

Consolidated Financial Statements of

**SURREY CITY DEVELOPMENT CORPORATION**

Year ended December 31, 2012



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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Surrey City Development Corporation

We have audited the accompanying consolidated financial statements of Surrey City Development Corporation, which comprise the consolidated statement of financial position as at December 31, 2012, the consolidated statements of operations, changes in net debt 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 Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these 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.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated 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 an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated 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 consolidated 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 consolidated financial statements.

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

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Surrey City Development Corporation as at December 31, 2012 and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Accountants

April 29, 2013

Burnaby, Canada

# SURREY CITY DEVELOPMENT CORPORATION

## Consolidated Statement of Financial Position

As at December 31, 2012, with comparative figures for 2011

	2012	2011
<b>Financial assets:</b>		
Cash	\$ 2,029,541	\$ 240,962
Accounts receivable (note 4)	1,897,520	179
Properties available-for-sale (note 5)	14,788,247	8,710,587
Performance bonds and deposits	262,076	388,971
Due from government and other government organizations (note 3)	1,781,436	781,567
Due from joint venture partners (note 6)	8,680,738	9,598,631
	<u>29,439,558</u>	<u>19,720,897</u>
<b>Liabilities:</b>		
Accounts payable and accrued liabilities (note 7)	3,551,633	717,780
Loans payable (note 9)	32,878,191	-
Deposits payable to income property tenants	1,146,464	65,435
Deferred gains (note 6)	4,765,147	3,000
Due to joint venture partners (note 6)	4,939,486	9,622,471
Due to City of Surrey (note 8)	39,828,691	24,928,637
	<u>87,109,612</u>	<u>35,337,323</u>
<b>Net debt</b>	(57,670,054)	(15,616,426)
<b>Non-financial assets:</b>		
Tangible capital assets (note 10)		
Properties under development	62,617,487	39,255,678
Income properties	47,123,551	11,718,534
Administration tangible capital assets	115,440	108,852
	<u>109,856,478</u>	<u>51,083,064</u>
Prepaid expenses	61,835	38,544
	<u>109,918,313</u>	<u>51,121,608</u>
<b>Accumulated surplus</b> (note 11)	<u>\$ 52,248,259</u>	<u>\$ 35,505,182</u>

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

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Director

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Director

# SURREY CITY DEVELOPMENT CORPORATION

## Consolidated Statement of Operations

Year ended December 31, 2012, with comparative figures for 2011

	Budget 2012 (unaudited - note 16)	2012	2011
<b>Revenues:</b>			
Property sales	\$ 29,000,000	\$ 33,492,641	\$ 7,041,767
Less: property sales direct costs	(22,500,000)	(27,393,453)	(4,002,941)
Property sales income, net	6,500,000	6,099,188	3,038,826
Income property lease revenue, gross	1,100,000	1,468,926	501,777
Less: Income property lease direct costs - operating	(600,000)	(927,737)	(281,105)
Less: Income property lease direct costs - interest	(300,000)	(612,176)	(337,876)
Property lease income, net	200,000	(70,987)	(117,204)
Professional consulting fees	300,000	279,901	339,540
Other income	-	-	317
	7,000,000	6,308,102	3,261,479
<b>Operating expenses:</b>			
Administration	128,100	261,949	103,584
External consulting services	409,920	395,347	331,467
Income properties	76,860	74,128	62,150
Real estate development and sales	666,120	642,438	538,634
	1,281,000	1,373,862	1,035,835
Annual surplus	5,719,000	4,934,240	2,225,644
Accumulated operating deficit, beginning of year	(622,419)	(622,419)	(2,848,063)
Accumulated operating surplus (deficit), end of year	\$ 5,096,581	\$ 4,311,821	\$ (622,419)

See accompanying notes to consolidated financial statements.

# SURREY CITY DEVELOPMENT CORPORATION

## Consolidated Statement of Changes in Net Debt

Year ended December 31, 2012, with comparative figures for 2011

	Budget 2012 (unaudited - note 16)	2012	2011
Annual surplus	\$ 5,719,000	\$ 4,934,240	\$ 2,225,644
Acquisition of tangible capital assets:			
Properties under development	(18,000,000)	(51,739,916)	(44,542,597)
Administration	(30,000)	(40,898)	(41,486)
Income properties	(21,100,000)	(41,534,674)	(11,803,003)
Capitalization of wages	(450,000)	(436,148)	(400,482)
	(39,580,000)	(93,751,636)	(56,787,568)
Disposal of tangible capital assets:			
Properties under development	1,850,000	1,254,667	5,424,941
Administration	-	-	3,755
	1,850,000	1,254,667	5,428,696
Amortization of tangible capital assets:			
Administration	50,000	34,310	22,027
Income properties	90,000	262,113	101,430
	140,000	296,423	123,457
Transfer to due from City of Surrey	-	36,092	-
Transfer to assets held-for-sale	15,500,000	33,391,040	8,710,587
	15,480,000	33,427,132	8,706,984
Change in prepaid assets	(20,000)	(23,291)	(3,603)
Redemption of preferred shares	(14,000,000)	(13,303,163)	-
Issuance of preferred shares	24,600,000	25,112,000	36,127,501
	10,600,000	11,808,837	36,127,501
Decrease (increase) in net debt	(57,791,000)	(42,053,628)	(4,175,286)
Net debt, beginning of year	(15,616,426)	(15,616,426)	(11,441,140)
Net debt, end of year	\$ (73,526,426)	\$ (57,670,054)	\$ (15,616,426)

See accompanying notes to consolidated financial statements.

# SURREY CITY DEVELOPMENT CORPORATION

## Consolidated Statement of Cash Flows

Year ended December 31, 2012, with comparative figures for 2011

	2012	2011
Cash provided by (used in):		
Operations:		
Annual surplus	\$ 4,934,240	\$ 2,225,644
Items not involving cash:		
Amortization	296,423	123,457
Change in non-cash working capital:		
Increase in accounts receivable	(1,897,341)	26,082
Increase in performance bonds and deposits	126,895	-
Increase in due from government and other government organizations	(963,777)	(503,153)
Increase in accounts payable and accrued liabilities	2,833,853	(323,273)
Increase in deposits payable to income property tenants	1,081,029	40,760
Increase in prepaid expenses	(23,291)	(3,603)
Disposal of properties available for sale	27,393,453	4,006,696
	33,781,484	5,592,610
Investing:		
Purchase of tangible capital assets	(14,608,027)	(3,472,402)
Financing:		
Issuance of debt due to City of Surrey	-	6,078,664
Issuance of loans payable	3,256,143	-
Repayment of debt due to City of Surrey	(7,278,656)	(8,027,155)
Repayment on loans payable	(59,202)	-
Redemption of preferred shares	(13,303,163)	-
	(17,384,878)	(1,948,491)
Net change in cash	1,788,579	171,717
Cash, beginning of year	240,962	69,245
Cash, end of year	\$ 2,029,541	\$ 240,962

### Supplementary cash flow information:

Non-cash transactions:		
Land transfers in exchange for preferred shares	\$ 25,112,000	\$ 36,127,501
Land and income property transfers in exchange for debt with the City	11,306,545	14,535,259
Transfer of lands to reduce amounts owing to joint venture partners (note 6)	1,254,667	1,422,000
Transfer of development costs recoverable from tangible capital assets	-	1,230,406
Development cost charges financed by City of Surrey	10,872,165	-
Acquisition of income properties financed by external mortgages	29,681,250	-
Assets acquired from joint venture partners	917,893	-

See accompanying notes to consolidated financial statements.

# SURREY CITY DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements

Year ended December 31, 2012

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### 1. Nature of operations:

Surrey City Development Corporation (the "Corporation") is a corporation established on April 24, 2007. The Corporation is a fully owned subsidiary of the City of Surrey (the "City"), and its Board is appointed by the Council of the City. The Corporation has broad powers to advance the commercial, industrial and residential development of the City. The Corporation is classified as an Other Government Organization as it is not yet considered self-sustaining. The Corporation is considered non-taxable as it is owned by the City.

These consolidated 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 consolidated financial statements do not include any adjustments to the specific amounts which might be necessary should the Corporation be unable to continue as a going concern. As at December 31, 2012, the Corporation had an accumulated operating surplus of \$4,311,821 (2011 - deficit of \$622,419). The City has funded the Corporation through property transfers at historical values, cash transfers, loans and further equity investments (note 10). 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. Summary of 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.

#### (b) Basis of consolidation:

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

#### (i) Surrey City Investment Corporation ("SCIC") - (100% owned and fully consolidated):

SCIC has a 50% ownership in the following entities (proportionately consolidated) referred to as the "Tower Holdings":

- Surrey Centre Tower Holdings (Office #1) Ltd.
- Surrey Centre Tower Holdings (Office #2) Ltd.
- Surrey Centre Tower Holdings (Office #3) Ltd.
- Surrey Centre Tower Holdings (Office #4) Ltd.
- Surrey Centre Tower Holdings (Office #5) Ltd.
- Surrey Centre Tower Holdings (Hotel #1) Ltd.
- Surrey Centre Tower Holdings (Restaurant #1) Ltd.
- Surrey Centre Tower Holdings (Retail #1) Ltd.
- Surrey Centre Tower Holdings (Residential #1) Ltd.

# SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

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## 2. Summary of significant accounting policies (continued):

### (b) Basis of consolidation (continued):

- (i) Surrey City Investment Corporation ("SCIC") - (100% owned and fully consolidated) (continued):

SCIC has a 29.4% ownership in the following entities (proportionately consolidated) referred to as the Surrey Centre Limited Partnerships:

- Surrey Centre Office Limited Partnership
- Surrey Centre Hotel Limited Partnership
- Surrey Centre Residential Partnership

- (ii) Grove Limited Partnership - (50% owned and proportionately consolidated)

- (iii) Grove (G.P.) Inc. - (50% owned and proportionately consolidated)

- (iv) The Croydon Drive Development Limited Liability Partnership ("Croydon") - (50% owned and proportionately consolidated).

### (c) Properties available-for-sale:

Properties available-for-sale include real estate properties which are ready and available to be sold and for which there is an available market. They are valued at the lower of cost or expected net realizable value.

### (d) 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.

- (a) Properties under development:

Properties under development are costs related to projects currently under planning, development or construction that will result in a finished real estate asset at a future date. Completed assets will either be reclassified as income properties, or properties available 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.



# SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

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## 2. Summary of significant accounting policies (continued):

### (d) Non-financial assets (continued):

#### (i) Tangible capital assets (continued):

##### (c) Tangible capital assets for administration:

Tangible capital assets for administration relate to 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 the tangible capital assets, excluding land, is amortized on a straight-line basis over their estimated useful lives as follows:

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Furniture and fixtures	5 years
Computer equipment	5 years
Tenant improvements	5 years

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Building useful life is determined on an asset-by-asset basis upon acquisition or completion of construction, based on estimated remaining useful lives at the time of acquisition or completion of construction.

No amortization is recorded on properties under development. Any amortization will commence once the development is complete, if the property is held or used as an income property.

#### (iii) Impairment of properties available-for-sale and tangible capital assets:

Properties available-for-sale and 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. No impairments were identified or recorded during the year ended December 31, 2012 (2011 - nil).

# SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

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## 2. Summary of significant accounting policies (continued):

### (iv) Contributions and transfers of tangible capital assets:

Contributed tangible capital assets from third parties are recorded into revenues at their fair market value on the date of donation, except in circumstances where fair value cannot be reasonably determined, which are then recognized at nominal value. No contributions of tangible capital assets occurred in fiscal 2012 (2011 - nil).

Certain transfers of tangible capital assets to joint venture partners are recorded at agreed-upon values, representing market values (notes 5 and 14). 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.

Transfers of tangible capital assets from the City are recorded at exchange amounts.

### (e) Prepaid expenses:

Prepaid expenses include insurance and other items paid in advance and are recognized as an expense over the future 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.

#### (i) Sales of properties:

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

#### (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.

#### (iii) Professional consulting revenue:

Consulting revenue is recorded at the time when services are provided.

# SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

## 2. Summary of 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 is expensed. Interest expense is recorded using effective interest method which includes all debt servicing costs.

### (h) Measurement uncertainty:

The preparation of consolidated financial statements in conformity with PSAS requires management to make estimates and assumptions that affect the reporting 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, and commitments.

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

## 3. Due from government and other government organizations:

	2012	2011
HST receivable	\$ 982,324	\$ 177,276
Development costs recoverable from the City of Surrey (a)	799,112	604,291
	\$ 1,781,436	\$ 781,567

(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 processing 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.

## 4. Accounts receivable:

	2012	2011
Notes receivable (note 18)	\$ 700,000	\$ -
Receivable from property sales	847,960	-
Other	349,560	179
	\$ 1,897,520	\$ 179

# SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

## 5. Properties available-for-sale:

	2012	2011
Opening balance	\$ 8,710,587	\$ -
Transfer from property under development and income properties	33,391,040	8,710,587
Disposal on sale	(27,393,453)	-
Additions	80,073	-
	<b>\$ 14,788,247</b>	<b>\$ 8,710,587</b>

## 6. Investments in government partnerships:

	2012	2011
Due from Grove partners (i)	\$ -	\$ 2,000
Due from Surrey Centre Partners (v)	8,680,738	9,596,631
	<b>\$ 8,680,738</b>	<b>\$ 9,598,631</b>

	2012	2011
Due to Grove partners (i)	\$ -	\$ 25,840
Due to Surrey Centre Partners (v)	4,939,486	9,596,631
	<b>\$ 4,939,486</b>	<b>\$ 9,622,471</b>

	2012	2011
Deferred gain on Croydon land (iii)	\$ 1,220,600	\$ -
Deferred gain on Surrey Centre Partnership land (v)	3,541,547	-
Deferred gain on Grove land (i)	3,000	3,000
	<b>\$ 4,765,147</b>	<b>\$ 3,000</b>

### (i) Grove Limited Partnership:

Grove Limited Partnership ("Grove") was established on September 1, 2011 and is in the business of real estate development of 141 market townhomes in the East Clayton neighbourhood of Surrey.

The Corporation transferred cash of \$1,341,597 and property with a net book value of \$2,844,000 to Grove in exchange for its 50% limited partnership units, resulting in a deemed disposition of 50% of the property and a deferred gain on the transfer of \$3,000.

# SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

## 6. Investments in government partnerships (continued):

### (i) Grove Limited Partnership (continued):

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

The Corporation will provide a limited guarantee in support of the financing obtained or to be obtained by Grove to fund its operations. Grove began property development during fiscal 2011. All related costs to date have been capitalized.

The amounts included in these consolidated financial statements are as follows:

	2012	2011
Financial assets:		
Cash	\$ -	\$ 16,746
Accounts receivable from related parties of Grove	-	2,000
Deposits	222,030	-
Due from government and other government organizations	25,800	405,395
	<u>247,830</u>	<u>424,141</u>
Liabilities:		
Accounts payable from related parties of Grove	-	(25,840)
Accounts payable, other	(290,747)	(12,910)
Deferred gain	(3,000)	(3,000)
Line of credit	(241,750)	-
Long-term debt	(3,014,394)	-
	<u>(3,549,891)</u>	<u>(41,750)</u>
<b>Net Financial Assets (Debt)</b>	<b>(3,302,061)</b>	<b>382,391</b>
Tangible capital assets	6,728,321	3,803,206
<b>Accumulated surplus</b>	<b>\$ 3,426,260</b>	<b>\$ 4,185,597</b>

	2012	2011
Revenues	\$ -	\$ -
Amortization and real estate marketing expenses	129,992	-
<b>Net loss</b>	<b>\$ (129,992)</b>	<b>\$ -</b>

# SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

## 6. Investments in government partnerships (continued):

### (ii) The Grove (G.P.) Inc.:

The Grove (G.P.) is the General Partner of Grove and the Corporation holds 50% of its issued and outstanding shares. There were no significant transactions in fiscal 2012. There was no significant impact on the consolidated financial statements in 2012.

### (iii) The Croydon Drive Development Limited Liability Partnership ("Croydon"):

Croydon was established on November 14, 2011 and is in the business of real estate investment and development of two office buildings to be built, leased and managed as a long-term investment. The Corporation is an equal partner in Croydon and has and will provide equal capital contributions to fund the operations of Croydon in the form of land, financial and intellectual capital. Croydon's financial results are proportionately consolidated with those of the Corporation based upon the Corporation's 50% share of the total contributions. Decision making is equal amongst the partners and the Corporation will be active in the day-to-day management and control of the operations of Croydon.

The amounts included in these consolidated financial statements are as follows:

	2012	2011
<b>Financial assets:</b>		
Cash	\$ 68,637	\$ -
Accounts receivable	-	200
Due from government and other government organizations	4,550	-
	<u>73,187</u>	<u>200</u>
<b>Liabilities:</b>		
Accounts payable	(13,944)	-
Deferred gain	(1,220,600)	-
	<u>(1,234,544)</u>	<u>-</u>
<b>Net Financial Assets (Debt)</b>	<b>(1,161,357)</b>	<b>200</b>
Tangible capital assets	1,675,197	-
<b>Accumulated surplus</b>	<b>\$ 513,840</b>	<b>\$ 200</b>

	2012	2011
Revenues	\$ -	\$ -
General administration expense	8,396	-
<b>Net loss</b>	<b>\$ (8,396)</b>	<b>\$ -</b>

# SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

## 6. Investments in government partnerships (continued):

### (iv) Surrey Centre Tower Holdings:

The Corporation holds a 50% interest in nine holding companies to facilitate the Surrey Centre Partnerships. These are bare trust entities, which have no impact on the consolidated financial statements.

### (v) Surrey Centre Partnerships:

The Surrey Centre Partnerships ("SCP") were established on December 16, 2011 and are in the business of real estate investment and development of a mixed-use real estate development in the City. The SCP are held through Surrey City Investment Corporation ("SCIC"), a wholly-owned subsidiary of the Corporation, which will provide contributions of cash and land to fund the SCP operations. The SCP financial results are proportionately consolidated with those of the Corporation based upon the ownership interest of 29.4%. The liability of the Corporation is limited to the cash and land which it will contribute to the SCP through SCIC.

The amounts included in these consolidated financial statements are as follows:

	2012	2011
Financial assets:		
Accounts receivable from SCP partners	\$ 8,680,738	\$ 9,596,631
Accounts receivable	8,515	-
Due from government and other government organizations	21,297	-
	<u>8,710,550</u>	<u>9,596,631</u>
Liabilities:		
Accounts payable SCP partners	(4,939,486)	(9,596,631)
Deferred gain	(3,541,547)	-
Accounts payable and accrued liabilities	(207,473)	-
	<u>(8,688,506)</u>	<u>(9,596,631)</u>
<b>Net Debt</b>	22,044	-
Tangible capital assets	1,558,956	-
<b>Accumulated surplus</b>	<u>\$ 1,581,000</u>	<u>\$ -</u>

As at December 31, 2011, SCDC was obligated to contribute assets totaling \$13.6 million to the partnerships in exchange for partnership units. During fiscal 2012, SCDC contributed land with a value of \$6.6 million, resulting in a net liability to the outside partners of \$4.9 million being 70.6% of \$7.0 million (2011 - \$9.6 million).

# SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

## 6. Investments in government partnerships (continued):

(v) Surrey Centre Partnerships (continued):

As at December 31, 2011, the outside partners are obligated to contribute assets totaling \$32.6 million to the partnerships in exchange for partnership units. During fiscal 2012, the outside partners contributed \$3.1 million of services, resulting in a net obligation to the partnerships of \$29.5 million, of which 29.4% or \$8.7 million (2011 - \$9.6 million) is effectively receivable by SCDC.

SCP started property development during fiscal 2012. All related works are capitalized. No other transactions occurred in 2012.

## 7. Accounts payable and accrued liabilities:

	2012	2011
Trade accounts payables and accrued liabilities	\$ 2,527,407	\$ 711,218
Holdbacks payable	1,024,226	6,562
	<u>\$ 3,551,633</u>	<u>\$ 717,780</u>

## 8. Due to City of Surrey:

	2012	2011
Cash transfers made on behalf of the Corporation by the City, non-interest bearing, payable on demand (development cost charges on Campbell Heights North)	\$ 3,538,724	\$ 3,388,094
Loan payable #1, interest charged at Bank of Canada prime rate, payable on demand, (operating loan)	11,691,330	969,795
Loan payable #2, payable in monthly installments of \$23,279 including interest calculated at a rate of 3.05% maturing annually (Brick South)	-	6,417,597
Loan payable #3, payable in monthly installments of \$50,800 including interest calculated at a rate of 2.76% maturing annually (Grove)	2,031,571	2,576,914
Loan payable #4, payable in monthly installments of \$24,819 including interest calculated at a rate of 2.90% maturing annually (Schmidt Berg)	5,825,601	5,965,815
Carried forward	<u>23,087,226</u>	<u>19,318,215</u>



# SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

## 8. Due to City of Surrey (continued):

	2012	2011
Brought forward	\$ 23,087,226	\$ 19,318,215
Loan payable #5, payable in monthly installments of \$23,326 including interest calculated at a rate of 2.75% maturing annually (Murray Latta)	5,483,199	5,610,422
Loan payable #6, payable in monthly installments of \$29,680 including interest calculated at a rate of 2.90% maturing annually (Cedar Hills)	6,299,111	-
Loan payable #7, payable in monthly installments of \$23,351 including interest calculated at a rate of 2.90% maturing annually (Boundary Park)	4,959,155	-
	\$ 39,828,691	\$ 24,928,637

## 9. Loans payable:

	2012	2011
Line of credit, Grove Limited Partnership, through TD Canada Trust, bearing interest at prime plus 0.75% per annum	\$ 241,750	\$ -
Demand loan, Grove Limited Partnership, in the form of bankers' acceptances bearing a stamping fee of 2.25% plus interest at the monthly bankers' acceptance rate, secured by the underlying property and repayable on the sale of the development	3,014,394	-
Boundary Park loan payable, Citizen's Bank of Canada, 10-year term maturing January 1, 2023, payable in monthly payments of \$77,625, including interest calculated at a rate of 4.05% per annum, secured by a mortgage on the commercial property	14,681,250	-
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	14,940,797	-
	\$ 32,878,191	\$ -

# SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

## 9. Loans payable (continued):

Principal payments on the loan payable over the next five years and thereafter are as follows:

2013	\$ 721,659
2014	750,519
2015	780,533
2016	811,747
2017	844,210
Thereafter	25,713,378
	<u>29,622,047</u>
Loans payable on demand	3,256,144
	<u>\$ 32,878,191</u>

## 10. Tangible capital assets:

December 31, 2012	Properties under development	Income properties		Administration	Total
		Land	Building		Net book value
<b>Cost</b>					
Opening balance	\$ 39,255,678	\$ 5,654,500	\$ 6,159,101	\$ 141,379	\$ 51,210,658
Additions	52,176,064	21,527,957	20,006,717	40,898	93,751,636
Disposals	(1,254,667)	-	-	-	(1,254,667)
Transfer to assets held for sale	(27,523,496)	(1,433,711)	(4,599,947)	-	(33,557,154)
Transfer to development costs recoverable from the City	(36,092)	-	-	-	(36,092)
Closing balance	<b>62,617,487</b>	<b>25,748,746</b>	<b>21,565,871</b>	<b>182,277</b>	<b>110,114,381</b>
<b>Accumulated amortization</b>					
Opening balance	-	-	95,067	32,527	127,594
Current year amortization	-	-	262,113	34,310	296,423
Disposals	-	-	-	-	-
Transfer to assets held for sale	-	-	(166,114)	-	(166,114)
Closing balance	-	-	<b>191,066</b>	<b>66,837</b>	<b>257,903</b>
<b>Net book value</b>	<b>\$ 62,617,487</b>	<b>\$ 25,748,746</b>	<b>\$ 21,374,805</b>	<b>\$ 115,440</b>	<b>\$ 109,856,478</b>

During the year \$211,000 of interest was capitalized to properties under development (2011 - nil).

# SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

## 10. Tangible capital assets (continued):

December 31, 2011	Properties under development	Income properties			Total
		Land	Building	Administrative	Net book value
<b>Cost</b>					
Opening balance	\$ 1,907,414	\$ 6,348,547	\$ 217,430	\$ 112,407	\$ 8,585,798
Additions	44,937,779	5,649,201	6,159,101	41,486	56,787,567
Disposals	(5,424,941)	-	-	(12,514)	(5,437,455)
Transfer to assets held for sale	(2,164,574)	(6,343,248)	(217,430)	-	(8,725,252)
Closing balance	39,255,678	5,654,500	6,159,101	141,379	51,210,658
<b>Accumulated amortization</b>					
Opening balance	-	-	8,303	19,259	27,562
Current year amortization	-	-	86,764	22,027	108,791
Disposals	-	-	-	(8,759)	(8,759)
Closing balance	-	-	95,067	32,527	127,594
<b>Net book value</b>	<b>\$ 39,255,678</b>	<b>\$ 5,654,500</b>	<b>\$ 6,064,034</b>	<b>\$ 108,852</b>	<b>\$ 51,083,064</b>

## 11. Accumulated surplus:

Accumulated surplus is comprised of:

	2012	2011
Share capital, common shares	\$ 100	\$ 100
Share capital, preferred shares	47,936,338	36,127,501
Accumulated operating deficit, opening	(622,419)	(2,848,063)
Annual surplus current year	4,934,240	2,225,644
	<b>\$ 52,248,259</b>	<b>\$ 35,505,182</b>

### (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, 2012, the Corporation has issued 47,936.3 preferred shares (2011: 36,127.5), with certain redemption provisions at the option of the Corporation.

# SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

## 11. Accumulated surplus (continued):

(b) The accumulated surplus is made up as follows:

	2012	2011
Accumulated operating surplus (deficit)	\$ 4,311,821	\$ (622,419)
Share capital, common shares	100	100
Share capital, preferred shares	47,936,338	36,127,501
	<u>\$ 52,248,259</u>	<u>\$ 35,505,182</u>

- (i) During the year, preferred shares were issued by the Corporation to the City totaling \$25,112,000 (2011 - \$36,127,501) in exchange for beneficial ownership of real estate property.
- (ii) During the year, the Corporation redeemed preferred shares of \$13,303,163 (2011 - nil).
- (iii) Other real estate property totaling \$40,775,000 (2011 - \$14,535,259) was transferred beneficially from the City to the Corporation in exchange for loans of \$11,306,545 (2011 - \$14,535,259), with the residual financed by external debt (note 8).

## 12. Contractual obligations:

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

The Corporation has entered in to various agreements and contracts for services and construction. There are commitments outstanding as at December 31, 2012 of \$8,218,494 (2011 - \$827,807).

## 13. Operating leases:

The Corporation leases office space under operating leases. Future payments are as follows:

2013	\$	69,068
2014		72,478
2015		42,279
	<u>\$</u>	<u>183,825</u>

# SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

## 14. Expenses by object:

The following is a summary of expenses by object:

	2012	2011
Advertising and promotion	\$ 130,709	\$ 2,614
Amortization	46,838	25,782
Communication	19,891	21,735
Consulting and professional	62,916	76,357
Directors' fees	106,344	107,442
Grants and sponsorship	6,750	1,150
Insurance	26,664	27,016
Interest	143,521	105,857
Lease and rentals	86,404	78,218
Membership and training	15,520	20,827
Research and investigation	11,113	5,925
Salaries and benefits	648,053	520,760
Supplies and materials	38,032	18,196
Service maintenance	22,584	9,232
Travel	8,523	14,724
	<u>\$ 1,373,862</u>	<u>\$ 1,035,835</u>

## 15. 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 7. Preferred share transactions have been disclosed in note 10.

- (i) The Corporation incurred interest expense of \$881,754 (2011 - \$475,552) on the Corporation's loans payable to the City.
- (ii) In fiscal 2012, management fees of \$2,587,639 were recorded by the Corporation as payable to the City. The agreed amount is equal to the interest income foregone by the City since fiscal 2010, when it expended previously invested funds to acquire a property for the benefit of the Corporation.
- (iii) The Corporation earned revenue from the City of \$279,901 (2011 - \$339,540) for consulting services provided in the year.
- (iv) Property taxes, utilities and ancillary items of \$271,030 (2011 - \$175,837) were incurred by the Corporation and payable to the City.

# SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

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## 15. Related party transactions (continued):

- (v) Permits, deposits and related fees of \$5,866,163 (2011 - \$239,699) were incurred by the Corporation and payable to the City.
- (vi) Consulting fees of nil (2011 - \$7,704) were incurred by the Corporation and payable to the City.

## 16. Budgeted figures:

Budgeted annual surplus was provided for comparison purposes and was derived from the budget approved by the Board of Directors on November 30, 2011. The cash flow figures required for the consolidated statement of changes in net debt were subsequently derived from the original budget and cash flow projections prepared by management.

Budget figures have not been audited and are presented only for information purposes.

## 17. Subsequent events:

As at December 31, 2012, \$700,000 was still outstanding as a promissory note on the Brick South Property sale. In January 2013, the Corporation exercised an option to purchase a 20% interest in the Bosa City Centre Office partnership for \$700,000. The purchase price was settled by extinguishing the promissory note receivable.

## 18. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.