

NO: **A001**

COUNCIL DATE: **April 22, 2013**

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## AUDIT COMMITTEE

TO: **Audit Committee**

DATE: **April 15, 2013**

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

FILE: **1880-20**

SUBJECT: **2012 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 forward this report to City Council as part of 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 2012 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, 2012 for the City of Surrey are attached to this report as **Appendix A**. These will be included in the City's 2012 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 2012 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, 2012 and the results of its operations for the year 2012.

### **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 Operations, that follows has been reclassified to remove the amortization expense from each functional area to better compare expenses to budget.

NOTE	<i>for the year ended December 31, 2012</i> <i>(in thousands of dollars)</i>	<i>2012</i> <i>Budget</i>	<b>2012</b> <b>Actuals</b>	2011 Actuals
<b>REVENUES</b>				
1	Taxation revenue	\$ 276,323	\$ 274,001	\$ 259,526
2	Sales of goods and services	167,450	171,352	159,469
3	Development cost charges	83,317	36,405	57,045
4	Developer contributions	130,557	103,399	81,914
5	Investment income	18,232	19,410	20,890
6	Transfers from other governments	17,128	55,424	34,695
7	Other	34,278	42,599	33,002
		<u>727,285</u>	<u>702,590</u>	<u>646,541</u>
<b>EXPENSES</b>				
8	Police services	110,083	112,021	106,037
9	Parks, recreation and culture	58,561	60,230	61,533
10	General government	20,451	40,857	34,498
11	Water	52,473	54,662	52,052
12	Fire services	51,697	50,900	50,457
13	Sewer	38,573	38,626	40,449
14	Engineering	4,564	3,607	5,797
15	Drainage	8,150	10,105	12,867
16	Solid waste	26,514	27,590	25,582
17	Roads & traffic safety	26,258	25,620	22,626
18	Planning and development	22,784	22,359	20,635
19	Library services	13,729	13,613	12,741
20	Amortization	109,694	93,324	87,474
21	Interest, fiscal services & other	1,240	1,409	2,688
		<u>544,771</u>	<u>554,923</u>	<u>535,436</u>
22	Excess revenues over expenses	182,514	147,667	111,105
23	Contribution (to) capital expenditures	(272,814)	(274,766)	(200,199)
24	Contribution (to)/from reserves	86,302	124,650	87,183
		<u>(3,998)</u>	<u>(2,449)</u>	<u>(1,911)</u>
25	<b>Equity, beginning of year</b>	<u>7,402,278</u>	<u>7,402,278</u>	<u>7,291,173</u>
26	<b>Equity, end of year</b>	<u>\$ 7,584,792</u>	<u>\$7,549,945</u>	<u>\$ 7,402,278</u>

The lines in the 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 with the notes numbered to match the line to which the note relates.

**Revenue:**

1. Taxation for City Purposes: The actual taxation revenue received was \$2.1 million less than budget. This difference was due to an error in the preliminary assessment information provided to the City by BC Assessment. The grants in lieu revenue was also less than budget by \$729,000 as a result of the late opening of the Green Timbers RCMP Divisional Detachment, which is partially off-set by an increase in drainage parcel tax revenue (\$400,000).
2. Sale of Goods & Services: Sales revenues were higher than anticipated due to an increase in activity at the community recreation facilities and an increase in metered utility revenues.
3. Development Cost Charges: The 'Budget' figure includes the development cost charges that are available for the 2012 program (\$32.7 million) as well as the funding that was committed to projects in prior years but that had not yet been spent (\$50.6 million) for a total of \$83.3 million. The 'Actual' column includes only the revenue required to match the costs of the capital constructed (\$36.4 million) in 2012. The variance between actual and budget (\$46.9 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>
▪ NCP Contributions	\$ 4.2 M	\$ 2.8 M	\$ (1.4)M
▪ Cash-In-Lieu of Parkland	\$ 4.5 M	\$ 2.8 M	\$ (1.7)M
▪ Private Developer Contributions	\$ 21.9 M	\$ 27.0 M	\$ 5.1 M
▪ Contributed Assets	<u>\$100.0 M</u>	<u>\$ 70.8 M</u>	<u>\$(29.2)M</u>
<b>Total</b>	<b><u>\$130.6 M</u></b>	<b><u>\$103.4 M</u></b>	<b><u>\$(27.2)M</u></b>

The 'Budget' figure for NCP Contributions and the Cash-In-Lieu of Parkland are determined based on the actual contributions received in the previous year (2011). The 'Actual' column includes only the revenue required to match the cost of capital constructed or acquired in 2012. The variances are primarily due to the timing of construction of park development projects and the purchase of parklands. The 'Budget' figure for private developers is an estimated amount in recognition of contributions that may be received and applied to capital projects within the year. "Actual" contributions are made up of various contributions towards project such as the Roberts Bank projects (\$14.3 million), Local Improvement projects (\$5.1 million) and from a series of miscellaneous contributions to parks development and other capital projects.

Contributed Assets were added to the financial statements in 2009 and are indicative of development activity. The budget for 2012 was increased to \$100 million based on historical information. Actual asset contributions were \$70.8 million (\$74.3 million in 2011, \$111.7 million in 2010 and \$118 million in 2009). Staff will continue to monitor the activity in an effort to improve future budgeting estimates.

5. Investment Income: The variance between the 'Actual' figure (\$19.4 million) and the 'Budget' figure (\$18.2 million) of \$1.2 million is attributed to interest earned on reserve balance but not budgeted (\$2.3 million) and an increase in earnings in the general fund as a result of unexpended borrowing proceeds (\$0.8 million). These revenue increases are partially offset by slightly lower earnings in the utility funds due to lower than anticipated fund balances (\$0.8 million).
6. Transfers from Other Governments: The detailed breakdown of this variance is as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
▪ Traffic Fine Revenue Sharing	\$ 5.9 M	\$ 8.3 M	\$ 2.4 M
▪ TransLink	\$ 6.7 M	\$ 13.8 M	\$ 7.1 M
▪ Gaming Revenue Sharing	\$ 3.0 M	\$ 3.1 M	\$ 0.1 M
▪ Other Sundry e.g.: Keep of Prisoners, Summer Student Program, & Libraries.	<u>\$ 1.5 M</u>	<u>\$ 1.8 M</u>	<u>\$ 0.3 M</u>
<b>Sub Total</b>	<b>\$ 17.1 M</b>	<b>\$ 27.0 M</b>	<b>\$ 9.9 M</b>
▪ Capital Infrastructure Grants	<u>                    </u>	<u>\$ 28.4 M</u>	<u>\$ 28.4 M</u>
<b>Total</b>	<b><u>\$17.1 M</u></b>	<b><u>\$ 55.4 M</u></b>	<b><u>\$ 38.3 M</u></b>

The \$2.4 million surplus in Traffic Fine Revenue Sharing (TFRS) is a result of the Province's decision to advance part of the TFRS revenues as part of the renewal of the Strategic Community Investment Funds Agreement covering the years 2012-2014. The variance of \$2.4 million has been reserved for use in future years. The "Budget" for TransLink is an approximation of anticipated expenditures for which TransLink is providing funding; the "Actual" represents the funding that the City has received and spent on specific partnerships. Some of those major partnerships include the following:

- Roberts Bank Highway Improvements (\$4.8 million);
- Fraser Highway Widening (\$3.5 million);
- Arterial Paving (\$3.5 million); and
- King George Highway Improvements (148<sup>th</sup> to Crescent Rd \$1.6 million).

The City also received Capital Infrastructure Grants that included federal/provincial partnership funding for the following projects

- Roberts Bank Highway Improvements (\$24.5 million);
- Bridgeview Vacuum Sewer Improvements (\$1.8 million);
- Maple Drainage Pump Station (\$1.0 million); and
- Other miscellaneous grants (\$1.1 million).

7. Other Revenue: This includes the following:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
▪ Permits, Licensing & Fines	\$23.2 M	\$23.7 M	\$ 0.5 M
▪ Leases & Rentals	\$ 6.2 M	\$ 6.4 M	\$ 0.2 M
▪ Penalties & Interest on Taxes	\$ 4.2 M	\$ 4.4 M	\$ 0.2 M
▪ Donation & Sponsorship	\$ 0.7 M	\$ 2.0 M	\$ 1.3 M
▪ SCDC gain on disposals	<u>\$ 0.0 M</u>	<u>\$ 6.1 M</u>	<u>\$ 6.1 M</u>
<b>Total</b>	<b><u>\$34.3 M</u></b>	<b><u>\$42.6 M</u></b>	<b><u>\$ 8.3 M</u></b>

The minor variances in other revenue are primarily the result of growth-related increases in activity. SCDC has generated a net gain of \$6.1 million as a result of land dispositions in Campbell Heights and North Surrey.

## Expenses

8. Police Services: The over-expenditure (\$1.9 million) is primarily the result of an increase in the RCMP contract, as new members arrived sooner than anticipated. This is off-set by a one-time transfer from prior years' savings.
9. Parks, Recreation & Culture: The increase in expenditures of \$1.7 million is a result of PSAB 3150 requirement to include maintenance costs that had been previously captured as capital costs.
10. General Government: This includes the following:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
▪ Mayor, Council, Grants & Initiatives	\$ 7.9 M	\$ 8.1 M	\$ (0.2)M
▪ City Manager (Leg Serv., Legal, Bylaws, Econ Dev)	\$ 11.7 M	\$ 10.4 M	\$ 1.3 M
▪ Finance & Technology	\$ 20.1 M	\$ 17.1 M	\$ 3.0 M
▪ Human Resources	\$ 2.9 M	\$ 3.5 M	\$ (0.6)M
▪ Investments & Intergovernmental Rel.	\$ 1.6 M	\$ 1.4 M	\$ 0.2 M
▪ Surrey City Development Corporation	\$ 2.2 M	\$ 2.0 M	\$ 0.2 M
▪ Build Surrey Program	\$ 5.3 M	\$ 5.6 M	\$ (0.3)M
▪ Other (Charge to Utilities, loss on asset disposal & contingency)	<u>\$(31.3)M</u>	<u>\$(7.2)M</u>	<u>\$(24.1)M</u>
<b><i>Total</i></b>	<b><u>\$20.4 M</u></b>	<b><u>\$40.9 M</u></b>	<b><u>\$(20.5)M</u></b>

The variance in the City Manager area is due savings in salaries as a result of vacancies, the variance in the Finance & Technology department is a result of lower claims than anticipated and the variance in the Human Resources department is due to the need for additional resources to plan for the move to the New City Hall and additional consulting services to implement an electronic filing system.

The budget in the 'Other' line includes an allowance for SCDC land dispositions on a gross basis (\$29 million); however the actuals proceeds have been included in 'Other Revenue' above, on a net basis. The actual for 'Other' is less than budget due to losses on assets being replaced that have not yet been fully amortized.

11. Water: The over expenditure (\$2.2 million) is the result of an increase in minor projects that have historically been funded through capital (\$3.0 million) which have been off-set by operational savings. The minor projects consist of monitoring, enhancing and asset planning; however they will not produce or extend the life of the asset and therefore are captured as an operating expense. Staff has adjusted the 2013 budget for this item to help eliminate these variances in the future.
12. Fire Services: Savings of \$797,000 in this area have been achieved through the delay in recruiting for vacant positions along with reductions in E-Comm hardware fees.

13. Sewer: The over expenditure (\$53,000) is the result of an increase in minor projects that have historically been funded through capital (\$2.4 million) which have been off-set by operational savings. The minor projects consist of monitoring, enhancing and asset planning; however they will not produce or extend the life of the asset and therefore are captured as an operating expense. Staff has adjusted the 2013 budget for this item to help eliminate these variances in the future.
14. Engineering: The \$1.0 million variance savings is the result of an increase in minor projects that have historically been funded through capital (\$1.6 million), which has been off-set by operational savings. Staff has adjusted the 2013 budget for this item to help eliminate these variances in the future.
15. Drainage: The over expenditure (\$2.0 million) is the result of an increase in minor projects that have historically been funded through capital (\$4.8 million) which have been off-set by operational savings. The minor projects consist of monitoring, enhancing and asset planning; however they will not produce or extend the life of the asset and therefore are captured as an operating expense. Staff has adjusted the 2013 budget for this item to help eliminate these variances in the future.
16. Solid Waste: The over-expenditure in this area is the result of the additional costs incurred to communicate and implement the new garbage and recycling program.
17. Roads & Traffic Safety: Savings in this area are the result of a delay in implementation of new programs (\$8.9 million) off-set by an increase in minor projects that have historically been funded through capital (\$8.3 million). The minor projects consist of monitoring, enhancing and asset planning; however they will not produce or extend the life of the asset and therefore are captured as an operating expense. Staff has adjusted the 2013 budget for this item to help eliminate these variances in the future.
18. Planning and Development: These under expenditures are primarily the result of position vacancies.
19. Library services: The savings in Library are minor in nature and primarily due to savings in salaries.
20. Amortization: This expense represents the annual consumption of City Assets. The 2012 Budget was estimated based on the actual assets owned by the City in 2011 as well as an estimate of the value of new assets that would be added in 2012. Although amortization for major upcoming projects was estimated, variances relate to the timing and mix of new assets added in each category during 2011. Amortization by asset type is as follows:

	<b>Budget</b>	<b>Actual</b>
Land Improvements	\$4.8 M	\$4.0 M
Building	\$10.1 M	\$9.5 M
Infrastructure	\$72.2 M	\$63.6M
Equipment	\$22.6 M	\$16.2M
	<b>\$ 109.7 M</b>	<b>\$ 93.3M</b>

21. Interest, Bank Charges, Fiscal Services and other: This minor variance from budget is the result of an increase in bank fees due to increased credit card use.

22. Excess revenues over expenses: This item represents the current year's revenue that has been generated to support capital acquisitions and to contribute to statutory reserve funds.
23. Contribution (to) capital expenditures: As noted in the comments related to line 22, funding used to support capital expenditures is now included in the line titled "Excess revenues over expenses" in the financial statements. In 2012, capital expenditures totalled \$274.8 million, being funded by developer contributions (\$96.9 million), DCC's (\$36.4 million), federal/provincial contributions (\$42.1 million), general contributions (\$38.7 million) and other reserve funds (\$60.7 million).
24. Contribution (to)/from reserves: This line represents the reduction to equity resulting from annual amortization (\$93.3 million) of assets and the change in debt funding received but not yet utilized, offset by contributions to replacement reserves.
25. 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 the historical cost of capital assets, net of amortization, and both committed and uncommitted reserve funds at the beginning of 2012. It reflects the balance under the "Accumulated Surplus" line of the City's 2011 financial statements after incorporating the impact of the prior period adjustment that has been included in these statements. This item is outlined in the "Adjustment to Tangible Capital Assets" section below.
26. Equity, end of year: This item represents the City's net worth which includes the cost of capital assets, net of amortization, and both committed and uncommitted reserve funds. Details of this balance can be found in **Appendix B**.

#### Adjustments to Tangible Capital Assets

Staff identified the need to make two significant land-related adjustments to the recorded asset cost. These adjustments were identified through a verification of city land records in comparison to land title records. In the first instance, a piece of land was incorrectly recorded as inactive, resulting in the omission of \$12.7 million in land value in the financial system. In the second instance, the area of a piece of land was incorrectly noted as 374,305 square meters in city land records, while the area noted on the title was 9,758 square meters (the correct area). This resulted in an overvaluation of \$61 million of land assets. The net change to the land asset costs, including approximately \$400,000 in minor adjustments, resulted in a decrease in value of \$47.9 million.

Staff also performed a detailed review of the various work orders within Work in Progress (WIP). In this process, staff identified projects that were included in WIP, which had also been previously capitalized as tangible capital assets as part of the conversion related to the implementation of Public Sector Accounting Standards in fiscal 2009. As a result, a reduction in WIP of \$3.6 million was recorded.

Tangible Capital Asset reporting was introduced as a PSAB requirement on January 1, 2009. Due to the sheer number of assets and recent growth within the City, staff has reviewed all WIP amounts and has mapped assets in asset maintenance systems to ensure all of the City's assets are captured. As at December 31, 2012, all WIP accounts have been reviewed and staff has

implemented processes to ensure all assets, including government transferred assets, are captured on an on-going basis.

The net impact of the write-down in WIP and the decrease in assets due to the land records correction on the prior period financial statements is \$51.5 million. The City has recast the prior period financial statements to reflect these immaterial adjustments.

#### Surrey City Development Corporation (“SCDC”)

During the year, SCDC added two new income producing properties, disposed of one income producing property and continued activity on their partnership arrangements for the development of properties. The partnerships are considered “government partnerships” under PSAB, which are accounted for on a proportionate consolidation basis.

SCDC is considered to be an “other government organization” and is fully consolidated into the City’s financial statements on a line by line basis as it is wholly owned by the City.

#### **PSAB Reporting Standards – New Adoptions**

In 2012, the City adopted the following new PSAB reporting standards:

##### 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. While reporting for this standard becomes mandatory for years commencing on or after April 1, 2012.

Government transfers (e.g. grants, contributions, in-kind) are recognized as revenue in the period that the transfer is authorized by the transferring government, and eligibility criteria, if any, have been met by the recipient, except when and to the extent that the transfer gives rise to a liability under PS3200. If a liability is created, then the corresponding amount is recorded as a liability (e.g. deferred revenue/contributions) and is recognized as revenue when and in proportion to how the liability is settled, through the transfer or use of assets, or the provision of goods or services.

Examples of government transfers that are currently received include the Traffic Fine Revenue Sharing grant, the Library grant, the Victims Services grant and capital infrastructure grants. Implementation of this standard has had minimal impact.

##### Tax Revenue

Section PS 3510 of the PSA Handbook requires the City to differentiate between tax concession and tax transfers. Tax concessions are foregone tax revenue such as exemptions, deductions and credits, which are netted against taxes, while tax transfers are the financial benefits provided to non-tax paying entities and are included as an expense. Reporting for this standard becomes mandatory for years commencing on or after April 1, 2012.



## **PSAB Reporting Standards – Future 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 the following:

### **Liabilities for Contaminated Sites**

Section PS 3260 of the PSA Handbook will require governments to recognize a liability related to the remediation costs associated with contaminated sites, where the government is responsible for the site and the contamination exceeds the existing environmental standards. This standard becomes effective for years commencing on or after January 1, 2014, although early adoption is encouraged.

Staff is currently working on identifying City-owned contaminated sites and on determining any potential liability. It is expected that this standard will be adopted for the 2014 financial year.

### **Financial Instruments and Foreign Currency Translation**

Section PS 3450 and PS2601 of the PSA Handbook requires the City to recognize equity instruments quoted in an active market and free-standing derivatives at fair value. All other financial instruments, including bonds can be carried at cost or fair value depending on the government's choice and this choice must be made on initial recognition of the financial instrument and is irrevocable. This standard becomes effective for years commencing on or after April 1, 2015, although early adoption is encouraged. In accordance with the City's investment policy, the City does not invest in equity instruments or free-standing derivatives.

Staff anticipates that this new standard will have minimal impact, however will review the impact, with an expectation to adopt during the 2015 calendar year.

### **Related Party Transactions**

The PSA Handbook currently does not have a specific accounting standard for 'Related Party Transactions'. PSAB has issued an exposure draft for this new standard, which is expected to be approved in the spring of 2013. This standard would require disclosure about transactions between related parties. Disclosure would include information on which parties were related, the extent the relationship would need to be recognized in the financial statements and the appropriate measures for recognized transactions. This standard would also address the reporting of goods and services, cost allocation and the value for which the exchange amounts are recorded.

Staff anticipates that this new standard will have minimal impact on the City's financial statements; however, staff will review the impact once the standards are adopted and the commencement date has been set.

## **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 2013 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 a consideration of internal controls relevant to the preparation and fair presentation of the financial statements. Staff will 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. 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 2012 Annual Financial Report that will be distributed to Council by June 24<sup>th</sup>, 2013.

All of the variances outlined in this report will be incorporated into the 2014 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

#### Attachments:

Appendix A: 2012 City of Surrey Financial Statements

Appendix B: Reserve Balance Summary

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

*As at December 31, 2012, with comparative figures for 2011  
(in thousands of dollars)*

	<b>2012</b>	2011 <i>(recast note 2)</i>
<b>FINANCIAL ASSETS</b>		
Cash and cash equivalents	\$ 82,051	\$ 43,612
Accounts receivable (note 3)	140,748	135,845
Properties available-for-sale (note 4)	14,788	8,711
Investments (note 5)	663,551	675,749
	<u>901,138</u>	<u>863,917</u>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities (note 6)	153,855	128,518
Deposits and prepayments (note 7)	154,026	141,278
Deferred revenue (note 8)	48,044	42,527
Deferred development cost charges (note 9)	216,298	183,889
Debt (note 10)	175,478	100,000
	<u>747,701</u>	<u>596,212</u>
<b>NET FINANCIAL ASSETS</b>	<b>153,437</b>	<b>267,705</b>
<b>NON-FINANCIAL ASSETS</b>		
Tangible capital assets (note 12)	7,392,537	7,131,836
Inventories of supplies	1,030	1,012
Prepaid expenses	2,941	1,725
	<u>7,396,508</u>	<u>7,134,573</u>
<b>ACCUMULATED SURPLUS</b> (note 13)	<b>\$ 7,549,945</b>	<b>\$ 7,402,278</b>

Commitments and contingencies (note 14)

Subsequent events (note 24)

**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

*For the year ended December 31, 2012, with comparative figures for 2011  
(in thousands of dollars)*

	2012 <i>Budget</i> <i>(unaudited</i> <i>notes 1 (i) and 23)</i>	2012	2011 <i>(recast</i> <i>note 2)</i>
<b>REVENUES</b>			
Taxation revenue (note 16)	\$ 276,323	\$ 274,001	\$ 259,526
Sales of goods and services	167,450	171,352	159,469
Development cost charges (note 9)	83,317	36,405	57,045
Developer contributions	130,557	103,399	81,914
Investment income	18,232	19,410	20,890
Transfers from other governments (note 22)	17,128	55,424	34,695
Other	34,278	42,599	33,002
	<u>727,285</u>	<u>702,590</u>	<u>646,541</u>
<b>EXPENSES</b>			
Police services	111,326	113,211	107,127
Parks, recreation and culture	70,092	72,781	72,198
General government	41,301	52,497	45,996
Water	61,617	61,810	60,192
Fire services	53,518	52,681	52,073
Sewer	50,032	49,574	50,625
Engineering	4,719	6,182	7,639
Drainage	28,130	28,798	30,690
Solid waste	26,514	27,590	25,582
Roads & traffic safety	58,601	51,636	47,802
Planning and development	22,788	22,363	20,638
Library services	16,133	15,800	14,874
	<u>544,771</u>	<u>554,923</u>	<u>535,436</u>
<b>Annual Surplus</b>	182,514	147,667	111,105
<b>Accumulated Surplus, beginning of year</b> <i>recast (note 2)</i>	7,402,278	7,402,278	7,291,173
<b>Accumulated Surplus, end of year</b>	<u>\$ 7,584,792</u>	<u>\$ 7,549,945</u>	<u>\$ 7,402,278</u>

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

## City of Surrey

### Consolidated Statement of Changes in Net Financial Assets

*As at December 31, 2012, with comparative figures for 2011  
(in thousands of dollars)*

	2012 <i>Budget</i>	2012	2011
	<i>(unaudited notes 1 (i) and 23)</i>		
<b>ANNUAL SURPLUS</b>	\$ 182,514	\$ 147,667	\$ 111,105
Acquisition of tangible capital assets	(509,509)	(393,958)	(263,267)
Amortization of tangible capital assets	109,694	93,324	87,597
Loss (gain) on disposal of tangible capital assets	-	2,311	(3,256)
Proceeds on disposal of tangible capital assets	-	4,231	5,194
	<u>(217,301)</u>	<u>(146,425)</u>	<u>(62,627)</u>
Acquisition of inventories of supplies	-	(1,030)	(1,012)
Consumption of inventories of supplies	-	1,012	1,002
Acquisition of prepaid expenses	-	(2,941)	(1,725)
Use of prepaid expenses	-	1,725	1,495
Transfer to properties-available-for-sale	-	33,391	8,711
	<u>-</u>	<u>32,157</u>	<u>8,471</u>
<b>Change in net financial assets</b>	(217,301)	(114,268)	(54,156)
Net financial assets, beginning of year	267,705	267,705	321,861
<b>Net financial assets, end of year</b>	<u>\$ 50,404</u>	<u>\$ 153,437</u>	<u>\$ 267,705</u>

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

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

*For the year ended December 31, 2012, with comparative figures for 2011  
(in thousands of dollars)*

	2012	2011
<b>Cash provided by (used in):</b>		
<b>OPERATING TRANSACTIONS</b>		
Annual surplus	\$ 147,667	\$ 111,105
Non-cash charges to operations		
Amortization expense	93,324	87,597
Loss (gain) on disposal of tangible capital assets	5,294	(3,256)
Developer contributions of tangible capital assets (note 10 (b))	(70,859)	(66,524)
Change in non-cash operating working capital		
Accounts receivable	(4,903)	(1,954)
Inventories of supplies	(18)	(10)
Prepaid expenses	(1,216)	(230)
Accounts payable and accrued liabilities	26,592	21,104
Deposits and prepayments	12,748	11,881
Deferred revenue	4,262	7,747
Deferred development cost charges	32,409	(515)
<b>Net change in cash from operating transactions</b>	<b>245,300</b>	<b>166,945</b>
<b>FINANCING TRANSACTIONS</b>		
Proceeds from issuance of debt	42,600	100,000
Proceeds from issuance of loan payable	3,256	-
Repayment on loan payable	(59)	-
<b>Cash provided by (used in) financing transactions</b>	<b>45,797</b>	<b>100,000</b>
<b>CAPITAL TRANSACTIONS</b>		
Cash used to acquire tangible capital assets	(293,418)	(196,743)
Acquisition of properties available-for-sale	(80)	-
Disposal of properties available-for-sale	27,394	-
Proceeds on disposal of tangible capital assets	1,248	5,194
<b>Net change in cash from capital transactions</b>	<b>(264,856)</b>	<b>(191,549)</b>
<b>INVESTING TRANSACTIONS</b>		
Decrease (increase) in investments	12,198	(56,010)
	<b>12,198</b>	<b>(56,010)</b>
<b>Increase in cash and cash equivalents</b>	<b>38,439</b>	<b>19,386</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>43,612</b>	<b>24,226</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 82,051</b>	<b>\$ 43,612</b>
<b>Supplementary cash flow information:</b>		
<b>NON-CASH TRANSACTIONS:</b>		
Transfer of lands to reduce amounts owing to joint venture partners	\$ 1,255	\$ 1,422
Exchange of land	2,983	-
Acquisition of tangible capital assets financed by external mortgages	29,681	-
	<b>\$ 33,919</b>	<b>\$ 1,422</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, 2012  
(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, sewer and drainage 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 plus the Surrey Public Library (the “Library”), Surrey City Development Corporation (“SCDC”) and Surrey Homelessness and Housing Society (“SHHS”). The Library, SHHS and SCDC are consolidated as they are considered to be controlled by the City, by virtue of their Board being appointed by the City. Inter-fund transactions, fund balances and activities are eliminated on consolidation.

#### **i) Operating Funds**

These funds include the General, Solid Waste, Roads & Traffic Safety, Water, 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, Solid Waste, Roads & Traffic Safety, Water, Sewer and Drainage Capital Funds and Surrey Public Library Capital. They are used to record the acquisition costs of tangible capital assets and any related debt outstanding. All the capital funds are combined on the financial statements.

#### **iii) Reserve Funds**

Under the Community Charter of British Columbia, City Council may, by by-law, establish reserve funds for specified purposes. Money in a reserve fund and interest earned thereon, must be expended only for the purpose for which the fund was established. If the amount in a reserve fund is greater than required for the purposes for which it was established, City Council may transfer all or part of the amount to another reserve fund.

#### **iv) Surrey City Development Corporation**

The consolidated financial statements reflect the assets, liabilities, revenues and expenses of Surrey City Development Corporation (“SCDC”). All inter-departmental and inter-entity accounts and transactions between SCDC and the City are eliminated upon consolidation. SCDC has the following government partnerships, which are accounted for as follows:

# Notes to the Consolidated Financial Statements

*For the year ended December 31, 2012  
(tabular amounts in thousands of dollars)*

## 1. Significant accounting policies (continued)

### (a) Basis of consolidation (continued)

#### (i) Surrey City Investment Corporation ("SCIC") - (100% owned and fully consolidated)

SCIC has a 50% ownership in nine holding companies that are proportionately consolidated.

SCIC has a 29.4% ownership in the following entities (proportionately consolidated) referred to as the "Surrey Centre Limited Partnerships":

- Surrey Centre Office Limited Partnership
- Surrey Centre Hotel Limited Partnership
- Surrey Centre Residential Partnership

#### (ii) Grove Limited Partnership and Grove (G.P.) Inc. - (50% owned and proportionately consolidated)

#### (iii) The Croydon Drive Development Limited Liability Partnership ("Croydon") - (50% owned and proportionately consolidated)

### v) Surrey Homelessness and Housing Society

The consolidated financial statements reflect the assets, liabilities, revenues and expenses of Surrey Homelessness and Housing Society ("SHHS"). All inter-departmental and inter-entity accounts and transactions between SHHS and the City are eliminated upon consolidation.

The City provided seed money to the Surrey Homelessness and Housing Society and oversees their operations.

### vi) 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 18.



# Notes to the Consolidated Financial Statements

*For the year ended December 31, 2012  
(tabular amounts in thousands of dollars)*

## 1. Significant accounting policies (continued)

### (b) Revenue recognition

Revenues are recognized in the period in which the transactions or events occurred that gave rise to the revenues. All revenues are recorded on an accrual basis, except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impractical.

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.

Revenue recognition on sale of properties occurs when the City has transferred the significant risks and rewards of ownership. Property lease revenue includes all amounts earned from tenants including property tax and operating cost recoveries. Lease revenues are recognized on a straight-line basis over the term of the lease.

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.

### (c) 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.

### (d) Investment income

Investment income is reported as revenue in the period earned.

### (e) Expenses

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.

### (f) Properties available-for-sale

Properties available for sale include real estate properties which are ready and available to be sold and for which there is a market. They are valued at the lower of cost or expected net realizable value. Properties available-for-sale are presented in note 4.

## Notes to the Consolidated Financial Statements

*For the year ended December 31, 2012  
(tabular amounts in thousands of dollars)*

### 1. Significant accounting policies (continued)

#### (g) Investments

Investments consist of demand deposits, short-term investments, bonds and debentures, which 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.

#### (h) Employee future benefits

The City and its employees participate in a Municipal Pension Plan. The Municipal Pension Plan is a multi-employer contributory defined benefit pension plan. Payments in the year are expensed.

Sick leave and post-employment benefits also accrue to the City's employees. The liability relating to these benefits is actuarially determined based on length of service, 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.

Actuarial gains or losses are amortized over the expected average remaining service life of the related employee group.

The liability for event driven benefits, such as disability benefits, is calculated after the event occurs. The expense is recognized in the year the event occurs.

#### (i) Budget data

The unaudited budget data presented in these consolidated financial statements was included in the City of Surrey 2012 - 2016 Consolidated Financial Plan and was adopted through By-law #17544 on February 6, 2012.

#### (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.

#### (k) 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:

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2012  
(tabular amounts in thousands of dollars)

### 1. Significant accounting policies (continued)

#### (k) Tangible capital assets (continued)

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

Annual amortization is charged commencing on the date the asset is acquired or available for use. Work-in-progress amounts are not amortized until the asset is put into service.

#### i) Interest capitalization

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

#### 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, road infrastructure, water and wastewater infrastructure, machinery and equipment assets.

#### iii) Intangible assets

Intangible assets, including works of art and historic assets are not recorded as assets in these financial statements.

#### iv) 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 expensed as incurred.

#### v) Inventories of supplies

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

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2012  
(tabular amounts in thousands of dollars)

## 1. Significant accounting policies (continued)

### (l) 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 tangible capital assets, developer contributions, useful life for amortization, provisions for accrued liabilities, contingencies and in performing actuarial valuations of employee future benefits.

Actual results could differ from these estimates.

### (m) 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 21).

## 2. Recast of comparative figures

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

During the year, the City determined that certain tangible capital assets values were inaccurately input in the prior year's asset registers and therefore should be removed. The 2011 comparative figures have been recast for these items.

The effects of the recast on the 2011 comparative figures have been applied retroactively and are summarized below in thousands of dollars:

### Accumulated surplus at January 1, 2011:

Opening accumulated surplus, as previously reported	\$ 7,342,707
Land area inaccurately recorded	(47,982)
Work-in-Progress overstatement	(3,552)
<hr/>	
Opening accumulated surplus, as recast	<u>\$ 7,291,173</u>

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2012  
(tabular amounts in thousands of dollars)

### 2. Recast of comparative figures (continued)

Tangible capital assets, December 31, 2011:

Tangible capital assets, as previously reported	\$ 7,183,370
Land area inaccurately recorded	(47,982)
Work-in-Progress overstatement	(3,552)
<b>Tangible capital assets, as recast</b>	<b>\$ 7,131,836</b>

### 3. Accounts receivable

	<u>2012</u>	<u>2011</u>
General accounts receivable	\$ 55,472	\$ 56,144
Development cost charges	39,092	34,998
Property taxes	20,137	19,171
Utility rates	11,330	10,042
Due from joint venture partners	8,681	9,599
		9
Due from other authorities	3,984	4,739
Debenture debt guarantee	1,511	1,026
Tax sale properties	541	126
	<u>\$ 140,748</u>	<u>\$ 135,845</u>

### 4. Properties available-for-sale

	<u>2012</u>	<u>2011</u>
Opening balance	\$ 8,711	\$ -
Transfer from tangible capital assets	33,391	8,711
Disposal on sale	(27,394)	-
Additions	80	-
	<u>\$ 14,788</u>	<u>\$ 8,711</u>

### 5. Investments

	<u>2012</u>	<u>2011</u>
Investments maturing within one year	\$ 334,620	\$ 246,479
Investments maturing within two years	66,969	121,725
Investments maturing within ten years	261,962	307,545
	<u>\$ 663,551</u>	<u>\$ 675,749</u>

Average portfolio yield 3.05% (2011 - 3.39%). All investments can be liquidated on demand, but may have associated penalties on liquidation.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2012  
(tabular amounts in thousands of dollars)

### 6. Accounts payable and accrued liabilities

	<u>2012</u>	<u>2011</u>
Trade accounts payable	\$ 71,662	\$ 52,345
Due to Federal Government	25,024	24,224
Employee future benefits (note o)	21,968	19,839
Due to joint venture partners	4,940	
		9,622
Contractors' holdbacks	15,877	9,016
Due to Regional Districts	6,834	6,802
Due to Province of British Columbia	4,562	4,260
Due to other government entities	1,575	1,397
Interest on debt	1,413	1,013
	<u>\$ 153,855</u>	<u>\$ 128,518</u>

### 7. Deposits and prepayments

	<u>2012</u>	<u>2011</u>
Deposits		
Future works	\$ 33,064	\$ 31,552
Planning and permits	35,255	30,832
Engineering	29,168	22,661
Capital deposits	11,443	14,174
Pavement cuts	4,504	4,121
Boulevard trees	2,689	2,699
Latecomer	928	1,563
Tenant deposits	1,146	65
Other deposits	1,906	1,292
Developer works agreement	505	1,315
Amenities	284	271
Total Deposits	<u>\$ 120,892</u>	<u>\$ 110,545</u>
Prepays		
Taxes	\$ 30,313	\$ 28,286
Utilities	1,622	1,859
Tax sale private purchase payment	1,187	586
Other prepaids	12	2
Total Prepaids	<u>33,134</u>	<u>30,733</u>
Total Deposits and Prepaids	<u>\$ 154,026</u>	<u>\$ 141,278</u>

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2012  
(tabular amounts in thousands of dollars)

### 8. Deferred revenue

	<u>2012</u>	<u>2011</u>
Neighbourhood Concept Plans	\$ 21,426	\$ 20,657
Development/Building Permits	16,006	16,205
Deferred gains on land sales to joint ventures	4,765	3
Deferred lease revenue	4,054	4,123
Other	1,793	1,539
	<u>\$ 48,044</u>	<u>\$ 42,527</u>

### 9. 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 Local Government Act, 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>2012</u>	<u>2011</u>
Deferred DCC's:		
Arterial roads	\$ 54,088	\$ 54,033
Parkland	49,467	44,314
Drainage/storm water detention	36,743	33,936
Sanitary sewer	22,595	18,472
Collector roads	13,904	15,247
Water	12,885	12,430
Area specific	10,237	2,733
Park development	16,379	2,724
	<u>\$ 216,298</u>	<u>\$ 183,889</u>
Deferred DCC's, beginning of year	\$ 183,889	\$ 184,404
DCC's levied for the year	65,808	52,828
Investment income	3,006	3,702
Total DCC's deferred	<u>68,814</u>	<u>56,530</u>
Revenue recognized for General Capital	(31,482)	(49,878)
Revenue recognized for Water Capital	(2,913)	(1,922)
Revenue recognized for Sewer & Drainage Capital	(2,010)	(5,245)
Total DCC's recognized as revenue	<u>(36,405)</u>	<u>(57,045)</u>
Net increase (decrease) for the year	32,409	(515)
Deferred DCC's, end of year	<u>\$ 216,298</u>	<u>\$ 183,889</u>

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2012  
(tabular amounts in thousands of dollars)

### 10. Debt

	<u>2012</u>	<u>2011</u>
Debtenture debt	\$142,600	\$100,000
Loans payable	32,878	-
	<u>\$175,478</u>	<u>\$100,000</u>

The City obtains debt instruments through the Municipal Finance Authority of British Columbia (MFA) pursuant to security issuing by-laws under authority of the Community Charter to finance certain capital expenditures.

Gross amount of the debt less repayments and actuarial adjustments to date are as follows:

	<i>Gross debt</i>	<i>Repayments and actuarial adjustments</i>	<i>Net debt 2012</i>	<i>Net debt 2011</i>
General				
Capital Fund	\$ 145,000	\$ 2,400	\$ 142,600	\$ 100,000

In addition, loans payable by Surrey City Development Corporation are as follows:

	<u>2012</u>	2011
Line of credit, Grove Limited Partnership, through TD Canada Trust, bearing interest at prime plus 0.75% per annum	\$ 242	-
Demand loan, Grove Limited Partnership, in the form of bankers' acceptances bearing a stamping fee of 2.25% plus interest at the monthly bankers' acceptance rate, secured by the underlying property and repayable on the sale of the development	3,014	-
Boundary Park loan payable, Citizen's Bank of Canada, 10-year term maturing January 1, 2023, payable in monthly payments of \$77,625, including interest calculated at a rate of 4.05% per annum, secured by a mortgage on the commercial property	14,681	-
Cedar Hills loan payable, Citizen's Bank of Canada, 10-year term maturing November 1, 2022, payable in monthly payments of \$78,497, including interest calculated at a rate of 3.95% per annum, secured by a mortgage on the commercial property	14,941	-
	<u>\$ 32,878</u>	<u>-</u>



## Notes to the Consolidated Financial Statements

For the year ended December 31, 2012  
(tabular amounts in thousands of dollars)

### 10. Debt (continued)

Current borrowing includes:

MFA Issue	Issue Date	Term (yrs.)	Maturity	Interest Rate	* Refinancing Date
116	April 4, 2011	25	April 4, 2036	4.20%	April 4, 2021
121	October 4, 2012	25	October 4, 2037	2.90%	October 4, 2022

\*On the Refinancing Date, the City has the option to retire the debt early or refinance the borrowing at a new interest rate.

Repayments and mortgage payments on net outstanding debenture debt and loans payable over the next five years and thereafter are as follows:

	Repayments and actuarial adjustments	Mortgage payments	Total
2013	\$ 3,578	\$ 722	\$ 4,300
2014	3,721	750	4,471
2015	3,869	781	4,650
2016	4,025	812	4,837
2017	4,186	844	5,030
2018 and thereafter	123,221	25,713	148,934
Payable on demand	-	3,256	3,256
<b>Total</b>	<b>\$ 142,600</b>	<b>\$ 32,878</b>	<b>\$175,478</b>

Interest charges on debt are as follows:

	2012	2011
Cash for interest payments	\$ 3,398	\$ 2,100
Interest accrued at December 31	1,413	1,013
Less: Capitalized interest	(115)	-
<b>Total interest expense</b>	<b>\$ 4,696</b>	<b>\$ 3,113</b>

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2012  
(tabular amounts in thousands of dollars)

### 11. 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>2012</u>	<u>2011</u>
<b>Accrued benefit liability:</b>		
Balance, beginning of year	\$ 19,839	\$ 18,680
Current service cost	1,834	1,043
Interest cost	975	1,065
Amortization of actuarial loss	633	531
Benefits paid	<u>(1,313)</u>	<u>(1,480)</u>
Balance, end of year	<u>\$ 21,968</u>	<u>\$ 19,839</u>

An actuarial valuation for these benefits was performed to determine the City's accrued benefit obligation as at December 31, 2012. The difference between the actuarially determined accrued benefit obligation of \$26.8 million and the accrued benefit liability of \$21.9 million as at December 31, 2012 is an unamortized actuarial loss of \$4.9 million. The actuarial loss is amortized over a period equal to the employees' average remaining service lifetime of 9 years.

	<u>2012</u>	<u>2011</u>
<b>Actuarial benefit obligation:</b>		
Accrued benefit liability, end of year	\$ 21,968	\$ 19,839
Unamortized actuarial loss	<u>4,867</u>	<u>5,526</u>
Actuarial benefit obligation, end of year	<u>\$ 26,835</u>	<u>\$ 25,365</u>

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

	<u>2012</u>	<u>2011</u>
Discount rate	3.50%	3.75%
Expected future inflation rate	2.00% - 2.50%	2.00% - 2.50%
Expected wage and salary range increases	0.50%	0.50%
Employee average remaining service life (years)	9.0	9.0

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2012  
(tabular amounts in thousands of dollars)

### 12. Tangible capital assets

Cost	Balance at December 31, 2011 <i>(recast note 2)</i>	Additions	Disposals / WIP Allocations	Balance at December 31, 2012
Land and land improvements	\$ 1,617,364	\$ 55,909	\$ 6,005	\$ 1,667,268
Buildings	300,598	36,390	4,678	332,310
Infrastructure	3,852,913	93,979	2,778	3,944,114
Machinery and equipment	143,088	36,273	6,988	172,373
Land under road	2,440,174	42,799	-	2,482,973
Work-in-Progress	229,089	357,435	257,607	328,917
<b>Total</b>	<b>\$ 8,583,226</b>	<b>\$ 622,785</b>	<b>\$ 278,056</b>	<b>\$ 8,927,955</b>

Accumulated Amortization	Balance at December 31, 2011 <i>(recast note 2)</i>	Amortization	Accumulated Amortization on Disposals	Balance at December 31, 2012
Land and land improvements	\$ 61,517	\$ 3,976	\$ 575	\$ 64,918
Buildings	149,200	9,580	241	158,539
Infrastructure	1,165,413	63,617	1,571	1,227,459
Machinery and equipment	75,260	16,151	6,909	84,502
<b>Total</b>	<b>\$ 1,451,390</b>	<b>\$ 93,324</b>	<b>\$ 9,296</b>	<b>\$ 1,535,418</b>

Net Book Value by category	December 31, 2011 <i>(recast note 2)</i>	December 31, 2012
Land and land improvements	\$ 1,555,847	\$ 1,602,350
Buildings	151,398	173,771
Infrastructure	2,687,500	2,716,655
Machinery and equipment	67,828	87,871
Land under road	2,440,174	2,482,973
Work-in-Progress	229,089	328,917
<b>Total</b>	<b>\$ 7,131,836</b>	<b>\$ 7,392,537</b>

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2012  
(tabular amounts in thousands of dollars)

### 12. Tangible capital assets (continued)

Net Book Value by fund	December 31, 2011 (recast note 2)	December 31, 2012
<b>General capital</b>	\$ 4,921,278	\$ 5,125,399
<b>Water capital</b>	568,500	572,749
<b>Sewer capital</b>	531,346	528,415
<b>Drainage capital</b>	1,053,900	1,054,395
<b>Library capital</b>	5,125	5,940
<b>Surrey City Development Corp.</b>	51,687	105,639
<b>Total</b>	<b>\$ 7,131,836</b>	<b>\$ 7,392,537</b>

a) Work-in-progress

Work-in-progress are costs related to projects currently under planning, development or construction that will result in a finished asset at a future date. Costs related to planning, development or construction are capitalized until such time as the property is ready for use or sale.

Work-in-progress having a value of \$328.9 million (2011 - \$229.0 million) has not been amortized. Amortization of these assets will commence when each specific 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 \$70.9 million (2011 - \$66.5 million) comprised of roads infrastructure in the amount of \$49.9 million (2011 - \$56 million), water and wastewater infrastructure in the amount of \$13.4 million (2011 - \$7.9 million) and land in the amount of \$7.6 million (2011 - \$2.6 million), including improvements.

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) Intangible Assets

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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2012  
(tabular amounts in thousands of dollars)

## 12. Tangible capital assets (continued)

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

Tangible capital assets are written down when conditions indicate that they no longer contribute to the City's ability to provide goods and services. Any impairment is accounted for as an expense in the consolidated statement of operations. No impairments were identified or recorded during the year ended December 31, 2012 and 2011.

## 13. Accumulated surplus

Accumulated surplus consists of individual fund surplus and reserves. Operating surplus for the City is as follows:

	2012	2011
		<i>(recast note 2)</i>
<b>Accumulated Surplus per Statement of Financial Position</b>	<b>\$ 7,549,945</b>	<b>\$ 7,402,278</b>
Less:		
<b>Tangible Capital Assets</b>	<b>7,392,537</b>	<b>7,131,836</b>
<b>Unexpended Borrowing</b>	<b>(86,044)</b>	<b>(35,721)</b>
	<b>7,306,493</b>	<b>7,096,115</b>
<b>Reserves set aside by Council</b>		
Equipment and Building Replacement	36,653	38,157
Capital Legacy	12,757	28,417
Local Improvement Financing	14,273	14,435
Municipal Land	(8,205)	1,665
Environmental Stewardship	6,580	6,359
Park Land Acquisition	2,984	9,040
Water Claims	1,280	1,255
Parking Space	1,226	1,202
Affordable Housing	18	67
	<b>67,566</b>	<b>100,597</b>
<b>Restricted Reserves</b>		
Infrastructure Replacement	46,154	58,018
Self-Insurance	14,755	14,442
Revenue Stabilization	12,661	9,723
Operating Emergencies	7,042	7,042
Environmental Emergencies	5,928	5,771
Prepaid Expenses	2,941	1,725
Inventories of Supplies	1,030	1,012
Committed Funds	128,180	110,114
	<b>218,691</b>	<b>207,847</b>

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2012  
(tabular amounts in thousands of dollars)

### 13. Accumulated surplus (continued)

<b>Other Entities</b>		
Surrey City Development Corporation (net of interfund borrowings)	(56,523)	(18,472)
Surrey Homelessness and Housing Society	8,692	8,720
	<u>(47,831)</u>	<u>(9,752)</u>
<b>Total Restricted Funds</b>	<u>7,544,919</u>	<u>7,394,807</u>
<b>Unappropriated Surplus</b>	<u>\$ 5,026</u>	<u>\$ 7,471</u>

### 14. 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 (see note 13). 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 27 Class "A" and 22 Class "B" shares issued and outstanding as at December 31, 2012). 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 obligated to share in funding of the ongoing operating costs. In accordance with the members' agreement, upon withdrawal from E-Comm, class A shareholders shall be obligated to pay to the withdrawal date as requested by E-Comm their share of the class A shareholders' obligation to any long-term capital obligations, including any lease obligations. This includes any lease obligations or repayments thereof committed to by E-Comm up to the withdrawal date.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2012  
(tabular amounts in thousands of dollars)

### o. Commitments and contingencies (continued)

- 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 provided a guarantee through an \$8.0 million non-recourse first collateral mortgage expiring August 31, 2013, in favour of the Royal Bank of Canada that is registered against the land and facility, which can be renewed annually. The City does not expect to make any payments on the guarantee and no amounts have been accrued in the financial statements.
- e) The City insures itself through a combination of insurance policies and self-insurance. The City has a funded self-insurance appropriation (note 13). Based on estimates, this appropriation reasonably provides for all outstanding claims.
- f) 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 a payment is considered likely and the amounts can be estimated have been accrued based on the best estimate of management.
- g) Debt Reserve Fund Demand Note

The City has a contingent liability with respect to the Municipal Finance Authority of BC's (MFA) Debt Reserve Fund Demand Note. As a condition of the borrowing undertaken by the City through MFA Debenture Issue No. 116 April 4, 2011 and Issue No. 121 October 4, 2012 the City was required to contribute to the MFA Debt Reserve Fund through a demand note. The demand note will only be recorded as an asset and liability if a local government, under the joint and several agreement of the regional district, defaults on their loan obligation. Upon this action of default, the MFA may call the outstanding demand notes of the deficient regional district at which point the demand notes then become an asset and a liability of the associated members. Once the defaulting local government repays in full the defaulted position, the MFA will refund all called demand notes. It is generally unlikely that the funds will be demanded by the MFA, therefore the amounts have not been recorded in the consolidated financial statements.

Demand note amounts are as follows:

Issue	LA	SI	Rgn SI	Purpose	Term	DRF Demand Note
116	17173	R10-2022	1139	Other	25	\$ 319
116	17180	R10-2357	1141	Other	25	\$ 637
116	17231	R11-124	1142	Other	25	\$1,035
121	17231	R11-124	1142	Other	25	\$ 743
<b>Total</b>						<b>\$2,734</b>

## Notes to the Consolidated Financial Statements

*For the year ended December 31, 2012  
(tabular amounts in thousands of dollars)*

### **o. Commitments and contingencies (continued)**

#### **h) Policing services**

The City has a contract with the federal government whereby the federal government provides Royal Canadian Mounted Police ("RCMP") policing services. RCMP members and the federal government are currently in legal proceedings regarding pay raises for 2009 and 2010 that were retracted for RCMP members. As the final outcome of the legal action and the potential financial impact to the City is not determinable, the City has not recorded any provision for this matter in the financial statements as at December 31, 2012.

### **15. Pension plan**

The City and its employees contribute to the Municipal Pension Plan (the Plan), a jointly trusteesd pension plan. The Plan's 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 based on a formula. The Plan has about 176,000 active members, approximately 67,000 retired members. Active members include approximately 35,000 contributors from local governments.

The latest 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. Defined contribution plan accounting is applied to the Plan as the Plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, Plan assets and cost to individual entities participating in the Plan.

The City paid \$13.8 million for employer's contributions to the Plan in Fiscal 2012 (2011 - \$13.2 million) and employees contributed \$11.3 million to the Plan in Fiscal 2012 (2011 - \$10.6 million).



## Notes to the Consolidated Financial Statements

For the year ended December 31, 2012  
(tabular amounts in thousands of dollars)

### 16. Taxation revenue

	<u>2012</u>	<u>2011</u>
Tax collected:		
Property taxes	\$ 235,146	\$ 222,172
Collections for other authorities	253,144	241,149
Sewer frontage taxes	25,390	24,352
Grants-in-lieu of taxes	13,240	12,768
Other	225	234
	<u>527,145</u>	<u>500,675</u>
Less transfers to other authorities:		
Province of BC - School Taxes	192,665	182,591
Greater Vancouver Regional District	10,891	10,726
BC Assessment Authority	6,201	5,918
Greater Vancouver Transportation Authority	39,760	38,714
Other	3,627	3,200
	<u>253,144</u>	<u>241,149</u>
Taxation revenue	<u>\$ 274,001</u>	<u>\$ 259,526</u>

### 17. 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 properties amount to less than three percent of the City's annual gross taxation revenues.

### 18. 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>2012</u>	<u>2011</u>
<b>Assets</b>		
Cash and short term investments	<u>\$ 2,957</u>	<u>\$ 2,818</u>

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2012  
(tabular amounts in thousands of dollars)

### 18. Trust funds (continued)

Equity	Employee Benefits Fund	Cemetery Perpetual Care Fund	<u>2012</u>	<u>2011</u>
Balance, beginning of year	\$ 648	\$ 2,170	\$ 2,818	\$ 2,683
Employment insurance rebate	90	-	90	87
Contributions	-	88	88	82
Interest revenue	13	43	56	63
Benefits purchased	(29)	-	(29)	(29)
Refunded to employees	(66)	-	(66)	(68)
Balance, end of year	<u>\$ 656</u>	<u>\$ 2,301</u>	<u>\$ 2,957</u>	<u>\$ 2,818</u>

### 19. Surrey Homelessness and Housing Society

On June 22, 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.

### 20. Surrey City Development Corporation

On April 24, 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 has provided financing to sustain operations and the development. The Corporation's financial information is fully consolidated within the City's financial statements.

As at December 31, 2012, the Surrey City Development Corporation ("SCDC") has entered into Government Partnerships as follows:

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2012  
(tabular amounts in thousands of dollars)

### 20. Surrey City Development Corporation (continued)

#### a) The Grove Limited Partnership

The Grove Limited Partnership (“Grove”) is a partnership between SCDC and Townline Grove Limited Partnership (“Townline”) for the development of 141 three-level townhomes located in the East Clayton area of Surrey. SCDC mutually contributed a beneficial interest in lands valued at \$2,844,000 and cash consideration of \$1,341,597, for a 50% interest in the Grove. The amounts included in the consolidated financial statements at December 31, 2012 are as follows:

Assets	\$ 247
Liabilities	(3,549)
Tangible capital assets	<u>6,728</u>
Accumulated surplus	<u>\$3,426</u>

#### b) Croydon Drive Limited Partnership

Croydon Drive Limited Partnership (“Croydon”) is a partnership between SCDC and Back Lot Holdings LLP for the development of two office buildings. The SCDC is an equal partner in Croydon and has and will provide equal capital contributions to fund the operations of Croydon in the form of land, financial and intellectual capital. Croydon’s financial results are proportionately consolidated with SCDC based upon the 50% share of total contributions. The amounts included in the financial statements at December 31, 2012 are as follows:

Assets	\$ 73
Liabilities	(1,234)
Tangible capital assets	<u>1,675</u>
Accumulated surplus	<u>\$ 514</u>

#### c) Surrey Centre Tower Partnerships

Surrey Centre Tower Partnerships (“Surrey Centre”) are various partnerships with Century Group and Delta West Developments Inc., through SCDC’s wholly-owned subsidiary, Surrey City Investment Corporation (“SCIC”), for the development of a tower which will include retail, residential and office spaces. SCDC mutually agreed to contribute assets totalling \$13.6 million in exchange for partnership units. During fiscal 2012, SCDC contributed land with a value of \$6.6 million, resulting in a net liability to the outside partners of \$4.9 million being 70.6% of \$7.0 million (2011 - \$9.6 million). The amounts included in the financial statements at December 31, 2012 are as follows:

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2012  
(tabular amounts in thousands of dollars)

### 20. Surrey City Development Corporation (continued)

Assets	\$ 8,711
Liabilities:	
Payable to partners	( 4,940)
Deferred gain	(3,542)
Accounts payable	<u>(207)</u>
	<u>(8,689)</u>
Tangible capital assets	<u>1,559</u>
Accumulated surplus	<u>\$ 1,581</u>

### 21. 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 Fire and Police Services; Parks, Recreation and Culture Services; General Government Services; Engineering 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:

#### *Fire Services*

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.

#### *Police Services*

The mandate of the Police Department includes enforcing laws, preventing crime, and maintaining peace, order and security.

#### *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.

## Notes to the Consolidated Financial Statements

*For the year ended December 31, 2012  
(tabular amounts in thousands of dollars)*

### 21. Segmented information (continued)

*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. The Surrey City Development Corporation, which engages in the provision of consulting services, land development activities, property acquisition/disposal and asset management and the Surrey Homelessness and Housing Society, which focuses on addressing homelessness in Surrey through raising funds and the provision of grants to worthy projects also form part of General Government Services.

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

The Water, Sewer & 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 storm water 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, 2012*  
*(tabular amounts in thousands of dollars)*

<i>For the year ended December 31, 2012, with comparative figures for 2011</i> <i>(in thousands of dollars)</i>	<i>Police</i> <i>Services</i>	<i>Parks,</i> <i>Recreation</i> <i>and Culture</i>	<i>General</i> <i>Government</i>	<i>Water</i>	<i>Fire Services</i>	<i>Sewer</i>	<i>Engineering</i>	<i>Drainage</i>	<i>Solid Waste</i> <i>Management</i>	<i>Road &amp;</i> <i>Traffic Safety</i>	<i>Planning and</i> <i>Development</i>	<i>Library</i> <i>Services</i>	<b>Consolidated</b>	
													<b>2012</b>	<b>2011</b>
<b>REVENUES</b>														
Taxation, grants-in-lieu, assessments	\$ -	\$ -	\$ 490,962	\$ 89	\$ -	\$ 6,185	\$ -	\$ 19,337	\$ -	\$ 10,572	\$ -	\$ -	\$ 527,145	\$ 500,675
Collections for other authorities	-	-	(253,144)	-	-	-	-	-	-	-	-	-	(253,144)	(241,149)
Taxation revenue	-	-	237,818	89	-	6,185	-	19,337	-	10,572	-	-	274,001	259,526
Sales of goods and services	931	20,339	11,822	59,853	1,707	37,794	4,348	-	31,493	379	2,513	173	171,352	159,469
Development cost charges	-	-	36,405	-	-	-	-	-	-	-	-	-	36,405	57,045
Developer contributions	-	102	15,299	18,146	-	-	69,527	51	-	248	-	26	103,399	81,914
Investment income	-	-	16,396	1,741	-	874	-	399	-	-	-	-	19,410	20,890
Transfers from other governments	8,704	448	4,117	2,925	-	-	38,177	-	-	140	-	913	55,424	34,695
Other	72	1,756	20,485	797	-	384	1,787	79	105	348	16,234	552	42,599	33,002
	9,707	22,645	342,342	83,551	1,707	45,237	113,839	19,866	31,598	11,687	18,747	1,664	702,590	646,541
<b>EXPENSES</b>														
Salaries and benefits	18,307	36,005	30,028	-	47,433	-	29,395	-	-	3,972	16,610	10,949	192,699	186,185
Consulting and professional services	91	6,124	2,749	590	175	166	822	1,953	797	4,166	800	61	18,494	18,211
RCMP contracted services	92,173	-	-	-	-	-	-	-	-	-	-	-	92,173	86,193
Telephone and communications	328	273	794	9	707	19	116	19	4	102	48	35	2,454	2,676
Regional district utility charges	-	-	-	39,805	-	29,242	-	-	-	-	-	-	69,047	63,860
Utilities	378	2,633	14	397	316	1,472	385	6	-	3,265	317	316	9,499	9,118
Garbage collection and disposal	13	214	-	-	28	1	9	-	19,242	2	13	13	19,535	18,445
Maintenance and small equipment	2	7,049	3,127	32	297	22	365	168	-	112	1,633	127	12,934	14,893
Insurance and claims	-	1	1,504	-	10	1	-	-	-	-	-	-	1,516	1,992
Leases and rentals	716	813	257	26	-	208	100	318	160	691	1	38	3,328	2,528
Supplies and materials	272	5,884	1,975	1,658	1,584	1,523	4,477	440	2,295	2,088	1,655	492	24,343	23,419
Advertising and media	4	597	343	2	9	-	34	7	561	16	16	836	2,425	1,570
Grants and sponsorships	-	122	1,797	-	-	-	-	-	-	8	488	-	2,415	1,651
Contract payments	-	2,364	983	2,495	19	2,440	484	1,375	1,428	7,931	49	48	19,616	28,611
Other	688	1,760	(2,549)	1,183	503	17	428	34	12	72	733	2,006	4,887	(700)
Cost recoveries, net	(951)	(3,901)	(4,563)	8,465	(181)	3,515	(33,017)	5,785	3,091	3,204	(4)	(1,314)	(19,871)	(15,510)
Interest on debt	-	-	4,696	-	-	-	-	-	-	-	-	-	4,696	3,113
Other interests and fiscal services	-	292	1,111	-	-	-	-	-	-	-	-	6	1,409	1,584
Amortization expense	1,190	12,551	10,231	7,148	1,781	10,948	2,584	18,693	-	26,007	4	2,187	93,324	87,597
	113,211	72,781	52,497	61,810	52,681	49,574	6,182	28,798	27,590	51,636	22,363	15,800	554,923	535,436
<b>Excess (deficiency) of revenues</b>														
<b>over expenses</b>	(103,504)	(50,136)	289,845	21,741	(50,974)	(4,337)	107,657	(8,932)	4,008	(39,949)	(3,616)	(14,136)	147,667	111,105
Transfer from (to) operating funds	-	-	(62,349)	9,976	-	9,175	21,326	(10,593)	(2,593)	23,350	-	11,709	-	-
Transfer from (to) reserve funds	(1,700)	353	(20,768)	3,499	(1,377)	53	17,868	478	-	1,286	(206)	513	-	-
Transfer from (to) capital funds	-	621	31,556	(155)	-	734	(7,755)	(6,178)	(14,206)	(5,886)	272	997	-	-
<b>Annual surplus (deficit)</b>	\$ (105,204)	\$ (49,162)	\$ 238,284	\$ 35,061	\$ (52,351)	\$ 5,625	\$ 139,096	\$ (25,225)	\$ (12,791)	\$ (21,199)	\$ (3,550)	\$ (917)	\$ 147,667	\$ 111,105

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2012  
(tabular amounts in thousands of dollars)

### 22. 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:

	2012	2011
<b>Revenue</b>		
B.C. provincial government grants:		
Roads	\$ 13,122	\$ 8,699
Traffic Fine Revenue Sharing	8,323	8,034
Casino Revenue Sharing	3,052	2,841
Sewer Replacement	2,925	1,473
Library Operating	871	857
Victim Services	172	167
Child Care and Seniors	226	145
Arts	50	59
BC One Card	34	36
Union of BC Municipalities	17	14
Resource Sharing	8	5
Subtotal B.C. provincial government grants	28,800	22,330
Federal government grants:		
Roads	12,440	3,215
Parks Development	84	1,257
Keep of Prisoners	209	190
Urban Aboriginal Strategy	-	107
Summer Students	10	10
Child Care	62	4
BCSea Solar BC	-	2
Newton Gym	34	-
Subtotal federal government grants	12,839	4,785
TransLink:		
Arterial Widening & Intersection Improvements	5,125	1,032
Arterial Paving	3,508	2,863
Arterial Bridges	4,776	2,398
Traffic Signals, Signs & Markings	166	404
Bicycle Street Network & Transit Projects	210	848
Transportation Management	-	35
Subtotal TransLink grants	13,785	7,580
<b>Total transfers from other government revenues</b>	<b>\$ 55,424</b>	<b>\$ 34,695</b>

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2012  
(tabular amounts in thousands of dollars)

### 23. Budget data

The unaudited budget data presented in these consolidated financial statements was included in the City of Surrey 2012 – 2016 Consolidated Financial Plan and was adopted through By-law #17544 on February 6, 2012. The following table reconciles the approved budget to the budget figures reported in these consolidated financial statements.

	Budget Amount
Revenues:	
Consolidated budget	\$ 727,285
Expenses:	
Consolidated budget	1,076,780
Annual deficit per approved budget	(349,495)
Add:	
Capital additions	532,009
Annual surplus per statement of operations	\$ 182,514

### 24. Subsequent events

At December 31, 2012, \$700,000 was still outstanding as a promissory note on the Brick South Property sale. In January 2013, the Surrey City Development Corporation exercised an option to purchase a 20% interest in the Bosa City Centre Office partnership for \$700,000. The purchase price was settled by extinguishing the promissory note receivable.



**RESERVE FUNDS, ACCUMULATED SURPLUS AND DEVELOPER CONTRIBUTIONS**  
*as at December 31, 2012*  
*(in thousands of dollars)*

	2011	2012	2013 & Prior years	Available for Future Years
<b>Reserve Funds</b>				
Equipment and building replacement	\$ 38,157	\$ 36,655	\$ 17,856	\$ 18,799
Municipal land	1,665	(8,205)	(8,205)	-
Park land acquisition	9,040	2,984	2,984	-
Capital legacy	28,417	12,758	12,758	-
Environmental stewardship	6,359	6,581	240	6,341
Local improvement financing	14,435	14,272	6,823	7,449
Water claims	1,255	1,280		1,280
Affordable housing	67	15		15
Parking space	1,202	1,226		1,226
	<u>\$ 100,597</u>	<u>\$ 67,566</u>	<u>\$ 32,456</u>	<u>\$ 35,110</u>
<b>Other Entities</b>				
Surrey Public Library	(324)	(324)		(324)
Surrey City Development Corp	(18,472)	(106,668)	(110,980)	4,312
Surrey Homelessness & Housing Society	8,720	8,619	8,619	-
	<u>\$ (10,076)</u>	<u>\$ (98,373)</u>	<u>\$ (102,361)</u>	<u>\$ 3,988</u>
<b>Unappropriated Surplus</b>				
General operating fund	\$ 8,793	\$ 6,348	\$ 3,999	\$ 2,349
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>\$ 7,795</u>	<u>\$ 5,350</u>	<u>\$ 3,999</u>	<u>\$ 1,351</u>
<b>Appropriated Surplus</b>				
Operating contingency and emergencies	\$ 7,042	\$ 7,042		\$ 7,042
Environmental emergencies	5,771	5,928		5,928
Revenue stabilization	9,723	12,661		12,661
Self insurance	14,442	14,755		14,755
Infrastructure replacement - Utilities	58,018	46,154	46,154	-
	<u>\$ 94,996</u>	<u>\$ 86,540</u>	<u>\$ 46,154</u>	<u>\$ 40,386</u>
<b>Committed Funds</b>				
General operating	\$ 25,976	\$ 30,170	\$ 30,170	\$ -
Inventories of supplies	1,012	1,030	1,030	-
Library services	608	250	250	-
Prepaid expenses	1,725	2,941	2,941	-
Roads & traffic operating and capital	17,808	17,751	17,751	-
Sewer & drainage operating and capital	31,991	42,664	42,664	-
Water operating and capital	33,731	37,345	37,345	-
	<u>\$ 112,851</u>	<u>\$ 132,151</u>	<u>\$ 132,151</u>	<u>\$ -</u>
<b>Deferred Development Cost Charges</b>				
Drainage/Storm Water Detention	\$ 33,936	\$ 36,743	\$ 36,743	\$ -
Arterial Roads	54,033	54,088	54,088	-
Collector Roads	15,247	13,904	13,904	-
Parkland	44,314	49,467	22,268	27,199
Park Development	2,724	2,890	2,890	-
Water	12,430	12,885	12,885	-
Sanitary Sewer	18,472	22,595	22,595	-
Campbell Heights	2,733	10,237	10,237	-
Highway 99 Corridor	-	13,489	13,489	-
	<u>\$ 183,889</u>	<u>\$ 216,298</u>	<u>\$ 189,099</u>	<u>\$ 27,199</u>
<b>Other Deferred Revenue</b>				
Neighbourhood Concept Plans	\$ 20,657	\$ 21,426	\$ 14,253	\$ 7,173
Development/Building Permits	16,205	16,006	16,006	-
Other	5,665	10,612	10,612	-
	<u>\$ 42,527</u>	<u>\$ 48,044</u>	<u>\$ 40,871</u>	<u>\$ 7,173</u>
<b>Internal Borrowing Against Future Reserves</b>				
Utilities		\$ -	\$ 36,446	\$ (36,446)
Other		-	71,158	(71,158)
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 107,604</u>	<u>\$ (107,604)</u>
<b>Total</b>	<u>\$ 532,579</u>	<u>\$ 457,576</u>	<u>\$ 449,973</u>	<u>\$ 7,603</u>