



Corporate Report

NO: R151

COUNCIL DATE: June 25, 2007

REGULAR COUNCIL

TO: Mayor & Council DATE: June 15th, 2007
FROM: General Manager, Finance & Technology FILE: 1880-20
SUBJECT: 2006 Annual Financial Report

RECOMMENDATION

It is recommended that Council receive this report as information.

INTENT

To provide Council with background information on the 2006 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, 2006, which are also included in the published 2006 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, 2006 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 2006:

NOTE	<i>for the year ended December 31, 2006</i> <i>(in thousands of dollars)</i>	<i>2006</i> <i>Budget</i>	2006 Actuals	<i>2005</i> <i>Actuals</i>
REVENUES				
1	Taxation for City purposes	\$ 182,702	\$ 184,397	\$ 173,914
2	Sales of goods and services	96,695	107,219	96,173
3	Development cost charges	83,594	67,286	44,107
4	Developer contributions	31,342	29,304	21,968
5	Investment income	26,262	20,750	19,166
6	Transfers from other governments	8,220	11,190	14,937
7	Other	39,934	51,223	47,441
		<u>468,749</u>	<u>471,369</u>	<u>417,706</u>
EXPENDITURES				
	Fire and police protection	113,823	110,234	101,503
	Water, sewer and drainage	66,515	65,525	57,810
	Parks, recreation and culture	36,058	36,097	31,320
8	General government	25,055	21,746	20,957
	Public works	14,553	13,295	13,476
	Environment and health	15,891	15,253	14,554
	Planning and development	14,326	14,057	13,049
	Surrey Public Library	11,162	11,271	10,789
9	Debt interest, fiscal services and other	681	1,081	956
10	Capital assets	204,946	138,748	162,203
11	Change in Agreements Payable (net)	-	8,366	(3,122)
12	Contribution to Financial Equity (net)	(34,261)	35,696	(5,789)
		<u>468,749</u>	<u>471,369</u>	<u>417,706</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. Taxation for City Purposes: The increase in taxation revenue is related to a redistribution of revenue between the drainage parcel tax and the sewer utility revenue (\$1.0 M) and specified area levies collected from development related infrastructure initiatives (\$0.5 M).
2. 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 (\$0.9 M), land development fees (\$1.6 M), utility revenues (\$5.3 M), departmental inquiry and service fees (\$2.1 M) and a GVS&DD solid waste settlement (\$0.6 M).
3. Development Cost Charges: The 'Budget' figure includes the development cost charges that are available for the 2006 program (\$57.1 M) as well as the funding that was committed in prior years but not yet spent (\$26.5 M) for a total of \$83.6 million. The 'Actual' column includes only the revenue required to match the cost of the capital constructed (\$67.3 M) in 2006. The variance between actual and budget (\$44.1 M) is due to timing and will be used to complete projects that are currently in progress.
4. Developer Contributions: The detailed breakdown of this variance is as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
▪ GVTA Contribution	\$ 19.4 M	\$ 19.0 M	\$ 0.4 M
▪ NCP Contributions	\$ 5.2 M	\$ 1.8 M	\$ 3.4 M
▪ Cash-In-Lieu of Parkland.	\$ 5.7 M	\$ 5.3 M	\$ 0.4 M
▪ Private Developer Contributions	<u>\$ 1.0 M</u>	<u>\$ 3.2 M</u>	<u>\$ (2.2)M</u>
<i>Total</i>	<u>\$ 31.3 M</u>	<u>\$ 29.3 M</u>	<u>\$ (2.0)M</u>

The \$3.4 million variance in NCP funding is primarily due to the timing for the completion of the Park Development projects. The \$3.4 Million will be used in 2007 to complete these construction projects. The increase of \$2.2 million in funding from Private Developers is due to increases in ICBC contributions to Traffic and Roads (\$0.2 M) and many miscellaneous contributions to facilities, park development, equipment and other projects (\$1.2 M). It also includes deposits that were received in prior years to fund specific construction in 2006 (\$0.8M).

5. Investment Income: The variance between the 'Budget' figure (\$26.2 M) and the 'Actual' figure (\$20.7 M) is \$5.5 million. The budget amount included an estimate for anticipated interest earned on development cost charges (\$6.3 M), which is actually recorded as deferred revenue. Further refinements to the budget will be made in 2008 to eliminate this variance in the future. The Water fund also earned \$0.8 million more in investment interest than anticipated during the 2006 budget process.
6. 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	\$ 4.1 M	\$ 4.6 M	\$ 0.5 M
▪ Gaming Revenue Sharing.	\$ 3.2 M	\$ 3.3 M	\$ 0.1 M
▪ Other Sundry e.g.: Keep of Prisoners, Summer Student Program, & Libr.	<u>\$ 0.9 M</u>	<u>\$ 1.0 M</u>	<u>\$ 0.1 M</u>
<i>Sub Total</i>	<u>\$ 8.2 M</u>	<u>\$ 8.9 M</u>	<u>\$ 0.7 M</u>
▪ Capital Infrastructure Grants	<u>\$ 0.0 M</u>	<u>\$ 2.3 M</u>	<u>\$ 2.3 M</u>
<i>Total</i>	<u>\$ 8.2 M</u>	<u>\$ 11.2 M</u>	<u>\$ 3.0 M</u>

The \$2.3 million variance in the Capital Infrastructure Grants is mainly due to the Universal Metering Program (\$1.1 M), and Provincial cost sharing for the Border Infrastructure projects (\$0.7 M). The City also received several other miscellaneous grants in 2006 that totalled \$0.5 million.

7. <u>Other Revenue:</u> This includes the following:	Budget	Actual	Variance
▪ Permits, Licensing & Fines	\$15.1 M	\$21.7 M	\$ 6.6 M
▪ Donations	\$ 0.3 M	\$ 1.7 M	\$ 1.4 M
▪ Other	<u>\$ 6.9 M</u>	<u>\$ 7.8 M</u>	<u>\$ 0.9 M</u>
<i>Sub Total</i>	<u>\$22.3 M</u>	<u>\$31.2 M</u>	<u>\$ 8.9 M</u>
▪ Land Sales	<u>\$ 17.7 M</u>	<u>\$20.0 M</u>	<u>\$ 2.3 M</u>
<i>Total</i>	<u>\$40.0 M</u>	<u>\$51.2 M</u>	<u>\$11.2 M</u>

Staff had estimated variances for Permits, Licensing and Fine revenues in the latter part of 2006 as part of the City's quarterly financial reporting process. Council has 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, as a result of the new Tree Protection By-law.

In 2006, the City received proceeds from the sale of the following lands:

▪ GVTA (Golden Ears Bridge Project)	\$ 9.1 M
▪ Road Exchanges	\$ 2.6 M
▪ Parkland	\$ 0.3 M
▪ Other sundry sales	<u>\$ 8.0 M</u>
<i>Total</i>	<u>\$20.0 M</u>

All of the proceeds from the above land sales have been included in the 2007 Five Year Financial Plan adopted by Council in February 2007.

Expenditures

8. <u>General Government:</u> This includes the following:	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
▪ Mayor, Council, Grants & Initiatives	\$ 2.4 M	\$ 2.3 M	\$ 0.1 M
▪ City Manager (Leg Serv., Legal, Bylaws, Econ Dev)	\$ 9.3 M	\$ 8.6 M	\$ 0.7 M
▪ Finance & Technology	\$14.3 M	\$11.1 M	\$ 3.2 M
▪ Human Resources	\$ 1.8 M	\$ 1.9 M	\$ (0.1)M
▪ Other (Charge to Utilities & Conting.)	<u>\$(2.8)M</u>	<u>\$(2.2)M</u>	<u>\$(0.6)M</u>
<i>Total</i>	<u>\$25.0 M</u>	<u>\$21.7 M</u>	<u>\$ 3.3 M</u>

The Finance & Technology budget includes a transfer from the Self Insurance Reserve of \$2.0 million as a provision for any significant claims that may arise throughout the year. No such claims were received in 2006, therefore no transfer was required. 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.

9. Bank Charges, 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' (\$0.7 M) and the 'Actual' (\$1.1 M) is \$0.4 million, which is a result of an increase in the volume of credit card transactions and the number of customers who prepay their property taxes through the pre-authorized monthly payment plan.
10. Capital Assets: The 'Budget' figure includes the capital funds that are available for the 2006 program (\$157.6 M) as well as the funding that was committed in prior years but not yet spent (\$47.3 M) for a total of \$204.9 million. The 'Actual' column includes only that amount spent in 2006 (\$138.7 M) thus leaving \$67.0 million to be carried forward to 2007 for those projects still to be completed.
11. Changes in Agreements Payable (Net): In order to ensure that the Campbell Heights Development met statutory financial reporting requirements, a liability for the developers' share of the project 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 current year repayment to the developer for their share of the costs incurred on the Campbell Heights project. The developer has now been fully repaid for this project.
12. Contribution from Equity: The 'Budget' figure includes the 2006 transfers from other Funds as well as the funding that was committed in prior years but not yet spent. The 'Actual' column (as shown at the bottom of the expenditure section) is the difference between the revenues that were collected in 2006 and transferred to other funds for allocation in future years and the transfers from other funds required to support the 2006 capital expenditures.

The total capital program for 2006 was budgeted at \$204.9 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	\$15.8 M
▪ Work in Progress	\$20.8 M
▪ Prior Years' Savings to Capital (General & Utilities)	\$ 3.6 M
▪ Unspecified Capital (for budget authority only)	<u>\$20.0 M</u>
<i>Sub Total</i>	<u>\$60.2 M</u>

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

▪ Transfer from Unappropriated Surplus	\$ 2.9 M
▪ Contributions to Reserves, eg. Interest & Asset Disposal	(\$28.6 M)
▪ Operating Contributions to Reserves, eg: deprec'n re: vehicles & equip't	(\$ 2.3 M)
▪ Operating Contributions from Appropriated Surplus, eg: Self insurance & election costs	<u>\$ 2.0 M</u>
<i>Total</i>	<u>\$34.2 M</u>

Although the budget called for a net contribution from Financial Equity of \$34.2 Million for 2006, the actual activity of the City resulted in an increase of \$36.5 Million in equity. This increase relates to funds committed to capital projects that will complete in the future as well as reserve fund repayments such as the Accelerated Roads Program and Campbell Heights Development.

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 2006. This will continue to be reviewed on an annual basis.

New Reporting Requirements

In order for the City to prepare financial statements in accordance with Generally Accepted Accounting Principles, the City must adopt all new standards as defined within the Public Sector Accounting Handbook. There were no new standards introduced in 2006, however standards that will be introduced in 2007 include Segment Disclosure and the transitional provision for Tangible Capital Assets.

Segment Disclosure

Section PS 2700 of the Public Sector Accounting Handbook requires the city to segment financial information in a manner that reflects the existing accountability framework. This standard applies to fiscal years beginning on or after April 1, 2007, however earlier adoption is encouraged.

The City currently includes expenditure information by functional segments in its Annual Financial Report; and tracks all financial activity by these segments. Fully segmented financial information; along with the appropriate disclosure notes will be included in the 2007 Financial Statements.

Tangible Capital Assets

Section PS 3150 of the Public Sector Accounting Handbook requires the City to record Tangible Capital Assets at cost less the depreciated value of their useful life. This standard must be fully adopted by January 1, 2009, however the transitional provisions require that the City's progress on implementing this policy be recorded in the 2007 Financial Statements.

During 2006, the City began to confirm the inventory of various capital assets that it holds, their original acquisition cost and their depreciated value. This is a significant undertaking, given the volume and unique nature of the City's assets. It is expected that the valuation of equipment, buildings and land will be complete by the end of 2007, with engineering infrastructure being completed by the end of 2008.

It is important to note that the City continues to maintain a strong financial position. The City essentially has no debt. All of the above variances have been incorporated in the 2007 Five Year Financial Plan, as adopted by Council February 2007. 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 budget variances in 2007 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 have been included in the published version of the 2006 Annual Financial Report that has now been distributed.

All of the variances outlined in this report have been incorporated in the 2007 Five Year Financial Plan, as adopted by Council in February 2007. 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

Consolidated Statement of Financial Position

as at December 31, 2006

(in thousands of dollars)

	2006	2005
FINANCIAL ASSETS		
Cash and cash equivalents	\$ 38,804	\$ 10,063
Investments (note 2)	606,015	571,293
Accounts receivable (note 3)	91,944	96,573
	<u>736,763</u>	<u>677,929</u>
LIABILITIES		
Accounts payable and accrued liabilities (note 4)	83,224	80,407
Agreements payable	0	8,365
Deposits and prepayments	87,572	78,326
Deferred revenue (note 5)	30,991	28,056
Deferred development cost charges (note 6)	187,959	179,819
	<u>389,746</u>	<u>374,973</u>
Net Financial Assets	347,017	302,956
CAPITAL ASSETS (note 7)	<u>2,044,818</u>	<u>1,906,069</u>
	<u>\$ 2,391,835</u>	<u>\$ 2,209,025</u>
FINANCIAL EQUITY		
Committed funds (note 8)	\$ 120,518	\$ 109,108
Unappropriated surplus (note 9)	9,138	9,103
Appropriated surplus (note 10)	77,566	69,039
Reserve funds (schedule 6)	139,795	124,071
	<u>347,017</u>	<u>311,321</u>
CAPITAL EQUITY (note 11)	<u>2,044,818</u>	<u>1,897,704</u>
	<u>\$ 2,391,835</u>	<u>\$ 2,209,025</u>

Commitments and Contingencies (note 12)

Vivienne Wilke, CGA
General Manager,
Finance & Technology Department

Dianne L. Watts
Mayor, City of Surrey

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

Consolidated Statement of Financial Activities

<i>for the year ended December 31, 2006</i> <i>(in thousands of dollars)</i>	<i>2006</i> <i>Budget</i>	<i>2006</i> <i>Actuals</i>	<i>2005</i> <i>Actuals</i>
	<i>(note 1(d))</i>		
REVENUES (schedule 9)			
Taxation for City purposes	\$ 182,702	\$ 184,397	\$ 173,914
Sales of goods and services	96,695	107,219	96,173
Development cost charges (note 6)	83,594	67,286	44,107
Developer contributions	31,342	29,304	21,968
Investment income	26,262	20,750	19,166
Transfers from other governments	8,220	11,190	14,937
Other	39,934	51,223	47,441
	<u>468,749</u>	<u>471,369</u>	<u>417,706</u>
EXPENDITURES (schedule 10)			
Fire and police protection	113,823	110,234	101,503
Water, sewer and drainage	66,515	65,525	57,810
Parks, recreation and culture	36,058	36,097	31,320
General government	25,055	21,746	20,957
Public works	14,553	13,295	13,476
Environment and health	15,891	15,253	14,554
Planning and development	14,326	14,057	13,049
Surety Public Library	11,162	11,271	10,789
Debt interest, fiscal services and other	681	1,081	956
Capital assets (schedule 8)	204,946	138,749	162,203
	<u>503,010</u>	<u>427,308</u>	<u>426,617</u>
Excess (deficiency) of revenues over expenditures	<i>(34,261)</i>	44,061	<i>(8,911)</i>
Change in Agreements Payable (net)	-	(8,365)	3,122
Increase (decrease) in financial equity	<u>\$ (34,261)</u>	<u>35,696</u>	<u><i>(5,789)</i></u>
Financial equity, beginning of year		<u>311,321</u>	<u>317,110</u>
Financial equity, end of year		<u><u>\$ 347,017</u></u>	<u><u>311,321</u></u>

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

Consolidated Statement of Changes in Financial Position

for the year ended December 31, 2006
(in thousands of dollars)

	2006	2005
OPERATING TRANSACTIONS		
Excess of revenues over expenditures	\$ 44,061	\$ (8,911)
Cash generated from (required for):		
Accounts receivable	4,629	(7,102)
Deposits, Municipal Finance Authority	-	-
Accounts payable and accrued liabilities	2,817	11,246
Agreements payable	(8,365)	3,122
Deposits and prepayments	9,246	11,408
Deferred revenue	2,935	5,553
Deferred development cost charges	8,140	17,300
Net cash generated from operations	<u>63,463</u>	<u>32,616</u>
INVESTING TRANSACTIONS		
Increase in investments	<u>(34,722)</u>	<u>(31,197)</u>
FINANCING TRANSACTIONS		
Debt principal payments	<u>-</u>	<u>-</u>
Increase (decrease) in cash and cash equivalents	28,741	1,419
Cash and cash equivalents, beginning of year	<u>10,063</u>	<u>8,644</u>
Cash and cash equivalents, end of year	<u><u>\$ 38,804</u></u>	<u><u>\$ 10,063</u></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, 2006 (tabular amounts in thousands of dollars)

General

The Notes to the Consolidated Financial Statements are an integral part of the financial statements. They explain the significant accounting and reporting policies and principles underlying these statements. They also provide relevant supplementary information and explanations, which cannot be conveniently expressed in the Consolidated Financial Statements.

1. Significant Accounting Policies

a) Basis of Accounting

The Consolidated Financial Statements of the City of Surrey are the representation of management prepared in accordance with Canadian Generally Accepted Accounting Principles as prescribed by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. The Consolidated Financial Statements reflect a combination of the City's Operating, Capital and Reserve Funds consolidated with the Surrey Public Library. Inter-fund transactions, fund balances, and activities have been eliminated on consolidation.

Revenues and expenditures of the City must be in accordance with the Financial Plan adopted by City Council. Management is required to make estimates and assumptions that affect the reported amounts in the financial statements and the disclosure of contingent liabilities. Significant areas requiring the use of management estimates relate to the determination of accrued sick benefits, allowance for doubtful accounts receivable and provision for contingencies. Actual results could differ from those estimates. The Consolidated Financial Statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies outlined in Note 1 for the following funds:

Operating Funds

These funds include the General, Water, and Sewer and Drainage Operating Funds as well as the Surrey Public Library. They are used to record the operating costs of the services provided by the City.

Capital Funds

These funds include the General, Water, and Sewer and Drainage Capital Funds. They are used to record the acquisition costs of capital assets and any related long-term debt outstanding.

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 by by-law only for the purpose for which the fund was established. If the amount in a reserve fund is greater than required, City Council may, by by-law, transfer all or part of the amount to another reserve fund.

Trust Funds

These funds account for assets, which must be administered as directed by agreement or statute for certain beneficiaries. In accordance with PSAB recommendations on financial statement presentation for local governments, trust funds are not included in the City's Consolidated Financial Statements. Information relating to the trust funds administered by the City is presented in Note 14.

Notes to the Consolidated Financial Statements

For the year ended, December 31, 2006 (tabular amounts in thousands of dollars)

b) Cash and cash equivalents

Cash and cash equivalents are comprised of cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

c) Revenue

Revenue is recorded using the accrual basis of accounting. 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 (schedule 9) are excluded from the City's taxation revenues.

d) Budget Information

Unaudited budget information, presented on a basis consistent with that used for actual results, was included in the City of Surrey 2006 – 2011 Consolidated Financial Plan and was adopted through By-law #15918 on February 13, 2006.

e) Deferred Revenue

The City defers a portion of the revenue collected from permits, licenses and other fees and recognizes this revenue in the year in which related inspections are performed or other related expenditures are incurred.

f) Expenditures

Expenditures are generally recognized as they are incurred as a result of the receipt of goods and services or the creation of an obligation to pay. Interest expense on debenture and other debt is accrued to December 31, 2006.

g) Replacement of Capital Assets

The replacement of vehicles and equipment is provided for on a straight-line basis in accordance with the estimated useful lives of the assets through equipment usage charges with corresponding transfers to the Equipment and Building Replacement Reserve (schedule 6). Computer system replacements are funded through an annual transfer from each department to the Equipment and Building Replacement Reserve. Except for the City works yard building, a capital consumption or replacement provision for buildings or infrastructure is not charged to City operating departments.

The City's annual operating budget includes a provision for the replacement of existing capital assets and the acquisition of new capital assets, and also a provision for debt repayment related to capital acquired with borrowed money. The City has also appropriated a portion of operating surpluses for the replacement of capital assets.

A capital ranking model is used to assist City Council in setting priorities for the replacement and acquisition of capital assets.

h) Investments

Investments are recorded at cost, which approximates market value, and are comprised of money market instruments, term deposits and bonds.

Notes to the Consolidated Financial Statements

For the year ended, December 31, 2006 (tabular amounts in thousands of dollars)

i) Capital Inventory

Capital Inventory is recorded at cost, which is not in excess of replacement cost.

j) Employee Future Benefits

The City and its employees make contributions to the Municipal Pension Plan. The City's contributions are expensed as paid.

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

k) Financial Equity, Committed Funds

These balances represent amounts set aside from operations for specific operating and capital projects previously approved by Council (note 8).

l) Financial Equity, Unappropriated Surplus

These balances represent operating surpluses from current and prior years, which have not yet been allocated for specific purposes (note 9). Interest revenue earned on these monies is used to fund operations. The Community Charter does not allow the City to budget for a deficit unless the deficit can be eliminated through the use of prior years' surplus.

m) Financial Equity, Appropriated Surplus

These balances represent amounts set aside by City Council for specific purposes, including contingency provisions for emergencies, revenue stabilization, self insurance claims and for the internal financing of capital projects (note 10).

n) Capital Assets and Capital Equity

Capital assets consist of capital expenditures recorded at cost (note 7). Amortization is not recorded on capital assets. Cost of capital asset dispositions are not removed from the balance of capital assets. Capital equity reflects the accumulated historical cost of assets acquired, constructed or developed by the City less total outstanding debt. The value of infrastructure constructed by developers and transferred to the City at no cost is not included in Capital equity. The costs for repairs and upgrading which do not materially add to the value or the life of an asset are recorded in the financial statements as operating expenditures.

2. Investments

	<u>2006</u>	<u>2005</u>
Investments maturing within one year	\$ 142,205	\$ 286,699
Investments maturing within two years	103,767	67,469
Investments maturing from three to seven years	360,043	217,125
	<u>\$ 606,015</u>	<u>\$ 571,293</u>

Average portfolio yield 4.29% (2005 – 4.15%). All investments can be liquidated on demand.

Notes to the Consolidated Financial Statements

For the year ended, December 31, 2006 (tabular amounts in thousands of dollars)

3. Accounts Receivable, net of allowances

	<u>2006</u>	<u>2005</u>
Property taxes	\$ 10,172	\$ 10,137
Utility rates	2,604	2,351
Accounts receivable	26,572	30,629
Due from other authorities	2,453	2,769
Development cost charges	49,922	50,336
Property acquired for taxes	221	351
	<u>\$ 91,944</u>	<u>\$ 96,573</u>

4. Accounts Payable and Accrued Liabilities

	<u>2006</u>	<u>2005</u>
Trade accounts payable	\$ 44,892	\$ 25,306
Post employment benefits (note 15)	14,422	13,579
Contractors' holdbacks	7,629	8,856
Due to Federal Government	430	15,573
Due to Province of British Columbia	2,000	3,862
Due to regional districts	12,369	11,658
Due to other authorities	1,482	1,573
	<u>\$ 83,224</u>	<u>\$ 80,407</u>

5. Deferred Revenue

	<u>2006</u>	<u>2005</u>
Neighbourhood Concept Plans	\$ 14,002	\$ 11,720
Development/Building Permits	15,082	14,193
Other	1,907	2,143
	<u>\$ 30,991</u>	<u>\$ 28,056</u>

6. Deferred Development Cost Charges

Development Cost Charges (DCC's) are collected to pay for 95% of the general capital costs due to development, and 90% of utility capital costs. In accordance with the Community Charter, these funds must be deposited into a separate reserve fund. DCC's are deferred and recognized as revenue when the related costs are incurred.

	<u>2006</u>	<u>2005</u>
Deferred DCC's:		
Drainage/storm water detention	\$ 22,861	\$ 23,553
Arterial roads	39,394	41,472
Collector roads	10,833	10,522
Parkland	89,207	79,013
Water	11,321	12,310
Sanitary sewer	14,343	12,949
	<u>\$ 187,959</u>	<u>\$ 179,819</u>

Notes to the Consolidated Financial Statements

For the year ended, December 31, 2006 (tabular amounts in thousands of dollars)

Deferred DCC's, beginning of year	\$ 179,819	\$ 162,519
Revenue Recognized for Campbell Heights	(11,442)	(2,554)
Revenue Recognized for General Capital	(40,222)	(29,810)
Revenue Recognized for Water Capital Fund	(4,850)	(2,699)
Revenue Recognized for Sewer and Drainage Capital Fund	(10,975)	(9,044)
Total DCC's recognized as revenue	(67,489)	(44,107)
DCC's levied for the year	70,273	57,022
Investment income	5,356	4,385
Net increase for the year	8,140	17,300
Deferred DCC's, end of year	\$ 187,959	\$ 179,819

7. Capital Assets

	<u>2006</u>	<u>2005</u>
General Capital Fund		
Land	\$ 339,133	\$ 320,518
Buildings	258,965	248,486
Infrastructure	819,973	750,931
Machinery and equipment	125,198	118,679
	1,543,269	1,438,614
Water Capital Fund		
Infrastructure	192,026	179,822
Sewer & Drainage Capital Fund		
Infrastructure	294,019	272,129
Shared Water Facilities		
Whalley-Clayton Facility	2,524	2,523
Surrey-Langley Facility	12,793	12,794
Other	187	187
	15,504	15,504
	\$ 2,044,818	\$ 1,906,069

8. Committed Funds

	<u>2006</u>	<u>2005</u>
General		
Operating	\$ 15,935	\$ 12,388
Capital	55,277	50,575
	71,212	62,963
Water		
Operating	162	162
Capital	25,092	22,170
	25,254	22,332

Notes to the Consolidated Financial Statements

For the year ended, December 31, 2006 (tabular amounts in thousands of dollars)

Sewer & Drainage		
Operating	1,184	925
Capital	22,403	22,439
	<u>23,587</u>	<u>23,364</u>
Surrey Public Library		
Operating	465	449
	<u>\$ 120,518</u>	<u>\$ 109,108</u>

9. Unappropriated Surplus

	<u>2006</u>	<u>2005</u>
General Operating Fund	\$ 10,599	\$ 10,599
Post Employment Benefits	(6,998)	(6,998)
Water Operating Fund	3,000	3,000
Sewer and Drainage Operating Fund	3,000	3,000
Surrey Public Library	(463)	(498)
	<u>\$ 9,138</u>	<u>\$ 9,103</u>

10. Appropriated Surplus

	<u>2006</u>	<u>2005</u>
General Operating Fund		
Operating contingency and emergencies	\$ 3,500	\$ 3,500
Environmental emergencies	3,083	2,801
Revenue stabilization	5,650	5,650
Self insurance	16,166	14,668
	<u>28,399</u>	<u>26,619</u>
Water Operating Fund		
Operating contingency and emergencies	1,500	1,500
Revenue stabilization	6,386	8,385
Infrastructure replacement	8,591	9,218
Capital legacy	12,236	7,269
Self insurance	4,046	3,889
	<u>32,759</u>	<u>30,261</u>
Sewer & Drainage Operating Fund		
Operating contingency and emergencies	1,500	1,500
Infrastructure replacement	1,787	980
Self insurance	5,067	4,869
Long term improvements	8,054	4,810
	<u>16,408</u>	<u>12,159</u>
	<u>\$ 77,566</u>	<u>\$ 69,039</u>

Notes to the Consolidated Financial Statements

For the year ended, December 31, 2006 (tabular amounts in thousands of dollars)

11. Capital Equity

	<u>2006</u>	<u>2005</u>
General Capital Fund, beginning of year	\$ 1,434,394	\$ 1,315,004
Development cost charges	29,246	29,810
Reserve funds	37,653	42,360
Operating funds	14,683	27,344
Government transfers	700	3,935
Other	26,593	15,941
General Capital Fund, end of year	<u>1,543,269</u>	<u>1,434,394</u>
Water Capital Fund, beginning of year	194,431	182,605
Development cost charges	4,850	2,699
Reserve funds	-	180
Restricted capital reserves	1,715	1,983
Operating funds	4,467	4,285
Government transfers	1,099	1,778
Other	968	901
Water Capital Fund, end of year	<u>207,530</u>	<u>194,431</u>
Sewer and Drainage Capital Fund, beginning of year	268,879	241,015
Development cost charges	11,707	9,044
Reserve funds	249	-
Restricted capital reserves	84	-
Operating funds	9,572	16,081
Government transfers	-	838
Other	3,528	1,901
Sewer and Drainage Capital Fund, end of year	<u>294,019</u>	<u>268,879</u>
	<u>\$ 2,044,818</u>	<u>\$ 1,897,704</u>

12. 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 capital expenditures. In order to provide for the completion of the projects, unexpended budget money for incomplete projects is appropriated as Committed Funds. The Financial Plan, updated annually, provides for the financing of these and future obligations within the estimated financial resources of the City.
- b) The City, as a member of the Greater Vancouver Water District, the Greater Vancouver Sewerage and Drainage District, and the Greater Vancouver Regional District, is jointly and severally liable for the net capital liabilities of these Districts.
- c) The City is a shareholder of the Emergency Communications for Southwest British Columbia Incorporated (E-Comm) whose services provided include: regional 9-1-1 call centre for the Greater Vancouver Regional District; Wide Area Radio network; dispatch operations; and records management. The City holds 2 Class "A" shares and 1 Class "B" share (of a total of 23 Class

Notes to the Consolidated Financial Statements

For the year ended, December 31, 2006 (tabular amounts in thousands of dollars)

“A” and 25 Class “B” shares issued and outstanding as at December 31, 2006). As a Class “A” shareholder, the City shares in both funding the future operations and capital obligations of E-Comm (in accordance with a cost sharing formula), including any lease obligations committed to by E-Comm up to the shareholder’s withdrawal date. As a Class “B” shareholder, the City is only obligated to share in funding of the ongoing operating costs.

- d) The City entered into an agreement with YMCA of Greater Vancouver in regard to the joint development of land and facility in Surrey. The City contributed \$5.5 million towards the completion of the project, which was matched by the YMCA. The City has also entered into an \$8.0 million non-recourse first collateral mortgage for 10 years from the substantial date of completion of the project, September 3, 2002, in favour of the Royal Bank of Canada registered against the land and facility. After 10 years the mortgage may be increased to 50% of FMV of the Facility for the purpose of renovating/expanding subject to approval of City.
- e) The City and its employees contribute to the Municipal Pension Plan (the Plan), a jointly trustees pension plan. The Board of Trustees, representing plan members and employers, is responsible for overseeing the management of the Plan, including investment of the assets and administration of benefits. The Plan is a multi-employer contributory pension plan. Basic pension benefits provided are defined. The Plan has about 130,000 active members and approximately 48,000 retired members. Active members include approximately 30,000 contributors from local governments. Employee contributions to the Plan approximated \$6.9 million in 2006.

Every three years an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of plan funding. The most recent valuation as at December 31, 2003 indicated an unfunded liability of \$789.0 million for basic pension benefits. The next valuation will be as at December 31, 2006 with results available in 2007. This is the most current information at the time of the financial audit. The actuary does not attribute portions of the unfunded liability to individual employers. The City paid \$8.3 million for employer’s contributions to the Plan in fiscal 2006 (2005 - \$7.5 million).

- f) The City insures itself through a combination of insurance policies and self-insurance. The City has a funded self-insurance appropriation (note 10). Based on estimates, this appropriation reasonably provides for all outstanding claims.

There are several lawsuits pending in which the City is involved. The outcome and amounts that may be payable, if any, under these claims, cannot be determined and accordingly no amounts have been recorded.

13. Significant Taxpayers

The City is not reliant upon the revenue from any specific large property taxpayers or businesses. Tax revenues received from the five largest taxpayers amount to less than three percent of the City’s annual gross revenues.

14. Trust Funds

These funds account for assets, which must be administered as directed by agreement or statute for certain beneficiaries. In accordance with PSAB recommendations on financial statement presentation

Notes to the Consolidated Financial Statements

For the year ended, December 31, 2006 (tabular amounts in thousands of dollars)

for local governments, trust funds are not included in the City's Consolidated Financial Statements. Amounts administered by the City as trust funds are as follows:

			<u>2006</u>	<u>2005</u>
Assets				
Cash and short term investments			<u>\$ 2,052</u>	<u>\$ 1,964</u>
Equity				
	Employee Benefits Fund	Cemetery Perpetual Care Fund	<u>2006</u>	<u>2005</u>
Balance, beginning of year	\$ 522	\$ 1,442	\$ 1,964	\$ 1,985
Contributions	-	29	29	21
Interest revenue	21	61	82	77
Employment insurance rebate	61	-	61	56
Benefits purchased	(26)	-	(26)	(22)
Refunded to employees	(8)	-	(8)	(96)
Maintenance Services	-	(50)	(50)	(57)
Balance, end of year	<u>\$ 570</u>	<u>\$ 1,482</u>	<u>\$ 2,052</u>	<u>\$ 1,964</u>

15. 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 and accidental death and dismemberment insurance. The liability associated with these benefits is calculated based on the present value of expected future payments pro-rated for services, and is included in accounts payable and accrued liabilities.

	<u>2006</u>	<u>2005</u>
Accrued benefit liability:		
Balance, beginning of year	\$ 13,579	\$ 12,787
Current service cost	970	861
Interest cost	633	669
Amortization of actuarial loss	70	12
Past Service Cost	88	9
Benefits paid	(918)	(759)
Balance, end of year	<u>\$ 14,422</u>	<u>\$ 13,579</u>

An actuarial valuation for these benefits was performed to determine the City's accrued benefit obligation as at December 31, 2006. The difference between the actuarially determined accrued benefit obligation of \$14.9 million and the accrued benefit liability of \$14.4 million as at December 31, 2006 is an actuarial loss of \$0.5 million. The actuarial loss is amortized over a period equal to the employees' average remaining service lifetime.

Notes to the Consolidated Financial Statements

For the year ended, December 31, 2006 (tabular amounts in thousands of dollars)

	<u>2006</u>	<u>2005</u>
Actuarial benefit obligation:		
Liability, end of year	\$ 14,422	\$ 13,579
Actuarial loss	454	759
Balance, end of year	<u>\$ 14,876</u>	<u>\$ 14,338</u>

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

	<u>2006</u>	<u>2005</u>
Discount rate	4.50%	4.25%
Expected future inflation rate	2.00%	2.00%
Expected wage and salary inflation	2.00%	2.00%
Expected wage and salary range increases	1.00%	1.00%

Reserves, Contingencies and Surplus Including DCC's

as at December 31, 2006

\$ 000's

	2006 Balance	Water, Sewer & Drainage Funds	Committed to 2007 & Prior Years	Balance Available for Future Years
Statutory Reserve Funds				
Equipment and Building Replacement	32,390		7,889	24,501
Municipal Land	46,931		30,982	15,949
Park Land Acquisition C/L	5,518		5,200	318
Capital Legacy	28,244		6,204	22,040
Local Improvement Financing	10,923		6,314	4,609
Water Claims	1,055	1,055		-
Affordable Housing	8,879		8,830	49
Parking Space	1,011		20	991
	<u>134,951</u>	<u>1,055</u>	<u>65,439</u>	<u>68,457</u>
Restricted Capital Reserves	4,844	4,844		
	<u>\$ 139,795</u>	<u>\$ 5,899</u>	<u>\$ 65,439</u>	<u>\$ 68,457</u>
Unappropriated Surplus				
General Operating Fund	10,599		3,013	7,586
Employee Future Benefits	-6,998			-6,998
Water Operating Fund	3,000	3,000		-
Sewer and Drainage Operating Fund	3,000	3,000		-
Surrey Public Library	-463			-463
	<u>\$ 9,138</u>	<u>\$ 6,000</u>	<u>\$ 3,013</u>	<u>\$ 125</u>
Appropriated Surplus (as per Council Adopted Reserve & Surplus Policy)				
Operating Contingency and Emergencies	6,500	3,000		3,500
Environmental Emergencies	3,083			3,083
Revenue Stabilization	12,036	6,385		5,651
Self Insurance	25,279	9,113	2,000	14,166
Infrastructure Replacement	22,614	22,614		-
Long Term Improvements	8,054	8,054		-
	<u>\$ 77,566</u>	<u>\$ 49,166</u>	<u>\$ 2,000</u>	<u>\$ 26,400</u>
Committed Funds				
General Operating and Capital	71,212		71,212	-
Water Operating and Capital	25,254	25,254		-
Sewer and Drainage Operating and Capital	23,587	23,587		-
Surrey Public Library	465		465	-
	<u>\$ 120,518</u>	<u>\$ 48,841</u>	<u>\$ 71,677</u>	<u>\$ -</u>
TOTAL RESERVES, CONTINGENCY & SURPLUS	<u>\$ 347,017</u>	<u>\$ 109,906</u>	<u>\$ 142,129</u>	<u>\$ 94,982</u>
Deferred Developer Contributions (Gross)				
Drainage/Storm Water Detention	22,861	22,861		0
Arterial Roads	39,394		38,199	1,195
Collector Roads	10,833		10,833	0
Parkland	89,135		81,202	7,933
Water	11,322	11,322		-
Sanitary Sewer	14,343	14,343		-
Campbell Heights	71		71	-
Neighborhood Concept Plans	14,002		10,687	3,315
	<u>\$ 201,961</u>	<u>\$ 48,526</u>	<u>\$ 130,234</u>	<u>\$ 9,128</u>
GRAND TOTAL	<u>\$ 548,978</u>	<u>\$ 158,432</u>	<u>\$ 272,363</u>	<u>\$ 104,110</u>