



CORPORATE REPORT

NO: R097

COUNCIL DATE: May 2, 2016

REGULAR COUNCIL

TO: **Mayor and Council** DATE: **April 26, 2016**
FROM: **General Manager, Finance & Technology** FILE: **1880-20**
SUBJECT: **2015 Annual Financial Report**

RECOMMENDATION

The Finance & Technology Department recommend that Council:

1. Receive this report as information; and
2. Accept the 2015 Audited Financial Statements as presented in Appendix "I".

INTENT

The purpose of this report is to provide Council with information about the results of the audit of the City of Surrey 2015 financial statements and to have Council accept such statements, which will then be included in the City's 2015 Annual Financial Report.

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, 2015 for the City of Surrey are attached to this report as Appendix "I". These will be included in the City's 2015 Annual Report that will be published by the end of June.

The statements that are included in Appendix "I" have been prepared in accordance with Canadian Public Sector Accounting Standards as prescribed by the Public Sector Accounting Board (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.

The accounting firm of KPMG was retained to conduct the 2015 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, 2015 and the results of its operations for the year 2015.

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

The audited financial statements included in Appendix "I", 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, 2015</i> <i>(in thousands of dollars)</i>	<i>2015</i> <i>Budget</i>	2015 Actuals	2014 Actuals
REVENUES				
1	Taxation revenue	\$ 349,723	\$ 344,656	\$ 311,024
2	Sales of goods and services	211,158	211,925	195,356
3	Development cost charges			
	Current year available	102,580	8,790	8,492
	Prior year carryforward	45,000	49,808	48,119
4	Developer contributions	157,158	143,004	170,536
5	Investment income	20,150	16,412	18,454
6	Transfers from other governments	46,188	22,000	46,129
7	Other	53,841	58,041	48,764
		<u>985,798</u>	<u>854,636</u>	<u>846,874</u>
EXPENSES				
8	Police services	132,490	131,826	119,765
9	Parks, recreation and culture	81,881	80,003	69,138
10	General government	47,195	35,897	37,003
11	Water	61,999	60,530	57,801
12	Fire services	57,558	57,124	59,265
13	Sewer	43,965	43,436	49,240
14	Engineering	6,538	7,150	7,118
15	Drainage	15,021	14,560	20,867
16	Solid waste	30,173	29,107	28,043
17	Roads & traffic safety	34,080	37,749	32,159
18	Planning and development	27,589	23,999	24,379
19	Library services	16,267	16,250	13,744
20	Amortization	127,894	116,838	108,440
21	Interest, fiscal services & other	16,874	14,366	14,009
22	Loss on disposal of assets	0	2,833	15,265
		<u>699,524</u>	<u>671,668</u>	<u>656,236</u>
23	Excess revenues over expenses	286,274	182,968	190,638
24	Contribution from (to) capital expenditures	(497,002)	(305,795)	(490,458)
25	Contribution from (to) reserves	206,858	122,827	299,820
		<u>(3,870)</u>	<u>0</u>	<u>0</u>
26	Equity, beginning of year	<u>7,985,458</u>	<u>7,985,458</u>	<u>7,794,820</u>
27	Equity, end of year	<u>\$ 8,271,732</u>	<u>\$ 8,168,426</u>	<u>\$ 7,985,458</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 in 2015 was approximately \$5 million lower than budget. This variance was due primarily to lower than budgeted growth in general taxes (\$2.29 million lower), lower than budgeted revenue from the Capital Parcel Tax (\$0.40 million lower), the Drainage Parcel Tax (\$1.47 million lower) and the Roads and Traffic Levy (\$0.87 million lower).
2. Sale of Goods & Services: Sales revenue is overall \$767,000 higher than budget. This is due primarily to the one-time recognition of outstanding deposit in the sundry revenue (\$1.4 million higher) and utility rate and fee revenue being \$1.4 million higher than budget, these positive variances were offset by lower than budget Parks and Recreation revenues.
3. Development Cost Charges: The 'Budget' figure includes the development cost charges that are available for the 2015 program (\$102.58 million), as well as the funding that was committed to projects in prior years but had not yet been spent (\$45.00 million), for a total of \$147.58 million. The 'Actual' column includes only the revenue required to match the costs of the capital constructed (\$58.60 million) in 2015. The variance between actual and budget (\$88.98 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	\$2.587M	\$3.104M	\$0.517M
Cash -in-Lieu of Parkland	\$3.046M	\$4.167M	\$1.121M
Private Contributions	\$51.525M	\$5.789M	(\$45.736M)
Local Improvements	\$0.000M	\$0.336M	\$0.336M
Contributed Assets	\$100.000M	\$129.608M	\$29.608M
Total:	<u>\$157.158M</u>	<u>\$143.004M</u>	<u>\$14.154M</u>

The 'Budget' figure for NCP Contributions is determined based on the actual contributions received in the previous year (2014); comparatively, the 'Actual' column for NCP contributions is based on the actual NCP contributions received in the current year. The variances for both NCP and Cash-in-Lieu of Parkland is the result of higher than anticipated developer contributions, these funds will be utilized for the 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, including the proceeds of sales for SCDC properties. "Actual" contributions are made up of contributions from non-Provincial & Federal sources and miscellaneous contributions from various sources (including ICBC, other Municipalities and private sources) towards paving, road cutting services, signal installations

and miscellaneous contributions to parks development and other capital projects, SCDC proceeds of sales have been netted against their cost of goods sold and reported as other revenue, this budget anomaly has been corrected in the 2016 Financial Plan. Local Area Service (LAS) are neighbourhood improvements paid for by the owners of the benefiting properties, in order to accelerate the process in delivering specific engineering infrastructure.

Contributed Assets were added to the financial statements in 2009 and are indicative of development activity. The \$100 million budget for 2015 was established based on historical information. Actual asset contributions were \$129.61 million. Staff will continue to monitor the activity in an effort to improve future budgeting estimates.

5. Investment Income: The variance between the 'Actual' figure (\$16.41 million) and the 'Budget' figure (\$20.15 million) represents an unfavourable variance of \$3.74 million. This is due primarily to lower than expected interest earned by the investment portfolio due to generally low market interest rates.
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	\$6.652M	\$6.583M	(\$0.069M)
TransLink	\$17.542M	\$10.256M	(\$7.286M)
Gaming Revenue Sharing	\$3.100M	\$3.073M	(\$0.270M)
Other Sundry	\$1.352M	\$1.900M	\$0.548M
 Subtotal	 \$28.646M	 \$21.812M	 (\$6.834M)
 Capital Infrastructure Grants	 \$17.542M	 \$0.188M	 \$(17.354M)
 Total:	 <u>\$46.188M</u>	 <u>\$22.000M</u>	 <u>(\$24.188M)</u>

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 partnerships include the following:

- King George 3328-34 avenue (\$2.52 million);
- Arterial Widening & Paving (\$3.16 million); and
- Cycling, Transit & Other minor projects(\$4.00 million)

7. Other Revenue: This includes the following:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Permits, Licensing & Fines	\$25.483M	\$26.485M	\$1.002M
Lease & Rentals	\$6.610M	\$6.700M	\$0.090M
Penalties & Interest on Taxes	\$4.887M	\$4.901M	\$0.014M
Donation & Sponsorship	\$1.178M	\$2.854M	\$1.676M
Land Sales	\$5.080M	\$0.610M	(\$4.470M)
SCDC	\$10.603M	\$16.491M	\$5.888M
Total:	<u>\$53.841M</u>	<u>\$58.041M</u>	<u>\$4.200M</u>

The favorable variance in Other Revenues is predominately the result of higher than budgeted revenue from Permits, Licensing & Fines (\$1.0 million), higher than budgeted revenues from Donations and Sponsorships (\$1.67 million) and SCDC's favorable variance of \$5.89 million which was predominately due to sales of projects in the Campbell Heights area.

Expenses

8. Police Services: The \$0.664 million in savings in this area is predominately the result of civilian staff vacancies of \$0.403 million and operational costs savings of \$0.261 million dollars. The savings from this area have put aside for future expected costs increases related to the RCMP member salaries and severance buy back for retiring members.
9. Parks, Recreation & Culture: The \$1.88 million favorable variance is due to staff managing expenditures in lieu of recognizing lower than anticipated revenues.
10. General Government: This includes the following:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Mayor, Council, Grants & Initiatives	\$3.130M	\$3.099M	\$0.031M
City Manager (Leg. Services, Legal, Bylaws, Econ Dev)	\$13.950M	\$14.261M	(\$0.311M)
Finance & Technology	\$25.754M	\$25.691M	\$0.063M
Human Resources	\$3.589M	\$3.638M	(\$0.049M)
SCDC	\$8.247M	\$6.341M	\$1.906M
Other (contingency, misc. items)	\$2.042M	\$0.000M	\$2.042M
General Recovery	(\$9.544)M	(\$17.133)M	\$7.589M
Total	<u>\$47.195M</u>	<u>\$35.897M</u>	<u>\$11.298M</u>

Mayor, Council, Grant's & Initiatives had a slight favorable variance due to the timing of grants. The unfavorable variance in the City Manager's area is predominately the result of payments for terminating the Commissionaires contract (\$0.175 million) and operating costs associated with veterinarian services (\$0.160 million). The favorable variance in the Finance & Technology department is predominately the result of staff vacancies. Human Resources department has a slightly unfavorable variance due primarily to higher operating costs resulting from the ELP program. The budget for General Corporate

Recovery includes the charges to the Utilities; the actual figures include both charges to the Utilities and all other net recoveries by General Corporate.

The budget for SCDC is based on an estimate of non-capitalized administrative activity while the 'actual' reflects their administrative business expenses for the year. The 'Other' line is less than budget due to the contingency not being fully utilized.

11. Water: The under expenditure of (\$1.470 million) is the result of operational savings and increased recovered work and timing of expenditures.
12. Fire Services: The favorable variance of \$0.434 million in Fire Services is predominately due staff vacancies as a result of recruitment timing.
13. Sewer: The favorable variance of \$0.529 million is predominately the result of the timing of operating expenditures and lower than budgeted utility expenses.
14. Engineering: The unfavorable variance of \$0.612 million is predominantly the result of the timing of program delivery and operational savings.
15. Drainage: The favorable \$0.461 million variance is predominantly the result of Drainage utilizing less internal services than budgeted.
16. Solid Waste: The favorable variance of \$1.07 million in this area is the result of operational savings and timing of expenditures.
17. Roads & Traffic Safety: The unfavorable variance of \$3.67 million in this area is predominately due to 'Capital in Nature' expenditures, the budget for these expenditures resides in Contributions to/from Capital, line number 24.
18. Planning and Development: The favorable variance of \$3.59 million is primarily the result of position vacancies and the timing of expenditures.
19. Library services: The small favorable variance of (\$0.02 million) is the result of savings related to vacant positions.
20. Amortization: This expense represents the annual consumption or usage of City Assets. The 2015 Budget was estimated based on the actual assets owned by the City in 2014 as well as an estimate of the value of new assets that would be added in 2015. Although amortization for major upcoming projects was estimated, variances relate to the timing and mix of new assets added in each category during 2015. Amortization by asset type is as follows:

	<u>Budget</u>	<u>Actual</u>
Land Improvements	\$4.76M	\$4.16M
Building	\$17.52M	\$16.71M
Infrastructure	\$83.21M	\$77.34M
Equipment	\$22.40M	\$18.63M
	<u>\$ 127.89M</u>	<u>\$ 116.84M</u>

21. Interest, Bank Charges, Fiscal Services and other: This line item includes the principal and interest on long-term borrowing. The favorable variance in this area \$2.51 million is predominately the result of the City contributing more toward debt principal pay down.

22. Loss/ (Gain) on disposal of assets: This line represents the overall net loss on the disposal of City assets in the amount of \$2.83 million dollars.
23. 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. The anticipated excess is lower than budgeted primarily due to lower DCC's recognized in 2015 vs budgeted.
24. Contribution (to) capital expenditures: As noted in the comments related to line 23, funding used to support capital expenditures is now included in the line titled "Excess revenues over expenses" in the financial statements. In 2015, capital expenditures totalled \$305.80 million, being funded by developer contributions (\$142.19 million), DCC's (\$58.60 million), general contributions (\$11.05 million) and funding from other reserve funds and capital funds, which include internal borrowing (\$93.96 million).
25. Contribution (to)/from reserves: This line represents the reduction to equity, inclusive of the City's annual amortization of assets, the change in debt funding received but not yet utilized, general contributions and transfers from reserves.
26. 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 2015. It reflects the balance under the "Accumulated Surplus" line of the City's 2014 financial statements.
27. 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 "II".

Audit, Accounting and Reporting Matters

Surrey City Development Corporation ("SCDC")

During the year, SCDC disposed of one income property along with the continued sales of several of their development properties. SCDC also added three development properties to its holdings throughout 2015. The corporation also sold its ownership interest in a joint venture partnership for an office building project development. SCDC continued activity on their remaining 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 economically dependent on the City of Surrey and therefore is classified as an "other government organization", which is fully consolidated into the City's financial statements on a line by line basis as it is wholly owned by the City. As SCDC moves towards independence, staff will need to monitor this on an annual basis to ensure that the appropriate accounting and consolidation treatment is in place.

Audit Adjustments

The financial statements were adjusted to reflect the following items:

- Some land values were reclassified as properties available for sale to reflect the intended treatment of these assets by SCDC. These properties include the remaining lots of the Boundary Park Plaza, Campbell Heights North Phase 4 project and Murray Latta.
- Under the new gas tax agreement implemented for all local governments in 2014, local governments are allowed to spend funding received on a wide range of eligible expenditures. In 2015, the City received gas tax funding under this new agreement and initially recorded the unspent funding as deferred revenue. During the audit it was determined that the nature of the new agreement provided for a sufficiently wide range of eligible expenditures such that the funds received under the agreement should have been recorded as revenue in the current year. As such, an adjustment for \$2.5 million was recorded to increase revenues and decrease deferred revenues.
- The City has also adjusted prior year balances to decrease accumulated amortization for tangible capital assets resulting from \$2.1 million of information technology costs initially capitalized in tangible capital assets and subsequently expensed through amortization expense as they were not considered capital in nature. Upon further review in 2015, management determined the accounting treatment of these costs should in fact have been capitalized. The net result was an overstatement to 2014 expenses of \$2.0 million, an understatement to 2015 expenses (representing the reversal and capitalization of the costs) and an overstatement to accumulated amortization as at December 31, 2014.

PSAB Reporting Standards – Current Developments

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 and evolving initiatives.

New standards that have been adopted by PSAB and will affect financial reporting in the future include the following:

Related Party Transactions

Sections PS 2200 and PS 3420 of the PSA Handbook provides guidelines on the treatment of Related Party and Inter-entity transactions, respectively. This standard requires disclosure about material transactions that have had a financial effect on the City's financial statements between related parties or inter related entities. Disclosure would include information on which parties were related, the extent of the relationship would need to be recognized in the financial statements and the appropriate measures for recognized transactions.

Staff anticipates that these new standards will have minimal impact on the City's financial statements; however, staff will review the standards and assess if there are any procedures or policies that will need to be implemented for these standards prior to their effective date, which for the City will be January 1st, 2018.

Financial Instruments and Foreign Currency Translation

Section PS 3450 and PS 2601 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, 2019, 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 these new standards will have none to minimal impact on the City's financial statements; however, staff will review the standards and assess if there are any procedures or policies that will need to be implemented for these standards prior to their effective date, which for the City will be January 1st, 2020.

Assets, Contingent Assets and Contractual Rights

Three new PSA Handbook sections, PS 3210, PS 3320 and PS 3380, were approved in March 2015. These new sections are intended to improve the consistency and comparability of financial statement presentation. They include enhanced guidance on the definition of assets and disclosure of assets to provide users with better information about the types of resources available to the City. They also will require disclosure of contingent assets and contractual rights to provide users with information about the nature, extent and timing of future assets and potential assets and revenues available to the public sector entity when the terms of those contracts are met. This standard becomes effective for years commencing on or after April 1, 2017, although early adoption is encouraged.

Staff anticipates that these new standards will have minimal impact on the City's financial statements. Staff will review the standards and assess any procedures or policies that will need to be implemented for these standards prior to their effective date, which for the City will be January 1st, 2018.

New standards under review that may affect financial reporting in the future include the following:

Concepts underlying financial performance

PSAB is proposing a revised framework that will update the concepts that underline the reporting of financial performance in the financial statements. This includes categorizing revenues and expenses in order to provide information about the net result of services and the aspects of financial results that arise from transactions and events that would be either outside of operations or are not reasonably predictable. After review of the responses received from PSAB's consultation paper #3, a statement of principles is currently being developed. Adoption of these principles would result in a need to assess current accounting policies, financial statement presentation and revenue treatment practices.

Asset Retirement Obligations

PSAB issued a Statement of Principles in August 2014 to address the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of long-lived tangible capital assets currently in productive use. PSAB is deliberating comments received on its statement of Principles and expects to release an Exposure Draft in the third quarter of 2016. Recognition and measurement of the liability are expected to be a major issue, as well as accounting for the related expense. Adoption of these principles would result in a need to assess current accounting policies and practices.

Revenue

PSAB issued a Statement of Principles in August 2013 proposing a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement. PSAB is deliberating comments received on its statement of Principles and expects to release an Exposure Draft in the first quarter of 2017. The focus of this standard is on two main areas of revenue: exchange transactions and unilateral (non-exchange) transactions. In the case of revenues arising from an exchange transaction, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations. For unilateral transactions, recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue. Adoption of these principles would result in a need to assess current accounting policies and practices.

General Comment

Overall, the City continues to be in a relatively strong financial position. In aggregate, the City's reserve balances, accumulated surplus and developer contributions have increased from prior year; Appendix "II" provides a summary of the City's current reserve balances and related commitments.

Staff will continue to provide Council with updated financial information on a quarterly basis during 2016 through the Quarterly Financial Reporting process.

Auditors Comments

As noted in the Audit Findings Report attached as Appendix "III", 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 "I" have been prepared in accordance with Canadian Public Sector Accounting Standards 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 2015 Annual Financial Report that will be distributed to Council in June, 2016.

All of the variances outlined in this report will be incorporated into the 2016 Five Year Financial Plan.

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

Attachments:

Appendix "I": 2015 City of Surrey Financial Statements

Appendix "II": Reserve Balance Summary

Appendix "III": KPMG Audit Findings Report

City of Surrey

Consolidated Statement of Financial Position

*As of December 31, 2015, with comparative figures for 2014
(in thousands of dollars)*

	2015	2014
		<i>(recast - note 3)</i>
FINANCIAL ASSETS		
Cash and cash equivalents	\$ 20,129	\$ 55,135
Accounts receivable (note 4)	109,251	144,673
Properties held-for-sale (note 5)	42,506	31,115
Investments (note 6)	698,709	582,457
	870,595	813,380
LIABILITIES		
Accounts payable and accrued liabilities (note 7)	143,826	154,334
Deposits and prepayments (note 8)	194,784	170,524
Deferred revenue (note 9)	31,305	26,443
Deferred development cost charges (note 10)	239,631	229,595
Debt (note 11)	227,918	241,976
	837,464	822,872
NET FINANCIAL ASSETS (DEBT)	33,131	(9,492)
NON-FINANCIAL ASSETS		
Tangible capital assets (note 13)	8,130,440	7,989,977
Inventories of supplies	857	1,011
Prepaid expenses	3,997	3,962
	8,135,294	7,994,950
ACCUMULATED SURPLUS (note 14)	\$ 8,168,425	\$ 7,985,458

Commitments and contingencies (note 15)

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

City of Surrey

Consolidated Statement of Operations

*For the year ended December 31, 2015, with comparative figures for 2014
(in thousands of dollars)*

	2015 <i>Budget</i> <i>(note 24)</i>	2015	2014 <i>(recast - note 3)</i>
REVENUES			
Taxation revenue (note 17)	\$ 349,723	\$ 344,656	\$ 311,024
Sales of goods and services	211,280	211,925	195,356
Development cost charges (note 10)	147,580	58,598	56,611
Developer contributions	157,158	143,004	170,536
Investment income	20,150	16,437	18,454
Transfers from other governments (note 23)	46,189	22,000	46,129
Other	53,718	58,016	48,764
TOTAL REVENUES	985,798	854,636	846,874
EXPENSES			
Police services	134,026	133,003	120,938
Parks, recreation and culture	97,655	93,830	84,583
General government	80,117	65,306	69,393
Water	73,069	70,229	67,490
Fire services	59,966	58,858	61,114
Sewer	58,042	54,884	61,797
Engineering	5,599	9,717	12,061
Drainage	39,229	35,421	42,600
Solid waste	31,934	30,627	29,540
Roads and traffic safety	72,347	75,269	64,790
Planning and development	27,593	24,003	24,383
Parking	349	1,982	1,457
Surrey City Energy	590	257	310
Library services	19,008	18,283	15,780
TOTAL EXPENSES	699,524	671,669	656,236
ANNUAL SURPLUS	286,274	182,967	190,638
Accumulated Surplus, beginning of year	7,985,458	7,985,458	7,794,820
Accumulated Surplus, end of year	\$ 8,271,732	\$ 8,168,425	\$ 7,985,458

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

City of Surrey

Consolidated Statement of Changes in Net Financial Assets (Debt)

*As at December 31, 2015, with comparative figures for 2014
(in thousands of dollars)*

	2015 <i>Budget</i> <i>(note 24)</i>	2015	2014 <i>(recast - note 3)</i>
ANNUAL SURPLUS	\$ 286,274	\$ 182,967	\$ 190,638
Acquisition of tangible capital assets	(451,745)	(338,776)	(456,855)
Amortization of tangible capital assets	127,894	116,837	108,440
Loss on disposal of tangible capital assets	-	10,134	15,265
Proceeds on disposal of tangible capital assets	-	7,506	5,887
	<u>(37,577)</u>	<u>(21,332)</u>	<u>(136,625)</u>
Acquisition of inventories of supplies	-	(857)	(1,011)
Consumption of inventories of supplies	-	1,011	1,010
Acquisition of prepaid expenses	-	(3,997)	(3,962)
Use of prepaid expenses	-	3,962	3,299
Transfer to properties held-for-sale	-	63,836	41,006
	<u>-</u>	<u>63,955</u>	<u>40,342</u>
CHANGE IN NET FINANCIAL ASSETS (DEBT)	<i>(37,577)</i>	42,623	<i>(96,283)</i>
Net financial assets (debt), beginning of year	<i>(9,492)</i>	(9,492)	86,791
Net financial assets (debt) , end of year	<u>\$ (47,069)</u>	<u>\$ 33,131</u>	<u>\$ (9,492)</u>

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

City of Surrey

Consolidated Statement of Cash Flows

*For the year ended December 31, 2015, with comparative figures for 2014
(in thousands of dollars)*

	2015	2014
		<i>(recast - note 3)</i>
Cash provided by (used in):		
OPERATING TRANSACTIONS		
Annual Surplus	\$ 182,967	\$ 190,638
Non-Cash charges to operations:		
Amortization expense	116,837	108,440
Loss on disposal of tangible capital assets	10,134	15,265
Developer contributions of tangible capital assets (note 13(b))	(129,608)	(146,796)
Change in non-cash operating working capital:		
Accounts receivable	35,422	(5,427)
Inventories of supplies	154	(1)
Prepaid expenses	(35)	(663)
Accounts payable and accrued liabilities	(10,508)	(6,260)
Deposits and prepayments	24,260	16,646
Deferred revenue	4,862	(319)
Deferred development cost charges	10,036	4,188
Net change in cash from operating transactions	244,521	175,711
FINANCING TRANSACTIONS		
Repayment of debt	(5,119)	(4,922)
Proceeds from issuance of loan payable	2,910	2,665
Repayment on loan payable	(11,849)	(1,346)
Cash provided (used) by financing transactions	(14,058)	(3,603)
CAPITAL TRANSACTIONS		
Cash used to acquire tangible capital assets	(209,168)	(310,059)
Acquisition of properties held-for-sale	(9,272)	(4,321)
Disposal of properties held-for-sale	61,717	29,449
Proceeds on disposal of tangible capital assets	7,506	5,887
Cash provided (used) by capital transactions	(149,217)	(279,044)
INVESTING TRANSACTIONS		
Decrease (increase) in investments	(116,252)	91,669
Cash provided (used) by investing transactions	(116,252)	91,669
Increase (decrease) in cash and cash equivalents	(35,006)	(15,267)
Cash and cash equivalents, beginning of year	55,135	70,402
Cash and cash equivalents, end of year	\$ 20,129	\$ 55,135

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2015
(tabular amounts in thousands of dollars)

Appendix I

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 Public Sector Accounting Standards as prescribed by the Public Sector Accounting Board ("PSAB") of the Chartered Professional Accountants of Canada.

(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 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, Drainage, Parking, Roads & Traffic Safety, Sewer, Solid Waste, Surrey City Energy and Water 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, Drainage, Parking, Roads & Traffic Safety, Sewer, Solid Waste, Surrey City Energy and Water Capital Funds and Surrey Public Library Capital. They are used to record the acquisition costs of tangible capital assets and any related debt outstanding.

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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

(tabular amounts in thousands of dollars)

Appendix I

1. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

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 wholly owned subsidiaries and government partnerships, which are accounted for as follows:

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

SCIC has a 29.9% 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 Limited Partnership

SCIC has a 50% ownership in nine holding companies (proportionately consolidated) referred to as the "Surrey Centre Tower Holdings".

SCIC held a 50% ownership in the Croydon Drive Development Limited Liability Partnership ("Croydon") - (proportionately consolidated prior to date of disposition, March 27, 2015)

SCIC has a 50% ownership in 0918387 BC Ltd., the General Partner of Croydon - (proportionately consolidated prior to date of disposition, March 27, 2015)

On March 27, 2015, SCIC disposed of its ownership in Croydon and 0918387 BC Ltd. The disposition resulted in a \$2.3 million gain.

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

(iii) Surrey City Investment (Industrial) Corporation ("SCIIC") - (100% owned and fully consolidated)

SCIIC has a 50% ownership in the Beedie SCDC (34A Ave) Limited Partnership ("Beedie LP") - (50% owned and proportionately consolidated)

SCIIC has a 50% ownership in the Beedie SCDC (34A Ave) G.P. Ltd., the General Partner of Beedie LP - (50% owned and proportionately consolidated)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

(tabular amounts in thousands of dollars)

Appendix I

1. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

v) Surrey Homelessness and Housing Society

The consolidated financial statements include 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 its 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 19.

(b) Revenue recognition

Revenues are recognized in the period in which the transaction or event occurs that give rise to the revenues. All revenues are recorded on an accrual basis, except when the amounts 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 sales 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. Consulting revenue is recorded at the time when services are provided.

Restricted transfers from governments are deferred and recognized as revenue in the period the stipulations in the related agreement are met. Unrestricted transfers are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

(tabular amounts in thousands of dollars)

Appendix I

1. Significant accounting policies (continued)

(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 incurred.

(f) Properties held-for-sale

Properties held for sale include real estate properties which are ready and available to be sold and for which there is an available market. They are valued at the lower of cost or expected net realizable value. No amortization is recorded for properties held-for-sale. Properties held-for-sale is presented in note 5.

(g) Cash and cash equivalents

Cash and cash equivalents includes cash and short-term investments with maturities of three months or less at the date of acquisition, are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

(h) 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.

(i) 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

(tabular amounts in thousands of dollars)

Appendix I

1. Significant accounting policies (continued)

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.

(j) Budget data

The budget data presented in these consolidated financial statements was included in the City of Surrey 2015 – 2019 Consolidated Financial Plan and was adopted through By-law #18380 on February 2, 2015.

(k) 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
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.

ii) Interest capitalization

The City does not capitalize interest costs associated with the acquisition or construction of a tangible capital asset except for development properties of SCDC.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2015
(tabular amounts in thousands of dollars)

Appendix I

1. Significant accounting policies (continued)

(k) Non-financial assets (continued)

iii) 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.

iv) Intangible assets

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

v) Leases

Leases are classified as capital or operating leases. Leases that 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.

vi) Inventories of supplies

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

(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 lives 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 22).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

(tabular amounts in thousands of dollars)

Appendix I

1. Significant accounting policies (continued)

(n) Liabilities for contaminated sites

Contaminated sites are a result of contamination being introduced into air, soil, water or sediment of a chemical, organic or radioactive material or live organism that exceeds an environmental standard. A liability for remediation of contaminated sites is recognized when a site is not in productive use and all of the following criteria are met:

- An environmental standard exists;
- Contamination exceeds an environmental standard;
- The City is directly responsible or accepts responsibility;
- The City expects that future economic benefits will be given up; and,
- A reasonable estimate of the amount can be made.

The liability is measured as management's estimate of the cost of post remediation, including operations, maintenance and monitoring, which are an integral part of the remediation strategy for a contaminated site. The liability is recorded net of any expected recoveries.

2. Adoption of new accounting policy

Effective January 1, 2015 the City adopted Public Sector Accounting Handbook Standard PS 3260, Liability for Contaminated Sites. This standard was applied on a retroactive basis to January 1, 2014 and did not result in any adjustments to liabilities, tangible capital assets or accumulated surplus of the City.

3. Recast of comparative figures

During the year, the City determined that certain immaterial adjustments were required to be made to its comparative figures.

The City adjusted prior year balances to correct prior year amortization of Tangible Capital Assets overstated.

The effects of the adjustments on the comparative figures are summarized below in thousands of dollars:

Accumulated surplus at January 1:	<u>2015</u>	<u>2014</u>
Opening accumulated surplus, as previously reported	\$7,983,641	\$7,794,820
Amortization of TCA overstatement	1,817	-
Opening accumulated surplus, as recast	<u>\$7,985,458</u>	<u>\$7,794,820</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

(tabular amounts in thousands of dollars)

Appendix I

3. Recast of comparative figures (continued)

Tangible Capital Assets at December 31: 2014

Tangible Capital Assets, as previously reported	\$ 7,988,160
Adjustment for Amortization	1,817
Net financial assets, as recast	<u>\$7,989,977</u>

Annual surplus:	<u>2014</u>
As previously reported	\$188,821
Adjustment for Amortization	1,817
Annual surplus, as recast	<u>\$190,638</u>

4. Accounts receivable

	<u>2015</u>	<u>2014</u>
General accounts receivable	\$ 31,819	\$ 55,797
Development Cost Charges	36,842	42,867
Property taxes	20,386	21,514
Utility rates	12,887	12,108
Due from joint venture partners	1,460	3,233
Due from other authorities	3,170	6,560
Debenture debt guarantee	2,400	2,340
Tax sale properties	287	254
	<u>\$ 109,251</u>	<u>\$ 144,673</u>

5. Properties held-for-sale

	<u>2015</u>	<u>2014</u>
Opening balance	\$ 31,115	\$ 15,237
Transfer from tangible capital assets	63,836	41,006
Disposal on sale	(61,717)	(29,449)
Additions	9,272	4,321
	<u>\$ 42,506</u>	<u>\$ 31,115</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

(tabular amounts in thousands of dollars)

Appendix I

6. Investments

	<u>2015</u>	<u>2014</u>
Investments maturing within one year	\$ 390,812	\$ 344,598
Investments maturing within two years	91,421	65,519
Investments maturing within ten years	216,172	172,036
Investment in partnership	304	304
	<u>\$ 698,709</u>	<u>\$ 582,457</u>

Average portfolio yield 2.38% (2014 – 2.61%). All investments can be liquidated on demand, but may have associated penalties on liquidation.

During 2013, SCDC invested \$700,000 for a 20% ownership of Bosa Properties (Bright A.1) Limited Partnership (“Bosa”). During 2014 SCDC received a \$396,502 distribution from Bosa LP. Accordingly, SCDC’s investment in the partnership was reduced to \$303,498 at December 31, 2014. SCDC does not share control of Bosa and accordingly, this has been accounted for as a portfolio investment, carried at cost.

7. Accounts payable and accrued liabilities

	<u>2015</u>	<u>2014</u>
Trade accounts payable	\$ 55,187	\$ 62,346
Due to Federal Government	34,585	29,575
Employee future benefits (note 12)	25,655	24,520
Due to joint venture partners	1,340	3,140
Contractors' holdbacks	11,768	15,811
Due to Regional Districts	7,324	9,695
Due to Province of British Columbia	4,351	5,386
Due to other government entities	1,607	1,852
Interest on debt	2,009	2,009
	<u>\$ 143,826</u>	<u>\$ 154,334</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

(tabular amounts in thousands of dollars)

Appendix I

8. Deposits and prepayments

	<u>2015</u>	<u>2014</u>
Deposits:		
Future works	\$ 39,474	\$ 37,687
Planning and permits	48,607	42,901
Engineering	42,333	33,673
Capital deposits	9,740	7,753
Pavement cuts	3,967	3,535
Boulevard trees	2,333	2,669
Latecomer	929	763
Tenant deposits	641	397
Other deposits	4,161	2,790
Developer works agreement	140	95
Amenities	315	288
Total Deposits	<u>\$ 152,640</u>	<u>\$ 132,551</u>
Prepayments:		
Taxes	\$ 38,811	\$ 34,676
Utilities	2,029	1,813
Tax sale private purchase payment	1,294	1,449
Other prepayments	10	35
Total prepayments	<u>42,144</u>	<u>37,973</u>
Total deposits and prepayments	<u>\$ 194,784</u>	<u>\$ 170,524</u>

9. Deferred revenue

	<u>2015</u>	<u>2014</u>
Development/building permits	\$ 19,471	\$ 16,269
Deferred gains on land sales to joint ventures	3,958	4,764
Deferred lease revenue	5,924	3,873
Other	1,952	1,537
	<u>\$ 31,305</u>	<u>\$ 26,443</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

(tabular amounts in thousands of dollars)

Appendix I

10. 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 recorded in a separate reserve fund. DCC's are deferred and recognized as revenue when the related costs are incurred.

	<u>2015</u>	<u>2014</u>
Deferred DCC's:		
Arterial roads	\$ 55,763	\$ 55,196
Parkland	43,324	46,200
Drainage/storm water detention	39,685	39,856
Sanitary sewer	27,273	24,308
Collector roads	15,008	12,038
Water	12,021	14,719
Area specific	43,486	34,118
Park development	3,071	3,160
	<u>\$ 239,631</u>	<u>\$ 229,595</u>
Deferred DCC's, beginning of year	<u>\$ 229,595</u>	<u>\$ 225,407</u>
DCC's levied for the year	66,798	58,543
Investment income	1,836	2,256
Total DCC's deferred	<u>68,634</u>	<u>60,799</u>
Revenue recognized for General Capital	(43,547)	(48,078)
Revenue recognized for Water Capital	(6,945)	(2,631)
Revenue recognized for Sewer & Drainage Capital	(8,106)	(5,902)
Total DCC's recognized as revenue	<u>(58,598)</u>	<u>(56,611)</u>
Net increase for the year	10,036	4,188
Deferred DCC's, end of year	<u>\$ 239,631</u>	<u>\$ 229,595</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2015
(tabular amounts in thousands of dollars)

Appendix I

11. Debt

	<u>2015</u>	<u>2014</u>
Debenture debt (i)	\$ 196,316	\$ 201,435
Loans payable (ii)	<u>31,602</u>	<u>40,541</u>
	<u>\$ 227,918</u>	<u>\$ 241,976</u>

(i) Debenture debt

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

Gross amount of the debt less sinking fund installments and actuarial adjustments to date are as follows:

	<i>Gross debt</i>	<i>Sinking fund installments and actuarial adjustments</i>	<i>Net debt 2015</i>	<i>Net debt 2014</i>
General Capital Fund	\$ 212,335	\$ 16,019	\$ 196,316	\$ 201,435

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
126	September 26, 2013	30	September 26, 2043	3.85%	September 26, 2023

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

(tabular amounts in thousands of dollars)

Appendix I

11. Debt (continued)

(ii) Loans payable

Loans payable by Surrey City Development Corporation are as follows:

	2015	2014
Demand loan, Grove LP, 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	\$ -	\$ 2,998
Croydon Drive Development LLP Loan payable, RBC, bearing interest at RBP plus 0.75% per annum, secured by the underlying property and repayable on the earlier of the receipt of commercial financing and May 31, 2015	-	5,059
Murray Latta loan payable, Bank of Montreal, 7-year term maturing May 1, 2020, payable in monthly payments of \$22,942, including interest calculated at a rate of 3.86% per annum, secured by a mortgage on the commercial property	4,138	4,253
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	13,624	14,000
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	13,840	14,231
	\$ 31,602	\$ 40,541

Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

(tabular amounts in thousands of dollars)

Appendix I

11. Debt (continued)

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

	Sinking fund installments and actuarial adjustments	Loan payments	Total
2016	\$ 5,323	\$ 917	\$ 6,240
2017	5,536	954	6,490
2018	5,757	993	6,750
2019	5,988	1,033	7,021
2020	6,227	1,074	7,301
2021 and thereafter	167,485	26,631	194,116
Total	\$ 196,316	\$ 31,602	\$ 227,918

Interest charges on debt are as follows:

	2015	2014
Cash for interest payments	\$ 8,097	\$ 8,097
Change in interest accrued	-	(5)
Total interest expense	\$ 8,097	\$ 8,092

12. 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

(tabular amounts in thousands of dollars)

Appendix I

12. Employee future benefits (continued)

An actuarial valuation for these benefits was performed to determine the City's accrued benefit obligation as at December 31, 2015. The difference between the actuarially determined accrued benefit obligation of \$23.7 million and the accrued benefit liability of \$25.7 million as at December 31, 2015 is an unamortized actuarial gain of \$2.0 million. The actuarial gain is amortized over a period equal to the employees' average remaining service lifetime of 11 years.

Accrued benefit obligation:	<u>2015</u>	<u>2014</u>
Balance, beginning of year	\$23,107	\$21,128
Current service cost	1,803	1,610
Interest cost	766	865
Actuarial loss (gain)	(480)	1,280
Benefits paid	<u>(1,509)</u>	<u>(1,776)</u>
Accrued benefit obligation, end of year	<u>\$23,687</u>	<u>\$23,107</u>

Reconciliation of accrued benefit obligation to accrued benefit liability:

	<u>2015</u>	<u>2014</u>
Actuarial benefit obligation, end of year	\$ 23,687	\$ 23,107
Unamortized actuarial gain	<u>1,968</u>	<u>1,413</u>
Accrued benefit liability, end of year	<u>\$ 25,655</u>	<u>\$ 24,520</u>

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

	<u>2015</u>	<u>2014</u>
Discount rate	3.20%	3.20%
Expected future inflation rate	2.50%	2.50%
Expected wage and salary range increases	0.50%	0.50%
Employee average remaining service life (years)	11.0	11.0

Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

(tabular amounts in thousands of dollars)

Appendix I

13. Tangible capital assets

Cost	Balance at December 31, 2014	Additions	Disposals / WIP Allocations	Balance at December 31, 2015
Land and land improvements	\$ 1,748,642	\$ 46,070	\$ 19,166	\$ 1,775,546
Buildings	501,420	75,053	12,252	564,221
Infrastructure	4,200,253	216,562	6,450	4,410,365
Machinery and equipment	217,833	31,582	8,410	241,005
Land under road	2,628,397	95,094	-	2,723,491
Work-in-Progress	400,957	353,272	527,282	226,947
Total	\$ 9,697,502	\$ 817,633	\$ 573,560	\$ 9,941,575

Accumulated Amortization	Balance at December 31, 2014	Amortization	Accumulated Amortization on Disposals	Balance at December 31, 2015
	<i>(recast – note 3)</i>			
Land and land improvements	\$ 71,524	\$ 4,160	\$ 255	\$ 75,429
Buildings	183,880	16,713	1,208	199,385
Infrastructure	1,345,354	77,339	3,449	1,419,244
Machinery and equipment	106,767	18,625	8,315	117,077
Total	\$ 1,707,525	\$ 116,837	\$ 13,227	\$ 1,811,135

Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

(tabular amounts in thousands of dollars)

Appendix I

13. Tangible capital assets (continued)

Net Book Value by category	December 31, 2014	December 31, 2015
	<i>(recast – note 3)</i>	
Land and land improvements	\$ 1,677,118	\$ 1,700,117
Buildings	317,540	364,836
Infrastructure	2,854,899	2,991,121
Machinery and equipment	111,066	123,928
Land under road	2,628,397	2,723,491
Work-in-Progress	400,957	226,947
Total	\$ 7,989,977	\$ 8,130,440

Net Book Value by fund	December 31, 2014	December 31, 2015
	<i>(recast – note 3)</i>	
General capital	\$ 2,150,169	\$ 2,216,087
Transportation capital	3,525,417	3,603,485
Water capital	592,103	605,333
Sewer capital	541,931	540,766
Drainage capital	1,059,186	1,071,231
Library capital	5,673	5,418
Surrey City Development Corp.	115,498	88,120
Total	\$ 7,989,977	\$ 8,130,440

a) Work-in-progress

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

Work-in-progress having a value of \$226.9 million (2014 - \$401.0 million) has not been amortized. Amortization of these assets will commence when each specific asset is put into service.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

(tabular amounts in thousands of dollars)

Appendix I

13. Tangible capital assets (continued)

b) Contributed Tangible Capital Assets

Contributed tangible capital assets have been recognized at fair value at the date of contribution. The value of contributed assets received during the year is \$129.6 million (2014 - \$146.8 million) comprised of roads infrastructure in the amount of \$95.5 million (2014 - \$92.4 million), water and wastewater infrastructure in the amount of \$19.7 million (2014 - \$45.7 million) and land in the amount of \$14.4 million (2014 - \$8.7 million), including improvements.

c) Tangible Capital Assets Disclosed at Nominal Values

Where an estimate of fair value is not determinable, the tangible capital asset is recognized at a nominal value.

d) Works of Art and Historical Cultural 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.

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, 2015 and 2014.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

(tabular amounts in thousands of dollars)

Appendix I

14. Accumulated surplus

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

	2015	2014
		<i>(recast – note 3)</i>
Accumulated Surplus per Statement of Financial Position	\$ 8,168,425	\$ 7,985,458
Less Restricted Funds:		
Tangible capital assets	8,130,440	7,989,977
Debt funded assets	(182,656)	(171,734)
	7,947,784	7,818,243
Reserves set aside by Council		
Equipment and Building Replacement	33,670	35,888
Capital Legacy	19,486	2,854
Neighborhood Concept Plans	22,783	23,836
Local Improvement financing	15,689	15,173
Environmental Stewardship	6,536	6,448
Park Land Acquisition	9,948	8,876
Water Claims	1,328	1,315
Parking Space	1,535	1,260
Affordable Housing	23	8
	110,998	95,658
Internal borrowing	(23,213)	(25,536)
Restricted Reserves		
Infrastructure Replacement	(5,058)	6,103
Self-Insurance	15,053	15,982
Revenue Stabilization	13,989	13,250
Operating Emergencies	8,782	8,758
Environmental Emergencies	7,420	5,346
Prepaid expenses	3,997	3,962
Inventories of supplies	857	1,011
Committed funds	147,662	133,226
	192,702	187,638
Other Entities		
Surrey City Development Corporation	(74,366)	(105,265)
Surrey Homelessness and Housing Society	8,012	8,212
	(66,354)	(97,053)
Total Restricted Funds	8,161,917	7,978,950
Unappropriated Surplus	\$ 6,508	\$ 6,508

Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

(tabular amounts in thousands of dollars)

Appendix I

15. 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 14). 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 28 Class "A" and 23 Class "B" shares issued and outstanding as at December 31, 2015). 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.
- 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 pledge agreement in connection with a non-recourse first collateral mortgage expiring October 15, 2017, 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

(tabular amounts in thousands of dollars)

Appendix I

15. Commitments and contingencies (continued)

- e) The City insures itself through a combination of insurance policies and self-insurance. The City has a funded self-insurance appropriation included in surplus (note 14). Based on estimates, this appropriation reasonably provides for all outstanding claims.
- f) The City is, from time to time, engaged in or party to certain legal actions, assessment appeals and other existing conditions involving uncertainty which may result in material losses. 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 reasonably estimated have been recorded in the financial statements as a liability.
- 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 Notes. This contingent liability is a condition of the borrowings undertaken by the City through:

- a. MFA Debenture Issue No. 116 April 4, 2011;
- b. MFA Debenture Issue No. 121 October 4, 2012; and
- c. MFA Debenture Issue No. 126 September 26, 2013.

As a condition for each debenture issue, the City is required to execute demand notes in connection with each debenture whereby the City may be required to loan certain amounts to the MFA. The debt agreement with the MFA provides that if at any time the scheduled payments provided for in the agreement are not sufficient to meet the MFA's obligations in respect to such borrowing, the resulting deficiency becomes the joint and severed liability of the City and all other participants to the agreement through the MFA. The City is similarly liable on a contingent basis for the debt of other municipalities secured through the MFA.

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
126	17928	R13-1059	1188	Other	30	943
126	17929	R13-1061	1188	Other	30	280
Total						\$ 3,957

Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

(tabular amounts in thousands of dollars)

Appendix I

15. Commitments and contingencies (continued)

h) Policing services

The City entered into a contract with the Provincial Government that provides for the Royal Canadian Mounted Police ("RCMP") to deliver policing services for the City through to March 31, 2032.

i) Surrey Organics Biofuel Processing facility

The City has entered into a 25 year agreement with Orgaworld Surrey Limited Partnership to design, build, finance, operate, and maintain the Surrey Organics Biofuel Processing facility. The City contributed the land and 25% of the construction costs up to \$16 million (received through a P3 Canada Infrastructure Grant). Under the agreement, the City has guaranteed to provide the operator with a minimum of 54,449 tonnage of City Organic Waste for processing in year 1, increasing annually over the life of the agreement to a minimum of 69,975 tonnage in year 25. In return the City will accept 100% of the Biomethane that is produced at the facility and will share surplus Industrial, Commercial and Institutional (ICI) revenue and Digestate Product revenue.

16. 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 administering the Plan, including investment of the assets and administration of benefits. The Plan is a multi-employer defined benefit pension plan. Basic pension benefits provided are based on a formula. As at December 31, 2015, the Plan has about 185,000 active members and approximately 80,000 retired members. Active members include approximately 37,000 contributors from local government.

The most recent valuation for the Plan as at December 31, 2012 indicated a \$1,370 million funding deficit for basic pension benefits on a going concern basis. The next valuation will be as at December 31, 2015 with results available in 2016.

Employers participating in the Plan record their pension expense as the amount of employer contributions made during the fiscal year (defined contribution pension plan accounting). This is because the Plan records accrued liabilities and accrued assets for the Plan in aggregate, resulting in no consistent and reliable basis for allocating the obligation, assets and cost to the individual employers participating in the Plan.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2015
(tabular amounts in thousands of dollars)

Appendix I

16. Pension plan (continued)

The City paid \$16.8 million (2014 - \$16.0 million) for employer contributions while employees contributed \$14.0 million (2014 - \$13.2 million) to the Plan in Fiscal 2015.

17. Taxation revenue

	2015	2014
Tax collected:		
Property taxes	\$ 276,588	\$ 262,365
Collections for other authorities	281,012	276,085
Drainage Parcel taxes	50,108	31,918
Grants-in-lieu of taxes	17,440	16,266
Other	520	475
	625,668	587,109
Less transfers to other authorities:		
Province of BC - School Taxes	212,851	211,600
Greater Vancouver Regional District	6,022	6,151
BC Assessment Authority	6,764	6,792
Greater Vancouver Transportation Authority	42,055	42,765
Other	13,320	8,777
	281,012	276,085
Taxation revenue	\$ 344,656	\$ 311,024

18. 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.

19. 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:

Notes to the Consolidated Financial Statements

For the year ended December 31, 2015
(tabular amounts in thousands of dollars)

Appendix I

19. Trust funds (continued)

			<u>2015</u>	<u>2014</u>
Assets				
Cash and short term investments			<u>\$ 3,321</u>	<u>\$ 3,171</u>
Equity				
	Employee Benefits Fund	Cemetery Perpetual Care Fund	<u>2015</u>	<u>2014</u>
Balance, beginning of year	\$ 632	\$ 2,539	\$ 3,171	\$ 3,067
Employment insurance rebate	73	-	73	82
Contributions	-	164	164	122
Interest revenue	6	-	6	8
Benefits purchased	(15)	-	(15)	(29)
Refunded to employees	(78)	-	(78)	(79)
Balance, end of year	<u>\$ 618</u>	<u>\$ 2,703</u>	<u>\$ 3,321</u>	<u>\$ 3,171</u>

20. 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 City appoints the majority of members in the Society, who then appoint the Society's Board, 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.

21. Surrey City Development Corporation

On April 24, 2007 the City of Surrey incorporated the Surrey City Development Corporation ("SCDC") 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. As a controlled other government organization, the Corporation's financial information is fully consolidated within the City's financial statements.

As at December 31, 2015, SCDC has entered into Government Partnerships as follows:

Notes to the Consolidated Financial Statements

For the year ended December 31, 2015
(tabular amounts in thousands of dollars)

Appendix I

21. Surrey City Development Corporation (continued)

a) The Grove Limited Partnership

The Grove Limited Partnership ("Grove") is a partnership 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 proportionate amounts included in the consolidated financial statements at December 31, 2015 are as follows:

Assets	\$663
Liabilities	(49)
Tangible capital assets	62
Prepays	<u>-</u>
Accumulated surplus	<u>\$676</u>

b) Croydon Drive Limited Partnership

Croydon Drive Limited Partnership ("Croydon") was a partnership for the development of two office buildings. SCDC was an equal partner in Croydon prior to the disposition of their interest in the partnership on March 27, 2015. Croydon's financial results were proportionately consolidated with SCDC based upon the 50% share of total contributions up to the date of disposition. No proportionate amounts were included in the financial statements at December 31, 2015.

c) Surrey Centre Limited Partnerships

Surrey Centre Limited Partnerships ("SCLPs") are various partnerships for the development of mixed-use real estate developments in the City. The SCLPs financial results are proportionately consolidated with those of the Corporation based upon the Corporation's partnership interest of 29.9%. The liability of SCDC is limited to the cash and land which it will contribute to the SCLP through SCIC. The proportionate amounts included in the financial statements at December 31, 2015 are as follows:

Assets	\$ 303
Liabilities:	
Payable to partners	(1,267)
Deferred gain	(3,519)
Accounts payable	<u>(1,485)</u>
	<u>(6,271)</u>
Tangible capital assets	<u>19,765</u>
Accumulated surplus	<u>\$ 13,797</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

(tabular amounts in thousands of dollars)

Appendix I

21. Surrey City Development Corporation (continued)

d) Beedie Limited Partnership

Beedie Limited Partnership ("Beedie LP") is a partnership in the business of real estate investment and development of a build-to-suit industrial building in the City. SCDC is an equal partner and will provide contributions of cash and land to fund development. Beedie LP financial results are proportionately consolidated with SCDC based upon the 50% share of total contributions. The liability of the Corporation is limited to the cash and land which it will contribute to Beedie LP. The proportionate amounts included in the financial statements at December 31, 2015 are as follows:

Assets	\$ 146
Liabilities	(1,491)
Tangible capital assets	3,117
Prepays	<u>159</u>
Accumulated surplus	<u>\$ 1,931</u>

22. 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 Police Services; Parks, Recreation and Culture Services; General Government Services; Water Services; Fire Services; Sewer Services; Engineering Services; Drainage Services; Solid Waste Management Services; Roads & Traffic Safety Services; Planning and Development Services; Parking Services; Surrey City Energy 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:

Police Services

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

(tabular amounts in thousands of dollars)

Appendix I

22. Segmented information (continued)

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 and cultural facilities and 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. 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.

Water Services – Water Department

The Water Utility operates the water system and its primary responsibility, in partnership with the Operations Division and Metro Vancouver, is to supply clean, safe drinking water to the residences and businesses of Surrey.

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.

Sewer Services – Sewer Department

The Sewer Utility operates the network of sewer mains, to collect sewage and convey such sewage to treatment plants. The utility also plans, designs, and constructs sanitary sewer infrastructure; manages inflow and infiltration controls; and undertakes initiatives in support of the region’s Integrated Liquid Waste Resource Management Plan.

Engineering Services – Engineering Department

The Engineering Department is responsible for providing timely and effective services relating to water, sewer, drainage, garbage collection, transportation systems, and corporate real estate.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

(tabular amounts in thousands of dollars)

Appendix I

22. Segmented information (continued)

Drainage Services – Drainage Department

The Drainage Utility operates the network of storm sewers and pump stations for storm water management. Its primary responsibility is to manage the City's storm water runoff in partnership with the Operations Division and Metro Vancouver.

Solid Waste Management Services

The Solid Waste Utility provides weekly residential curbside organic waste collection with alternating bi-weekly garbage and recycling, and curbside collection services via a fully-automated cart-based collection system.

Roads and Traffic Safety Services

The Roads & Traffic Safety Utility provides effective managed transportation systems that serves the mobility needs of individuals and businesses and is safe, secure and supports the economic vitality of the City, and protects and enhances the environment.

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.

Parking

The Parking Authority Utility is a self-funded program that involves planning, managing and enforcing the City's on and off street parking assets, employing leading edge technologies, such as license plate recognition and pay stations that provide a user friendly interface, improved theft security and efficient enforcement.

Surrey City Energy

Surrey City Energy is the municipal energy utility of the Engineering Department. This utility provides the planning and development of community energy systems that will provide thermal energy to new and existing developments throughout the City Centre area.

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, 2015

(tabular amounts in thousands of dollars)

Appendix I

City of Surrey

Notes To The Consolidated Financial Statements

For the year ended December 31, 2015, with comparative figures for 2014

(in thousands of dollars)

NOTE	22 SEGMENTED INFORMATION											CONSOLIDATED				
	Police Services	Parks, Recreation and Culture	General Government	Water	Fire Services	Sewer	Engineering	Drainage	Solid Waste Management	Roads & Traffic Safety	Planning and Development	Parking	Surrey City Energy	Library Services	2015	2014 (revised)
REVENUES																
Taxation, grants-in-lieu, assessments	\$ -	\$ -	\$ 571,723	\$ 166	\$ -	\$ 2,533	\$ -	\$ 32,050	\$ -	\$ 19,196	\$ -	\$ -	\$ -	\$ -	\$ 625,688	\$ 587,109
Collections for other authorities	-	-	(281,012)	-	-	-	-	-	-	-	-	-	-	-	(281,012)	(276,095)
Taxation revenue	-	-	290,711	166	-	2,533	-	32,050	-	19,196	-	-	-	-	344,656	311,024
Sales of goods and services	1,229	23,752	22,086	67,518	1,815	46,128	4,547	-	39,011	1,130	2,973	165	165	256	211,925	195,356
Development cost charges	-	-	58,611	-	-	-	(13)	-	-	-	-	-	-	-	56,598	56,611
Developer contributions	-	-	247	5,217	-	5,849	-	9,813	-	99,043	-	-	151	113	143,004	170,536
Investment income	-	-	14,927	801	-	496	-	188	-	-	-	-	-	-	16,437	18,454
Transfers from other governments	6,952	556	5,625	-	-	-	14	-	-	7,882	-	-	-	971	22,000	46,129
Other	93	2,410	32,660	901	6	451	2,417	92	147	479	17,848	-	-	512	56,016	46,764
EXPENSES																
Salaries and benefits	21,363	46,215	32,797	-	53,027	-	34,076	-	1,718	5,491	18,538	150	352	12,969	226,978	216,917
Consulting and professional services	621	4,214	3,726	473	310	722	2,665	2,964	-	2,843	937	49	-	158	19,000	20,963
RCMP contracted services	107,732	-	-	-	-	-	-	-	-	-	-	-	-	-	107,732	97,766
Telephone and communications	398	267	878	11	166	19	148	17	15	41	64	18	1	32	2,075	2,217
Regional district utility charges	-	-	-	41,999	-	32,241	-	-	-	-	-	-	-	-	74,240	71,955
Utilities	416	3,260	36	450	336	1,528	548	6	-	3,942	619	42	42	391	11,574	11,551
Garbage collection and disposal	9	141	25	-	13	-	13	1	18,712	5	9	-	-	6	18,934	19,205
Maintenance and small equipment	64	8,029	3,846	76	864	174	1,014	168	-	238	2,019	158	9	199	16,858	17,768
Insurance and claims	-	1	2,962	-	12	1	58	-	274	1	-	-	-	-	3,309	2,705
Leases and rentals	866	796	331	78	7	79	244	849	155	820	9	-	1	77	4,312	3,574
Supplies and materials	330	8,051	2,389	915	1,944	1,398	5,153	340	2,011	4,242	1,289	24	-	491	28,547	39,962
Advertising and media	3	490	476	-	8	-	21	3	12	35	12	8	-	998	2,066	2,099
Grants and sponsorships	-	314	2,280	-	-	-	-	-	-	-	90	-	-	-	2,684	2,341
Contract payments	-	2,623	1,477	4,660	213	3,078	1,298	2,205	639	16,301	120	192	17	2	32,825	23,641
Other	834	2,868	2,684	929	800	753	548	1,709	2	180	1,323	3	(201)	619	13,252	23,591
Cost recoveries, net	(810)	400	(13,502)	11,783	(576)	3,521	(37,463)	7,897	5,424	3,659	(1,000)	268	-	302	(19,898)	(18,315)
Interest on debt	-	-	5,097	-	-	-	-	-	-	-	-	-	-	-	8,097	8,092
Other interests and fiscal services	-	334	1,587	32	-	5	-	-	145	-	-	102	36	6	2,247	1,744
Amortization expense	1,177	13,827	15,217	8,823	1,734	10,965	3,794	19,262	1,520	37,471	4	1,010	-	2,033	116,837	108,440
Excess (deficiency) of revenues over expenses	133,003	93,830	65,306	70,229	58,858	54,884	9,717	35,421	30,627	75,269	24,003	1,982	257	18,283	671,689	656,236
Transfer from (to) operating funds	(124,729)	(66,840)	381,885	4,374	(57,037)	573	(2,753)	6,723	8,631	52,461	(3,182)	(667)	59	(16,431)	182,967	190,638
Transfer from (to) reserve funds	-	-	(43,511)	4,716	(2,039)	2,045	2,742	5,851	(4,353)	17,799	(1)	(1,359)	-	16,071	-	-
Transfer from (to) capital funds	-	273	(37,264)	6,671	(2,039)	1,587	(1,616)	6,388	(26,347)	199	(699)	-	-	153	-	-
Annual surplus (deficit)	-	749	34,181	(4,703)	35	(626)	2	(9,739)	(73)	(17,361)	281	(2,743)	-	(3)	-	-
	\$ (124,729)	\$ (65,818)	\$ 335,291	\$ 11,058	\$ (59,041)	\$ 3,579	\$ (1,625)	\$ 9,223	\$ 4,105	\$ 79,246	\$ (2,703)	\$ (2,735)	\$ (2,694)	\$ (210)	\$ 182,967	\$ 190,638

Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

(tabular amounts in thousands of dollars)

Appendix I

23. Transfers from other governments

The Government transfers reported on the Statement of Operations are comprised of the following:

	2015	2014
Revenue		
BC Provincial government grants:		
Roads	\$ 188	\$ 6,302
Traffic fine revenue sharing	6,583	4,080
Casino revenue sharing	3,072	3,055
Library operating	939	900
Welcoming communities program	-	282
Sewer replacement	14	103
Child care and seniors	273	112
Victim services	168	167
Arts	82	97
BC One Card	32	33
Subtotal BC Provincial government grants	11,351	15,131
Federal government grants:		
Roads	-	17,773
Parks development	119	83
Keep of prisoners	201	171
Summer students	13	7
Child care	59	68
Subtotal federal government grants	392	18,102
TransLink:		
Arterial widening and intersection improvements	3,162	3,049
Arterial paving	2,515	4,300
Arterial bridges	301	3,518
Traffic signals, signs and markings	469	414
Bicycle street network and other transit projects	993	1,615
Subtotal TransLink grants	7,440	12,896
UBCM Community Works Fund:	2,817	-
Total transfers from other government revenues	\$ 22,000	\$ 46,129

Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

(tabular amounts in thousands of dollars)

Appendix I

24. Budget data

The budget data presented in these consolidated financial statements was included in the City of Surrey 2015 – 2019 Consolidated Financial Plan and was adopted through By-law #18380 on February 2, 2015. The following table reconciles the approved budget to the budget figures reported in these consolidated financial statements.

	Budget Amount
Revenues:	
Approved Consolidated budget	\$ 996,398
Less:	
Borrowing proceeds	(10,600)
Total Revenues:	<u>985,798</u>
Expenses:	
Approved Consolidated budget	1,196,526
Transfers between funds	(200,128)
	<u>996,398</u>
Less:	
Capital expenditures	(497,002)
Add:	
Transfers between funds	200,128
Total Expenses:	<u>699,524</u>
Annual surplus per statement of operations	<u><u>\$ 286,274</u></u>

25. Comparative Figures

Certain comparative information has been reclassified to conform to the financial statement presentation adopted in the current year.

RESERVE FUNDS, ACCUMULATED SURPLUS AND DEVELOPER CONTRIBUTIONS
as at December 31, 2015
(in thousands of dollars)

	<u>2014</u>	<u>2015</u>	<u>Utility & Road Funds</u>	<u>Committed to 2016 & Prior years</u>	<u>Balance Available for Future Years</u>
Reserve Funds					
Equipment and building replacement	\$ 35,888	\$ 33,670		\$ 32,083	\$ 1,587
Capital legacy	2,854	19,486		19,486	-
Neighbourhood Concept Plans	23,836	22,783		17,480	5,303
Local improvement financing	15,173	15,689		5,373	10,316
Municipal land	-	-			-
Environmental stewardship	6,448	6,536		396	6,140
Park land acquisition	8,876	9,948		9,948	-
Water claims	1,315	1,328	1,328		-
Parking space	1,260	1,535			1,535
Affordable housing	8	23		23	-
	<u>\$ 95,658</u>	<u>\$ 110,998</u>	<u>\$ 1,328</u>	<u>\$ 84,789</u>	<u>\$ 24,881</u>
Other Entities					
Surrey Public Library	(325)	(325)			(325)
Surrey City Development Corp	(105,265)	(74,366)			(74,366)
Surrey Homelessness & Housing Society	8,212	8,012		8,012	-
	<u>\$ (97,378)</u>	<u>\$ (66,679)</u>	<u>\$ -</u>	<u>\$ 8,012</u>	<u>\$ (74,691)</u>
Unappropriated Surplus					
General operating fund	\$ 7,831	\$ 7,831			\$ 7,831
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>\$ 6,833</u>	<u>\$ 6,833</u>	<u>\$ 6,000</u>	<u>\$ -</u>	<u>\$ 833</u>
Appropriated Surplus					
Operating contingency and emergencies	\$ 8,758	\$ 8,782	\$ 5,162		\$ 3,620
Environmental emergencies	5,346	7,420	7,420		-
Revenue stabilization	13,250	13,989	10,810		3,179
Self insurance	15,982	15,053	10,063		4,990
Infrastructure replacement	6,103	(5,058)	(5,058)		-
	<u>\$ 49,439</u>	<u>\$ 40,186</u>	<u>\$ 28,397</u>	<u>\$ -</u>	<u>\$ 11,789</u>
Committed Funds					
General operating	\$ 24,768	\$ 33,250		\$ 33,250	\$ -
Inventories of supplies	1,011	857	407	450	-
Library services	198	182		182	-
Prepaid expenses	3,962	3,997		3,997	-
Roads & traffic operating and capital	26,843	37,434	37,434		-
District Energy	-	(6,268)		(6,268)	-
Sewer & drainage operating and capital	43,001	44,145	44,145		-
Water operating and capital	38,406	38,919	38,919		-
	<u>\$ 138,189</u>	<u>\$ 152,516</u>	<u>\$ 120,905</u>	<u>\$ 31,611</u>	<u>\$ -</u>
Deferred Development Cost Charges					
Drainage/Storm Water Detention	\$ 39,856	\$ 39,685	\$ 39,685		\$ -
Arterial Roads	55,196	55,763	55,763		-
Collector Roads	12,038	15,008	15,008		-
Parkland	46,200	43,324		43,324	-
Park Development	3,160	3,071		3,071	-
Water	14,719	12,021	12,021		-
Sanitary Sewer	24,308	27,273	27,273		-
Campbell Heights	20,684	29,767	29,767		-
Highway 99 Corridor	13,434	13,719	13,719		-
	<u>\$ 229,595</u>	<u>\$ 239,631</u>	<u>\$ 193,236</u>	<u>\$ 46,395</u>	<u>\$ -</u>
Other Deferred Revenue					
Development/Building Permits	16,269	19,471		19,471	-
Other	10,174	11,834		11,834	-
	<u>\$ 26,443</u>	<u>\$ 31,305</u>	<u>\$ -</u>	<u>\$ 31,305</u>	<u>\$ -</u>
Total	<u>\$ 448,779</u>	<u>\$ 514,790</u>	<u>\$ 349,866</u>	<u>\$ 202,112</u>	<u>\$ (37,188)</u>



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INDEPENDENT AUDITORS' REPORT

To the Mayor and Council of the City of Surrey

We have audited the accompanying consolidated financial statements of the City of Surrey, which comprise the consolidated statement of financial position as at December 31, 2015 and the consolidated statements of operations, changes in net financial assets (debt) and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the City of Surrey as at December 31, 2015, and its consolidated results of operations, its changes in net consolidated financial assets (debt) and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Professional Accountants

[Date]

Burnaby, Canada