

NO: R164

COUNCIL DATE: October 16, 2023

REGULAR COUNCIL

TO: **Mayor & Council** DATE: **October 11, 2023**
FROM: **Director, Strategic Initiatives & Corporate Reporting** FILE: **2480-01**
SUBJECT: **Surrey City Development Corporation – 2023 Annual General Meeting**

RECOMMENDATION

The Director, Strategic Initiatives & Corporate Reporting recommends that Council:

1. Receive this report for information;
2. Receive the Notice of the 2023 Annual General Meeting (“AGM”) and Agenda for Surrey City Development Corporation (“SCDC”), a copy of which is attached as Appendix “I” to this report;
3. Appoint the City Solicitor to represent the City of Surrey (the “Shareholder”) at the 2023 AGM for the Corporation;
4. As sole shareholder of SCDC, endorse the recommendations that are listed below and as set out in the Notice of Annual General Meeting and Agenda:
 - a. Approve the Agenda;
 - b. Approve the Minutes of the December 14, 2022, Annual General Meeting;
 - c. Approve the Financial Statements and Report of the Auditor for the Year Ended December 31, 2022;
 - d. Approve the Appointment of BDO Canada LLP (“BDO”) as SCDC’s Auditor for the Year Ending December 31, 2023; and
 - e. Receive the 2022 Report from the Board of Directors to the Shareholder.

INTENT

The purpose of this report is to have Council, on behalf of the City of Surrey as the sole shareholder of SCDC, address matters related to the 2023 AGM for SCDC, which is scheduled for November 23, 2023, at 4:00 pm and to approve these items in accordance with the *Business Corporations Act*.

BACKGROUND

At the Regular Council meeting on March 6, 2023, Council approved the recommendations of Corporate Report No. R030; 2023, a copy of which is attached as Appendix “II”, which directed

staff to re-operationalize SCDC. Since Corporate Report No. R030;2023, significant progress has been made in reestablishing SCDC:

- Re-establishment of SCDC’s Board, including the appointment of two City Directors and five Independent Directors;
- Re-appointment of Michael Heeney initially as Interim President and Chief Executive Officer (“CEO”) and then as President & CEO;
- Preparations for the launching of an updated website (SCDC.ca);
- Addition of contracted resources to support the re-operationalization of SCDC while recruiting plans for regular full-time staff are prepared;
- Re-establishment of SCDC’s IT/networking/server systems;
- Updating of SCDC’s Business Strategy to reflect Council’s direction for focus: Centre Block, Gateway, Campbell Heights and Newton Town Centre;
- Re-engagement of consulting teams to support SCDC’s Centre Block and Gateway development applications;
- Establishing an interim office in the City Centre;
- Initiating a review of SCDC’s Articles of Incorporation and SCDC Policy 004 – Signing Authority; and
- Engagement with the development community and other industry stakeholders.

DISCUSSION

SCDC’s sole shareholder is the City of Surrey and SCDC is accountable to the City for its activities. In turn, the City of Surrey is accountable to the residents of Surrey.

Having the AGM for SCDC and a public information meeting enables the company to report to the City and its residents on progress made during the prior year and provide the opportunity for the shareholder or the public to raise questions and concerns. The AGM represents one of the key mechanisms for SCDC to demonstrate its commitment to transparency, accountability and good corporate governance.

The *Business Corporations Act* provides that for each Corporation an AGM is to be held in every calendar year and not more than 15 months after the annual reference date for the preceding calendar year. The last AGM for SCDC was held on December 14, 2022.

The Notice of Annual General Meeting and Agenda for 2023 includes those items that should be addressed at the 2023 AGM of SCDC, which include:

- a. Approval the Agenda;
- b. Approval of the Minutes of the December 14, 2022, Annual General Meeting, a copy of which is attached as Appendix “III”;
- c. Approval of the Financial Statements and Report of the Auditor for the Year Ended December 31, 2022, a copy of which is attached as Appendix “I”;
- d. Approval of the Appointment of BDO Canada LLP (“BDO”) as SCDC’s Auditor for the Year Ending December 31, 2023; and
- e. Receiving the 2022 Report from the Board of Directors to the Shareholder.

Legal Services Review

This report has been reviewed by Legal Services.

CONCLUSION

SCDC operates as a wholly owned development corporation with an independent board comprised of five independent directors and two city directors, one of whom is the City Manager. The hosting of the AGM for SCDC and a public information meeting on November 23, 2023, enables the company to report to the City and its residents on progress made during the prior year and provide the opportunity for the shareholder or the public to raise questions and concerns.

Jeff Arason, P.Eng.
Director, Strategic Initiatives &
Corporate Reporting

Appendix "I" - SCDC Notice and Agenda of the 2023 Annual General Meeting
Appendix "II" - Corporate Report No. R030; 2023
Appendix "III" - Minutes of the December 14, 2022, Annual General Meeting
Appendix "IV" - Financial Statements for the year ending December 31, 2022



NOTICE OF THE 2023 ANNUAL GENERAL MEETING

Meeting Date: November 23, 2023

Meeting Time: 4:00 p.m. – 5:00 p.m.

Meeting Location: The 2023 Annual General Meeting will be held virtually. Login details will be provided upon registration.

Please RSVP to renykahlon@scdc.ca or contact 604-380-0102

AGENDA

No.	Item	Action
1.	Approval of Agenda Board Chair	Approval
2.	Approval of Minutes of the December 14, 2022 Annual General Meeting Board Chair	Approval
3.	Approval of Financial Statements for the Year Ended December 31, 2022 Controller	Approval
4.	Appointment of BDO as the Company’s Auditor for 2023 Controller	Approval
5.	Report of Directors to Shareholder Board Chair Board Chair	Receive
6.	Adjournment Board Chair	



CORPORATE REPORT

NO: R030

COUNCIL DATE: March 6, 2023

REGULAR COUNCIL

TO: Mayor & Council

DATE: February 22, 2023

FROM: City Solicitor
Director, Strategic Initiatives & Corporate Reporting

FILE: 2480-01

SUBJECT: Surrey City Development Corporation

RECOMMENDATION

The City Solicitor and the Director, Strategic Initiatives & Corporate Reporting recommends that Council direct staff to complete the necessary actions to re-operationalize the Surrey City Development Corporation ("SCDC") as outlined in this report.

INTENT

The purpose of this report is to outline the actions necessary to re-operationalize SCDC and to obtain Council's support to undertake these actions.

BACKGROUND

In 2006, Council directed staff to incorporate a development corporation, and this corporation, SCDC, was subsequently incorporated in 2007.

In 2019, SCDC provided Council its 2019 Annual Report, a copy of which is attached as Appendix "I".

In 2020, Council directed staff to dissolve SCDC and transfer its assets and operations over to the City. Following this direction, SCDC's Board and officer positions were replaced by City staff, SCDC's office was closed, SCDC's employees were provided completion agreements, and most of SCDC's assets and operations were transferred to the City. A summary of these actions is outlined in Corporate Report R193;2020, a copy of which is attached as Appendix "II".

SCDC and its subsidiaries still remain as companies, and the only asset that SCDC continues to oversee with its development partner, Beedie Development Group, is the Weir Canada Development project which was a build-suit-project located in Campbell Heights.

As part of Corporate Report R207; 2022, a copy of which is attached as Appendix "III", Council directed staff to prepare a plan for Council's consideration to re-operationalize SCDC.

DISCUSSION

As SCDC and its subsidiaries still remain as active companies, the process to re-operationalize SCDC as a for-profit development company is relatively straight forward. The actions to re-establish SCDC are to be undertaken in the order as follows:

- 1) Council appointing independent members to the SCDC Board;
- 2) Council approving the SCDC's Board appointment of the President;
- 3) Council endorsing SCDC's Strategic Plan;
- 4) Council endorsing SCDC's Financial Plan; and
- 5) Council approving the SCDC President's appointment of SCDC officer positions (Chief Financial Office, Corporate Secretary and Solicitor and Vice President, Development).

Next Steps

As a next step, staff will initiate an Expression of Interest process to recruit independent Board members. The Expression of Interest process will be seeking independent Board members to help guide the development corporation whose focus will be on for-profit development in the City Centre (Centre Block and Gateway), Campbell Heights and the Newton Town Centre, and any other areas or opportunities as authorized by Council.

A Corporate Report will be presented to Council for its review and approval of applicants as independent Board members. SCDC's former independent Board members will be free to apply and be considered along with other candidates.

Upon appointment of the independent Board members to the SCDC Board, staff will work with the SCDC Board to recruit and fill the President position. Following Council's approval of the President, staff will work with the SCDC Board and the President to develop both a Strategic Plan and Financial Plan. Staff will then seek Council's approval of each of the Strategic Plan and Financial Plan.

With Council's approval of each of the actions described above, it is expected that SCDC will be able to assume operations in Q2/Q3 2023.

CONCLUSION

SCDC operated as a wholly owned development corporation with an independent board from 2007 to 2020. This report provides a summary of the actions necessary to re-operationalize SCDC and to obtain Council's support to undertake these actions.



Philip Huynh
City Solicitor



Jeff Arason, P.Eng.
Director, Strategic Initiatives &
Corporate Reporting

Appendix "I" SCDC 2019 Annual Report
Appendix "II" Corporate Report R193;2020
Appendix "III" Corporate Report R207; 2022

** Appendices available upon request*

APPENDIX “III”

Minutes of the December 14, 2022, Annual General Meeting

Minutes of the 2022 Annual General Meeting of the shareholder of Surrey City Development Corporation	Wednesday December 14, 2022 Online via Zoom 5:30 p.m. – 6:30 p.m.
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<u>Board Members:</u>	<u>Corporation Officers Present:</u>
Jeff Arason, Chair Vipin Sachdeva	Christopher Bettencourt, Corporate Secretary <u>Others present at the meeting:</u> Philip Huynh, City of Surrey

Philip Huynh, City Solicitor of the City of Surrey presented a proxy form confirming his designation to vote on behalf of the City of Surrey as shareholder at the Surrey City Development Corporation Annual General Meeting on December 14, 2022. The proxy form being accepted by the chair, the meeting was convened at 5:36 pm

1. APPROVAL OF THE AGENDA

The agenda as presented to the shareholder was approved.

2. APPROVAL OF THE MINUTES

The minutes of the 2021 Annual General Meeting held on October 25, 2021 were approved.

3. FINANCE

The audited 2021 financial statements were presented to the shareholder by Vipin Sachdeva.

The audited 2021 financial statements as presented were approved.

4. APPOINTMENT OF COMPANY AUDITORS FOR 2022

The appointment of BDO Canada LLP as the Auditors for the year ending 2022 was approved.

5. REPORT OF DIRECTORS TO SHAREHOLDER

The report by the directors to the shareholder was received.

6. ADJOURNMENT

There being no further business, the meeting was adjourned at 5:42 pm

Approved on _____, 2023 at the 2023 Annual General Meeting

Howard Nemtin, Chair

Christopher Bettencourt, Corporate Secretary

APPENDIX "IV"

Consolidated Financial Statements of

SURREY CITY DEVELOPMENT CORPORATION

Year ended December 31, 2022

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The accompanying financial statements of Surrey City Development Corporation (the "Corporation") are the responsibility of management and have been prepared in accordance with Canadian public sector accounting standards as recommended by the Public Sector Accounting Board of Chartered Professional Accountants Canada. A summary of the significant accounting policies are described in the financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

The Corporation's management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the financial statements. These systems are monitored and evaluated by management.

The Board of Directors meets with management and the external auditors to review the financial statements and discuss any significant financial reporting or internal control matters prior to their approval of the financial statements.

The financial statements have been audited by BDO Canada LLP, independent external auditors appointed by the Corporation. The accompanying Independent Auditor's Report outlines their responsibilities, the scope of their examination and their opinion on the Corporation's financial statements.

Jeff Arason
Director, SCDC

Vipin Sachdeva
CFO, SCDC

March 29, 2023



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INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Surrey City Development Corporation

Opinion

We have audited the consolidated financial statements of Surrey City Development Corporation and its controlled entities (the "Consolidated Entity") which comprise the Consolidated Statement of Financial Position as at December 31, 2022 and the Consolidated Statements of Operations, Consolidated Changes in Net Financial Assets and Consolidated Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Consolidated Entity as at December 31, 2022 and its consolidated results of operations, consolidated changes in net financial assets, and consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Consolidated Entity in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Consolidated Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Consolidated Entity, or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Consolidated Entity's financial reporting process.



Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally-accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally-accepted auditing standards we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Consolidated Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Consolidated Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However future events or conditions may cause the Consolidated Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Consolidated Entity to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

BDO Canada LLP

Chartered Professional Accountants

Vancouver, British Columbia

March 29, 2023

SURREY CITY DEVELOPMENT CORPORATION

Consolidated Statement of Financial Position

As at December 31, 2022, with comparative information for 2021

	2022	2021
Financial assets:		
Cash	\$ 9,616,664	\$ 8,672,099
Due from governments (note 4)	25,763,548	7,532,949
Investment in government business partnership (note 5)	533,200	738,250
Accounts receivable	436,342	59,185
Portfolio investments (note 6)	-	955,000
Performance bonds and deposits	10,200	10,200
	<u>36,359,954</u>	<u>17,967,683</u>
Liabilities:		
Accounts payable and accrued liabilities	44,483	228,890
Deposits	16,110	16,110
Deferred gains (note 7)	372,228	383,195
Unearned revenue (note 8)	-	25,357,256
Due to City of Surrey (note 9)	-	16,358,901
	<u>432,821</u>	<u>42,344,352</u>
Net financial asset (debt)	35,927,133	(24,376,669)
Non-financial assets:		
Tangible capital assets (note 10):		
Properties under development	-	68,288,387
Income properties	269,264	277,239
Tangible capital assets in use	116	4,828
	<u>269,380</u>	<u>68,570,454</u>
Prepaid expenses	12,105	9,691
	<u>281,485</u>	<u>68,580,145</u>
Accumulated surplus (note 11)	\$ 36,208,618	\$ 44,203,476

Contractual obligations (note 12)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:



President



CFO

SURREY CITY DEVELOPMENT CORPORATION

Consolidated Statement of Operations

Year ended December 31, 2022, with comparative information for 2021

	2022	2021
Income from sales of properties:		
Proceeds of sales	\$ 68,829,181	\$ 38,729,484
Less: Cost of sales (note 14)	68,507,074	38,711,511
Development property sales income, net	322,107	17,973
Income property lease revenue, gross	2,103,107	3,325,887
Less: Income property lease direct costs - operating	(270,793)	(469,301)
Less: Income property lease direct costs - interest	(216,656)	(346,726)
Property lease income, net	1,615,659	2,509,860
Income from government business partnership (note 5)	341,102	322,740
Interest and other income	192,619	75,665
	2,471,487	2,926,238
Corporate operating expenses (note 13):		
Administration	25,077	163,759
Income properties	16,718	109,173
Properties under development	41,794	272,933
	83,589	545,865
Partnership operating expenses	2,756	2,815
	86,345	548,680
Annual surplus from operations	2,385,142	2,377,558
Preferred shares redeemed	(10,380,000)	-
Annual surplus (deficit)	(7,994,858)	2,377,558
Accumulated surplus, beginning of year	44,203,476	41,825,918
Accumulated surplus, end of year	\$ 36,208,618	\$ 44,203,476

See accompanying notes to consolidated financial statements.

SURREY CITY DEVELOPMENT CORPORATION

Consolidated Statement of Changes in Net Assets

Year ended December 31, 2022, with comparative information for 2021

	2022	2021
Annual surplus:		
Annual surplus from operations	\$ 2,385,142	\$ 2,377,558
Preferred shares redeemed (note 11)	(10,380,000)	-
	(7,994,858)	2,377,558
Acquisition of tangible capital assets:		
Properties under development	(218,687)	(487,206)
Disposal of tangible capital asset (note 14)	68,507,074	38,727,163
Income properties	(340)	(214)
	68,288,047	38,239,743
Amortization of tangible capital assets:		
Administration	4,712	12,021
Income properties	8,315	107,544
	13,027	119,565
Change in prepaid expenses	(2,414)	20,572
Increase in net asset	60,303,802	40,757,438
Net debt, beginning of year	(24,376,669)	(65,134,107)
Net financial assets (Net debt), end of year	\$ 35,927,133	\$ (24,376,669)

See accompanying notes to consolidated financial statements.

SURREY CITY DEVELOPMENT CORPORATION

Consolidated Statement of Cash Flows

Year ended December 31, 2022, with comparative information for 2021

	2022	2021
Cash provided by (used in):		
Operations:		
Annual surplus from operations	\$ 2,385,142	\$ 2,377,558
Items not involving cash:		
Amortization	13,027	119,565
Amortization of deferred gains	(10,967)	(10,967)
Gain on sale of properties under development	(322,107)	(17,973)
Equity earnings of government business partnership	(338,450)	(319,962)
Changes in non-cash working capital:		
Decrease (increase) in accounts receivable	(377,157)	42,510
Decrease in tenant inducements	-	102,558
Decrease in due from governments	423,151	22,262
Decrease in accounts payable and accrued liabilities	(184,407)	(1,585,595)
Increase in deposits	-	20,711
Decrease in unearned revenue	(1,888,294)	(2,481,086)
Decrease (increase) in prepaid expenses	(2,414)	20,572
	(302,476)	(1,709,847)
Capital:		
Purchase of tangible capital assets	(219,027)	(487,420)
Disposal of tangible capital assets (note 10)	-	15,652
	(219,027)	(471,768)
Investments:		
Distribution of cash from Beedie LP	543,500	206,000
Proceeds on disposal of portfolio investments	955,000	-
Net proceeds from disposal of properties held-for-sale and properties under development	322,107	17,973
	1,820,607	223,973
Financing:		
Increase (decrease) in due to City of Surrey	(354,539)	1,659,373
Repayment of loans payable	-	(205,306)
	(354,539)	1,454,067
Net (decrease) increase in cash	944,565	(503,575)
Cash, beginning of year	8,672,099	9,175,674
Cash, end of year	\$ 9,616,664	\$ 8,672,099

Non-cash transactions:

During the year, the Corporation transferred properties with a net book value of \$68.51 million in exchange for assumption of \$23.47 million unearned revenue, redemption of \$10.38 million preferred shares and a decrease in related party advance of \$34.66 million.

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

Year ended December 31, 2022

1. Nature of operations:

Surrey City Development Corporation (the "Corporation") is a corporation established on April 24, 2007. The Corporation is a wholly owned subsidiary of the City of Surrey (the "City"), and its Board is appointed by the Council of the City. The Corporation's activities serve to advance the commercial, industrial and residential development of the City. The Corporation is exempt from income tax under section 141(a) of the Income Tax Act (Canada).

As at December 31, 2022, the Corporation had an accumulated operating surplus (note 13) of \$36,208,518 (2021 - \$33,823,376). The City has supported the Corporation through property transfers, loans and equity investments.

2. Significant accounting policies:

(a) Basis of accounting:

These consolidated financial statements are prepared by management in accordance with Canadian Public Sector Accounting Standards ("PSAS") established by the Canadian Public Sector Accounting Board for Other Government Organizations.

(b) Basis of consolidation:

The consolidated financial statements reflect the proportionate share of the assets, liabilities, revenues, and expenses of the controlled or jointly controlled organizations listed below. The proportionate share of all inter-departmental and inter-entity accounts and transactions between these organizations are eliminated upon consolidation.

All controlled entities are consolidated at the Corporation's ownership percentage, with controlled government business enterprises being accounted for using the modified equity method.

All government partnerships are proportionately consolidated. All government business partnerships are accounted for using the modified equity method.

2. Significant accounting policies (continued):

(b) Basis of consolidation (continued):

The Corporation has ownership in the following entities:

(i) Surrey City Investment Corporation ("SCIC"):

SCIC is an investment holding entity set up for mixed-use real estate development projects in the City. The Corporation owns 100% of SCIC.

(ii) Grove Limited Partnership:

The Corporation has 50% ownership in the Grove Limited Partnership ("Grove LP") (note 3 (b)). Grove LP is a government partnership and is proportionately consolidated into the Corporation's consolidated financial statements.

(iii) Grove (G.P.) Inc.:

Grove (G.P.) Inc. ("Grove GP") is the General Partner of Grove LP (note 3). The Corporation has 50% ownership in Grove GP. Grove GP Inc. is a corporation and is proportionately consolidated into the Corporation's consolidated financial statements.

(iv) Surrey City Investment (Industrial) Corporation ("SCIIC"):

SCIIC is an investment holding entity set up for mixed-use real estate development projects in the City. The Corporation owns 100% of SCIIC.

SCIIC has 50% ownership in the Beedie SCDC (34A Ave) Limited Partnership ("Beedie LP") (note 5). Beedie LP meets the criteria of a government business partnership and is accounted for using the modified equity method.

SCIIC has 50% ownership in the Beedie SCDC (34A Ave) G.P. Ltd. ("Beedie GP"), the General Partner of Beedie LP (note 5). Beedie GP is a corporation and is accounted for using the modified equity method.

(v) Kwantlen Park Development Corporation ("KPDC"):

KPDC is an investment holding entity set up for mixed-use real estate development projects in the City. The Corporation owns 100% of KPDC. KPDC has had no activity to date.

(c) Non-financial assets:

(i) Tangible capital assets:

Tangible capital assets are recorded at cost, which includes amounts that are directly related to the acquisition, design, construction, development, improvement or betterment of the assets. Cost includes overhead directly attributable to construction and development, as well as interest costs that are directly attributable to the acquisition or construction of the asset.

2. Significant accounting policies (continued):

(c) Non-financial assets: (continued)

(i) Tangible capital assets:

(a) Properties under development:

Properties under development include costs related to projects currently under planning, development or construction that will result in a finished real estate asset at a future date. Interest incurred on the development project is capitalized. Completed projects will either be reclassified as income properties or properties held-for-sale. Costs related to planning, development or construction are capitalized until such time as the property is ready for use or sale.

(b) Income properties:

Properties held with the expectation of earning rental income are considered to be income properties. These properties include retail or commercial space that the Corporation leases to third parties.

(c) Tangible capital assets in use:

Tangible capital assets in use relate to administrative assets required by the Corporation to operate and manage overhead and administrative activities. These include computer equipment and software, furniture and fixtures, tenant improvements and other related assets.

Amortization of tangible capital assets:

The cost, less residual value, of tangible capital assets, excluding land, is amortized on a straight-line basis over their estimated useful lives as follows:

Asset	Rate
Administration assets:	
Furniture and fixtures	5 years
Computer equipment and software	3 years
Tenant improvements	5 years

The useful lives of income properties are determined on an asset-by-asset basis based on estimated remaining useful lives at the time of acquisition or completion of construction.

No amortization is recorded on properties under development. Amortization commences once the development is complete and the property is held or used as an income property.

2. Significant accounting policies (continued):

(c) Non-financial assets: (continued)

Impairment of tangible capital assets:

Tangible capital assets are written down when conditions indicate that they no longer contribute to the Corporation's ability to provide goods and services, or when the value of future economic benefits are less than their net book value. Any impairment is accounted for as an expense in the consolidated statement of operations.

Transfers of tangible capital assets:

Certain transfers of tangible capital assets to partners are recorded at agreed-upon values, representing market values. Any gains on such transfers, realizable from third parties are deferred and will be recognized once the assets are sold outside the related group or utilized in the future operations of such assets.

(ii) Prepaid expenses:

Prepaid expenses include insurance and other items paid in advance and are recognized as an expense over the period of expected benefits.

(d) Revenues:

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

(i) Sales of properties:

Revenue recognition on sale of properties occurs when the Corporation has transferred the significant risks and rewards of ownership to the purchaser.

The cost of sale of a property or unit is allocated on the basis of the estimated total cost of the project prorated by the selling price of the property or unit over the anticipated sales proceeds from the entire project.

(ii) Property lease revenue:

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.

2. Significant accounting policies (continued):

(e) Expenses:

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year are expensed. Interest is recorded using the effective interest method which includes all debt servicing costs.

(f) Measurement uncertainty:

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of the revenues and expenses during the period. Items requiring the use of significant estimates include useful life, impairment and net recoverable values of tangible capital assets, provisions for accrued liabilities, commitments, and fair value of land transfers.

Estimates are based on the best information available at the time of preparation of the consolidated financial statements and are reviewed annually to reflect new information as it becomes available. Measurement uncertainty exists in these consolidated financial statements. Actual results could differ from these estimates.

3. Investments in government partnerships:

Grove LP:

The Grove LP was established on September 1, 2011, for the purpose of developing 141 market townhomes in Surrey.

The Corporation provided contributions of land to the Grove LP in exchange for its 50% limited partnership units.

Decision making for the Grove LP is vested in the General Partner, the Grove (G.P.), of which the Corporation holds 50% of the issued and outstanding shares. The Limited Partners do not exercise day-to-day management or control of the operations of the Grove LP. Financial results are proportionately consolidated with those of the Corporation based upon the Corporation's partnership interest of 50%.

The Grove LP began property development during fiscal 2011. All related costs to date have been capitalized. All market townhomes have been completed and sold. The project is in the warranty period.

3. Investments in government partnerships (continued):

Grove LP (continued):

The Corporation's proportionate share included in these consolidated financial statements is as follows:

	2022	2021
Financial assets:		
Cash	\$ 104,901	\$ 105,839
Accounts receivable	179	185
	105,080	106,024
Liabilities:		
Accounts payable and accrued liabilities	1	197
Deferred gain	3,000	3,000
	3,001	3,197
Net Financial Assets	102,079	102,287
Accumulated surplus	\$102,079	\$ 102,287

	2022	2021
Revenues, net of direct costs	2,008	590
Operating expenses	(2,756)	(2,815)
Annual surplus (deficit)	\$ (748)	\$ (2,225)

4. Due from governments:

	2022	2021
GST receivable	\$ -	\$ 4,293
Development costs recoverable from the City of Surrey (a)	1,129,087	1,129,087
Loan Receivable from the City of Surrey (b)	24,634,461	6,399,569
	\$ 25,763,548	\$ 7,532,949

(a) The Corporation has undertaken development activities on certain properties that are owned by the City of Surrey. The development costs have been incurred on the City's behalf. The settlement of the receivable will happen in the future at the time when the properties are sold to third parties.

(b) The receivable is non-interest bearing and is payable upon demand.

5. Investment in government business partnership:

The Beedie LP was established on September 9, 2014, to develop a build-to-suit industrial building in Surrey. Development of the industrial building was completed in 2016 and the building has since been occupied by a tenant under a long-term lease. The Corporation's partnership interest is held through SCIIC, which provided contributions of cash and land to fund development. Beedie LP meets the criteria of a government business partnership and results are accounted for under the modified equity method. The liability of the Corporation is limited to the cash and land which it has contributed to the Beedie LP through SCIIC.

The Corporation's proportionate share in respect of this entity is as follows:

	2022	2021
Financial assets:		
Cash	\$ 222,708	\$ 225,089
Accounts receivable	38,489	-
Straight-line rent receivable	543,763	506,971
	<u>804,960</u>	<u>732,060</u>
Liabilities:		
Accounts payable and accrued liabilities	188,310	77,449
Accounts payable to Beedie LP partners	56,931	38,314
Deposits payable	55,580	42,126
Long-term debt	8,145,611	8,312,901
	<u>8,446,432</u>	<u>8,470,790</u>
Net Debt	(7,641,472)	(7,738,730)
Tangible capital assets	7,957,283	8,245,017
Prepaid expenses	217,389	231,963
Accumulated surplus	\$ 533,200	\$ 738,250
	<u>2022</u>	<u>2021</u>
Income property lease revenue, gross	\$ 1,149,577	\$ 1,095,727
Income property lease direct costs	(808,475)	(772,987)
Annual surplus	\$ 341,102	\$ 322,740

5. Investment in government business partnership (continued):

	2022	2021
Accumulated operating surplus, opening	\$ 738,250	\$ 624,288
Annual surplus current year	341,102	322,740
Distribution of earnings	(543,500)	(206,000)
	535,852	741,028
<u>Income and expenses outside of partnership (a)</u>	<u>2,652</u>	<u>2,778</u>
<u>Accumulated surplus</u>	<u>\$ 533,200</u>	<u>\$ 738,250</u>

(a) SCDC recognizes deferred revenue of \$10,967 yearly due to gain on transfer of land to partnership. There are costs that incurred outside of partnership that were recorded in tangible asset, expenses are recognized yearly. The revenue and expenses incurred outside of partnership are amortized over forty years.

6. Portfolio investments:

	2022	2021
GIC	\$ -	\$ 955,000

The GIC was redeemed on September 26, 2022 (note 12).

7. Deferred gains:

	2022	2021
Deferred gain on Grove LP land (note 3)	\$ 3,000	\$ 3,000
Deferred gain on Beedie LP land	369,228	380,195
	\$ 372,228	\$ 383,195

The Corporation has transferred land to the partnerships in lieu of their equity contributions to the development projects. As the land is being transferred at its estimated fair market value, there is an inherent gain on the transfer. The portion of the gain related to the Corporation's partnership interest has been eliminated. The portion of the gain attributed to the non-related parties has been deferred and will be recognized either upon the sale of the project to unrelated parties or amortized over the useful life of the project.

8. Unearned revenue:

Unearned revenue represents cash received by the Corporation for a ten-year lease prepayment, development cost charges and additional site work performed for one tenant with respect to a land lease. Unearned revenue is being recognized into income property revenue on a straight-line basis over the periods to which they relate. The income property was transferred to the City on October 1, 2022. As part of the sale transaction the City assumed the balance of the unearned revenue account.

9. Due to City of Surrey:

	2022	2021
Amount payable #1, payable in monthly installments of blended principal and interest in the amount of \$27,649, with interest at 1.98%, maturing annually (Brooksdale).	\$ -	\$ 5,212,283
Amount payable #2, payable in monthly installments of blended principal and interest in the amount of \$56,962, with interest at 3.36%, maturing annually (Walmart).	-	11,146,618
	\$ -	\$ 16,358,901

The loan amounts due to the City were applied against the purchase price of the Brooksdale and Walmart properties, reducing the amounts owed to the Corporation. The loan balance was reduced to nil as part of the consideration in the sale of the properties.

10. Tangible capital assets:

	Properties under development	Income properties			Administration	Total
		Land	Building	Total		2022
Cost						
Opening balance	68,288,387	-	369,438	369,438	319,528	68,977,353
Additions	218,687	-	340	340	-	219,027
Disposals and write downs	-	-	-	-	(178,790)	(178,790)
Transfer to City of Surrey	(68,507,074)	-	-	-	-	(68,507,074)
Closing balance	-	-	369,778	369,778	140,738	510,516
Accumulated amortization						
Opening balance	-	-	92,199	92,199	314,700	406,899
Current year amortization	-	-	8,315	8,315	4,712	13,027
Disposals	-	-	-	-	(178,790)	(178,790)
Closing balance	-	-	100,514	100,514	140,622	241,136
Net book value	\$ -	\$ -	\$ 269,264	\$ 269,264	\$ 116	\$ 269,380

During the year, \$42,687 was capitalized to properties under development (2021 – \$57,987).

	Properties under development	Land	Building	Total	Administration	2021
Cost						
Opening balance	86,501,645	12,579,682	9,790,836	22,370,518	539,264	109,411,427
Additions	487,206	-	214	214	-	487,420
Disposals and write downs	-	-	-	-	(219,737)	(219,737)
Transfer to City of Surrey	(18,700,464)	(12,579,682)	(9,421,612)	(22,001,294)	-	(40,701,757)
Closing balance	68,288,387	-	369,438	369,438	319,528	68,977,353
Accumulated amortization						
Opening balance	-	-	1,974,903	1,974,903	506,762	2,481,665
Current year amortization	-	-	107,544	107,544	12,021	119,565
Disposals	-	-	(1,990,248)	(1,990,248)	(204,083)	(2,194,331)
Closing balance	-	-	92,199	92,199	314,700	406,899
Net book value	\$ 68,288,387	\$ -	\$ 277,239	\$ 277,239	\$ 4,828	\$ 68,570,454

11. Accumulated surplus:

Accumulated surplus is comprised of:

	2022	2021
Share capital, common shares (a)(i)	\$ 100	\$ 100
Share capital, preferred shares (a)(ii)	-	10,380,000
Accumulated operating surplus (b)	36,208,518	33,823,376
	<u>\$ 36,208,618</u>	<u>\$ 44,203,476</u>

(a) Share capital:

The Corporation was established by the City pursuant to Section 185 of the Community Charter with the intent that, until the City Council otherwise determines, all shares will be held by the City.

(i) Common shares:

The authorized capital of the Corporation includes 100 common shares without par value which are issued and outstanding as fully paid and non-assessable by the City.

(ii) Preferred shares:

The Corporation is authorized to issue an unlimited number of preferred shares without par value.

During the year, the Brooksdale and Campbell Heights East properties were transferred to the City at its net book value and the related preferred shares were redeemed. The corporation redeemed 10,380 preferred shares for \$10,380,000 (2021 – nil).

As of December 31, 2022, the Corporation has no preferred shares (2021 – 10,380) outstanding that are classified as accumulated surplus.

(b) The change in accumulated operating surplus is as follows:

	2022	2021
Accumulated operating surplus, opening	\$ 33,823,376	\$ 31,445,818
Annual surplus current year	2,385,142	2,377,558
	<u>\$ 36,208,518</u>	<u>\$ 33,823,376</u>

12. Contractual obligations:

The Corporation is obligated to reimburse the City for all operating costs incurred by the City on behalf of the Corporation; all such amounts have been accrued as incurred.

The Corporation has entered into various agreements and contracts for services and construction. Commitments outstanding as at December 31, 2022 are nil (2021 - \$1.7 million), inclusive of the Corporation's proportionate share of Partnership commitments of nil (2021 - nil). The contractual obligations from prior year were related to development properties which have been transferred back to the City.

12. Contractual obligations (continued):

In prior year, the Corporation had a letter of credit outstanding for \$955,000. The letter of credit was required as an environmental security for a development project. The City has assumed this letter of credit when the property was transferred back to the City.

The Corporation is still responsible for a proportionate share of warranty and indemnity provided to the purchaser of the 5 corporate office entities of the Surrey Centre Limited Partnerships. The warranty and indemnity is equivalent to the 2/5/10 warranty insurance customary for residential units. The warranty and indemnity provided by the Corporation was made in proportion to SCIC's ownership percentage of the Surrey Centre Office Limited Partnership. The Corporation has assessed the potential risk and believes there is no material exposure and therefore no accrual has been recognized.

13. Operating expenses by object:

The following is a summary of operating expenses by object:

	2022	2021
Advertising and promotion	\$ -	\$ 211
Amortization	4,712	12,021
Bad debt expense	-	6,367
Bank fees	300	459
Communication	-	22,164
Consulting and professional	60,175	55,869
Insurance	17,527	18,760
Interest on operating loan	-	141,492
Lease and rentals	874	220,568
Membership and training	-	10,489
Property taxes	-	29,979
Salaries and benefits	-	19,222
Supplies and materials	-	15,654
Service maintenance	2,757	11,524
	<u>\$ 86,345</u>	<u>\$ 564,779</u>

14. Related party transactions:

Related parties include the City and its related entities as well as the government partnerships that the Corporation has an ownership interest in. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Transactions with government partnerships have been disclosed in note 3. Preferred share transactions have been disclosed in note 11.

The Corporation incurred interest costs of \$259,343 (2021 - \$397,640) on the Corporation payable to the City.

Property taxes, utilities and ancillary items of nil (2021 - \$140,122) were incurred by the Corporation and payable to the City.

14. Related party transactions (continued):

The remaining properties controlled by the Corporation were transferred to the City this year at book value of \$68,507,074. In exchange for the properties the Corporation's loan receivable from the City increased. In addition, preferred shares related to Bakerview and CHE (Walmart) properties were redeemed, the property loans payable were reduced to nil and the City assumed the unearned revenue remaining on CHE (Walmart) property.

15. Contractual rights:

The Corporation leases office space. The lease expires on September 30, 2023. The Corporation has subleased their office space for the period November 15, 2021 to September 29, 2023. In 2023, \$94,128 is anticipated to be received.

16. Financial risks:

(i) Credit risks:

The Corporation is exposed to this risk relating to its cash, and accounts receivable. The Corporation holds its cash accounts with federally regulated chartered banks who are insured by the Canadian Deposit Insurance Corporation. In the event of default, the Corporation's cash accounts are insured up to \$100,000 (2021 - \$100,000).

Credit risk on accounts is mitigated as the amount is due to from one local government entity.

(ii) Market risks:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: currency risk, interest rate risk and equity risk. There have been no significant changes from the previous year in the exposure to the risk or policies, procedures and methods used to measure the risk.

(iii) Currency risks:

All transactions are in Canadian dollars, so no currency risk exists.

(iv) Interest rate risks:

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates. The Corporation's balance owing from the City is non-interest bearing, so there is no interest rate risk.

There have been no significant changes from the previous year in the exposure to the risk, or policies, procedures and methods used to measure the risk.

(v) Liquidity risks:

Liquidity risk is the risk that the Corporation will not be able to meet all cash outflow obligations as they come due. The Corporation mitigates this risk by monitoring cash activities and expected outflows through extensive budgeting and maintaining financing arrangements with the City of Surrey and ensuring financing payments are tied to development activities (cash inflows).

There have been no significant changes from the previous year in the exposure to the risk or policies, procedures and methods used to measure the risk.

17. Comparative figures:

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

18. Subsequent events:

In April 2020, Surrey City Council supported a motion to dissolve the Corporation and transfer its assets and operations to the City. Following this direction, SCDC's Board and officer positions were dismissed and replaced by City staff. The properties which SCDC has beneficial interest to have been transferred back to the City. In November 2022, the Mayor and Council has directed staff to present a plan on actions required to re-operationalize SCDC. This report was presented to Council in March 2023 and the action plan was approved. City staff will initiate the recruitment of independent SCDC Board members to be appointed by Council. The new SCDC board members will undertake the action plan outlined in the report. Once the Council approves of the Board's actions, it is expected that SCDC will be able to resume development activities in the latter half of the 2023 year.