortization	5,241	-	23,324	93,594	20,490	-	142,649
Accum. amort. on disposals	(1,391)	-	(2,969)	(3,816)	(7,165)	-	(15,341)
Ending Balance	105,352	-	338,527	1,979,182	204,801	-	2,627,862
NET BOOK VALUE	\$ 2,171,718	\$ 3,580,548	\$ 469,772	\$ 3,309,563	\$ 126,968	\$ 277,379	\$ 9,935,948

City of Surrey

Schedule 2 - Growing Communities Fund

Unaudited

As at December 31, 2023

(in thousands of dollars)

On February 10, 2023, the Province of BC announced that the Growing Communities Fund ("GCF") will provide an one-time total of \$1.0 billion in grants distributed amongst all BC municipalities and regional districts, which they can use to address their community's unique infrastructure and amenity demands. GCF grants support the delivery of infrastructure projects necessary to enable community growth.

On March 23, 2023, the City of Surrey received a \$89.9 million GCF grant from the Local Government Infrastructure and Finance Branch of the Provincial Ministry of Municipal Affairs (note 21). Interest income is generated on the cumulative GCF reserve balance.

	Growing Communities Fund Reserve
Reserve Balance, beginning of fiscal year	\$ -
Add: Funding Received	
GCF Grant	89,928
Interest income allocated	519
	<u>90,447</u>
Less: Expenditures	
Buildings	(20,387)
Other Capital improvements	(5,181)
	<u>(25,568)</u>
Unused reserve balance, end of fiscal year	<u>\$ 64,879</u>

Allocations of GCF grant funding towards eligible infrastructure projects have been made in accordance with the Ministry's criteria and include: Recreation related amenities; Park additions/maintenance/upgrades including washrooms/meeting space and other amenities; Public safety/emergency management equipment and facilities not funded by senior level government; and Childcare facilities.

PSAB Reporting Standards – Current Developments

To ensure the City is prepared for future financial statement changes as mandated by PSAB, staff stay informed of new and evolving initiatives.

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

Section PS 3400 Revenue

In general, 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. The Public Sector Accounting (“PSA”) Handbook currently has two sections that address two major sources of government revenues, government transfers and tax revenue.

Section PS 3400 is related to revenue recognition principles that apply to revenues of governments and government organizations, other than government transfers and tax revenue. This section addresses recognition, measurement and presentation of revenues that are common in the public sector. It is less complex than the comparable new International Financial Reporting Standards (“IFRS”) standard, although generally consistent in philosophy.

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

Staff anticipate that this new standard will have some impact on the City’s financial statements and have commenced reviewing the various revenue sources that may be affected, effective for the City’s 2024 fiscal year.

Section PS 3160 Public Private Partnerships

This section is related to public private partnerships (“P3s”) used as an alternate finance and procurement model available to public sector entities where such entities procure infrastructure using a private sector partner.

The private sector partner is obligated to:

- Design, build or improve existing infrastructure;
- Finance the transaction past the point where the infrastructure is ready for use; and
- Operate and/or maintain the infrastructure.

This section addresses the public sectors entity’s recognition, measurement and presentation of the infrastructure assets and liabilities associated with P3s arrangements.

This new Section will be 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 changes in the City’s recognition, measurement and presentation of infrastructure assets and liabilities associated with P3 arrangements. In the event that the new changes are applicable, this new section will be effective for the City’s 2024 fiscal year.

New standards that have been proposed by PSAB and are under consideration through exposure drafts, which may affect financial reporting in the future years, include the following:

Employment Benefits

The existing Employee Benefits standards in PS 3250, Retirement Benefits and PS 3255, Post-employment Benefits are some of the older standards currently existing in the PSA Handbook. They have not kept pace with the changes that have occurred in the industry. New concepts such as "Target-Benefit Plans" and "Shared-Risk Plans" do not fit in neatly to existing standards.

In recognition of the wide scope of review required to modernize these standards, PSAB had broken initial review into three different sections:

- Deferral Provisions (Invitation to Comment issued in November 2016);
- Discount Rate Guidance (Invitation to Comment issued in November 2017); and
- Non-Traditional Pension Plans (Invitation to Comment issued in October 2018).

The first exposure draft, "Employee Benefits, Proposed Section PS 3251", and the accompanying Basis for Conclusions, was issued on July 28, 2021. The first phase of this multi-phase standard is focused on the topics of deferral provisions and discount rate guidance. Future phases will focus on non-traditional pension plans and other issues.

Deferral provisions updated under the Exposure Draft propose that revaluations of the net defined benefit liability (asset) be recognized immediately on the statement of financial position within the net defined benefit liability(asset) and the accumulated other component of net assets. Deferral and amortization of actuarial gains and losses would no longer be used. Further, it is proposed that plan assets would be measured at market value.

Discount rate guidance from PSAB proposes that a public sector entity would assess the funding status of a post-employment benefit plan to determine the appropriate discount rate by considering the proportion of the current and projected plan assets balance compared to projected benefit payments, and the unique circumstances and characteristics of their post-employment benefit plan.

The comment deadline for the first Exposure Draft was November 25, 2021. PSAB is currently deliberating feedback received on the Employee Benefits Exposure Draft. The City will continue to review the exposure drafts frequently and assess the potential impact of any new standard changes for Employment Benefits.