

NO: **R088**

COUNCIL DATE: **May 25, 2020**

REGULAR COUNCIL

TO: **Mayor & Council**

DATE: **May 21, 2020**

FROM: **General Manager, Finance**

FILE: **1880-20**

SUBJECT: **2019 Annual Financial Statements**

RECOMMENDATION

The Finance Department recommends that Council:

1. Receive this report for information; and
2. Approve the 2019 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 2019 financial statements, which will then be included in the City's 2019 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, 2019 are attached to this report as Appendix "I". These will be included in the City's 2019 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 2019 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, 2019 and the results of its operations for the year 2019.

Auditors Comments

BDO has indicated that they are satisfied that the City's 2019 financial statements have been fairly stated in all material respects. The audit included consideration of financial 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 adjust where appropriate.

Executive Summary

Overall, the City maintained a strong financial position, increasing its capital investments in 2019, although its net financial assets decreased due to increased liabilities. Revenues decreased slightly from a year-over-year perspective as a result of lower developer contributions as compared to prior year, transfers from other governments and other revenues compared to prior year; on the other hand, overall revenues were slightly higher than budget with increases in taxation, goods and services, developer contributions, investment income and other revenues, including fees and permits. These were offset by lower than budgeted development cost charges ("DCC") and transfers from other governments due to the timing in delivering related capital projects. As anticipated, expenses have 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. Other than the unbudgeted expenditure related to the switch from Light Rail Transit ("LRT") to Skytrain, expenses are lower than budgeted 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 "I", 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, 2019 (in thousands of dollars)</i> | <i>2019 Budget</i> | 2019 Actual | <i>2019 Budget Variance</i> |
|---|------------------------|-------------------------|---------------------------------|
| REVENUES | | | |
| 1 Taxation revenue | \$ 433,968 | \$ 438,805 | \$ 4,837 |
| 2 Sales of goods and services | 256,814 | 266,705 | 9,891 |
| 3 Development cost charges * | 130,828 | 76,830 | (53,998) |
| 4 Developer contributions | 149,748 | 218,080 | 68,332 |
| 5 Investment income | 22,130 | 28,643 | 6,513 |
| 6 Transfers from other governments | 62,319 | 28,926 | (33,393) |
| 7 Other | 48,629 | 61,813 | 13,184 |
| 8 Gain on sale of assets and partnership interest | 10,607 | 12,143 | 1,536 |
| | <u>1,115,043</u> | <u>1,131,945</u> | 16,902 |
| EXPENSES | | | |
| 9 Police services | 171,312 | 165,316 | (5,996) |
| 10 Parks, recreation and culture | 102,904 | 103,303 | 399 |
| 11 General government services | 65,246 | 97,562 | 32,316 |
| 12 Road & traffic safety | 30,527 | 29,081 | (1,446) |
| 13 Water operations | 67,727 | 65,604 | (2,123) |
| 14 Fire services | 66,019 | 66,054 | 35 |
| 15 Sewer operations | 60,377 | 59,136 | (1,241) |
| 16 Solid waste management | 32,405 | 33,130 | 725 |
| 17 Drainage operations | 13,915 | 15,439 | 1,524 |
| 18 Planning and development | 31,540 | 30,212 | (1,328) |
| 19 Library | 18,777 | 18,873 | 96 |
| 20 Engineering | 7,717 | 7,709 | (8) |
| 21 Surrey City Energy | 1,938 | 1,557 | (381) |
| 22 Parking | 1,338 | 1,775 | 437 |
| 23 Amortization | 133,388 | 134,016 | 628 |
| 24 Interest on debt and general fiscal services | 10,972 | 11,739 | 767 |
| 25 Loss on disposal of assets | - | 1,919 | 1,919 |
| | <u>816,102</u> | <u>842,425</u> | 26,323 |
| 26 EXCESS REVENUES OVER EXPENDITURES * | <u>298,941</u> | <u>289,520</u> | (9,421) |

The Consolidated Statement of Operations – Change in Equity, that appears as Table 2 on the following page, 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, 2019</i> | | 2019 | 2019 | 2019 Budget |
|---|---|---------------|---------------------|-------------|
| <i>(in thousands of dollars)</i> | | <i>Budget</i> | Actual | Variance |
| 27 | Accumulated surplus (equity), beginning of year | 9,050,331 | 9,050,331 | - |
| | Excess revenues over expenditures * | 298,941 | 289,520 | (9,421) |
| 28 | Accumulated Surplus (equity), end of year | \$ 9,349,272 | \$ 9,339,851 | \$ (9,421) |
| SUPPORT OF CAPITAL PROGRAMS | | | | |
| 29 | Contribution to capital programs * | (538,583) | (557,278) | (18,695) |
| | Excess revenues over expenditures | 298,941 | 289,520 | (9,421) |
| 30 | Transfers (to)/from funds | 239,642 | 267,758 | 28,116 |
| | | \$ - | \$ - | \$ - |

The lines in both the tables above have been referenced numerically on the left side of each table. 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 Revenue:* The actual taxation revenue received in 2019 was approximately \$4.84 million higher than budget. This variance was a result of higher physical growth than budget, which resulted in additional parcel and assessment value taxation revenues.
2. *Sale of Goods and Services:* Sales revenues were \$9.89 million higher than budget. This is due primarily to higher than expected revenue received for Secondary Suite, Development Application, Engineering Land Development, and Utility Fees of \$12.93 million. However, these positive variances were offset by lower than budgeted Parks, Recreation & Culture sale of goods & services of (\$3.04) million.
3. *Development Cost Charges:* The Bylaw Budget is comprised of the development cost charges that are available for the 2019 program (\$130.83 million) as well as the funding that was committed to projects in prior years but had not yet been spent (\$64.48 million), for a total of \$195.31 million. The ‘Actual’ column includes only the revenue required to match the costs of the capital constructed (\$76.83 million) in 2019. Therefore, to provide a better comparison, the ‘Budget’ amount shown in Table 1 removes prior year’s budgeted amount of \$64.48 million (as denoted by *), adjusting the budget to the 2019 program amount of \$130.83 million. The resulting negative variance between actual and adjusted budget (\$53.998 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 | \$2.933M | \$9.959M | \$7.026M |
| Cash-in-Lieu of Parkland | \$20.000M | \$4.812M | (\$15.188M) |
| Private Contributions | \$0.875M | \$6.356M | \$5.481M |
| Local Area Service | \$0.744M | \$0.422M | (\$0.322M) |
| Contributed Assets | \$125.196M | \$196.531M | \$71.335M |
| Total: | <u>\$149.748M</u> | <u>\$218.080M</u> | <u>\$68.332M</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 is 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 *Surrey Subdivision and Development Bylaw, 1986, No. 8830, Amendment Bylaw, 2015, No. 18602* and was lower than anticipated in 2019; 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 or Federal sources and miscellaneous contributions from various sources (including the Insurance Corporation of British Columbia ("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 \$196.531 million.

5. *Investment Income:* The variance between the 'Actual' figure (\$28.64 million) and the 'Budget' figure (\$22.13 million) represents a favourable variance of \$6.51 million dollars. This was primarily due to an increase in available funds invested and higher market interest rates than expected 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 | \$6.621M | \$0.060M |
| TransLink | \$17.841M | \$8.331M | (\$9.510M) |
| Gaming Revenue Sharing | \$4.200M | \$4.074M | (\$0.126M) |
| Other Sundry | <u>\$2.224M</u> | <u>\$4.232M</u> | <u>\$2.008M</u> |
| Subtotal | \$30.826M | \$23.258M | (\$7.568M) |
| Capital Infrastructure Grants | <u>\$31.493M</u> | <u>\$5.668M</u> | <u>(\$25.825M)</u> |
| Total: | <u>\$62.319M</u> | <u>\$28.926M</u> | <u>(\$33.393M)</u> |

Traffic Fine Revenue is slightly higher than budget, representing the total traffic fines collected and distributed by the Province for their fiscal year ending March 31, 2018. The Transfer from TransLink 'Budget' approximates 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 (\$6.085 million);
- Arterial Bridges (\$0.934 million); and,
- Cycling, Transit & Other minor projects (\$1.312 million)

The decrease in gaming revenue is a result of lower than budgeted gaming revenue at the Elements Casino in Cloverdale during 2019. The increase in Other Sundry contributions is the result of additional Provincial and Federal 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 resulting negative variance between actual and budget is due to the timing of construction and the related payments. These funds will be used to complete projects they were intended for that are currently in progress or that will be completed in the future.

7. *Other Revenues:* This includes the following:

| | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|-------------------------------|-------------------------|-------------------------|-------------------------|
| Permits, Licensing & Fines | \$28.666M | \$39.251M | \$10.585M |
| Lease & Rentals | \$13.157M | \$13.400M | \$0.243M |
| Penalties & Interest on Taxes | \$4.991M | \$6.402M | \$1.411M |
| Donation & Sponsorship | \$1.815M | \$2.760M | \$0.945M |
| Total: | <u>\$48.629M</u> | <u>\$61.813M</u> | <u>\$13.184M</u> |

The favorable variance in Other Revenues is predominately the result of higher than budgeted revenue from Permits, Licensing & Fines as well as from penalties and interest charged on late payment of taxes. The favorable variance for Donation & Sponsorship were a result of higher than budgeted cultural special event sponsorships and other Parks, Recreation & Culture donations related to parks and recreational initiatives.

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 | \$7.292M | \$5.292M |
| Sale of SCDC properties and partnership interest | \$8.607M | \$4.851M | (\$3.756M) |
| Total: | <u>\$10.607M</u> | <u>\$12.143M</u> | <u>\$1.536M</u> |

The actual gain on the sale of City assets resulted in a favorable variance of \$5.292M, primarily due to the sale of two City properties representing a gain of \$4.231M. Budgeted sales of Surrey City Development Corporation (“SCDC”) properties did not fully materialize in 2019, the actual gains are related to Campbell Heights North, Phase 5-Lot 4.

Expenses

9. *Police Services:* The \$5.996 million favorable variance is the result of contract timing differences relating to officer recruitment and related costs between budget and actual resulting in a \$5.492 million favorable variance. In addition, there was a \$0.504 million favorable variance due to civil staffing vacancies and various cost recoveries.

10. *Parks, Recreation & Culture:* The (\$0.40) 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 2019 of (\$1.92) million. This was offset by lower than budgeted maintenance costs in Parks and lower than budgeted other sundry services costs related to Parks and Recreation operations of \$1.52 million.

11. *General Government Services*: This includes the following:

| | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|--|-------------------------|-------------------------|-------------------------|
| Mayor and Council | \$1.737M | \$1.596M | (\$0.141M) |
| Grants and Council Initiatives | \$1.758M | \$1.523M | (\$0.235M) |
| City Manager | \$1.295M | \$1.122M | (\$0.173M) |
| Bylaws | \$8.690M | \$10.832M | \$2.142M |
| Corporate Services (HR, IT, Leg. Services & Legal) | \$30.363M | \$31.540M | \$1.177M |
| Investment & Intergovernmental Relations | \$1.598M | \$1.522M | (\$0.076M) |
| Finance | \$13.170M | \$8.556M | (\$4.614M) |
| SCDC | \$4.690M | \$6.874M | \$2.184M |
| Other (contingency, misc. items) | \$1.945M | \$33.997M | \$32.052M |
| Total | <u>\$65.246M</u> | <u>\$97.562M</u> | <u>\$32.316M</u> |

Mayor and Council had a slight favorable variance due to staffing vacancies and lower operating costs; *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; *Bylaws* had an unfavorable variance of (\$2.142M) predominately due to staff and operational costs; *Corporate Services* had an unfavorable variance of (\$1.177M) predominately due to Information Technology (“IT”) staff costs associated with higher overtime than budgeted, IT consulting services for various initiatives as well as IT related supplies, partially offset by staffing vacancies in other areas; *Investment & Intergovernmental Relations* had a slight unfavorable variance of (\$0.076M) due to higher than budgeted costs associated with promotional programs and supplies; *Finance* had a favorable variance of \$4.614M predominately the result of self-insurance related cost recoveries from third parties and staffing 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; *Other* had an unfavorable variance of (\$32.042M) predominately a result of the unbudgeted expenditure of \$38.8 million, representing the work plan costs on the cancelled Surrey Newton Guildford LRT project owed to TransLink as per the resolution approved by the Mayors’ Council on Regional Transportation.

12. *Road & Traffic Safety*: The favorable variance of \$1.45 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 \$2.12 million is the result of lower than budgeted water consumption and timing of contracted project work.

14. *Fire Services*: The slight unfavorable variance of (\$0.035) million in Fire Services is the result of higher than budgeted costs related to supplies and materials, which have been offset with savings associated with the timing of filling staff vacancies.

15. *Sewer Operations*: The favorable variance of \$1.24 million is predominately the result of operating savings and lower than expected costs associated with Capital in Nature projects.
16. *Solid Waste Management*: The slight unfavorable variance of (\$0.72) million in this area is the result of higher than budgeted supplies and materials offset by lower than anticipated garbage collection and disposal fees, which continue to track lower as more waste is diverted.
17. *Drainage Operations*: The unfavorable (\$1.524) million variance is predominantly the result of higher than expected costs associated with Capital in Nature projects.
18. *Planning & Development*: The favorable variance of \$1.33 million is primarily the result of position vacancies.
19. *Library*: The slight unfavorable variance of (\$0.096) million is the result of additional purchases of library materials.
20. *Engineering*: The slight favorable variance of \$0.008 million is predominantly the result of lower 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 (\$0.437) 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 2019 Budget was estimated based on the actual assets owned by the City in 2018 as well as an estimate of the value of new assets that would be added in 2019. Although amortization for major upcoming projects was estimated, variances are related to the timing and mix of new assets added in each category during 2019. Amortization by asset type is as follows:

| | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|-------------------|--------------------|--------------------|-----------------|
| Land Improvements | \$4.977M | \$5.084M | \$0.107M |
| Building | \$25.756M | \$21.168M | (\$4.588M) |
| Infrastructure | \$83.609M | \$86.410M | \$2.801M |
| Equipment | \$19.046M | \$21.354M | \$2.308M |
| | <u>\$ 133.388M</u> | <u>\$ 134.016M</u> | <u>\$0.628M</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 (\$0.77) 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 write off or disposal of City assets, primarily infrastructure assets, in the amount of \$1.92 million.
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 lower than budgeted, primarily due to higher expenditures in 2019 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 2019. It reflects the balance under the "Accumulated Surplus" line of the City's 2018 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 "II".
29. *Contribution to Capital Programs:* In 2019, capital expenditures totalled \$557.28 million, being funded by developer contributions, DCCs, general contributions and funding from other reserve funds, capital funds, and internal borrowing).
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 2019, SCDC disposed of its 20% ownership investment in the Bosa Properties (Bright A.1) Limited Partnership ("Bosa LP") for a net gain of \$3.0 million. For the year ending December 31, 2019, SCDC had excess revenues over expenses of \$6.6 million, including the net gain of sale of Bosa LP investment, before distribution of the yearly \$4.5 million dividend to the City and any related party accounting elimination entries.

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 2019.

General Comment

Overall, the City continues to be in a relatively strong financial position. In aggregate, the City's ending accumulated surplus has increased from prior year; Appendix "III" includes a summary of the City's ending accumulated surplus, providing information on the various fund balances, surpluses, and investment in tangible capital assets that make up the ending accumulated surplus. In addition, Appendix "III" provides information on the City's deferred development cost charges.

Staff will continue to provide Council with updated financial information on a quarterly basis during 2020 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 2019 Audited Financial Statements as presented in Appendix "I". These statements will be included in the published version of the City of Surrey's 2019 Annual Financial Report that will be distributed to Council in June 2020.

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": 2019 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, 2019

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, 2019 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, 2019 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 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Consolidated Entity to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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, 2019, with comparative figures for 2018
(in thousands of dollars)*

| | 2019 | 2018 |
|---|---------------------|---------------------|
| FINANCIAL ASSETS | | |
| Cash and cash equivalents | \$ 366,476 | \$ 228,992 |
| Accounts receivable (note 2) | 176,695 | 156,647 |
| Investments (note 3) | 620,109 | 725,920 |
| | <u>1,163,280</u> | <u>1,111,559</u> |
| LIABILITIES | | |
| Accounts payable and accrued liabilities (note 4) | 230,144 | 181,128 |
| Deposits and prepayments (note 5) | 318,243 | 316,662 |
| Deferred revenue (note 6) | 45,867 | 44,290 |
| Deferred development cost charges (note 7) | 308,492 | 277,681 |
| Debt (note 8) | 221,777 | 229,024 |
| | <u>1,124,523</u> | <u>1,048,785</u> |
| NET FINANCIAL ASSETS | <u>38,757</u> | <u>62,774</u> |
| NON-FINANCIAL ASSETS | | |
| Tangible capital assets (note 11) | 9,295,668 | 8,982,600 |
| Inventories of supplies | 874 | 760 |
| Prepaid expenses | 4,552 | 4,197 |
| | <u>9,301,094</u> | <u>8,987,557</u> |
| ACCUMULATED SURPLUS (note 12) | <u>\$ 9,339,851</u> | <u>\$ 9,050,331</u> |

Commitments and contingencies (note 13)

Kam Grewal, CPA, CMA
General Manager, Finance

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, 2019, with comparative figures for 2018
(in thousands of dollars)

| | 2019 Budget (note 21) | 2019 | 2018 |
|--|-----------------------------|------------------|------------------|
| REVENUES | | | |
| Taxation revenue (note 16) | \$ 433,968 | \$ 438,805 | \$ 420,145 |
| Sales of goods and services | 256,814 | 266,705 | 250,281 |
| Development cost charges (note 7) | 195,310 | 76,830 | 68,353 |
| Developer contributions | 149,748 | 218,080 | 263,556 |
| Investment income | 22,130 | 28,643 | 22,633 |
| Transfers from other governments (note 20) | 62,319 | 28,926 | 51,722 |
| Other (note 17) | 59,236 | 73,956 | 82,541 |
| TOTAL REVENUES | 1,179,525 | 1,131,945 | 1,159,231 |
| EXPENSES | | | |
| Police services | 172,623 | 166,653 | 161,096 |
| Parks, recreation and culture | 121,461 | 122,709 | 118,159 |
| General government | 92,314 | 119,527 | 83,649 |
| Roads and traffic safety | 71,236 | 72,761 | 72,006 |
| Water | 76,919 | 76,183 | 72,964 |
| Fire services | 67,809 | 68,559 | 64,669 |
| Sewer | 72,395 | 71,354 | 63,274 |
| Solid waste | 35,792 | 38,308 | 35,147 |
| Drainage | 34,558 | 36,337 | 35,062 |
| Planning and development | 31,575 | 30,401 | 29,524 |
| Library services | 21,144 | 20,867 | 20,157 |
| Engineering | 13,520 | 13,073 | 13,561 |
| Surrey City Energy | 2,274 | 2,695 | 1,399 |
| Parking | 2,482 | 2,998 | 2,385 |
| TOTAL EXPENSES | 816,102 | 842,425 | 773,052 |
| ANNUAL SURPLUS | 363,423 | 289,520 | 386,179 |
| Accumulated Surplus, beginning of year | 9,050,331 | 9,050,331 | 8,664,152 |
| Accumulated Surplus, end of year | \$ 9,413,754 | \$ 9,339,851 | \$ 9,050,331 |

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, 2019, with comparative figures for 2018
(in thousands of dollars)

| | 2019 Budget (note 21) | 2019 | 2018 |
|---|-----------------------------|------------------|------------------|
| ANNUAL SURPLUS | \$ 363,423 | \$ 289,520 | \$ 386,179 |
| Acquisition of tangible capital assets | (603,065) | (451,276) | (527,460) |
| Amortization of tangible capital assets | 133,388 | 134,016 | 130,649 |
| Gain on disposal of tangible capital assets | - | (4,659) | (11,014) |
| Proceeds on disposal of tangible capital assets | - | 7,661 | 17,242 |
| | <u>(106,254)</u> | <u>(24,738)</u> | <u>(4,404)</u> |
| Acquisition of inventories of supplies | - | (874) | (760) |
| Consumption of inventories of supplies | - | 760 | 929 |
| Acquisition of prepaid expenses | - | (4,552) | (4,197) |
| Use of prepaid expenses | - | 4,197 | 4,375 |
| Transfer to properties held-for-sale | - | 1,190 | 43,792 |
| | <u>-</u> | <u>721</u> | <u>44,139</u> |
| CHANGE IN NET FINANCIAL ASSETS | (106,254) | (24,017) | 39,735 |
| Net financial assets, beginning of year | 62,774 | 62,774 | 23,039 |
| Net financial assets (debt) , end of year | <u>\$ (43,480)</u> | <u>\$ 38,757</u> | <u>\$ 62,774</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, 2019, with comparative figures for 2018
(in thousands of dollars)

| | 2019 | 2018 |
|---|-------------------|-------------------|
| OPERATING TRANSACTIONS | | |
| Annual Surplus | \$ 289,520 | \$ 386,179 |
| Non-Cash charges to operations: | | |
| Amortization of tangible capital assets | 134,016 | 130,649 |
| Gain on disposal of tangible capital assets | (4,659) | (11,014) |
| Developer contributions of tangible capital assets (note 11(a)) | (196,531) | (237,028) |
| Due to TransLink (note 9) | 38,800 | - |
| Change in non-cash operating working capital: | | |
| Accounts receivable | (20,048) | (14,371) |
| Inventories of supplies | (114) | 169 |
| Prepaid expenses | (355) | 178 |
| Accounts payable and accrued liabilities | 10,216 | 12,004 |
| Deposits and prepayments | 1,581 | 39,014 |
| Deferred revenue | 1,577 | 7,333 |
| Deferred development cost charges | 30,811 | 23,387 |
| Net change in cash from operating transactions | <u>284,814</u> | <u>336,500</u> |
| CAPITAL TRANSACTIONS | | |
| Acquisition of tangible capital assets | (254,745) | (290,091) |
| Transfer of properties held-for-sale | 1,190 | 43,792 |
| Proceeds on disposal of tangible capital assets | 7,661 | 17,242 |
| Cash used by capital transactions | <u>(245,894)</u> | <u>(229,057)</u> |
| FINANCING TRANSACTIONS | | |
| Cash used in repayment of MFA debt and loans payable | (7,247) | (38,536) |
| Cash used by financing transactions | <u>(7,247)</u> | <u>(38,536)</u> |
| INVESTING TRANSACTIONS | | |
| Proceeds in sales of investments | 105,811 | 82,276 |
| Cash provided by investing transactions | <u>105,811</u> | <u>82,276</u> |
| INCREASE IN CASH | 137,484 | 151,183 |
| Cash and cash equivalents, beginning of year | 228,992 | 77,809 |
| Cash and cash equivalents, end of year | <u>\$ 366,476</u> | <u>\$ 228,992</u> |
| NON-CASH TRANSACTIONS: | | |
| Debt related to Biofuel processing facility (note 8(ii)) | \$ - | \$ 341 |

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, 2019
(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, and utility 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, 2019
(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) Grove Limited Partnership and Grove (G.P.) Inc. - (50% owned and proportionately consolidated)

- (ii) 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.

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

SCIC is an investment holding entity set up for mixed-use real estate development projects in the City. Prior to October 8, 2018 SCIC held a 24.4% and 50% ownership in Surrey Centre Limited Partnerships and Surrey Centre Tower Holdings. On October 9, 2018 SCIC disposed of its ownership interests in these entities, which resulted in a net gain on sale. SCIC is inactive as at December 31, 2019.

- (iv) Kwantlen Park Development Corporation ("KPDC") - (100% owned and fully consolidated). KPDC is inactive as at December 31, 2019.

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. 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.

Notes to the Consolidated Financial Statements

*For the year ended December 31, 2019
(tabular amounts in thousands of dollars)*

1. Significant accounting policies (continued)

(b) Basis of consolidation (continued)

vi) Innovation Boulevard Corporation

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.

On January 30, 2020, IBC along with its subsidiary, Innovation Boulevard Society, closed operations and the entities were dissolved. The dissolution of these entities had no material financial impact on the City of Surrey.

(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.

(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 or when the services are delivered. 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.

Notes to the Consolidated Financial Statements

*For the year ended December 31, 2019
(tabular amounts in thousands of dollars)*

1. Significant accounting policies (continued)

(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 property tax levies, including parcel taxes and grants-in-lieu of taxes, 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.

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 or can be reasonably estimated.

(g) Transfers from other governments

Restricted transfers from other 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.

(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.

(j) Developer contributions

Tangible capital assets are contributed by developers as a condition of the development approval process. The timing of delivery of 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.

Notes to the Consolidated Financial Statements

*For the year ended December 31, 2019
(tabular amounts in thousands of dollars)*

1. Significant accounting policies (continued)

(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 it becomes due.

(n) Investments

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

(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 over one or more future periods and are not intended for sale in the ordinary course of operations.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019
(tabular amounts in thousands of dollars)

1. Significant accounting policies (continued)

(o) Non-financial assets (continued)

(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 | |
| Vehicles | 5 – 30 |
| Technology | 4 – 25 |
| Furnitures & equipment | 3 – 50 |

Annual amortization commences on the date the asset is acquired or available for use.

(ii) Assets under construction

Assets under construction are comprised of costs related to projects currently under planning, development or construction that are expected to result in a tangible capital asset at a future date. These assets are not amortized until the asset is put into service and available for productive use.

(iii) Contributions of tangible capital assets

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

(iv) Intangible assets

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

Notes to the Consolidated Financial Statements

*For the year ended December 31, 2019
(tabular amounts in thousands of dollars)*

1. Significant accounting policies (continued)

(o) Non-financial assets (continued)

(v) Tangible capital assets disclosed at nominal values

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

(vi) Write-down of tangible capital assets

Tangible capital assets are written down when conditions indicate that they no longer contribute to the City's ability to provide goods and services. Any impairment is accounted for as an expense in the consolidated statement of operations.

(vii) Leases

Leases 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.

(viii) 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, 2019
(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 2019-2023 Consolidated Financial Plan and was adopted through By-law #19730 on December 19, 2018.

(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 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 20).

(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, 2019
(tabular amounts in thousands of dollars)

2. Accounts receivable

| | <u>2019</u> | <u>2018</u> |
|---------------------------------------|-------------------|-------------------|
| General and other accounts receivable | \$ 49,316 | \$ 56,183 |
| Development cost charges | 78,772 | 56,162 |
| Property taxes | 23,590 | 21,731 |
| Utility rate charges | 18,025 | 16,016 |
| Due from other authorities | 4,327 | 3,967 |
| MFA debt reserve fund receivable | 2,630 | 2,570 |
| Tax sale properties | 35 | 18 |
| | <u>\$ 176,695</u> | <u>\$ 156,647</u> |

3. Investments

| | <u>2019</u> | <u>2018</u> |
|-------------------------------------|-------------------|-------------------|
| Maturing within one year | \$ 398,583 | \$ 414,649 |
| Maturing within two years | 59,492 | 125,751 |
| Maturing within ten years | 154,610 | 171,720 |
| City investments (a) | <u>612,685</u> | <u>712,120</u> |
| SCDC investments (b) | 303 | 6,455 |
| SHHS investments (c) | 6,590 | 6,517 |
| Government business partnership (d) | 531 | 444 |
| Government partnership (e) | - | 384 |
| | <u>\$ 620,109</u> | <u>\$ 725,920</u> |

(a) City investments had an average portfolio yield of 2.66% (2018 – 2.40%). 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 2.35% (2018 – 2.07%) along with GICs with a maturity date of September 17, 2020 and a yield of 1.90% (2018 – 1.90%).

(c) SHHS investments includes a diversified portfolio of fixed income and equity securities held by SHHS with an average yield rate of 14.96% (2018 – (2.22%)), for the purpose of supporting programs and projects related to reducing homelessness and increasing access to safe and affordable housing in Surrey.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019
(tabular amounts in thousands of dollars)

3. Investments (continued)

(d) SCDC's joint-venture partnership in Beedie Limited Partnership ("Beedie LP") meets the criteria of a government business partnership and therefore the results are accounted for under the modified equity method. This represents the City's net investment in the joint venture. 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. The liability of SCDC is limited to the cash and land which it contributed to Beedie LP.

(e) During 2013, SCDC invested in a 20% ownership of Bosa Properties (Bright A.1) Limited Partnership ("Bosa"). SCDC does not share control of Bosa and accordingly, this has been accounted for as a portfolio investment, carried at cost.

On August 29, 2019, SCDC disposed of its 20% ownership interest in the Bosa LP for net proceeds of \$3.0M, which resulted in a net gain on sale of \$2.6M.

4. Accounts payable and accrued liabilities

| | <u>2019</u> | <u>2018</u> |
|-------------------------------------|-------------------|-------------------|
| Trade accounts payable | \$ 69,208 | \$ 70,268 |
| Due to Federal Government | 51,526 | 47,991 |
| Due to TransLink (note 9) | 38,800 | - |
| Employee future benefits (note 10) | 28,663 | 28,007 |
| Contractors' holdbacks | 11,682 | 17,068 |
| Due to Regional Districts | 19,876 | 9,373 |
| Due to Province of British Columbia | 5,576 | 4,076 |
| Due to other government entities | 2,804 | 2,336 |
| Interest payable on debt | 2,009 | 2,009 |
| | <u>\$ 230,144</u> | <u>\$ 181,128</u> |

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019
(tabular amounts in thousands of dollars)

5. Deposits and prepayments

| | <u>2019</u> | <u>2018</u> |
|--------------------------------|-------------------|-------------------|
| Deposits: | | |
| Future works | \$ 56,383 | \$ 54,043 |
| Planning and permits | 80,506 | 73,123 |
| Engineering | 89,594 | 98,149 |
| Capital deposits | 33,763 | 34,530 |
| Pavement cuts | 4,266 | 5,022 |
| Boulevard trees | 1,761 | 1,978 |
| Latecomer | 984 | 1,854 |
| Other deposits | 4,753 | 4,117 |
| Total deposits | <u>\$ 272,010</u> | <u>\$ 272,816</u> |
| Prepayments: | | |
| Taxes | \$ 42,400 | \$ 41,177 |
| Utilities | 3,206 | 2,578 |
| Other prepayments | 627 | 91 |
| Total prepayments | <u>46,233</u> | <u>43,846</u> |
| Total deposits and prepayments | <u>\$ 318,243</u> | <u>\$ 316,662</u> |

6. Deferred revenue

| | <u>2019</u> | <u>2018</u> |
|------------------------------|------------------|------------------|
| Development/building permits | \$ 31,021 | \$ 31,074 |
| Deferred lease revenue | 6,013 | 6,091 |
| Other | 8,833 | 7,125 |
| | <u>\$ 45,867</u> | <u>\$ 44,290</u> |

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019
(tabular amounts in thousands of dollars)

7. Deferred development cost charges

Development Cost Charges (DCCs) are collected to pay for development costs on specified projects. DCCs cover between 90% to 99% of those costs based on rates as recommended by the engineering department. In accordance with the Local Government Act, these funds must be held in a separate reserve fund and accumulates interest until spent. DCCs are deferred and recognized as revenue when the related costs are incurred.

| | <u>2019</u> | <u>2018</u> |
|----------------------------------|-------------------|-------------------|
| Deferred DCCs: | | |
| Arterial roads | \$ 78,530 | \$ 63,430 |
| Parkland | 58,793 | 49,422 |
| Drainage/storm water detention | 45,937 | 43,637 |
| Sanitary sewer | 30,085 | 25,965 |
| Collector roads | 19,562 | 15,800 |
| Water | 18,739 | 15,893 |
| Area specific | 54,375 | 60,988 |
| Park development | 2,471 | 2,546 |
| | <u>\$ 308,492</u> | <u>\$ 277,681</u> |
| | | |
| Deferred DCCs, beginning of year | \$ 277,681 | \$ 254,294 |
| DCCs levied for the year | 105,804 | 90,979 |
| Investment income | 1,837 | 761 |
| Total DCCs deferred | <u>107,641</u> | <u>91,740</u> |
| | | |
| Revenue recognized: | | |
| General Capital | (62,824) | (52,233) |
| Water Capital | (4,326) | (5,150) |
| Sewer & Drainage Capital | (9,680) | (10,970) |
| Total DCCs recognized as revenue | <u>(76,830)</u> | <u>(68,353)</u> |
| Net increase for the year | <u>30,811</u> | <u>23,387</u> |
| Deferred DCCs, end of year | <u>\$ 308,492</u> | <u>\$ 277,681</u> |

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019
(tabular amounts in thousands of dollars)

8. Debt

| | <u>2019</u> | <u>2018</u> |
|--------------------|-------------------|-------------------|
| MFA debt (i) | \$ 173,712 | \$ 179,699 |
| Loans payable (ii) | <u>48,065</u> | <u>49,325</u> |
| | <u>\$ 221,777</u> | <u>\$ 229,024</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 2019 | Net debt 2018 |
|-----------|-------------------|---|-------------------|-------------------|
| 116 | \$ 100,000 | \$ 22,125 | \$ 77,875 | \$ 81,034 |
| 121 | 45,000 | 8,535 | 36,465 | 37,833 |
| 126 | 67,335 | 7,963 | 59,372 | 60,832 |
| | <u>\$ 212,335</u> | <u>\$ 38,623</u> | <u>\$ 173,712</u> | <u>\$ 179,699</u> |

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, 2019
(tabular amounts in thousands of dollars)

8. Debt (continued)

(ii) Loans payable

| | 2019 | 2018 |
|--|------------------|------------------|
| SCDC: | \$ 12,112 | \$ 12,570 |
| 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. | | |
| Biofuel Processing Facility: | 35,953 | 36,755 |
| 25-year contract with Orgaworld Canada Ltd., payable in monthly payments of \$221,516 including interest calculated at a rate of 5.10% payable. | | |
| Total Loans Payable | \$ 48,065 | \$ 49,325 |

MFA payments and loan payments over the next five years and thereafter are as follows:

| | MFA payments | Loan payments | Total |
|---------------------|-------------------|------------------|-------------------|
| 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 | 7,285 | 1,506 | 8,791 |
| 2025 and thereafter | 139,984 | 40,996 | 180,980 |
| Total | \$ 173,712 | \$ 48,065 | \$ 221,777 |

Total interest expense recorded for the year ended December 31, 2019 was \$10.4 million (2018 - \$10.5 million).

Notes to the Consolidated Financial Statements

*For the year ended December 31, 2019
(tabular amounts in thousands of dollars)*

9. Due to TransLink

In December 2018, the Mayors' Council on Regional Transportation ("Mayors' Council") directed TransLink to proceed immediately with planning and project development for a Surrey Langley SkyTrain project. Further to this, the Mayors' Council passed a resolution on June 27, 2019 endorsing that an estimate of up to \$39 million be the amount the City of Surrey should agree to pay for the unnecessarily expended work plan costs on the cancelled Surrey Newton Guildford LRT project, pending final technical reconciliation of expenditures. As at December 31, 2019 the City of Surrey has recorded a liability due to TransLink in the amount of \$38.8 million relating to this resolution. The timing of this reimbursement is dependent upon and subject to the final approval of the business case and the project proceeding to the procurement and construction phases. It is expected that the City of Surrey and TransLink will complete a signed Reimbursement Agreement prior to this final approval. This Reimbursement Agreement will identify the means by which the City of Surrey will reimburse TransLink, which may include: financial contributions, in-kind property contributions of a permanent or temporary nature, rights of way and/or road dedications, certain commercial rights to TransLink with any future use or access by TransLink of city streets or other city lands pursuant to the Municipal Access Agreement, and reduction in costs through a transfer of scope elements.

The June 27, 2019 resolution also included an endorsed recommendation that a further payment of \$5.4 million by the City of Surrey be required if there is no decision to implement rapid transit along King George Blvd by December 31, 2021. As at December 31, 2019 discussions have not taken place relating to this recommendation therefore this further payment has not been accrued.

10. 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, 2019
(tabular amounts in thousands of dollars)

10. Employee future benefits (continued)

Accrued benefit liability:

| | <u>2019</u> | <u>2018</u> |
|---|------------------|------------------|
| Balance, beginning of year | \$ 28,007 | \$ 27,053 |
| Current service cost | 1,834 | 1,820 |
| Interest cost | 814 | 768 |
| Amortization of net actuarial loss (gain) | (494) | 72 |
| Benefits paid | <u>(1,498)</u> | <u>(1,706)</u> |
| Accrued benefit liability, end of year | <u>\$ 28,663</u> | <u>\$ 28,007</u> |

An actuarial valuation for these benefits was performed to determine the City's accrued benefit obligation as at December 31, 2019. The difference between the actuarially determined accrued benefit obligation of \$28.3 million and the accrued benefit liability of \$28.7 million as at December 31, 2019 is an unamortized actuarial gain of \$0.4 million. The actuarial gain is amortized over a period equal to the employees' average remaining service life of 12 years (2018 – 11 years).

Reconciliation of accrued benefit liability to accrued benefit obligation:

| | <u>2019</u> | <u>2018</u> |
|--|------------------|------------------|
| Actuarial benefit liability, end of year | \$ 28,663 | \$ 28,007 |
| Unamortized actuarial gain | <u>(358)</u> | <u>(3,356)</u> |
| Accrued benefit obligation, end of year | <u>\$ 28,305</u> | <u>\$ 24,651</u> |

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

| | <u>2019</u> | <u>2018</u> |
|---|-------------|-------------|
| Discount rate | 2.70% | 3.20% |
| Expected future inflation rate | 1.80% | 1.80% |
| Employee average remaining service life (years) | 12.00 | 11.00 |

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019
(tabular amounts in thousands of dollars)

11. Tangible capital assets

| Net Book Value by category | <u>2019</u> | <u>2018</u> |
|-------------------------------------|---------------------|---------------------|
| Land and land improvements | \$ 1,942,379 | \$ 1,878,923 |
| Land under road | 3,228,036 | 3,079,917 |
| Buildings and building improvements | 478,748 | 434,452 |
| Infrastructure | 3,167,425 | 3,095,717 |
| Machinery and equipment | 149,667 | 133,125 |
| Assets under construction | 329,413 | 360,466 |
| | <u>\$ 9,295,668</u> | <u>\$ 8,982,600</u> |
| | | |
| Net Book Value by fund | <u>2019</u> | <u>2018</u> |
| General capital | \$ 2,627,885 | \$ 2,528,916 |
| Transportation capital | 4,245,266 | 4,073,506 |
| Water capital | 647,071 | 640,316 |
| Sewer capital | 601,188 | 593,978 |
| Drainage capital | 1,104,033 | 1,094,243 |
| Library capital | 5,434 | 5,388 |
| Surrey City Development Corp. | 64,788 | 46,216 |
| Other Entities | 3 | 37 |
| | <u>\$ 9,295,668</u> | <u>\$ 8,982,600</u> |

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

a) 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 \$196.5 million (2018 - \$237.0 million) comprised of roads infrastructure in the amount of \$160.9 million (2018 - \$179.2 million), water and wastewater infrastructure in the amount of \$18.0 million (2018 - \$38.6 million) and land in the amount of \$17.6 million (2018 - \$19.2 million), including improvements.

Notes to the Consolidated Financial Statements

*For the year ended December 31, 2019
(tabular amounts in thousands of dollars)*

11. Tangible capital assets (continued)

b) 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. 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.

c) Write-down of tangible capital assets

No impairments were identified or recorded during the year ended December 31, 2019 or 2018.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019
(tabular amounts in thousands of dollars)

12. Accumulated surplus

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

| | 2019 | | 2018 | |
|---|--------------|--------------------|--------------|--------------------|
| Accumulated Surplus per Statement of Financial Position | \$ 9,339,851 | | \$ 9,050,331 | |
| Less: | | | | |
| Tangible Capital Assets | 9,295,668 | | 8,982,600 | |
| Debt funded assets | (207,326) | | (214,782) | |
| Invested in tangible capital assets | 9,088,342 | | 8,767,818 | |
| | <u>Gross</u> | <u>Allocations</u> | <u>Gross</u> | <u>Allocations</u> |
| Reserves set aside by Council | | | | |
| Capital legacy | 47,847 | (47,847) | - | 47,329 |
| Municipal land | 53,947 | (42,078) | 11,869 | (39,002) |
| Equipment and building replacement | 25,714 | (13,972) | 11,742 | (5,898) |
| Neighborhood concept plans | 28,003 | (15,216) | 12,787 | (4,072) |
| Park land acquisition | 17,408 | (9,459) | 7,949 | (4,045) |
| Local improvement financing | 17,417 | (9,464) | 7,953 | (3,076) |
| Environmental stewardship | 6,809 | (3,700) | 3,109 | (1,220) |
| Parking space | 2,651 | (1,440) | 1,211 | (475) |
| Water claims | 1,362 | (740) | 622 | (244) |
| Affordable housing | 591 | (321) | 270 | (4) |
| | 201,749 | 57,512 | 191,602 | 86,237 |
| Internal borrowing to fund capital program | | (144,237) | | (105,365) |
| Other appropriated funds | | | | |
| Infrastructure replacement | (20,546) | 20,546 | - | (28,318) |
| Revenue stabilization | 13,490 | (1,374) | 12,116 | (1,908) |
| Self insurance | 13,253 | (1,350) | 11,903 | (1,659) |
| Operating contingency and emergencies | 8,276 | (843) | 7,433 | (1,170) |
| Environmental emergencies | 7,082 | (721) | 6,361 | (1,002) |
| Prepaid expenses | 4,577 | - | 4,577 | - |
| Inventories of supplies | 874 | - | 874 | - |
| Committed funds | 159,584 | (16,258) | 143,326 | (22,579) |
| | 186,590 | - | 186,590 | - |
| Other Entities | | | | |
| Surrey City Development Corporation | | (4,841) | | 6,834 |
| Surrey Homelessness and Housing Society | | 5,748 | | 6,019 |
| Innovation Boulevard | | (9) | | 48 |
| | | 898 | | 12,901 |
| Total Appropriated Funds | | 9,333,342 | | 9,043,822 |
| Unappropriated Surplus | | \$ 6,509 | | \$ 6,509 |

Notes to the Consolidated Financial Statements

*For the year ended December 31, 2019
(tabular amounts in thousands of dollars)*

13. 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 12). 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 as a member of Metro Vancouver is directly, jointly and severally liable with the other member municipalities for the net capital liabilities of those authorities.
- 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, 2019). 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.
- 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 12). Based on estimates, this appropriation reasonably provides for all outstanding claims where the outcome is not currently determinable.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019
(tabular amounts in thousands of dollars)

13. Commitments and contingencies (continued)

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 |

Management does not consider payment under this contingency to be likely and therefore no amounts have been accrued.

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, after taking the Oath of Office, Council unanimously approved a motion to direct staff to commence work on terminating its contract with the RCMP municipal police service and create a Surrey Police Department. On February 27, 2020, the Provincial Government granted approval to the City to create a municipal police board. It is anticipated that the transition to the Surrey Police Department will be completed by April 2021. In accordance to the contract necessary notice was provided and this will not incur additional costs for the early termination of the RCMP contract.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019
(tabular amounts in thousands of dollars)

14. 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 following table summarizes the contractual rights that existed at December 31, 2019 of the City for future assets:

| | 2020 | 2021 | 2022 | 2023 | Thereafter |
|---------------------------|------------------|-----------------|-----------------|-----------------|------------------|
| Lease revenue (a) | \$ 7,631 | \$ 6,155 | \$ 5,685 | \$ 5,074 | \$ 33,157 |
| Government agreements (b) | 3,105 | 3,105 | 3,178 | 3,178 | 2,625 |
| Total | \$ 10,736 | \$ 9,260 | \$ 8,863 | \$ 8,252 | \$ 35,782 |

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 20 years.

b) Government agreements

The City has entered into various government agreements with senior government and other agencies related to contractual rights expected to be realized as stipulations are met.

c) 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.

d) Other contractual rights

The City is entitled to receive revenue from certain other agreements. The revenue from these agreements cannot be quantified and has not been included in the amounts noted above.

Notes to the Consolidated Financial Statements

*For the year ended December 31, 2019
(tabular amounts in thousands of dollars)*

15. 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, 2018, the Plan has about 205,000 active members and approximately 101,000 retired members. Active members include approximately 40,000 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.

The most recent valuation for the Plan as at December 31, 2018, indicated a \$2,866 million funding surplus for basic pension benefits on a going concern basis.

The City paid \$20.6 million (2018 - \$19.6 million) for employer contributions while employees contributed \$17.2 million (2018 - \$16.4 million) to the Plan in 2019.

The next valuation will be as at December 31, 2021, with results available in 2022.

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019
(tabular amounts in thousands of dollars)

16. Taxation revenue

| | <u>2019</u> | | <u>2018</u> |
|--|-----------------------|----|---------------|
| Tax collected: | | | |
| Property taxes | \$ 363,342 | \$ | 348,065 |
| Collections for other authorities | 357,855 | | 317,471 |
| Parcel taxes | 56,426 | | 55,138 |
| Grants-in-lieu of taxes | 18,539 | | 16,626 |
| Other | 498 | | 316 |
| | <hr/> 796,660 | | 737,616 |
| Less transfers to other authorities: | | | |
| Province of BC - School Taxes | (262,525) | | (241,267) |
| Greater Vancouver Regional District | (8,083) | | (7,676) |
| BC Assessment Authority | (7,975) | | (7,766) |
| Greater Vancouver Transportation Authority | (50,333) | | (46,500) |
| Other | (28,939) | | (14,262) |
| | <hr/> (357,855) <hr/> | | (317,471) |
| Taxation revenue | <hr/> \$ 438,805 | \$ | <hr/> 420,145 |

17. Other revenue

| | <u>2019</u> | | <u>2018</u> |
|--|-----------------|----|--------------|
| Licenses and permits | \$ 36,898 | \$ | 33,713 |
| Leases and rentals | 13,399 | | 13,286 |
| Penalties and interest on taxes | 6,402 | | 5,365 |
| Miscellaneous | 5,112 | | 7,130 |
| Gain on sale of assets | 12,145 | | 15,709 |
| Gain on sale of partnership (note 1(b)(iv)(iii)) | - | | 7,338 |
| | <hr/> \$ 73,956 | \$ | <hr/> 82,541 |

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019
(tabular amounts in thousands of dollars)

18. Trust funds

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

| | | | <u>2019</u> | <u>2018</u> |
|---------------------------------|------------------------------|------------------------------------|-----------------|-----------------|
| Assets | | | | |
| Cash and short-term investments | | | \$ 4,703 | \$ 4,239 |
| Equity | | | | |
| | Employee Benefits Fund | Cemetery Perpetual Care Fund | <u>2019</u> | <u>2018</u> |
| Balance, beginning of year | \$ 733 | \$ 3,506 | \$ 4,239 | \$ 3,929 |
| Employment insurance rebate | 97 | - | 97 | 92 |
| Contributions | - | 455 | 455 | 302 |
| Interest revenue | 6 | - | 6 | 3 |
| Benefits purchased | (17) | - | (17) | (17) |
| Refunded to employees | (77) | - | (77) | (70) |
| Balance, end of year | <u>\$ 742</u> | <u>\$ 3,961</u> | <u>\$ 4,703</u> | <u>\$ 4,239</u> |

19. Segmented information

The City of Surrey is a diversified municipal government institution that provides a wide range of services to the citizens of Surrey, including Police Services; Parks, Recreation and Culture Services; General Government Services; Water Services; Fire Services; Sewer Services; Engineering Services; Drainage Services; Solid Waste Management Services; Roads & Traffic Safety Services; Planning and Development Services; Parking Services; Surrey City Energy Services; and Surrey Public Library Services. For management reporting purposes, the Government's operations and activities are organized and reported by Service Area. Service Areas were created for the purpose of recording specific activities and related objectives in accordance with legislated requirements.

City Departments and the activities for which they are responsible are reported in these Service Areas. The Departments listed in the segmented information, along with the services that each Department provides are listed below:

Police Services

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019
(tabular amounts in thousands of dollars)

19. Segmented information (continued)

Parks, Recreation and Culture Services

The Parks, Recreation and Culture Department is responsible for planning, facilitating the development of, operating and maintaining high quality parks, recreation and cultural facilities and services.

General Government Services – Mayor & Councillor’s Department, City Manager’s Department, Finance Department, Corporate Services Department, Surrey City Development Corporation, and Surrey Homelessness and Housing Society

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

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

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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019
(tabular amounts in thousands of dollars)

19. Segmented information (continued)

Solid Waste Management Services

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

Drainage Services

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

Planning and Development Services

The Planning and Development Department is responsible for preparing land use plans, by-laws and policies for sustainable development of the City and for reviewing and approving new land and building development.

Surrey Public Library Services

The Surrey Public Library provides access to local and global information through its nine Library branches located throughout the City.

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, 2019

(tabular amounts in thousands of dollars)

For the year ended December 31, 2019

(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 | 2019 |
|--|---------------------|-------------------------------|--------------------|------------------------|-----------------|--------------------|-----------------|------------------------|------------------|--------------------------|------------------|-------------------|--------------------|-----------------|-------------------|
| 19 SEGMENTED INFORMATION | | | | | | | | | | | | | | | |
| REVENUES | | | | | | | | | | | | | | | |
| Taxation, grants-in-lieu, assessments | \$ - | \$ - | \$ 726,518 | \$ 30,336 | \$ (48) | \$ - | \$ 817 | \$ - | \$ 39,037 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 796,660 |
| Collections for other authorities | - | - | (357,855) | - | - | - | - | - | - | - | - | - | - | - | (357,855) |
| Taxation revenue | - | - | 368,663 | 30,336 | (48) | - | 817 | - | 39,037 | - | - | - | - | - | 438,805 |
| Sales of goods and services | 1,785 | 30,804 | 27,634 | 228 | 79,692 | 2,687 | 62,790 | 43,069 | - | 4,769 | 288 | 7,136 | 2,546 | 3,277 | 266,705 |
| Development cost charges | - | - | 76,830 | - | - | - | - | - | - | - | - | - | - | - | 76,830 |
| Developer contributions | - | 166 | 35,431 | 163,241 | 3,100 | - | 5,429 | - | 9,828 | - | - | - | 885 | - | 218,080 |
| Investment income | - | 29 | 27,976 | - | 372 | - | 203 | 58 | 5 | - | - | - | - | - | 28,643 |
| Transfers from other governments | 7,073 | 1,349 | 7,854 | 9,080 | (950) | - | 205 | - | 3,329 | - | 986 | - | - | - | 28,926 |
| Other | 41 | 2,266 | 36,234 | 124 | 1,211 | 22 | 600 | 173 | 114 | 28,511 | 534 | 3,056 | 25 | 1,045 | 73,956 |
| | 8,899 | 34,614 | 580,622 | 203,009 | 83,377 | 2,709 | 70,044 | 43,300 | 52,313 | 33,280 | 1,808 | 10,192 | 3,456 | 4,322 | 1,131,945 |
| EXPENSES | | | | | | | | | | | | | | | |
| Salaries and benefits | 28,070 | 66,436 | 41,016 | 6,970 | - | 60,505 | - | - | - | 22,928 | 15,022 | 43,862 | 624 | 762 | 286,195 |
| RCMP contracted services | 133,335 | - | - | - | - | - | - | - | - | - | - | - | - | - | 133,335 |
| Consulting and professional services | 1,131 | 5,647 | 3,883 | 1,718 | 505 | 266 | 550 | 1,030 | 2,602 | 985 | 111 | 780 | 28 | 74 | 19,310 |
| Telephone and communications | 379 | 369 | 925 | 64 | 58 | 157 | 26 | 17 | 21 | 103 | 28 | 260 | 3 | 61 | 2,471 |
| Regional district utility charges | - | - | - | - | 48,760 | - | 47,715 | - | - | - | - | - | - | - | 96,475 |
| Utilities | 617 | 4,653 | 42 | 3,582 | 715 | 377 | 2,074 | 13 | 24 | 557 | 387 | 1,259 | 867 | 6 | 15,173 |
| Garbage collection and disposal | 18 | 570 | 18 | 280 | - | 26 | 3 | 22,453 | - | 13 | 12 | 402 | - | - | 23,795 |
| Maintenance and small equipment | 63 | 8,200 | 6,682 | 223 | 359 | 1,371 | 129 | 66 | 14 | 2,542 | 235 | 1,190 | 61 | 128 | 21,263 |
| Insurance and claims | - | 35 | 3,174 | 1 | - | 15 | - | 161 | - | - | - | 56 | - | - | 3,442 |
| Leases and rentals | 957 | 1,051 | 343 | 1,773 | 654 | 1 | 892 | 402 | 1,446 | 29 | 48 | 2,609 | - | 77 | 10,282 |
| Supplies and materials | 352 | 8,739 | 3,329 | 3,208 | 1,287 | 2,517 | 1,434 | 2,283 | 603 | 2,081 | 550 | 5,641 | 23 | 17 | 32,064 |
| Advertising and media | 3 | 449 | 152 | 21 | 4 | 13 | - | 37 | 1 | 39 | 1,345 | 14 | 1 | - | 2,079 |
| Grants and sponsorships | - | 748 | 2,195 | - | - | - | - | - | - | 3 | 102 | - | - | - | 3,048 |
| Contract payments | 2 | 4,330 | 1,107 | 8,768 | 3,123 | 308 | 878 | 1,948 | 2,953 | 44 | 12 | 2,198 | 76 | 628 | 26,375 |
| Other | 1,158 | 2,296 | 41,879 | 1,322 | 921 | 2,240 | 1,115 | 79 | 952 | 1,264 | 738 | 60 | 13 | 16 | 54,053 |
| Cost recoveries, net | (769) | (137) | (7,184) | 2,090 | 10,072 | (1,487) | 4,445 | 4,641 | 7,130 | (376) | 283 | (51,265) | (139) | 6 | (32,690) |
| Interest on debt | - | - | 7,778 | - | - | - | - | 2,658 | - | - | - | - | - | - | 10,436 |
| Other interests and fiscal services | 23 | 384 | 341 | - | (33) | - | - | - | - | 154 | 7 | 1 | 297 | 129 | 1,303 |
| Amortization expense | 1,314 | 18,939 | 13,847 | 42,741 | 9,758 | 2,250 | 12,093 | 2,520 | 20,591 | 35 | 1,987 | 6,006 | 841 | 1,094 | 134,016 |
| | 166,653 | 122,709 | 119,527 | 72,761 | 76,183 | 68,559 | 71,354 | 38,308 | 36,337 | 30,401 | 20,867 | 13,073 | 2,695 | 2,998 | 842,425 |
| Excess (deficiency) of revenues over expenses | (157,754) | (88,095) | 461,095 | 130,248 | 7,194 | (65,850) | (1,310) | 4,992 | 15,976 | 2,879 | (19,059) | (2,881) | 761 | 1,324 | 289,520 |
| Transfer from (to) operating funds | - | - | (61,047) | 36,423 | 2,043 | - | 11,456 | (5,082) | (864) | - | 19,080 | (72) | (473) | (1,464) | - |
| Transfer from (to) reserve funds | - | 79 | (46,377) | 33,399 | 4,926 | (1,297) | 4,423 | (265) | 7,466 | (176) | 100 | (3,099) | 821 | - | - |
| Transfer from (to) capital funds | - | (4,995) | 56,327 | (19,921) | (9,592) | - | (8,669) | (309) | (12,245) | 447 | (14) | 47 | (995) | (81) | - |
| Annual surplus (deficit) | \$ (157,754) | \$ (93,011) | \$ 409,998 | \$ 180,149 | \$ 4,571 | \$ (67,147) | \$ 5,900 | \$ (664) | \$ 10,333 | \$ 3,150 | \$ 107 | \$ (6,005) | \$ 114 | \$ (221) | \$ 289,520 |

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

(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 |
|--|-----------------|-------------------------------|--------------------|------------------------|-----------|---------------|-----------|------------------------|-----------|--------------------------|------------------|-------------|--------------------|---------|------------|
| 19 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, 2019
(tabular amounts in thousands of dollars)

20. Transfers from other governments

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

| | 2019 | 2018 |
|---|------------------|------------------|
| Revenue | | |
| BC Provincial government grants: | | |
| Roads | \$ 2,493 | \$ 371 |
| Traffic fines revenue sharing | 6,621 | 6,419 |
| Casino revenue sharing | 4,074 | 4,301 |
| Library operating | 965 | 960 |
| Climate Action Revenue Incentive Program | 650 | 753 |
| Sewer replacement | - | 1,770 |
| Child care and seniors | 598 | 405 |
| Victim services | 189 | 200 |
| Arts | 186 | 77 |
| BC One Card | 20 | 22 |
| Subtotal BC Provincial government grants | 15,796 | 15,278 |
| Federal government grants: | | |
| Infrastructure Canada | - | 13,473 |
| Roads | 7 | 378 |
| Drainage | 834 | - |
| Parks development | 269 | 175 |
| Keep of prisoners | 124 | 183 |
| SAFE program | 382 | - |
| Summer students | 13 | 11 |
| Child care | 40 | 57 |
| Subtotal Federal government grants | 1,669 | 14,277 |
| TransLink: | | |
| Arterial widening and intersection improvements | 1,340 | 734 |
| Arterial paving | 4,745 | 1,793 |
| Arterial bridges | 934 | 15,084 |
| Bicycle street network and other transit projects | 1,312 | 3,030 |
| Subtotal TransLink grants | 8,331 | 20,641 |
| UBCM Community Works Fund: | 3,130 | 1,526 |
| Total transfers from other government revenues | \$ 28,926 | \$ 51,722 |

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019
(tabular amounts in thousands of dollars)

21. Budget data

The budget data presented in these consolidated financial statements was included in the City of Surrey 2019-2023 Consolidated Financial Plan and was adopted through Bylaw #19730 on December 19, 2018. 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 | \$ 1,179,525 |
| Total Revenues: | <u>1,179,525</u> |
| Approved consolidated budgeted expenditures | 1,424,638 |
| Transfers between funds | <u>(245,113)</u> |
| | 1,179,525 |
| Less: | |
| Capital expenditures | (603,065) |
| Municipal debt principal repayments | (5,471) |
| Add: | |
| Transfers between funds | <u>245,113</u> |
| Total Expenses: | <u>816,102</u> |
| Annual surplus per statement of operations | <u>\$ 363,423</u> |

22. 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, 2019
(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, 2019 |
|---------------------------------|-------------------------------|---------------------|---|---------------------|----------------------------|------------------------------|------------------------------------|
| COST | | | | | | | |
| Opening Balance | \$ 1,966,871 | \$ 3,079,917 | \$ 685,886 | \$ 4,738,323 | \$ 284,667 | \$ 360,466 | \$ 11,116,130 |
| Additions | 69,941 | 148,119 | 65,466 | 159,705 | 37,908 | (29,863) | 451,276 |
| Disposals and Transfers | (2,266) | - | (157) | (5,140) | (8,249) | (1,190) | (17,002) |
| Ending Balance | 2,034,546 | 3,228,036 | 751,195 | 4,892,888 | 314,326 | 329,413 | 11,550,404 |
| ACCUMULATED AMORTIZATION | | | | | | | |
| Opening Balance | \$ 87,948 | \$ - | \$ 251,434 | \$ 1,642,606 | \$ 151,542 | \$ - | \$ 2,133,530 |
| Amortization | 5,084 | - | 21,168 | 86,405 | 21,359 | - | 134,016 |
| Accum. Amort. on Disposals | (865) | - | (155) | (3,548) | (8,242) | - | (12,810) |
| Ending Balance | 92,167 | - | 272,447 | 1,725,463 | 164,659 | - | 2,254,736 |
| NET BOOK VALUE | \$ 1,942,379 | \$ 3,228,036 | \$ 478,748 | \$ 3,167,425 | \$ 149,667 | \$ 329,413 | \$ 9,295,668 |

| | 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 |

City of Surrey

Schedule 2 - Unaudited Statement of Financial Position - By Fund

As at December 31, 2019, with comparative figures for 2018
(in thousands of dollars)

| | Operating Funds | | | | | | | | | Capital Funds | | Other Entities | | | Consolidated | | |
|--|-----------------|--------------------|------------|--------------------------|-------------|-----------|-----------|-----------|------------------|-----------------------|------------------|----------------|----------------|---------------|--------------|--------------|--------------|
| | General | Surrey City Energy | Parking | Roads and Traffic Safety | Solid Waste | Water | Sewer | Drainage | Library Services | General and Utilities | Library Services | SCDC | Other Entities | Reserve Funds | Adjustments | 2019 | 2018 |
| FINANCIAL ASSETS | | | | | | | | | | | | | | | | | |
| Cash | \$ 364,323 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 2,105 | \$ 53 | \$ - | \$ (5) | \$ 366,476 | \$ 228,992 |
| Accounts receivable | 114,328 | - | - | - | - | - | - | - | - | 821 | - | 410 | 315 | 82,295 | (21,474) | 176,695 | 156,647 |
| Investments | 642,435 | - | - | - | - | - | - | - | - | - | - | 1,486 | 5,938 | - | (29,750) | 620,109 | 725,920 |
| Due from other funds | - | - | - | - | 7,833 | 76,980 | 44,738 | 13,074 | 2,321 | 13,630 | - | - | - | 338,950 | (497,526) | - | - |
| | 1,121,086 | - | - | - | 7,833 | 76,980 | 44,738 | 13,074 | 2,321 | 14,451 | - | 4,001 | 6,306 | 421,245 | (548,755) | 1,163,280 | 1,111,559 |
| LIABILITIES | | | | | | | | | | | | | | | | | |
| Accounts payable and accrued liabilities | 250,296 | - | - | - | - | - | - | - | 2,248 | - | - | 38,064 | 557 | - | (61,021) | 230,144 | 181,128 |
| Deposits and prepayments | 313,560 | - | 10 | - | - | 1,694 | 1,509 | - | - | - | - | 542 | 18 | 929 | (19) | 318,243 | 316,662 |
| Due to other funds | 402,121 | 34,585 | 6,683 | 4,530 | - | - | - | - | - | - | - | - | - | 54,312 | (502,231) | - | - |
| Deferred revenue | 39,786 | - | - | - | - | - | - | - | 75 | - | - | 6,006 | - | - | - | 45,867 | 44,290 |
| Deferred development cost charges | - | - | - | - | - | - | - | - | - | - | - | - | - | 308,492 | - | 308,492 | 277,681 |
| Debt | - | - | - | - | - | - | - | - | - | 209,665 | - | 12,112 | - | - | - | 221,777 | 229,024 |
| | 1,005,763 | 34,585 | 6,693 | 4,530 | - | 1,694 | 1,509 | - | 2,323 | 209,665 | - | 56,724 | 575 | 363,733 | (563,271) | 1,124,523 | 1,048,785 |
| Net Financial Assets (Debt) | 115,323 | (34,585) | (6,693) | (4,530) | 7,833 | 75,286 | 43,229 | 13,074 | (2) | (195,214) | - | (52,723) | 5,731 | 57,512 | 14,516 | 38,757 | 62,774 |
| NON-FINANCIAL ASSETS | | | | | | | | | | | | | | | | | |
| Tangible capital assets | - | - | - | - | - | - | - | - | - | 9,239,804 | 5,434 | 98,951 | 5 | - | (48,526) | 9,295,668 | 8,982,600 |
| Inventories of supplies | 517 | - | - | - | - | 320 | 37 | - | - | - | - | - | - | - | - | 874 | 760 |
| Prepaid expenses | 4,409 | - | - | - | - | - | - | - | 91 | - | - | 52 | - | - | - | 4,552 | 4,197 |
| | 4,926 | - | - | - | - | 320 | 37 | - | 91 | 9,239,804 | 5,434 | 99,003 | 5 | - | (48,526) | 9,301,094 | 8,987,557 |
| Accumulated Surplus (Deficit) | \$ 120,249 | \$ (34,585) | \$ (6,693) | \$ (4,530) | \$ 7,833 | \$ 75,606 | \$ 43,266 | \$ 13,074 | \$ 89 | \$ 9,044,590 | \$ 5,434 | \$ 46,280 | \$ 5,736 | \$ 57,512 | \$ (34,010) | \$ 9,339,851 | \$ 9,050,331 |

City of Surrey
Schedule 3 - Unaudited Statement of Operations - By Fund

*For the year ended December 31, 2019, with comparative figures for 2018
(in thousands of dollars)*

| | Operating Funds | | | | | | | | | Capital Funds | | Other Entities | | | Consolidated | | |
|--|-----------------|--------------------|------------|--------------------------|-------------|-----------|-----------|-----------|------------------|-----------------------|------------------|----------------|----------------|---------------|--------------|--------------|--------------|
| | General | Surrey City Energy | Parking | Roads and Traffic Safety | Solid Waste | Water | Sewer | Drainage | Library Services | General and Utilities | Library Services | SCDC | Other Entities | Reserve Funds | Adjustments | 2019 | 2018 |
| REVENUES | | | | | | | | | | | | | | | | | |
| Taxation revenue | \$ 368,662 | \$ - | \$ - | \$ 30,336 | \$ - | \$ (48) | \$ 817 | \$ 39,038 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 438,805 | \$ 420,145 |
| Sales of goods and services | 72,663 | 2,545 | 3,277 | 228 | 43,070 | 79,692 | 62,791 | - | 288 | - | - | 115 | (1) | 2,040 | (3) | 266,705 | 250,281 |
| Development cost charges | - | - | - | - | - | - | - | - | - | - | - | - | - | 76,830 | - | 76,830 | 68,353 |
| Developer contributions | 166 | - | - | 1,520 | - | - | 3 | 200 | - | 200,853 | - | - | - | 15,338 | - | 218,080 | 263,556 |
| Investment income | 27,609 | - | - | - | 58 | 372 | 203 | 5 | - | 1,426 | - | 2,774 | 194 | 815 | (4,813) | 28,643 | 22,633 |
| Transfers from other governments | 16,276 | - | - | 129 | - | - | - | 788 | 986 | 10,747 | - | - | - | - | - | 28,926 | 51,722 |
| Other | 55,419 | 25 | 1,045 | 124 | 171 | 1,211 | 600 | 114 | 534 | 89 | - | 7,073 | 312 | 13,204 | (5,965) | 73,956 | 82,541 |
| | 540,795 | 2,570 | 4,322 | 32,337 | 43,299 | 81,227 | 64,414 | 40,145 | 1,808 | 213,115 | - | 9,962 | 505 | 108,227 | (10,781) | 1,131,945 | 1,159,231 |
| EXPENSES | | | | | | | | | | | | | | | | | |
| Police services | 165,338 | - | - | - | - | - | - | - | - | 1,315 | - | - | - | - | - | 166,653 | 161,096 |
| Parks, recreation and culture | 102,411 | - | - | - | - | - | - | - | - | 19,028 | - | - | - | - | (6) | 121,433 | 118,159 |
| General government | 108,555 | - | - | - | - | - | - | - | - | 8,136 | - | 7,909 | 948 | - | (4,745) | 120,803 | 83,649 |
| Roads and traffic safety | - | - | - | 29,081 | - | - | - | - | - | 43,680 | - | - | - | - | - | 72,761 | 72,006 |
| Water | - | - | - | - | - | 65,571 | - | - | - | 10,612 | - | - | - | - | - | 76,183 | 72,964 |
| Fire services | 66,054 | - | - | - | - | - | - | - | - | 2,505 | - | - | - | - | - | 68,559 | 64,669 |
| Sewer | - | - | - | - | - | - | 59,136 | - | - | 12,218 | - | - | - | - | - | 71,354 | 63,274 |
| Solid waste | - | - | - | - | 35,788 | - | - | - | - | 2,520 | - | - | - | - | - | 38,308 | 35,147 |
| Drainage | - | - | - | - | - | - | - | 15,438 | - | 20,899 | - | - | - | - | - | 36,337 | 35,062 |
| Planning and development | 30,366 | - | - | - | - | - | - | - | - | 35 | - | - | - | - | - | 30,401 | 29,524 |
| Library services | - | - | - | - | - | - | - | - | 18,880 | - | 1,987 | - | - | - | - | 20,867 | 20,157 |
| Engineering | 7,710 | - | - | - | - | - | - | - | - | 7,058 | - | - | - | - | (1,695) | 13,073 | 13,561 |
| Surrey city energy | - | 1,853 | - | - | - | - | - | - | - | 842 | - | - | - | - | - | 2,695 | 1,399 |
| Parking | - | - | 1,904 | - | - | - | - | - | - | 1,094 | - | - | - | - | - | 2,998 | 2,385 |
| | 480,434 | 1,853 | 1,904 | 29,081 | 35,788 | 65,571 | 59,136 | 15,438 | 18,880 | 129,942 | 1,987 | 7,909 | 948 | - | (6,446) | 842,425 | 773,052 |
| Excess (Deficiency) of Revenues over Exp. | 60,361 | 717 | 2,418 | 3,256 | 7,511 | 15,656 | 5,278 | 24,707 | (17,072) | 83,173 | (1,987) | 2,053 | (443) | 108,227 | (4,335) | 289,520 | 386,179 |
| Transfer from (to) operating funds | (14,345) | (180) | (1,543) | 22,156 | (5,082) | (7,787) | 2,361 | (12,709) | 17,130 | 67,108 | 1,947 | - | - | 14,296 | (2) | 83,350 | 122,366 |
| Transfer from (to) reserve funds | (13,507) | - | - | (836) | (265) | (221) | 167 | 366 | - | 151,148 | 100 | - | - | - | - | 136,952 | 124,841 |
| Transfer from (to) capital funds | (21,033) | 337 | (81) | (17,200) | (309) | (9,831) | (9,116) | (11,821) | - | 14 | (14) | - | - | (151,248) | - | (220,302) | (247,207) |
| ANNUAL SURPLUS (DEFICIT) | 11,476 | 874 | 794 | 7,376 | 1,855 | (2,183) | (1,310) | 543 | 58 | 301,443 | 46 | 2,053 | (443) | (28,725) | (4,337) | 289,520 | 386,179 |
| Accumulated Surplus (Deficit), beginning of year | 108,773 | (35,459) | (7,487) | (11,906) | 5,978 | 77,789 | 44,576 | 12,531 | 31 | 8,743,147 | 5,388 | 44,227 | 6,179 | 86,237 | (29,673) | 9,050,331 | 8,664,152 |
| Accumulated Surplus (Deficit), end of year | \$ 120,249 | \$ (34,585) | \$ (6,693) | \$ (4,530) | \$ 7,833 | \$ 75,606 | \$ 43,266 | \$ 13,074 | \$ 89 | \$ 9,044,590 | \$ 5,434 | \$ 46,280 | \$ 5,736 | \$ 57,512 | \$ (34,010) | \$ 9,339,851 | \$ 9,050,331 |

City of Surrey
Schedule 4 - Unaudited Reserve Funds

As at December 31, 2019
(in thousands of dollars)

| | * Capital Legacy | ** Municipal Land | Equipment and Building Replacement | Neighborhood Concept Plans | Park Land Acquisition | *** Local Improvement Financing | Environmental Stewardship | Parking Space | Water Claims | Affordable Housing | Reserves Subtotal | Deferred Development Charges |
|-----------------------------------|------------------|-------------------|------------------------------------|----------------------------|-----------------------|---------------------------------|---------------------------|---------------|--------------|--------------------|-------------------|------------------------------|
| Balance, beginning of year | \$ - | \$ - | \$ 26,713 | \$ 18,449 | \$ 18,327 | \$ 13,939 | \$ 5,529 | \$ 2,154 | \$ 1,107 | \$ 19 | \$ 86,237 | \$ 277,681 |
| DCC's levied for the year | - | - | - | - | - | - | - | - | - | - | - | 105,804 |
| Investment income | - | 16 | 274 | 189 | 188 | 58 | 57 | 22 | 11 | - | 815 | 1,837 |
| Other revenue | - | 14,948 | 296 | 9,958 | 4,812 | - | - | - | - | 568 | 30,582 | - |
| Other Contributions/(Deductions) | - | - | - | - | - | - | - | - | - | - | - | - |
| | - | 14,964 | 570 | 10,147 | 5,000 | 58 | 57 | 22 | 11 | 568 | 31,397 | 107,641 |
| Transfers (to) / from | | | | | | | | | | | | |
| Operating funds | (244) | 2,056 | 12,097 | 43 | (4) | 344 | 4 | - | - | - | 14,296 | - |
| Capital funds | (39,692) | (494) | (19,564) | (4,708) | (9,960) | - | (1) | - | - | - | (74,419) | (76,830) |
| Internal Borrowing | 39,936 | (4,657) | (8,074) | (11,144) | (5,414) | (6,388) | (2,480) | (965) | (496) | (317) | 1 | - |
| | - | (3,095) | (15,541) | (15,809) | (15,378) | (6,044) | (2,477) | (965) | (496) | (317) | (60,122) | (76,830) |
| Balance, end of year | \$ - | \$ 11,869 | \$ 11,742 | \$ 12,787 | \$ 7,949 | \$ 7,953 | \$ 3,109 | \$ 1,211 | \$ 622 | \$ 270 | \$ 57,512 | \$ 308,492 |

Additional Information:

*** Capital Legacy Reserve Fund** (created by Bylaw in 1999):

The City borrows from this Fund to finance capital projects. Principal and interest repayment schedules are based upon reasonable business case plans approved by City Council. The debt costs are provided for annually within the operating budget of each capital project.

| | |
|---|---------------|
| Capital Legacy Fund Prior to Borrowing | \$ 47,847 |
| Internal Borrowing (to) / from other reserves | 54,312 |
| Principal Repayable, East Clayton Hub Facility Loan | (36,304) **** |
| Principal Repayable, North Surrey Arena Replacement Loan | (35,736) **** |
| Principal Repayable, Surrey Museum Expansion Loan | (9,236) **** |
| Principal Repayable, Newton Fitness Facility Loan | (7,736) **** |
| Principal Repayable, Other Facilities, Parks and Culture Loans | (6,507) **** |
| Principal Repayable, Grandview Heights Pool Loan | (2,161) **** |
| Principal Repayable, Fleetwood Recreation & Library Envelope Loan | (1,889) **** |
| Principal Repayable, Hawthorne Rotary Park Improvements Loan | (1,378) **** |
| Principal Repayable, Cloverdale Library Renovations Loan | (1,212) **** |
| Funds on Hand for Financing Projects | \$ - |

***** Local Improvement Financing Reserve Fund:**

The City borrows from this Fund to finance local improvement projects. The property owners' share, repayable with interest over 10 years, is levied against the benefiting properties. The City's share, repayable with interest over 10 years, is provided for annually within General Operating Fund debt costs.

| | |
|---|----------|
| Funds on Hand For Financing Projects | \$ 7,382 |
| Internal Borrowing (to) / from other reserves | (9,464) |
| Receivable From Property Owners | 10,035 |
| Equity, December 31, 2019 | \$ 7,953 |

**** Municipal Land Reserve Fund:**

The City borrows from this Fund to finance specified projects. Principal and interest repayment schedules are based upon reasonable business case plans approved by City Council.

| | |
|--|---------------|
| Municipal Land Fund Prior to Borrowing | \$ 53,947 |
| Internal Borrowing (to) / from other reserves | - |
| Principal Repayable, Green Timbers | (15,813) **** |
| Principal Repayable, City Works Yard Expansion Land Loan | (10,798) **** |
| Principal Repayable, Other Land Loans | (8,849) **** |
| Principal Repayable, City Centre Social Lands Loan | (2,854) **** |
| Principal Repayable, Social Housing Loan | (1,454) **** |
| Principal Repayable, City Parkway | (1,160) **** |
| Principal Repayable, University Drive | (1,096) **** |
| Principal Repayable, Bridgeview Ind. Land Loan | (54) **** |
| Funds on Hand for Financing Projects | \$ 11,869 |

****** Total Outstanding Internal Borrowings to fund capital program:**

| | |
|---|--------------|
| Capital Legacy Reserve Fund Principal Repayable Loans | (102,159) |
| Municipal Land Reserve Fund Principal Repayable Loans | (42,078) |
| Total Internal Borrowings | \$ (144,237) |

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:

Restructuring

Public Sector Accounting (“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 confirmed that this new standard had no impact on the City’s financial statements; this standard came into effect for the City as of January 1, 2019.

Portfolio Instruments, Financial Instruments and Foreign Currency Translation

Section PS 3041, 3450 and 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. As noted by the accounting firm of BDO Canada LLP (“BDO”), adoption of this standard may place a burden on the City’s management to consider and identify potential legal obligations for retirement costs among the City’s network of infrastructure and other tangible capital assets.

Staff anticipate that this new standard will have an impact on the City's financial statements and have commenced 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.

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.

Employee Future Benefit Obligations

PSAB is undertaking a review of PS 3250 Retirement Benefits and PS 3255 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 were discussed in 2019, which resulted in a decision at the end of November 2019 to revisit the project plan and scope. PSAB will establish a new project plan and scope and communicate this information out when finalized.

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 released an Exposure Draft in November 2019. The Exposure Draft is available for comment until February 29, 2020. 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.

Appendix "III"

ACCUMULATED SURPLUS AND DEFERRED DEVELOPMENT COST CHARGES as at December 31, 2019 (in thousands of dollars)

| | 2018 | 2019 | Utility, Parking & Road Funds | Committed to 2020 & Prior years | Balance Available for Future Years |
|--|---------------------|---------------------|----------------------------------|---------------------------------------|--|
| Reserve Funds, set aside by Council (net of internal borrowing) | | | | | |
| Capital legacy | \$ - | \$ - | | \$ - | \$ - |
| Municipal land | - | 11,869 | | 10,443 | 1,426 |
| Equipment and building replacement | 26,713 | 11,742 | | 11,742 | - |
| Neighbourhood Concept Plans | 18,449 | 12,787 | | 12,787 | - |
| Parkland acquisition | 18,327 | 7,949 | | 7,949 | - |
| Local improvement financing | 13,939 | 7,953 | | 7,953 | - |
| Environmental stewardship | 5,529 | 3,109 | | 522 | 2,587 |
| Parking space | 2,154 | 1,211 | 1,211 | | - |
| Water claims | 1,107 | 622 | 622 | | - |
| Affordable housing | 19 | 270 | | 270 | - |
| | <u>\$ 86,237</u> | <u>\$ 57,512</u> | <u>\$ 1,833</u> | <u>\$ 51,666</u> | <u>\$ 4,013</u> |
| Appropriated Funds, per Council Resolution (after allocations) | | | | | |
| Operating contingency and emergencies | \$ 7,106 | \$ 7,433 | \$ 3,813 | | \$ 3,620 |
| Environmental emergencies | 6,080 | 6,361 | 6,361 | | - |
| Revenue stabilization | 11,582 | 12,116 | 7,437 | | 4,679 |
| Self insurance | 10,073 | 11,903 | 8,713 | 3,190 | - |
| Infrastructure replacement | - | - | - | | - |
| | <u>\$ 34,841</u> | <u>\$ 37,813</u> | <u>\$ 26,324</u> | <u>\$ 3,190</u> | <u>\$ 8,299</u> |
| Other Appropriated Funds | | | | | |
| Prepaid expenses | 4,197 | 4,577 | - | 4,577 | - |
| Inventories of supplies | 760 | 874 | 357 | 517 | - |
| | <u>\$ 4,957</u> | <u>\$ 5,451</u> | <u>\$ 357</u> | <u>\$ 5,094</u> | <u>\$ -</u> |
| Committed Funds (after allocations) | | | | | |
| General operating | \$ 59,795 | \$ 65,826 | \$ 370 | \$ 65,456 | \$ - |
| Roads & traffic operating and capital | 14,559 | 17,020 | 17,020 | | - |
| Water operating and capital | 31,728 | 29,096 | 29,096 | | - |
| Sewer operating and capital | 18,908 | 18,382 | 18,382 | | - |
| Drainage operating and capital | 11,922 | 8,918 | 8,918 | | - |
| Surrey City Energy operating and capital | (79) | 3,762 | 3,762 | | - |
| Library services | 235 | 322 | | 322 | - |
| | <u>\$ 137,068</u> | <u>\$ 143,326</u> | <u>\$ 77,548</u> | <u>\$ 65,778</u> | <u>\$ -</u> |
| Surplus in Other Entities | | | | | |
| Surrey City Development Corp | \$ 6,834 | \$ (4,841) | | \$ (4,841) | \$ - |
| Surrey Homelessness & Housing Society | 6,019 | 5,748 | | 5,748 | - |
| Innovation Boulevard | 48 | (9) | | (9) | - |
| | <u>\$ 12,901</u> | <u>\$ 898</u> | <u>\$ -</u> | <u>\$ 898</u> | <u>\$ -</u> |
| Unappropriated Surplus | | | | | |
| General operating fund | \$ 7,831 | \$ 7,831 | | | \$ 7,831 |
| Employee future benefits | (6,998) | (6,998) | | | (6,998) |
| Surrey Public Library | (324) | (324) | | (324) | - |
| Sewer & drainage operating fund | 3,000 | 3,000 | 3,000 | | - |
| Water operating fund | 3,000 | 3,000 | 3,000 | | - |
| | <u>\$ 6,509</u> | <u>\$ 6,509</u> | <u>\$ 6,000</u> | <u>\$ (324)</u> | <u>\$ 833</u> |
| Invested in tangible capital assets | | | | | |
| Tangible Capital Assets | 8,982,600 | 9,295,668 | | | |
| Debt funded assets | (214,782) | (207,326) | | | |
| | <u>\$ 8,767,818</u> | <u>\$ 9,088,342</u> | | | |
| Accumulated Surplus (equity), end of year | | | | | |
| | <u>\$ 9,050,331</u> | <u>\$ 9,339,851</u> | | | |
| Deferred Development Cost Charges | | | | | |
| Arterial Roads | \$ 63,430 | \$ 78,530 | \$ 78,530 | | \$ - |
| Parkland | 49,422 | 58,793 | | 58,793 | - |
| Drainage/Storm Water Detention | 43,637 | 45,937 | 45,937 | | - |
| Sanitary Sewer | 25,965 | 30,085 | 30,085 | | - |
| Collector Roads | 15,800 | 19,562 | 19,562 | | - |
| Water | 15,893 | 18,739 | 18,739 | | - |
| Area Specific: Campbell Heights | 46,715 | 37,904 | 37,904 | | - |
| Area Specific: Highway 99 Corridor | 12,499 | 12,374 | 12,374 | | - |
| Area Specific: West Clayton | 552 | 750 | 750 | | - |
| Area Specific: Redwood Heights | 8 | - | - | | - |
| Area Specific: City Centre | 1,214 | 3,347 | 3,347 | | - |
| Park Development | 2,546 | 2,471 | | 2,471 | - |
| | <u>\$ 277,681</u> | <u>\$ 308,492</u> | <u>\$ 247,228</u> | <u>\$ 61,264</u> | <u>\$ -</u> |