

## REGULAR COUNCIL

TO: **Mayor & Council**

DATE: **April 24, 2018**

FROM: **General Manager, Finance**

FILE: **1880-20**

SUBJECT: **2017 Annual Financial Report**

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## RECOMMENDATION

The Finance Department recommends that Council:

1. Receive this report for information; and
2. Approve the 2017 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 2017 financial statements, which will then be included in the City's 2017 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, 2017, for the City of Surrey, are attached to this report as Appendix "I". These will be included in the City's 2017 Annual Report that will be published by the end of June.

The annual audited financial 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 BDO Canada LLP (BDO) was retained to conduct the 2017 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, 2017 and the results of its operations for the year 2017.

## **Executive Summary**

Overall the City is in a strong financial position, increasing both its reserves as well as its capital investments in 2017. Revenues increased from a year-over-year perspective as a result of increased taxes, fees and permits; however overall revenues were lower than budgeted due primarily to development cost charges that have been received, but have not been recorded as revenue, due to timing in delivering capital projects. As expected, expenses have also increased from a year-over-year perspective as a result of increases associated with the RCMP contract, increases in salaries resulting from growth and collective bargaining wage increases and increases in Parks, Recreation & Culture programming. While expenses have increased, they are lower than budgeted 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 adjust the budgeted development cost charges revenue to reflect only the current year portion of the budget (as denoted by \*) and to remove the amortization expense from each functional area to better compare actual revenues and expenses to budget.

Table 1 – Consolidated Statement of Operations – Revenues &amp; Expenses

NOTE	<i>for the year ended December 31, 2017</i> <i>(in thousands of dollars)</i>	<i>2017</i> <i>Budget</i>	<b>2017</b> <b>Actuals</b>	2017 Budget Variance
<b>REVENUES</b>				
1	Taxation revenue	\$ 392,868	\$ 391,695	\$ (1,173)
2	Sales of goods and services	232,206	240,037	7,831
3	Development cost charges	* 95,073	104,963	9,890
4	Developer contributions	136,143	183,736	47,593
5	Investment income	18,949	17,533	(1,416)
6	Transfers from other governments	54,250	24,677	(29,573)
7	Other	64,574	61,679	(2,895)
		<u>994,063</u>	<u>1,024,320</u>	<u>30,257</u>
<b>EXPENSES</b>				
8	Police services	158,339	151,546	(6,793)
9	Parks, recreation and culture	95,375	93,368	(2,007)
10	General government	58,849	57,166	(1,683)
11	Water	61,304	58,695	(2,609)
12	Fire services	60,524	60,476	(48)
13	Sewer	48,491	48,177	(314)
14	Engineering	8,632	8,200	(432)
15	Drainage	13,423	12,822	(601)
16	Solid waste	33,620	31,599	(2,021)
17	Roads & traffic safety	32,866	36,335	3,469
18	Planning and development	30,946	27,206	(3,740)
19	Library services	17,278	17,091	(187)
20	Amortization	122,987	124,322	1,335
21	Interest, fiscal services & other	8,914	8,310	(604)
22	Loss on disposal of assets	0	1,892	1,892
		<u>751,548</u>	<u>737,205</u>	<u>(14,343)</u>
23	Excess revenues over expenses	* \$ 242,515	\$ 287,115	\$ 44,600
24	<b>Equity, beginning of year</b>	\$ 8,377,037	\$8,377,037	\$ 0
	Excess revenues over expenses	* 242,515	287,115	44,600
25	<b>Equity, end of year</b>	<u>\$ 8,619,552</u>	<u>\$8,664,152</u>	<u>\$ 44,600</u>

The Consolidated Statement of Operations – Change in Equity, that appears as table 2 below has been reclassified to reflect the adjusted budgeted development cost charges revenue referenced in the previous table (as denoted by \*). This table shows the change in equity as a result of the excess revenues over expenses and how that excess was utilized.

Table 2 - Consolidated Statement of Operations – Change in Equity

NOTE	for the year ended December 31, 2017 (in thousands of dollars)	2017 Budget	2017 Actuals	2017 Budget Variance
<b>24</b>	<b>Equity, beginning of year</b>	\$ 8,377,037	<b>\$ 8,377,037</b>	\$ -
	Excess revenues over expenditures *	<u>242,515</u>	<u><b>287,115</b></u>	<u>44,600</u>
<b>25</b>	<b>Equity, end of year</b>	<u>\$ 8,619,552</u>	<u><b>\$ 8,664,152</b></u>	<u>\$ 44,600</u>
	<b>Support of capital programs</b>			
<b>26</b>	Contribution from/(to) capital programs *	(523,271)	<b>(525,979)</b>	(2,708)
	Application of excess revenues over expenditures	242,515	<b>287,115</b>	44,600
<b>27</b>	Contribution from/(to) reserves	<u>280,756</u>	<u><b>238,864</b></u>	<u>(41,892)</u>
		<u>\$ -</u>	<u><b>\$ -</b></u>	<u>\$ -</u>

The lines in the tables 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:

- 1. Taxation for City Purposes:** The actual taxation revenue received in 2017 was approximately \$1.17 million lower than budget. This variance was due primarily to lower than budgeted growth in general taxes (\$0.613 million) and lower than budgeted revenue from the Capital Parcel Tax (\$0.338 million) and the 1% Utility Grant-in-Lieu (\$0.218 million).
- 2. Sale of Goods & Services:** Sales revenue is \$7.83 million higher than budget. This is due primarily to higher than expected revenue received for Tree Replacement (\$2.19 million), Development Application Fees (\$1.22 million), and Utility Fees (\$4.21 million). However these positive variances were offset by lower than budgeted Parks and Recreation revenues.
- 3. Development Cost Charges:** The 'Budget' figure includes the development cost charges that are available for the 2017 program. The 'Actual' column includes only the revenue required to match the costs of the capital constructed (\$104.96 million) in 2017. The variance between actual and budget (\$9.89 million) is due to an increase in construction and the related payments above what was budgeted for the current year.

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

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
NCP Contributions	\$4.645M	\$5.175M	\$0.530M
Cash-in-Lieu of Parkland	\$3.045M	\$15.427M	\$12.382M
Private Contributions	\$28.117M	\$8.599M	(\$19.518M)
Local Area Service	\$0.336M	\$2.971M	\$2.635M
Contributed Assets	\$100.000M	\$151.564M	\$51.564M
<b>Total:</b>	<b>\$136.143M</b>	<b>\$183.736M</b>	<b>\$47.593M</b>

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 (2016); 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 slightly higher than anticipated contributions. Cash-in-Lieu of Parkland is a voluntary contribution by developers and was higher than anticipated in 2017; these funds will be utilized for the construction of park development projects and the purchase of parklands. The 'Budget' figure for private contributions is an estimated amount in recognition of contributions that may be received and applied to capital projects within the year and includes carry forward amounts from prior 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. These assets are comprised of land and constructed infrastructure that are part of a development, and are turned over to the City as a public asset. The \$100 million budget for 2017 was established based on historical information. Actual asset contributions were \$151.564 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 (\$17.53 million) and the 'Budget' figure (\$18.95 million) represents an unfavourable variance of \$1.42 million dollars. This was primarily due to low market interest rates and a lower than budgeted average portfolio balance during the year.

6. Transfers from Other Governments: The detailed breakdown of this variance is as follows:

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
Traffic Fine Revenue Sharing	\$6.636M	\$6.051M	(\$0.585M)
TransLink	\$13.598M	\$8.322M	(\$5.276M)
Gaming Revenue Sharing	\$3.800M	\$4.075M	\$0.275M
Other Sundry	\$3.287M	\$2.856M	(\$0.431M)
Subtotal	\$27.321M	\$21.304M	(\$6.017M)
Capital Infrastructure Grants	\$26.929M	\$3.373M	\$(23.556M)
<b>Total:</b>	<b>\$54.250M</b>	<b>\$24.677M</b>	<b>(\$29.573M)</b>

The Traffic Fine Revenue Sharing program has undergone changes over the last several years. Currently the Traffic Fine Revenue is calculated by the Province based on the ratio of City of Surrey's municipal police expenditures over the total of all local municipal police expenditures, multiplied by the traffic fines collected during the previous fiscal year for the entire Province. The lower than budget variance is a function of this calculation and represents a reduction in total traffic fines collected by the Province for the fiscal year ending in 2017. 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 partnership projects. Some of those partnerships include the following:

- Arterial Widening & Paving (\$2.16 million);
- Cycling, Transit & Other minor projects (\$1.80 million);
- UBCM Community Works Fund Projects (\$1.47 million);
- Traffic Rehabilitation projects (\$1.43 million); and
- Traffic signals and Street lighting upgrade projects (\$0.97 million)

The increase in gaming revenue is a result continued stronger than budgeted gaming revenue at the Elements Casino in Cloverdale after their expansion in 2016. The decrease in Other Sundry contributions is the result a number of anticipated programs that did not occur during the year. 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 were primarily related to Bridgeview Drive Improvements.

7. Other Revenue: This includes the following:

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
Permits, Licensing & Fines	\$26.906M	\$32.161M	\$5.255M
Lease & Rentals	\$8.762M	\$9.706M	\$0.944M
Penalties & Interest on Taxes	\$5.486M	\$4.812M	(\$0.674M)
Donation & Sponsorship	\$2.151M	\$3.429M	\$1.278M
Tangible Capital Asset Sales	\$3.080M	\$3.774M	\$0.694M
SCDC	\$18.189M	\$7.797M	(\$10.392M)
<b>Total:</b>	<b>\$64.574M</b>	<b>\$61.679M</b>	<b>(\$2.895M)</b>

The unfavorable variance in Other Revenues is predominately the result of budgeted SCDC revenue including property sales that did not materialize in 2017, resulting in an unfavorable variance of \$10.392 million, the variance, due to timing differences, will be rectified in 2018. This was offset by higher than budgeted revenue from Permits, Licensing & Fines (\$5.255 million), higher than budgeted revenues from Donations and Sponsorships (\$1.278 million), and higher than anticipated Lease & Rentals (\$0.944 million).

## Expenses

8. Police Services: The \$6.79 million favorable variance is the result of contract timing differences relating to officer recruitment and related costs between budget and actual resulting in a \$5.87 million favorable variance. In addition, there was a \$0.70 million favorable variance due to staffing vacancies.
9. Parks, Recreation & Culture: The \$2.01 million favorable variance is due to lower actual costs than budgeted of \$1.1 million resulting from the timing of reopening the Newton Recreation Centre resulting from expansion work, with the balance of \$0.91 million due to lower maintenance costs in Parks operations, lower storm response costs and lower maintenance costs at the Guildford Aquatic Centre. These savings have been offset by lower than anticipated revenues.
10. General Government: This includes the following:

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
Mayor and Council	\$1.433M	\$1.433M	\$0.000M
Grants and Council Initiatives	\$1.932M	\$1.892M	(\$0.040M)
City Manager	\$1.103M	\$1.103M	\$0.0000M
Public Safety Office (includes Bylaws)	\$8.314M	\$9.634M	\$1.320M
Corporate Services (HR, IT, Leg. Services & Legal)	\$25.434M	\$25.514M	\$0.080M
Investment & Intergovernmental Relations	\$1.484M	\$1.526M	\$0.042M
Finance	\$12.772M	\$12.182M	(\$0.590M)
SCDC	\$4.389M	\$3.116M	(\$1.273M)
Other (contingency, misc. items)	\$1.988M	\$0.764M	(\$1.224M)
<b>Total</b>	<b>\$58.849M</b>	<b>\$57.166M</b>	<b>(\$1.683M)</b>

*Mayor and Council* were on budget for the year; *Grants and Council Initiatives* had a slight favorable variance due to the timing of grants and Council initiatives; *City Manager* met budget; *Public Safety Office* had an unfavorable variance of \$1.32M predominately due to staff and operational costs associated with the extra efforts to support the public safety initiatives and opioid crisis initiatives; *Corporate Services* had an unfavorable expense variance predominately the result of staff costs associated with higher overtime than budgeted, a result of various initiatives, along with higher than budgeted training and recruitment costs as well as information technology related supplies; *Investment & Intergovernmental Relations* had an unfavorable expense variance due to higher than budgeted costs associated with staff overtime, market studies and supplies; *Finance* had a favorable expense variance predominately the result of self-insurance related claims being less than budgeted; The budget for *SCDC* is based on an estimate of non-capitalized administrative activity, while the 'actual' reflects administrative business expenses for the

year; The *Other* line is lower than anticipated as a result of unused budgeted contingencies.

11. Water: The favorable variance of \$2.61 million is the result of improved cost effective contractor services, increased recovered work and timing of projects.
12. Fire Services: The favorable variance of \$0.048 million in Fire Services is the result of savings associated with the timing of filling staff vacancies.
13. Sewer: The favorable variance of \$0.31 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 \$0.43 million is predominantly the result of the timing associated with filling vacant positions.
15. Drainage: The favorable \$0.60 million variance is predominantly the result of Drainage utilizing less internal services than budgeted.
16. Solid Waste: The favorable variance of \$2.02 million in this area is the result of lower than anticipated incineration fees, which continue to track lower as more waste is diverted and the timing of expenditures.
17. Roads & Traffic Safety: The unfavorable variance of (\$3.47 million) in this area is due to salt and sand purchases as well as asphalt purchases for increase in potholes caused by snow plow activity (\$1.86 million) and an increase in staff costs associated with winter maintenance activities (\$1.43). It is noted that the City has sufficient reserves set aside to accommodate fluctuations in snow maintenance requirements.
18. Planning and Development: The favorable variance of \$3.74 million is primarily the result of position vacancies and the timing of expenditures.
19. Library Services: The favorable variance of \$0.19 million is the result of position vacancies.
20. Amortization: This expense represents the annual consumption or usage of City Assets. The 2017 Budget was estimated based on the actual assets owned by the City in 2016 as well as an estimate of the value of new assets that would be added in 2017. Although amortization for major upcoming projects was estimated, variances relate to the timing and mix of new assets added in each category during 2017. Amortization by asset type is as follows:

	<u>Budget</u>	<u>Actual</u>
Land Improvements	\$4.258M	\$4.450M
Building	\$17.850M	\$18.851M
Infrastructure	\$82.635M	\$78.834M
Equipment	\$18.244M	\$22.187M
	<u>\$ 122.987M</u>	<u>\$ 124.322M</u>



21. Interest, Bank Charges, Fiscal Services and other: This line item includes the interest on long-term borrowing. The favorable variance in this area of \$0.60 million is the result of the recovery of prior year bad debt write-offs of \$0.34 million and lower actual cost of banking charges and other than budgeted by \$0.26 million.
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 higher than budgeted, primarily due to higher Developer Contributions recognized in 2017 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 2017. It reflects the balance under the "Accumulated Surplus" line of the City's 2016 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 2017, capital expenditures totalled \$525.98 million, being funded by developer contributions (\$171.65 million), DCC's (\$104.96 million), general contributions (\$67.16 million) and funding from other reserve funds and capital funds, which include internal borrowing (\$182.21 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 2017, SCDC disposed of the remaining units in their Cloverdale West Village development. 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. During fiscal 2017 one of SCDC's government partnerships, Beedie LP, met the criteria of a government business partnership. This required SCDC to begin to account for it using the modified equity method. Previously, Beedie LP was proportionately consolidated into the SCDC's financial statements as a government partnership. The change in presentation was made prospectively as of January 1, 2017.

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

No audit adjustments have been noted for fiscal year 2017.

### **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. Appendix “III” provides additional details of these PSAB reporting standards and their impact on the City.

*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 Public Sector Account (PSA) Handbook were approved in December 2014 and provide guidelines on the treatment of Related Party and Inter-entity transactions, respectively.

#### 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.

#### 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. This standard becomes effective for years commencing on or after April 1, 2018.

#### Financial Instruments and Foreign Currency Translation

Section PS 3450 and PS 2601 of the PSA Handbook requires the City to recognize equity instruments quoted in an active market and free-standing derivatives at fair value. All other financial instruments, including bonds, can be carried at cost or fair value depending on the government’s choice and this choice must be made on initial recognition of the financial instrument and is irrevocable.

*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 PS 3280. 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.

### Revenue

PSAB has issued an Exposure Draft entitled Revenue, Proposed Section PS 3400, after receiving comments on their previously released Statement of Principles. The focus of this proposed standard is on two main areas of revenue: exchange transactions and unilateral (non-exchange) transactions.

### 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. 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 issued a Statement of Principles in September 2017 proposing new requirements for recognizing, measuring and classifying infrastructure procured through a public private partnership. PSAB is deliberating comments received on its statement of Principles and expects to release an Exposure Draft in the third quarter of 2018. Adoption of these principles would result in a need to assess current accounting policies and practices.

### 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. 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 2018 through the Quarterly Financial Reporting process.

## **Auditors Comments**

As noted in the Audit Findings Report to follow, BDO has indicated that they are satisfied that the City's 2017 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 2017 Annual Financial Report that will be distributed to Council in June, 2018.

All of the variances outlined in this report have been considered when formulating the 2018 Five Year Financial Plan.

Kam Grewal, CPA, CMA  
General Manager,  
Finance

### **Attachments:**

Appendix "I": 2017 Financial Statements of City of Surrey

Appendix "II": Reserve Balance Summary

Appendix "III": PSAB Reporting Standards – Current Developments

## APPENDIX "I"

Financial Statements of

# **CITY OF SURREY**

Year ended December 31, 2017



## Independent Auditor's Report

To the Mayor and Councilors of the City of Surrey

We have audited the accompanying financial statements of the City of Surrey, which comprise the Consolidated Statement of Financial Position as at December 31, 2017, the Consolidated Statement of Operations, Consolidated Statement of Changes in Net Financial Assets and Consolidated Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the 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.

### Auditor's 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 the auditor's 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, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the City of Surrey as at December 31, 2017 and its consolidated results of operations, consolidated changes in net financial assets and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

### Other Matters

The comparative figures presented in these financial statements for the year ended December 31, 2016 were audited by another firm of Chartered Professional Accountants who expressed an unmodified opinion in their report dated May 8, 2017.



**Unaudited Information**

We have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the schedules 1 - 14 of the City of Surrey's consolidated financial statements.

Chartered Professional Accountants

Vancouver, British Columbia  
DATE OF BOARD APPROVAL

# City of Surrey

## Consolidated Statement of Financial Position

*As of December 31, 2017, with comparative figures for 2016  
(in thousands of dollars)*

	2017	2016
<b>FINANCIAL ASSETS</b>		
Cash	\$ 27,809	\$ 32,794
Accounts receivable (note 2)	142,276	120,753
Investments (note 3)	858,196	826,195
	<b>1,028,281</b>	<b>979,742</b>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities (note 4)	169,124	153,334
Deposits and prepayments (note 5)	277,648	240,887
Deferred revenue (note 6)	36,957	35,314
Deferred development cost charges (note 7)	254,294	266,968
Debt (note 8)	267,219	224,562
	<b>1,005,242</b>	<b>921,065</b>
<b>NET FINANCIAL ASSETS</b>	<b>23,039</b>	<b>58,677</b>
<b>NON-FINANCIAL ASSETS</b>		
Tangible capital assets (note 10)	8,635,809	8,312,963
Inventories of supplies	929	880
Prepaid expenses	4,375	4,517
	<b>8,641,113</b>	<b>8,318,360</b>
<b>ACCUMULATED SURPLUS (note 11)</b>	<b>\$ 8,664,152</b>	<b>\$ 8,377,037</b>

Commitments and contingencies (note 12)

Kam Grewal  
General Manager,  
Finance 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, 2017, with comparative figures for 2016  
(in thousands of dollars)*

	2017		
	Budget	2017	2016
	<i>(note 20)</i>		
<b>REVENUES</b>			
Taxation revenue (note 14)	\$ 392,868	\$ 391,695	\$ 365,863
Sales of goods and services	232,204	240,037	226,242
Development cost charges (note 7)	142,168	104,963	61,260
Developer contributions	136,143	183,736	141,214
Investment income	23,806	17,533	16,500
Transfers from other governments (note 19)	54,250	24,677	22,784
Other	59,719	61,679	80,838
<b>TOTAL REVENUES</b>	<b>1,041,158</b>	<b>1,024,320</b>	<b>914,701</b>
<b>EXPENSES</b>			
Police services	159,758	152,798	148,379
Parks, recreation and culture	109,357	110,435	102,710
General government	81,465	81,896	80,232
Roads and traffic safety	73,510	75,334	66,936
Water	70,712	67,715	67,147
Fire services	62,212	62,262	60,183
Sewer	60,000	59,971	55,096
Solid waste	35,140	33,117	28,999
Drainage	33,208	32,986	32,171
Planning and development	30,950	27,241	25,449
Library services	21,108	19,051	18,532
Engineering	11,757	11,050	10,326
Surrey City Energy	1,284	1,105	395
Parking	1,087	2,244	2,243
<b>TOTAL EXPENSES</b>	<b>751,548</b>	<b>737,205</b>	<b>698,798</b>
<b>ANNUAL SURPLUS</b>	<b>289,610</b>	<b>287,115</b>	<b>215,903</b>
Accumulated Surplus, beginning of year	8,377,037	8,377,037	8,161,134
Accumulated Surplus, end of year	<b>\$ 8,666,647</b>	<b>\$ 8,664,152</b>	<b>\$ 8,377,037</b>

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, 2017, with comparative figures for 2016  
(in thousands of dollars)

	2017 Budget <i>(note 20)</i>	2017	2016
<b>ANNUAL SURPLUS</b>	\$ 289,610	\$ 287,115	\$ 215,903
Acquisition of tangible capital assets	(648,807)	(489,886)	(335,442)
Amortization of tangible capital assets	122,987	124,322	120,838
Loss (gain) on disposal of tangible capital assets	-	3,742	(5,460)
Proceeds on disposal of tangible capital assets	-	3,909	14,622
	<b>(236,210)</b>	<b>(70,798)</b>	<b>10,461</b>
Acquisition of inventories of supplies	-	(929)	(880)
Consumption of inventories of supplies	-	880	857
Acquisition of prepaid expenses	-	(4,375)	(4,517)
Use of prepaid expenses	-	4,517	3,997
Transfer to properties held-for-sale	-	25,388	15,628
Transfer to investment in government business partnership	-	9,679	-
	-	<b>35,160</b>	<b>15,085</b>
<b>CHANGE IN NET FINANCIAL ASSETS (DEBT)</b>	<b>(236,210)</b>	<b>(35,638)</b>	<b>25,546</b>
Net financial assets, beginning of year	58,677	58,677	33,131
<b>Net financial assets (debt) , end of year</b>	<b>\$ (177,533)</b>	<b>\$ 23,039</b>	<b>\$ 58,677</b>

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, 2017, with comparative figures for 2016  
(in thousands of dollars)*

	2017	2016
<i>Cash provided by (used in):</i>		
<b>OPERATING TRANSACTIONS</b>		
Annual Surplus	\$ 287,115	\$ 215,903
Non-Cash charges to operations:		
Amortization expense	124,322	120,838
Loss (gain) on disposal of tangible capital assets	3,742	(5,460)
Developer contributions of tangible capital assets (note 10(b))	(151,564)	(114,215)
Change in non-cash operating working capital:		
Accounts receivable	(21,523)	(11,502)
Inventories of supplies	(49)	(23)
Prepaid expenses	142	(520)
Accounts payable and accrued liabilities	15,790	13,953
Deposits and prepayments	36,761	41,658
Deferred revenue	1,643	4,009
Deferred development cost charges	(12,674)	27,337
<b>Net change in cash from operating transactions</b>	<b>283,705</b>	<b>291,978</b>
<b>FINANCING TRANSACTIONS</b>		
Repayment of debt	(5,536)	(5,323)
Proceeds from issuance of loan payable	8,660	27,703
Repayment on loan payable	(10,150)	(25,736)
<b>Cash used by financing transactions</b>	<b>(7,026)</b>	<b>(3,356)</b>
<b>CAPITAL TRANSACTIONS</b>		
Cash used to acquire tangible capital assets	(288,639)	(221,227)
Acquisition of properties held-for-sale	(2,704)	(6,955)
Disposal of properties held-for-sale	37,771	65,089
Proceeds on disposal of tangible capital assets	3,909	14,622
<b>Cash used by capital transactions</b>	<b>(249,663)</b>	<b>(148,471)</b>
<b>INVESTING TRANSACTIONS</b>		
Increase in investments	(32,001)	(119,478)
<b>Cash used by investing transactions</b>	<b>(32,001)</b>	<b>(119,478)</b>
<b>Increase (decrease) in cash</b>	<b>(4,985)</b>	<b>20,673</b>
Cash, beginning of year	32,794	12,121
<b>Cash, end of year</b>	<b>\$ 27,809</b>	<b>\$ 32,794</b>
<b>Supplementary cash flow information:</b>		
<b>NON-CASH TRANSACTIONS:</b>		
Acquisition of tangible capital assets financed by external debt	49,683	-
	<b>\$ 49,683</b>	<b>\$ -</b>

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

# Notes to the Consolidated Financial Statements

*For the year ended December 31, 2017  
(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, 2017  
(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 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 24.4% (2016 – 29.9%) ownership in the following government partnerships (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") – During fiscal 2017 Beedie LP met the criteria of a government business partnership and SCDC began accounting for it using the modified equity method. Previously Beedie LP was proportionately consolidated into SCDC's financial statements as a government partnership. The change in presentation was made prospectively as of January 1, 2017.

SCIIC has a 50% ownership in the Beedie SCDC (34A Ave) G.P. Ltd., the General Partner of Beedie LP. Beedie GP is a corporation and is accounted for using the modified equity method.

#### (iv) Kwantlen Park Development Corporation ("KPDC") - (100% owned and fully consolidated)

# Notes to the Consolidated Financial Statements

*For the year ended December 31, 2017  
(tabular amounts in thousands of dollars)*

## 1. Significant accounting policies (continued)

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

#### v) Surrey Homelessness and Housing Society

On June 22, 2007, the City of Surrey incorporated the SHHS. 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.

The consolidated financial statements include the assets, liabilities, revenues and expenses of SHHS. All inter-entity accounts and transactions between SHHS and the City are eliminated upon consolidation. The City provided seed money to the SHHS and oversees its operations.

#### vi) 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.

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. All inter-entity accounts and transactions between IBC and the City are eliminated proportionally upon consolidation.

# Notes to the Consolidated Financial Statements

*For the year ended December 31, 2017  
(tabular amounts in thousands of dollars)*

## 1. Significant accounting policies (continued)

### (b) 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.

### (c) 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.

### (d) Deferred revenue

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

### (e) Investment income

Investment income is reported as revenue in the period earned.

# Notes to the Consolidated Financial Statements

*For the year ended December 31, 2017  
(tabular amounts in thousands of dollars)*

## 1. Significant accounting policies (continued)

### (f) 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.

### (g) 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.

### (h) 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.

### (i) 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.

### (j) Budget data

The budget data presented in these consolidated financial statements was included in the City of Surrey 2017 – 2021 Consolidated Financial Plan and was adopted through By-law #18955 on December 19, 2016.



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017  
(tabular amounts in thousands of dollars)

## 1. Significant accounting policies (continued)

### (k) Non-financial assets

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

#### i) Tangible capital assets

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

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

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

#### ii) Interest capitalization

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

#### iii) Contributions of tangible capital assets

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

#### iv) Intangible assets

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

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017  
(tabular amounts in thousands of dollars)

## 1. Significant accounting policies (continued)

### (k) Non-financial assets (continued)

- v) 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.

- vi) 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.

- vii) 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.

- viii) Inventories of supplies

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

### (l) Use of estimates

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

Actual results could differ from these estimates.

### (m) Segment disclosure

A segment is defined as a distinguishable activity or group of activities of a government for which it is appropriate to separately report financial information to achieve the objectives of the standard. The City of Surrey has provided definitions of segments used by the City as well as presented financial information in segmented format (note 18).

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017  
(tabular amounts in thousands of dollars)

## 1. Significant accounting policies (continued)

### (n) Liabilities for contaminated sites

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

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

The liability is measured as management's estimate of the cost of remediation and 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. Accounts receivable

	<u>2017</u>	<u>2016</u>
General accounts receivable	\$ 40,624	\$ 31,982
Development Cost Charges	61,492	51,438
Property taxes	18,398	17,688
Utility rates	14,473	13,059
Due from joint venture partners	925	82
Due from other authorities	3,775	3,721
Debenture debt guarantee	2,516	2,467
Tax sale properties	73	316
	<u>\$ 142,276</u>	<u>\$ 120,753</u>

## 3. Investments

	<u>2017</u>	<u>2016</u>
Investments maturing within one year (a)	\$ 441,870	\$ 444,108
Investments maturing within two years (a)	153,114	98,021
Investments maturing within ten years (a)	248,274	275,834
	<u>843,258</u>	<u>817,963</u>
SCDC investments (b)	6,999	-
SHHS investments (c)	7,261	7,928
Investment in government business partnership (d)	374	-
Investment in partnership (e)	304	304
	<u>\$ 858,196</u>	<u>\$ 826,195</u>

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017  
(tabular amounts in thousands of dollars)

## 3. Investments (continued)

- (a) City investments had an average portfolio yield of 1.95% (2016 – 2.05%). All City investments can be liquidated on demand, but may have associated penalties on liquidation.
- (b) SCDC investments includes term deposits that have a maturity of three months or less held by SCDC with an average yield rate of 1.60% (2016 – nil).
- (c) SHHS investments includes a diversified portfolio of fixed income and equity securities held by SHHS with an average yield rate of 7.66% (2016 – 7.04%), for the purpose of supporting programs and projects related to reducing homelessness and increasing access to safe and affordable housing in Surrey.
- (d) During 2017, SCDC’s joint-venture partnership in Beedie LP met the criteria of a government business partnership and therefore the results are accounted for under the modified equity method on a prospective basis and are shown as investment in government business partnership. In 2016 the Beedie LP was considered to be a government partnership and results were proportionately consolidated with those of SCDC based upon SCDC’s partnership interest of 50%.
- (e) 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.

## 4. Accounts payable and accrued liabilities

	<u>2017</u>	<u>2016</u>
Trade accounts payable	\$ 63,583	\$ 54,612
Due to Federal Government	43,046	40,961
Employee future benefits (note 9)	27,053	26,903
Due to joint venture partners	3,668	4,121
Contractors' holdbacks	11,466	11,048
Due to Regional Districts	12,515	7,489
Due to Province of British Columbia	3,840	3,550
Due to other government entities	1,944	2,641
Interest payable on debt	2,009	2,009
	<u>\$ 169,124</u>	<u>\$ 153,334</u>

# Notes to the Consolidated Financial Statements

*For the year ended December 31, 2017  
(tabular amounts in thousands of dollars)*

## 5. Deposits and prepayments

	<u>2017</u>	<u>2016</u>
Deposits:		
Future works	\$ 49,600	\$ 46,429
Planning and permits	64,152	55,621
Engineering	74,271	49,583
Capital deposits	29,625	28,970
Pavement cuts	4,814	4,386
Boulevard trees	2,431	2,527
Latecomer	896	965
Tenant deposits	678	999
Developer works agreement	11	609
Amenities	4	373
Other deposits	<u>7,015</u>	<u>7,593</u>
Total deposits	<u>\$ 233,497</u>	<u>\$ 198,055</u>
Prepayments:		
Taxes	\$ 40,691	\$ 38,167
Utilities	2,643	2,352
Tax sale private purchase payment	816	2,303
Other prepayments	<u>1</u>	<u>10</u>
Total prepayments	<u>44,151</u>	<u>42,832</u>
Total deposits and prepayments	<u>\$ 277,648</u>	<u>\$ 240,887</u>

## 6. Deferred revenue

	<u>2017</u>	<u>2016</u>
Development/building permits	\$ 24,282	\$ 21,371
Deferred gains on land sales to joint ventures	4,221	3,957
Deferred lease revenue	5,852	7,688
Other	<u>2,602</u>	<u>2,298</u>
	<u>\$ 36,957</u>	<u>\$ 35,314</u>

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017  
(tabular amounts in thousands of dollars)

## 7. Deferred development cost charges

Development Cost Charges (DCCs) 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. DCCs are deferred and recognized as revenue when the related costs are incurred.

	<u>2017</u>	<u>2016</u>
Deferred DCCs:		
Arterial roads	\$ 67,322	\$ 67,446
Parkland	28,171	51,638
Drainage/storm water detention	41,668	38,561
Sanitary sewer	23,823	26,474
Collector roads	18,758	17,431
Water	14,713	13,156
Area specific	57,040	49,757
Park development	2,799	2,505
	<u>\$ 254,294</u>	<u>\$ 266,968</u>
Deferred DCCs, beginning of year	<u>\$ 266,968</u>	<u>\$ 239,631</u>
DCCs levied for the year	91,108	87,398
Investment income	1,181	1,199
Total DCCs deferred	<u>92,289</u>	<u>88,597</u>
Revenue recognized for General Capital	(86,516)	(41,464)
Revenue recognized for Water Capital	(3,980)	(4,063)
Revenue recognized for Sewer & Drainage Capital	(14,467)	(15,733)
Total DCCs recognized as revenue	<u>(104,963)</u>	<u>(61,260)</u>
Net increase for the year	<u>(12,674)</u>	<u>27,337</u>
Deferred DCCs, end of year	<u>\$ 254,294</u>	<u>\$ 266,968</u>

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017  
(tabular amounts in thousands of dollars)

## 8. Debt

	<u>2017</u>	<u>2016</u>
Debt (i)	\$ 185,457	\$ 190,993
Loans payable (ii)	<u>81,762</u>	<u>33,569</u>
	<u>\$ 267,219</u>	<u>\$ 224,562</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 2017</i>	<i>Net debt 2016</i>
General				
Capital Fund	\$ 212,335	\$ 26,878	\$ 185,457	\$ 190,993

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, 2017  
(tabular amounts in thousands of dollars)

## 8. Debt (continued)

### (i) Loans payable

	2017	2016
SCDC: 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	<b>\$ 13,010</b>	13,433
SCDC: 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
SCDC: 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 August 31, 2018	<b>19,069</b>	10,409
Biofuel Processing Facility: 25 year contract with Orgaworld Canada Ltd., payable in monthly payments of \$221,516 including interest calculated at a rate of 5.10% payable in accordance with the project agreement terms	<b>\$ 49,683</b>	-
<b>Total Loans Payable</b>	<b>\$ 81,762</b>	<b>\$ 33,569</b>



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017  
(tabular amounts in thousands of dollars)

## 8. 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
2018	\$ 5,757	\$ 32,391	\$ 38,148
2019	5,988	1,240	7,228
2020	6,227	1,299	7,526
2021	6,476	1,361	7,837
2022	6,735	1,382	8,117
2023 and thereafter	154,274	44,089	198,363
Total	\$ 185,457	\$ 81,762	\$ 267,219

Total interest expense recorded for the year ended December 31, 2017 was \$8.6 million (2016 - \$8.8 million).

## 9. Employee future benefits

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

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017  
(tabular amounts in thousands of dollars)

## 9. Employee future benefits (continued)

An actuarial valuation for these benefits was performed to determine the City's accrued benefit obligation as at December 31, 2017. The difference between the actuarially determined accrued benefit obligation of \$25.0 million and the accrued benefit liability of \$27.1 million as at December 31, 2017 is an unamortized actuarial gain of \$2.1 million. The actuarial gain is amortized over a period equal to the employees' average remaining service life of 11 years (2016 – 11 years).

<b>Accrued benefit obligation:</b>	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 25,364	\$ 23,687
Current service cost	1,815	1,901
Interest cost	819	789
Actuarial loss (gain)	(771)	304
Benefits paid	<u>(2,240)</u>	<u>(1,317)</u>
Accrued benefit obligation, end of year	<u>\$ 24,987</u>	<u>\$ 25,364</u>

### Reconciliation of accrued benefit obligation to accrued benefit liability:

	<u>2017</u>	<u>2016</u>
Actuarial benefit obligation, end of year	\$ 24,987	\$ 25,364
Unamortized actuarial gain	<u>2,066</u>	<u>1,539</u>
Accrued benefit liability, end of year	<u>\$ 27,053</u>	<u>\$ 26,903</u>

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

	<u>2017</u>	<u>2016</u>
Discount rate	3.00%	3.20%
Expected future inflation rate	1.80%	1.80%
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, 2017  
(tabular amounts in thousands of dollars)

## 10. Tangible capital assets

Cost	Balance at December 31, 2016	Additions	Disposals / WIP Allocations	Balance at December 31, 2017
Land and land improvements	\$ 1,811,817	\$ 99,817	\$ 8,687	\$ 1,902,947
Buildings	594,994	36,101	8,164	622,931
Infrastructure	4,481,723	108,204	11,395	4,578,532
Machinery and equipment	258,766	24,662	10,466	272,962
Land under road	2,807,611	115,356	-	2,922,967
Work-in-Progress	275,066	489,839	409,461	355,444
<b>Total</b>	<b>\$ 10,229,977</b>	<b>\$ 873,979</b>	<b>\$ 448,173</b>	<b>\$ 10,655,783</b>

Accumulated Amortization	Balance at December 31, 2016	Amortization	Accumulated Amortization on Disposals	Balance at December 31, 2017
Land and land improvements	\$ 79,400	\$ 4,450	\$ 652	\$ 83,198
Buildings	213,453	18,851	945	231,359
Infrastructure	1,496,023	78,834	9,357	1,565,500
Machinery and equipment	128,138	22,187	10,408	139,917
<b>Total</b>	<b>\$ 1,917,014</b>	<b>\$ 124,322</b>	<b>\$ 21,362</b>	<b>\$ 2,019,974</b>

Net Book Value by category	December 31, 2016	December 31, 2017
Land and land improvements	\$ 1,732,417	\$ 1,819,749
Buildings	381,541	391,572
Infrastructure	2,985,700	3,013,032
Machinery and equipment	130,628	133,045
Land under road	2,807,611	2,922,967
Work-in-Progress	275,066	355,444
<b>Total</b>	<b>\$ 8,312,963</b>	<b>\$ 8,635,809</b>

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017  
(tabular amounts in thousands of dollars)

## 10. Tangible capital assets (continued)

Net Book Value by fund	December 31, 2016	December 31, 2017
General capital	\$ 2,263,673	\$ 2,422,481
Transportation capital	3,706,381	3,848,881
Water capital	612,464	623,236
Sewer capital	555,403	576,678
Drainage capital	1,074,279	1,079,156
Library capital	5,300	5,453
Surrey City Development Corp.	95,463	79,924
Total	\$ 8,312,963	\$ 8,635,809

### 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 \$355.4 million (2016 - \$275.1 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 \$151.6 million (2016 - \$114.2 million) comprised of roads infrastructure in the amount of \$125.3 million (2016 - \$92.4 million), water and wastewater infrastructure in the amount of \$17.3 million (2016 - \$12.6 million) and land in the amount of \$9.0 million (2016 - \$9.2 million), including improvements.

# Notes to the Consolidated Financial Statements

*For the year ended December 31, 2017  
(tabular amounts in thousands of dollars)*

## 10. Tangible capital assets (continued)

### c) 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 the Government of Canada will fund 25% of the construction costs up to a maximum of \$16 million, to be received through a P3 Canada Infrastructure Grant. The construction costs, as at December 31, 2017, were \$49.7 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 commence operation in 2018. The City recorded the facility on its financial statements as a tangible capital asset in the amount of its cost of construction being \$49.7 million (2016 – nil). The City also recorded a liability representing future obligations to the Operator in an amount equal to the construction cost of the facility (no payments were made on the liability in 2017). The liability will be reduced over the term of the agreement as payments are made to the Operator.

### 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

No impairments were identified or recorded during the year ended December 31, 2017 and 2016.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017  
(tabular amounts in thousands of dollars)

## 11. Accumulated surplus

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

	2017	2016
<b>Accumulated Surplus per Statement of Financial Position</b>	<b>\$ 8,664,152</b>	<b>\$ 8,377,037</b>
Less Internally Restricted Funds:		
<b>Tangible capital assets</b>	<b>8,635,809</b>	<b>8,312,963</b>
<b>Debt funded assets</b>	<b>(253,184)</b>	<b>(210,818)</b>
	<b>8,382,625</b>	<b>8,102,145</b>
<b>Reserves set aside by Council</b>		
Equipment and Building Replacement	35,659	34,325
Neighborhood Concept Plans	23,775	22,648
Park Land Acquisition	26,309	18,687
Local Improvement financing	16,591	16,143
Capital Legacy	11,926	15,638
Environmental Stewardship	6,661	6,559
Parking Space	2,618	1,586
Water Claims	1,345	1,338
Affordable Housing	23	23
	<b>124,907</b>	<b>116,947</b>
<b>Internal Borrowing</b>	<b>(21,438)</b>	<b>(15,040)</b>
<b>Internally Restricted Reserves</b>		
Infrastructure Replacement	(45,811)	(22,278)
Revenue Stabilization	16,593	16,589
Self-Insurance	12,288	13,113
Operating Emergencies	8,782	8,782
Environmental Emergencies	7,420	7,420
Prepaid expenses	4,375	4,517
Inventories of supplies	929	880
Committed funds	175,223	163,821
	<b>179,799</b>	<b>192,844</b>
<b>Other Restricted Funds</b>		
Surrey City Development Corporation	(15,910)	(34,247)
Surrey Homelessness and Housing Society	7,451	7,879
Innovation Boulevard	209	-
	<b>(8,250)</b>	<b>(26,368)</b>
<b>Total Restricted Funds</b>	<b>8,657,643</b>	<b>8,370,528</b>
<b>Unappropriated Surplus</b>	<b>\$ 6,509</b>	<b>\$ 6,509</b>

# Notes to the Consolidated Financial Statements

*For the year ended December 31, 2017  
(tabular amounts in thousands of dollars)*

## 12. Commitments and contingencies

- a) The City has significant future contractual commitments for incomplete capital acquisitions and capital construction projects in progress. The City records the capital costs incurred to the end of the year on these projects as 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 11). The Financial Plan, updated annually, provides for the financing of these and future obligations within the estimated financial resources of the City.
- b) The City has a contingent liability with respect to debentures of the Greater Vancouver Water District, Greater Vancouver Sewerage and Drainage District and Greater Vancouver Regional District, to the extent provided in their respective Enabling Acts, Acts of Incorporation and Amending Acts. Management does not consider payment under this contingency to be likely and therefore no amounts have been accrued.
- c) The City is a shareholder of the Emergency Communications for Southwest British Columbia Incorporated (E-Comm) whose services provided include: regional 9-1-1 call centre for the Metro 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 29 Class "A" and 23 Class "B" shares issued and outstanding as at December 31, 2017). 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 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, 2017  
(tabular amounts in thousands of dollars)

## 12. Commitments and contingencies (continued)

e) The City insures itself through a combination of insurance policies and self-insurance. The City has a funded self-insurance appropriation included in accumulated surplus (note 11). Based on estimates, this appropriation reasonably provides for all outstanding claims where the outcome is not currently determinable.

### f) 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.

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
<b>Total</b>						<b>\$ 3,957</b>

### g) 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.



# Notes to the Consolidated Financial Statements

*For the year ended December 31, 2017  
(tabular amounts in thousands of dollars)*

## 13. Pension Plan

The City and its employees contribute to the Municipal Pension Plan (the "Plan"), a jointly trustee pension plan. The Board of Trustees, representing plan members and employers, is responsible for 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, 2017, the Plan has about 193,000 active members and approximately 90,000 retired members. Active members include approximately 38,000 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.

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 \$18.4 million (2016 - \$17.6 million) for employer contributions while employees contributed \$15.3 million (2016 - \$14.7 million) to the Plan in 2017.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017  
(tabular amounts in thousands of dollars)

## 14. Taxation revenue

	2017	2016
Tax collected:		
Property taxes	\$ 320,990	\$ 297,206
Collections for other authorities	302,506	284,725
Drainage Parcel taxes	53,629	51,569
Grants-in-lieu of taxes	16,596	16,446
Other	480	642
	<b>694,201</b>	<b>650,588</b>
Less transfers to other authorities:		
Province of BC - School Taxes	230,932	215,746
Greater Vancouver Regional District	6,541	6,059
BC Assessment Authority	7,362	6,786
Greater Vancouver Transportation Authority	43,692	41,375
Other	13,979	14,759
	<b>302,506</b>	<b>284,725</b>
Taxation revenue	<b>\$ 391,695</b>	<b>\$ 365,863</b>

## 15. Significant taxpayers

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

## 16. Trust funds

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

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017  
(tabular amounts in thousands of dollars)

## 16. Trust funds (continued)

			<u>2017</u>	<u>2016</u>
<b>Assets</b>				
Cash and short term investments			<u>\$ 3,929</u>	<u>\$ 3,515</u>
<b>Equity</b>				
	Employee Benefits Fund	Cemetery Perpetual Care Fund	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 623	\$ 2,892	\$ 3,515	\$ 3,321
Employment insurance rebate	86	-	86	79
Contributions	43	361	404	189
Interest revenue	4	-	4	4
Benefits purchased	(16)	-	(16)	(5)
Refunded to employees	(64)	-	(64)	(73)
Balance, end of year	<u>\$ 676</u>	<u>\$ 3,253</u>	<u>\$ 3,929</u>	<u>\$ 3,515</u>

## 17. 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, 2017, 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, 2017 are as follows:

Assets	\$ 113
Liabilities	(3)
Accumulated surplus	<u>\$ 110</u>

Revenues and expenditures for the year ended were \$13 thousand (2016 – \$436 thousand) and \$0 thousand (2016 - \$103 thousand), respectively.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017  
(tabular amounts in thousands of dollars)

## 17. 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 24.4% (2016 – 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, 2017 are as follows:

Assets	\$ 1,226
Liabilities	(30,410)
Tangible capital assets	43,085
Prepaid	14
Accumulated surplus	<u>\$ 13,915</u>

Revenues and expenditures for the year ended were \$165 thousand (2016 – \$0 thousand) and \$30 thousand (2016 – \$35 thousand), 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. Development of the industrial building was completed in 2016 and the building has since been occupied by a tenant under a long term lease. SCDC is an equal partner and will provide contributions of cash and land to fund development. In 2016 Beedie LP’s financial results were proportionately consolidated with SCDC based upon the 50% share of total contributions. During 2017 Beedie LP met the criteria of a government business partnership and results are accounted for under the modified equity method. The liability of SCDC is limited to the cash and land which it contributed to Beedie LP.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017  
(tabular amounts in thousands of dollars)

## 18. 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 Department, Corporate Services Department, Surrey City Development Corporation, and Surrey Homelessness and Housing Society*

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

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

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017  
(tabular amounts in thousands of dollars)

## 18. 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.

### *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.

### *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.

### *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.

### *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.

### *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, 2017  
(tabular amounts in thousands of dollars)*

## **18. Segmented information (continued)**

### *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.

### *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.

### *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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017  
(tabular amounts in thousands of dollars)

For the year ended December 31, 2017, with comparative figures for 2016  
(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	2017	2016
<b>18 SEGMENTED INFORMATION</b>																
<b>REVENUES</b>																
Taxation, grants-in-lieu, assessments	\$ -	\$ -	\$ 630,695	\$ 25,843	\$ 129	\$ -	\$ 1,595	\$ -	\$ 35,939	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 694,201	\$ 650,588
Collections for other authorities	-	-	(302,506)	-	-	-	-	-	-	-	-	-	-	-	(302,506)	(284,725)
Taxation revenue	-	-	328,189	25,843	129	-	1,595	-	35,939	-	-	-	-	-	391,695	365,863
Sales of goods and services	1,409	29,161	24,521	199	73,326	1,975	49,994	41,531	-	3,767	274	6,799	1,144	5,937	240,037	226,242
Development cost charges	-	-	104,963	-	-	-	-	-	-	-	-	-	-	-	104,963	61,260
Developer contributions	-	223	33,313	128,140	3,595	-	9,828	-	8,566	-	22	5	44	-	183,736	141,214
Investment income	-	16	16,718	-	427	-	303	-	69	-	-	-	-	-	17,533	16,500
Transfers from other governments	6,423	840	6,187	9,835	-	-	-	-	387	-	1,005	-	-	-	24,677	22,784
Other	44	2,777	30,422	108	1,035	71	480	139	111	22,858	419	2,342	9	864	61,679	80,838
	7,876	33,017	544,313	164,125	78,512	2,046	62,200	41,670	45,072	26,625	1,720	9,146	1,197	6,801	1,024,320	914,701
<b>EXPENSES</b>																
Salaries and benefits	24,587	58,406	38,032	5,256	-	56,459	-	-	-	20,956	13,533	39,526	436	629	257,820	244,856
RCMP contracted services	123,407	-	-	-	-	-	-	-	-	-	-	-	-	-	123,407	121,149
Consulting and professional services	1,061	5,250	4,096	1,736	906	67	530	902	2,159	1,052	70	831	172	25	18,857	17,713
Telephone and communications	439	275	989	42	12	156	22	9	12	68	39	143	2	51	2,259	2,239
Regional district utility charges	-	-	-	-	44,647	-	36,709	-	-	-	-	-	-	-	81,356	77,070
Utilities	485	4,273	35	4,310	598	375	2,027	7	8	613	400	874	371	7	14,383	13,064
Garbage collection and disposal	12	135	21	508	-	21	12	22,198	1	10	11	104	-	-	23,033	20,295
Maintenance and small equipment	82	7,262	4,899	132	372	1,001	704	15	35	2,559	238	1,154	24	59	18,536	15,871
Insurance and claims	-	10	3,148	3	-	13	1	170	-	-	-	65	-	-	3,410	3,916
Leases and rentals	894	1,114	480	1,720	476	2	877	375	1,671	19	53	1,618	-	5	9,304	5,016
Supplies and materials	610	8,802	2,937	5,347	1,537	1,961	1,386	2,846	1,102	2,046	525	5,805	4	23	34,931	29,737
Advertising and media	2	553	267	35	1	7	-	90	3	9	1,186	19	-	-	2,172	2,083
Grants and sponsorships	-	627	2,459	-	-	-	-	-	-	-	-	-	-	-	3,086	4,170
Contract payments	2	4,179	816	9,738	1,778	224	1,419	1,141	1,283	4	31	2,218	294	443	23,570	21,156
Other	850	2,508	2,951	882	481	863	903	32	471	868	679	776	6	10	12,280	11,556
Cost recoveries, net	(905)	(396)	(4,403)	7,111	8,330	(674)	4,155	3,799	6,471	(1,057)	320	(47,139)	(263)	(283)	(24,934)	(22,144)
Interest on debt	-	-	8,615	-	-	-	-	-	-	-	-	-	-	-	8,615	8,819
Other interests and fiscal services	20	370	136	-	-	-	2	15	-	59	5	1	59	131	798	1,394
Amortization expense	1,252	17,067	16,418	38,514	8,577	1,787	11,224	1,518	19,770	35	1,961	5,055	-	1,144	124,322	120,838
	152,798	110,435	81,896	75,334	67,715	62,262	59,971	33,117	32,986	27,241	19,051	11,050	1,105	2,244	737,205	698,798
<b>Excess (deficiency) of revenues over expenses</b>	(144,922)	(77,418)	462,417	88,791	10,797	(60,216)	2,229	8,553	12,086	(616)	(17,331)	(1,904)	92	4,557	287,115	215,903
Transfer from (to) operating funds	-	-	(71,189)	33,093	5,173	-	12,421	(4,742)	(1,810)	-	17,352	10,290	204	(792)	-	-
Transfer from (to) reserve funds	-	527	(61,479)	34,683	3,948	(1,297)	11,159	11,827	4,566	(204)	191	(3,058)	-	(863)	-	-
Transfer from (to) capital funds	-	(3,038)	90,560	(30,970)	(8,868)	-	(15,010)	(11,815)	(10,432)	67	(7)	8	(10,235)	(260)	-	-
Annual surplus (deficit)	\$ (144,922)	\$ (79,929)	\$ 420,309	\$ 125,597	\$ 11,050	\$ (61,513)	\$ 10,799	\$ 3,823	\$ 4,410	\$ (753)	\$ 205	\$ 5,336	\$ (9,939)	\$ 2,642	\$ 287,115	\$ 215,903



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017  
(tabular amounts in thousands of dollars)

## 19. Transfers from other governments

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

	2017	2016
<b>Revenue</b>		
BC Provincial government grants:		
Roads	\$ 141	\$ 936
Traffic fines revenue sharing	6,052	6,099
Casino revenue sharing	4,075	4,167
Library operating	973	941
Climate Action Revenue Incentive Program	638	520
Sewer replacement	333	245
Child care and seniors	243	231
Victim services	169	168
Arts	175	55
BC One Card	32	32
Subtotal BC Provincial government grants	12,831	13,394
Federal government grants:		
Roads	2,900	435
Parks development	348	46
Keep of prisoners	203	171
Summer students	17	7
Child care	57	51
Subtotal Federal government grants	3,525	710
TransLink:		
Arterial widening and intersection improvements	1,431	4,130
Arterial paving	-	1,801
Arterial bridges	2,175	1
Traffic signals, signs and markings	1,002	441
Bicycle street network and other transit projects	2,239	851
Subtotal TransLink grants	6,847	7,224
UBCM Community Works Fund:	1,474	1,456
<b>Total transfers from other government revenues</b>	<b>\$ 24,677</b>	<b>\$ 22,784</b>

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2017  
(tabular amounts in thousands of dollars)

## 20. Budget data

The budget data presented in these consolidated financial statements was included in the City of Surrey 2017 – 2021 Consolidated Financial Plan and was adopted through Bylaw #18955 on December 19, 2016. The following table reconciles the approved budget to the budget figures reported in these consolidated financial statements.

	Budget Amount
Approved consolidated budgeted revenues	\$ 1,041,158
Total Revenues:	<u>1,041,158</u>
Approved consolidated budgeted expenditures	1,335,190
Transfers between funds	<u>(294,032)</u>
	1,041,158
Less:	
Capital expenditures	(570,366)
Municipal Debt	(13,276)
Add:	
Transfers between funds	<u>294,032</u>
Total Expenses:	<u>751,548</u>
Annual surplus per statement of operations	<u>\$ 289,610</u>

## 21. 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, 2017 (in thousands of dollars)

	2016	2017	Utility & Road Funds	Committed to 2018 & Prior years	Balance Available for Future Years
<b>Reserve Funds</b>					
Equipment and building replacement	\$ 34,325	\$ 35,659		\$ 35,659	\$ -
Neighbourhood Concept Plans	22,648	23,775		18,437	5,338
Parkland acquisition	18,687	26,309		26,309	-
Local improvement financing	16,143	16,591		2,270	14,321
Capital legacy	15,638	11,926		11,926	-
Environmental stewardship	6,559	6,661		309	6,352
Parking space	1,586	2,618			2,618
Water claims	1,338	1,345	1,345		-
Municipal land	-	-			-
Affordable housing	23	23		23	-
	<u>\$ 116,947</u>	<u>\$ 124,907</u>	<u>\$ 1,345</u>	<u>\$ 94,933</u>	<u>\$ 28,629</u>
<b>Other Entities</b>					
Surrey City Development Corp	\$ (34,247)	\$ (15,910)			\$ (15,910)
Surrey Homelessness & Housing Society	7,879	7,451		7,451	-
Innovation Boulevard	-	209			209
Surrey Public Library	(324)	(324)			(324)
	<u>\$ (26,692)</u>	<u>\$ (8,574)</u>	<u>\$ -</u>	<u>\$ 7,451</u>	<u>\$ (16,025)</u>
<b>Unappropriated Surplus</b>					
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>
<b>Appropriated Surplus</b>					
Operating contingency and emergencies	\$ 8,782	\$ 8,782	\$ 5,162		\$ 3,620
Environmental emergencies	7,420	7,420	7,420		-
Revenue stabilization	16,589	16,593	11,910		4,683
Self insurance	13,113	12,288	10,063		2,225
Infrastructure replacement	(22,278)	(45,811)	(45,811)		-
Prepaid expenses	4,517	4,375	551	3,824	-
Inventories of supplies	880	929	425	504	-
	<u>\$ 29,023</u>	<u>\$ 4,576</u>	<u>\$ (10,280)</u>	<u>\$ 4,328</u>	<u>\$ 10,528</u>
<b>Committed Funds</b>					
General operating	\$ 44,727	\$ 62,960		\$ 62,960	\$ -
Roads & traffic operating and capital	39,157	38,032	38,032		-
Water operating and capital	38,872	38,131	38,131		-
Sewer operating and capital	24,965	17,921	17,921		-
Drainage operating and capital	12,629	12,162	12,162		-
District Energy	3,233	5,777	5,777		-
Library services	238	240		240	-
	<u>\$ 163,821</u>	<u>\$ 175,223</u>	<u>\$ 112,023</u>	<u>\$ 63,200</u>	<u>\$ -</u>
<b>Deferred Development Cost Charges</b>					
Arterial Roads	\$ 67,446	\$ 67,322	\$ 67,322		\$ -
Parkland	51,638	28,171		28,171	-
Drainage/Storm Water Detention	38,561	41,668	41,668		-
Campbell Heights	35,684	44,078	44,078		-
Sanitary Sewer	26,474	23,823	23,823		-
Collector Roads	17,431	18,758	18,758		-
Highway 99 Corridor	13,670	12,542	12,542		-
Water	13,156	14,713	14,713		-
Park Development	2,505	2,799		2,799	-
West Clayton	403	420	420		-
	<u>\$ 266,968</u>	<u>\$ 254,294</u>	<u>\$ 223,324</u>	<u>\$ 30,970</u>	<u>\$ -</u>
<b>Other Deferred Revenue</b>					
Development/Building Permits	\$ 21,371	\$ 24,282		\$ 24,282	\$ -
Other	13,943	12,675		12,675	-
	<u>\$ 35,314</u>	<u>\$ 36,957</u>	<u>\$ -</u>	<u>\$ 36,957</u>	<u>\$ -</u>
<b>Total</b>	<u>\$ 592,214</u>	<u>\$ 594,216</u>	<u>\$ 332,412</u>	<u>\$ 237,839</u>	<u>\$ 23,965</u>

## Appendix “III”

### **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 Public Sector Account (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 is 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 by 2018 year end, 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 is 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 by 2018 year end, 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 PS 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 have provided feedback to PSAB on this standard. A final standard is expected to be released in the third quarter of 2018. If the standard is adopted, the proposed effective date for the City would be January 1, 2022.

### Revenue

PSAB has issued an Exposure Draft entitled Revenue, Proposed Section PS 3400, after receiving comments on their previously released Statement of Principles. The focus of this proposed 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.

Staff anticipate that this new standard will have some impact on the City's financial statements and have provided feedback to PSAB on this standard. A final standard is expected to be released in the third quarter of 2018. If the standard is adopted, the proposed effective date for the City would be January 1, 2022.

### 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 issued a Statement of Principles in September 2017 proposing new requirements for recognizing, measuring and classifying infrastructure procured through a public private partnership. PSAB is deliberating comments received on its statement of Principles and expects to release an Exposure Draft in the third quarter of 2018. The focus of this standard is to enable users of financial statements to make more informed decisions by: interpreting existing asset recognition requirements and applying them to infrastructure acquired through a public private partnership; developing clear principles for recognizing a liability versus revenue; and identifying how to measure the resulting infrastructure asset and liability. Adoption of these principles would result in a need to assess current accounting policies and practices.

### 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 addressed specific issues related to the measurement of employment benefits and Phase II addressed the accounting for plans with risk sharing features, multi-employer defined benefit plans and sick leave benefits. A second invitation to comment was issued in November 2017, seeking guidance on the appropriate method to determine the discount rate to be used in the accounting for employee future benefits. A third invitation to comment is currently being developed. The ultimate objective will be to issue a new employment benefit section to replace the existing guidance.