



Corporate Report

NO: R118

COUNCIL DATE: May 18, 2005

REGULAR

TO: Mayor & Council DATE: April 25, 2005

FROM: General Manager, Finance, FILE: 1880-20
Technology & HRSUBJECT: 2004 Annual Financial Report

RECOMMENDATION

That the information be received.

INTENT

To provide Council with background information on the 2004 audited financial statements.

DISCUSSION

In accordance with Sections 98 and 167 of the Community Charter, *Appendix A*, includes the annual financial statements and the auditor's report for the City of Surrey for the year ended December 31, 2004, which will be included in the 2004 Annual Financial Report that will be published by June 20th.

City management is responsible for the preparation and presentation of the financial statements and related information in the 2004 Annual Financial Report. The statements that are included in *Appendix A* have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) as prescribed by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA). The City maintains a comprehensive system of internal controls to safeguard City assets and to provide reliable financial information.

City Council has appointed the accounting firm of KPMG to conduct an audit and express an opinion as to whether the consolidated financial statements present fairly the financial position of the City of Surrey as at December 31, 2004 and the result of its operations for the year.

New Requirements

Effective January 1, 2004, the City adopted the recommendations as required under Section PS 3255 of the CICA Public Sector Accounting Handbook. This new policy requires the City to accrue and disclose obligations, using actuarial cost methodologies, for certain post-employment benefits, compensated absences and termination 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 and accidental death and dismemberment insurance.

An actuarial valuation for these benefits was conducted to determine the City's accrued benefit obligation as at December 31, 2004. The valuation determined the cost of these benefits based on service, best estimates of retirement ages, expected future salary and wage increases. The liabilities under these benefits plans have been accrued based on those actuarial results.

This change in accounting policy has been applied retroactively. Total estimated liability for these post-employment benefits at the end of 2004 is \$12.8 million (\$12.0 million in 2003). It has been recommended that an actuarial valuation be conducted every three years and that estimates be used for the years in between.

The City had already accrued an estimate for non-pension post retirement and post employment benefits. In December, 2003 this accrual was \$3.3 million. The City had also reserved funding for an extra-ordinary use of sick benefits. In December, 2003 this reserve was \$2.5 million. All of this funding has now been re-allocated to help offset the liability for the post-employment benefits. The remaining liability of \$7.0 million is currently unfunded. In future years, the annual service costs of approximately \$1.5 million will be funded as a component of salaries and benefit overhead costs.

Although there is a requirement to record the liability in the financial statements, there is no requirement to fully fund the amount. The recorded liability is an accounting estimate only and includes a combination of financial and non-financial impacts. For instance, there is not necessarily a financial impact to the City for sick occurrences. Unless there is an immediate adverse effect on customer service, an employee who is absent due to sickness is not necessarily replaced by temporary help. It is therefore, highly unlikely that the City would ever draw upon this liability to the extent that it is currently recorded. Therefore, the feasibility of allocating additional funding to this liability that would reduce or eliminate the unfunded portion will be reviewed by staff. Any resulting recommendations will be presented to the next Audit Committee Meeting or through the annual budget process.

Explanation of Budget versus Actual Variances

The financial statements are presented in the format as required by CICA. As an example, the *Consolidated Statement of Financial Activities* is presented below:



In order to better understand the City's financial results for 2004, significant variances of 'Budget' to 'Actual' have been referenced numerically in the far left hand column. These variances are explained on the following pages.

Revenue:

1. Development Cost Charges: The 'Budget' figure includes the development cost charges that are available for the 2004 program (\$44.6 million) as well as the funding that was committed in prior years but not yet spent (\$75.8 million) for a total of \$120.4 million. The 'Actual' column includes only that amount spent (\$45.4 million). This variance will be reduced in future years because Council has now approved an accelerated DCC Allocation Program that more adequately matches the City's growth with infrastructure needs.

2. Developer Contributions: The detailed breakdown of this variance is as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
▪ GVTA	\$ 4.1 M	\$11.1 M	\$ 7.0 M
▪ Future Works & other private contrib.	\$ 0.8 M	\$ 4.1 M	\$ 3.3 M
▪ Funds carried forward from previous yrs (NCP's & 5% Cash in Lieu of Pkld)	<u>\$ 8.4 M</u>	<u>\$ 8.4 M</u>	<u>\$ 0.0 M</u>
<i>Total</i>	<i><u>\$13.3 M</u></i>	<i><u>\$23.6 M</u></i>	<i><u>\$10.3 M</u></i>

The \$7.0 million variance in the GVTA funding is due to several significant projects that were approved in 2005 for the Fraser Highway, 64th Avenue and 88th Avenue at the Serpentine River. The \$3.3 million variance in Future Works and other private contributions is due to increased use of Future Works funding (\$1.1 million), ICBC contributions to Traffic and Roads (\$0.5 million) and many miscellaneous contributions to facilities, park development, equipment and other projects (\$1.7 million).

3. **Investment Income:** The variance between the 'Budget' figure (\$12.9 million) and the 'Actual' figure (\$19.4 million) is \$6.5 million. The 'Budget' figures represent the interest earnings for general, water and sewer/drainage operating purposes only. The interest recorded in the 'Actual' column includes interest earnings for all Funds, including the Statutory Reserve Funds (\$4.7 million) and Capital Funds (\$0.5 million). The balance of the variance (\$1.3 million) is a result of an increase in the balance of the investment portfolio, resulting in a total variance of \$6.5 million. Beginning with the 2006 Financial Plan, the 'Budget' figures will include estimated interest earnings on the Statutory Reserve Funds.
4. **Transfers from Other Governments:** The following on-going revenue increases were not known when the 2004 budget was adopted. They have however, already been included in the 2005 Financial Plan adopted by Council last November:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
▪ Traffic Fine Revenue Sharing	\$ 0.8 M	\$ 3.3 M	\$ 2.5 M
▪ Gaming Revenue Sharing.	\$ 0.0 M	\$ 1.6 M	\$ 1.6 M
▪ Other Sundry eg: Keep of Prisoners, Summer Student Program, & Libr.	<u>\$ 1.0 M</u>	<u>\$ 1.4 M</u>	<u>\$ 0.4 M</u>
Sub Total	\$ 1.8 M	\$ 6.3 M	\$ 4.5 M

The following one-time funding was also received:

▪ Capital Infrastructure Grants	<u>\$ 0.0 M</u>	<u>\$ 2.6 M</u>	<u>\$ 2.6 M</u>
Total	\$ 1.8 M	\$ 8.9 M	\$ 7.1 M

The \$2.6 million variance in the Capital Infrastructure Grants is mainly due to the Universal Metering Program (\$2.1 million). The City also received several other miscellaneous grants in 2004 that totalled \$0.5 million.

5. **Other Revenue:** This includes the following:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
▪ Permits, Licensing & Fines	\$13.5 M	\$16.7 M	\$ 3.2 M
▪ Donations	\$ 0.2 M	\$ 1.0 M	\$ 0.8 M
▪ Other	<u>\$ 6.4 M</u>	<u>\$ 6.6 M</u>	<u>\$ 0.2 M</u>
Sub Total	\$20.1 M	\$24.3 M	\$ 4.2 M
▪ Land Sales	<u>\$ 0.0 M</u>	<u>\$24.0 M</u>	<u>\$24.0 M</u>
Total	\$20.1 M	\$48.3 M	\$28.2 M

Staff identified estimated variances for Permits, Licensing and Fine revenues in the latter part of 2004 as part of the City's quarterly financial reporting process. Council has since allocated these favourable one-time revenue variances to capital projects. The variance in Donations is mainly due to increased contributions for trees in new developments.

This category also includes land sales, which are not included in the "Budget" figures because the timing of the sales and the property values are not known at the time of the budget preparation.

In 2004 the City received proceeds from the sale of the following lands:

▪ Campbell Heights	\$ 4.9 M
▪ Elgin Lands	\$ 4.0 M
▪ Road Exchanges	\$ 1.9 M
▪ Parkland	\$ 7.4 M

▪ Other sundry sales	<u>\$ 5.8 M</u>
Total	<u>\$24.0 M</u>

All of the proceeds from the above land sales have been included in the 2005 Five Year Financial Plan adopted by Council in November 2004.

Expenditures

6. General Government: This includes the following:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
▪ Mayor, Council, Grants & Initiatives	\$ 2.0 M	\$ 1.7 M	\$ 0.3 M
▪ City Manager (Leg Serv., Legal, Bylaws, Econ Dev)	\$ 8.8 M	\$ 7.6 M	\$ 1.2 M
▪ Finance, Technology & HR	<u>\$15.7 M</u>	<u>\$11.9 M</u>	<u>\$ 3.8 M</u>
Sub Total	<u>\$26.5 M</u>	<u>\$21.2 M</u>	<u>\$ 5.3 M</u>

The Finance, Technology & HR budget provides for \$2.0 million as authority to allocate from the Self Insurance Reserve should the need arise. No such transfer was required in 2004. In addition, the above variances are mainly attributable to one-time savings due to temporary vacancies.

▪ Other (Charge to Utilities & Conting.)	<u>(\$ 2.3 M)</u>	<u>(\$ 7.4 M)</u>	<u>\$ 5.1 M</u>
Total	<u>\$24.2 M</u>	<u>\$13.8 M</u>	<u>\$10.4 M</u>

The remaining variance of \$5.1 M includes the additional GST rebate that was announced last February, as well as unused operating contingency. All of the above one-time savings have been allocated to the Capital Program as per the direction of Council.

7. Debt Interest, Fiscal Services and other: This includes the interest that the City pays to property owners who prepay their taxes. It also includes service charges and overdraft interest that is charged on the City's bank accounts. The variance between the 'Budget' (\$0.4 million) and the 'Actual' (\$1.2 million) is \$0.8 million. The 'Actual' column also includes \$0.6 M that represents the City's 2004 contribution towards the new liability for 'Employee Future Benefits'. The remaining variance of \$0.2 million is due to the increased number of property owners who have chosen to prepay their property taxes through the pre-authorized monthly payment plan.
8. Capital Assets: The 'Budget' figure includes the capital funds that are available for the 2004 program (\$127.8 million) as well as the funding that was committed in prior years but not yet spent (\$115.1 million) for a total of \$242.9 million. The 'Actual' column includes only that amount spent (\$131.7 million).
9. Deficiency of Revenues over Expenditures: The 'Budget' figure includes the 2004 transfers from other Funds as well as the funding that was committed in prior years but not yet spent. The 'Actual' column is the difference between the revenues that were collected in 2004 and transferred to other funds for allocation in future years and the transfers from other funds required to support the 2004 capital expenditures.

The total capital program for 2004 was budgeted to be \$242.9 million. As stated earlier approximately 50% of this consists of projects that were authorized in prior years' and are in the process of being completed. The funding for most of these projects requires a transfer from one-time sources such as those indicated below:

▪ Transfers from Statutory Reserve Funds, eg: City Land, Local Imprv't Vehicle & Equip Replac't, Cash-in Lieu of Pkld, NCP's	\$24.1 M
▪ Work in Progress	\$30.8 M

▪ Prior Years' Savings to Capital (General & Utilities)	\$13.2 M
▪ Unspecified Capital (for budget authority only)	<u>\$20.0 M</u>
<i>Sub Total</i>	<i>\$88.1 M</i>

The following transfers are also required as part of the General Operating Budget:

▪ Transfer from Unappropriated Surplus	\$ 2.9 M
▪ Operating Contributions to Reserves, eg: deprec'n re: vehicles & equip't	(\$ 9.5 M)
▪ Operating Contributions to Appropriated Surplus, eg: int. allocations	<u>(\$ 1.1 M)</u>
& election costs	

Total ***\$80.4 M***

It is important to note that the City continues to maintain a strong financial position without the use of debt. All of the above variances have been incorporated in the 2005 Five Year Financial Plan, as adopted by Council November, 2004. Staff will continue to apprise Council of similar variances in 2005 as part of the Quarterly Financial Reporting process.

CONCLUSION

The statements that are included in *Appendix A* have been prepared in accordance with Generally Accepted Accounting Principles as prescribed by PSAB of the Canadian Institute of Chartered Accountants (CICA). The City maintains a comprehensive system of internal controls to safeguard City assets and to provide reliable financial information. These statements will be included in the published version of the 2004 Annual Financial Report that will be distributed to Council on June 20th, 2005.

All of the variances outlined in this report have been incorporated in the 2005 Five Year Financial Plan, as adopted by Council November 2004. As similar variances become apparent in 2005, Staff will continue to inform Council.

Vivienne Wilke, CGA
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Technology & HR