

REGULAR COUNCIL

TO: Mayor & Council **DATE: May 4, 2017**

FROM: Acting General Manager, Finance & Technology **FILE: 1880-20**

SUBJECT: 2016 Annual Financial Report

RECOMMENDATION

The Finance & Technology Department recommend that Council:

1. Receive this report as information; and
2. Approve the 2016 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 2016 financial statements, which will then be included in the City's 2016 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, 2016, for the City of Surrey, are attached to this report as Appendix "I". These will be included in the City's 2016 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 Chartered Professional Accountants of Canada. 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 2016 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, 2016 and the results of its operations for the year 2016.

Executive Summary

Overall the City is in a strong financial position, increasing both our reserves as well as our capital investments in 2016. Revenues increased from a year-over-year perspective as a result of increased taxes, fees and permits; however our overall revenues were lower than planned. This can be attributed to development cost charges that have been received, however have not been recorded as revenue, due to delays in delivering capital projects. Expenses have also increased from a year-over-year perspective as a result of increases associated with the RCMP contract, increases in Parks, Recreation & Culture programming and a reclassification of utility overhead cost recoveries. While expenses have increased, they are lower than planned as a result of lower than anticipated departmental expenses.

More details on the variances between budget and actual amounts are presented in the following section.

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

The audited financial statements included in Appendix "1", are presented in the format required by the Chartered Professional Accountants of Canada, which reports the amortization expense in each functional area.

The Consolidated Statement of Operations – Revenues & Expenses, that appears as table 1 on the following page, has been reclassified to remove the amortization expense from each functional area to better compare expenses to budget and to adjust the development cost charges to reflect only the current year portion of the budget (as denoted by *)

Table 1 – Consolidated Statement of Operations – Revenues & Expenses

NOTE	<i>for the year ended December 31, 2016</i> <i>(in thousands of dollars)</i>	<i>2016</i> <i>Budget</i>	2016 Actuals	2016 Budget Variance
REVENUES				
1	Taxation revenue	\$ 368,277	\$ 365,863	\$ (2,414)
2	Sales of goods and services	219,533	226,242	6,709
3	Development cost charges *	89,158	61,260	(27,898)
4	Developer contributions	132,901	141,214	8,313
5	Investment income	17,160	16,500	(660)
6	Transfers from other governments	52,783	22,784	(29,999)
7	Other	66,904	80,838	13,934
		<u>946,716</u>	<u>914,701</u>	<u>(32,015)</u>
EXPENSES				
8	Police services	146,850	147,155	305
9	Parks, recreation and culture	88,606	86,363	(2,243)
10	General government	56,754	57,297	543
11	Water	60,453	56,892	(3,561)
12	Fire services	57,996	58,340	344
13	Sewer	45,048	43,480	(1,568)
14	Engineering	7,477	7,227	(250)
15	Drainage	13,176	12,405	(771)
16	Solid waste	31,364	27,479	(3,885)
17	Roads & traffic safety	33,762	30,032	(3,730)
18	Planning and development	29,315	25,384	(3,931)
19	Library services	16,322	16,542	220
20	Amortization	116,775	120,214	3,439
21	Interest, fiscal services & other	9,148	8,889	(259)
22	Loss on disposal of assets	0	1,099	1,099
		<u>713,047</u>	<u>698,798</u>	<u>(14,249)</u>
23	Excess revenues over expenses	233,669	215,903	(17,766)

The Consolidated Statement of Operations – Change in Equity, that appears as table 2 below, show the change in equity as a result of the excess revenues over expenses and how that excess is utilized.

Table 2 - Consolidated Statement of Operations – Change in Equity

<i>for the year ended December 31, 2016</i>		<i>2016</i>	<i>2016</i>	<i>2016 Budget</i>
<i>(in thousands of dollars)</i>		<i>Budget</i>	<i>Actuals</i>	<i>Variance</i>
24	Equity, beginning of year	\$ 8,161,134	\$ 8,161,134	\$ 0
	Excess revenues over expenses *	<u>233,669</u>	<u>215,903</u>	<u>(17,766)</u>
25	Equity, end of year	<u>\$ 8,394,803</u>	<u>\$ 8,377,037</u>	<u>\$ (17,766)</u>
Application of revenues over expenses				
26	Contribution to (from) capital expenditures *	\$ 553,980	\$ 355,883	\$ (198,097)
27	Contribution to (from) reserves	<u>(320,311)</u>	<u>(139,980)</u>	<u>180,331</u>
		<u>\$ 233,669</u>	<u>\$ 215,903</u>	<u>\$ (17,766)</u>

The lines in the table above 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:

- Taxation for City Purposes: The actual taxation revenue received in 2016 was approximately \$2.41 million lower than budget. This variance was due primarily to lower than budgeted growth in general taxes (\$0.63 million), lower than budgeted revenue from the Capital Parcel Tax (\$0.420 million), the Drainage Parcel Tax (\$.26 million) and the 1% Utility Grant-in-Lieu (\$1.32 million). These shortfalls were offset by increases in Local Improvements.
- Sale of Goods & Services: Sales revenue is \$6.71 million higher than budget. This is due primarily to higher than expected revenue received for Tree Replacement (\$3.24 million), Development Application Fees (\$2.45 million), and Utility Fees (\$3.89 million). However these positive variances were offset by lower than budgeted Parks and Recreation revenues.
- Development Cost Charges: The 'Budget' figure includes the development cost charges that are available for the 2016 program. The 'Actual' column includes only the revenue required to match the costs of the capital constructed (\$61.26 million) in 2016. The variance between actual and budget (\$27.90 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 the future.
- Developer Contributions: The detailed breakdown of this variance is as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
NCP Contributions	\$6.441M	\$5.196M	(\$1.245M)
Cash -in-Lieu of Parkland	\$1.156M	\$9.931M	\$8.775M
Private Contributions	\$25.071M	\$11.686M	(\$13.385M)
Local Area Service	\$0.233M	\$0.186M	(\$0.047M)
Contributed Assets	<u>\$100.000M</u>	<u>\$114.215M</u>	<u>\$14.215M</u>
Total:	<u>\$132.901M</u>	<u>\$141.214M</u>	<u>\$ 8.313M</u>

The 'Budget' figure for both Neighbourhood Concept Plan ("NCP") Contributions and Cash-in-Lieu of Parkland are determined based on the anticipated contributions that were expected to be received in the previous year (2015); comparatively, the 'Actual' column for these contributions are based on the actual NCP contributions and Cash-in-Lieu contributions received in the current year. The variance for NCP is the result of lower than anticipated contributions. Cash-in-Lieu of Parkland is a voluntary contribution and was higher than anticipated in 2016; 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, "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. Local Area Service ("LAS") plans 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 2016 was established based on historical information. Actual asset contributions were \$114.22 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 (\$16.50 million) and the 'Budget' figure (\$17.16 million) represents an unfavourable variance of \$0.66 million dollars. 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	\$6.636M	\$6.099M	(\$0.537M)
TransLink	\$13.571M	\$8.680M	(\$4.891M)
Gaming Revenue Sharing	\$3.200M	\$4.167M	\$0.967M
Other Sundry	<u>\$1.922M</u>	<u>\$2.524M</u>	<u>\$0.602M</u>
Subtotal	\$25.329M	\$21.470M	(\$3.859M)
Capital Infrastructure Grants	<u>\$27.454M</u>	<u>\$1.314M</u>	<u>\$(26.140M)</u>
Total:	<u>\$52.783M</u>	<u>\$22.784M</u>	<u>(\$29.999M)</u>

The Traffic Fine Revenue Sharing program has undergone many changes over the last 10 years and staff are now unclear on how the actual contribution is calculated. Staff will be following up with the Province to gain a better understanding of this program and the anticipated revenues that the City should be receiving. The TransLink “Budget” 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:

- Arterial Widening & Paving (\$4.13 million)
- King George Diversion at 152 St and 34 Ave. (\$1.89 million);
- UBCM Community Works Fund Projects (\$1.46 million);
- Cycling, Transit & Other minor projects (\$0.76 million); and
- Traffic Rehabilitation projects (\$0.44 million)

The increase in gaming revenue is the result of an expansion at the Elements Casino in Cloverdale. The increase in Other Sundry contributions is the result of a number of unanticipated programs that have been supported by the Province. The budget for Capital Infrastructure Grants has been included to support potential infrastructure sharing grants from the Federal and Provincial Governments. The infrastructure projects that have been funded from these actual contributions include Bridgeview Drive Improvements, Bon Accord Greenway and Fraser Heights Greenway.

7. Other Revenue: This includes the following:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Permits, Licensing & Fines	\$25.955M	\$29.763M	\$3.808M
Lease & Rentals	\$7.861M	\$8.144M	\$0.283M
Penalties & Interest on Taxes	\$5.144M	\$4.776M	(\$0.368M)
Donation & Sponsorship	\$1.849M	\$3.075M	\$1.226M
Land Sales	\$5.080M	\$11.012M	\$5.932M
SCDC	\$21.015M	\$24.068M	\$3.053M
Total:	<u>\$66.904M</u>	<u>\$80.838M</u>	<u>\$13.934M</u>

The favorable variance in Other Revenues is predominately the result of higher than budgeted revenue from Permits, Licensing & Fines (\$3.81 million), higher than budgeted revenues from Donations and Sponsorships (\$1.23 million), higher than anticipated proceeds from land sales (\$5.93 million, which included proceeds from land sold to SFU and from road closures), along with SCDC’s favorable variance of \$3.05 million, which was predominately due to the unexpected sale of Boundary Park and Bridgeview income properties.

Expenses

8. Police Services: The \$0.30 million short-fall in this area is predominately the result of the unbudgeted delivery of medical services in the cells (\$500,000) off-set by some minor contract savings (\$200,000).

9. Parks, Recreation & Culture: The \$2.24 million favorable variance is due to delays associated with the opening of Guildford and Grandview Indoor Pools. These savings have been offset by lower than anticipated revenues.
10. General Government: This includes the following: Mayor, Council, Grant's & Council 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 staff costs associated with the extra efforts to support the homeless camp on 135A Street. The favorable variance in the Finance & Technology department is predominately the result of the timing associated with filling staff positions. Human Resources department has a slightly unfavorable variance due primarily to higher operating costs resulting from increased training requirements and high recruiting demands. 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 higher than anticipated as a result of the unplanned recognition of the grant that is to be provided to SFU to cover the required road alignment for their new Sustainable Energy & Environmental Engineering Building in City Centre.

	Budget	Actual	Variance
Mayor, Council, Grants & Initiatives	\$3.273M	\$3.240M	\$0.033M
City Manager (Leg. Services, Legal, Bylaws, Econ Dev)	\$14.742M	\$15.544M	(\$0.802M)
Finance & Technology	\$26.933M	\$26.801M	\$0.132M
Human Resources	\$3.711M	\$4.047M	(\$0.336M)
SCDC	\$6.852M	\$5.213M	\$1.639M
Other (contingency, misc. items)	\$1.243M	\$2.452M	(\$1.209M)
Total	\$56.754M	\$57.297M	(\$0.543M)

11. Water: The under expenditure of (\$3.56 million) is the result of improved cost effective flagging contractor services and increased recovered work.
12. Fire Services: The unfavorable variance of \$0.34 million in Fire Services is the result of additional training and recruiting costs (\$0.67 million), offset by savings associated with the timing of filling staff vacancies (\$0.33 million).
13. Sewer: The favorable variance of \$1.57 million is predominately the result of operating savings and lower than expected costs associated with Capital in Nature projects.
14. Engineering: The favorable variance of \$0.25 million is predominantly the result of the timing associated with filling vacant positions (\$0.75 million), offset by lower than anticipated program recoveries (\$0.50 million).
15. Drainage: The favorable \$0.77 million variance is predominantly the result of Drainage utilizing less internal services than budgeted.
16. Solid Waste: The favorable variance of \$3.89 million in this area is the result of lower than anticipated incineration fees and illegal dumping costs.

17. Roads & Traffic Safety: The favorable variance of \$3.73 million in this area is predominately due to lower than expected contract payments associated with Capital in Nature projects.
18. Planning and Development: The favorable variance of \$3.93 million is primarily the result of position vacancies and the timing of expenditures.
19. Library Services: The unfavorable variance of \$0.22 million is the result of an increase in subscription type materials.
20. Amortization: This expense represents the annual consumption or usage of City Assets. The 2016 Budget was estimated based on the actual assets owned by the City in 2015 as well as an estimate of the value of new assets that would be added in 2016. Although amortization for major upcoming projects was estimated, variances relate to the timing and mix of new assets added in each category during 2016. Amortization by asset type is as follows:

	<u>Budget</u>	<u>Actual</u>
Land Improvements	\$4.199M	\$4.201M
Building	\$16.787M	\$17.827M
Infrastructure	\$79.015M	\$78.319M
Equipment	\$16.774M	\$19.867M
	<u>\$ 116.775M</u>	<u>\$ 120.214M</u>

21. Interest, Bank Charges, Fiscal Services and other: This line item includes the principle and interest on long-term borrowing. The favorable variance in this area of \$0.26 million is predominately the result of minor delays in the timing of internal borrowing demands.
22. Loss/ (Gain) on disposal of assets: This line represents the overall net loss on the disposal of City assets in the amount of \$1.10 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 2016 vs budgeted.
24. 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 2016. It reflects the balance under the "Accumulated Surplus" line of the City's 2015 financial statements.
25. 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".
26. 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 2016, capital expenditures totalled

\$355.88 million, being funded by developer contributions (\$134.66 million), DCC's (\$61.26 million), general contributions (\$46.25 million) and funding from other reserve funds and capital funds, which include internal borrowing (\$13.71 million).

27. 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.

Audit, Accounting and Reporting Matters

Surrey City Development Corporation ("SCDC")

During the year, SCDC disposed of three income properties and continued with the sales of several of their development properties. Activities under partnership arrangements for the development of mixed-use and industrial properties remain ongoing. 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:

- Tangible capital assets; which were introduced in 2009, are required to be recorded at historical cost. At that time, the City was unable to determine the historical cost of certain land parcels and estimated the value using a calculated average unit cost. In 2016, management identified errors in the estimated average unit costs applied to certain land parcels resulting in an overstatement to tangible capital assets of \$7.3 million. The financial statements have been adjusted to retrospectively adjust the comparative figures for the error.
- Surrey Organics Biofuel Processing facility is under construction and is expected to be operational in 2017. Once construction is complete, the City will be responsible to deliver a minimum tonnage of organic waste for processing and will make payments to the operator in accordance to a specific formula. The liability associated with this guarantee will be recorded on the City's financial statement. The notes to the financial statements have noted this pending liability.

PSAB Reporting Standards – Current Developments

To ensure the City is prepared for future financial statement changes as mandated by 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 and Inter-entity Transactions

Sections PS 2200 and PS 3420 of the PSA Handbook were approved in December 2014 and provide guidelines on the treatment of Related Party and Inter-entity transactions, respectively. These standards require disclosure about material transactions that have had a financial effect on the City's financial statements between related parties or inter related entities. Disclosure will 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 1, 2018.

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 1, 2018.

Restructuring

A new PSA Handbook section, PS 3430 was approved in March 2015. A restructuring transaction is a transfer of a set of assets and/or liabilities, together with related responsibilities for program delivery, that does not involve a payment or other consideration for the approximate fair value of what is transferred. The new standard will require that the transferor remove the assets and liabilities from its books at their carrying amount at the restructuring date. The recipient would recognize the assets and liabilities received at their carrying amount with applicable adjustments at the restructuring date. Both the transferor and the recipient would recognize the net effect of the transfer and any compensation involved as revenue or an expense. This standard becomes effective for years commencing on or after April 1, 2018.

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 1, 2019.

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 anticipate that these new standards will have little to no 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 1, 2020.

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

PSAB has issued an Exposure Draft entitled Asset Retirement Obligations, Proposed Section 3280, after receiving considerable comments on their previously released Statement of Principles. The proposed standard will require the public sector to record a liability related to the future costs of any legal obligation to be incurred at disposal. Some typical costs associated with asset disposal include asbestos removal, site restoration and post retirement monitoring.

Staff anticipate that this new standard will have some impact on the City's financial statements and will be providing feedback to PSAB on this standard. If the standard is adopted, the proposed effective date for the City would be January 1, 2022.

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 second 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 that 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.

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.

Public Private Partnerships

PSAB established a task force in 2016 as a result of the increasing use of public private partnerships ("P3's") for the delivery of services and provision of assets. A phased approach will address the definition and measurement of transactions with P3's. A statement of principles is anticipated to be developed in 2017.

Employee Future Benefit Obligations

PSAB is undertaking a review of PS3250 Retirement Benefits and PS3255 Post-Employment Benefits. Given the complexity of this project, it will be addressed in phases. Phase I will address specific issues related to the measurement of employment benefits and phase II will address the accounting for plans with risk sharing features, multi-employer defined benefit plans and sick leave benefits. An invitation to comment was issued in November 2016, seeking guidance on the appropriateness of the current deferral provisions and the accounting for the changes in value of the accrued benefits. Future invitations to comment will be issued for the discount rate and other aspects of the project. The ultimate objective will be to issue a new employment benefit section to replace the existing guidance.

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 2017 through the Quarterly Financial Reporting process.

Auditors Comments

As noted in the Audit Findings Report to follow, 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 Chartered Professional Accountants of Canada. 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’s 2016 Annual Financial Report that will be distributed to Council in June, 2017.

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

Suzanne Fillion, CPA, CGA
Acting General Manager,
Finance & Technology

Attachments:

Appendix “I”: 2016 City of Surrey Financial Statements

Appendix “II”: Reserve Balance Summary

Financial Statements of

CITY OF SURREY

Year ended December 31, 2016



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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, 2016 and the consolidated statements of operations, changes in net financial assets 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.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG Network Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.



City of Surrey
Page 3

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, 2016, and its consolidated results of operations, its changes in net consolidated financial assets and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Professional Accountants

[Date]

Burnaby, Canada

City of Surrey

Consolidated Statement of Financial Position

As of December 31, 2016, with comparative figures for 2015
(in thousands of dollars)

	2016	2015
		<i>(recast - note 2)</i>
FINANCIAL ASSETS		
Cash	\$ 32,794	\$ 12,121
Accounts receivable (note 3)	120,753	109,251
Properties held-for-sale (note 4)	-	42,506
Investments (note 5)	826,195	706,717
	979,742	870,595
LIABILITIES		
Accounts payable and accrued liabilities (note 6)	157,779	143,826
Deposits and prepayments (note 7)	236,442	194,784
Deferred revenue (note 8)	35,314	31,305
Deferred development cost charges (note 9)	266,968	239,631
Debt (note 10)	224,562	227,918
	921,065	837,464
NET FINANCIAL ASSETS	58,677	33,131
NON-FINANCIAL ASSETS		
Tangible capital assets (note 12)	8,312,963	8,123,149
Inventories of supplies	880	857
Prepaid expenses	4,517	3,997
	8,318,360	8,128,003
ACCUMULATED SURPLUS (note 13)	\$ 8,377,037	\$ 8,161,134

Commitments and contingencies (note 14)

Vivienne Wilke
General Manager,
Finance & Technology Department

Linda Hepner
Mayor, City of Surrey

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

City of Surrey
Consolidated Statement of Operations

*For the year ended December 31, 2016, with comparative figures for 2015
(in thousands of dollars)*

	2016 Budget <i>(note 24)</i>	2016	2015 <i>(recast - note 2)</i>
REVENUES			
Taxation revenue (note 16)	\$ 368,277	\$ 365,863	\$ 343,460
Sales of goods and services	219,533	226,242	211,520
Development cost charges (note 9)	133,486	61,260	58,598
Developer contributions	132,901	141,214	143,004
Investment income	17,160	16,500	16,437
Transfers from other governments (note 23)	52,783	22,784	22,405
Other	66,904	80,838	58,016
TOTAL REVENUES	991,044	914,701	853,440
EXPENSES			
Police services	148,154	148,379	133,003
Parks, recreation and culture	102,500	102,710	93,830
General government	82,796	80,232	75,323
Roads and traffic safety	72,659	66,936	75,269
Water	69,458	67,147	65,281
Fire services	59,600	60,183	58,858
Sewer	56,499	55,096	52,471
Solid waste	32,884	28,999	28,690
Drainage	32,868	32,171	33,790
Planning and development	29,319	25,449	24,003
Library services	18,476	18,532	18,283
Engineering	5,686	10,326	9,717
Surrey City Energy	1,289	395	231
Parking	859	2,243	1,724
TOTAL EXPENSES	713,047	698,798	670,473
ANNUAL SURPLUS	277,997	215,903	182,967
Accumulated Surplus, beginning of year	8,161,134	8,161,134	7,978,167
Accumulated Surplus, end of year	\$ 8,439,131	\$ 8,377,037	\$ 8,161,134

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

City of Surrey

Consolidated Statement of Changes in Net Financial Assets (Debt)

As at December 31, 2016, with comparative figures for 2015
(in thousands of dollars)

	2016 Budget <i>(note 24)</i>	2016	2015
ANNUAL SURPLUS	\$ 277,997	\$ 215,903	\$ 182,967
Acquisition of tangible capital assets	<i>(534,708)</i>	(335,442)	(338,776)
Amortization of tangible capital assets	116,775	120,838	116,837
Loss (gain) on disposal of tangible capital assets	-	(5,460)	10,134
Proceeds on disposal of tangible capital assets	-	14,622	7,506
	<i>(139,936)</i>	10,461	(21,332)
Acquisition of inventories of supplies	-	(880)	(857)
Consumption of inventories of supplies	-	857	1,011
Acquisition of prepaid expenses	-	(4,517)	(3,997)
Use of prepaid expenses	-	3,997	3,962
Transfer to properties held-for-sale	-	15,628	63,836
	-	15,085	63,955
CHANGE IN NET FINANCIAL ASSETS (DEBT)	<i>(139,936)</i>	25,546	42,623
Net financial assets (debt), beginning of year	33,131	33,131	(9,492)
Net financial assets (debt) , end of year	\$ (106,805)	\$ 58,677	\$ 33,131

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

City of Surrey

Consolidated Statement of Cash Flows

For the year ended December 31, 2016, with comparative figures for 2015
(in thousands of dollars)

	2016	2015
Cash provided by (used in):		
OPERATING TRANSACTIONS		
Annual Surplus	\$ 215,903	\$ 182,967
Non-Cash charges to operations:		
Amortization expense	120,838	116,837
Loss (gain) on disposal of tangible capital assets	(5,460)	10,134
Developer contributions of tangible capital assets (note 12(b))	(114,215)	(129,608)
Change in non-cash operating working capital:		
Accounts receivable	(11,502)	35,422
Inventories of supplies	(23)	154
Prepaid expenses	(520)	(35)
Accounts payable and accrued liabilities	13,963	(10,508)
Deposits and prepayments	41,658	24,260
Deferred revenue	4,009	4,862
Deferred development cost charges	27,337	10,036
Net change in cash from operating transactions	291,978	244,521
FINANCING TRANSACTIONS		
Repayment of debt	(5,323)	(5,119)
Proceeds from issuance of loan payable	27,703	2,910
Repayment on loan payable	(25,736)	(11,849)
Cash used by financing transactions	(3,356)	(14,058)
CAPITAL TRANSACTIONS		
Cash used to acquire tangible capital assets	(221,227)	(209,168)
Acquisition of properties held-for-sale	(6,955)	(9,272)
Disposal of properties held-for-sale	65,089	61,717
Proceeds on disposal of tangible capital assets	14,622	7,506
Cash used by capital transactions	(148,471)	(149,217)
INVESTING TRANSACTIONS		
Increase in investments	(119,478)	(116,252)
Cash used by investing transactions	(119,478)	(116,252)
Increase (decrease) in cash	20,873	(35,006)
Cash, beginning of year	12,121	47,127
Cash, end of year	\$ 32,794	\$ 12,121

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

Notes to the Consolidated Financial Statements

*For the year ended December 31, 2016
(tabular amounts in thousands of dollars)*

GENERAL

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

1. Significant accounting policies

The consolidated financial statements of the City are prepared in accordance with Canadian 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, 2016
(tabular amounts in thousands of dollars)

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".

(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)

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-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.

Notes to the Consolidated Financial Statements

*For the year ended December 31, 2016
(tabular amounts in thousands of dollars)*

1. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

vi) Innovation Boulevard Corporation

The City has a 50% ownership in the Innovation Boulevard Corporation ("IBC"), a **government partnership**. **The consolidated financial statements include the City's 50% proportional share of the assets, liabilities, revenues and expenses of IBC.** There was no **impact to the City's** financial statements for 2016. All inter-entity accounts and transactions between IBC and the City are eliminated proportionally upon consolidation.

vii) 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 0.

(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 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, 2016
(tabular amounts in thousands of dollars)*

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 0.

(g) Investments

City investments consist of demand deposits, short-term investments, bonds and debentures, which are recorded at amortized cost. Discounts and premiums arising on the purchase of these investments are amortized over the term of the investments on a straight line basis.

(h) Employee future benefits

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016
(tabular amounts in thousands of dollars)

1. Significant accounting policies (continued)

(i) Budget data

The budget data presented in these consolidated financial statements was included in the City of Surrey 2016 – 2020 Consolidated Financial Plan and was adopted through By-law #18563 on March 7, 2016.

(j) Non-financial assets

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

i) Tangible capital assets

Tangible capital assets are recorded at cost, which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets, excluding land, are amortized on a straight line basis over their estimated useful lives as follows:

Asset	Useful life – Years
Land improvements	12 – 60
Buildings and improvements	10 – 50
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.

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.

Notes to the Consolidated Financial Statements

*For the year ended December 31, 2016
(tabular amounts in thousands of dollars)*

1. Significant accounting policies (continued)

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.

(k) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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.

(l) Segment disclosure

A segment is defined as a distinguishable activity or group of activities of a government for which it is appropriate to separately report financial information to achieve the objectives of the standard. The City of Surrey has provided definitions of segments used by the City (note 1(a)) as well as presented financial information in segmented format (note 0).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016
(tabular amounts in thousands of dollars)

1. Significant accounting policies (continued)

(m) 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. Recast of comparative figures

During the year, the City determined that certain parcels of land were **inaccurately valued in the prior year's asset registers. The prior years' comparative figures have been recast for these immaterial items.**

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

Accumulated surplus at January 1:	<u>2015</u>
Opening accumulated surplus, as previously reported	\$7,985,458
Adjustment for land values	(7,291)
Opening accumulated surplus, as recast	<u>\$7,978,167</u>
 Tangible Capital Assets at December 31:	 <u>2015</u>
Tangible Capital Assets, as previously reported	\$ 8,130,440
Adjustment for land values	(7,291)
Tangible Capital Assets, as recast	<u>\$8,123,149</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016
(tabular amounts in thousands of dollars)

3. Accounts receivable

	<u>2016</u>	<u>2015</u>
General accounts receivable	\$ 31,982	\$ 31,819
Development Cost Charges	51,438	36,842
Property taxes	17,688	20,386
Utility rates	13,059	12,887
Due from joint venture partners	82	1,460
Due from other authorities	3,721	3,170
Debenture debt guarantee	2,467	2,400
Tax sale properties	316	287
	<u>\$ 120,753</u>	<u>\$ 109,251</u>

4. Properties held-for-sale

	<u>2016</u>	<u>2015</u>
Opening balance	\$ 42,506	\$ 31,115
Transfer from tangible capital assets	15,628	63,836
Disposal on sale	(65,089)	(61,717)
Additions	6,955	9,272
	<u>\$ -</u>	<u>\$ 42,506</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016
(tabular amounts in thousands of dollars)

5. Investments

	<u>2016</u>	<u>2015</u>
Investments maturing within one year	\$ 444,108	\$ 390,812
Investments maturing within two years	98,021	91,421
Investments maturing within ten years	275,834	216,172
	<u>817,963</u>	<u>698,405</u>
Other investments	7,928	8,008
Investment in partnership	304	304
	<u>\$ 826,195</u>	<u>\$ 706,717</u>

City investments had an average portfolio yield of 2.05% (2015 – 2.38%). All City investments can be liquidated on demand, but may have associated penalties on liquidation.

Other investments include a diversified portfolio of fixed income and equity securities held by the Surrey Homelessness and Housing Society for the purpose of supporting programs and projects related to reducing homelessness and increasing access to safe and affordable housing in Surrey.

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.

6. Accounts payable and accrued liabilities

	<u>2016</u>	<u>2015</u>
Trade accounts payable	\$ 59,057	\$ 55,187
Due to Federal Government	40,961	34,585
Employee future benefits (note 11)	26,903	25,655
Due to joint venture partners	4,121	1,340
Contractors' holdbacks	11,048	11,768
Due to Regional Districts	7,489	7,324
Due to Province of British Columbia	3,550	4,351
Due to other government entities	2,641	1,607
Interest on debt	2,009	2,009
	<u>\$ 157,779</u>	<u>\$ 143,826</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016
(tabular amounts in thousands of dollars)

7. Deposits and prepayments

	<u>2016</u>	<u>2015</u>
Deposits:		
Future works	\$ 46,429	\$ 39,474
Planning and permits	55,621	48,607
Engineering	49,583	42,333
Capital deposits	28,970	9,740
Pavement cuts	4,386	3,967
Boulevard trees	2,527	2,333
Latecomer	965	929
Tenant deposits	1,070	641
Other deposits	3,077	4,161
Developer works agreement	609	140
Amenities	373	315
Total deposits	<u>\$ 193,610</u>	<u>\$ 152,640</u>
Prepayments:		
Taxes	\$ 38,167	\$ 38,811
Utilities	2,352	2,029
Tax sale private purchase payment	2,303	1,294
Other prepayments	10	10
Total prepayments	<u>42,832</u>	<u>42,144</u>
Total deposits and prepayments	<u>\$ 236,442</u>	<u>\$ 194,784</u>

8. Deferred revenue

	<u>2016</u>	<u>2015</u>
Development/building permits	\$ 21,371	\$ 19,471
Deferred gains on land sales to joint ventures	3,957	3,958
Deferred lease revenue	7,688	5,924
Other	2,298	1,952
	<u>\$ 35,314</u>	<u>\$ 31,305</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016
(tabular amounts in thousands of dollars)

9. Deferred Development Cost Charges

Development Cost Charges (DCC's) are collected to pay for 95% of the general capital costs due to development and 90% of utility capital costs on specified projects. In accordance with the Local Government Act, these funds must be recorded in a **separate reserve fund**. DCC's are deferred and recognized as revenue when the related costs are incurred.

	<u>2016</u>	<u>2015</u>
Deferred DCC's:		
Arterial roads	\$ 67,446	\$ 55,763
Parkland	51,638	43,324
Drainage/storm water detention	38,561	39,685
Sanitary sewer	26,474	27,273
Collector roads	17,431	15,008
Water	13,156	12,021
Area specific	49,757	43,486
Park development	2,505	3,071
	<u>\$ 266,968</u>	<u>\$ 239,631</u>
Deferred DCC's, beginning of year	<u>\$ 239,631</u>	<u>\$ 229,595</u>
DCC's levied for the year	87,398	66,798
Investment income	1,199	1,836
Total DCC's deferred	<u>88,597</u>	<u>68,634</u>
Revenue recognized for General Capital	(41,464)	(43,547)
Revenue recognized for Water Capital	(4,063)	(6,945)
Revenue recognized for Sewer & Drainage Capital	(15,733)	(8,106)
Total DCC's recognized as revenue	<u>(61,260)</u>	<u>(58,598)</u>
Net increase for the year	27,337	10,036
Deferred DCC's, end of year	<u>\$ 266,968</u>	<u>\$ 239,631</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016
(tabular amounts in thousands of dollars)

10. Debt

	<u>2016</u>	<u>2015</u>
Debt (i)	\$ 190,993	\$ 196,316
Loans payable (ii)	<u>33,569</u>	<u>31,602</u>
	<u>\$ 224,562</u>	<u>\$ 227,918</u>

(i) 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 2016</i>	<i>Net debt 2015</i>
General				
Capital Fund	\$ 212,335	\$ 21,342	\$ 190,993	\$ 196,316

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 September 26, 2013	25	October 4, 2037 September 26, 2043	2.90%	October 4, 2022 September 26, 2023
126		30		3.85%	

*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, 2016
(tabular amounts in thousands of dollars)

10. Debt (continued)

(ii) Loans payable

Loans payable by Surrey City Development Corporation are as follows:

	2016	2015
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
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
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	13,433	13,840
Term loan, Beedie LP, 5-year term maturing November 1, 2021, payable in monthly payments of \$90,473, including interest calculated at the BA Swap Rate plus 1.60% per annum, secured by a mortgage on the commercial property	9,727	-
Construction loan, Surrey Centre LPs, in the form of bankers' acceptances, bearing interest at the bank's prime lending rate, secured by the underlying property, and repayable upon the earlier of the receipt of the net proceeds from sales, take-out financing, lease prepayments, or upon the maturity date of October 31, 2017	10,409	-
	\$ 33,569	\$ 31,602

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016
(tabular amounts in thousands of dollars)

10. Debt (continued)

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

	Sinking fund installments and actuarial adjustments	Loan payments	Total
2017	\$ 5,536	\$ 11,106	\$ 16,642
2018	5,757	720	6,477
2019	5,988	748	6,736
2020	6,227	774	7,001
2021	6,476	750	7,226
2022 and thereafter	161,009	19,471	180,480
Total	\$ 190,993	\$ 33,569	\$ 224,562

Interest charges on debt are as follows:

	2016	2015
Cash for interest payments	\$ 8,097	\$ 8,097
Total interest expense	\$ 8,097	\$ 8,097

11. Employee future benefits

The City provides certain post-employment and sick leave benefits to its employees. These benefits include accumulated non-vested sick leave, post-employment service pay and post-retirement top-ups for dental, life insurance and accidental death, dismemberment insurance, vacation deferral, supplementary vacation and benefit continuation for disabled employees. The liability associated with these benefits is calculated based on the present value of expected future payments pro-rated for services, and is included in accounts payable and accrued liabilities.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016
(tabular amounts in thousands of dollars)

11. Employee future benefits (continued)

An actuarial valuation for these benefits was performed to determine the City's accrued benefit obligation as at December 31, 2016. The difference between the actuarially determined accrued benefit obligation of \$25.4 million and the accrued benefit liability of \$26.9 million as at December 31, 2016 is an unamortized actuarial gain of \$1.5 million. The actuarial gain is amortized over a period equal to the employees' average remaining service lifetime of 11 years.

Accrued benefit obligation:	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$23,687	\$23,107
Current service cost	1,901	1,803
Interest cost	789	766
Actuarial loss (gain)	304	(480)
Benefits paid	<u>(1,317)</u>	<u>(1,509)</u>
Accrued benefit obligation, end of year	<u>\$25,364</u>	<u>\$23,687</u>

Reconciliation of accrued benefit obligation to accrued benefit liability:

	<u>2016</u>	<u>2015</u>
Actuarial benefit obligation, end of year	\$ 25,364	\$ 23,687
Unamortized actuarial gain	<u>1,539</u>	<u>1,968</u>
Accrued benefit liability, end of year	<u>\$ 26,903</u>	<u>\$ 25,655</u>

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

	<u>2016</u>	<u>2015</u>
Discount rate	3.20%	3.20%
Expected future inflation rate	1.80%	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, 2016
(tabular amounts in thousands of dollars)

12. Tangible capital assets

Cost	Balance at December 31, 2015 <i>(recast – note 2)</i>	Additions	Disposals / WIP Allocations	Balance at December 31, 2016
Land and land improvements	\$ 1,768,255	\$ 51,029	\$ 7,467	\$ 1,811,817
Buildings	564,221	49,098	18,325	594,994
Infrastructure	4,410,365	73,875	2,517	4,481,723
Machinery and equipment	241,005	27,409	9,648	258,766
Land under road	2,723,491	84,120	-	2,807,611
Work-in-Progress	226,947	335,363	287,244	275,066
Total	\$ 9,934,284	\$ 620,894	\$ 325,201	\$ 10,229,977

Accumulated Amortization	Balance at December 31, 2015	Amortization	Accumulated Amortization on Disposals	Balance at December 31, 2016
Land and land improvements	\$ 75,429	\$ 4,201	\$ 230	\$ 79,400
Buildings	199,385	17,827	3,759	213,453
Infrastructure	1,419,244	78,319	1,540	1,496,023
Machinery and equipment	117,077	20,491	9,430	128,138
Total	\$ 1,811,135	\$ 120,838	\$ 14,959	\$ 1,917,014

Net Book Value by category	December 31, 2015 <i>(recast – note 2)</i>	December 31, 2016
Land and land improvements	\$ 1,692,826	\$ 1,732,417
Buildings	364,836	381,541
Infrastructure	2,991,121	2,985,700
Machinery and equipment	123,928	130,628
Land under road	2,723,491	2,807,611
Work-in-Progress	226,947	275,066
Total	\$ 8,123,149	\$ 8,312,963

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016
(tabular amounts in thousands of dollars)

12. Tangible capital assets (continued)

Net Book Value by fund	December 31, 2015 <i>(recast – note 2)</i>	December 31, 2016
General capital	\$ 2,208,796	\$ 2,263,673
Transportation capital	3,603,485	3,706,381
Water capital	605,333	612,464
Sewer capital	540,766	555,403
Drainage capital	1,071,231	1,074,279
Library capital	5,418	5,300
Surrey City Development Corp.	88,120	95,463
Total	\$ 8,123,149	\$ 8,312,963

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 tangible capital 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 \$275.1 million (2015 - \$226.9 million) has not been amortized. Amortization of these assets will commence when each specific asset is put into service.

b) Contributed Tangible Capital Assets

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 \$114.2 million (2015 - \$129.6 million) comprised of roads infrastructure in the amount of \$92.4 million (2015 - \$95.5 million), water and wastewater infrastructure in the amount of \$12.6 million (2015 - \$19.7 million) and land in the amount of \$9.2 million (2015 - \$14.4 million), including improvements.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016
(tabular amounts in thousands of dollars)

12. Tangible capital assets (continued)

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, 2016 and 2015.

13. Accumulated surplus

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

	2016	2015
		<i>(recast - note 2)</i>
Accumulated Surplus per Statement of Financial Position	\$ 8,377,037	\$ 8,161,134
Less Restricted Funds:		
Tangible capital assets	8,312,963	8,123,149
Debt funded assets	(177,249)	(182,656)
	8,135,714	7,940,493
Reserves set aside by Council		
Equipment and Building Replacement	34,325	33,670
Neighborhood Concept Plans	22,648	22,783
Park Land Acquisition	18,687	9,948
Local Improvement financing	16,143	15,689
Capital Legacy	15,638	19,486
Environmental Stewardship	6,559	6,536
Parking Space	1,586	1,535

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016
(tabular amounts in thousands of dollars)

13. Accumulated surplus (continued)

Water Claims	1,338	1,328
Affordable Housing	23	23
	<u>116,947</u>	<u>110,998</u>
Internal borrowing	(15,040)	(23,213)
Restricted Reserves		
Infrastructure Replacement	(22,278)	(5,058)
Revenue Stabilization	16,589	13,989
Self-Insurance	13,113	15,053
Operating Emergencies	8,782	8,782
Environmental Emergencies	7,420	7,420
Prepaid expenses	4,517	3,997
Inventories of supplies	880	857
Committed funds	163,821	147,662
	<u>192,844</u>	<u>192,702</u>
Other Entities		
Surrey City Development Corporation	(67,816)	(74,366)
Surrey Homelessness and Housing Society	7,879	8,012
	<u>(59,937)</u>	<u>(66,354)</u>
Total Restricted Funds	<u>8,370,528</u>	<u>8,154,626</u>
Unappropriated Surplus	<u>\$ 6,509</u>	<u>\$ 6,508</u>

14. Commitments and contingencies

- a) The City has significant future contractual commitments for incomplete capital acquisitions and capital construction projects in progress. The City records the capital costs incurred to the end of the year on these projects as work in progress under tangible capital assets. To provide for the completion of the projects, unexpended budget money for incomplete projects is appropriated as Committed Funds (see note 13). The Financial Plan, updated annually, provides for the financing of these and future obligations within the estimated financial resources of the City.
- b) The City has a contingent liability with respect to debentures of the Greater Vancouver Water District, Greater Vancouver Sewerage and Drainage District and Greater Vancouver Regional District, to the extent provided in their respective Enabling Acts, Acts of Incorporation and Amending Acts. Management does not consider payment under this contingency to be likely and therefore no amounts have been accrued.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016
(tabular amounts in thousands of dollars)

14. Commitments and contingencies (continued)

- 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, 2016). 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 favor of the Royal Bank of Canada that is registered against the land and facility, which can be renewed annually. The City does not expect to make any payments on the guarantee and no amounts have been accrued in the financial statements.
- e) The City insures itself through a combination of insurance policies and self-insurance. The City has a funded self-insurance appropriation included in surplus (note 13). Based on estimates, this appropriation reasonably provides for all outstanding claims where the outcome is not currently determinable.
- 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016
(tabular amounts in thousands of dollars)

14. Commitments and contingencies (continued)

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

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 (the "Operator") to design, build, finance, operate and maintain the Surrey Organics Biofuel Processing facility.** The City has provided the land upon which the facility is being constructed and will fund 25% of the construction

Notes to the Consolidated Financial Statements

*For the year ended December 31, 2016
(tabular amounts in thousands of dollars)*

14. Commitments and contingencies (continued)

costs up to a maximum of \$16 million, to be received through a P3 Canada Infrastructure Grant. The construction costs, as at December 31, 2016, were \$45 million. Under the agreement, the City has guaranteed to deliver to the Operator a minimum tonnage of City Organic Waste (as defined in the Agreement) for processing. The City will make payments to the Operator for acceptance of City Organic Waste in accordance with a specified formula. The Operator will also have the right to earn revenue from the delivery/acceptance of organic waste from third parties. In return the City will receive 100% of the biomethane produced at the facility and will share in certain other revenues generated at the facility. Upon expiry of the lease term the facility will become the asset of the City.

The facility is expected to be completed and to commence operation in 2017. At the time of completion, the City will receive the grant revenue from P3 Canada and remit the funds to the Operator. The City will record the facility on its financial statements as a tangible capital asset in the amount of its cost of construction, estimated to be approximately \$60 million. The City will also record a liability representing future obligations to the Operator in an amount equal to the difference between the construction cost of the facility and the P3 Canada Infrastructure Grant. The liability and deferred revenue will be reduced over the term of the agreement as payments are made to the Operator.

15. Pension plan

The City and its employees contribute to the Municipal Pension Plan (the "Plan"), a jointly trusted 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, 2016, the Plan has about 189,000 active members and approximately 85,000 retired members. Active members include approximately 37,000 contributors from local government.

Every three years, an actuarial valuation is performed to assess the financial position of the plan and adequacy of plan funding. The most recent valuation for the Plan as at December 31, 2015, indicated a \$2,224 million funding surplus for basic pension benefits on a going concern basis. The next valuation will be as at December 31, 2018, with results available in 2019.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016
(tabular amounts in thousands of dollars)

15. Pension plan (continued)

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.

The City paid \$17.6 million (2015 - \$16.8 million) for employer contributions while employees contributed \$14.7 million (2015 - \$14.0 million) to the Plan in 2016.

16. Taxation revenue

	2016	2015
Tax collected:		
Property taxes	\$ 297,206	\$ 275,392
Collections for other authorities	284,725	281,012
Drainage Parcel taxes	51,569	50,108
Grants-in-lieu of taxes	16,446	17,440
Other	642	520
	650,588	624,472
Less transfers to other authorities:		
Province of BC - School Taxes	215,746	212,851
Greater Vancouver Regional District	6,059	6,022
BC Assessment Authority	6,786	6,764
Greater Vancouver Transportation Authority	41,375	42,055
Other	14,759	13,320
	284,725	281,012
Taxation revenue	\$ 365,863	\$ 343,460

17. Significant taxpayers

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016
(tabular amounts in thousands of dollars)

18. Trust funds

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

			<u>2016</u>	<u>2015</u>
Assets				
Cash and short term investments			<u>\$ 3,515</u>	<u>\$ 3,321</u>
Equity				
	Employee Benefits Fund	Cemetery Perpetual Care Fund	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 618	\$ 2,703	\$ 3,321	\$ 3,171
Employment insurance rebate	79	-	79	73
Contributions	-	189	189	164
Interest revenue	4	-	4	6
Benefits purchased	(5)	-	(5)	(15)
Refunded to employees	(73)	-	(73)	(78)
Balance, end of year	<u>\$ 623</u>	<u>\$ 2,892</u>	<u>\$ 3,515</u>	<u>\$ 3,321</u>

19. Surrey Homelessness and Housing Society

On June 22, 2007, the City of Surrey incorporated the Surrey Homelessness and Housing Society. The purposes of the Society are to raise funds for financing programs and projects that address homelessness in Surrey; conduct and provide financial assistance to homelessness housing initiatives; manage the disbursements of grants for projects and programs that address homelessness in Surrey and act to raise funds for these purposes. As the 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016
(tabular amounts in thousands of dollars)

20. Innovation Boulevard Corporation

On October 28, 2016, the City of Surrey and **Simon Fraser University ("SFU")** incorporated the Innovation Boulevard Corporation ("IBC"), a government partnership. SFU and the City are the only shareholders of IBC with each having a 50% interest. The purposes of this company is the development of an integrated innovation and technology hub in Surrey that coordinates and facilitates the efforts of private industry, investors, the City, SFU, Fraser Health Authority, other levels of government, local universities and colleges, healthcare and other service providers, not-for-profit stakeholders, researchers, and leaders to build a dynamic infrastructure to support innovation, research, community engagement, private and public investment, job creation and oversight to improve the lives of the people of Surrey and beyond. As the City jointly controls IBC, the City proportionately consolidates IBC's statements with the **City's financial statements**. As at December 31, 2016, IBC had no assets or liabilities.

21. Surrey City Development Corporation

On April 24, 2007 the City of Surrey incorporated the Surrey City Development Corporation ("**SCDC**") with the purpose of advancing 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, 2016, SCDC has entered into Government Partnerships as follows:

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, 2016 are as follows:

Assets	\$	124
Liabilities		(27)
Accumulated surplus	\$	<u>97</u>

Revenues and expenditures for the year ended were \$436 thousand (2015 – \$895 thousand) and \$103 thousand (2015 - \$175 thousand), respectively.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016
(tabular amounts in thousands of dollars)

21. Surrey City Development Corporation (continued)

b) 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, 2016 are as follows:

Assets	\$	364
Liabilities:		
Accounts payable		(61)
Loans payable		(10,409)
Deposits payable		(4,482)
Payable to partners		(4,120)
Deferred gain		(3,519)
		<u>(22,591)</u>
Tangible capital assets		<u>35,989</u>
Accumulated surplus	\$	<u>13,762</u>

Revenues and expenditures for the year ended were \$29 thousand (2015 – \$117 thousand) and \$6 thousand (2015 – \$0), respectively.

c) 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, 2016 are as follows:

Assets	\$	97
Liabilities		(10,213)
Tangible capital assets		9,679
Prepays		305
Accumulated deficit	\$	<u>(132)</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016
(tabular amounts in thousands of dollars)

21. Surrey City Development Corporation (continued)

Revenues and expenditures for the year ended were \$332 thousand (2015 – \$0) and \$612 thousand (2015 – \$0), respectively.

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.

Parks, Recreation and Culture Services

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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016
(tabular amounts in thousands of dollars)

22. Segmented information (continued)

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

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

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

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

Drainage Services

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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016
(tabular amounts in thousands of dollars)

22. Segmented information (continued)

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

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, 2016
(tabular amounts in thousands of dollars)

NOTE															CONSOLIDATED	
	Police Services	Parks, Recreation and Culture	General Government	Roads & Traffic Safety	Water	Fire Services	Sewer	Solid Waste Management	Drainage	Planning and Development	Library Services	Engineering	Surrey City Energy	Parking	2016	2015
22 SEGMENTED INFORMATION																
REVENUES																
Taxation, grants-in-lieu, assessments	\$ -	\$ -	\$ 591,684	\$ 22,801	\$ 113	\$ -	\$ 2,244	\$ -	\$ 33,746	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 650,588	\$ 624,472
Collections for other authorities	-	-	(284,725)	-	-	-	-	-	-	-	-	-	-	-	(284,725)	(281,012)
Taxation revenue	-	-	306,959	22,801	113	-	2,244	-	33,746	-	-	-	-	-	365,863	343,460
Sales of goods and services	1,318	27,116	24,228	97	71,091	1,987	48,015	39,744	-	3,697	256	5,644	283	2,766	226,242	211,520
Development cost charges	-	-	61,260	-	-	-	-	-	-	-	-	-	-	-	61,260	58,598
Developer contributions	-	138	26,894	95,055	2,780	-	9,841	-	6,481	-	25	-	-	-	141,214	143,004
Investment income	-	19	15,452	-	544	-	375	-	110	-	-	-	-	-	16,500	16,437
Transfers from other governments	6,438	389	6,143	8,596	-	-	-	-	245	-	973	-	-	-	22,784	22,405
Other	100	2,298	52,725	-	1,016	20	464	139	99	20,715	395	2,252	-	615	80,838	58,016
	7,856	29,960	493,661	126,549	75,544	2,007	60,939	39,883	40,681	24,412	1,649	7,896	283	3,381	914,701	853,440
EXPENSES																
Salaries and benefits	23,591	54,491	36,169	5,081	-	54,293	-	-	-	20,121	13,282	36,830	372	626	244,856	227,643
RCMP contracted services	121,149	-	-	-	-	-	-	-	-	-	-	-	-	-	121,149	107,732
Consulting and professional services	948	4,380	3,936	2,524	490	86	592	834	2,676	729	84	388	37	9	17,713	19,000
Telephone and communications	390	262	1,070	36	12	162	25	8	11	69	30	122	1	41	2,239	2,075
Regional district utility charges	-	-	-	-	43,555	-	33,515	-	-	-	-	-	-	-	77,070	74,240
Utilities	438	3,832	34	4,325	561	342	1,926	-	8	478	373	597	150	-	13,064	11,574
Garbage collection and disposal	9	162	23	104	-	17	-	19,923	2	9	9	37	-	-	20,295	18,934
Maintenance and small equipment	62	6,984	4,441	227	213	760	117	18	182	1,533	194	985	10	145	15,871	16,858
Insurance and claims	-	3	3,841	-	-	12	-	2	-	-	-	58	-	-	3,916	3,309
Leases and rentals	881	915	311	962	153	5	318	264	747	8	47	405	-	-	5,016	4,312
Supplies and materials	419	7,883	2,763	3,781	936	1,992	1,545	2,312	874	1,651	441	5,106	5	29	29,737	28,547
Advertising and media	3	517	353	34	5	13	-	24	4	17	1,095	18	-	-	2,083	2,066
Grants and sponsorships	-	483	3,607	-	-	-	-	-	-	80	-	-	-	-	4,170	2,684
Contract payments	-	3,875	591	7,227	2,764	376	2,866	596	1,286	14	20	1,244	8	289	21,156	31,629
Other	694	2,228	3,308	205	727	805	193	75	638	1,224	691	760	-	8	11,556	12,587
Cost recoveries, net	(1,441)	108	(4,469)	5,534	8,194	(518)	2,388	3,361	6,241	(575)	272	(40,947)	(231)	(61)	(22,144)	(19,898)
Interest on debt	-	-	8,097	-	-	-	-	-	-	-	-	-	-	-	8,097	8,097
Other interests and fiscal services	12	338	1,506	-	(22)	-	2	62	-	26	5	1	43	143	2,116	2,247
Amortization expense	1,224	16,249	14,651	36,896	9,559	1,838	11,609	1,520	19,502	65	1,989	4,722	-	1,014	120,838	116,837
	148,379	102,710	80,232	66,936	67,147	60,183	55,096	28,999	32,171	25,449	18,532	10,326	395	2,243	698,798	670,473
Excess (deficiency) of revenues over expenses	(140,523)	(72,750)	413,429	59,613	8,397	(58,176)	5,843	10,884	8,510	(1,037)	(16,883)	(2,430)	(112)	1,138	215,903	182,967
Transfer from (to) operating funds	-	150	(59,671)	32,782	3,614	-	9,280	(6,133)	1,220	-	16,258	4,206	(215)	(1,491)	-	-
Transfer from (to) reserve funds	-	269	(41,026)	24,238	3,572	(1,297)	8,448	-	7,668	(166)	509	(2,215)	-	-	-	-
Transfer from (to) capital funds	-	(1,342)	63,734	(22,130)	(10,178)	-	(8,506)	(13)	(17,677)	202	(5)	58	(4,206)	63	-	-
Annual surplus (deficit)	\$ (140,523)	\$ (73,673)	\$ 376,466	\$ 94,503	\$ 5,405	\$ (59,473)	\$ 15,065	\$ 4,738	\$ (279)	\$ (1,001)	\$ (121)	\$ (381)	\$ (4,533)	\$ (290)	\$ 215,903	\$ 182,967

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016
(tabular amounts in thousands of dollars)

23. Transfers from other governments

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

	2016	2015
Revenue		
BC Provincial government grants:		
Roads	\$ 936	\$ 188
Traffic fines revenue sharing	6,099	6,583
Casino revenue sharing	4,167	3,072
Library operating	941	939
Climate Action Revenue Incentive Program	520	405
Sewer replacement	245	14
Child care and seniors	231	273
Victim services	168	168
Arts	55	82
BC One Card	32	32
Subtotal BC Provincial government grants	13,394	11,756
Federal government grants:		
Roads	435	-
Parks development	46	119
Keep of prisoners	171	201
Summer students	7	13
Child care	51	59
Subtotal Federal government grants	710	392
TransLink:		
Arterial widening and intersection improvements	4,130	3,162
Arterial paving	1,801	2,515
Arterial bridges	1	301
Traffic signals, signs and markings	441	469
Bicycle street network and other transit projects	851	993
Subtotal TransLink grants	7,224	7,440
UBCM Community Works Fund:	1,456	2,817
Total transfers from other government revenues	\$ 22,784	\$ 22,405

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016
(tabular amounts in thousands of dollars)

24. Budget data

The budget data presented in these consolidated financial statements was included in the City of Surrey 2016 – 2020 Consolidated Financial Plan and was adopted through By-law #18563 on March 7, 2016. The following table reconciles the approved budget to the budget figures reported in these consolidated financial statements.

	Budget Amount
Revenues:	
Approved Consolidated budget	\$ 991,044
Total Revenues:	<u>991,044</u>
Expenses:	
Approved Consolidated budget	1,321,784
Transfers between funds	<u>(330,740)</u>
	991,044
Less:	
Capital expenditures	(598,308)
Municipal Debt	(10,429)
Add:	
Transfers between funds	<u>330,740</u>
Total Expenses:	<u>713,047</u>
Annual surplus per statement of operations	<u>\$ 277,997</u>

25. Comparative Figures

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

Appendix "II"

RESERVE FUNDS, ACCUMULATED SURPLUS AND DEVELOPER CONTRIBUTIONS
as at December 31, 2016
(In thousands of dollars)

	<i>2015</i>	<i>2016</i>	<i>Utility & Road Funds</i>	<i>Committed to 2017 & Prior years</i>	<i>Balance Available for Future Years</i>
Reserve Funds					
Equipment and building replacement	\$ 33,670	\$ 34,325		\$ 34,325	\$ -
Neighbourhood Concept Plans	22,783	22,648		19,445	3,203
Parkland acquisition	9,948	18,687		18,687	-
Local improvement financing	15,689	16,143		1,812	14,331
Capital legacy	19,486	15,638		15,638	-
Environmental stewardship	6,536	6,559		418	6,141
Parking space	1,535	1,586			1,586
Water claims	1,328	1,338	1,338		-
Municipal land	-	-			-
Affordable housing	23	23		23	-
	<u>\$ 110,998</u>	<u>\$ 116,947</u>	<u>\$ 1,338</u>	<u>\$ 90,348</u>	<u>\$ 25,261</u>
Other Entitles					
Surrey City Development Corp	\$ (74,366)	\$ (67,816)			\$ (67,816)
Surrey Homelessness & Housing Society	8,012	7,879		7,879	-
Surrey Public Library	(325)	(324)			(324)
	<u>\$ (66,679)</u>	<u>\$ (60,261)</u>	<u>\$ -</u>	<u>\$ 7,879</u>	<u>\$ (68,140)</u>
Unappropriated Surplus					
General operating fund	\$ 7,831	\$ 7,831			\$ 7,831
Employee future benefits	(6,998)	(6,998)			(6,998)
Sewer & drainage operating fund	3,000	3,000	3,000		-
Water 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	\$ 8,782	\$ 8,782	\$ 5,162		\$ 3,620
Environmental emergencies	7,420	7,420	7,420		-
Revenue stabilization	13,989	16,589	11,910		4,679
Self insurance	15,053	13,113	10,063		3,050
Infrastructure replacement	(5,058)	(22,278)	(22,278)		-
	<u>\$ 40,186</u>	<u>\$ 23,626</u>	<u>\$ 12,277</u>	<u>\$ -</u>	<u>\$ 11,349</u>
Committed Funds					
General operating	\$ 33,250	\$ 44,727		\$ 44,727	\$ -
Roads & traffic operating and capital	37,434	39,157	39,157		-
Water operating and capital	38,919	38,872	38,872		-
Sewer operating and capital	28,188	24,965	24,965		-
Drainage operating and capital	15,957	12,629	12,629		-
Prepaid expenses	3,997	4,517		4,517	-
District Energy	(6,268)	3,233		3,233	-
Inventories of supplies	857	880	407	473	-
Library services	182	238		238	-
	<u>\$ 152,516</u>	<u>\$ 169,218</u>	<u>\$ 116,030</u>	<u>\$ 53,188</u>	<u>\$ -</u>
Deferred Development Cost Charges					
Arterial Roads	\$ 55,763	\$ 67,446	\$ 67,446		\$ -
Parkland	43,324	51,638		51,638	-
Drainage/Storm Water Detention	39,685	38,561	38,561		-
Campbell Heights	29,767	35,684	35,684		-
Sanitary Sewer	27,273	26,474	26,474		-
Collector Roads	15,008	17,431	17,431		-
Highway 99 Corridor	13,719	13,670	13,670		-
Water	12,021	13,156	13,156		-
Park Development	3,071	2,505		2,505	-
West Clayton	-	403	403		-
	<u>\$ 239,631</u>	<u>\$ 266,968</u>	<u>\$ 212,825</u>	<u>\$ 54,143</u>	<u>\$ -</u>
Other Deferred Revenue					
Development/Building Permits	\$ 19,471	\$ 21,371		\$ 21,371	\$ -
Other	11,834	13,943		13,943	-
	<u>\$ 31,305</u>	<u>\$ 35,314</u>	<u>\$ -</u>	<u>\$ 35,314</u>	<u>\$ -</u>
Total	<u>\$ 514,790</u>	<u>\$ 558,645</u>	<u>\$ 348,470</u>	<u>\$ 240,872</u>	<u>\$ (30,697)</u>