



# CORPORATE REPORT

NO: **F011**

COUNCIL **May 2, 2011**

DATE:

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## AUDIT COMMITTEE

TO: **Audit Committee**

DATE: **April 27, 2011**

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

FILE: **1880-20**

SUBJECT: **2010 Annual Financial Report**

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## RECOMMENDATION

The Finance & Technology Department recommends that the Audit Committee:

1. Receive this report as information; and
2. Authorize staff to include this report on the agenda for the next Regular Meeting of City Council.

## INTENT

The purpose of this report is to provide the Audit Committee with information about the results of the audit of the City of Surrey 2010 financial statements.

## 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, 2010 are attached to this report as **Appendix A**. These will be included in the City's 2010 Annual Financial Report that will be published by the end of June.

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 of KPMG was retained to conduct the 2010 audit and to express an opinion as to whether the consolidated financial statements present fairly the financial position of the City of Surrey as at December 31, 2010 and the results of its operations for the year 2010.

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

The audited financial statements 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 has been amended to remove the amortization expense from each functional area to better compare expenses to budget.

NOTE	<i>for the year ended December 31, 2010</i> <i>(in thousands of dollars)</i>	2010 <i>Budget</i>	2010 <b>Actuals</b>	2009 Actuals <i>(restated)</i>	2009 Actuals <i>(original)</i>
<b>REVENUES</b>					
1	Taxation for City purposes	\$ 246,130	\$ 244,552	\$ 229,461	\$ 229,461
2	Sales of goods and services	137,305	152,822	130,455	130,455
3	Development cost charges	82,378	56,899	63,856	63,856
4	Developer contributions	59,004	142,150	147,916	87,568
5	Investment income	31,663	21,940	23,736	23,736
6	Transfers from other governments	31,785	45,320	19,467	19,467
7	Other	33,096	35,403	38,154	38,154
		<u>621,361</u>	<u>699,086</u>	<u>653,045</u>	<u>592,697</u>
<b>EXPENSES</b>					
8	Fire and police protection	143,198	143,326	136,095	136,095
9	Water, sewer and drainage	90,930	84,341	87,766	87,766
10	Parks, recreation and culture	52,502	71,193	54,897	54,872
11	General government	36,756	48,926	37,575	31,406
12	Public works	20,551	19,636	24,356	24,356
13	Environment and health	23,279	21,821	21,020	21,020
14	Planning and development	17,998	18,140	17,566	17,567
15	Library services	11,750	11,738	11,345	11,345
16	Amortization		81,097	67,218	74,859
17	Interest, fiscal services & other	1,215	874	596	0
		<u>398,179</u>	<u>501,092</u>	<u>458,434</u>	<u>459,286</u>
18	Excess revenues over expenses	223,182	197,994	194,611	133,411
19	Contribution (to) capital expenditures	(201,924)	(282,491)	(257,716)	(199,991)
20	Contribution (to)/from reserves	(25,286)	84,497	63,105	66,580
		<u>(4,028)</u>	<u>0</u>	<u>0</u>	<u>0</u>
21	Equity, beginning of year	7,144,713	7,144,713	6,950,102	6,901,378
22	Equity, end of year	\$ 7,367,895	\$7,342,707	\$ 7,144,713	\$ 7,034,789

The lines in the table have been numbered on the left side. An explanatory note on the variance related to each line is provided in the following section with each note numbered to match the line it represents.

**Revenue:**

1. Taxation for City Purposes: Taxation revenue was lower than budget as a result of an over estimation of the number of properties that are subject to the drainage parcel tax. This has been corrected in the 2011 Financial Plan.
2. Sale of Goods & Services: Sales revenues were higher than anticipated due to increases in the metered utility revenues. This is primarily the result of a one-time additional billing period in 2010 that related to a change to the billing cycle for metered utilities.
3. Development Cost Charges: The 'Budget' figure includes the development cost charges that are available for the 2010 program (\$55.2 million) as well as the funding that was committed to projects in prior years but that had not yet been spent (\$27.2 million) for a total of \$82.4 million. The 'Actual' column includes only the revenue that was required to match the amount that was actually spent on capital construction (\$56.9 million) in 2010. The variance between actual and budget (\$25.5 million) is due to the timing of construction and the related payments. The balance will be spent in completing projects that are currently in progress in 2011 or beyond.
4. Developer Contributions: The detailed breakdown of this variance is as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
▪ GVTA Contribution	\$ 4.8 M	\$ 16.1 M	\$ 11.3 M
▪ NCP Contributions	\$ 1.9 M	\$ 5.2 M	\$ 3.3 M
▪ Cash-In-Lieu of Parkland	\$ .5 M	\$ 2.9 M	\$ 2.4 M
▪ Private Developer Contributions	\$ 1.8 M	\$ 6.2 M	\$ 4.4 M
▪ Contributed Assets	<u>\$ 50.0 M</u>	<u>\$111.7 M</u>	<u>\$ 61.7 M</u>
<b>Total</b>	<b><u>\$ 59.0 M</u></b>	<b><u>\$142.1 M</u></b>	<b><u>\$ 83.1 M</u></b>

The increase from the GVTA relates to funding that was received for the 96<sup>th</sup> Avenue widening project (\$10.9 million) which was not originally included in the budget. 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 (2009). The 'Actual' column includes only revenue to match the amounts that were spent on capital construction or property acquisition in 2010. The variances are primarily due to the timing of construction of park projects and the purchase of parklands. The \$4.4 million increase in developer contributions is due to increases in contributions from private property owners and developers for the Bridgeview Vacuum Sewer Replacement (\$0.5 million), the Semiahmoo Pump Station (\$0.9 million), traffic and road projects (\$1.2 million), and miscellaneous contributions to facilities, park development, equipment and other projects (\$2.6 million).

The Contributed Assets line relates to infrastructure that the City received as a result of new development that occurred across the City. This includes, among other things, roads, water mains, sewer systems and drainage systems. Actual asset contributions were \$111.7 million (\$118 million in 2009).

5. Investment Income: The variance between the 'Budget' figure (\$31.7 million) and the 'Actual' figure (\$21.9 million) of \$9.7 million is primarily due to the budget amount having included an estimate for anticipated interest earned on development cost charges (\$8.4 million), which is now being recorded as deferred revenue in accordance with PSAB requirements. The General Fund earned slightly more interest than anticipated (\$76,000) while the Utility Funds (\$0.6 million) and the Reserve Funds (\$0.8 million) earned less in investment interest than was anticipated by the 2010 budget due to lower than anticipated account balances.

6. Transfers from Other Governments: The details of this line are documented below:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
▪ Traffic Fine Revenue Sharing	\$ 6.0 M	\$ 2.4 M	\$ (3.6) M
▪ Gaming Revenue Sharing	\$ 2.8 M	\$ 2.9 M	\$ 0.1 M
▪ Other Sundry e.g.: Keep of Prisoners, Summer Student Program, & Libraries.	\$ 1.2 M	\$ 1.9 M	\$ 0.7 M
▪ <b>Sub Total</b>	<b>\$ 10.0 M</b>	<b>\$ 7.2 M</b>	<b>\$ (2.8) M</b>
▪ Capital Infrastructure Grants	\$ 21.8 M	\$ 38.1 M	\$ 16.3 M
<b>Total</b>	<b>\$31.8 M</b>	<b>\$45.3 M</b>	<b>\$13.5 M</b>

The \$3.6 million shortfall in Traffic Fine Revenue Sharing (TFRS) relates to the Province's decision to advance part of the 2010 TFRS in 2009. The City maintained the same level of budget for both 2009 and 2010 (\$6.0 million per year), while the Province advanced \$9.5 million in 2009 and \$2.4 million in 2010. A reserve was established in 2009 to carry forward \$3.5 million to 2010. The City also received several other miscellaneous grants in 2010 that totalled \$0.7 million. The \$16.3 million variance in the Capital Infrastructure Grants is primarily due to federal/provincial contributions for Bridgeview Vacuum Sewer Replacement (\$1.3 million), Fraser River Flood Projection (\$5.1 million) and a number of federal and provincial infrastructure partnership grants (Build Canada & RINC Programs) that total \$9.9M.

7. Other Revenue: This line includes the following revenues:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
▪ Permits, Licensing & Fines	\$18.7 M	\$21.8 M	\$ 3.1 M
▪ Leases & Rentals	\$ 4.8 M	\$ 5.1 M	\$ 0.3 M
▪ Penalties & Interest on Taxes	\$ 3.5 M	\$ 3.9 M	\$ 0.4 M
▪ Other	\$ 0.6 M	\$ 2.0 M	\$ 1.4 M
▪ <b>Sub Total</b>	<b>\$27.6 M</b>	<b>\$32.8 M</b>	<b>\$ 5.2 M</b>
▪ Land Sales	\$ 5.5 M	\$ 2.6 M	\$ (2.9)M
<b>Total</b>	<b>\$33.1 M</b>	<b>\$35.4 M</b>	<b>\$ 2.3 M</b>

The variance in Permits, Licensing and Fines revenue is primarily due to higher than anticipated building permit fee revenue.

The 2010 budget for land sale proceeds was based on the 2009 activity and also proceeds from previous years that had not yet been allocated. In 2010, the City received proceeds from the sale of the following lands:

▪ Road Exchanges	\$ 1.0 M
▪ JT Brown Park Land Exchange	\$ 1.2 M
▪ Other sundry sales	<u>\$ 0.4 M</u>
<b>Total</b>	<b><u>\$ 2.6 M</u></b>

All of the proceeds from the land sales have been included in the 2011 Five Year Financial Plan that was adopted by Council in December 2010.

### Expenses

8. Fire and Police Protection: The variance (\$128,000) is the result of an increase in the RCMP contract expenses (\$950,000), as new members arrived sooner than anticipated. This was off-set by one-time salary savings in both the Police and Fire Services as well as operational efficiencies in Fire Services.
9. Water, Sewer & Drainage: Lower than anticipated expenditures in this area are mainly due to lower than anticipated water purchases from the GVWD and minor savings in maintenance expenses in all three areas.
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 allocated as capital costs, and increased costs due to increased participation rates in community recreation centres. These expenditure increases have been offset by complementary increases in donations/sponsorship revenue and increased participation revenues at community centres.
11. General Government: This line includes the following elements:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
▪ Mayor, Council, Grants & Initiatives	\$ 6.6 M	\$ 6.7 M	\$ (0.1)M
▪ City Manager (Leg Serv., Legal, Bylaws, Econ Dev)	\$ 11.4 M	\$ 11.3 M	\$ 0.1 M
▪ Finance & Technology	\$ 16.6 M	\$ 18.6 M	\$ (2.0)M
▪ Human Resources	\$ 2.8 M	\$ 2.7 M	\$ 0.1 M
▪ Other (Charge to Utilities, fiscal services, asset disposal & contingency)	<u>\$ (0.6)M</u>	<u>\$ 9.6 M</u>	<u>\$ 10.2 M</u>
<b>Total</b>	<b><u>\$36.8 M</u></b>	<b><u>\$48.9 M</u></b>	<b><u>\$ 8.3 M</u></b>

The variance related to the Finance & Technology Department budget is a result of an increase in the payment by the City of third party claims that have been off-set by funding from the City's self insurance reserve (\$2.5 million). The variance in the line titled "Other" is the result of asset replacement, driven by growth, which has not been fully amortized.

12. Public Works: This variance is the result of savings in winter maintenance expense and one-time departmental savings.

13. Environment and Health: Expenditures decreased as a result of lower than anticipated charges from the City's waste collection contractor.
14. Planning and Development: The expenditures in excess of budget are the result of an increase in consulting services to support the "Town Shift" competition, Newton Town Centre planning and the Grandview Neighbourhood Concept Plan. These expenses are offset by an increase in revenues in other activity areas of the Planning and Development Department.
15. Library Services: The savings in Library are minor in nature and the result of timing in the payment for materials.
16. Amortization: This expense was included on the financial statements in 2009 in accordance with the PSAB requirements and represents the annual consumption/depreciation of City capital assets/infrastructure. The City did not show a budget amount in 2010 directly related to "Amortization" but rather included asset replacement as an element of its capital budget, which is captured under the line "contributions to capital expenditures" (line 19). Amortization will be included in the 2011 budget with a view to making it clear that the City is managing and budgeting for the replacement of its capital assets over time. The amortization amount documented in this line is the sum of the following amounts that are segregated by asset type:

	<b>2010</b>	<b>2009</b>
Land Improvements	3,424,988	3,312,319
Building	6,459,857	7,024,554
Infrastructure	59,754,130	55,816,151
Equipment	11,458,475	8,706,206
	<b>\$ 81,097,450</b>	<b>\$ 74,859,232</b>

17. Interest, Bank Charges, Fiscal Services and Other: The variance from budget for this item related to the City having paid lower interest rates on prepaid property taxes.
18. Excess Revenues 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 directly as the City has included such funding as part of its capital program to deal with infrastructure requirements. In accordance with PSAB reporting requirements, the published financial statements will use the term "Annual Surplus" to describe this item.
19. Contribution (to) capital expenditures: As noted in the comments related to line 18, funding used to support capital expenditures is now included in the line titled "Excess revenues over expenses" in the financial statements. In 2011, capital expenditures totalled \$282 million, being funded by developer contributions (\$132 million), DCC's (\$57 million), federal/provincial contributions (\$38 million), general contributions (\$46 million) and other reserve funds (\$9 million).

20. Contribution (to)/from reserves: This line represents the reduction to equity resulting from annual amortization (\$81 million) of assets along with a small contribution from DCC's for the planning aspects of capital projects that are no longer accounted for in the capital program (\$3 million).
21. Equity, beginning of year: This item represents all City equity (monetary, property, other assets and infrastructure). This item is in essence the City's net worth, which includes value of capital assets, net of amortization, and both committed and uncommitted reserve funds at the beginning of 2010. It reflects the balance under the "Accumulated Surplus" line of the City's 2009 financial statements.
22. Equity, End of Year: This item includes all City equity (monetary, property, other assets and infrastructure) and is, in essence, the City's net worth at the end of 2010, including the value of capital assets, net of amortization, and both committed and uncommitted reserve funds. Details of this balance can be found in *Appendix B*. In accordance with PSAB reporting requirements, the published financial statements will use the term "Accumulated Surplus" to describe this item.

### **Recent Changes to the Financial Statements**

In accordance with Generally Accepted Accounting Principles, new standards as defined within the Public Sector Accounting (PSA) Handbook were incorporated into the 2009 financial statements and are being maintained within the 2010 financial statements. These include:

#### **Tangible Capital Assets**

Section PS 3150 of the PSA Handbook requires the City to record Tangible Capital Assets at cost less the depreciated value of their useful life. This standard was fully implemented in 2009.

Staff has continued to capture the acquisition costs of the various capital assets that are held by the City and have calculated the depreciated value of each asset. Some further refinements to processes have taken place in 2010 as a result of the identification of historical assets that were not previously included in the capital inventory.

#### **Financial Statement Presentation**

The 2009 financial statements were restated to include the value of the historical assets that were identified in 2010, resulting in an increase in the value of the tangible capital assets as presented on the financial statements.

#### **Post-Retirement Benefits**

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 City 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 currently funded portion of the liability is more than adequate to protect the City against unexpected expenditures in this area. The unfunded portion of this liability therefore remains at \$7.0 Million for 2010. This will continue to be reviewed on an annual basis.

### **Future Reporting Requirements**

To ensure the City is prepared for future changes to the financial statement as may be mandated by the Public Sector Accounting Board (PSAB), staff monitors the work of PSAB. The following sections provide a brief description of each of several areas that will affect the City's financial reports in the future.

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

The Public Sector Accounting Board (PSAB) has approved changes to Public Accounting Standards that 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 a "government not-for-profit organization" or an "other government organization". Other government organizations will have the choice to adopt IFRS as their reporting standard or to prepare their financial statements in accordance with Public Sector Accounting Standards (PSAB). The City has three controlled government organizations which are consolidated into the City's accounts – the Surrey Public Library (SPL), the Surrey Homelessness & Housing Society (SHHS) 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 commercial-type organization and has been reporting under Canadian Generally Accepted Accounting Principles (GAAP) 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.

SHHS is classified as a government not-for-profit organization and is following Canadian GAAP for not-for-profit organizations. Recently PSAB released a paper 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

Section PS 3410 of the PSA Handbook requires the City to record "Government Transfers" as revenue in the period that the transfer is authorized by the transferring government and the grant eligibility criteria has been met. This standard becomes effective for years commencing on or after April 1, 2012 although, early adoption is encouraged. Examples of government transfers that are currently received include: the provincial Traffic Fine Revenue Sharing grant, the provincial Library grant, the provincial Victims Services grant and Capital Infrastructure grants from other orders of government.

Staff anticipates that this new standard will have minimal impact; however, the new standard will be applied for the 2012 calendar year.

### Liability for Contaminated Sites

Section PS 3260 of the PSA Handbook has been amended to require the City to recognize a liability when the City is responsible for, or accepts responsibility for environmental contamination on a site and the contamination exceeds prescribed environmental limits. The amount recorded as a liability must be a reasonable estimate of the costs of remediation and post-remediation activities. This provision becomes effective January 1, 2014, although early adoption is encouraged. The City has contaminated sites in its inventory of land.

Staff is currently working on completing an inventory of contaminated sites and defining the City's responsibility with respect to remediation.

### Financial Instruments and Foreign Currency Translation

The PSA Handbook currently does not address Financial Instruments. PSAB has issued drafts for a new standard on financial instruments and a revised standard on foreign currency exchange. These new standards give governments the option to record any financial instrument at fair value and restrict governments from hedge accounting. These new standards are expected to be approved in the second quarter of 2011. Staff does not anticipate any impact from these new standards on the City's financial statements.

### **General Comment**

The City continues to maintain a strong financial position. 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 2011 through the Quarterly Financial Reporting process.

### **Auditors Comments**

KPMG has indicated that they are satisfied that the City's financial statements have been fairly stated in all material respects. The audit included 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 followed up on a few issues that were identified in 2009 and found that while management has taken action on these items, full resolution will be implemented in 2011. 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 the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants (CICA). The City maintains a system of internal controls to safeguard City assets and to provide reliable financial information. The attached statements will be included in the 2010 City of Surrey Annual Financial Report that will be published over the next few weeks and be distributed to Council by the end of June 2010. The City's current reserve balances and commitments have been summarized in *Appendix B* to further detail the City's financial position.

Vivienne Wilke, CGA  
General Manager,  
Finance & Technology

Appendix A – 2010 City of Surrey Financial Statements  
Appendix B – Reserve Balance Summary

**City of Surrey**  
**Consolidated Statement of Financial Position**

Appendix A-1

*As at December 31, 2010, with comparative figures for 2009  
(in thousands of dollars)*

	2010	2009
		<i>(Restated, note 2)</i>
<b>FINANCIAL ASSETS</b>		
Cash and cash equivalents	\$ 24,226	\$ 15,716
Accounts receivable (note 3)	133,891	99,914
Investments (note 4)	619,739	675,107
	<u>777,856</u>	<u>790,737</u>
<b>FINANCIAL LIABILITIES</b>		
Accounts payable and accrued liabilities (note 5)	107,414	93,172
Deposits and prepayments (note 6)	129,397	116,339
Deferred revenue (note 7)	34,780	35,527
Deferred development cost charges (note 8)	184,404	185,205
	<u>455,995</u>	<u>430,243</u>
<b>NET FINANCIAL ASSETS</b>	<b>321,861</b>	360,494
<b>NON-FINANCIAL ASSETS</b>		
Tangible capital assets (note 10)	7,018,349	6,781,156
Inventories of supplies	1,002	1,123
Prepaid expenses	1,495	1,940
	<u>7,020,846</u>	<u>6,784,219</u>
<b>ACCUMULATED SURPLUS (note 11)</b>	<b>\$ 7,342,707</b>	<b>\$ 7,144,713</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, 2010, with comparative figures for 2009  
(in thousands of dollars)*

	2010 <i>Budget</i> <i>(unaudited</i> <i>notes 1 and 21)</i>	2010	2009 <i>(Restated, note 2)</i>
<b>REVENUES</b>			
Taxation for City purposes (note 14)	\$ 246,130	\$ 244,552	\$ 229,461
Sales of goods and services	137,305	152,822	130,455
Development cost charges (note 8)	82,378	56,899	63,856
Developer contributions	59,004	142,150	147,916
Investment income	31,663	21,940	23,736
Transfers from other governments (note 20)	31,785	45,320	19,467
Other	33,096	35,403	38,154
	<u>621,361</u>	<u>699,086</u>	<u>653,045</u>
<b>EXPENSES</b>			
Fire and police protection	143,198	145,521	138,273
Water, sewer and drainage	90,930	119,654	120,829
Parks, recreation and culture	52,502	81,134	64,720
General government	37,971	57,651	35,724
Public works	20,551	43,315	46,931
Environment and health	23,279	21,821	21,020
Planning and development	17,998	18,144	17,567
Library services	11,750	13,852	13,370
	<u>398,179</u>	<u>501,092</u>	<u>458,434</u>
<b>Annual Surplus</b>	223,182	197,994	194,611
<b>Accumulated Surplus, beginning of year</b>	<u>7,144,713</u>	<u>7,144,713</u>	<u>6,950,102</u>
<b>Accumulated Surplus, end of year</b>	<u>\$ 7,367,895</u>	<u>\$ 7,342,707</u>	<u>\$ 7,144,713</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, 2010, with comparative figures for 2009  
(in thousands of dollars)*

	<i>Budget</i>	<i>2010</i>	<i>2009</i>
	<i>(unaudited notes 1 and 21)</i>		<i>(Restated, note 2)</i>
<b>ANNUAL SURPLUS</b>	\$ 223,182	\$ 197,994	\$ 194,611
Acquisition of tangible capital assets		(343,830)	(284,531)
Amortization of tangible capital assets	-	81,097	76,427
Loss on disposal of tangible capital assets	-	25,370	2,003
Proceeds on disposal of tangible capital assets	-	170	69
Write-downs of tangible capital assets	-	-	-
	<u>223,182</u>	<u>(39,199)</u>	<u>(11,421)</u>
Acquisition of inventories of supplies	-	(1,002)	(1,123)
Consumption of inventories of supplies	-	1,123	1,136
Acquisition of prepaid expenses	-	(1,495)	(1,940)
Use of prepaid expenses	-	1,940	611
	-	<u>566</u>	<u>(1,316)</u>
<b>Change in net financial assets</b>	<b>223,182</b>	<b>(38,633)</b>	<b>(12,737)</b>
Net financial assets, beginning of year	360,494	360,494	373,231
<b>Net financial assets, end of year</b>	<b>\$ 583,676</b>	<b>\$ 321,861</b>	<b>\$ 360,494</b>

**City of Surrey**  
**Consolidated Statement of Cash Flows**

Appendix A-4

*For the year ended December 31, 2010, with comparative figures for 2009  
(in thousands of dollars)*

	2010	2009
		<i>(Restated, note 2)</i>
<b>Cash provided by (used in):</b>		
<b>OPERATING TRANSACTIONS</b>		
Annual surplus	\$ 197,994	\$ 194,611
Non-cash charges to operations		
Amortization expense	81,097	76,427
Loss on disposal of tangible capital assets	25,370	2,003
Developer contributions of tangible capital assets	(111,680)	(118,140)
Change in non-cash operating working capital		
Accounts receivable	(33,977)	19,955
Inventories of supplies	121	13
Prepaid expenses	445	(1,329)
Accounts payable and accrued liabilities	14,242	(10,984)
Deposits and prepayments	13,058	4,582
Deferred revenue	(747)	(5,412)
Deferred development cost charges	(801)	(39,264)
<b>Net change in cash from operating transactions</b>	<b>185,122</b>	<b>122,462</b>
<b>CAPITAL TRANSACTIONS</b>		
Cash used to acquire tangible capital assets	(232,150)	(166,391) <sup>N</sup>
Proceeds on disposal of tangible capital assets	170	69
<b>Net change in cash from capital transactions</b>	<b>(231,980)</b>	<b>(166,322)</b>
<b>INVESTING TRANSACTIONS</b>		
Increase in investments	55,368	1,999
<b>Increase (decrease) in cash and cash equivalents</b>	<b>8,510</b>	<b>(41,861)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>15,716</b>	<b>57,577</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 24,226</b>	<b>\$ 15,716</b>

*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*

*(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, infrastructure, environmental, recreational, water and sewer services.

### **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 they are considered to be controlled by the City by virtue of their Board being appointed by the City. SCDC is considered to be an “other government organization” and is consolidated as it is wholly owned by the City. Inter-fund transactions, fund balances and activities are not shown on consolidation.

The Library Services activities are maintained in separate operating and capital funds. The SCDC and SHHS operations are included in the other entities fund.

#### **i) 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.

#### **ii) Capital Funds:**

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

#### **iii) 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 for purposes for which it was established, City Council may, by bylaw, transfer all or part of the amount to another reserve fund.

## Notes to the Consolidated Financial Statements

For the year ended December 31

(tabular amounts in thousands of dollars)

### 1. Significant accounting policies (continued):

(a) Basis of consolidation (continued):

iv) 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.

(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 is accrued as the obligation is incurred.

(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) Investments

Investments consist of demand deposits, short term investments, 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 on a straight line basis.



## Notes to the Consolidated Financial Statements

For the year ended December 31

(tabular amounts in thousands of dollars)

### 1. Significant accounting policies (continued):

#### (g) 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 benefit plans are accrued based on projected benefits pro-rated as employees render services necessary to earn the future benefits. The liability for any event-driven benefit is calculated after the event occurs.

#### (h) Budget data

The unaudited budget data presented in these consolidated financial statements was included in the City of Surrey 2010 – 2014 Consolidated Financial Plan and was adopted through By-law #17049 on December 14, 2009.

#### (i) 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 commencing on the date the asset is acquired or available for use. 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 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 and the related asset and obligation are recorded on the statement of financial position. 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.

#### (j) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Significant estimates include assumptions used in estimating contributed capital assets, developer contributions, useful life for amortization, provisions for accrued liabilities and in performing actuarial valuations of employee future benefits.

Actual results could differ from these estimates.

#### (k) 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 (note 1 (a)) 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. Restatement of 2009 comparative figures

During the year, the City determined that certain tangible capital assets were omitted and should be added to the 2009 asset registers.

The 2009 comparative figures have been restated for these items. The effects of the restatement on the 2009 comparative figures are summarized below in thousands of dollars:

#### Accumulated surplus at January 1, 2009;

Accumulated surplus, as previously reported	\$ 6,901,378
Net book value of tangible capital assets not previously recorded	48,724
<u>Accumulated surplus, as restated</u>	<u>\$ 6,950,102</u>

#### Annual surplus for 2009:

Annual surplus, as previously reported	\$ 133,411
Developer contribution of tangible capital assets not previously recorded	60,348
Assets capitalized but previously expensed	2,697
Amortization expense on tangible capital assets not previously recorded	(1,845)
<u>Annual surplus, as restated</u>	<u>\$ 194,611</u>

#### Tangible capital assets, December 31, 2009:

Tangible capital assets, as previously reported	\$ 6,671,232
Adjustment for net book value	110,239
<u>Tangible capital assets, as restated</u>	<u>\$ 6,781,471</u>

### 3. Accounts Receivable

	<u>2010</u>	<u>2009</u>
Property taxes	\$ 18,112	\$ 17,100
Utility rates	9,813	4,046
General accounts receivable	72,536	52,234
Due from other authorities	5,027	2,442
Development cost charges	27,956	23,827
Tax sale properties	447	265
	<u>\$ 133,891</u>	<u>\$ 99,914</u>

## Notes to the Consolidated Financial Statements

For the year ended December 31

(tabular amounts in thousands of dollars)

### 4. Investments

	<u>2010</u>	<u>2009</u>
Investments maturing within one year	\$ 241,173	\$ 190,304
Investments maturing within two years	81,751	149,799
Investments maturing from three to seven years	296,815	335,004
	<u>\$ 619,739</u>	<u>\$ 675,107</u>

Average portfolio yield 3.92% (2009 - 4.37%). All investments can be liquidated on demand, and may have associated penalties on liquidation.

### 5. Accounts Payable and Accrued Liabilities

	<u>2010</u>	<u>2009</u>
Trade accounts payable	\$ 42,003	\$ 34,489
Due to Federal Government	22,550	22,251
Post employment benefits (note 9)	18,680	16,813
Contractors' holdbacks	10,052	7,146
Due to Regional Districts	8,758	6,895
Due to Province of British Columbia	3,951	4,391
Due to other authorities	1,420	1,187
	<u>\$ 107,414</u>	<u>\$ 93,172</u>

### 6. Deposits and Prepayments

	<u>2010</u>	<u>2009</u>
Deposits		
Future works	\$ 28,383	\$ 27,338
Planning and permits	26,815	22,720
Engineering	21,642	16,527
Capital deposits	13,624	13,801
Pavement cuts	3,500	3,084
Boulevard trees	2,703	3,098
Latecomer	542	407
Developer works agreement	514	165
Amenities	252	234
Other deposits	1,087	501
Total deposits	<u>\$ 99,062</u>	<u>\$ 87,875</u>
Prepays		
Taxes	26,891	\$ 23,651
Utilities	2,074	2,525
Tax sale private purchase payment	1,368	2,076
Other prepaids	2	212
Total prepaids	<u>30,335</u>	<u>28,464</u>
Total deposits and prepaids	<u>\$ 129,397</u>	<u>\$ 116,339</u>

## Notes to the Consolidated Financial Statements

For the year ended December 31

(tabular amounts in thousands of dollars)

### 7. Deferred Revenue

	<u>2010</u>	<u>2009</u>
Neighbourhood Concept Plans	\$ 19,460	\$ 21,203
Development/Building Permits	13,822	12,749
Other	1,498	1,575
	<u>\$ 34,780</u>	<u>\$ 35,527</u>

### 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 on specified projects. 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>2010</u>	<u>2009</u>
Deferred DCC's:		
Drainage/storm water detention	\$ 29,375	\$ 26,441
Arterial roads	57,749	48,548
Collector roads	13,372	12,334
Parkland	56,843	72,429
Water	10,104	8,807
Sanitary sewer	16,961	16,646
	<u>\$ 184,404</u>	<u>\$ 185,205</u>
Deferred DCC's, beginning of year	\$ 185,205	\$ 224,469
DCC's levied for the year	50,891	19,107
Investment income	5,207	5,485
Total DCC's deferred	<u>56,098</u>	<u>24,592</u>
Revenue Recognized for General Capital	(45,701)	(53,458)
Revenue Recognized for Water Capital	(2,652)	(4,479)
Revenue Recognized for Sewer and Drainage Capital	(8,546)	(5,919)
Total DCC's recognized as revenue	<u>(56,899)</u>	<u>(63,856)</u>
Net decrease for the year	(801)	(39,264)
Deferred DCC's, end of year	<u>\$ 184,404</u>	<u>\$ 185,205</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, dismemberment insurance, vacation deferral, supplementary vacation and benefit continuation for disabled employees. The liability associated with these benefits is calculated based on the present value of expected future payments pro-rated for services, and is included in accounts payable and accrued liabilities.

	<u>2010</u>	<u>2009</u>
<b>Accrued benefit liability:</b>		
Balance, beginning of year	\$ 16,813	\$ 16,055
Current service cost	1,942	1,009
Interest cost	953	830
Amortization of actuarial loss	190	-
Benefits paid	<u>(1,216)</u>	<u>(1,081)</u>
Balance, end of year	<u>\$ 18,680</u>	<u>\$ 16,813</u>

An actuarial valuation for these benefits was performed to determine the City's accrued benefit obligation as at December 31, 2010. The difference between the actuarially determined accrued benefit obligation of \$23.7 million and the accrued benefit liability of \$18.7 million as at December 31, 2010 is an unamortized actuarial loss of \$5 million. The actuarial loss is amortized over a period equal to the employees' average remaining service lifetime of 11 years. This loss is the result of a correction to dental premiums and declining inflation and discount rates.

	<u>2010</u>	<u>2009</u>
<b>Actuarial benefit obligation:</b>		
Liability, end of year	\$ 18,680	\$ 16,813
Unamortized actuarial loss		1,815
Balance, end of year	<u>\$ 23,730</u>	<u>\$ 18,628</u>

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

	<u>2010</u>	<u>2009</u>
Discount rate	4.50%	5.00%
Expected future inflation rate	2.00%	2.00%
Expected wage and salary inflation	2.50%	3.00%
Expected wage and salary range increases	0.50%	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, 2009 (Restated)	Additions	Disposals / WIP Allocations	Balance at December 31, 2010
<b>Land and land improvements</b>	\$ 1,598,974	\$ 81,919	\$ 20,166	\$ 1,660,727
<b>Buildings</b>	230,095	17,515	140	247,470
<b>Infrastructure</b>	3,625,796	148,973	3,242	3,771,527
<b>Machinery and equipment</b>	111,824	25,023	11,047	125,800
<b>Road Allowance</b>	2,351,220	41,715	475	2,392,460
<b>Work-in-Progress</b>	163,872	343,511	314,830	192,554
<b>Total</b>	<b>\$ 8,081,782</b>	<b>\$ 658,656</b>	<b>\$ 349,900</b>	<b>\$ 8,390,538</b>

Accumulated Amortization	Balance at December 31, 2009 (Restated)	Amortization	Accumulated Amortization on Disposals	Balance at December 31, 2010
<b>Land and land improvements</b>	\$ 56,068	\$ 3,425	\$ 934	\$ 58,559
<b>Buildings</b>	136,429	6,460	139	142,750
<b>Infrastructure</b>	1,046,949	59,754	2,313	1,104,390
<b>Machinery and equipment</b>	61,180	11,458	6,148	66,490
<b>Total</b>	<b>\$ 1,300,626</b>	<b>\$ 81,097</b>	<b>\$ 9,534</b>	<b>\$ 1,372,189</b>

	Net Book Value December 31, 2009 (Restated)		Net Book Value December 31, 2010
<b>Land and land improvements</b>	\$ 1,542,906		\$ 1,602,168
<b>Buildings</b>	93,666		104,720
<b>Infrastructure</b>	2,578,847		2,667,137
<b>Machinery and equipment</b>	50,644		59,310
<b>Road Allowance</b>	2,351,220		2,392,460
<b>Work-in-Progress</b>	163,873		192,554
<b>Total</b>	<b>\$ 6,781,156</b>		<b>\$ 7,018,349</b>

## Notes to the Consolidated Financial Statements

*For the year ended December 31*

*(tabular amounts in thousands of dollars)*

### 10. Tangible Capital Assets (continued)

#### a) Work-in-progress

Work-in-progress having a value of \$192.6 million (2009 - \$163.9 million) has not been amortized. Amortization of these assets will commence when each specific asset is put into service.

#### b) Contributed Tangible Capital Assets (restated note 2)

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 \$111.7 million (2009 - \$118.1 million) comprised of roads infrastructure in the amount of \$63.5 million (2009 - \$78.8 million), water and wastewater infrastructure in the amount of \$44.7 million (2009 - \$33.5 million) and land and land improvements in the amount of \$3.5 million (2009 - \$5.8 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

There were no write downs of tangible capital assets during the year (2009 \$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. Operating surplus for the City is as follows:

	2010	2009
<b>Accumulated Surplus per Statement of Financial Position</b>	7,342,707	7,144,713
Less:		
<b>Invested in Tangible Capital Assets</b>	7,018,349	6,781,156
<b>Reserves set aside by Council</b>		
Equipment and Building Replacement	40,268	42,556
Capital Legacy	30,424	32,820
Local Improvement Financing	13,847	13,178
Municipal Land	7,626	36,754
Environmental Stewardship	6,908	6,740
Park Land Acquisition	5,027	2,080
Water Claims	1,226	1,188
Parking Space	1,174	1,138
Affordable Housing	5	122
	<u>106,505</u>	<u>136,576</u>
<b>Restricted Reserves</b>		
Infrastructure Replacement	53,830	38,901
Self Insurance	18,554	23,096
Revenue Stabilization	9,124	11,645
Operating Emergencies	7,042	6,762
Environmental Emergencies	5,206	4,782
Prepaid Expenses	1,495	1,940
Inventories of Supplies	1,002	1,123
Work in Progress	114,785	129,913
	<u>211,038</u>	<u>218,162</u>
<b>Other Entities</b>		
Surrey City Development Corporation	(13,229)	(11,170)
Surrey Homelessness and Housing Society	8,847	8,784
	<u>(4,382)</u>	<u>(2,386)</u>
<b>Total Restricted Funds</b>	<u>7,331,510</u>	<u>7,133,508</u>
<b>Unappropriated Surplus</b>	<u>11,197</u>	<u>11,205</u>

## 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. 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 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 25 Class “A” and 24 Class “B” shares issued and outstanding as at December 31, 2010). 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 the YMCA of Greater Vancouver for the joint development of a 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 amounts 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 are defined. The Plan has about 163,000 active members, approximately 60,000 retired members and 30,000 inactive members. Active members include approximately 35,000 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, 2009 indicated an unfunded liability of \$1,024 million for basic pension benefits. The next valuation will be as at December 31, 2012 with results expected to be available in 2013. The actuary does not attribute portions of the surplus to individual employers. The City paid \$11.8 million for employer's contributions to the Plan in Fiscal 2010 (2009 - \$11.4 million) and employees contributed \$9.2 million to the Plan in Fiscal 2010 (2009 - \$8.9 million).

### 14. Taxation revenue

	2010	2009
Tax collected:		
Property taxes	\$ 208,300	\$ 194,236
Collections for other authorities	234,216	225,683
Sewer frontage taxes	23,359	22,915
Grants-in-lieu of taxes	12,583	11,996
Other	293	314
	<u>478,751</u>	<u>455,144</u>
Less transfers to other governments:		
Province of BC - School Taxes	177,047	173,699
Greater Vancouver Regional District	10,198	7,313
BC Assessment Authority	5,777	5,596
Greater Vancouver Transportation Authority	38,129	37,057
Other	3,048	2,018
	<u>234,199</u>	<u>225,683</u>
<b>Taxation revenue</b>	<b>\$ 244,552</b>	<b>\$ 229,461</b>

## Notes to the Consolidated Financial Statements

For the year ended December 31

(tabular amounts in thousands of dollars)

### 15. Significant Taxpayers

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

### 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:

<b>Assets</b>			<u>2010</u>	<u>2009</u>
Cash and short term investments			<u>\$ 2,683</u>	<u>\$ 2,535</u>
<b>Equity</b>	Employee	Cemetery		
	Benefits	Perpetual		
	Fund	Care	<u>2010</u>	<u>2009</u>
		Fund		
Balance, beginning of year	\$ 626	\$ 1,909	\$ 2,535	\$ 2,287
Contributions	-	71	71	154
Interest revenue	20	60	80	91
Employment insurance rebate	84	-	84	84
Benefits purchased	(28)	-	(28)	(27)
Refunded to employees	(59)	-	(59)	(54)
Balance, end of year	<u>\$ 643</u>	<u>\$ 2,040</u>	<u>\$ 2,683</u>	<u>\$ 2,535</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; manage the disbursements of grants for projects and programs that address homelessness in Surrey and act to raise funds for these purposes. 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 within the City's financial statements.

## Notes to the Consolidated Financial Statements

For the year ended December 31

(tabular amounts in thousands of dollars)

### 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 to sustain operations at this time. As a result, the Corporation's financial information is fully consolidated within the City's financial statements.

### 19. Segmented Information

The City of Surrey is a diversified municipal government institution that provides a wide range of services to the citizens of Surrey, including 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 Area. Service Areas were created for the purpose of recording specific activities and related objectives in accordance with legislated requirements.

City Departments and the activities for which they are responsible are reported in these Service Areas. The Departments listed in the Segmented Information, along with the services that each Department provides are listed below:

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

The mandate of the Police Department includes enforcing laws, preventing crime, and maintaining peace, order, and security. The mandate of the Fire Department is to enforce codes and maintain security by protecting life, property and the environment through the provision of emergency response services. These Departments assist in ensuring "Safe Homes and Safe Communities."

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

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

#### *General Government Services – Mayor & Councillor's Department, City Manager's Department, Finance & Technology Department, Human Resources Department, Surrey City Development Corporation and Surrey Homelessness and Housing Society.*

General Government Services includes those elements of the organization with responsibility for adopting by-laws, adopting administrative policy, levying taxes, acquiring, disposing and managing City assets, ensuring effective financial management, monitoring performance and ensuring that high quality City service standards are met.

General Government Services also includes the Surrey City Development Corporation, which engages in the provision of consulting services, land development activities, property acquisition/disposal and asset management.

## Notes to the Consolidated Financial Statements

*For the year ended December 31*

*(tabular amounts in thousands of dollars)*

General Government Services also includes the Surrey Homelessness and Housing Society, which is focused on addressing homelessness in Surrey through raising funds and the provision of grants to worthy projects.

### 19. Segmented Information (continued):

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

The Engineering Department is responsible for the 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 land and building development.

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

The Water, Sewer and Drainage Utilities operate the water system to distribute water, operate the network of sewer mains to collect sewage and convey such sewage to treatment plants and to operate the network of storm sewers and pump stations for stormwater management.

*Surrey Public Library Services*

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

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2010, with c  
(tabular amounts in thousands of dollars)

	General Government	Planning and Development	Protection Services	Parks, Recreation and Culture	Solid Waste Management	Public Works	Water, Sewer & Drainage	Library Services	Consolidated 2010	Consolidated 2009
<b>REVENUES</b>										
Taxation, grants-in-lieu, assessments	\$ 449,299	\$ -	\$ -	\$ -	\$ -	\$ 5,808	\$ 23,644	\$ -	\$ 478,751	\$ 455,143
Collections for other authorities	(234,199)	-	-	-	-	-	-	-	(234,199)	(225,682)
Taxation for City purposes	215,100	-	-	-	-	5,808	23,644	-	244,552	229,461
Sales of goods and services	5,097	2,072	2,314	18,215	25,378	3,195	96,378	173	152,822	130,455
Development cost charges	56,899	-	-	-	-	-	-	-	56,899	63,856
Developer contributions	12,542	-	-	201	-	81,551	47,857	-	142,151	147,916
Investment income	17,647	-	-	-	-	-	4,293	-	21,940	23,736
Transfers from other governments	25,206	-	2,731	607	-	9,435	6,419	922	45,320	19,467
Other	15,013	14,835	52	1,932	88	1,876	1,096	510	35,402	38,154
	<b>347,504</b>	<b>16,907</b>	<b>5,097</b>	<b>20,955</b>	<b>25,466</b>	<b>101,865</b>	<b>179,687</b>	<b>1,605</b>	<b>699,086</b>	<b>653,045</b>
<b>EXPENSES</b>										
Salaries and benefits	23,954	15,377	60,199	32,252	-	31,601	-	9,505	172,888	159,495
Consulting and professional services	2,246	869	245	7,572	332	1,823	2,841	88	16,016	13,174
RCMP contracted services	-	-	77,869	-	-	-	-	-	77,869	73,552
Telephone and communications	807	46	1,538	313	5	253	56	34	3,052	3,115
Regional district utility charges	-	-	-	-	2	3,383	1,728	238	8,720	8,257
Utilities	13	274	622	2,460	16,957	24	1	8	17,115	18,310
Garbage collection and disposal	-	8	25	92	-	-	221	73	14,016	7,616
Maintenance & Small Equipment	5,816	1,728	189	5,989	-	-	-	-	5,349	2,286
Insurance and claims	5,359	-	8	1	-	-	1	-	3,503	2,935
Leases and rentals	316	7	610	1,425	9	750	254	132	21,801	25,293
Supplies and materials	2,041	1,041	1,885	6,447	703	6,379	2,933	372	21,801	25,293
Advertising and media	286	22	11	815	71	29	132	559	1,925	1,366
Grants and sponsorships	1,579	12	2	67	5	-	-	-	1,665	3,213
Sundry	1,544	735	773	4,121	377	4,224	6,605	448	18,827	20,110
Other	10,396	129	333	9,578	3	431	684	28	21,582	3,290
Cost recoveries, net	(5,411)	(2,108)	(983)	(190)	3,362	(29,266)	9,422	248	(24,926)	(18,591)
Debt interest, fiscal services and other	874	-	-	251	-	-	-	5	1,130	1,025
Amortization expense	7,851	4	2,195	9,941	-	23,679	35,315	2,114	81,097	76,427
	<b>57,451</b>	<b>18,144</b>	<b>145,521</b>	<b>81,134</b>	<b>21,821</b>	<b>43,315</b>	<b>119,654</b>	<b>13,852</b>	<b>501,092</b>	<b>458,434</b>
<b>Excess (deficiency) of revenues over expenses</b>	<b>289,853</b>	<b>(1,237)</b>	<b>(140,424)</b>	<b>(60,179)</b>	<b>3,645</b>	<b>58,550</b>	<b>60,033</b>	<b>(12,247)</b>	<b>197,994</b>	<b>194,611</b>
Transfer from (to) operating funds	(28,111)	-	-	-	(2,399)	26,705	3,705	-	-	-
Transfer from (to) reserve funds	(56,108)	(192)	(1,377)	844	-	47,785	9,048	-	-	-
Transfer from (to) capital funds	(5,811)	-	-	-	-	27,573	(21,762)	-	-	-
<b>Annual surplus (deficit)</b>	<b>199,823</b>	<b>(1,429)</b>	<b>(141,801)</b>	<b>(59,335)</b>	<b>1,346</b>	<b>160,613</b>	<b>51,024</b>	<b>(12,247)</b>	<b>197,994</b>	<b>194,611</b>

## Notes to the Consolidated Financial Statements

For the year ended December 31

(tabular amounts in thousands of dollars)

### 20. Transfers from Other Governments

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:

	2010	2009
Revenue:		
B.C. provincial government grants:		
City Centre Library	\$ 9,794	\$ -
Roads	7,817	2,424
Drainage	5,141	346
Casino Revenue Sharing	2,889	2,973
Traffic Fine Revenue Sharing	2,379	9,475
Sewer Replacement	1,278	-
Library Operating	866	888
Newton Gym	736	-
Union of BC Municipalities	348	-
Parks Development	338	1,175
Victim Services	166	170
Arts	90	119
Child Care	88	164
Kwomais Point	41	-
BC One Card	36	126
Resource Sharing	5	8
BCSea Solar BC	3	-
Olympic Torch/Twinning Relationships	-	40
2010 Opportunities	-	25
Subtotal B.C. provincial government grants	<b>32,015</b>	<b>17,933</b>



## Notes to the Consolidated Financial Statements

For the year ended December 31

(tabular amounts in thousands of dollars)

### 20. Government Transfers (continued)

Federal government grants:		
City Centre Library	9,794	-
Roads	1,617	305
Parks Development	829	-
Newton Gym	736	-
Keep of Prisoners	186	212
Cloverdale Arena	42	-
Kwomais Point	41	-
Child Care	30	15
Summer Students	15	15
Urban Aboriginal Strategy	15	14
Cultural Capital Canada	-	897
Multi-Cultural	-	58
Torch Relay	-	15
Heritage Grants	-	3
<b>Subtotal federal government grants</b>	<b>13,305</b>	<b>1,534</b>
<b>Total transfers from other governments revenues</b>	<b>\$ 45,320</b>	<b>\$ 19,467</b>

### 21. Budget Data

The unaudited budget data presented in these consolidated financial statements was included in the City of Surrey 2010 – 2014 Consolidated Financial Plan and was adopted through By-law #17049 on December 14, 2009. Amortization was not contemplated on development of the budget and, as such, has not been included. The following table reconciles the approved budget to the budget figures reported in these consolidated financial statements.

	Budget Amount
Revenues:	
Consolidated budget	\$ 621,361
Expenses:	
Consolidated budget	694,890
Annual deficit per approved budget	(73,529)
Add:	
Capital expenses	296,711
<b>Annual surplus per statement of operations</b>	<b>\$ 223,182</b>

## Notes to the Consolidated Financial Statements

*For the year ended December 31*

*(tabular amounts in thousands of dollars)*

### **22. Comparative figures:**

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

### **23. Subsequent events:**

On April 4, 2011, the City obtained new debt instruments totalling \$100 million through the Municipal Financial Authority, pursuant to security issuing bylaws under the authority of the Community Charter, to finance various projects under the capital program known as “Build Surrey”. The debt instruments bear interest at 4.2 % per annum; payments of principal and interest are made semi-annually over the 25 year term.

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

as at December 31, 2010  
(in thousands of dollars)

	2009	2010	<i>Water, Sewer &amp; Drainage Funds</i>	<i>Committed to 2011 &amp; Prior years</i>	<i>Balance Available for Future Years</i>
<b>Reserve Funds</b>					
Equipment and building replacement	\$ 42,557	\$ 40,268		\$ 20,972	\$ 19,296
Municipal land	36,754	7,626		26,643	(19,017)
Park land acquisition	2,080	5,027		4,294	733
Capital Legacy	32,820	30,424		34,400	(3,976)
Environmental Stewardship	6,740	3,908		292	3,616
Local improvement financing	13,178	13,847		4,500	9,347
Water claims	1,188	1,226	1,226		-
Affordable housing	121	5	3		2
Parking space	1,138	1,174			1,174
	<u>136,576</u>	<u>103,505</u>	<u>1,229</u>	<u>91,101</u>	<u>11,175</u>
Restricted capital reserves	-	-			-
	<u>\$ 136,576</u>	<u>\$ 103,505</u>	<u>\$ 1,229</u>	<u>\$ 91,101</u>	<u>\$ 11,175</u>
<b>Other Entities</b>					
Surrey Public Library	(276)	(324)			(324)
Surrey City Development Corp	(11,170)	(13,229)			(13,229)
Surrey Homelessness & Housing Society	8,785	8,847		8,847	-
	<u>\$ (2,661)</u>	<u>\$ (4,706)</u>	<u>\$ -</u>	<u>\$ 8,847</u>	<u>\$ (13,553)</u>
<b>Unappropriated Surplus</b>					
General operating fund	\$ 12,480	\$ 17,630		\$ 3,951	\$ 13,679
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>\$ 11,482</u>	<u>\$ 16,632</u>	<u>\$ 6,000</u>	<u>\$ 3,951</u>	<u>\$ 6,681</u>
<b>Appropriated Surplus</b>					
Operating contingency and emergencies	\$ 6,762	\$ 7,041	\$ 3,000		\$ 4,041
Environmental emergencies	4,783	5,206	1,792		3,414
Revenue stabilization	11,645	9,124	5,842		3,282
Self insurance	23,094	18,551	10,063		8,488
Infrastructure replacement	32,529	53,829	52,290		1,539
	<u>\$ 85,186</u>	<u>\$ 93,751</u>	<u>\$ 72,987</u>	<u>\$ -</u>	<u>\$ 20,764</u>

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

*as at December 31, 2010  
(in thousands of dollars)*

	<i>2009</i>	<i>2010</i>	<i>Water, Sewer &amp; Drainage Funds</i>	<i>Committed to 2011 &amp; Prior years</i>	<i>Balance Available for Future Years</i>
<b>Committed Funds</b>					
General operating and capital	\$ 65,727	\$ 40,584		\$ 40,584	\$ -
Inventories of supplies	1,123	1,002	516	486	-
Library Services	466	578		578	-
Prepaid expenses	1,940	1,495		1,495	-
Sewer & Drainage operating and capital	32,212	34,462	34,462		-
Water operating and capital	31,508	33,731	33,731		-
	<u>\$ 132,976</u>	<u>\$ 111,852</u>	<u>\$ 68,709</u>	<u>\$ 43,143</u>	<u>\$ -</u>
<b>Deferred Developer Contributions (Net)</b>					
Drainage/Storm Water Detention	\$ 24,280	\$ 27,281	\$ 27,281		\$ -
Arterial Roads	39,742	47,439		47,439	-
Collector Roads	10,198	11,041		11,041	-
Parkland	56,648	40,583		27,526	13,057
Park Development	5,455	3,771		3,771	-
Water	7,115	8,227	8,227		-
Sanitary Sewer	15,567	15,383	15,383		-
Campbell Heights	3,872	3,913		3,913	-
Neighbourhood Concept Plans	21,203	19,461		16,217	3,244
	<u>\$ 184,080</u>	<u>\$ 177,099</u>	<u>\$ 50,891</u>	<u>\$ 109,907</u>	<u>\$ 16,301</u>
<b>Total</b>	<u><u>\$ 549,648</u></u>	<u><u>\$ 500,143</u></u>	<u><u>\$ 199,816</u></u>	<u><u>\$ 256,949</u></u>	<u><u>\$ 41,368</u></u>