

NO: R142

COUNCIL DATE: September 14, 2020

REGULAR COUNCIL

TO: **Mayor & Council**

DATE: **September 10, 2020**

FROM: **City Solicitor**

FILE: **2480-01**

SUBJECT: **Surrey City Development Corporation – 2020 Annual General Meeting**

RECOMMENDATION

The Legal Services Division recommends that Council:

1. Receive this report for information;
2. Receive the Notice of the 2020 Annual General Meeting ("AGM") and Agenda for Surrey City Development Corporation ("SCDC"), a copy of which is attached as Appendix "I" to this report;
3. Authorize the General Manager, Corporate Services to appoint the City Solicitor to represent the City of Surrey (the "Shareholder") at the 2020 AGM for the Corporation; and
4. As sole shareholder of SCDC, endorse the recommendations which are listed below and as set out in the Notice of Annual General Meeting and Agenda:
 - a. Approve the Agenda;
 - b. Approve the Minutes of the June 18, 2019 Annual General Meeting;
 - c. Approve the Financial Statements and Report of the Auditor for the Year Ended December 31, 2019;
 - d. Approve the Appointment of BDO Canada LLP ("BDO") as SCDC's Auditor for the Year Ending December 31, 2020; and
 - e. Receive the 2019 Report from the Board of Directors to the Shareholder.

INTENT

The purpose of this report is to have Council, on behalf of the City of Surrey as the sole shareholder of SCDC, address matters related to the 2020 AGM for SCDC, which is scheduled for September 23, 2020 at 5:30 PM and to approve these items in accordance with the *Business Corporations Act*.

BACKGROUND

SCDC was incorporated on April 24, 2007. SCDC is a for-profit entity whose mandate is to develop City-owned surplus lands in ways that advance the City into a more modern and complete community. Pursuant to a Council resolution earlier this year, it is now in the process of being dissolved in order for the City to undertake its operations directly, and to that end, its assets and operations are being brought in-house. In the meantime, by holding its 2020 AGM, SCDC will be able to conduct necessary business while it is being divested of its assets and liabilities. SCDC is on track to wind down most of its operations by the end of 2020. Accordingly, SCDC's employees have been given notice that their employment will cease by the end of the year, and the company is in the process of transferring most of its assets to the City by this timeframe.

DISCUSSION

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

Until SCDC has completely divested itself of all assets and liabilities, it cannot be legally dissolved. Accordingly, SCDC and its shareholder must still conduct standard corporate business such as approving financial statements and appointing an auditor. This business may be conducted at the AGM. Having the AGM for SCDC and a public information meeting enables the company to report to the City and its residents on progress made during the prior year, and provides an opportunity for the shareholder or the public to raise questions and concerns.

The *Business Corporations Act* provides that for each Corporation an AGM is to be held in every calendar year and not more than 15 months after the annual reference date for the preceding calendar year. Based on guidelines from the Provincial Health Officer, the B.C. Health Minister, and Health Canada, the Registrar of Companies has extended the period for a company to hold an AGM to by up to six months. The last AGM for SCDC was held on June 18, 2019.

The Notice of Annual General Meeting and Agenda for 2020 includes those items that should be addressed at the 2020 AGM of SCDC.

SUSTAINABILITY CONSIDERATIONS

SCDC and City staff following the move of SCDC operations to the City support the objectives of the City's Sustainability Charter 2.0. In particular, their work relates to Sustainability Charter 2.0 themes of Built Environment & Neighbourhoods and Economic Prosperity & Livelihoods. Specifically, their work supports the following Strategic Directions ("SD") and Desired Outcomes ("DO"):

- Neighbourhoods and Urban Design SD1: Promote mixed use development in and around Town Centres and along transit corridors.
- Neighbourhoods and Urban Design SD5: Leverage, incentivize and enhance community benefits through the planning and construction of new development.
- Economy DO4: Surrey's economy is diversified with a mix of service, industrial, agricultural and innovation-based businesses.
- Economy DO8: The City's strong revenue base includes a balance of commercial and residential property taxes.

CONCLUSION

As discussed in this report, staff recommend that Council appoint a shareholder representative to attend SCDC's AGM and authorize them to take all necessary actions in order to carry out the AGM agenda.

Philip Huynh
City Solicitor

Appendix "I" – SCDC Notice and Agenda of the 2020 Annual General Meeting

Appendix "II" – Minutes of the June 18, 2019 Annual General Meeting

Appendix "III" – Financial Statements for the year ending December 31, 2019



NOTICE OF THE 2020 ANNUAL GENERAL MEETING

Surrey City Development Corporation

MEETING DATE: September 23, 2020

TIME: 5:30 p.m. – 6:30 p.m.

PLACE: Due to COVID-19 restrictions in place, this year's AGM will be held virtually
Login details will be provided upon registration

Please RSVP online by September 15, 2020
AGM2020@SCDC.CA
 Or contact 604-580-4296

AGENDA

ITEM	ACTION	RESPONSIBILITY
1. Agenda	Approve	Board Chair
2. Approval of the Minutes of June 18 TH 2019 Annual General Meeting	Approve	Board Chair
3. Financial Statements and Report of Auditor for Year Ended December 31 st 2019	Approve	President & CEO and Controller
4. Appointment of BDO as the Company's Auditor for 2020	Approve	Controller
5. Report of Directors to Shareholder	Receive	Board Chair
6. Adjournment		Board Chair



**MINUTES of the 2019 ANNUAL GENERAL MEETING
of the SHAREHOLDER OF
SURREY CITY DEVELOPMENT CORPORATION
(the Company)**

June 18th 2019
Meeting Room #120
Surrey City Centre Library
10350 University Drive
Surrey, BC V3T 4B8
Time: 5:30pm to 6:30pm

Board Members Present:

Howard Nemtin,
Acting Chair

Corporate Officers Present:

Michael Heeney, President & CEO
Emily Taylor, CFO
Amanda Zizek, Senior Manager
Accounting
Tako van Popta, Corporate
Secretary

Others Present:

Philip Huynh, City of Surrey
Kari Steffens, City of Surrey
Cameron Nicol, member of the
public

Philip Huynh, Acting City Solicitor of the City of Surrey presented a proxy form confirming his designation to vote on behalf of the City of Surrey as Shareholder at the SCDC Annual General Meeting on June 18th 2019. The proxy form being accepted by the Chair, the meeting was convened at 5:30pm.

1.0 Approval of Agenda

The Agenda as presented to the Shareholder was approved.

2.0 Approval of Previous Minutes, June 21st 2018

The Minutes of the Annual General Meeting of June 21st 2018 were approved.

3.0 Financial Statements and Report of Auditor for Year Ended December 31st 2018

The Audited 2018 Financial Statements were presented by Ms. Taylor, the Chief Financial Officer, to the Shareholder.

The Audited 2018 Financial Statements as presented were approved.

4.0 Appointment of Company's Auditor for 2019

The appointment of BDO Canada LLP as the Auditors for the financial year ending December 31st 2019 was approved.

5.0 Report of Directors to Shareholder

The report of the Directors by verbal presentation to the Shareholder was received.

6.0 Adjournment

There being no further business, the meeting was adjourned at 5:45pm.

Approved September 23, 2020 AGM.

Howard Nemin, Chair

Christopher Bettencourt,
Corporate Secretary

Consolidated Financial Statements of

SURREY CITY DEVELOPMENT CORPORATION

Year ended December 31, 2019

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

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

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

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



President and Chief Executive Officer



Controller

April 15, 2020



Tel: 604 688 5421
Fax: 604 688 5132
vancouver@bdo.ca
www.bdo.ca

BDO Canada LLP
600 Cathedral Place
925 West Georgia Street
Vancouver BC V6C 3L2 Canada

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Surrey City Development Corporation

Opinion

We have audited the consolidated financial statements of Surrey City Development Corporation and its controlled entities (the "Consolidated Entity") which comprise the Consolidated Statement of Financial Position as at December 31, 2019 and the Consolidated Statements Operations, Consolidated Changes in Net Debt, and Consolidated Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Consolidated Entity as at December 31, 2019 and its consolidated results of operations, consolidated changes in net debt, and consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

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

Other Information

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

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

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

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



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

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

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

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

BDO Canada LLP

Chartered Professional Accountants

Vancouver, British Columbia

April 15, 2020

SURREY CITY DEVELOPMENT CORPORATION

Consolidated Statement of Financial Position

As at December 31, 2019, with comparative information for 2018

	2019	2018
		Restated (Note 25)
Financial assets:		
Cash	\$ 2,104,659	\$ 1,606,317
Due from governments (note 4)	187,323	167,577
Investment in government business partnership (note 5)	530,591	444,339
Accounts receivable (note 6)	97,848	4,202,859
Portfolio investments (note 7)	955,025	6,838,877
Performance bonds and deposits	35,000	30,000
Tenant inducements	90,009	111,487
	<u>4,000,455</u>	<u>13,401,456</u>
Liabilities:		
Accounts payable and accrued liabilities (note 8)	2,132,377	1,373,643
Due to governments (note 9)	252	153,911
Loan payable (note 10)	12,111,747	12,569,437
Deposits (note 11)	541,943	547,177
Deferred gains (note 12)	405,130	416,097
Unearned revenue (note 13)	5,600,652	3,885,366
Due to City of Surrey (note 14)	35,931,485	30,462,507
	<u>56,723,586</u>	<u>49,408,138</u>
Net debt	(52,723,131)	(36,006,682)
Non-financial assets:		
Tangible capital assets (note 15):		
Properties under development	78,249,002	59,376,784
Income properties	20,642,042	20,727,748
Tangible capital assets in use	59,785	79,264
	<u>98,950,829</u>	<u>80,183,796</u>
Prepaid expenses	52,041	50,077
	<u>99,002,870</u>	<u>80,233,873</u>
Accumulated surplus (note 16)	<u>\$ 46,279,739</u>	<u>\$ 44,227,191</u>

Contractual obligations (note 17)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:



Director



Director

SURREY CITY DEVELOPMENT CORPORATION

Consolidated Statement of Operations

Year ended December 31, 2019, with comparative information for 2018

	Budget 2019	2019	2018
	(Note 22)		Restated (Note 25)
Income from sales of development properties:			
Proceeds of sales	\$ 16,851,279	\$ 6,351,184	\$ 283,984
Less: Cost of sales	(7,598,890)	(1,570,686)	(8,564)
Development property sales income, net	9,252,389	4,780,498	275,420
Gain on sale of partnership interest (note 18)	-	-	7,338,183
Gain on sale of portfolio investment (note 7(c))	-	2,641,520	-
Income property lease revenue, gross	2,002,471	1,963,994	1,925,745
Less: Income property lease direct costs - operating	(847,844)	(777,502)	(819,565)
Less: Income property lease direct costs - interest	(482,751)	(482,751)	(500,366)
Property lease income, net	671,876	703,741	605,814
Income from government business partnership (note 5)	275,287	301,436	273,922
Interest and other income	40,000	262,389	195,212
	10,239,552	8,689,584	8,688,551
Corporate operating expenses (note 20):			
Administration	1,186,899	640,469	620,940
Income properties	593,450	320,235	206,980
Properties under development	2,175,981	1,174,193	1,241,880
	3,956,330	2,134,897	2,069,800
Partnership operating expenses	-	2,139	4,166
	3,956,330	2,137,036	2,073,966
Annual surplus from operations	6,283,222	6,552,548	6,614,585
Preferred shares redeemed	(1,360,000)	-	(1,581,000)
Distribution of earnings to shareholder	(4,500,000)	(4,500,000)	(4,500,000)
Annual surplus	423,222	2,052,548	533,585
Accumulated surplus, beginning of year	44,227,191	44,227,191	43,693,606
Accumulated surplus, end of year	\$ 44,650,413	\$ 46,279,739	\$ 44,227,191

See accompanying notes to consolidated financial statements.

SURREY CITY DEVELOPMENT CORPORATION

Consolidated Statement of Changes in Net Debt

Year ended December 31, 2019, with comparative information for 2018

	Budget 2019	2019	2018
	(Note 22)		Restated (Note 25)
Annual surplus:			
Annual surplus from operations	\$ 6,283,222	\$ 6,552,548	\$ 6,614,585
Preferred shares redeemed	(1,360,000)	-	(1,581,000)
Distribution of earnings to shareholder	(4,500,000)	(4,500,000)	(4,500,000)
	423,222	2,052,548	533,585
Acquisition of tangible capital assets:			
Properties under development (notes 22(b)(i) and 22(b)(ii))	(63,049,764)	(19,208,443)	(15,284,766)
Capitalization of wages to development	(1,075,000)	(853,369)	(976,910)
Administration	(85,450)	(17,101)	(8,266)
Income properties	(259,923)	(162,729)	(90,803)
	(64,470,137)	(20,241,642)	(16,360,745)
Amortization of tangible capital assets:			
Administration	50,510	36,580	55,667
Income properties	238,077	248,435	247,028
	288,587	285,015	302,695
Transfer to properties held-for-sale	4,200,868	1,189,594	43,791,817
Change in prepaid expenses	(20,000)	(1,964)	14,854
Decrease (increase) in net debt	(59,577,460)	(16,716,449)	28,282,206
Net debt, beginning of year	(36,006,682)	(36,006,682)	(64,288,888)
Net debt, end of year	\$ (95,584,142)	\$ (52,723,131)	\$ (36,006,682)

See accompanying notes to consolidated financial statements.

SURREY CITY DEVELOPMENT CORPORATION

Consolidated Statement of Cash Flows

Year ended December 31, 2019, with comparative information for 2018

	2019	2018
Cash provided by (used in):		
Operations:		
Annual surplus from operations	\$ 6,552,548	\$ 6,614,585
Items not involving cash:		
Amortization	285,015	302,695
Amortization of deferred gains	(10,967)	(10,966)
Gain on sale of properties under development	(4,780,498)	(7,613,603)
Gain on sale of Investment in Bosa Properties (Bright A.1) LP	(2,641,520)	-
Increase in investment in government business partnership	(302,252)	(278,733)
Changes in non-cash working capital:		
Decrease (increase) in accounts receivable	4,105,011	(251,952)
Increase in performance bonds and deposits	(5,000)	-
Decrease (increase) in tenant inducements	21,478	(71,059)
Decrease (increase) in due from governments	(19,746)	451,502
Increase (decrease) in accounts payable and accrued liabilities	758,734	(1,486,655)
Decrease in due to governments	(153,659)	(850,784)
Decrease in deposits	(5,234)	(130,901)
Increase in unearned revenue	1,715,286	-
Decrease (increase) in prepaid expenses	(1,964)	452
	5,517,232	(3,325,419)
Capital:		
Purchase of tangible capital assets	(20,241,642)	(9,660,745)
Increase in costs on projects sold in prior years	(199,848)	-
Investment in available for sale properties	(181,244)	(48,394)
	(20,622,734)	(9,709,139)
Investments:		
Distribution of cash from Beedie LP	216,000	208,000
Change in term deposits and GIC	5,500,000	545,000
Increase in Investment in Bosa Properties (Bright A.1) LP	-	(80,354)
Net proceeds from disposal of Investment in Bosa Properties (Bright A.1) LP	3,025,372	-
Net proceeds from disposal of properties held-for-sale and properties under development	6,351,184	22,235,894
	15,092,556	22,908,540
Financing:		
Distribution of earnings to shareholder	(4,500,000)	(4,500,000)
Increase (decrease) in due to City of Surrey	5,468,978	(2,256,287)
Repayment of loans payable	(457,690)	(440,133)
Redemption of preferred shares	-	(1,581,000)
	511,288	(8,777,420)
Net increase in cash	498,342	1,096,562
Cash, beginning of year	1,606,317	509,755
Cash, end of year	\$ 2,104,659	\$ 1,606,317
Supplementary cash flow information:		
Non-cash transactions:		
Land transfers in exchange for preferred shares (note 14)	\$ -	\$ 6,700,000

See accompanying notes to consolidated financial statements.

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

Year ended December 31, 2019

1. Nature of operations:

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

As at December 31, 2019, the Corporation had an accumulated operating surplus (note 16) of \$35,899,011 (2018 - \$33,846,463). The City has supported the Corporation through property transfers, loans and equity investments. The City has confirmed that it will continue to support the Corporation. The Corporation's ability to continue operations is dependent upon continued future profitable operations and continued support by the City.

2. Significant accounting policies:

(a) Basis of accounting:

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

(b) Basis of consolidation:

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

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

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

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2019

2. Significant accounting policies (continued):

(b) Basis of consolidation (continued):

The Corporation has ownership in the following entities:

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

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

Surrey Centre Limited Partnerships

Prior to October 9, 2018 SCIC held a 24.4% ownership in the Surrey Centre Limited Partnerships (note 3(a)). The Surrey Centre Limited Partnerships were previously proportionately consolidated into the Corporation's consolidated financial statements.

Prior to October 9, 2018 SCIC held a 50% ownership in the "Surrey Centre Tower Holdings" (note 3(c)).

On October 9, 2018 SCIC disposed of its ownership interest in the Surrey Centre Limited Partnerships and its shares of the Surrey Centre Tower Holdings (note 18).

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2019

2. Significant accounting policies (continued):

(b) Basis of consolidation (continued):

(ii) Grove Limited Partnership:

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

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

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

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

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

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

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

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

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

(c) Non-financial assets:

(i) Tangible capital assets:

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

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2019

2. Significant accounting policies (continued):

(d) Non-financial assets:

(i) Tangible capital assets:

(a) Properties under development:

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

(b) Income properties:

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

(c) Tangible capital assets in use:

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

(ii) Amortization of tangible capital assets:

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

Asset	Rate
Administration assets:	
Furniture and fixtures	5 years
Computer equipment and software	3 years
Tenant improvements	5 years
Income properties:	40 years

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

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

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2019

2. Significant accounting policies (continued):

(d) Non-financial assets:

(iii) Impairment of tangible capital assets:

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

(iv) Transfers of tangible capital assets:

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

(e) Prepaid expenses:

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

(f) Revenues:

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

(i) Sales of properties:

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

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

(ii) Property lease revenue:

Property lease revenue includes all amounts earned from tenants including property tax and operating cost recoveries. Lease revenues are recognized on a straight-line basis over the term of the lease.

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2019

2. Significant accounting policies (continued):

(g) Expenses:

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

(h) Measurement uncertainty:

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

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

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2019

3. Investments in government partnerships:

(a) Surrey Centre Limited Partnerships (“SCLPs”):

On October 9, 2018 SCIC disposed of its ownership interest in the Surrey Centre Limited Partnerships and its shares of the Surrey Centre Tower Holdings (note 18).

(b) Grove LP:

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

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

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

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

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2019

3. Investments in government partnerships (continued):

(b) Grove LP (continued):

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

	2019	2018
Financial assets:		
Cash	\$ 84,079	\$ 84,483
Accounts receivable	370	370
Deposits	25,000	25,000
	<u>109,449</u>	<u>109,853</u>
Liabilities:		
Accounts payable and accrued liabilities	9	13
Deferred gain	3,000	3,000
	<u>3,009</u>	<u>3,013</u>
Net Financial Assets	106,440	106,840
Accumulated surplus	<u>\$ 106,440</u>	<u>\$ 106,840</u>
	2019	2018
Revenues, net of direct costs	\$ 1,738	\$ 1,410
Operating expenses	(2,138)	(4,165)
Annual loss	<u>\$ (400)</u>	<u>\$ (2,755)</u>

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2019

3. Investments in government partnerships (continued):

(c) Surrey Centre Tower Holdings:

Prior to October 9, 2018 (note 18) the Corporation held a 50% interest in nine holding companies to facilitate the Surrey Centre Limited Partnerships. These are bare trust entities, in which there were no significant transactions in fiscal 2018. There was no significant impact on the consolidated financial statements in 2018.

(d) Grove GP:

The Grove GP is the General Partner of the Grove LP and the Corporation holds 50% of its issued and outstanding shares. There were no significant transactions in fiscal 2019 or in 2018. There was no significant impact on the consolidated financial statements in 2019 or 2018.

4. Due from governments:

	2019	2018
GST receivable	\$ 26,414	\$ -
Receivable from the City of Surrey	-	6,668
Development costs recoverable from the City of Surrey (a)	160,909	160,909
	<u>\$ 187,323</u>	<u>\$ 167,577</u>

(a) The Corporation has commenced development of certain properties that are owned by the City of Surrey. The development costs have been incurred on the City's behalf. The City is in the process of transferring the beneficial title of the lands and related improvements in trust to the Corporation. Until such time that the properties are legally transferred, the costs are recoverable from the City of Surrey. Upon transfer, these costs will be incorporated with the acquisition price of the properties.

5. Investment in government business partnership:

Beedie LP:

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

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2019

5. Investment in government business partnership (continued):

Beedie LP (continued):

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

	2019	2018
Financial assets:		
Cash	\$ 60,644	\$ 65,324
Accounts receivable	8,632	5,474
Straight-line rent receivable	329,804	230,863
	<u>399,080</u>	<u>301,661</u>
Liabilities:		
Accounts payable and accrued liabilities	19,263	14,968
Accounts payable to Beedie LP partners	2,692	9,405
Deposits payable	48,357	47,629
Long-term debt	8,882,483	9,172,927
	<u>8,952,795</u>	<u>9,244,929</u>
Net Debt	(8,553,715)	(8,943,268)
Tangible capital assets	8,818,451	9,105,168
Prepaid expenses	265,855	282,439
Accumulated surplus	\$ 530,591	\$ 444,339
	2019	2018
Income property lease revenue, gross	\$ 1,081,613	\$ 1,045,093
Income property lease direct costs	(780,177)	(771,171)
Annual surplus	\$ 301,436	\$ 273,922

Beedie GP:

The Beedie GP is the General Partner of the Beedie LP and the Corporation holds 50% of its issued and outstanding shares. There were no significant transactions in fiscal 2019 or 2018.

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2019

6. Accounts receivable:

Accounts receivable includes nil (2018 - \$4,012,120) relating to development cost charges that were billed and receivable from a future tenant with respect to a property under development.

7. Portfolio investments:

	2019	2018
Term deposits (a)	\$ 25	\$ 5,500,025
GIC (b)	955,000	955,000
Investment in Bosa Properties (Bright A.1) LP (c)	-	383,852
	<u>\$ 955,025</u>	<u>\$ 6,838,877</u>

(a) Term deposits had an average portfolio yield of 2.35% (2018 – 2.07%).

(b) The GIC has a maturity date of September 17, 2020 with a yield of 1.90% (2018 – 1.90%).

(c) During 2013, the Corporation invested \$0.7M for a 20% interest in Bosa Properties (Bright A.1) Limited Partnership (“Bosa LP”). During 2014, the Corporation received a \$0.4M distribution from the Bosa LP, as a distribution was made to each partner in proportion to their ownership interest. Accordingly, the Corporation’s investment in the partnership was reduced to \$0.3M. During 2018 the Corporation invested an additional \$0.1M in proportion to their ownership interest bringing the Corporation’s investment in the partnership to \$0.4M. As the Corporation did not share control of the Bosa LP the Corporation accounted for this investment as a portfolio investment, carried at cost.

On August 29, 2019, the Corporation disposed of its 20% ownership interest in the Bosa LP for net proceeds of \$3.0M, after settlement of SCDC’s portion of partnership debt and other costs of sales. The disposition has resulted in a net gain on sale of portfolio investment of \$2.6M.

8. Accounts payable and accrued liabilities:

	2019	2018
Trade accounts payables and accrued liabilities	\$ 1,226,039	\$ 1,273,213
Holdbacks payable	906,338	100,430
	<u>\$ 2,132,377</u>	<u>\$ 1,373,643</u>

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2019

9. Due to governments:

	2019	2018
GST payable	\$ -	\$ 153,659
Development costs payable to the City of Surrey	252	252
	\$ 252	\$ 153,911

10. Loan payable:

	2019	2018
Cedar Hills loan payable, 10-year term due for renewal on November 1, 2022, payable in monthly payments of blended principal and interest in the amount of \$78,497 with interest at 3.95% per annum, secured by a mortgage on the commercial property with a carrying value that exceeds the loan amount	\$ 12,111,747	\$ 12,569,437
	\$ 12,111,747	\$ 12,569,437

Scheduled principal payments on the loans payable over the next four years and thereafter are as follows:

2020	475,803
2021	495,037
January 1 – November 1, 2022	470,537
Thereafter	10,670,370
	\$ 12,111,747

11. Deposits:

	2019	2018
Deposits received from income property tenants	\$ 111,443	\$ 127,177
Deposits received from development property purchasers	430,500	420,000
	\$ 541,943	\$ 547,177

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2019

12. Deferred gains:

	2019	2018
Deferred gain on Grove LP land (note 3(b))	\$ 3,000	\$ 3,000
Deferred gain on Beedie LP land	402,130	413,097
	\$ 405,130	\$ 416,097

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

13. Unearned revenue:

Unearned revenue represents development cost charges and additional site work performed for a future tenant with respect to a property under development.

14. Due to City of Surrey:

	2019	2018
		Restated (Note 25)
Cash transfers made on behalf of the Corporation by the City, non-interest bearing, payable in November 2020 (Development cost charges).	\$ 1,972,334	\$ 5,600,532
Loan payable #1, interest charged at Royal Bank of Canada prime rate, payable on demand, (Interim project financing)	13,609,418	72,509
Loan payable #2, payable in monthly installments of blended principal and interest in the amount of \$28,465, with interest at 2.24%, maturing annually (Brooksdale).	5,682,361	5,875,094
Class A Preferred Shares, non-interest bearing, \$4.3M redeemable on December 31, 2020 and \$3.7M redeemable as the Corporation develops, subdivides and refinances the Lands (Campbell Heights East).	7,967,372	12,214,372
Class A Preferred Shares, non-interest bearing, redeemable no later than January 31, 2022 (Tynehead).	6,700,000	6,700,000
	\$ 35,931,485	\$ 30,462,507

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2019

15. Tangible capital assets:

	Properties under development	Income properties			Administration	Total
		Land	Building	Total		2019
						Net book value
Cost						
Opening balance	\$ 59,376,784	\$ 12,579,682	\$ 9,622,548	\$ 22,202,230	\$ 519,370	82,098,384
Additions	20,061,812	-	162,729	162,729	17,101	20,241,642
Transfer to assets held for sale	(1,189,594)	-	-	-	-	(1,189,594)
Closing balance	78,249,002	12,579,682	9,785,277	22,364,959	536,471	101,150,432
Accumulated amortization						
Opening balance	-	-	1,474,482	1,474,482	440,106	1,914,588
Current year amortization	-	-	248,435	248,435	36,580	285,015
Closing balance	-	-	1,722,917	1,722,917	476,686	2,199,603
Net book value	\$ 78,249,002	\$ 12,579,682	\$ 8,062,360	\$ 20,642,042	\$ 59,785	\$ 98,950,829

During the year, \$313,470 of interest was capitalized to properties under development (2018 – \$192,138).

	Properties under development	Income properties			Administration	Total
		Land	Building	Total		2018
						Net book value
Cost						
Opening balance	\$ 86,906,925	\$ 12,579,682	\$ 9,531,745	\$ 22,111,427	\$ 511,104	109,529,456
Additions	16,261,676	-	90,803	90,803	8,266	16,360,745
Transfer to assets held for sale	(43,791,817)	-	-	-	-	(43,791,817)
Closing balance	59,376,784	12,579,682	9,622,548	22,202,230	519,370	82,098,384
Accumulated amortization						
Opening balance	-	-	1,227,454	1,227,454	384,439	1,611,893
Current year amortization	-	-	247,028	247,028	55,667	302,695
Disposals	-	-	-	-	-	-
Closing balance	-	-	1,474,482	1,474,482	440,106	1,914,588
Net book value	\$ 59,376,784	\$ 12,579,682	\$ 8,148,066	\$ 20,727,748	\$ 79,264	\$ 80,183,796

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2019

16. Accumulated surplus:

Accumulated surplus is comprised of:

	2019	2018 Restated (Note 25)
Share capital, common shares (a)(i)	\$ 100	\$ 100
Share capital, preferred shares (a)(ii)	10,380,628	10,380,628
Accumulated operating surplus (b)	35,899,011	33,846,463
	<u>\$ 46,279,739</u>	<u>\$ 44,227,191</u>

(a) Share capital:

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

(i) Common shares:

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

(ii) Preferred shares:

The Corporation is authorized to issue an unlimited number of preferred shares without par value. As of December 31, 2019, the Corporation has 10,381 preferred shares (2018 – 10,381) outstanding that are classified as accumulated surplus. The Corporation intends to redeem the preferred shares as properties are sold or as lands are developed.

No preferred shares were issued by the Corporation to the City during 2019.

No preferred shares were redeemed from accumulated surplus by the Corporation during 2019 (2018 – 1,581 preferred shares were redeemed for \$1,581,000).

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

	2019	2018
Accumulated operating surplus, opening	\$ 33,846,463	\$ 31,731,878
Annual surplus current year	6,552,548	6,614,585
Distribution of earnings to shareholder	(4,500,000)	(4,500,000)
	<u>\$ 35,899,011</u>	<u>\$ 33,846,463</u>

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2019

17. Contractual obligations:

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

The Corporation has entered into various agreements and contracts for services and construction. Commitments outstanding as at December 31, 2019 are \$4.1 million (2018 - \$3.1 million), inclusive of the Corporation's proportionate share of Partnership commitments of \$1,888 (2018 - nil).

The Corporation has a letter of credit outstanding for \$955,000. The letter of credit is required as an environmental security. To date, no draws have been made against it.

18. Disposition of Surrey Centre Limited Partnerships:

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

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

19. Operating lease:

The Corporation leases office space. The lease expires on September 30, 2023. Future payments are as follows:

2020	\$125,504
2021	125,504
2022	125,504
2023	94,128
Total	<u>\$470,640</u>

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2019

20. Operating expenses by object:

The following is a summary of operating expenses by object:

	2019	2018
Advertising and promotion	\$ 9,040	\$ 20,981
Amortization	36,580	55,667
Bad debt expense	11,678	-
Communication	37,121	32,000
Consulting and professional	238,358	225,621
Directors' fees	161,285	135,501
Donations	49,613	48,297
Insurance	19,814	19,038
Interest on operating loan	137,363	5,785
Lease and rentals	205,585	203,140
Membership and training	56,194	64,375
Predevelopment costs	261,852	432,681
Salaries and benefits	1,824,344	1,726,608
Supplies and materials	37,293	55,960
Service maintenance	38,505	25,511
Travel	5,543	5,497
	3,130,168	3,056,662
Interest expensed to properties held for sale	-	(2,358)
Interest on operating loan capitalized to development projects	(137,363)	(3,428)
Predevelopment costs capitalized to development projects	(2,400)	-
Salaries and benefits capitalized to development projects	(853,369)	(976,910)
	\$ 2,137,036	\$ 2,073,966

21. Related party transactions:

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

Transactions with government partnerships have been disclosed in note 3. Preferred share transactions have been disclosed in note 14 and note 16.

- (i) The Corporation incurred interest costs of \$313,470 (2018 - \$194,495) on the Corporation's loans payable to the City.
- (ii) Property taxes, utilities and ancillary items of \$314,232 (2018 - \$340,910) were incurred by the Corporation and payable to the City.
- (iii) Permits, deposits and related fees of \$3,658,044 (2018 - \$4,574,719) were incurred by the Corporation and payable to the City.

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2019

21. Related party transactions (continued):

- (iv) The Corporation recovered development costs of nil (2018 - \$166,484) on land owned by the City.
- (v) Development coordinated works and bonds total nil (2018 - \$6,668) and are payable by the City to the Corporation (note 4).
- (vi) The Corporation is obligated to reimburse the City for subscription costs of \$252 (2018 - \$252) (note 9).

22. Budgeted figures:

- (a) Budgeted figures are provided for comparative purposes and were derived from the budget approved by City Council for the City of Surrey.
- (b) The budgeted figures included the following items which did not occur in 2019:
 - (i) The development of certain projects, including the development of projects through partnerships;
 - (ii) The transfer of certain lands to the Corporation from the City.

23. Contractual rights:

The Corporation is party to several fixed term lease agreements on income properties that are anticipated to provide it with future revenues. These agreements are for terms that vary from 2 to 11 years. Amounts anticipated to be received over future years are as follows:

2020	\$1,500,307
2021	1,459,403
2022	1,259,585
2023	913,799
2024	553,618
2025-2030	899,323

24. Comparative figures:

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

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2019

25. Prior Period Restatement:

The Corporation identified a difference in classification that required a restatement of previously issued consolidated financial statements. Preferred shares which the Corporation is obligated to redeem were misclassified as accumulated surplus as opposed to liabilities.

The impact of these changes in the prior period was a decrease in opening accumulated surplus by \$16,461,372 and closing accumulated surplus by \$18,914,372 and a decrease in the annual surplus by \$2,453,000 as follows:

	As previously stated	Adjustment	Restated
Statement of Financial Position:			
Due to City of Surrey	11,548,135	18,914,372	30,462,507
Accumulated surplus	63,141,563	(18,914,372)	44,227,191
Statement of Operations:			
Preferred shares issued	6,700,000	(6,700,000)	-
Preferred shares redeemed	(5,828,000)	4,247,000	(1,581,000)
Annual surplus	2,986,585	(2,543,000)	533,585
Accumulated surplus, beginning of year	60,154,978	(16,461,372)	43,693,606
Accumulated surplus, end of year	63,141,563	(18,914,372)	44,227,191
Statement of Changes in Net Debt:			
Annual surplus	2,986,585	(2,453,000)	533,585
Decrease in net debt	30,735,206	(2,453,000)	28,282,206
Net debt, beginning of year	(47,827,516)	(16,461,372)	(64,288,888)
Net debt, end of year	(17,092,310)	(18,914,372)	(36,006,682)

26. Subsequent Events:

(a) Subsequent to year end, the impact of COVID-19 in Canada and on the global economy increased significantly. As the impacts of COVID-19 continue, there could be further impact on the Corporation, its shareholder, employees, suppliers, tenants and other third party business associates that could impact the timing and amounts realized on the Corporation's assets and future ability to deliver projects. At this time, the full potential impact of COVID-19 on the Corporation is not known. Although the disruption from the virus is expected to be temporary, given the dynamic nature of these circumstances, the duration of disruption and the related financial impact cannot be reasonably estimated at this time. The Corporation may have experienced a decline in the fair value of some of its properties since December 31, 2019, but the fair values still significantly exceed the net book values and therefore the Corporation still expects to generate future profits once properties are fully developed and disposed. The Corporation is able to alleviate the future profitability risk by employing a longer term focus and awaiting markets to recover. The Corporation's ability to continue to deliver projects and employ staff will depend on the legislative mandates from the various levels of government. The Corporation will continue to focus on managing collections from lessees, monitoring expenditures, and leveraging existing reserves and available credit facilities to ensure it is able to continue operations and fulfill external obligations.

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2019

26. Subsequent Events (continued):

- (b) Subsequent to year end, the Surrey City Council gave support to a motion to dissolve the Corporation. The specific plans have not yet been finalized, but it is expected that the assets and liabilities will be transferred from the Corporation to the City in an orderly manner. As such, there is no expected impairment of the Corporation's assets or limitations to settling any of the obligations in accordance with the stated terms.