

Financial Statements of

**SURREY CITY DEVELOPMENT  
CORPORATION**

For the years ended December 31, 2010 and 2009



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## INDEPENDENT AUDITORS' REPORT

To the Shareholder of Surrey City Development Corporation

We have audited the accompanying financial statements of Surrey City Development Corporation, which comprise the balance sheet as at December 31, 2010 and the statements of operations and deficit and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, 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.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Surrey City Development Corporation as at December 31, 2010, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

April 14, 2011

Burnaby, Canada

# SURREY CITY DEVELOPMENT CORPORATION

Balance sheet  
As at December 31

	2010	2009
<b>Assets</b>		
Current assets:		
Cash	\$ 69,245	\$ 50,690
Accounts receivable	2,263	-
Prepaid expense	69,983	15,566
Other receivable	69,614	8,902
Lease inducement	40,396	-
	<u>251,501</u>	<u>75,158</u>
Capital assets (Note 3)	8,558,236	8,395,353
Development costs recoverable from the City of Surrey (note 4)	1,752,896	594,260
	<u>\$ 10,562,633</u>	<u>\$ 9,064,771</u>
<b>Liabilities and Shareholder's Deficiency</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 988,257	\$ 132,161
Deposits payable	24,676	24,676
Holdbacks payable	55,795	-
Due to City of Surrey (Note 5)	5,921,575	4,550,136
	<u>6,990,303</u>	<u>4,706,973</u>
Long-term liability		
Due to City of Surrey (Note 5)	6,420,294	6,522,892
Shareholder's deficiency		
Share capital (Note 6)	100	100
Deficit	<u>(2,848,064)</u>	<u>(2,165,194)</u>
	<u>(2,847,964)</u>	<u>(2,165,094)</u>
Commitments (Note 7)		
	<u>\$ 10,562,633</u>	<u>\$ 9,064,771</u>

# SURREY CITY DEVELOPMENT CORPORATION

Statement of Operations and Deficit

Years ended December 31

	2010	2009
Revenues		
Property lease revenue, gross	\$ 340,395	\$ 98,132
Less: Property lease direct costs	(100,156)	(23,841)
Property lease income, net	240,239	74,291
Professional consulting fees	377,073	-
	617,312	74,291
Operating Expenses		
Advertising (promotion)	3,812	10,710
Amortization	18,602	4,526
Communication	14,174	7,596
Consulting and professional	62,340	53,258
Directors fees	88,660	65,250
Grants and sponsorship	150	4,000
Insurance	28,141	19,667
Interest	278,421	93,168
Lease and rentals	72,412	70,652
Membership and training	42,989	20,606
Research and investigation	14,367	-
Salaries and benefits	632,954	687,409
Supplies and materials	22,221	13,177
Service maintenance	9,223	3,915
Travel	11,716	15,606
	1,300,182	1,069,540
Net loss	(682,870)	(995,249)
Deficit, beginning of year	(2,165,194)	(1,169,945)
Deficit, end of year	\$ (2,848,064)	\$ (2,165,194)

# SURREY CITY DEVELOPMENT CORPORATION

Statement of Cash Flow  
Years ended December 31

	<u>2010</u>	<u>2009</u>
Cash provided by (used in):		
Operations:		
Net loss	\$ (682,870)	\$ (995,249)
Amortization	18,602	4,526
Change in non-cash operating working capital:		
Accounts receivable	(2,263)	-
Prepaid expense	(54,417)	28
Other receivable	(60,712)	21,141
Lease inducement	(40,396)	-
Accounts payable and accrued liabilities	856,096	(167,161)
Deposits payable	-	24,676
Holdbacks payable	55,795	-
	<u>89,835</u>	<u>(1,112,039)</u>
Investment:		
Purchase of capital assets	(181,485)	(11,384)
Development costs incurred on behalf of the City of Surrey	(1,158,636)	(3,545)
	<u>(1,340,121)</u>	<u>(14,929)</u>
Financing:		
Due to City of Surrey	1,268,841	1,106,510
	<u>18,555</u>	<u>(20,458)</u>
Net increase (decrease) in cash		
Cash, beginning of year	50,690	71,148
Cash, end of year	<u>\$ 69,245</u>	<u>\$ 50,690</u>
Supplementary information:		
Non-cash transactions:		
Land and building acquired from City in exchange for a long-term loan payable to the City	\$ -	\$ 6,535,000

# SURREY CITY DEVELOPMENT CORPORATION

## Notes to Financial Statements

For the year ended, December 31, 2010

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### 1. Operations

The Surrey City Development Corporation (the "Corporation"), which is funded and supported primarily by the City of Surrey ("City"), was incorporated on April 24, 2007. The Corporation has broad powers to advance the commercial, industrial and residential development of the City. The Corporation's Board is appointed by the Council of the City of Surrey. The Corporation is considered non-taxable as it is owned by the City of Surrey.

These financial statements have been prepared on a going concern basis which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. Accordingly, these financial statements do not include any adjustments to the specific amounts and classifications of assets and liabilities which might be necessary should the Corporation be unable to continue as a going concern. As at December 31, 2010, the Corporation had an accumulated deficit of \$2,848,064 and a working capital deficiency of \$6,738,802 as the Corporation has been in a start up and development phase. The City of Surrey has funded the Corporation's deficit through cash transfers and loans payable (see note 5). The City of Surrey has confirmed that it will continue to support the Corporation through cash transfers and loans payable. The Corporation's ability to continue operations is dependent upon it achieving future profitable operations and/or the continued financial support by the City.

### 2. Significant accounting policies

The accounting policies of the Corporation conform with Canadian generally accepted accounting principles and include the following significant accounting policies:

#### (a) Revenue recognition

The Corporation recognizes revenue when services are provided to customers, price is fixed or determinable, and collectability is reasonably assured.

#### (b) Capital assets

Capital assets are stated at cost less accumulated amortization. Amortization is provided using the straight-line method at rates based on the estimated useful lives of the assets as follows:

Buildings and improvements	25 years
Computers	5 years
Furniture and fixtures	5 years

#### (c) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of the net recoverable amount of capital assets and the estimated useful lives of capital assets. Actual results may differ from those estimates.

# SURREY CITY DEVELOPMENT CORPORATION

## Notes to Financial Statements

For the year ended, December 31, 2010

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### 2. Significant accounting policies (continued)

#### (d) Financial instruments

The Corporation classifies all financial instruments as either held for trading, loans and receivables, or other financial liabilities.

Loans and receivables and financial liabilities other than those held for trading, are measured at amortized cost.

Instruments classified as held for trading are measured at fair value with realized and unrealized gains and losses recognized in the statement of operations.

All transaction costs relating to the acquisition of financing are netted against the carrying value of the related liability and are then amortized over the expected life of the instrument using the effective interest method.

#### (e) Future accounting changes

The Public Sector Accounting Boards recently approved changes to the scope of public sector accounting standards for periods beginning on or after January 1, 2011. Under the amendments, organizations are classified as government business enterprises, government not for profits, or other government organizations.

Under the new framework, the Corporation is classified as an other government organization and has the option to adopt IFRS or PSAB. The Corporation has decided to adopt PSAB and is in the process of determining the impact to its financial statements.

### 3. Capital assets

	Cost	Accumulated Amortization	2010 Net book Value	2009 Net book Value
Land and improvements	\$ 8,305,999	\$ -	\$ 8,305,999	\$ 8,215,027
Building and improvements	167,392	8,303	159,089	165,718
Computer equipment	44,580	6,293	38,287	3,904
Furniture and fixtures	67,828	12,967	54,861	10,704
	\$ 8,585,799	\$ 27,563	\$ 8,558,236	\$ 8,395,353

# SURREY CITY DEVELOPMENT CORPORATION

Notes to Financial Statements

For the year ended, December 31, 2010

## 4. Development costs recoverable from the City of Surrey

	2010	2009
Land development costs	\$ 1,752,896	\$ 594,260

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 title of the lands and related improvements in trust to the Corporation under declaration of trust agreements. Until such time that the properties are legally transferred, the costs are recoverable from the City of Surrey. The amounts are unsecured and have no repayment terms, but are not considered to be collectible in the next fiscal year; therefore they have been classified as long-term receivables.

## 5. Due to City of Surrey

	2010	2009
Cash transfers made on behalf of the Corporation by the City, non-interest bearing, payable on demand	\$ 4,221,460	\$ 3,366,334
Loan payable #1, interest charged at Bank of Canada prime rate, payable on demand	1,624,303	1,174,066
Loan payable #2, payable in monthly instalments of \$23,279, including interest calculated at a rate of 3.15% annually, maturing on November 1, 2014.	6,496,106	6,532,628
	12,341,869	11,073,028
Less: Current portion of long-term debt	(5,921,575)	(4,550,136)
	\$ 6,420,294	\$ 6,522,892

Principal repayments on loan payable #2 due to City of Surrey for the next four years are as follows:

2011	\$ 75,812
2012	78,235
2013	80,735
2014	6,261,324
	\$ 6,496,106

# SURREY CITY DEVELOPMENT CORPORATION

Notes to Financial Statements

For the year ended, December 31, 2010

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

## 7. Commitments

The Corporation is obligated to reimburse the City for all operating costs incurred by the City on behalf of the Corporation.

The Corporation has entered into various agreements and contracts for services and construction with periods ranging from one to two years. There are commitments outstanding as at December 31, 2010 of \$1,119,690 (2009 - \$15,954).

The Corporation is also committed to payments under an operating lease for space within an office building. Annual payments are as follows:

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2011	\$	49,908
2012		56,404
2013		69,068
2014		72,478
2015		42,278

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## 8. Related party transactions

The Corporation incurred interest expense of \$277,688 (2009 - \$93,180) on the Corporation's loans payable to the City.

The Corporation earned revenue from the City of \$377,074 (2009 – nil) for consulting services provided in the year.

Property taxes and utilities expenses of \$99,606 (2009 – \$23,841) were also incurred by the Corporation and payable to the City.

## 9. Economic dependence

The Corporation's operations are currently wholly funded by the City and accordingly, future operations of the Corporation are currently dependent upon the continued financial support of the City. The City provided a letter to the Corporation, confirming their intent to continue supporting the corporation to ensure all liabilities can be settled as they come due.

# SURREY CITY DEVELOPMENT CORPORATION

## Notes to Financial Statements

For the year ended, December 31, 2010

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### 10. Capital disclosures

The Corporation's capital consists of its share capital, due to City of Surrey and deficit. The Corporation's objective when managing its capital is to safeguard its assets and to ensure that adequate capital is managed for future requirements. The procedures in place to achieve these goals include establishing effective internal controls, the review and approval of annual budgets and ongoing review of interim and annual financial statements by the Board of Directors.

### 11. Financial instruments

The Corporation primarily has exposure to credit risk, liquidity risk and interest rate risk. The Corporation does not utilize any derivative instruments to mitigate these risks.

The Corporation has classified its financial instruments as follows:

(i)	Cash	-	Held for trading
(ii)	Accounts receivable and other receivable	-	Loans and receivables
(iii)	Accounts payable, accrued liabilities, holdbacks payable, and due to City of Surrey	-	Other financial liabilities

#### (a) Credit risk

Credit risk is the risk that a third party to a financial instrument might fail to meet its obligations under the terms of the financial instrument. For cash and other receivables, the Corporation's credit risk is limited to the carrying value on the balance sheet. Management does not believe that the Corporation is subject to any significant concentration of credit risk.

#### (b) Liquidity risk

Liquidity risk is the risk that an entity will not be able to meet its obligations associated with financial liabilities.

The Corporation manages liquidity risk by maintaining adequate cash and available credit facilities with the City of Surrey. The Corporation monitors the cash flow in conjunction with City of Surrey to ensure a sufficient continuity of funding.

#### (c) Interest rate risk

The Corporation is exposed to interest rate risk on its amounts due to the City, except for the non-interest bearing demand loan payable to the City, as described in Note 5, as the instruments have variable interest rates.

A 25 bps change to interest rate on the interest bearing loans to City of Surrey would have an impact of \$20,301 on the Corporation's income statement.

# **SURREY CITY DEVELOPMENT CORPORATION**

Notes to Financial Statements

*For the year ended, December 31, 2010*

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## **11. Financial instruments (continued)**

### (d) Fair value of financial instruments

The Corporation's financial instruments include cash, accounts receivable, other receivable and accounts payable and accrued liabilities, which are reflected in the financial statements at values which are measured at fair value or approximate fair values because of the short term maturities of these instruments. The fair value of amounts due to City of Surrey is not practicable to determine due to their related party nature and terms and the limited amount of comparable market information available.

## **12. Subsequent events**

On March 10, 2011, the City of Surrey acquired a property and the beneficial interest was immediately transferred to the Corporation. The purchase price was approximately \$5.8 million, which will be financed through an additional loan with the City.

## **13. Comparative figures**

Certain figures for 2009 have been reclassified to conform with the presentation adopted for 2010.