

NO: **R144**

COUNCIL DATE: **June 21, 2010**

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## REGULAR COUNCIL

TO: **Mayor & Council**

DATE: **June 9, 2010**

FROM: **General Manager, Finance & Technology**

FILE: **1880-20**

SUBJECT: **2009 Annual Financial Report**

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## RECOMMENDATION

It is recommended that Council receive this report as information.

## INTENT

The purpose of this report is to provide Council with information about the results of the audit of the City of Surrey 2009 financial statements.

## BACKGROUND

The Audit Committee considered the information contained within this report at its meeting on Monday, May 10, 2010 and subsequent to its review and at the same meeting adopted the following resolution:

*“That the Audit Committee recommend that the 2009 Audited Financial Statements be received and approved by Council.”*

## DISCUSSION

Sections 98 and 167 of the Community Charter require that the City produce annual audited financial statements. The annual financial statements and the auditor’s report for the year ended December 31, 2009 for the City of Surrey are attached to this report as **Appendix A**. These will be included in the City’s 2009 Annual Financial Report that will be distributed to Council prior to its Regular meeting on June 21<sup>st</sup>, 2010.

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.

The accounting firm, KPMG, was retained to conduct the 2009 audit and to express an opinion as to whether the consolidated financial statements fairly present the financial position of the City of Surrey as at December 31, 2009 and the results of its operations for the year.

### **New Reporting Requirements**

In accordance with Canadian Generally Accepted Accounting Principles, new standards as defined within the Public Sector Accounting Handbook have been incorporated into the 2009 financial statements. These include:

#### **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 has been fully implemented in 2009.

Staff has completed an inventory of the various capital assets that are held by the City and has calculated the original acquisition cost and the depreciated value of each asset.

#### **Financial Statement Presentation**

Changes have been incorporated into the 2009 financial statements to reflect Section PS 1200 of the Public Sector Accounting Handbook. This includes the return to reporting prepaid expenses and the inclusion of inventory values.

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

The audited financial statements, as included in **Appendix A**, are presented in the format required by the Canadian Institute of Chartered Accountants, which reports the amortization expense in each functional area. The Consolidated Statement of Financial Activities on the following page of this report has been amended to remove the amortization expense from each functional area to better compare expenses to the budget. The 2009 budget did not include amortization to align with the requirements of the Community Charter. The 2008 'Actuals' have been included in both the restated format and the format used in the 2008 financial statements in an effort to highlight the reporting changes required for the 2009 fiscal year.

In early 2009, it became apparent that the level of the growth-related revenues outlined in the 2009 Financial Plan would not be realized in 2009 due to the economic slow down that occurred late in 2008 and carried over into 2009. Staff concluded that 'budget targets' would need to be revised to more accurately reflect the expected revenues for 2009 based on this softer economy. These new targets included a reduction in Planning and Land Development revenues and reductions in expenditures across all City departments. These revised budget targets were communicated to Council in mid-February 2009; however, the 'Budget' column that is included in the Consolidated Statement of Financial Activities includes the figures as outlined in the original 2009 Financial Plan By-laws that had been adopted by Council in early December 2008. Therefore, the figures in the following table do not reflect the targets that were set in February, 2009.

NOTE	<i>for the year ended December 31, 2009</i> <i>(in thousands of dollars)</i>	2009 <i>Budget</i>	2009 <b>Actuals</b>	2008 <i>Actuals</i> <i>(restated)</i>	2008 <i>Actuals</i> <i>(original)</i>
<b>REVENUES</b>					
1	Taxation for City purposes	\$ 230,691	\$ 229,461	\$ 212,856	\$ 212,856
2	Sales of goods and services	131,718	130,455	124,348	124,348
3	Development cost charges	92,418	63,856	49,048	49,048
4	Developer contributions	69,377	87,568	222,983	27,836
5	Investment income	32,816	23,736	26,696	26,696
6	Transfers from other governments	11,777	19,467	22,758	22,758
7	Other	38,931	38,154	38,005	38,005
		<u>607,728</u>	<u>592,697</u>	<u>696,694</u>	<u>501,547</u>
<b>EXPENSES</b>					
8	Fire and police protection	138,515	136,095	127,281	127,281
9	Water, sewer and drainage	84,702	87,766	71,669	71,669
10	Parks, recreation and culture	50,991	54,872	46,999	46,801
11	General government	35,503	31,406	31,392	30,400
12	Public works	17,799	24,356	19,651	19,651
13	Environment and health	19,475	21,020	20,013	20,013
14	Planning and development	19,340	17,567	16,097	16,097
15	Library services	11,802	11,345	12,387	12,383
16	Amortization		74,859	71,765	
17	Interest, fiscal services & other				1,355
18	Capital Assets				174,083
		<u>378,127</u>	<u>459,286</u>	<u>417,254</u>	<u>519,733</u>
19	Excess revenues over expenses	229,601	133,411	279,440	(18,186)
	Contribution to captial from equity	(203,315)	(199,991)	(327,131)	
	Contribution to/(from) reserves	(30,271)	66,580	47,691	18,103
		<u>(3,985)</u>	<u>0</u>	<u>0</u>	<u>(83)</u>
	<b>Equity, beginning of year</b>	<u>6,901,378</u>	<u>6,901,378</u>	<u>6,621,938</u>	<u>391,417</u>
20	<b>Equity, end of year</b>	<u>\$ 7,130,979</u>	<u>\$7,034,789</u>	<u>\$ 6,901,378</u>	<u>\$ 373,231</u>

The lines in the above table have been referenced numerically on the left side. An explanatory note on the variance related to each line is provided on the following pages of this report with the notes numbered to match the line in the table to which it relates.

**Equity, end of year**

Equity at the end of the year, which is reported as accumulated surplus in the published financial statements, consists of the undepreciated value of all of the City-owned infrastructure (i.e., tangible capital assets), individual fund surplus and reserves and reserve funds as follows:

	<b>2009</b>	<b>2008</b>
<b>Surplus</b>		
Capital Legacy	\$ 16,733	\$ 16,089
Environmental Emergencies	4,782	4,649
Infrastructure Replacement	15,797	14,466
Inventories of Supplies	1,123	1,136
Long Term Improvements	6,371	8,103
Operating Emergencies	6,762	6,535
Prepaid Expenses	1,940	611
Revenue Stabilization	11,645	14,507
Self Insurance	23,096	23,139
Unappropriated Surplus	11,205	10,897
Work in Progress	129,913	132,223
<b>Total Surplus</b>	<b>229,367</b>	<b>232,355</b>
<b>Invested in Tangible Capital Assets</b>	<b>6,671,232</b>	<b>6,526,400</b>
<b>Reserves set aside by Council</b>		
Environmental Stewardship	6,740	6,427
Affordable Housing	122	654
Capital Legacy	32,820	36,524
Equipment and Building Replacement	42,556	41,817
Local Improvement Financing	13,178	12,415
Municipal Land	36,754	31,356
Park Land Acquisition	2,080	3,954
Parking Space	1,138	1,094
Water Claims	1,188	1,142
<b>Total reserves</b>	<b>136,576</b>	<b>135,383</b>
<b>Reserves funds set aside for specific purpose by Council</b>		
Water Capital	-	1,704
<b>Other Entities</b>		
Surrey City Development Corporation	(11,170)	(3,619)
Surrey Homelessness and Housing Society	8,784	9,155
	(2,386)	5,536
	<b>\$ 7,034,789</b>	<b>\$ 6,901,378</b>

**Revenue:**

1. Taxation for City Purposes: Taxation revenue was lower than budget as a result of growth in the 2009 tax roll being less than originally anticipated.
2. Sale of Goods & Services: Sales revenues were lower than anticipated due to lower development activity related to the soft economy. Staff recognized the down turn in development activity early in the year and took actions to reduce expenditures so that the City's operating budget did not suffer a deficit at year end.
3. Development Cost Charges: The 'Budget' figure includes the development cost charges that are available for the 2009 program (\$69.2 million) as well as the funding that was committed to projects in prior years but that had not yet been expended (\$23.1 million) for a total of \$92.4 million. The 'Actual' column includes only the revenue required to match the costs of the capital constructed (\$63.9 million) in 2009. The variance between actual and budget (\$28.6 million) is due to the timing of construction and the related payments and will be used to complete projects that are currently in progress and that will be completed in future months.

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
▪ GVTA Contribution	\$ 9.3 M	\$ 13.2 M	\$ 3.9 M
▪ NCP Contributions	\$ 4.7 M	\$ 6.9 M	\$ 2.2 M
▪ Cash-In-Lieu of Parkland	\$ 3.8 M	\$ 1.8 M	\$ (2.0)M
▪ Private Developer Contributions	\$ 1.6 M	\$ 7.9 M	\$ 6.3 M
▪ Contributed Assets	<u>\$ 50.0 M</u>	<u>\$ 57.8 M</u>	<u>\$ 7.8 M</u>
<b>Total</b>	<b><u>\$ 69.4 M</u></b>	<b><u>\$ 87.6 M</u></b>	<b><u>\$ 18.2 M</u></b>

5. The 'Budget' figure for NCP Contributions and the Cash-In-Lieu of Parkland are established based on the actual contributions received in the previous year (2008). The 'Actual' column includes only the revenue required to match the cost of capital constructed or acquired in 2009. The variances are primarily due to the timing of construction of park development projects and the purchase of parklands. The increase of \$6.3 million in funding from private developers is due to contributions for the Campbell Heights Sanitary Sewer project (\$4.1 million), traffic and road projects (\$0.7 million) and miscellaneous contributions to facilities, park development, equipment and other projects (\$1.5 million).
6. New to the 2009 financial statements, is the recording of Contributed Assets, which represent infrastructure that is contributed to the City through land development projects (i.e., the developer constructs the engineering servicing works and then turns this infrastructure over to the City upon completion of the related development). During the 2009 budget process, staff estimated that contributed assets would total approximately \$50.0 million per year. Actual contributed assets for 2009 were valued at \$57.8 million for land, roads, water, sewer, and drainage infrastructure assets. The 2008 actual revenue has been restated to include \$195 million in developer contributed assets.
7. Investment Income: The negative variance between the 'Budget' figure (\$32.8 million) and the 'Actual' figure (\$23.7 million) of \$9.1 million is primarily due to the budget amount having included an estimate for anticipated interest earned on development cost charges (\$5.5 million), which is being recorded as deferred revenue. Refinements to the budget will be made in 2011 to eliminate this anomaly in future years. The General Fund (\$1.2

million) and the Reserve Funds (3.1 million) earned less in investment interest than was anticipated during the 2009 budget preparation process due to lower than anticipated interest rates and account balances, while the account balances for the Utility Funds were higher than anticipated resulting in additional earnings of \$0.5 million in the Water Fund and \$0.2 million in the Sewer Fund.

8. 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	\$ 6.0 M	\$ 9.5 M	\$ 3.5 M
▪ Gaming Revenue Sharing	\$ 4.1 M	\$ 3.0 M	\$ (1.1)M
▪ Other Sundry e.g.: Keep of Prisoners, Summer Student Program, & Libraries.	<u>\$ 1.7 M</u>	<u>\$ 2.8 M</u>	<u>\$ 1.1 M</u>
<b>Sub Total</b>	<b><u>\$ 11.8 M</u></b>	<b><u>\$ 15.3 M</u></b>	<b><u>\$ 3.5 M</u></b>
▪ Capital Infrastructure Grants	<u>\$ 0.0 M</u>	<u>\$ 4.2 M</u>	<u>\$ 4.2 M</u>
<b>Total</b>	<b><u>\$ 11.8 M</u></b>	<b><u>\$ 19.5 M</u></b>	<b><u>\$ 7.7 M</u></b>

9. The \$3.5 million surplus in Traffic Fine Revenue Sharing (TFRS) is a result of the Province's decision to advance part of the 2010 TFRS in 2009. The City only expects to receive \$2.4 million for the TFRS program in 2010. The gaming revenue is \$1.1 million lower than anticipated as a result of the economic slowdown in 2009 that affected gaming revenues. The City also received several miscellaneous grants in 2009 that totalled \$1.1 million. The \$4.2 million favourable variance in Capital Infrastructure Grants is primarily due to provincial cost sharing for the Highway #1/156 Street Underpass (\$1.6 M) and a number of federal and provincial infrastructure partnership grants that total \$2.6M.

10. Other Revenue: This includes the following:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
▪ Permits, Licensing & Fines	\$19.2 M	\$20.9 M	\$ 1.7 M
▪ Leases & Rentals	\$ 4.7 M	\$ 4.8 M	\$ 0.1 M
▪ Penalties & Interest on Taxes	\$ 3.2 M	\$ 3.9 M	\$ 0.7 M
▪ Other	<u>\$ 1.7 M</u>	<u>\$ 5.5 M</u>	<u>\$ 3.8 M</u>
<b>Sub Total</b>	<b><u>\$28.8 M</u></b>	<b><u>\$35.1 M</u></b>	<b><u>\$ 6.3 M</u></b>
▪ Land Sales	<u>\$ 10.1 M</u>	<u>\$ 3.0 M</u>	<u>\$ (7.1)M</u>
<b>Total</b>	<b><u>\$38.9 M</u></b>	<b><u>\$38.1 M</u></b>	<b><u>\$ (0.8)M</u></b>

The variances in Permits, Licensing and Fines revenue is primarily due to higher than anticipated developer tree permit fee revenue.

The 2009 budget for land sale proceeds was based on the 2008 activity as well as proceeds from previous years that had not yet been allocated. In 2009, the City received proceeds from the sale of the following lands:

▪ Road Exchanges	\$ 2.5 M
▪ JT Brown Park Land Exchange	\$ 0.2 M
▪ Other sundry sales	<u>\$ 0.3 M</u>
<b>Total</b>	<b><u>\$ 3.0 M</u></b>

All of the proceeds from the land sales have been included in the 2010 Five Year Financial Plan adopted by Council in December 2009.

**Expenses**

- 8. Fire and Police Protection: The under expenditures (\$2.4 million) are a result of corporate action taken to off-set the impact of the economic slowdown, including one-time savings in both the Police and Fire Services as well as operational efficiencies in Fire Services.
- 9. Water, Sewer & Drainage: Higher than anticipated expenditures in this area are mainly due to maintenance costs being recorded in this area that were previously captured as capital costs. This change was related to PSAB requirements. Some of these expenditures are offset by lower than anticipated payments to the GVRD for the purchase of bulk water.
- 10. Parks, Recreation & Culture: The increase in expenditures is due in part to the inclusion of costs associated with community events, maintenance costs that had been previously captured as capital costs, and increased costs due to increased participation rates in community recreation centres. These expenditure increases have been offset by complimentary increases in donations/sponsorship revenue and entry fees at the community centres.

2008 Expenses have been restated to include bank charges of \$0.2 million, which were previously recorded on the “Interest, fiscal services & other” line of the financial statements.

- 11. General Government: This includes the following:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
▪ Mayor, Council, Grants & Initiatives	\$ 5.9 M	\$ 5.1 M	\$ 0.8 M
▪ City Manager (Leg Serv., Legal, Bylaws, Econ Dev)	\$ 13.3 M	\$ 10.8 M	\$ 2.5 M
▪ Finance & Technology	\$ 15.7 M	\$ 12.5 M	\$ 3.2 M
▪ Human Resources	\$ 3.0 M	\$ 2.6 M	\$ 0.4M
▪ Other (Charge to Utilities, fiscal services, asset disposal & contingency)	<u>\$ (2.4)M</u>	<u>\$ 0.4 M</u>	<u>\$ (2.8)M</u>
<b><i>Total</i></b>	<b><u><u>\$35.5 M</u></u></b>	<b><u><u>\$31.4 M</u></u></b>	<b><u><u>\$ 4.1 M</u></u></b>

The positive variances are a result of savings due to temporary vacancies. The negative variance is a result of expenses associated with Surrey City Development Corporation operations.

2008 Expenses have been restated to include prepaid expenses and net inventory changes as well as bank charges, which were previously recorded on the “Interest, fiscal services & other” line of the financial statements.

- 12. Public Works: These increases are associated with maintenance costs that were previously captured as capital costs, additional costs associated with sweeping TransLink roads, costs associated with additional consulting services and repair and maintenance on rental properties.
- 13. Environment and Health: The increase in expenditures is as a result of higher than budgeted solid waste charges.
- 14. Planning and Development: These under expenditures are a result of corporate action taken to off-set the impact of the economic slowdown through salary savings on temporary vacancies.

15. Library services: The reduction in expenditures is a result of action taken by the Library Board to offset the impact of the reduction in the Provincial Library Grant.

2008 Expenses have been restated to include bank charges, which were previously recorded on the “Interest, fiscal services & other” line of the financial statements.

16. Amortization: This expense is new to the 2009 financial statements and represents the annual consumption/depreciation of City assets/infrastructure. Amortization was not budgeted in 2009; however, staff will incorporate this expense into the 2011 budget. Amortization by asset type is as follows:

	<u>2009</u>	<u>2008</u>
Land Improvements	3,312,319	3,270,428
Building	7,024,554	6,784,134
Infrastructure	55,816,151	54,047,322
Equipment	8,706,206	7,663,360
	<u>\$ 74,859,232</u>	<u>\$ 71,765,246</u>

17. Interest, Bank Charges, Fiscal Services and other: These expenses have now been included in the applicable functional area. 2008 expenses have been restated as follows: \$198,000 to Parks, Recreation and Culture, \$5,000 to Library Services and \$1,152,000 to General Government.
18. Capital Assets: This expenditure is no longer captured on the Consolidated Statement of Operations. The change in capital assets is now located on the Consolidated Statement of Financial Position, supplemented by note 10. in the “Notes to the Consolidated Financial Statements”. 2008 expenditures have been restated to remove these expenditures in full.
19. Net Revenue over Expenses: To comply with the financial reporting requirements of PSAB, revenue associated with the acquisition of capital assets is reported on the Statement of Financial Operations, while the corresponding expenditures are reported on the Statement of Financial Position. The excess of revenue over expenses is used to fund the acquisition of capital assets and contributions to reserves. Amortization has not been funded as the City has developed effective funding strategies to deal with infrastructure requirements. As per PSAB reporting requirements, the published financial statements will use the term “Annual Surplus” to describe this item.
20. Equity, end of year: This item represents the City’s net worth which includes the value of capital assets (including all City-owned infrastructure), net of amortization, and both committed and uncommitted reserve funds. It is important to note that the originally stated 2008 value did not include capital assets. Details of this balance can be found in **Appendix B**. In accordance with PSAB reporting requirement, the published financial statements will use the term “Accumulated Surplus” to describe this item. This value includes all City equity (monetary, property, other assets and infrastructure).



### **Follow Up on Prior Year's New Requirements**

On January 1<sup>st</sup>, 2004 the City adopted the recommendations of 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. This includes, as a significant component of the total liability, an estimate of the liability to which the City is exposed related to the employees accrued sick leave 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 if the position is not backfilled while the employee is on sick leave. Unless there is an immediate adverse effect on customer service, an employee who is absent due to sickness is not always replaced. As such, the City would not realize this liability to the extent that it is currently recorded. Staff has reviewed the feasibility of allocating additional funding to this liability that would reduce or eliminate the unfunded portion. It has been concluded that the current funded portion of the liability is more than adequate to protect the City against expenditures in this area. The unfunded portion of this liability therefore remains at \$7.0 Million for 2009. This will continue to be reviewed on an annual basis.

### **Future Reporting Requirements**

To ensure the City is prepared for future financial statement changes as mandated by the Public Sector Accounting Board (PSAB), staff attempt to stay abreast of new initiatives. New standards that may affect financial reporting in the future include:

#### **Accounting Framework for Government Organizations**

The Public Sector Accounting Standards Board (PSAB) has approved changes to Public Accounting Standards. These amendments require that government business enterprises adopt International Financial Reporting Standards (IFRS) beginning on January 1, 2011. A government business enterprise is one with self-sustaining commercial type operations. Government organizations that are not considered to be enterprises are either classified as government not-for-profit organization or an "other government organization". Other government organization will have a choice of whether to adopt IFRS or to prepare their financial statements in accordance with Public Accounting Standards. The City has three controlled government organizations, which are consolidated into the City's accounts – the Surrey Public Library (SPL), the Surrey Homelessness Society (SHS) and the Surrey City Development Corporation (SCDC).

SPL is classified as an "other government organization" and will have the option of adopting either IFRS or PSAB. SPL has been reporting under PSAB and is expected to continue to apply PSAB in the future.

SCDC is a government business-type organization and has been reporting under Canadian CAAP for publicly accountable enterprises. Effective January 1, 2011, SCDC will also be classified as an "other government organization" and will have the option of adopting either IFRS or PSAB. SCDC is expected to adopt PSAB.

SHS is classified as a government not-for-profit organization and is following Canadian generally accepted accounting principles for not-for-profit organizations. Recently PSAB released an exposure draft setting out proposed new standards for government not-for-profit organizations. The proposal recommends that existing not-for-profit standards be carried forward. Staff will monitor developments in this area.

### Government Transfers

PSAB issued an exposure draft during 2009 that establishes the recognition, measurement and disclosure requirements for government transfers. It provides specific recognition criteria for both the transferring government and the recipient government. It also provides that government transfers of tangible capital assets should be recorded as deferred capital contributions. This re-exposure draft is still under consideration.

### Financial Instruments

PSAB issued an exposure draft to establish the recognition, measurement, and disclosure requirements for derivatives and non-derivative financial instruments for public sector entities. This proposal requires fair value measurement of derivatives and portfolio investment that are equity instruments quoted in an active market. All other non-derivative financial instruments will be measured at cost or amortized cost. A government can elect to record other financial assets or liabilities on a fair value basis, if certain criteria are met with respect to the manner in which these investments are managed and evaluated. If approved, this standard would apply to fiscal years beginning after April 1, 2010, although early adoption is encouraged.

### Liability for Contaminated Sites

In March 2010 PSAB approved a new accounting standard that requires governments to record a liability for costs to be incurred in remediation of sites affected by environmental contamination. The new standard is in addition to the current requirements for landfill liabilities and requires a government to record a liability where:

- An environmental standard exists;
- Contamination exceeds an environmental standard;
- The government is directly responsible or accepts responsibility for the site; and
- A reasonable estimate of the amount can be made.

This standard will be effective for the 2013 fiscal year. Staff will evaluate potentially affected City-owned properties against the new standard.

### Harmonized Sales Tax

Effective July 2, 2010 the current provincial sales tax (PST) will be repealed and the Goods and Services Tax rate will increase from 5% to 12% (the harmonized sales tax or HST). Unlike the current GST which is fully refundable to the City, generally only 85.42% of the HST will be refundable in the future. However, the City will no longer be paying the unrecoverable PST that it currently incurs. Depending on the operational activities of City Departments, the introduction of HST may increase or decrease that area's overall cost. The HST should also reduce overall compliance costs for the City as only one tax will need to be tracked and remitted. Staff will monitor the impact of the HST on the organization as a whole and provide further reports on its effects as necessary.

**General Comment:**

It is important to note that the City continues to maintain a strong financial position. The City has no debt. All of the above noted variances will be incorporated in the 2011 Five Year Financial Plan. 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 provide Council with financial information on a quarterly basis during 2010 through the Quarterly Financial Reporting process.

*Auditors Comments*

On the whole, KPMG is satisfied that the City's financial statements have been fairly stated in all material respects. The audit includes an examination, on a test basis, that the controls that the City has put in place are followed and that these controls are functioning as intended. KPMG has identified a few issues that warrant the attention of management. Staff will address these matters over the course of 2010. Staff will also continue to monitor the City's financial controls as to their effectiveness in protecting the City's assets and will make adjustments where appropriate.

**CONCLUSION**

The financial 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 City of Surrey 2009 Annual Financial Report that will be distributed to Council by June 21<sup>st</sup>, 2009.

All of the variances outlined in this report will be incorporated into the 2011 Five Year Financial Plan. The City's current reserve balances and commitments have been summarized in **Appendix B**, to provide further clarification on the City's financial position.

Vivienne Wilke, CGA  
General Manager,  
Finance & Technology

# City of Surrey

## Consolidated Statement of Financial Position

Appendix A-1

*As at December 31, 2009, with comparative figures for 2008  
(in thousands of dollars)*

	2009	2008 <i>(restated, note 2)</i>
<b>FINANCIAL ASSETS</b>		
Cash and cash equivalents	\$ 15,716	\$ 57,577
Accounts receivable (note 3)	99,914	119,869
Investments (note 4)	675,107	677,106
	<u>790,737</u>	<u>854,552</u>
<b>FINANCIAL LIABILITIES</b>		
Accounts payable and accrued liabilities (note 5)	93,172	104,156
Deposits and prepayments (note 6)	116,339	111,757
Deferred revenue (note 7)	35,527	40,939
Deferred development cost charges (note 8)	185,205	224,469
	<u>430,243</u>	<u>481,321</u>
<b>NET FINANCIAL ASSETS</b>	<b>360,494</b>	373,231
<b>NON-FINANCIAL ASSETS</b>		
Tangible capital assets (note 10)	6,671,232	6,526,400
Inventories of supplies	1,123	1,136
Prepaid expenses	1,940	611
	<u>6,674,295</u>	<u>6,528,147</u>
<b>ACCUMULATED SURPLUS (note 11)</b>	<b>\$ 7,034,789</b>	<b>\$ 6,901,378</b>
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*

# City of Surrey

## Consolidated Statement of Operations

Appendix A-2

For the year ended December 31, 2009, with comparative figures for 2008

(in thousands of dollars)

	2009 <i>Budget</i> <i>(unaudited</i> <i>notes 1 and 21)</i>	<b>2009</b>	2008 <i>(restated, note 2)</i>
<b>REVENUES</b>			
Taxation for City purposes (note 14)	\$ 230,691	\$ <b>229,461</b>	\$ 212,856
Sales of goods and services	131,718	<b>130,455</b>	124,348
Development cost charges (note 8)	92,418	<b>63,856</b>	49,048
Developer contributions	69,377	<b>87,568</b>	222,983
Investment income	32,816	<b>23,736</b>	26,696
Transfers from other governments (note 20)	11,777	<b>19,467</b>	22,758
Other	38,931	<b>38,154</b>	38,005
	<u>607,728</u>	<u><b>592,697</b></u>	<u>696,694</u>
<b>EXPENSES</b>			
Fire and police protection	138,515	<b>138,273</b>	129,277
Water, sewer and drainage	84,702	<b>121,360</b>	104,223
Parks, recreation and culture	50,991	<b>64,720</b>	56,451
General government	35,503	<b>35,724</b>	36,806
Public works	17,799	<b>47,252</b>	40,247
Environment and health	19,475	<b>21,020</b>	20,013
Planning and development	19,340	<b>17,567</b>	16,097
Library services	11,802	<b>13,370</b>	14,140
	<u>378,127</u>	<u><b>459,286</b></u>	<u>417,254</u>
<b>Annual Surplus</b>	229,601	<b>133,411</b>	279,440
<b>Accumulated Surplus, beginning of year</b>	<u>6,901,378</u>	<u><b>6,901,378</b></u>	<u>6,621,938</u>
<b>Accumulated Surplus, end of year</b>	<u>\$ 7,130,979</u>	<u><b>\$ 7,034,789</b></u>	<u>\$ 6,901,378</u>

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

# City of Surrey

Appendix A-3

## Consolidated Statement of Changes in Net Financial Assets

As at December 31, 2009, with comparative figures for 2008

(in thousands of dollars)

	<b>Budget</b>	<b>2009</b>	<b>2008</b>
	<i>(unaudited notes 1 and 21)</i>		
<b>ANNUAL SURPLUS</b>	\$ 229,601	\$ 133,411	\$ 279,440
Acquisition of tangible capital assets	(302,402)	(221,485)	(376,010)
Amortization of tangible capital assets	-	74,581	71,765
Loss on disposal of tangible capital assets	-	2,003	6,782
Proceeds on disposal of tangible capital assets	-	69	-
	<u>(72,801)</u>	<u>(11,421)</u>	<u>(18,023)</u>
Acquisition of inventories of supplies	-	(1,123)	(1,136)
Consumption of inventories of supplies	-	1,136	989
Acquisition of prepaid expenses	-	(1,940)	(611)
Use of prepaid expenses	-	611	595
	<u>-</u>	<u>(1,316)</u>	<u>(163)</u>
<b>Change in net financial assets</b>	<b>(72,801)</b>	<b>(12,737)</b>	<b>(18,186)</b>
Net financial assets, beginning of year	373,231	373,231	391,417
<b>Net financial assets, end of year</b>	<b>\$ 300,430</b>	<b>\$ 360,494</b>	<b>\$ 373,231</b>

# City of Surrey

## Consolidated Statement of Cash Flows

Appendix A-4

For the year ended December 31, 2009, with comparative figures for 2008  
(in thousands of dollars)

	2009	2008 <i>(restated, note 2)</i>
<b>Cash provided by (used in):</b>		
<b>OPERATING TRANSACTIONS</b>		
Annual surplus	\$ 133,411	\$ 279,440
Non-cash charges to operations		
Amortization expense	74,581	71,765
Loss on disposal of tangible capital assets	2,003	6,782
Developer contributions of tangible capital assets	(57,792)	(195,147)
Change in non-cash operating working capital		
Accounts receivable	19,955	5,230
Inventories of supplies	13	(147)
Prepaid expenses	(1,329)	(16)
Accounts payable and accrued liabilities	(10,984)	1,447
Deposits and prepayments	4,582	(10,070)
Deferred revenue	(5,412)	1,410
Deferred development cost charges	(39,264)	16,469
<b>Net change in cash from operating transactions</b>	<b>119,764</b>	<b>177,163</b>
<b>CAPITAL TRANSACTIONS</b>		
Cash used to acquire tangible capital assets	(163,693)	(180,863)
Proceeds on disposal of tangible capital assets	69	-
<b>Net change in cash from capital transactions</b>	<b>(163,624)</b>	<b>(180,863)</b>
<b>INVESTING TRANSACTIONS</b>		
Decrease in investments	1,999	48,980
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(41,861)</b>	<b>45,280</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>57,577</b>	<b>12,297</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 15,716</b>	<b>\$ 57,577</b>

# Notes to the Consolidated Financial Statements

*For the year ended December 31*

*(tabular amounts in thousands of dollars)*

## **General**

The City of Surrey (the “City”) is incorporated under the Local Government Act of British Columbia. The City’s principal activities include the provision of local government services to residents of the incorporated area. These include administrative, protective, transportation, environmental, recreational, water and sewer.

### **1. Significant accounting policies**

The consolidated financial statements of the City are 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.

#### **(a) Basis of consolidation:**

The consolidated financial statements are comprised of the City’s Operating, Capital and Reserve Funds consolidated with the Surrey Public Library (the “Library”), Surrey City Development Corporation (“SCDC”) and Surrey Homelessness & Housing Society (“SHHS”). The Library and SHHS are consolidated as the Library Board and SHHS are appointed by the City. SCDC is consolidated as it is a wholly owned municipal corporation. Inter-fund transactions, fund balances and activities have been eliminated on consolidation.

#### **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 bylaw, establish reserve funds for specified purposes. Money in a reserve fund, and interest earned thereon, must be expended by bylaw 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 bylaw, 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. Trust funds administered by the City are presented in note 16.



# Notes to the Consolidated Financial Statements

*For the year ended December 31*

*(tabular amounts in thousands of dollars)*

## 1. Significant accounting policies (continued):

### (b) Basis of accounting

The City follows the accrual method of accounting for revenues and expenses. Revenues are normally recognized in the year in which they are earned and measurable. 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. 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 on debenture and other debt, if any, is accrued to December 31, 2009.

### (c) Government transfers

Restricted transfers from governments are deferred and recognized as revenue in the year in which the related expenditures are incurred. Unrestricted transfers are recognized as revenue when received.

### (d) Deferred revenue

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

### (e) Investment income

Investment income is reported as revenue in the period earned.

### (f) 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.

### (g) Investments

Investments consist of bonds and debentures and are recorded at amortized cost. Discounts and premiums arising on the purchase of these investments are amortized over the term of the investments. When there has been a loss in value that is other than a temporary decline in value, the respective investment is written down to recognize the loss.

# Notes to the Consolidated Financial Statements

For the year ended December 31

(tabular amounts in thousands of dollars)

## 1. Significant accounting policies (continued):

### (h) 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.

### (i) Budget data

The unaudited budget data presented in these consolidated financial statements was included in the City of Surrey 2009 – 2013 Consolidated Financial Plan and was adopted through By-law #16828 on January 19, 2009.

### (j) 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 extending beyond the current year 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 all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets, excluding land, are amortized on a straight line basis over their estimated useful lives as follows:

Asset	Useful life – Years
Land improvements	12 – 60
Buildings and improvements	10 – 50
Machinery and equipment	5 – 40
Infrastructure	10 – 100

Annual amortization is charged in the year of acquisition and in the year of disposal. Assets under construction are not amortized until the asset is available for productive use.

# Notes to the Consolidated Financial Statements

*For the year ended December 31*

*(tabular amounts in thousands of dollars)*

## 1. Significant accounting policies (continued):

### (ii) Contributions of tangible capital assets

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt and also are recorded as revenue. These assets include some land, and machinery and equipment assets.

### (iii) Works of art and historic assets

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

### (iv) Interest capitalization

The City does not capitalize interest costs associated with the acquisition or construction of a tangible capital asset.

### (v) Leases

Leases are classified as capital or operating leases. Leases which transfer substantially all the benefits and risks incidental to ownership of the property are accounted for as capital leases. All other leases are accounted for as operating leases and the related lease payments are charged to expenses as incurred.

### (vi) Inventories of supplies

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

### (k) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and 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 provisions for accrued liabilities and in performing actuarial valuations of employee future benefits.

In addition, the City's implementation of the Public Sector Accounting Handbook PS3150 has required management to make estimates of historical cost and useful lives of tangible capital assets.

Actual results could differ from these estimates.

### (l) 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 segmented format (note 19).

## Notes to the Consolidated Financial Statements

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

### 2. Change in accounting policies

The City has implemented Public Sector Accounting Board (“PSAB”) sections 1200 Financial Statement Presentation and 3150 Tangible Capital Assets. Section 1200 establishes general reporting principles and standards for the disclosure of information in government financial statements. Section 3150 requires governments to record and amortize their tangible capital assets in their financial statements. In prior years, tangible capital asset additions were expensed in the year of acquisition or construction.

#### Methods used for determining the cost of each major category of tangible capital assets

The financial information recorded includes the actual or estimated historical cost of the tangible capital assets. When historical cost records were not available, other methods were used to estimate the costs and accumulated amortization of the assets. The City applied a consistent method of estimating the replacement or reproduction cost of the tangible capital assets for which it did not have historical cost records, except in circumstances where it could be demonstrated that a different method would provide a more accurate estimate of the cost of a particular type of tangible capital asset. After defining replacement or reproduction cost, depending on the type of tangible capital asset, the Engineering News Record and the Consumer Price Index were used as a resource for determining appropriate indices in order to deflate the replacement or reproduction cost to an estimated historical cost at the year of acquisition.

This change has been applied retroactively and prior periods have been restated. This change in accounting policy has changed amounts reported in the prior period as follows:

Accumulated surplus at January 1, 2008:	
Operating fund balance	\$ 224,111
Capital fund balance	6,865
Reserves and other entities	160,441
Capital equity	2,193,847
Accumulated surplus, as previously reported	2,585,264
Capital assets previously reported	(2,193,847)
Net book value of tangible capital assets recorded	6,228,937
Prepaid expenses recorded	595
Inventories of supplies recorded	989
Accumulated surplus, as restated	\$ 6,621,938
Annual surplus for 2008:	
Net expenses, as previously reported	\$(18,186)
Developer contribution of tangible capital assets	195,145
Assets capitalized but previously expensed	174,083
Amortization expense not previously recorded	(71,765)
Change in non-financial assets not previously recorded as expense:	
Prepays previously expensed	16
Inventories of supplies previously capitalized	147
Annual surplus, as restated	\$ 279,440

## Notes to the Consolidated Financial Statements

For the year ended December 31

(tabular amounts in thousands of dollars)

### 3. Accounts Receivable

	<u>2009</u>	<u>2008</u>
Property taxes	\$ 17,100	\$ 13,659
Utility rates	4,046	3,441
Accounts receivable	52,234	44,674
Due from other authorities	2,442	2,644
Development cost charges	23,827	55,395
Property acquired for taxes	265	56
	<u>\$ 99,914</u>	<u>\$ 119,869</u>

### 4. Investments

	<u>2009</u>	<u>2008</u>
Investments maturing within one year	\$ 190,304	\$ 294,977
Investments maturing within two years	149,799	67,213
Investments maturing from three to seven years	335,004	314,916
	<u>\$ 675,107</u>	<u>\$ 677,106</u>

Average portfolio yield 4.37% (2008 – 4.40%). All investments can be liquidated on demand.

### 5. Accounts Payable and Accrued Liabilities

	<u>2009</u>	<u>2008</u>
Trade accounts payable	\$ 34,489	\$ 43,858
Post employment benefits (note 9)	16,813	16,055
Contractors' holdbacks	7,146	7,374
Due to Federal Government	22,251	20,738
Due to Province of British Columbia	4,391	3,144
Due to Regional Districts	6,895	11,312
Due to other authorities	1,187	1,675
	<u>\$ 93,172</u>	<u>\$ 104,156</u>

## Notes to the Consolidated Financial Statements

For the year ended December 31

(tabular amounts in thousands of dollars)

### 6. Deposits and Prepayments

	<u>2009</u>	<u>2008</u>
Deposits		
Future works	\$ 27,338	\$ 24,691
Planning and permits	22,270	21,512
Engineering	16,527	13,196
Capital deposits	13,801	14,542
Boulevard trees	3,098	3,168
Pavement cuts	3,084	2,583
Latecomer	407	413
Amenities	234	232
Developer works agreement	165	893
Other deposits	501	674
Total deposits	<u>\$ 87,875</u>	<u>\$ 81,904</u>
Prepays		
Taxes	23,651	\$ 22,442
Utilities	2,525	2,873
Tax sale private purchase payment	2,076	910
Other prepaids	212	3,628
Total prepaids	<u>28,464</u>	<u>29,853</u>
<b>Total deposits and prepaids</b>	<u><u>\$ 116,339</u></u>	<u><u>\$ 111,757</u></u>

### 7. Deferred Revenue

	<u>2009</u>	<u>2008</u>
Neighbourhood Concept Plans	\$ 21,203	\$ 25,631
Development/Building Permits	12,749	13,494
Other	1,575	1,814
	<u>\$ 35,527</u>	<u>\$ 40,939</u>

## Notes to the Consolidated Financial Statements

For the year ended December 31

(tabular amounts in thousands of dollars)

### 8. 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>2009</u>	<u>2008</u>
Deferred DCC's:		
Drainage/storm water detention	\$ 26,441	\$ 29,982
Arterial roads	48,548	53,078
Collector roads	12,334	12,471
Parkland	72,429	101,196
Water	8,807	11,323
Sanitary sewer	16,646	16,419
	<u>\$ 185,205</u>	<u>\$ 224,469</u>
Deferred DCC's, beginning of year	\$ 224,469	\$ 208,000
Revenue Recognized for General Capital	(53,458)	(37,106)
Revenue Recognized for Water Capital	(4,479)	(3,524)
Revenue Recognized for Sewer and Drainage Capital	(5,919)	(8,418)
Total DCC's recognized as revenue	(63,856)	(49,048)
DCC's levied for the year	19,107	60,107
Investment income	5,485	5,410
Net increase (decrease) for the year	(39,264)	16,469
Deferred DCC's, end of year	<u>\$ 185,205</u>	<u>\$ 224,469</u>

## Notes to the Consolidated Financial Statements

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

### 9. 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>2009</u>	<u>2008</u>
<b>Accrued benefit liability:</b>		
Balance, beginning of year	\$ 16,055	\$ 15,388
Current service cost	1,009	1,087
Interest cost	830	817
Amortization of actuarial loss	-	141
Benefits paid	<u>(1,081)</u>	<u>(1,378)</u>
Balance, end of year	<u>\$ 16,813</u>	<u>\$ 16,055</u>

An actuarial valuation for these benefits was performed to determine the City's accrued benefit obligation as at December 31, 2009. The difference between the actuarially determined accrued benefit obligation of \$18.6 million and the accrued benefit liability of \$16.8 million as at December 31, 2009 is an unamortized actuarial loss of \$1.8 million. The actuarial loss is amortized over a period equal to the employees' average remaining service lifetime of 11 years.

	<u>2009</u>	<u>2008</u>
<b>Actuarial benefit obligation:</b>		
Liability, end of year	\$ 16,813	\$ 16,055
Unamortized actuarial loss (gain)	<u>1,815</u>	<u>(380)</u>
Balance, end of year	<u>\$ 18,628</u>	<u>\$ 15,675</u>

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

	<u>2009</u>	<u>2008</u>
Discount rate	5.00%	5.25%
Expected future inflation rate	2.00%	2.00%
Expected wage and salary inflation	3.00%	3.00%
Expected wage and salary range increases	1.00%	1.00%



## Notes to the Consolidated Financial Statements

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

### 10. Tangible Capital Assets

Cost	Balance at December 31, 2008	Additions	Disposals / Write- downs / WIP Allocations	Balance at December 31, 2009
<b>Land and land improvements</b>	\$ 1,552,086	\$ 46,471	\$ 1,727	\$ <b>1,596,830</b>
<b>Buildings</b>	218,405	13,260	1,570	<b>230,095</b>
<b>Infrastructure</b>	3,459,940	35,899	438	<b>3,495,401</b>
<b>Machinery and equipment</b>	100,284	14,133	3,781	<b>110,636</b>
<b>Road Allowance</b>	2,297,739	53,628	147	<b>2,351,220</b>
<b>Work-in-Progress</b>	126,080	223,100	165,006	<b>184,174</b>
<b>Total</b>	<b>\$ 7,754,534</b>	<b>\$ 386,491</b>	<b>\$ 172,669</b>	<b>\$ 7,968,356</b>

Accumulated Amortization	Balance at December 31, 2008	Amortization	Accumulated Amortization on Disposals	Balance at December 31, 2009
<b>Land and land improvements</b>	\$ 52,724	\$ 3,310	\$ 250	\$ <b>55,784</b>
<b>Buildings</b>	130,827	7,027	1,425	<b>136,429</b>
<b>Infrastructure</b>	988,958	55,532	214	<b>1,044,276</b>
<b>Machinery and equipment</b>	55,625	8,712	3,702	<b>60,635</b>
<b>Road Allowance</b>	-	-	-	-
<b>Work-in-Progress</b>	-	-	-	-
<b>Total</b>	<b>\$ 1,228,134</b>	<b>\$ 74,581</b>	<b>\$ 5,591</b>	<b>\$ 1,297,124</b>

	Net Book Value December 31, 2009	Net Book Value December 31, 2008
<b>Land and land improvements</b>	\$ 1,541,046	\$ 1,499,362
<b>Buildings</b>	93,666	87,578
<b>Infrastructure</b>	2,451,125	2,470,982
<b>Machinery and equipment</b>	50,001	44,659
<b>Road Allowance</b>	2,351,220	2,297,739
<b>Work-in-Progress</b>	184,174	126,080
<b>Total</b>	<b>\$ 6,671,232</b>	<b>\$ 6,526,400</b>

Cost	Balance at December 31, 2007	Additions	Disposals / Write-downs / WIP allocations	Balance at December 31, 2008
<b>Land and land improvements</b>	1,481,109	74,046	3,069	<b>1,552,086</b>
<b>Buildings</b>	208,961	9,863	419	<b>218,405</b>
<b>Infrastructure</b>	3,298,633	172,343	11,036	<b>3,459,940</b>
<b>Machinery and equipment</b>	90,067	12,971	2,754	<b>100,284</b>
<b>Road Allowance</b>	2,166,182	131,585	28	<b>2,297,739</b>
<b>Work-in-Progress</b>	150,878	373,940	398,738	<b>126,080</b>
<b>Total</b>	<b>7,395,830</b>	<b>774,748</b>	<b>416,044</b>	<b>7,754,534</b>

## Notes to the Consolidated Financial Statements

For the year ended December 31

(tabular amounts in thousands of dollars)

Accumulated Amortization	Balance at December 31, 2007	Amortization	Accumulated Amortization on Disposals	Balance at December 31, 2008
<b>Land and land improvements</b>	50,751	3,270	1,297	<b>52,724</b>
<b>Buildings</b>	124,462	6,784	419	<b>130,827</b>
<b>Infrastructure</b>	941,132	54,048	6,222	<b>988,958</b>
<b>Machinery and equipment</b>	50,548	7,663	2,586	<b>55,625</b>
<b>Road Allowance</b>	-	-	-	-
<b>Work-in-Progress</b>	-	-	-	-
<b>Total</b>	<b>1,166,893</b>	<b>71,765</b>	<b>10,524</b>	<b>1,228,134</b>

	Net Book Value December 31, 2008	Net Book Value December 31, 2007
<b>Land and land improvements</b>	<b>1,499,362</b>	1,430,358
<b>Buildings</b>	<b>87,578</b>	84,499
<b>Infrastructure</b>	<b>2,470,982</b>	2,357,501
<b>Machinery and equipment</b>	<b>44,659</b>	39,519
<b>Road Allowance</b>	<b>2,297,739</b>	2,166,182
<b>Work-in-Progress</b>	<b>126,080</b>	150,878
<b>Total</b>	<b>6,526,400</b>	6,228,937

### a) Assets under construction

Assets under construction having a value of \$184.2 million (2008 - \$126.1 million) have not been amortized. Amortization of these assets will commence when the asset is put into service.

### b) Contributed Tangible Capital Assets

Contributed capital assets have been recognized at fair market value at the date of contribution. The value of contributed assets received during the year is \$57.8 million (2008 - \$195.1 million) comprised of roads infrastructure in the amount of \$50.7 million (2008 - \$142.1 million), water and wastewater infrastructure in the amount of \$1.3 million (2008 - \$48.5 million) and land and land improvements in the amount of \$5.8 million (2008 - \$4.5 million).

### c) Tangible Capital Assets Disclosed at Nominal Values

Where an estimate of fair value could not be made, the tangible capital asset was recognized at a nominal value.

### d) Works of Art and Historical Treasures

The City manages and controls various works of art and non-operational historical cultural assets including buildings, artifacts, paintings and sculptures located at City sites and public display areas. These assets are not recorded as tangible capital assets and are not amortized.

### e) Write-down of Tangible Capital Assets

The write-down of tangible capital assets during the year was \$nil (2008 \$nil).

# Notes to the Consolidated Financial Statements

For the year ended December 31

(tabular amounts in thousands of dollars)

## 11. Accumulated Surplus

Accumulated surplus consists of individual fund surplus and reserves and reserve funds as follows:

	2009	2008
<b>Surplus</b>		
Capital Legacy	\$ 16,733	\$ 16,089
Environmental Emergencies	4,782	4,649
Infrastructure Replacement	15,797	14,466
Inventories of Supplies	1,123	1,136
Long Term Improvements	6,371	8,103
Operating Emergencies	6,762	6,535
Prepaid Expenses	1,940	611
Revenue Stabilization	11,645	14,507
Self Insurance	23,096	23,139
Unappropriated Surplus	11,205	10,897
Work in Progress	129,913	132,223
<b>Total Surplus</b>	<b>229,367</b>	<b>232,355</b>
<b>Invested in Tangible Capital Assets</b>	<b>6,671,232</b>	<b>6,526,400</b>
<b>Reserves set aside by Council</b>		
Environmental Stewardship	6,740	6,427
Affordable Housing	122	654
Capital Legacy	32,820	36,524
Equipment and Building Replacement	42,556	41,817
Local Improvement Financing	13,178	12,415
Municipal Land	36,754	31,356
Park Land Acquisition	2,080	3,954
Parking Space	1,138	1,094
Water Claims	1,188	1,142
<b>Total reserves</b>	<b>136,576</b>	<b>135,383</b>
<b>Reserves funds set aside for specific purpose by Council</b>		
Water Capital	-	1,704
<b>Other Entities</b>		
Surrey City Development Corporation	(11,170)	(3,619)
Surrey Homelessness and Housing Society	8,784	9,155
	(2,386)	5,536
	<b>\$ 7,034,789</b>	<b>\$ 6,901,378</b>

# Notes to the Consolidated Financial Statements

*For the year ended December 31*

*(tabular amounts in thousands of dollars)*

## 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 tangible capital assets. 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 has a contingent liability with respect to debentures of the Greater Vancouver Water District, Greater Vancouver Sewerage and Drainage District and Greater Vancouver Regional District, to the extent provided for in their respective Enabling Acts, Acts of Incorporation and Amending Acts. Management does not consider payment under this contingency to be likely and therefore no amounts have been accrued.
- 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 24 Class “A” and 24 Class “B” shares issued and outstanding as at December 31, 2009). 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 secured 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 insures itself through a combination of insurance policies and self-insurance. The City has a funded self-insurance appropriation (note 11). 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 some of these claims, cannot be determined and accordingly only those claims in which likelihood of payment is determined to be moderate to high or high have been accrued.

## Notes to the Consolidated Financial Statements

For the year ended December 31

(tabular amounts in thousands of dollars)

### 13. 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 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 158,000 active members and approximately 57,000 retired members. Active members include approximately 33,000 contributors from local governments.

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, 2006 indicated a surplus of \$438.0 million for basic pension benefits. The next valuation will be as at December 31, 2009 with results available in 2010. The actuary does not attribute portions of the surplus to individual employers. The City paid \$11.4 million for employer's contributions to the Plan in fiscal 2009 (2008 - \$9.5 million), employees contributed \$8.9 million to the Plan in Fiscal 2009 (2008 - \$8.0 million).

### 14. Taxation revenue

	2009	2008
Tax collected:		
Property taxes	\$ 194,236	\$ 179,520
Collections for other authorities	225,683	224,543
Sewer frontage taxes	22,915	21,762
Grants-in-lieu of taxes	11,996	11,271
Other	314	319
	<u>455,144</u>	<u>437,415</u>
Less transfers to other governments:		
Province of BC - School Taxes	173,699	169,051
Greater Vancouver Regional District	7,313	11,985
BC Assessment Authority	5,596	5,268
Greater Vancouver Transportation Authority	37,057	34,169
Other	2,018	4,086
	<u>225,683</u>	<u>224,559</u>
<b>Taxation revenue</b>	<b>\$ 229,461</b>	<b>\$ 212,856</b>

### 15. Significant Taxpayers

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

## Notes to the Consolidated Financial Statements

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

### 16. 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. Amounts administered by the City as trust funds are as follows:

			<u>2009</u>	<u>2008</u>
<b>Assets</b>				
Cash and short term investments			<u>\$ 2,535</u>	<u>\$ 2,287</u>
<b>Equity</b>				
	Employee Benefits Fund	Cemetery Perpetual Care Fund	<u>2009</u>	<u>2008</u>
Balance, beginning of year	\$ 599	\$ 1,688	\$ 2,287	\$ 2,161
Contributions	-	154	154	93
Interest revenue	24	67	91	86
Employment insurance rebate	84	-	84	75
Benefits purchased	(27)	-	(27)	(24)
Refunded to employees	(54)	-	(54)	(104)
Balance, end of year	<u>\$ 626</u>	<u>\$ 1,909</u>	<u>\$ 2,535</u>	<u>\$ 2,287</u>

### 17. Surrey Homelessness and Housing Society

On June 22<sup>nd</sup>, 2007, the City of Surrey incorporated the Surrey Homelessness and Housing Society. The purposes of the Society are to raise funds for financing programs and projects that address homelessness in Surrey; conduct and provide financial assistance to homelessness housing initiatives; and manage the disbursements of grants for projects and programs that address homelessness in Surrey. As the majority of members in the Society consist of City officials, the City is considered to have control over the Society's functions and the Society's financial information is fully consolidated with the City.

### 18. Surrey City Development Corporation

On April 24<sup>th</sup>, 2007 the City of Surrey incorporated a Development Corporation with broad powers to advance the commercial, industrial institutional and residential development of the City. The City is the sole shareholder of the Development Corporation and requires an interest-bearing loan from the City in order to sustain operations at this time. As a result, the Corporation's financial information is fully consolidated with the City.

# Notes to the Consolidated Financial Statements

For the year ended December 31

(tabular amounts in thousands of dollars)

## 19. Segmented Information

The City of Surrey is a diversified municipal government institution that provides a wide range of services to its citizens, including Protection Services; Parks, Recreation and Culture Services; General Government Services; Public Works Services; Solid Waste Management Services; Planning and Development Services; Water, Sewer and Drainage Services; and Surrey Public Library Services. For management reporting purposes the Government's operations and activities are organized and reported by Service Areas. Service Areas were created for the purpose of recording specific activities to attain certain objectives in accordance with regulations, restrictions or limitations.

City Services are provided by departments and their activities are reported in these Service Areas. Departments disclosed in the Segmented Information, along with the services they provide, are as follows:

### *Protection Services – Police Department and Fire Department*

The mandates of the Police and Fire Departments are to enforce laws, prevent crime, and maintain peace, order, and security by protecting life, property and the environment through the provision of emergency response, thus ensuring "Safe Homes and Safe Communities.

### *Parks, Recreation and Cultural Services – Parks, Recreation and Culture Department*

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

### *General Government Services – Mayor & Councillor's Department, City Manager's Department, Finance & Technology Department, and Human Resources Department*

The Departments within General Government Services are responsible 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.

### *Public Works Services and Solid Waste Management Services – Engineering Department*

The Engineering Department is responsible delivery of municipal services (garbage collection, recycling, and transportation systems).

### *Planning and Development Services – Planning and Development Department*

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 development.

### *Water, Sewer and Drainage Services – Water Department and Sewer & Drainage Department*

The Water, Sewer and Drainage Utilities operate and distribute water, network sewer mains, storm sewers and pump stations.

### *Surrey Public Library Services*

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

## Financial Activities - Segmented

<i>For the year ended December 31, 2009, with a</i>									<b>Consolidated</b>	
<i>(in thousands of dollars)</i>	<i>General Government</i>	<i>Planning and Development</i>	<i>Protection Services</i>	<i>Parks, Recreation and Culture</i>	<i>Solid Waste Management</i>	<i>Public Works</i>	<i>Water, Sewer &amp; Drainage</i>	<i>Library Services</i>	<b>2009</b>	<b>2008</b>
<b>REVENUES</b>										
Taxation, grants-in-lieu, assessments	\$ 428,268	\$ -	\$ -	\$ 9	\$ -	\$ -	\$ 26,866	\$ -	\$ 455,143	\$ 437,415
Collections for other authorities	(225,682)	-	-	-	-	-	-	-	(225,682)	(224,559)
Taxation for City purposes	202,586	-	-	9	-	-	26,866	-	229,461	212,856
Sales of goods and services	3,913	1,967	2,246	18,111	22,037	1,495	80,534	152	130,455	124,348
Development cost charges	63,856	-	-	-	-	-	-	-	63,856	49,048
Developer contributions	14,084	-	-	137	-	2,386	70,961	-	87,568	222,983
Investment income	18,569	-	-	-	-	-	5,167	-	23,736	26,696
Transfers from other governments	4,237	-	9,860	1,261	-	-	3,074	1,035	19,467	22,758
Other	18,084	14,801	75	1,493	80	1,921	1,143	557	38,154	38,005
	<b>325,329</b>	<b>16,768</b>	<b>12,181</b>	<b>21,011</b>	<b>22,117</b>	<b>5,802</b>	<b>187,745</b>	<b>1,744</b>	<b>592,697</b>	<b>696,694</b>
<b>EXPENSES</b>										
Salaries and benefits	19,758	14,437	57,178	29,912	-	29,035	-	9,175	159,495	150,104
Consulting and professional services	2,117	710	231	5,763	333	1,949	2,038	33	13,174	8,843
RCMP contracted services	-	-	73,552	-	-	-	-	-	73,552	67,872
Telephone and communications	716	49	1,624	313	4	310	46	53	3,115	2,928
Regional district utility charges	-	-	-	-	-	-	57,561	-	57,561	52,006
Utilities	9	252	581	2,380	2	3,029	1,753	251	8,257	8,080
Garbage collection and disposal	-	8	26	86	18,110	70	2	8	18,310	14,726
Maintenance & Small Equipment	3,038	1,540	177	5,003	-	253	215	88	10,314	6,622
Insurance and claims	2,248	25	6	1	-	1	5	-	2,286	4,633
Leases and rentals	321	9	513	588	(5)	958	431	120	2,935	6,535
Supplies and materials	1,822	1,134	1,761	6,462	681	8,369	4,680	384	25,293	21,419
Advertising and media	248	26	10	419	139	39	8	477	1,366	3,097
Grants and sponshorships	2,178	772	2	261	-	-	-	-	3,213	2,011
Sundry	1,173	739	731	3,529	369	8,720	4,378	471	20,110	16,917
Other	435	83	249	107	-	1,702	678	36	3,290	2,018
Cost recoveries, net	(5,430)	(2,217)	(503)	(153)	1,387	(28,505)	16,586	244	(18,591)	(23,677)
Debt interest, fiscal services and other	754	-	-	227	-	-	39	5	1,025	1,355
Amortization expense	6,337	-	2,135	9,822	-	21,322	32,940	2,025	74,581	71,765
	<b>35,724</b>	<b>17,567</b>	<b>138,273</b>	<b>64,720</b>	<b>21,020</b>	<b>47,252</b>	<b>121,360</b>	<b>13,370</b>	<b>459,286</b>	<b>417,254</b>
<b>Excess (deficiency) of revenues over expenses</b>	<b>289,605</b>	<b>(799)</b>	<b>(126,092)</b>	<b>(43,709)</b>	<b>1,097</b>	<b>(41,450)</b>	<b>66,385</b>	<b>(11,626)</b>	<b>133,411</b>	<b>279,440</b>
Transfer from (to) operating funds	(26,105)	51	-	-	(2,273)	-	16,979	11,348	-	-
Transfer from (to) reserve funds	(25,787)	(1,002)	(1,377)	(199)	-	(1,074)	29,439	-	-	-
Transfer from (to) capital funds	18,579	-	-	-	-	-	(18,579)	-	-	-
<b>Annual surplus (deficit)</b>	<b>256,292</b>	<b>(1,750)</b>	<b>(127,469)</b>	<b>(43,908)</b>	<b>(1,176)</b>	<b>(42,524)</b>	<b>94,224</b>	<b>(278)</b>	<b>133,411</b>	<b>279,440</b>



## Notes to the Consolidated Financial Statements

For the year ended December 31

(tabular amounts in thousands of dollars)

### 20. Government Transfers

The City recognizes the transfer of government funding as expenses or revenues in the period that the events giving rise to the transfer occurred. The Government transfers reported on the Statement of Operations are:

	2009	2008
Revenue:		
Provincial grants:		
Traffic Fine Revenue Sharing	\$ 9,475	\$ 5,759
Casino Revenue Sharing	2,973	3,402
Roads	2,424	10,506
Parks Development	1,175	-
Library Operating	888	926
Dyke Improvements	346	-
Victim Services	170	180
Child Care	164	-
BC One Card	126	126
Arts	119	84
Olympic Torch/Twinning Relationships	40	50
2010 Opportunities	25	-
Resource Sharing	8	9
Drainage	-	349
Green Cities	-	100
Planning	-	11
Tourism	-	3
Subtotal provincial grants	17,933	21,505
Federal grants:		
Cultural Capital Canada	897	-
Roads	305	-
Keep of Prisoners	212	216
Multi-Cultural	58	-
Summer Students	15	11
Child Care	15	28
Torch Relay	15	-
Urban Aboriginal Strategy	14	10
Heritage Grants	3	-
HC Funding	-	890
Museum	-	78
Drainage	-	20
Subtotal federal grants	1,534	1,253
<b>Total revenues</b>	<b>\$ 19,467</b>	<b>\$22,758</b>

## Notes to the Consolidated Financial Statements

For the year ended December 31

(tabular amounts in thousands of dollars)

### 21. Budget Data

The unaudited budget data presented in these consolidated financial statements was included in the City of Surrey 2009 – 2013 Consolidated Financial Plan and was adopted through By-law #16828 on January 19, 2009. Amortization was not contemplated on development of the budget and, as such, has not been included. The chart below reconciles the approved budget to the budget figures reported in these consolidated financial statements.

	Budget Amount
Revenues:	
Consolidated budget	\$ 607,728
Expenses:	
Consolidated budget	680,529
Annual deficit per approved budget	(72,801)
Add:	
Capital expenses	302,402
Annual surplus per statement of operations	\$ 229,601

### 22. Comparative figures:

Certain comparative figures have been reclassified to conform to the presentation adopted for the current year.

**RESERVE FUNDS, ACCUMULATED SURPLUS AND DEVELOPER CONTRIBUTIONS**

as at December 31, 2009  
(in thousands of dollars)

	2008	2009	Water, Sewer & Drainage Funds	Committed to 2010 & Prior years	Balance Available for Future Years
<b>Reserve Funds</b>					
Equipment and building replacement	\$ 41,817	\$ 42,556		\$ 11,395	\$ 31,161
Municipal land	31,356	36,754		36,004	750
Park land acquisition	3,954	2,080		451	1,629
Capital Legacy	36,524	32,820		27,107	5,713
Environmental Stewardship	6,427	6,740		480	6,260
Local improvement financing	12,415	13,178		5,083	8,095
Water claims	1,142	1,188	1,188		-
Affordable housing	654	122			122
Parking space	1,094	1,138			1,138
	135,383	136,576	1,188	80,520	54,868
Restricted capital reserves	1,704	-			-
	<u>\$ 137,087</u>	<u>\$ 136,576</u>	<u>\$ 1,188</u>	<u>\$ 80,520</u>	<u>\$ 54,868</u>
<b>Other Entities</b>					
Surrey Public Library	(425)	(276)			(276)
Surrey City Development Corp	(3,619)	(11,170)			(11,170)
Surrey Homelessness & Housing Society	9,155	8,784		8,784	-
	<u>\$ 5,111</u>	<u>\$ (2,662)</u>	<u>\$ -</u>	<u>\$ 8,784</u>	<u>\$ (11,446)</u>
<b>Unappropriated Surplus</b>					
General operating fund	\$ 12,320	\$ 12,479		\$ 4,028	\$ 8,451
Employee future benefits	(6,998)	(6,998)			(6,998)
Water operating fund	3,000	3,000	3,000		-
Sewer & Drainage operating fund	3,000	3,000	3,000		-
	<u>\$ 11,322</u>	<u>\$ 11,481</u>	<u>\$ 6,000</u>	<u>\$ 4,028</u>	<u>\$ 1,453</u>
<b>Appropriated Surplus</b>					
Operating contingency and emergencies	\$ 6,535	\$ 6,762	\$ 3,000		\$ 3,762
Environmental emergencies	4,649	4,782	1,573		3,209
Revenue stabilization	14,507	11,645	8,363		3,282
Self insurance	23,139	23,096	10,063		13,033
Infrastructure replacement	30,555	32,530	32,530		-
Long term improvements	8,103	6,371	6,371		-
	<u>\$ 87,488</u>	<u>\$ 85,186</u>	<u>\$ 61,900</u>	<u>\$ -</u>	<u>\$ 23,286</u>

**ACCUMULATED SURPLUS, INCLUDING DCC's**

*as at December 31, 2009  
(in thousands of dollars)*

	<i>0</i>	<i>Water, Sewer &amp; Drainage Funds</i>	<i>Committed to 2010 &amp; Prior years</i>	<i>Balance Available for Future Years</i>
<b>Deferred Developer Contributions (Net)</b>				
Drainage/Storm Water Detention	\$ 22,003	\$ 22,003		\$ -
Arterial Roads	39,742		39,742	-
Collector Roads	10,197		10,197	-
Parkland	56,648		38,681	17,967
Park Development	5,455		5,455	-
Water	6,474	6,474		-
Sanitary Sewer	14,642	14,642		-
Campbell Heights	3,872		2,412	1,460
Neighbourhood Concept Plans	21,203		15,496	5,707
	<u>\$ 180,236</u>	<u>\$ 43,119</u>	<u>\$ 111,983</u>	<u>\$ 25,134</u>
<b>Council Approved Commitments not yet funded</b>			49,859	(49,859)
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 49,859</u>	<u>\$ (49,859)</u>
<b>Total Available</b>	<u>\$ 543,793</u>	<u>\$ 176,425</u>	<u>\$ 323,932</u>	<u>\$ 43,436</u>