

NO: R071

COUNCIL DATE: April 15, 2019

REGULAR COUNCIL

TO: **Mayor & Council**

DATE: **April 9, 2019**

FROM: **General Manager, Finance**

FILE: **1880-20**

SUBJECT: **2018 Annual Financial Statements**

RECOMMENDATION

The Finance Department recommends that Council:

1. Receive this report for information; and
2. Approve the 2018 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's 2018 financial statements, which will then be included in the City's 2018 Annual Financial Report.

DISCUSSION

Sections 98 and 167 of the Community Charter require that the City produce annual audited financial statements. The City of Surrey's annual financial statements, including the auditor's report, for the year ended December 31, 2018 are attached to this report as Appendix "I". These will be included in the City's 2018 Annual Financial Report that will be published by the end of June.

The annual financial statements that are included in Appendix "I" have been audited and 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. City staff continue to stay abreast of new and evolving PSAB standards in preparation for future impacts; attached as Appendix "II" is a summary of both approved future standards and evolving standards. 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 2018 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, 2018 and the results of its operations for the year 2018.

Auditors Comments

BDO has indicated that they are satisfied that the City's 2018 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.

Executive Summary

Overall the City continues to be in a strong financial position, increasing both its net financial assets as well as its capital investments in 2018. Revenues increased from a year-over-year perspective as a result of increased taxes, fees and permits, developer contributions, and government transfers; this also translated into overall revenues being higher than budget, however revenues were lower than budgeted for development cost charges due to the timing in delivering related capital projects. As anticipated, expenses have also increased from a year-over-year perspective as a result of increases associated with salaries resulting from growth and collective bargaining wage increases, increases in the RCMP contract, and increases in Parks, Recreation & Culture programming. While expenses have increased, they are lower than budgeted, in part due to tighter fiscal management.

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

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

The annual 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 & Expenses

<i>For the year ended December 31, 2018 (in thousands of dollars)</i>	<i>2018 Budget</i>	<i>2018 Actual</i>	<i>2018 Budget Variance</i>
REVENUES			
1 Taxation revenue	\$ 420,515	\$ 420,145	\$ (370)
2 Sales of goods and services	243,058	250,281	7,223
3 Development cost charges	*	107,486	68,353
4 Developer contributions	142,629	263,556	120,927
5 Investment income	20,103	22,633	2,530
6 Transfers from other governments	36,921	51,722	14,801
7 Other	48,851	59,494	10,643
8 Gain on sale of assets and partnership interest	25,133	23,047	(2,086)
	<u>1,044,696</u>	<u>1,159,231</u>	<u>114,535</u>
EXPENSES			
9 Police services	164,437	159,702	(4,735)
10 Parks, recreation and culture	99,648	100,192	544
11 General government services	63,121	60,522	(2,599)
12 Road & traffic safety	34,492	28,810	(5,682)
13 Water operations	65,432	63,136	(2,296)
14 Fire services	63,274	62,864	(410)
15 Sewer operations	52,450	51,000	(1,450)
16 Solid waste management	35,436	30,386	(5,050)
17 Drainage operations	13,506	13,649	143
18 Planning and development	29,904	29,489	(415)
19 Library	18,060	18,141	81
20 Engineering	6,885	7,258	373
21 Surrey City Energy	1,601	1,224	(377)
22 Parking	1,163	1,323	160
23 Amortization	128,967	130,649	1,682
24 Interest on debt and general fiscal services	9,987	11,785	1,798
25 Loss on disposal of assets	-	2,922	2,922
	<u>788,363</u>	<u>773,052</u>	<u>(15,311)</u>
26 EXCESS REVENUES OVER EXPENDITURES	*	256,333	386,179
27 Accumulated surplus (equity), beginning of year	8,664,152	8,664,152	-
Excess revenues over expenditures	*	256,333	386,179
28 Accumulated Surplus (equity), end of year	\$ 8,920,485	\$ 9,050,331	\$ 129,846

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 to support the City’s capital program.

Table 2 - Consolidated Statement of Operations – Change in Equity

<i>For the year ended December 31, 2018 (in thousands of dollars)</i>	<i>2018 Budget</i>	2018 Actual	<i>2018 Budget Variance</i>
27 Accumulated surplus (equity), beginning of year	8,664,152	8,664,152	-
Excess revenues over expenditures *	256,333	386,179	129,846
28 Accumulated Surplus (equity), end of year	\$ 8,920,485	\$ 9,050,331	\$ 129,846
SUPPORT OF CAPITAL PROGRAMS			
29 Contribution to capital programs *	(611,968)	(633,786)	(21,818)
Excess revenues over expenditures	256,333	386,179	129,846
30 Transfers (to)/from funds	355,635	247,607	(108,028)
	\$ -	\$ -	\$ -

The lines in the table above have been referenced numerically on the left side. An explanatory note on the variance related to each line is provided on the following pages with the notes numbered to match the line to which the note relates.

Revenues:

1. Taxation for City Purposes: The actual taxation revenue received in 2018 was approximately \$0.37 million lower than budget. This variance was due to lower than budgeted grant-in-Lieu and local improvement levy revenues, drainage parcel tax, and capital parcel tax, which were then offset by higher than budgeted growth in general taxes.
2. Sale of Goods & Services: Sales revenue is \$7.22 million higher than budget. This is due primarily to higher than expected revenue received for Utility Fees, Development Application Fees, Engineering Land Development Fees, and Secondary Suite Fees. However, these positive variances were offset by lower than budgeted Parks, Recreation & Culture sale of goods & services.
3. Development Cost Charges (“DCC”): The ‘Budget’ figure includes the development cost charges that are available for the 2018 program (\$107.49 million), as well as the funding that was committed to projects in prior years but had not yet been spent (\$54.1 million), for a total of \$161.60 million. The ‘Actual’ column includes only the revenue required to match the costs of the capital constructed (\$68.35 million) in 2018. The variance between actual and budget (\$93.24 million) is due to the timing of construction and the related payments. These funds will be used to complete projects that are currently in progress or that will be completed in the future.

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
NCP Contributions	\$1.950M	\$4.417M	\$2.467M
Cash-in-Lieu of Parkland	\$21.043M	\$12.327M	(\$8.716M)
Private Contributions	\$4.075M	\$9.751M	\$5.676M
Local Area Service	\$0.781M	\$0.033M	(\$0.748M)
Contributed Assets	\$114.780M	\$237.028M	\$122.248M
Total:	<u>\$142.629M</u>	<u>\$263.556M</u>	<u>\$120.927M</u>

The 'Budget' figure for both Neighbourhood Concept Plan ("NCP") Contributions and Cash-in-Lieu of Parkland are determined based on the anticipated usage of each reserve. Comparatively, the 'Actual' column for these contributions are based on the actual NCP and Cash-in-Lieu contributions received in the current year. The variance for NCP is the result of higher than anticipated contributions. Cash-in-Lieu of Parkland is a contribution by developers in accordance with *Bylaw 8830* and was lower than anticipated in 2018; 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 are expected to 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 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. 'Actual' asset contributions were \$237.028 million.

5. Investment Income: The variance between the 'Actual' figure (\$22.63 million) and the 'Budget' figure (\$20.10 million) represents a favourable variance of \$2.53 million dollars. This was primarily due to higher market interest rates during the year.

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Traffic Fine Revenue Sharing	\$6.561M	\$6.418M	(\$0.143M)
TransLink	\$8.846M	\$20.642M	\$11.796M
Gaming Revenue Sharing	\$4.500M	\$4.301M	(\$0.199M)
Other Sundry	\$2.087M	\$2.921M	\$0.834M
Subtotal	<u>\$21.994M</u>	<u>\$34.282M</u>	<u>\$12.288M</u>
Capital Infrastructure Grants	\$14.927M	\$17.440M	\$2.513M
Total:	<u>\$36.921M</u>	<u>\$51.722M</u>	<u>\$14.801M</u>

Traffic Fine Revenue is slightly lower than budget, representing a reduction in total traffic fines collected and distributed by the Province for their fiscal year ending March 31, 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 (\$2.53 million);
- Arterial Bridges (\$15.08 million); and
- Cycling, Transit & Other minor projects (\$3.03 million).

The decrease in Gaming Revenue is a result of lower than budgeted gaming revenue at the Elements Casino in Cloverdale during 2018. The increase in Other Sundry contributions is the result of a number of additional Provincial funding sources that materialized during the year related to Parks, Recreation & Culture programs. 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 was primarily related to the Biofuel processing facility.

7. Other Revenue: This includes the following:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Permits, Licensing & Fines	\$27.832M	\$36.216M	\$8.384M
Lease & Rentals	\$14.403M	\$13.287M	(\$1.116M)
Penalties & Interest on Taxes	\$4.994M	\$5.365M	\$0.371M
Donation & Sponsorship	\$1.622M	\$4.626M	\$3.004M
Total:	<u>\$48.851M</u>	<u>\$59.494M</u>	<u>\$10.643M</u>

The favorable variance in Other Revenues is predominately the result of higher than budgeted revenue from Permits, Licensing & Fines and higher than budgeted revenues from Donations and Sponsorships, which was offset by lower than anticipated Lease & Rentals resulting from lower than budgeted Surrey City Development Corporation (“SCDC”) lease revenues from income properties, due, in part, to tenant improvements occurring at Cedar Hills Plaza.

8. Gain on Sale of Assets and Partnership Interest: This includes the following:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Gain on sale of City assets	\$2.000M	\$13.940M	\$11.940M
Sale of SCDC properties and partnership interest	\$23.133M	\$9.107M	(\$14.026M)
Total:	<u>\$25.133M</u>	<u>\$23.047M</u>	<u>(\$2.086M)</u>

The actual gain on the sale of City assets resulted in a favorable variance of \$11.940M, primarily due to the sale of two City properties representing a gain of \$12.496M. Budgeted sales of SCDC properties did not fully materialize in 2018. An unbudgeted sale of SCDC’s partnership interest in the 3Civic Plaza development resulted in a \$7.338M gain, which brought the unfavorable variance to \$14.026M.

Expenses:

9. Police Services: The \$4.74 million favorable variance is the result of contract timing differences relating to officer recruitment and related costs between budget and actual resulting in a \$4.04 million favorable variance. In addition, there was a \$0.70 million favorable variance due to civil staffing vacancies.
10. Parks, Recreation & Culture: The (\$0.54) million unfavorable variance is due to higher actual costs than budgeted for consulting and professional services relating to various special events and parks planning during 2018. This was offset by lower than budgeted maintenance costs in Parks and lower than budgeted salaries due to vacancies.

11. General Government Services: This includes the following:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Mayor and Council	\$1.683M	\$1.683M	\$0.000M
Grants and Council Initiatives	\$2.018M	\$1.823M	(\$0.195M)
City Manager	\$1.242M	\$1.122M	(\$0.120M)
Public Safety Office	\$1.506M	\$1.800M	\$0.294M
Bylaws	\$8.308M	\$9.453M	\$1.145M
Corporate Services (HR, IT, Leg. Services & Legal)	\$29.140M	\$30.039M	\$0.899M
Investment & Intergovernmental Relations	\$1.531M	\$1.652M	\$0.121M
Finance	\$12.740M	\$10.377M	(\$2.363M)
SCDC	\$3.222M	\$2.602M	(\$0.620M)
Other (contingency, misc. items)	\$1.731M	(\$0.029M)	(\$1.760M)
Total	<u>\$63.121M</u>	<u>\$60.522M</u>	<u>(\$2.599M)</u>

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* had a slight favourable variance due to timing of special initiatives; *Public Safety Office* had an unfavorable variance of (\$0.294M) predominately higher than budgeted consulting services used; *Bylaws* had an unfavorable variance of (\$1.145M) predominately due to staff and operational costs associated with the extra efforts to support special events and public safety initiatives including the Surrey Outreach Team (“SOT”); *Corporate Services* had an unfavorable variance of (\$0.899M) predominately due to the result of staff costs associated with higher overtime than budgeted, consulting services for various initiatives as well as information technology related supplies; *Investment & Intergovernmental Relations* had an unfavorable variance of (\$0.121M) due to higher than budgeted costs associated with market studies and supplies; *Finance* had a favorable variance of \$2.363M predominately the result of self-insurance related claims being less than budgeted and vacancies; 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.

12. Road & Traffic Safety: The favorable variance of \$5.68 million in this area is due to lower than budgeted consulting and professional services utilized along with lower than budgeted operational maintenance costs for the year.
13. Water Operations: The favorable variance of \$2.30 million is the result of lower than budgeted water consumption and timing of contracted project work.
14. Fire Services: The favorable variance of \$0.41 million in Fire Services is the result of savings associated with the timing of filling staff vacancies.

15. Sewer Operations: The favorable variance of \$1.45 million is predominately the result of operating savings and lower than expected costs associated with Capital in Nature projects.
16. Solid Waste Management: The favorable variance of \$5.05 million in this area is the result of lower than anticipated garbage collection and disposal fees, which continue to track lower as more waste is diverted, and the timing of expenditures associated with green technologies such as the conversion from compressed natural gas to the use of renewable natural gas obtained from the Biofuel processing facility.
17. Drainage: The unfavorable (\$0.143) million variance is predominantly the result of Drainage utilizing more internal services than budgeted.
18. Planning & Development: The favorable variance of \$0.42 million is primarily the result of position vacancies and the timing of expenditures.
19. Library Services: The unfavorable variance of (\$0.81) million is the result of additional purchases of library materials.
20. Engineering: The unfavorable variance of (\$0.37) million is predominantly the result of higher than budgeted operating costs.
21. Surrey City Energy: The favorable variance of \$0.38 million is predominantly the result of lower than budgeted cost of operations.
22. Parking: The unfavorable variance of (\$0.160) million is the result of higher than budgeted costs associated with the maintenance of off-street lots.
23. Amortization: This expense represents the annual consumption or usage of City Capital Assets. The 2018 Budget was estimated based on the actual assets owned by the City in 2017 as well as an estimate of the value of new assets that would be added in 2018. Although amortization for major upcoming projects was estimated, variances related to the timing and mix of new assets added in each category during 2018. Amortization by asset type is as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Land Improvements	\$4.555M	\$4.842M	\$0.287M
Building	\$18.654M	\$20.075M	\$1.421M
Infrastructure	\$82.605M	\$84.682M	\$2.077M
Equipment	\$23.153M	\$21.050M	(\$2.103M)
	<u>\$ 128.967M</u>	<u>\$ 130.649M</u>	<u>\$1.682M</u>

24. Interest, Bank Charges, Fiscal Services and other: This line item includes the interest on long-term borrowing. The unfavorable variance in this area of (\$1.80) million is the primary result of interest payments for the Biofuel processing facility resulting in higher than budgeted interest.

25. Loss on Disposal of Assets: This line represents the overall net loss on the disposal of City assets in the amount of \$2.92 million dollars.
26. 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 2018 vs budgeted amounts.
27. Accumulated Surplus (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 surplus funds at the beginning of 2018. It reflects the balance under the 'Accumulated Surplus' line of the City's 2017 financial statements.
28. Accumulated Surplus (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 surplus funds. Details of this balance can be found in Appendix "III".
29. Contribution to Capital Programs: As noted in the comments related to line 23, funding used to support capital expenditures is included in the line titled 'Amortization' in the financial statements. In 2018, capital expenditures totalled \$633.39 million, being funded by developer contributions (\$262.18 million), DCCs (\$68.35 million), general contributions (\$90.97 million) and funding from other reserve funds, capital funds, and internal borrowing (\$211.89 million).
30. Contribution (to)/from Funds: This line represents the transfers to and from the various funds and reserves as required to fund budgeted expenditures for the year, including expenditures such as the City's annual amortization of assets and transfers from appropriated surpluses to capital program expenditures.

Audit, Accounting and Reporting Matters

Surrey City Development Corporation

During 2018, SCDC disposed of its ownership interest in the Surrey Centre Limited Partnerships and its shares of the Surrey Centre Tower Holdings for proceeds of \$22 million which resulted in a net gain on the sale of the partnership interests totaling \$7.338 million, including previously deferred gains of \$3.8 million as mentioned in the above note 8.

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

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.

Unrecorded Audit Adjustments

No unrecorded audit adjustments have been noted for fiscal year 2018.

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 “III” 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 2019 through the Quarterly Financial Reporting process.

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. It is recommended that Council approve the 2018 Audited Financial Statements as presented in Appendix “I”. These statements will be included in the published version of the City of Surrey’s 2018 Annual Financial Report that will be distributed to Council in June 2019.

All of the variances outlined in this report will be considered when formulating future Financial Plans.

Kam Grewal, CPA, CMA
General Manager, Finance

Appendix “I”: 2018 Financial Statements of City of Surrey

Appendix “II”: PSAB Reporting Standards – Current Development

Appendix “III”: Accumulated Surplus and Deferred Development Cost Charges

Consolidated Financial Statements of

CITY OF SURREY

Year ended December 31, 2018

Independent Auditor's Report

To the Mayor and Council of the City of Surrey

Opinion

We have audited the consolidated financial statements of the City of Surrey and its controlled entities (the "City") which comprise the Consolidated Statement of Financial Position as at December 31, 2018 and the Consolidated Statements Operations, Changes in Net Financial Assets, and Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the City financial statements present fairly, in all material respects, the financial position of the City as at December 31, 2018 and its financial performance and 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 City 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.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any for of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 consolidated 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 City'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 City, or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the City'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 consolidated 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 City'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 City'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 City 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.

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.

Unaudited information

We have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the schedules 2 – 4 of the City of Surrey's consolidated financial statements.

Chartered Professional Accountants
Vancouver, British Columbia
[Date of Council approval]

City of Surrey

Consolidated Statement of Financial Position

*As of December 31, 2018, with comparative figures for 2017
(in thousands of dollars)*

	2018	2017
FINANCIAL ASSETS		
Cash and cash equivalents	\$ 228,057	\$ 77,809
Accounts receivable (note 2)	156,647	142,276
Investments (note 3)	726,855	808,196
	1,111,559	1,028,281
LIABILITIES		
Accounts payable and accrued liabilities (note 4)	181,128	169,124
Deposits and prepayments (note 5)	316,662	277,648
Deferred revenue (note 6)	44,290	36,957
Deferred development cost charges (note 7)	277,681	254,294
Debt (note 8)	229,024	267,219
	1,048,785	1,005,242
NET FINANCIAL ASSETS	62,774	23,039
NON-FINANCIAL ASSETS		
Tangible capital assets (note 10)	8,982,600	8,635,809
Inventories of supplies	760	929
Prepaid expenses	4,197	4,375
	8,987,557	8,641,113
ACCUMULATED SURPLUS (note 11)	\$ 9,050,331	\$ 8,664,152

Commitments and contingencies (note 12)

Kam Grewal
General Manager,
Finance Department

Doug McCallum
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, 2018, with comparative figures for 2017
(in thousands of dollars)

	2018		2017
	Budget		
	(note 22)		
REVENUES			
Taxation revenue (note 15)	\$ 420,515	\$ 420,145	\$ 391,695
Sales of goods and services	243,058	250,281	240,037
Development cost charges (note 7)	161,595	68,353	104,963
Developer contributions	142,629	263,556	183,736
Investment income	20,103	22,633	17,533
Transfers from other governments (note 21)	36,921	51,722	24,677
Other (note 16)	73,984	82,541	61,679
TOTAL REVENUES	1,098,805	1,159,231	1,024,320
EXPENSES			
Police services	165,698	161,096	152,798
Parks, recreation and culture	117,631	118,159	110,435
General government	88,195	83,649	81,896
Roads and traffic safety	73,326	72,006	75,334
Water	75,631	72,964	67,715
Fire services	65,520	64,669	62,262
Sewer	64,742	63,274	59,971
Solid waste	36,956	35,147	33,117
Drainage	33,587	35,062	32,986
Planning and development	29,969	29,524	27,241
Library services	20,462	20,157	19,051
Engineering	12,354	13,561	11,050
Surrey City Energy	2,115	1,399	1,105
Parking	2,177	2,385	2,244
TOTAL EXPENSES	788,363	773,052	737,205
ANNUAL SURPLUS	310,442	386,179	287,115
Accumulated Surplus, beginning of year	8,664,152	8,664,152	8,377,037
Accumulated Surplus, end of year	\$ 8,974,594	\$ 9,050,331	\$ 8,664,152

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, 2018, with comparative figures for 2017
(in thousands of dollars)

	<i>2018</i>		
	<i>Budget</i>	2018	2017
	<i>(note 22)</i>		
ANNUAL SURPLUS	\$ 310,442	\$ 386,179	\$ 287,115
Acquisition of tangible capital assets	(666,077)	(527,460)	(489,886)
Amortization of tangible capital assets	128,967	130,649	124,322
Loss (gain) on disposal of tangible capital assets	-	(11,014)	3,742
Proceeds on disposal of tangible capital assets	-	17,242	3,909
	<u>(226,668)</u>	<u>(4,404)</u>	<u>(70,798)</u>
Acquisition of inventories of supplies	-	(760)	(929)
Consumption of inventories of supplies	-	929	880
Acquisition of prepaid expenses	-	(4,197)	(4,375)
Use of prepaid expenses	-	4,375	4,517
Transfer to properties held-for-sale	-	43,792	25,388
Transfer to investment in government business partnership	-	-	9,679
	<u>-</u>	<u>44,139</u>	<u>35,160</u>
CHANGE IN NET FINANCIAL ASSETS (DEBT)	<i>(226,668)</i>	39,735	<i>(35,638)</i>
Net financial assets, beginning of year	<i>23,039</i>	23,039	<i>58,677</i>
Net financial assets (debt) , end of year	<u>\$ (203,629)</u>	<u>\$ 62,774</u>	<u>\$ 23,039</u>

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

City of Surrey

Consolidated Statement of Cash Flows

For the year ended December 31, 2018, with comparative figures for 2017
(in thousands of dollars)

	2018	2017
OPERATING TRANSACTIONS		
Annual Surplus	\$ 386,179	\$ 287,115
Non-Cash charges to operations:		
Amortization of tangible capital assets	130,649	124,322
Loss (gain) on disposal of tangible capital assets	(11,014)	3,742
Developer contributions of tangible capital assets (note 10(b))	(237,028)	(151,564)
Change in non-cash operating working capital:		
Accounts receivable	(14,371)	(21,523)
Inventories of supplies	169	(49)
Prepaid expenses	178	142
Accounts payable and accrued liabilities	12,004	15,790
Deposits and prepayments	39,014	36,761
Deferred revenue	7,333	1,643
Deferred development cost charges	23,387	(12,674)
Net change in cash from operating transactions	<u>336,500</u>	<u>283,705</u>
CAPITAL TRANSACTIONS		
Cash used to acquire tangible capital assets	(290,091)	(288,639)
Acquisition of properties held-for-sale	-	(2,704)
Transfer of properties held-for-sale	43,792	37,771
Proceeds on disposal of tangible capital assets	17,242	3,909
Cash used by capital transactions	<u>(229,057)</u>	<u>(249,663)</u>
FINANCING TRANSACTIONS		
Repayment of MFA debt and loans payable	(38,536)	(15,686)
Proceeds from issuance of loan payable	-	8,660
Cash used by financing transactions	<u>(38,536)</u>	<u>(7,026)</u>
INVESTING TRANSACTIONS		
Sale of Investments	81,341	17,999
Cash provided by investing transactions	<u>81,341</u>	<u>17,999</u>
INCREASE (DECREASE) IN CASH	150,248	45,015
Cash and cash equivalents, beginning of year	77,809	32,794
Cash and cash equivalents, end of year	<u>\$ 228,057</u>	<u>\$ 77,809</u>
<i>Represented by:</i>		
Cash	88,057	27,809
Cash equivalents	140,000	50,000
Cash and cash equivalents, end of year	<u>\$ 228,057</u>	<u>\$ 77,809</u>
NON-CASH TRANSACTIONS:		
Debt related to Biofuel processing facility (note 8(ii))	<u>\$ 341</u>	<u>\$ 49,683</u>

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, 2018
(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

(a) Basis of accounting

These consolidated financial statements 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.

(b) Basis of consolidation

The consolidated financial statements are comprised of the City's funds, Surrey Public Library (the "Library"), Surrey City Development Corporation ("SCDC"), Surrey Homelessness and Housing Society ("SHHS"), and Innovation Boulevard ("IBC"). The Library, SHHS and SCDC are fully consolidated as they are controlled by virtue of their Board being appointed by the City. IBC is consolidated based on the City's 50% ownership. Inter-fund and inter-corporate transactions and balances have been eliminated. The following is a brief description of the various funds and entities:

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, 2018
(tabular amounts in thousands of dollars)

1. Significant accounting policies (continued)

(b) Basis of consolidation (continued)

iv) Surrey City Development Corporation

The consolidated financial statements reflect the assets, liabilities, revenues and expenses of SCDC. 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)

Prior to October 9, 2018 SCIC held a 24.4% (2017 – 24.4%) 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

Prior to October 9, 2018 SCIC held a 50% ownership in nine holding companies (proportionately consolidated) referred to as the "Surrey Centre Tower Holdings".

On October 9, 2018 SCIC disposed of its ownership interest in the Surrey Centre Limited Partnerships and its shares of the Surrey Centre Tower Holdings (note 19 b).

- (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"). Beedie LP meets the criteria of a government business partnership and is accounted for using the modified equity method.

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, 2018
(tabular amounts in thousands of dollars)*

1. Significant accounting policies (continued)

(b) 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. The City is considered to have control over the Society's functions, therefore 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. 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 and is proportionately consolidated. The purpose of IBC 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.

(c) Cash and Cash Equivalents

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

Notes to the Consolidated Financial Statements

*For the year ended December 31, 2018
(tabular amounts in thousands of dollars)*

1. Significant accounting policies (continued)

(d) Trust Funds

These funds account for assets which must be administered as directed by agreement or statute for certain beneficiaries. In accordance with PSAB recommendations on financial statement presentation for local governments, trust funds are not included in the City's consolidated financial statements. Trust funds administered by the City are presented in note 18.

(e) 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.

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.

(f) Taxation Revenue

Taxes are recorded at estimated amounts when they meet the definition of an asset, have been authorized and the taxable event occurs. Annual levies for non-optional municipal services and general administrative services are recorded as taxes for municipal services in the year they are levied. Taxes receivable are recognized net of an allowance for anticipated uncollectable amounts. Levies imposed by other taxing authorities are not included as taxes for municipal purposes.

Through the British Columbia Assessments' appeal process, taxes may be adjusted by way of supplementary roll adjustments. The effects of these adjustments on taxes are recognized at the time they are awarded.

(g) Government transfers

Restricted transfers from governments are deferred and recognized as revenue in the period the stipulations in the related agreement are met.

Unrestricted transfers are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Notes to the Consolidated Financial Statements

*For the year ended December 31, 2018
(tabular amounts in thousands of dollars)*

1. Significant accounting policies (continued)

(h) Collection on behalf of other authorities

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.

(i) Development cost charges

Development cost charges are recorded as a liability at the time they are received. When qualifying expenditures are incurred, they are recognized into revenue. Development cost charges are comprised of the amounts shown in Note 7.

(j) Developer contributions

Tangible capital assets from developers are a condition of the development approval process. The delivery of the contributed tangible capital assets is dependent upon the developer. Tangible capital assets received as contributions are recorded at their fair value at the date of receipt and are also recorded as revenue. It is not a source of funding available to meet current operating expenditures or obligations.

(k) Investment income

Investment income is reported as revenue in the period earned.

(l) 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.

(m) 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.

(n) Investments

City investments with an original maturity date of more than three months are reported as investments and 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018
(tabular amounts in thousands of dollars)

1. Significant accounting policies (continued)

(o) 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 amounts that are directly related to the acquisition, design, construction, development, improvement or betterment of the assets. Cost includes overhead charges related to construction and development that are directly attributable to the acquisition or construction 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 – 100
Buildings and building improvements	10 – 60
Leasehold improvements	2 – 25
Infrastructure	
Roads and road structures	5 – 100
Water, Sewer and Drainage systems	10 – 100
Machinery and equipment	4 – 50

Annual amortization is charged commencing on the date the asset is acquired or available for use. Assets under construction are not amortized until the asset is available for productive use.

(ii) Contributions of tangible capital assets

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt and are recorded as revenue.

(iii) 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, 2018
(tabular amounts in thousands of dollars)*

1. Significant accounting policies (continued)

(o) Non-financial assets (continued)

(iv) 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.

(v) 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.

(vi) 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 tangible capital 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.

(vii) Inventories of supplies

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

(p) 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 when the event occurs. The expense is recognized in the year the event occurs.

Notes to the Consolidated Financial Statements

*For the year ended December 31, 2018
(tabular amounts in thousands of dollars)*

1. Significant accounting policies (continued)

(q) Budget data

The budget data presented in these consolidated financial statements was included in the City of Surrey 2018 – 2022 Consolidated Financial Plan and was adopted through By-law #19402 on December 18, 2017.

(r) 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.

(s) 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 0).

(t) 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018
(tabular amounts in thousands of dollars)

1. Significant accounting policies (continued)

(u) Accounting policy change

The Public Sector Accounting Board issued new standards, PS 3210 Assets, PS 3320 Contingent Assets and PS 3380 Contractual Rights. The new standards apply to the City for the fiscal year beginning January 1, 2018. These standards have been utilized for the preparation of these consolidated financial statements (note 13).

2. Accounts receivable

	<u>2018</u>	<u>2017</u>
General and other accounts receivable	\$ 56,183	\$ 40,624
Development cost charges	56,162	61,492
Property taxes	21,731	18,398
Utility rate charges	16,016	14,473
Due from joint venture partners	-	925
Due from other authorities	3,967	3,775
MFA debt reserve fund receivable	2,570	2,516
Tax sale properties	18	73
	<u>\$ 156,647</u>	<u>\$ 142,276</u>

3. Investments

	<u>2018</u>	<u>2017</u>
Maturing within one year	\$ 414,649	\$ 391,870
Maturing within two years	126,686	153,114
Maturing within ten years	171,720	248,274
City investments (a)	<u>713,055</u>	<u>793,258</u>
SCDC investments (b)	6,455	6,999
SHHS investments (c)	6,517	7,261
Government business partnership (d)	444	374
Government partnership (e)	384	304
	<u>\$ 726,855</u>	<u>\$ 808,196</u>

(a) City investments had an average portfolio yield of 2.34% (2017 – 1.95%). All City investments can be liquidated on demand but may have associated penalties on liquidation.

(b) SCDC investments includes term deposits that had an average portfolio yield of 2.07% (2017 – 1.60%) and can be liquidated on demand without penalty along with GICs with a maturity date of September 17, 2019 and a yield of 1.90% (2017 – 0.0%).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018
(tabular amounts in thousands of dollars)

3. Investments (continued)

- (c) SHHS investments includes a diversified portfolio of fixed income and equity securities held by SHHS with an average yield rate of (2.22)% (2017 – 7.66%), for the purpose of supporting programs and projects related to reducing homelessness and increasing access to safe and affordable housing in Surrey.
- (d) SCDC's joint-venture partnership in Beedie LP meets the criteria of a government business partnership and therefore the results are accounted for under the modified equity method.
- (e) During 2013, SCDC invested \$700,000 for a 20% ownership of Bosa Properties (Bright A.1) Limited Partnership ("Bosa"). In 2014 SCDC received a \$396,502 distribution from Bosa LP, reducing their investment to \$303,498. During 2018 the Corporation invested an additional \$80,354 in proportion to their ownership interest bringing the SCDC's investment in the partnership to \$383,852. 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>2018</u>	<u>2017</u>
Trade accounts payable	\$ 70,268	\$ 63,583
Due to Federal Government	47,991	43,046
Employee future benefits (note 9)	28,007	27,053
Due to joint venture partners	-	3,668
Contractors' holdbacks	17,068	11,466
Due to Regional Districts	9,373	12,515
Due to Province of British Columbia	4,076	3,840
Due to other government entities	2,336	1,944
Interest payable on debt	2,009	2,009
	<u>\$ 181,128</u>	<u>\$ 169,124</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018
(tabular amounts in thousands of dollars)

5. Deposits and prepayments

	<u>2018</u>	<u>2017</u>
Deposits:		
Future works	\$ 54,034	\$ 49,600
Planning and permits	73,123	64,152
Engineering	98,149	74,271
Capital deposits	34,530	29,625
Pavement cuts	5,022	4,814
Boulevard trees	1,978	2,431
Latecomer	1,854	896
Tenant deposits	547	678
Developer works agreement	80	11
Amenities	4	4
Other deposits	3,495	7,015
Total deposits	<u>\$ 272,816</u>	<u>\$ 233,497</u>
Prepayments:		
Taxes	\$ 41,177	\$ 40,691
Utilities	2,578	2,643
Tax sale private purchase payment	90	816
Other prepayments	1	1
Total prepayments	<u>43,846</u>	<u>44,151</u>
Total deposits and prepayments	<u>\$ 316,662</u>	<u>\$ 277,648</u>

6. Deferred revenue

	<u>2018</u>	<u>2017</u>
Development/building permits	\$ 31,074	\$ 24,253
Deferred gains on land sales to joint ventures	416	4,221
Deferred lease revenue	6,091	5,852
Other	6,709	2,631
	<u>\$ 44,290</u>	<u>\$ 36,957</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018
(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>2018</u>	<u>2017</u>
Deferred DCCs:		
Arterial roads	\$ 63,430	\$ 67,322
Parkland	49,422	28,171
Drainage/storm water detention	43,637	41,668
Sanitary sewer	25,965	23,823
Collector roads	15,800	18,758
Water	15,893	14,713
Area specific	60,988	57,040
Park development	2,546	2,799
	<u>\$ 277,681</u>	<u>\$ 254,294</u>
Deferred DCCs, beginning of year	<u>\$ 254,294</u>	<u>\$ 266,968</u>
DCCs levied for the year	90,979	91,108
Investment income	761	1,181
Total DCCs deferred	<u>91,740</u>	<u>92,289</u>
Revenue recognized:		
General Capital	(52,233)	(86,516)
Water Capital	(5,150)	(3,980)
Sewer & Drainage Capital	(10,970)	(14,467)
Total DCCs recognized as revenue	<u>(68,353)</u>	<u>(104,963)</u>
Net increase for the year	<u>23,387</u>	<u>(12,674)</u>
Deferred DCCs, end of year	<u>\$ 277,681</u>	<u>\$ 254,294</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018
(tabular amounts in thousands of dollars)

8. Debt

	<u>2018</u>	<u>2017</u>
MFA Debt (i)	\$ 179,699	\$ 185,457
Loans payable (ii)	<u>49,325</u>	<u>81,762</u>
	<u>\$ 229,024</u>	<u>\$ 267,219</u>

(i) MFA 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:

MFA Issue	Gross debt	Sinking fund installments and actuarial adjustments	Net debt 2018	Net debt 2017
116	100,000	18,966	81,034	84,073
121	45,000	7,167	37,833	39,147
126	67,335	6,503	60,832	62,237
General Capital Fund	\$ 212,335	\$ 32,636	\$ 179,699	\$ 185,457

Current borrowing includes:

MFA Issue	Issue Date	Term (yrs.)	Maturity	Interest Rate	* Refinancing Date
116	April 4, 2011	25	April 4, 2036	4.20%	April 4, 2021
121	October 4, 2012	25	October 4, 2037	2.90%	October 4, 2022
126	September 26, 2013	30	September 26, 2043	3.85%	September 26, 2023

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018
(tabular amounts in thousands of dollars)

8. Debt (continued)

(ii) Loans payable

	2018	2017
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	\$ 12,570	13,010
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	-	19,069
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. Upon completion of the facility in 2018, the loan principal increased by \$340,539 to \$50,023,539.	36,755	49,683
Total Loans Payable	\$ 49,325	\$ 81,762

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018
(tabular amounts in thousands of dollars)

8. Debt (continued)

Sinking fund installments and loan payments over the next five years and thereafter are as follows:

	Sinking fund installments and actuarial adjustments	Loan payments	Total
2019	\$ 5,988	\$ 1,260	\$ 7,248
2020	6,227	1,320	7,547
2021	6,476	1,383	7,859
2022	6,735	1,406	8,141
2023	7,005	1,454	8,459
2024 and thereafter	147,268	42,502	189,770
Total	\$ 179,699	\$ 49,325	\$ 229,024

Total interest expense recorded for the year ended December 31, 2018 was \$10.5 million (2017 - \$8.6 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, 2018
(tabular amounts in thousands of dollars)

9. Employee future benefits (continued)

Accrued benefit liability:

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 27,053	\$ 26,903
Current service cost	1,820	1,815
Interest cost	768	819
Amortization of net actuarial loss (gain)	72	(244)
Benefits paid	<u>(1,706)</u>	<u>(2,240)</u>
Accrued benefit liability, end of year	<u>\$ 28,007</u>	<u>\$ 27,053</u>

An actuarial valuation for these benefits was performed to determine the City's accrued benefit obligation as at December 31, 2018. The difference between the actuarially determined accrued benefit obligation of \$24.6 million and the accrued benefit liability of \$28.0 million as at December 31, 2018 is an unamortized actuarial gain of \$3.4 million. The actuarial gain is amortized over a period equal to the employees' average remaining service life of 11 years (2017 – 11 years).

Reconciliation of accrued benefit liability to accrued benefit obligation:

	<u>2018</u>	<u>2017</u>
Actuarial benefit liability, end of year	\$ 28,007	\$ 27,053
Unamortized actuarial gain	<u>(3,356)</u>	<u>(2,066)</u>
Accrued benefit obligation, end of year	<u>\$ 24,651</u>	<u>\$ 24,987</u>

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

	<u>2018</u>	<u>2017</u>
Discount rate	3.20%	3.00%
Expected future inflation rate	1.80%	1.80%
Expected wage and salary range increases	0.50%	0.50%
Employee average remaining service life (years)	11.00	11.00

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018
(tabular amounts in thousands of dollars)

9. Tangible capital assets

Net Book Value by category	<u>2018</u>	<u>2017</u>
Land and land improvements	\$ 1,878,923	\$ 1,819,749
Land under road	3,079,917	2,922,967
Buildings and building improvements	434,452	391,572
Infrastructure	3,095,717	3,013,032
Machinery and equipment	133,125	133,045
Assets under construction	360,466	355,444
	<u>\$ 8,982,600</u>	<u>\$ 8,635,809</u>

Net Book Value by fund	<u>2018</u>	<u>2017</u>
General capital	\$ 2,528,916	\$ 2,422,481
Transportation capital	4,073,506	3,848,881
Water capital	640,316	623,236
Sewer capital	593,978	576,678
Drainage capital	1,094,243	1,079,156
Library capital	5,388	5,456
Surrey City Development Corp.	46,216	79,924
Other Entities	37	-
	<u>\$ 8,982,600</u>	<u>\$ 8,635,809</u>

For additional detailed information, see the Schedule of Tangible Capital Assets (Schedule 1)

a) Assets Under Construction

Assets under construction are 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 available for productive use. Assets under construction have 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 was \$237.0 million (2017 - \$151.6 million) comprised of roads infrastructure in the amount of \$179.2 million (2017 - \$125.3 million), water and wastewater infrastructure in the amount of \$38.6 million (2017 - \$17.3 million) and land in the amount of \$19.2 million (2017 - \$9.0 million), including improvements.

Notes to the Consolidated Financial Statements

*For the year ended December 31, 2018
(tabular amounts in thousands of dollars)*

10. Tangible capital assets (continued)

c) Biofuel Processing facility

The City 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 provided the land upon which the facility was constructed. Under the agreement, the City 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 was completed and commenced 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 \$50.0 million (2017 – \$49.7 million). The City also recorded an offsetting liability for an equal amount representing future obligations to the Operator. 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.

e) Write-down of Tangible Capital Assets

No impairments were identified or recorded during the year ended December 31, 2018 or 2017.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018
(tabular amounts in thousands of dollars)

11. Accumulated surplus

Accumulated surplus consists of individual fund surpluses, reserves and equity in tangible capital assets. The City's Accumulated surplus is as follows:

	<u>2018</u>			<u>2017</u>		
Accumulated Surplus per Statement of Financial Position	\$9,050,331			\$ 8,664,152		
Less:						
Tangible Capital Assets	8,982,600			8,635,809		
Debt funded assets	<u>(214,782)</u>			<u>(253,184)</u>		
Invested in tangible capital assets	8,767,818			8,382,625		
	<u>Gross</u>	<u>Allocations</u>		<u>Gross</u>	<u>Allocations</u>	
Reserves set aside by Council						
Capital legacy	47,329	(47,329)	-	46,534	(34,608)	11,926
Municipal land	39,002	(39,002)	-	22,649	(22,649)	-
Equipment and building replacement	32,611	(5,898)	26,713	35,659	(6,767)	28,892
Neighborhood concept plans	22,521	(4,072)	18,449	23,775	(4,511)	19,264
Park land acquisition	22,372	(4,045)	18,327	26,309	(4,992)	21,317
Local improvement financing	17,015	(3,076)	13,939	16,591	(3,148)	13,443
Environmental stewardship	6,749	(1,220)	5,529	6,661	(1,264)	5,397
Parking space	2,629	(475)	2,154	2,618	(497)	2,121
Water claims	1,351	(244)	1,107	1,345	(255)	1,090
Affordable housing	23	(4)	19	23	(4)	19
	<u>191,602</u>		<u>86,237</u>	<u>182,164</u>		<u>103,469</u>
Internal borrowing to fund capital program		<u>(105,365)</u>			<u>(78,695)</u>	
Other appropriated funds						
Infrastructure replacement	(28,318)	28,318	-	(45,811)	45,811	-
Revenue stabilization	13,490	(1,908)	11,582	16,593	(3,450)	13,143
Self insurance	11,732	(1,659)	10,073	12,288	(2,555)	9,733
Operating contingency and emergencies	8,276	(1,170)	7,106	8,782	(1,826)	6,956
Environmental emergencies	7,082	(1,002)	6,080	7,420	(1,543)	5,877
Prepaid expenses	4,197	-	4,197	4,375	-	4,375
Inventories of supplies	760	-	760	929	-	929
Committed funds	159,647	(22,579)	137,068	175,223	(36,437)	138,786
	<u>176,866</u>	-	<u>176,866</u>	<u>179,799</u>	-	<u>179,799</u>
Other Entities						
Surrey City Development Corporation			6,834			(15,910)
Surrey Homelessness and Housing Society			6,019			7,451
Innovation Boulevard			48			209
			<u>12,901</u>			<u>(8,250)</u>
Total Appropriated Funds			<u>9,043,822</u>			<u>8,657,643</u>
Unappropriated Surplus			<u>\$ 6,509</u>			<u>\$ 6,509</u>

Notes to the Consolidated Financial Statements

*For the year ended December 31, 2018
(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 32 Class "A" and 21 Class "B" shares issued and outstanding as at December 31, 2018). 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, 2018
(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
Total						\$ 3,957

- 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.

On November 5, 2018, at the first Regular Council Meeting of the October 20, 2018 elected Mayor and Council, Council unanimously approved a motion to direct staff to commence work on creating a Surrey Police Department and serve notice that the City of Surrey will be terminating its contract with the RCMP municipal police service.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018
(tabular amounts in thousands of dollars)

13. Contractual Rights

Contractual rights are rights to economic resources arising from contracts or agreements that will result in revenues and assets in the future. The significant contractual rights that existed at December 31, 2018 are as follows:

a) Lease revenue

The City has entered into a number of fixed term lease agreements for the use of City owned land and/or buildings that are anticipated to provide the City with future revenues. These agreements are for terms that vary from 1 to 25 years. The following table summarizes the contractual rights of the City for future assets:

	2019	2020	2021	2022	Thereafter
Lease revenue	\$ 6,289	\$ 5,667	\$ 5,185	\$ 4,707	\$ 27,178

b) Developer contributions

The City has entered into a number of public works development agreements which require the developers to contribute various infrastructure assets to the City, including roads and underground utilities. The timing and extent of these future contributions vary depending on development activity and fair value of the assets received at time of contribution, which cannot be determined with certainty at this time.

14. 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 are based on a formula. As at December 31, 2017, the Plan has about 197,000 active members and approximately 95,000 retired members. Active members include approximately 39,000 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 actuary determines an appropriate combined employer and member contribution rate to fund the plan. The actuary's calculated contribution rate is based on the entry-age normal cost method, which produces the long-term rate of member and employer contributions sufficient to provide benefits for average future entrants to the plan. This rate may be adjusted for the amortization of any actuarial funding surplus and will be adjusted for the amortization of any unfunded actuarial liability.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018
(tabular amounts in thousands of dollars)

14. Pension Plan (continued)

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. As a result of the 2015 basic account actuarial valuation surplus and pursuant to the joint trustee agreement, \$1,927 million was transferred to the rate stabilization account and \$297 million of the surplus ensured the required contribution rates remained unchanged.

The City paid \$19.6 million (2017 - \$18.4 million) for employer contributions while employees contributed \$16.4 million (2017 - \$15.3 million) to the Plan in 2018.

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.

15. Taxation revenue

	<u>2018</u>	<u>2017</u>
Tax collected:		
Property taxes	\$ 348,065	\$ 320,990
Collections for other authorities	317,471	302,506
Drainage Parcel taxes	55,138	53,629
Grants-in-lieu of taxes	16,626	16,596
Other	316	480
	<u>737,616</u>	694,201
Less transfers to other authorities:		
Province of BC - School Taxes	(241,267)	(230,932)
Greater Vancouver Regional District	(7,676)	(6,541)
BC Assessment Authority	(7,766)	(7,362)
Greater Vancouver Transportation Authority	(46,500)	(43,692)
Other	(14,262)	(13,979)
	<u>(317,471)</u>	<u>(302,506)</u>
Taxation revenue	<u>\$ 420,145</u>	<u>\$ 391,695</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018
(tabular amounts in thousands of dollars)

16. Other revenue

	<u>2018</u>	<u>2017</u>
Licenses and permits	\$ 33,713	\$ 30,040
Leases and rentals	13,286	11,830
Penalties and interest on taxes	5,365	4,812
Miscellaneous	7,130	5,486
Gain on sale of assets	15,709	9,511
Gain on sale of partnership interest (note 19b)	7,338	-
	<u>\$ 82,541</u>	<u>\$ 61,679</u>

17. Significant taxpayers

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

18. Trust funds

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

		<u>2018</u>	<u>2017</u>
Assets			
Cash and short-term investments		<u>\$ 4,239</u>	<u>\$ 3,929</u>
Equity			
	Employee Benefits Fund	Cemetery Perpetual Care Fund	
		<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 676	\$ 3,253	\$ 3,929
Employment insurance rebate	92	-	92
Contributions	49	253	302
Interest revenue	3	-	3
Benefits purchased	(17)	-	(17)
Refunded to employees	(70)	-	(70)
Balance, end of year	<u>\$ 733</u>	<u>\$3,506</u>	<u>\$ 4,239</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018
(tabular amounts in thousands of dollars)

19. 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. As a controlled other government organization, SCDC's financial information is fully consolidated within the City's financial statements.

As at December 31, 2018, SCDC has entered into Government Partnerships and Government Business 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, 2018 are as follows:

	<u>2018</u>	<u>2017</u>
Assets	\$ 110	\$ 113
Liabilities	(3)	(3)
Accumulated surplus	<u>\$ 107</u>	<u>\$ 110</u>

Revenues and expenditures for the year ended were \$1 thousand (2017 - \$13 thousand) and \$3 thousand (2017 - \$0 thousand), respectively.

b) Surrey Centre Limited Partnerships

Prior to October 9, 2018 Surrey Centre Limited Partnerships ("SCLPs") were various partnerships for the development of mixed-use real estate developments in the City. The SCLPs financial results were proportionately consolidated with those of the Corporation based upon the Corporation's partnership interest of 24.4% (2017 - 24.4%). The proportionate amounts included in the financial statements at December 31, 2018 are as follows:

	<u>2017</u>
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 2017 were \$165 thousand and \$30 thousand, respectively.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018
(tabular amounts in thousands of dollars)

19. Surrey City Development Corporation (continued)

b) Surrey Centre Limited Partnerships (continued)

On October 9, 2018, SCDC's wholly owned SCIC disposed of its ownership interest in the Surrey Centre Limited Partnerships and its shares of the Surrey Centre Tower Holdings, the bare trust entities created to facilitate the Surrey Centre Limited Partnerships, for proceeds of \$22 million which resulted in a net gain on the sale of SCIC's partnership interests totaling \$7.3 million, including previously deferred gains of \$3.8 million.

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 that has been occupied by a tenant under a long-term lease. Beedie LP meets the criteria of a government business partnership and its 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.

20. 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.

Notes to the Consolidated Financial Statements

*For the year ended December 31, 2018
(tabular amounts in thousands of dollars)*

20. Segmented information (continued)

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.

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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018
(tabular amounts in thousands of dollars)

20. Segmented information (continued)

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.

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, 2018

(tabular amounts in thousands of dollars)

For the year ended December 31, 2018

(in thousands of dollars)

NOTE	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	2018
20 SEGMENTED INFORMATION															
REVENUES															
Taxation, grants-in-lieu, assessments	\$ -	\$ -	\$ 669,240	\$ 29,682	\$ 6	\$ -	\$ 1,275	\$ -	\$ 37,413	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 737,616
Collections for other authorities	-	-	(317,471)	-	-	-	-	-	-	-	-	-	-	-	(317,471)
Taxation revenue	-	-	351,769	29,682	6	-	1,275	-	37,413	-	-	-	-	-	420,145
Sales of goods and services	1,590	31,018	23,976	274	76,708	2,260	54,494	41,776	-	5,027	285	7,375	1,705	3,793	250,281
Development cost charges	-	-	68,353	-	-	-	-	-	-	-	-	-	-	-	68,353
Developer contributions	-	116	41,870	181,956	6,694	-	13,848	-	18,809	-	6	-	257	-	263,556
Investment income	-	15	22,000	-	351	-	200	12	55	-	-	-	-	-	22,633
Transfers from other governments	6,802	725	20,052	11,873	6,830	-	-	-	4,458	-	982	-	-	-	51,722
Other	52	3,248	47,268	116	1,122	21	528	149	127	25,669	426	2,768	19	1,028	82,541
	8,444	35,122	575,288	223,901	91,711	2,281	70,345	41,937	60,862	30,696	1,699	10,143	1,981	4,821	1,159,231
EXPENSES															
Salaries and benefits	26,016	62,696	40,068	6,520	-	58,124	-	-	-	21,843	14,359	41,610	489	663	272,388
RCMP contracted services	129,972	-	-	-	-	-	-	-	-	-	-	-	-	-	129,972
Consulting and professional services	1,037	5,607	4,405	1,385	760	339	374	635	1,959	1,331	117	826	171	63	19,009
Telephone and communications	420	287	1,017	39	12	166	24	9	20	91	29	245	5	53	2,417
Regional district utility charges	-	-	-	-	46,722	-	40,146	-	-	-	-	-	-	-	86,868
Utilities	708	4,222	44	4,318	705	361	2,066	26	7	552	384	1,390	577	3	15,363
Garbage collection and disposal	18	774	16	386	-	24	-	21,707	4	12	11	145	-	-	23,097
Maintenance and small equipment	80	7,733	5,759	221	449	1,117	125	18	20	3,256	261	982	24	100	20,145
Insurance and claims	-	-	2,998	-	-	-	2	260	-	-	-	47	-	-	3,307
Leases and rentals	825	1,402	504	1,667	465	-	814	552	1,329	22	46	2,060	-	82	9,768
Supplies and materials	369	9,332	3,302	3,554	1,459	2,549	1,405	1,744	933	1,793	541	5,777	3	43	32,804
Advertising and media	2	490	295	17	-	12	-	29	2	26	1,235	15	-	-	2,123
Grants and sponsorships	-	748	3,605	-	-	-	-	-	-	10	-	-	-	-	4,363
Contract payments	2	3,646	1,119	8,291	2,728	141	894	1,510	2,025	47	5	1,425	34	614	22,481
Other	1,058	2,846	2,863	1,599	503	1,485	1,047	75	1,431	898	799	966	11	12	15,593
Cost recoveries, net	(828)	57	(5,470)	1,961	9,726	(1,454)	4,284	3,821	7,067	(475)	348	(48,231)	(183)	(442)	(29,819)
Interest on debt	-	-	7,835	-	-	-	-	2,658	-	-	-	-	-	-	10,493
Other interests and fiscal services	23	405	1,292	-	(2)	-	(2)	-	-	83	6	1	93	132	2,031
Amortization expense	1,394	17,914	13,997	42,048	9,437	1,805	12,095	2,103	20,265	35	2,016	6,303	175	1,062	130,649
	161,096	118,159	83,649	72,006	72,964	64,669	63,274	35,147	35,062	29,524	20,157	13,561	1,399	2,385	773,052
Excess (deficiency) of revenues over expenses	(152,652)	(83,037)	491,639	151,895	18,747	(62,388)	7,071	6,790	25,800	1,172	(18,458)	(3,418)	582	2,436	386,179
Transfer from (to) operating funds	-	-	(97,608)	56,962	3,793	-	11,495	(4,850)	(512)	-	18,232	-	13,990	(1,502)	-
Transfer from (to) reserve funds	-	747	(60,693)	47,239	5,422	(1,297)	7,413	(504)	6,019	(198)	100	(2,999)	(1,249)	-	-
Transfer from (to) capital funds	-	(2,041)	46,071	(45,996)	(10,056)	-	(7,916)	49,749	(15,850)	83	88	45	(14,000)	(177)	-
Annual surplus (deficit)	\$ (152,652)	\$ (84,331)	\$ 379,409	\$ 210,100	\$ 17,906	\$ (63,685)	\$ 18,063	\$ 51,185	\$ 15,457	\$ 1,057	\$ (38)	\$ (6,372)	\$ (677)	\$ 757	\$ 386,179

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(tabular amounts in thousands of dollars)

For the year ended December 31, 2017

(in thousands of dollars)

NOTE	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
20 SEGMENTED INFORMATION															
REVENUES															
Taxation, grants-in-lieu, assessments	\$ -	\$ -	\$ 630,695	\$ 25,843	\$ 129	\$ -	\$ 1,595	\$ -	\$ 35,939	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 694,201
Collections for other authorities	-	-	(302,506)	-	-	-	-	-	-	-	-	-	-	-	(302,506)
Taxation revenue	-	-	328,189	25,843	129	-	1,595	-	35,939	-	-	-	-	-	391,695
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
Development cost charges	-	-	104,963	-	-	-	-	-	-	-	-	-	-	-	104,963
Developer contributions	-	223	33,313	128,140	3,595	-	9,828	-	8,566	-	22	5	44	-	183,736
Investment income	-	16	16,718	-	427	-	303	-	69	-	-	-	-	-	17,533
Transfers from other governments	6,423	840	6,187	9,835	-	-	-	-	387	-	1,005	-	-	-	24,677
Other	44	2,777	30,422	108	1,035	71	480	139	111	22,858	419	2,342	9	864	61,679
	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
EXPENSES															
Salaries and benefits	24,587	58,406	38,032	5,256	-	56,459	-	-	-	20,956	13,533	39,526	436	629	257,820
RCMP contracted services	123,407	-	-	-	-	-	-	-	-	-	-	-	-	-	123,407
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
Telephone and communications	439	275	989	42	12	156	22	9	12	68	39	143	2	51	2,259
Regional district utility charges	-	-	-	-	44,647	-	36,709	-	-	-	-	-	-	-	81,356
Utilities	485	4,273	35	4,310	598	375	2,027	7	8	613	400	874	371	7	14,383
Garbage collection and disposal	12	135	21	508	-	21	12	22,198	1	10	11	104	-	-	23,033
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
Insurance and claims	-	10	3,148	3	-	13	1	170	-	-	-	65	-	-	3,410
Leases and rentals	894	1,114	480	1,720	476	2	877	375	1,671	19	53	1,618	-	5	9,304
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
Advertising and media	2	553	267	35	1	7	-	90	3	9	1,186	19	-	-	2,172
Grants and sponsorships	-	627	2,459	-	-	-	-	-	-	-	-	-	-	-	3,086
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
Other	850	2,508	2,951	882	481	863	903	32	471	868	679	776	6	10	12,280
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)
Interest on debt	-	-	8,615	-	-	-	-	-	-	-	-	-	-	-	8,615
Other interests and fiscal services	20	370	136	-	-	-	2	15	-	59	5	1	59	131	798
Amortization expense	1,252	17,067	16,418	38,514	8,577	1,787	11,224	1,518	19,770	35	1,961	4,951	104	1,144	124,322
	152,798	110,435	81,896	75,334	67,715	62,262	59,971	33,117	32,986	27,241	19,051	10,946	1,209	2,244	737,205
Excess (deficiency) of revenues over expenses															
	(144,922)	(77,418)	462,417	88,791	10,797	(60,216)	2,229	8,553	12,086	(616)	(17,331)	(1,800)	(12)	4,557	287,115
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	\$ 5,440	\$ (10,043)	\$ 2,642	\$ 287,115

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018
(tabular amounts in thousands of dollars)

21. Transfers from other governments

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

	2018	2017
Revenue		
BC Provincial government grants:		
Roads	\$ 371	\$ 141
Traffic fines revenue sharing	6,419	6,052
Casino revenue sharing	4,301	4,075
Library operating	960	973
Climate Action Revenue Incentive Program	753	638
Sewer replacement	1,770	333
Child care and seniors	405	243
Victim services	200	169
Arts	77	175
BC One Card	22	32
Subtotal BC Provincial government grants	15,278	12,831
Federal government grants:		
Infrastructure Canada	13,473	-
Roads	378	2,900
Parks development	175	348
Keep of prisoners	183	203
Summer students	11	17
Child care	57	57
Subtotal Federal government grants	14,277	3,525
TransLink:		
Arterial widening and intersection improvements	734	1,431
Arterial paving	1,793	-
Arterial bridges	15,084	2,175
Traffic signals, signs and markings	-	1,002
Bicycle street network and other transit projects	3,030	2,239
Subtotal TransLink grants	20,641	6,847
UBCM Community Works Fund:	1,526	1,474
Total transfers from other government revenues	\$ 51,722	\$ 24,677

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018
(tabular amounts in thousands of dollars)

22. Budget data

The budget data presented in these consolidated financial statements was included in the City of Surrey 2018 – 2022 Consolidated Financial Plan and was adopted through Bylaw #19402 on December 18, 2017. The following table reconciles the approved budget to the budget figures reported in these consolidated financial statements.

	<u>Budget Amount</u>
Approved consolidated budgeted revenues	\$ 1,098,805
Total Revenues:	<u>1,098,805</u>
Approved consolidated budgeted expenditures	1,470,333
Transfers between funds	<u>(371,528)</u>
	1,098,805
Less:	
Capital expenditures	(666,077)
Municipal debt principal repayments	(15,893)
Add:	
Transfers between funds	<u>371,528</u>
Total Expenses:	<u>788,363</u>
Annual surplus per statement of operations	<u>\$ 310,442</u>

23. Comparative figures

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

City of Surrey
Schedule 1 - Tangible Capital Assets

As at December 31, 2018
(in thousands of dollars)

	Land and land improvements	Land under road	Buildings and building improvements	Infrastructure	Machinery and equipment	Assets under construction	Balance at December 31, 2018
COST							
Opening Balance	\$ 1,902,947	\$ 2,922,967	\$ 622,931	\$ 4,578,532	\$ 272,962	\$ 355,444	\$ 10,655,783
Additions	67,273	156,950	62,955	170,233	21,235	48,814	527,460
Disposals	(3,349)	-	-	(10,442)	(9,530)	(43,792)	(67,113)
Ending Balance	1,966,871	3,079,917	685,886	4,738,323	284,667	360,466	11,116,130
ACCUMULATED AMORTIZATION							
Opening Balance	\$ 83,198	\$ -	\$ 231,359	\$ 1,565,500	\$ 139,917	\$ -	\$ 2,019,974
Amortization	4,842	-	20,075	84,682	21,050	-	130,649
Accum. Amort. on Disposals	(92)	-	-	(7,576)	(9,425)	-	(17,093)
Ending Balance	87,948	-	251,434	1,642,606	151,542	-	2,133,530
NET BOOK VALUE	\$ 1,878,923	\$ 3,079,917	\$ 434,452	\$ 3,095,717	\$ 133,125	\$ 360,466	\$ 8,982,600
<hr/>							
	Land and land improvements	Land under road	Buildings and building improvements	Infrastructure	Machinery and equipment	Assets under construction	Balance at December 31, 2017
COST							
Opening Balance	\$ 1,811,817	\$ 2,807,611	\$ 594,994	\$ 4,481,723	\$ 258,766	\$ 275,066	\$ 10,229,977
Additions	99,817	115,356	36,101	108,204	24,662	80,378	464,518
Disposals	(8,687)	-	(8,164)	(11,395)	(10,466)	-	(38,712)
Ending Balance	1,902,947	2,922,967	622,931	4,578,532	272,962	355,444	10,655,783
ACCUMULATED AMORTIZATION							
Opening Balance	\$ 79,400	\$ -	\$ 213,453	\$ 1,496,023	\$ 128,138	\$ -	\$ 1,917,014
Amortization	4,450	-	18,851	78,834	22,187	-	124,322
Accum. Amort. on Disposals	(652)	-	(945)	(9,357)	(10,408)	-	(21,362)
Ending Balance	83,198	-	231,359	1,565,500	139,917	-	2,019,974
NET BOOK VALUE	\$ 1,819,749	\$ 2,922,967	\$ 391,572	\$ 3,013,032	\$ 133,045	\$ 355,444	\$ 8,635,809

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 affect financial reporting in the current and future years include the following:

Related Party Transactions and Inter-entity Transactions

Sections PS 2200 and PS 3420 of the Public Sector Account (“PSA”) Handbook 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 confirmed that these new standards had no impact on the City’s financial statements; this standard came into effect for the City as of January 1, 2018.

Assets, Contingent Assets and Contractual Rights

Three new PSA Handbook sections, PS 3210, PS 3320 and PS 3380 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 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.

These standards came into effect for the City as of January 1, 2018. Staff have incorporated these new standards in the City’s 2018 financial statements in note 13, Contractual Rights.

Restructuring

PSA Handbook section PS 3430 provides guidance regarding restructuring transactions. 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 anticipate by 2019 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.

Portfolio Instruments, Financial Instruments and Foreign Currency Translation

Section PS 3041, 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, 2021, 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, 2022.

Asset Retirement Obligations

Section PS 3280 of the PSA Handbook will require the public sector to record a liability related to the future costs of any legal obligation required for the disposal of assets. Some typical costs associated with asset disposal include asbestos removal, site restoration and post retirement monitoring. This standard becomes effective for years commencing on or after April 1, 2021, although early adoption is encouraged.

Staff anticipate that this new standard will have an impact on the City's financial statements and will commence review in 2019 of any procedures or policies that will be required to be implemented in order to apply this new PSAB standard prior to the effective date, which for the City will be January 1, 2022.

Financial Statement Presentation

Section PS 1201 will require the public sector entities to present any remeasurement gains and losses related to financial instruments in a new statement of remeasurement gains and losses. This standard was introduced in conjunction with PS 2601 and PS 3450, therefore are linked to the adoption of those standards. This standard becomes effective for years commencing on or after April 1, 2021, 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, 2022.

Revenue

Section PS 3400 focuses 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. This standard becomes effective for years commencing on or after April 1, 2022, although early adoption is encouraged.

Staff anticipate that this new standard will have some impact on the City's financial statements and will commence review in 2020 of any procedures or policies that will be required to be implemented in order to apply this new PSAB standard prior to the effective date, which for the City will be January 1, 2023.

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

Concepts Underlying Financial Performance

PSAB is proposing a revised framework that will update the concepts that underline the reporting of financial performance in the financial statements. This includes categorizing revenues and expenses in order to provide information about the net result of services and the aspects of financial results that arise from transactions and events that would be either outside of operations or are not reasonably predictable. PSAB is currently deliberating the feedback received on the Statement of Concepts and Statement of Principles. As it deliberates the feedback, PSAB is developing two exposure drafts (one for a revised conceptual framework and one for a revised reporting model) with two accompanying "basis for conclusions" documents and the resulting consequential amendments. PSAB expects to issue the two exposure drafts and accompanying documents in 2020.

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 deliberated comments received on its statement of Principles and expects to release an Exposure Draft in the first quarter of 2019. 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 was issued in October 2018, seeking guidance for non-traditional pension plans. The ultimate objective will be to issue a new employment benefit section to replace the existing guidance. Responses to the three Invitations to Comment to be discussed in 2019.

ACCUMULATED SURPLUS AND DEFERRED DEVELOPMENT COST CHARGES
as at December 31, 2018
(in thousands of dollars)

	2017	2018	Utility & Road Funds	Committed to 2019 & Prior years	Balance Available for Future Years
Reserve Funds (net of internal borrowing)					
Capital legacy	\$ 11,926	\$ -		\$ -	\$ -
Municipal land	-	-		-	-
Equipment and building replacement	28,892	26,713		26,713	-
Neighbourhood Concept Plans	19,264	18,449		15,718	2,731
Parkland acquisition	21,317	18,327		18,327	-
Local improvement financing	13,443	13,939		13,939	-
Environmental stewardship	5,397	5,529		659	4,870
Parking space	2,121	2,154			2,154
Water claims	1,090	1,107	1,107		-
Affordable housing	19	19		19	-
	<u>\$ 103,469</u>	<u>\$ 86,237</u>	<u>\$ 1,107</u>	<u>\$ 75,375</u>	<u>\$ 9,755</u>
Other Entities					
Surrey City Development Corp	\$ (15,910)	\$ 6,834		\$ 6,834	\$ -
Surrey Homelessness & Housing Society	7,451	6,019		6,019	-
Innovation Boulevard	209	48		48	-
Surrey Public Library	(324)	(324)		(324)	-
	<u>\$ (8,574)</u>	<u>\$ 12,577</u>	<u>\$ -</u>	<u>\$ 12,577</u>	<u>\$ -</u>
Unappropriated Surplus					
General operating fund	\$ 7,831	\$ 7,831			\$ 7,831
Employee future benefits	(6,998)	(6,998)			(6,998)
Sewer & drainage operating fund	3,000	3,000	3,000		-
Water operating fund	3,000	3,000	3,000		-
	<u>\$ 6,833</u>	<u>\$ 6,833</u>	<u>\$ 6,000</u>	<u>\$ -</u>	<u>\$ 833</u>
Appropriated Surplus (after allocations)					
Operating contingency and emergencies	\$ 6,956	\$ 7,106	\$ 3,486		\$ 3,620
Environmental emergencies	5,877	6,080	6,080		-
Revenue stabilization	13,143	11,582	6,903		4,679
Self insurance	9,733	10,073	8,404	1,669	-
Infrastructure replacement	-	-	-		-
Prepaid expenses	4,375	4,197	-	4,197	-
Inventories of supplies	929	760	376	384	-
	<u>\$ 41,013</u>	<u>\$ 39,798</u>	<u>\$ 25,249</u>	<u>\$ 6,250</u>	<u>\$ 8,299</u>
Committed Funds (after allocations)					
General operating	\$ 26,523	\$ 59,795		\$ 59,795	\$ -
Roads & traffic operating and capital	38,032	14,559	14,559		-
Water operating and capital	38,131	31,728	31,728		-
Sewer operating and capital	17,921	18,908	18,908		-
Drainage operating and capital	12,162	11,922	11,922		-
District Energy	5,777	(79)	(79)		-
Library services	240	235		235	-
	<u>\$ 138,786</u>	<u>\$ 137,068</u>	<u>\$ 77,038</u>	<u>\$ 60,030</u>	<u>\$ -</u>
Invested in tangible capital assets					
Tangible Capital Assets	8,635,809	8,982,600			
Debt funded assets	(253,184)	(214,782)			
	<u>\$ 8,382,625</u>	<u>\$ 8,767,818</u>			
Accumulated Surplus (equity), end of year	<u>\$ 8,664,152</u>	<u>\$ 9,050,331</u>			
Deferred Development Cost Charges					
Arterial Roads	\$ 67,322	\$ 63,430	\$ 63,430		\$ -
Parkland	28,171	49,422		49,422	-
Drainage/Storm Water Detention	41,668	43,637	43,637		-
Campbell Heights	44,078	46,715	46,715		-
Sanitary Sewer	23,823	25,965	25,965		-
Collector Roads	18,758	15,800	15,800		-
Highway 99 Corridor	12,542	12,499	12,499		-
Water	14,713	15,893	15,893		-
Park Development	2,799	2,546		2,546	-
West Clayton	420	552	552		-
Redwood Heights	-	8	8		-
City Centre	-	1,214	1,214		-
	<u>\$ 254,294</u>	<u>\$ 277,681</u>	<u>\$ 225,713</u>	<u>\$ 51,968</u>	<u>\$ -</u>