



Corporate Report

NO: R088

COUNCIL DATE: May 15, 2006

REGULAR COUNCIL

TO: Mayor & Council DATE: May 10th, 2006
FROM: General Manager, Finance, Technology & HR FILE: 1880-20
SUBJECT: 2005 Annual Financial Report

RECOMMENDATION

It is recommended that Council receive this report as information.

INTENT

To provide Council with background information on the 2005 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, 2005, which will be included in the 2005 Annual Financial Report that will be published by June 19th.

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, 2005 and the results of its operations for the year.

Explanation of Budget versus Actual Variances

The financial statements are presented in the format required by CICA and are located in Appendix A. The *Consolidated Statement of Financial Activities* as presented below has been slightly modified to more clearly illustrate the City's financial activity for 2005:

NOTE	<i>for the year ended December 31, 2005</i> <i>(in thousands of dollars)</i>	2005 <i>Budget</i>	2005 Actuals	2004 <i>Actuals</i>
REVENUES				
	Taxation for City purposes	\$ 173,303	\$ 173,914	\$ 164,280
1	Sales of goods and services	92,492	96,173	92,837
2	Development cost charges	129,440	44,107	40,170
3	Developer contributions	21,837	21,968	21,014
4	Investment income	14,153	19,166	19,143
5	Transfers from other governments	1,000	14,937	8,902
6	Other	25,363	47,441	48,349
7	Change in Agreements Payable (net)	-	3,122	5,243
8	Contribution from Financial Equity (net)	67,103	5,789	-
		<u>524,691</u>	<u>426,617</u>	<u>399,938</u>
EXPENDITURES				
	Fire and police protection	106,241	101,503	92,509
	Water, sewer and drainage	59,294	57,810	54,008
	Parks, recreation and culture	32,975	31,320	32,181
9	General government	26,053	20,957	13,772
	Public works	14,267	13,476	14,010
	Environment and health	14,839	14,554	14,320
	Planning and development	13,051	13,049	10,105
	Surrey Public Library	10,699	10,789	10,366
10	Debt interest, fiscal services and other	423	956	1,204
11	Capital assets	246,849	162,203	131,664
	Contribution to Financial Equity (net)	-	-	25,799
		<u>524,691</u>	<u>426,617</u>	<u>399,938</u>
	Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>-</u>

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

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. Sale of Goods & Services: The increase in sales revenue is related to higher growth and market activity than anticipated during the budget process. Specifically, the City experienced an increase in application fees (\$0.6 M), land development fees (\$1.4 M), solid waste revenues (\$0.5 M), tax inquiry fees (\$0.4 M) and discounts received for early payment of invoices (\$0.6 M).
2. Development Cost Charges: The 'Budget' figure includes the development cost charges that are available for the 2005 program (\$91.9 million, which represents 2 years of DCC collections due to the implementation of the new accelerated DCC Allocation Program) as well as the funding that was committed in prior years but not yet spent (\$37.5 million) for a total of \$129.4 million. The 'Actual' column includes only that amount spent (\$44.1 million) in 2005. This variance will be reduced in 2006 as much of the planning for the accelerated DCC Allocation Program has been put in place in 2005, allowing the City to construct the related works in 2006.
3. Developer Contributions: The detailed breakdown of this variance is as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
▪ GVTA	\$ 16.8 M	\$12.4 M	\$ 4.4 M
▪ Future Works & other private contrib.	\$ 0.8 M	\$ 3.3 M	\$ (2.5)M
▪ Funds carried forward from previous yrs (NCP's & 5% Cash in Lieu of Pkld)	<u>\$ 4.2 M</u>	<u>\$ 6.3 M</u>	<u>\$ (2.1)M</u>
<i>Total</i>	<u>\$ 21.8 M</u>	<u>\$ 22.0 M</u>	<u>\$ (0.2)M</u>

The \$4.4 million variance in the GVTA funding is primarily due to the timing of the completion of the Fraser Highway project. The \$4.4 Million will be used in 2006 to complete the construction project. The \$2.5 million variance in Future Works and other private contributions is due to increased in Local Improvements (\$0.5 million), ICBC contributions to Traffic and Roads (\$0.5 million) and many miscellaneous contributions to facilities, park development, equipment and other projects (\$2.1 million).

4. Investment Income: The variance between the 'Budget' figure (\$14.2 million) and the 'Actual' figure (\$19.2 million) is \$5.0 million. The 'Budget' figure represents 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 (\$0.6 million). The operating funds saw a slight decrease (\$0.3 million) due to a lower overall return as longer-term investments expire. Beginning with the 2006 Financial Plan, the 'Budget' figures will include estimated interest earnings on the Statutory Reserve Funds.
5. Transfers from Other Governments: The detailed breakdown of this variance is as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
▪ Traffic Fine Revenue Sharing	\$ 0.0 M	\$ 4.1 M	\$ 4.1 M
▪ Gaming Revenue Sharing.	\$ 1.0 M	\$ 3.3 M	\$ 2.3 M
▪ Other Sundry e.g.: Keep of Prisoners, Summer Student Program, & Libr.	<u>\$ 0.0 M</u>	<u>\$ 1.0 M</u>	<u>\$ 1.0 M</u>
<i>Sub Total</i>	<u>\$ 1.0 M</u>	<u>\$ 8.4 M</u>	<u>\$ 7.4 M</u>
▪ Capital Infrastructure Grants	<u>\$ 0.0 M</u>	<u>\$ 6.5 M</u>	<u>\$ 6.5 M</u>
<i>Total</i>	<u>\$ 1.0 M</u>	<u>\$ 14.9 M</u>	<u>\$ 13.9 M</u>

The 'Budget' figure represents the portion of the gaming revenue that was allocated to operating (25%) and the 'Actual' figure includes all the gaming revenue received including the portion that is allocated to capital (75%). The Traffic Fine Revenue budget (\$ 4.2 million) is included in 'Other Revenue' while the actual revenue (\$ 4.1 million) is included in this section. Efforts have been made to improve the alignment of these revenues in the 2006 Financial Plan adopted by Council last January:

The \$6.5 million variance in the Capital Infrastructure Grants is mainly due to the Universal Metering Program (\$1.8 million), the Surrey Museum (\$2.0 million) and Provincial cost sharing for Fraser Highway Improvements (\$1.8 million). The City also received several other miscellaneous grants in 2005 that totalled \$0.9 million.

6. <u>Other Revenue:</u> This includes the following:	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
▪ Permits, Licensing & Fines	\$13.8 M	\$19.1 M	\$ 5.3 M
▪ Donations	\$ 0.3 M	\$ 1.7 M	\$ 1.4 M
▪ Traffic Fine Revenue Sharing	\$ 4.2 M	\$ 0.0 M	\$ 4.2 M
▪ Other	<u>\$ 7.1 M</u>	<u>\$ 7.1 M</u>	<u>\$ (0.0)M</u>
<i>Sub Total</i>	<u>\$25.4 M</u>	<u>\$27.9 M</u>	<u>\$ 6.1 M</u>
▪ Land Sales	<u>\$ 0.0 M</u>	<u>\$19.5 M</u>	<u>\$19.5 M</u>
<i>Total</i>	<u>\$25.4 M</u>	<u>\$47.4 M</u>	<u>\$25.6 M</u>

Staff identified estimated variances for Permits, Licensing and Fine revenues in the latter part of 2005 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. The actual revenue for Traffic Fine Revenue has been reported in the 'Transfer from Other Governments' section.

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 2005 the City received proceeds from the sale of the following lands:

▪ Ministry of Highways (Hwy 10 & 15)	\$ 2.7 M
▪ Elgin Lands	\$ 1.8 M
▪ Woodens Pit	\$ 6.4 M
▪ Road Exchanges	\$ 2.7 M
▪ Parkland	\$ 0.3 M
▪ Other sundry sales	<u>\$ 5.6 M</u>
<i>Total</i>	<u>\$19.5 M</u>

All of the proceeds from the above land sales have been included in the 2006 Five Year Financial Plan adopted by Council in January 2006.

7. Changes in Agreements Payable (Net): In order to ensure that the Campbell Heights Development met statutory financial reporting requirements, the developers share of the project was funded from equity and a liability to the developer was established. As this liability is repaid through the collection of DCC's in that area, the equity balance will increase. These expenses represent the developers share of the current year costs incurred on the Campbell Heights project and the repayments made from DCC's collected.
8. Contribution from Equity: The 'Budget' figure includes the 2005 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 2005 and transferred to other funds for allocation in future years and the transfers from other funds required to support the 2005 capital expenditures.

The total capital program for 2005 was budgeted at \$246.8 million. As stated earlier approximately 25% 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	\$20.1 M
▪ Work in Progress	\$15.3 M
▪ Prior Years' Savings to Capital (General & Utilities)	\$21.6 M
▪ Unspecified Capital (for budget authority only)	<u>\$20.0 M</u>
<i>Sub Total</i>	<i>\$77.0 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	(\$ 7.4 M)
▪ Operating Contributions to Appropriated Surplus, eg: int. allocations & election costs	<u>(\$ 5.4 M)</u>
<i>Total</i>	<i><u>\$67.1 M</u></i>

Although the financial activity for the City resulted in a net contribution from Financial Equity of \$5.8 Million for 2005, this does not take into consideration the increase in Deferred Development Cost Charges (\$17.3 Million) and Deferred Revenue (\$5.6 Million), which are recorded in the ***Consolidated Statement of Financial Position (Appendix A-1)***.

Expenditures

9. General Government: This includes the following:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
▪ Mayor, Council, Grants & Initiatives	\$ 2.2 M	\$ 2.2 M	\$ 0.0 M
▪ City Manager (Leg Serv., Legal, Bylaws, Econ Dev)	\$10.0 M	\$ 8.7 M	\$ 1.3 M
▪ Finance, Technology & HR	\$16.4 M	\$12.8 M	\$ 3.6 M
▪ Other (Charge to Utilities & Conting.)	<u>\$(2.6)M</u>	<u>\$(2.7)M</u>	<u>\$ 0.1 M</u>
<i>Total</i>	<i><u>\$26.0 M</u></i>	<i><u>\$21.0 M</u></i>	<i><u>\$ 5.0 M</u></i>

The Finance, Technology & HR budget provides \$2.0 million from the Self Insurance Reserve should the need arise. No such transfer was required in 2005. In addition, the above variances are mainly attributable to one-time savings due to temporary vacancies, which are now being filled. All of the above one-time savings have been allocated to the Capital Program as per the direction of Council.

10. 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' (\$0.9 million) is \$0.5 million, which is a result of increase in interest charges on the liability for 'Employee Future Benefits', on-line bank transactions and the number of customers who prepay their property taxes through the pre-authorized monthly payment plan.
11. Capital Assets: The 'Budget' figure includes the capital funds that are available for the 2005 program (\$189.9 million) as well as the funding that was committed in prior years but not yet spent (\$56.9 million) for a total of \$246.8 million. The 'Actual' column includes only that amount spent in 2005 (\$162.2 million). As such there is a carry forward to 2006 of \$84.6 Million.

Changes in Accounting Treatment

Neighbourhood Concept Plans

Effective January 1, 2005, the City applied the recommendations as required under Section PS 1800 of the CICA Public Sector Accounting Handbook to revenue generated from Neighbourhood Concept Plans (NCP). This policy requires the City to recognize revenue in the period in which the events occurred that gave rise to the revenue. This means that the NCP revenue is now recognized when the capital works required by those plans have been completed. Funds received in advance of the capital works being performed have now been accounted for as deferred revenue. This change in treatment has been applied retroactively resulting in an increase in deferred revenue of \$11.7 million (\$9.2 million in 2004).

Surrey Lake

Funding for the Surrey Lake project was incorrectly identified in 2001, this resulted in the capital deposits to be understated and the Municipal Land Reserve to be overstated by \$868,000. This correction has been made in 2005 and financial information back to 2001 has been restated to correctly record the funding.

Comparative Changes

Campbell Heights

The City entered into a joint venture with the Campbell Heights Group (CHG) to create and service industrial lands in the Campbell Heights area. All funds expended in providing trunk servicing and required works in the area, are to be repaid from future development cost charges (DCC's) collected in the area. The 50% portion paid by the CHG was previously recorded as development cost charge revenue and the future liability to CHG had not been recorded. This has been corrected in 2005 and the liability to CHG at December 31, 2005 has been recorded at \$8.4 million.

Follow Up on Prior Year's New Requirements

Effective January 1st, 2004 the City adopted the recommendations required under Section PS 3255 of the CICA Public Sector Accounting Handbook. The policy requires the City to accrue and disclose obligations, using actuarial cost methodologies, for certain post-employment benefits, compensated balances and termination benefits.

At the end of 2004 there was an unfunded liability of \$7.0 Million. This 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. It is therefore, highly unlikely that the City would ever draw upon this liability to the extent that it is currently recorded. The staff has reviewed the feasibility of allocating additional funding to this liability that would reduce or eliminate the unfunded portion and they have concluded that the current funded portion of the liability is more than adequate. The unfunded portion of this liability therefore remains at \$7.0 Million for 2005. This will continue to be reviewed on an annual basis.

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 2006 Five Year Financial Plan, as adopted by Council January 2006. The City's current reserve balances and commitments have been summarized in **Appendix B** to provide further clarification on the City's financial position. Staff will continue to apprise Council of similar variances in 2006 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 2005 Annual Financial Report that will be distributed to Council on June 19th, 2006.

All of the variances outlined in this report have been incorporated in the 2006 Five Year Financial Plan, as adopted by Council in January 2006. The City's current reserve balances and commitments have been summarized in **Appendix B**, providing further clarification on the City's financial position.

Vivienne Wilke, CGA
General Manager, Finance,
Technology & HR