

Consolidated Financial Statements of

**SURREY CITY DEVELOPMENT CORPORATION**

Year ended December 31, 2013



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## INDEPENDENT AUDITORS' REPORT

To the shareholder 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, 2013, 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, 2013 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

May 1, 2014

Burnaby, Canada

# SURREY CITY DEVELOPMENT CORPORATION

## Consolidated Statement of Financial Position

As at December 31, 2013, with comparative information for 2012

	2013	2012
<b>Financial assets:</b>		
Cash	\$ 931,213	\$ 2,029,541
Due from government and other government organizations (note 3)	1,010,995	1,781,436
Due from joint venture partners (note 4(a))	6,912,815	8,680,738
Accounts receivable (note 5)	1,595,820	1,897,520
Properties held-for-sale (note 6)	15,237,059	14,788,247
Investment in partnership (note 7)	700,000	-
Performance bonds and deposits	253,157	262,076
Tenant inducements	30,348	-
	<u>26,671,407</u>	<u>29,439,558</u>
<b>Liabilities:</b>		
Accounts payable and accrued liabilities (note 8)	2,818,341	3,551,633
Loans payable (note 9)	39,222,670	32,878,191
Deposits payable to income property tenants	542,001	1,146,464
Deferred gains (note 4(b))	4,764,721	4,765,147
Due to joint venture partners (note 4(c))	4,939,486	4,939,486
Due to City of Surrey (note 10)	70,505,390	39,828,691
	<u>122,792,609</u>	<u>87,109,612</u>
<b>Net debt</b>	(96,121,202)	(57,670,054)
<b>Non-financial assets:</b>		
Tangible capital assets (note 11):		
Properties under development	46,980,885	62,635,565
Income properties	62,381,963	47,105,472
Tangible capital assets in use	109,706	115,441
	<u>109,472,554</u>	<u>109,856,478</u>
Prepaid expenses	119,184	61,835
	<u>109,591,738</u>	<u>109,918,313</u>
<b>Accumulated surplus</b> (note 12)	<u>\$ 13,470,536</u>	<u>\$ 52,248,259</u>

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

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Director

\_\_\_\_\_

Director

# SURREY CITY DEVELOPMENT CORPORATION

## Consolidated Statement of Operations

Year ended December 31, 2013, with comparative information for 2012

	Budget 2013	2013	2012
	(note 17)		
Revenues:			
Property sales	\$ 36,161,391	\$ 36,952,463	\$ 33,492,641
Less: property sales direct costs	(29,352,731)	(28,865,692)	(27,393,453)
Property sales income, net	6,808,660	8,086,771	6,099,188
Income property lease revenue, gross	5,643,843	4,673,094	1,468,926
Less: Income property lease direct costs - operating	(2,370,169)	(2,310,441)	(927,737)
Less: Income property lease direct costs - interest	(2,420,168)	(1,980,092)	(612,176)
Property lease income, net	853,506	382,562	(70,987)
Professional consulting fees	200,000	368,219	279,901
	7,862,166	8,837,551	6,308,102
Corporate operating expenses:			
Administration	183,100	186,667	123,546
External consulting services	585,920	373,334	395,347
Income properties	109,860	186,667	74,128
Real estate development and sales	952,120	1,120,001	642,438
	1,831,000	1,866,669	1,235,459
Partnership operating expenses (note 17(a))	-	899,967	138,403
	1,831,000	2,766,636	1,373,862
Annual surplus from operations	6,031,166	6,070,915	4,934,240
Preferred shares issued	21,671,882	842,000	25,112,000
Preferred shares redeemed	(13,755,488)	(41,190,638)	(13,303,163)
Distribution of earnings to shareholder	(4,500,000)	(4,500,000)	-
Annual surplus (deficiency)	9,447,560	(38,777,723)	16,743,077
Accumulated surplus, beginning of year	52,248,259	52,248,259	35,505,182
Accumulated surplus, end of year	\$ 61,695,819	\$ 13,470,536	\$ 52,248,259

See accompanying notes to consolidated financial statements.

# SURREY CITY DEVELOPMENT CORPORATION

## Consolidated Statement of Changes in Net Debt

Year ended December 31, 2013, with comparative information for 2012

	Budget 2013 (note 17)	2013	2012
Annual surplus (deficiency)	\$ 9,447,560	\$ (38,777,723)	\$ 16,743,077
Acquisition of tangible capital assets:			
Properties under development (note 17(b)(i))	(59,920,582)	(28,279,037)	(51,739,916)
Administration	(40,000)	(76,736)	(40,898)
Income properties (note 17(b)(ii))	(40,000,000)	(161,815)	(41,534,674)
Capitalization of wages	(609,000)	(807,643)	(436,148)
	(100,569,582)	(29,325,231)	(93,751,636)
Disposal of tangible capital assets:			
Properties under development	-	3,055,785	1,254,667
Amortization of tangible capital assets:			
Administration	58,700	82,471	34,310
Income properties	1,139,000	758,325	262,113
	1,197,700	840,796	296,423
Transfer to (from) due from City of Surrey	(280,000)	-	36,092
Transfer to assets held-for-sale (note 17(b)(iii))	59,875,973	25,812,574	33,391,040
	59,595,973	25,812,574	33,427,132
Change in prepaid assets	(30,000)	(57,349)	(23,291)
Increase in net debt	(30,358,349)	(38,451,148)	(42,053,628)
Net debt, beginning of year	(57,670,054)	(57,670,054)	(15,616,426)
Net debt, end of year	\$ (88,028,403)	\$ (96,121,202)	\$ (57,670,054)

See accompanying notes to consolidated financial statements.

# SURREY CITY DEVELOPMENT CORPORATION

## Consolidated Statement of Cash Flows

Year ended December 31, 2013, with comparative information for 2012

	2013	2012
Cash provided by (used in):		
Operations:		
Annual surplus from operations	\$ 6,070,915	\$ 4,934,240
Items not involving cash:		
Amortization	840,796	296,423
Gain on disposal of properties held-for-sale and properties under development	(7,870,406)	(6,099,188)
Change in non-cash working capital:		
Decrease (increase) in accounts receivable	358,534	(1,897,341)
Decrease in performance bonds and deposits	8,919	126,895
Increase in tenant inducement	(30,348)	-
Decrease (increase) in due from government and other government organizations	770,441	(963,777)
Increase (decrease) in accounts payable and accrued liabilities	(733,292)	2,833,853
Increase (decrease) in deposits payable to income property tenants	(604,463)	1,081,029
Increase in prepaid expenses	(57,349)	(23,291)
	(1,246,253)	288,843
Investing:		
Proceeds from disposal of properties held-for-sale and properties under development	36,952,463	33,492,641
Purchase of tangible capital assets	(17,264,056)	(14,608,027)
Investment in partnership	(700,000)	-
	18,988,407	18,884,614
Financing:		
Distribution of earnings to shareholder	(4,500,000)	-
Decrease in due from joint venture partners	1,767,923	-
Issuance of loans payable	7,301,527	3,256,143
Repayment of debt due to City of Surrey	(18,569,691)	(7,278,656)
Repayment on loans payable	(957,104)	(59,202)
Redemption of preferred shares	(3,883,137)	(13,303,163)
	(18,840,482)	(17,384,878)
Net change in cash	(1,098,328)	1,788,579
Cash, beginning of year	2,029,541	240,962
Cash, end of year	\$ 931,213	\$ 2,029,541
Supplementary cash flow information:		
Non-cash transactions:		
Land transfers in exchange for preferred shares	\$ 842,000	\$ 25,112,000
Properties received in exchange for debt with the City	12,017,890	11,306,545
Redemption of preferred shares in exchange for promissory notes to the City	37,307,501	-
Transfer of lands to reduce amounts owing to joint venture partners	-	1,254,667
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, 2013

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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 wholly 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 exempt from income tax under section 141(a) of the Income Tax Act (Canada).

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, 2013, the Corporation had an accumulated operating surplus (note 12) of \$5,882,736 (2012 - surplus of \$4,311,821). The City has funded the Corporation through property transfers at historical values, cash transfers, loans and further equity investments (note 16). 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 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 the exception of government business enterprises which are 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, 2013

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## 2. Summary of 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 the mixed-use real estate development projects in the City. The Corporation owns 100% of SCIC.

#### Surrey Centre Tower Holdings

SCIC has a 50% ownership in the following entities (proportionately consolidated) referred to as the "Surrey Centre Tower Holdings" (note 4 (c)(v)):

- 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 (Parking #1) Ltd.
- Surrey Centre Tower Holdings (Retail #1) Ltd.
- Surrey Centre Tower Holdings (Residential #1) Ltd.

SCIC has a 29.4% ownership in the following government partnerships, collectively referred to as the Surrey Centre Limited Partnerships (note 4 (c)(ii)):

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

These government partnerships are proportionately consolidated in the Corporation's consolidated financial statements.

#### Croydon Drive Development Limited Liability Partnership ("Croydon") (note 4(c)(i)):

SCIC has a 50% ownership in the Croydon Drive Development Limited Liability Partnership ("Croydon"). Croydon is a government partnership and is proportionately consolidated into the Corporation's consolidated financial statements.

#### (ii) Grove Limited Partnership ("Grove LP") (note 4 (c)(iii)):

The Corporation has 50% ownership in Grove LP. Grove LP is a government partnership and is proportionately consolidated into the Corporation's consolidated financial statements.

# SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

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

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

#### (iii) Grove (G.P.) Inc. ("Grove (G.P.)") (note 4(c)(iv)):

Grove (G.P.) is the General Partner of Grove LP. The Corporation has 50% ownership in Grove (G.P.). Grove (G.P.) is a government partnership and is proportionately consolidated into the Corporation's consolidated financial statements.

#### (iv) Surrey City Investment (Industrial) Corporation:

Surrey City Investment (Industrial) Corporation was incorporated during 2013 and is a wholly-owned subsidiary of the Corporation. There is no activity during 2013.

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

Properties held-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. No amortization is recorded for properties held-for-sale.

### (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 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 assets 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.

# SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

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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 in use:

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 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	3 years
Tenant improvements	5 years

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The useful lives of income properties are 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. Amortization commences once the development is complete, if the property is held or used as an income property.

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

Properties held-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, 2013 (2012 - nil).

# SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

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

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

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

Contributed tangible capital assets received from third parties are recorded as revenues at their fair value on the date of donation, except in circumstances where fair value cannot be reasonably determined, in which case they are recognized at nominal value. No contributions of tangible capital assets occurred in fiscal 2013 (2012 - nil).

Certain transfers of tangible capital assets to joint venture 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.

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 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 the significant risks and rewards of ownership to the purchaser.

#### (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, 2013

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## 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 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, 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:

	2013	2012
GST/HST receivable	\$ 106,637	\$ 982,324
Development costs recoverable from the City of Surrey (a)	904,358	799,112
	<u>\$ 1,010,995</u>	<u>\$ 1,781,436</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 become part of the acquisition of the properties.

# SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

## 4. Investments in government partnerships:

### (a) Due from joint-venture partners:

	2013	2012
Due from Grove LP partners (iii)	\$ 172,697	\$ -
Due from Surrey Centre Partners (ii)	6,740,118	8,680,738
	<u>\$ 6,912,815</u>	<u>\$ 8,680,738</u>

### (b) Deferred gains:

	2013	2012
Deferred gain on Croydon land (i)	\$ 1,220,600	\$ 1,220,600
Deferred gain on SCLP land (ii)	3,541,547	3,541,547
Deferred gain on Grove LP land (iii)	2,574	3,000
	<u>\$ 4,764,721</u>	<u>\$ 4,765,147</u>

### (c) Due to joint-venture partners:

	2013	2012
Due to Surrey Centre Partners (ii)	\$ 4,939,486	\$ 4,939,486

### (i) Croydon:

Croydon was established on November 14, 2011 for the purpose of developing two office buildings to be built, leased and managed as a long-term investment. The partnership is held through Surrey City Investment Corporation ("SCIC"). SCIC 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 SCIC's 50% investment. 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.

# SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

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

(c) Due to joint-venture partners (continued):

(i) Croydon (continued):

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

	2013	2012
Financial assets:		
Cash	\$ 330,020	\$ 68,637
Deposits	29,350	-
Due from government and other government organizations	22,847	4,550
	<u>382,217</u>	<u>73,187</u>
Liabilities:		
Long-term debt	(2,394,855)	-
Holdbacks	(201,099)	-
Accounts payable	(162,856)	(13,944)
Deferred gain	(1,220,600)	(1,220,600)
	<u>(3,979,410)</u>	<u>(1,234,544)</u>
<b>Net Debt</b>	<b>(3,597,193)</b>	<b>(1,161,357)</b>
Tangible capital assets	4,204,465	1,675,197
Prepays	1,091	-
<b>Accumulated surplus</b>	<b>\$ 608,363</b>	<b>\$ 513,840</b>
	2013	2012
Revenues	\$ -	\$ -
General administration expense	55,476	8,396
<b>Net loss</b>	<b>\$ (55,476)</b>	<b>\$ (8,396)</b>

# SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

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

(c) Due to joint-venture partners (continued):

(ii) Surrey Centre Limited Partnerships ("SCLP"):

SCLP 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 SCLPs are held through SCIC, which will provide contributions of cash and land to fund the SCLP operations. The SCLP 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 SCLP through SCIC.

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

	2013	2012
Financial assets:		
Accounts receivable from SCLP partners	\$ 6,740,118	\$ 8,680,738
Accounts receivable	6,244	8,515
Due from government and other government organizations	12,913	21,297
	<u>6,759,275</u>	<u>8,710,550</u>
Liabilities:		
Accounts payable SCLP partners	(4,939,486)	(4,939,486)
Deferred gain	(3,541,547)	(3,541,547)
Accounts payable and accrued liabilities	(296,781)	(207,473)
	<u>(8,777,814)</u>	<u>(8,688,506)</u>
<b>Net Financial Assets (Net Debt)</b>	<b>(2,018,539)</b>	<b>22,044</b>
Tangible capital assets	2,981,636	1,558,956
<b>Accumulated surplus</b>	<b>\$ 963,097</b>	<b>\$ 1,581,000</b>

	2013	2012
Revenues	\$ -	\$ -
Amortization and real estate marketing expenses	617,903	-
<b>Net loss</b>	<b>\$ (617,903)</b>	<b>\$ -</b>

# SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

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

(c) Due to joint-venture partners (continued):

(ii) Surrey Centre Limited Partnerships ("SCLP") (continued):

As at December 31, 2011, the other partners were obligated to contribute assets totaling \$32.6 million to the partnerships in exchange for partnership units. During fiscal 2012 and 2013, the outside partners contributed \$9.9 million, resulting in a net obligation to the partnerships of \$22.7 million, of which 29.4% or \$6.7 million (2012 - \$8.7 million) is effectively receivable by the Corporation.

(iii) Grove LP:

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

In 2012, the Corporation transferred cash of \$1,341,597 and property with a net book value of \$2,844,000 to Grove LP in exchange for its 50% limited partnership units, resulting in a deemed disposition of 50% of the property and a deferred gain of \$3,000 on the transfer. \$426 of the deferred gain was taken into income in 2013 in proportion to the townhomes sold during the year.

Decision making for 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 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 LP to fund its operations. Grove LP began property development during fiscal 2011. All related costs to date have been capitalized.

# SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

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

(c) Due to joint-venture partners (continued):

(iii) Grove LP (continued):

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

	2013	2012
<b>Financial assets:</b>		
Cash	\$ 31,725	\$ -
Accounts receivable	103,261	-
Deposits	216,307	222,030
Due from government and other government organizations	-	25,800
	<u>351,293</u>	<u>247,830</u>
<b>Liabilities:</b>		
Accounts payable, other	(426,843)	(290,747)
Deferred gain	(2,574)	(3,000)
Line of credit	-	(241,750)
Long-term debt	(3,496,066)	(3,014,394)
	<u>(3,925,483)</u>	<u>(3,549,891)</u>
<b>Net Debt</b>	<b>(3,574,190)</b>	<b>(3,302,061)</b>
Tangible capital assets	7,711,074	6,728,321
Prepays	55,522	-
<b>Accumulated surplus</b>	<b>\$ 4,192,406</b>	<b>\$ 3,426,260</b>
	<u>2013</u>	<u>2012</u>
Revenues, net of direct costs	\$ 194,158	\$ -
Amortization and real estate marketing expenses	226,592	129,992
<b>Net loss</b>	<b>\$ (32,434)</b>	<b>\$ (129,992)</b>

# SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

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

(c) Due to joint-venture partners (continued):

(iv) Grove (G.P.):

Grove (G.P.) is the General Partner of Grove LP and the Corporation holds 50% of its issued and outstanding shares. There were no significant transactions in fiscal 2013. There was no significant impact on the consolidated financial statements in 2013.

(v) 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.

## 5. Accounts receivable:

	2013	2012
Notes receivable	\$ -	\$ 700,000
Receivable from property sales	881,490	847,960
Other	714,330	349,560
	<u>\$ 1,595,820</u>	<u>\$ 1,897,520</u>

## 6. Properties held-for-sale:

	2013	2012
Opening balance	\$ 14,788,247	\$ 8,710,587
Transfer from property under development and income properties	25,812,573	33,391,040
Disposal on sale	(26,083,475)	(27,393,453)
Additions	719,714	80,073
	<u>\$ 15,237,059</u>	<u>\$ 14,788,247</u>

## 7. Investment in partnership:

During 2013, the Corporation invested \$700,000 for a 20% limited partnership interest in Bosa Properties (Bright A.1) Limited Partnership ("Bosa"). The Corporation does not share control of Bosa and accordingly, the Corporation has accounted for this investment as a portfolio investment, carried at cost.

# SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

## 8. Accounts payable and accrued liabilities:

	2013	2012
Trade accounts payables and accrued liabilities	\$ 2,299,637	\$ 2,527,407
Holdbacks payable	518,704	1,024,226
	<u>\$ 2,818,341</u>	<u>\$ 3,551,633</u>

## 9. Loans payable:

	2013	2012
Line of credit, Grove LP, bearing interest at prime plus 0.75% per annum	\$ -	\$ 241,750
Croydon Drive Development LLP loan payable, bearing interest at RBP plus 0.75% per annum, secured by the underlying property and repayable on the earlier of the receipt of commercial financing and September 30, 2014	2,394,785	-
Demand loan, Grove LP, 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	3,496,066	3,014,394
Murray Latta loan payable, 7-year term maturing May 1, 2020, payable in monthly payments of principal and interest in the amount of \$22,942, with interest at 3.86% per annum, secured by a mortgage on the commercial property	4,362,658	-
Boundary Park loan payable, 10-year term maturing January 1, 2023, payable in monthly payments of principal and interest in the amount of \$77,625 with interest at 4.05% per annum, secured by a mortgage on the commercial property	14,361,574	14,681,250
Cedar Hills loan payable, 10-year term maturing November 1, 2022, payable in monthly payments of principal and interest in the amount of \$78,497 with interest at 3.95% per annum, secured by a mortgage on the commercial property	14,607,587	14,940,797
	<u>\$ 39,222,670</u>	<u>\$ 32,878,191</u>

# SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

## 9. Loans payable (continued):

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

2014	\$ 847,880
2015	881,966
2016	917,105
2017	954,556
2018	992,682
Thereafter	28,737,630
	33,331,819
Loans payable on demand	5,890,851
	\$ 39,222,670

## 10. Due to City of Surrey:

	2013	2012
Cash transfers made on behalf of the Corporation by the City, non-interest bearing, payable on demand (development cost charges on Campbell Heights North)	\$ 1,982,533	\$ 3,538,724
Loan payable #1, interest charged at Bank of Canada prime rate, payable on demand, (interim project financing)	23,709,221	11,691,330
Loan payable #2, payable in monthly installments of principal and interest in the amount of \$50,800, with interest at 2.76%, maturing annually (Grove)	1,470,983	2,031,571
Loan payable #3, payable in monthly installments of principal and interest in the amount of \$24,819, with interest at 2.90%, maturing annually (Schmidt Berg)	2,409,255	5,825,601
Loan payable #4, payable in monthly installments of principal and interest in the amount of \$23,326, with interest at 2.75%, maturing annually (Murray Latta)	1,046,230	5,483,199
Loan payable #5, payable in monthly installments of principal and interest in the amount of \$29,680, with interest at 2.90%, maturing annually (Cedar Hills)	6,126,869	6,299,111
Carried forward	36,745,091	34,869,536

# SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

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

	2013	2012
Brought forward	\$ 36,745,091	\$ 34,869,536
Loan payable #6, payable in monthly installments of principal and interest in the amount of \$23,351, with interest at 2.90%, maturing annually (Boundary Park)	4,822,592	4,959,155
Loan payable #7, payable in monthly installments of principal and interest in the amount of \$34,120, with interest at 3.25%, maturing annually (Campbell Heights North 2)	6,942,079	-
Loan payable #8, payable in monthly installments of principal and interest in the amount of \$108,043, with interest at 3.25%, maturing annually (Campbell Heights North 3)	21,995,628	-
	<b>\$ 70,505,390</b>	<b>\$ 39,828,691</b>

## 11. Tangible capital assets:

December 31, 2013	Properties under development	Income properties			Total
		Land	Building	Administration	Net book value
<b>Cost</b>					
Opening balance	\$ 62,635,565	\$ 26,107,033	\$ 21,189,505	\$ 182,278	\$ 110,114,381
Additions	29,086,680	98,383	63,432	76,736	29,325,231
Disposals	(3,055,785)	-	-	-	(3,055,785)
Transfer to assets held for sale	(25,812,574)	-	-	-	(25,812,574)
Transfer to income property	(15,873,001)	423,162	15,449,839	-	-
<b>Closing balance</b>	<b>46,980,885</b>	<b>26,628,578</b>	<b>36,702,776</b>	<b>259,014</b>	<b>110,571,253</b>
<b>Accumulated amortization</b>					
Opening balance	-	-	191,066	66,837	257,903
Current year amortization	-	-	758,325	82,471	840,796
Disposals	-	-	-	-	-
<b>Closing balance</b>	<b>-</b>	<b>-</b>	<b>949,391</b>	<b>149,308</b>	<b>1,098,699</b>
<b>Net book value</b>	<b>\$ 46,980,885</b>	<b>\$ 26,628,578</b>	<b>\$ 35,753,385</b>	<b>\$ 109,706</b>	<b>\$ 109,472,554</b>

During the year \$1,897,848 of interest was capitalized to properties under development (2012 - \$211,000).

# SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

## 11. Tangible capital assets (continued):

December 31, 2012	Properties under development	Income properties			Total
		Land	Building	Administration	Net book value
<b>Cost</b>					
Opening balance	\$ 39,273,756	\$ 6,012,787	\$ 5,782,735	\$ 141,380	\$ 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)
<b>Closing balance</b>	<b>62,635,565</b>	<b>26,107,033</b>	<b>21,189,505</b>	<b>182,278</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)
<b>Closing balance</b>	<b>-</b>	<b>-</b>	<b>191,066</b>	<b>66,837</b>	<b>257,903</b>
<b>Net book value</b>	<b>\$ 62,635,565</b>	<b>\$ 26,107,033</b>	<b>\$ 20,998,439</b>	<b>\$ 115,441</b>	<b>\$ 109,856,478</b>

## 12. Accumulated surplus:

Accumulated surplus is comprised of:

	2013	2012
Share capital, common shares (a)(i)	\$ 100	\$ 100
Share capital, preferred shares (a)(ii)	7,587,700	47,936,338
Accumulated operating surplus (b)	5,882,736	4,311,821
	<b>\$ 13,470,536</b>	<b>\$ 52,248,259</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.

# SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

## 12. Accumulated surplus (continued):

(a) Share capital (continued):

(ii) Preferred shares:

The Corporation is authorized to issue an unlimited number of preferred shares without par value. As of December 31, 2013, the Corporation has issued 7,587.7 preferred shares (2012 - 47,936.3), with certain redemption provisions at the option of the Corporation.

During the year, 842 (2012 – 25,112) preferred shares were issued by the Corporation to the City totaling \$842,000 (2012 – \$25,112,000) in exchange for beneficial ownership of real estate property.

During the year, the Corporation redeemed 41,192 (2012 – 13,302) preferred shares for \$41,190,638 (2012 – \$13,303,163).

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

	2013	2012
Accumulated operating surplus (deficit), opening	\$ 4,311,821	\$ (622,419)
Annual surplus current year	6,070,915	4,934,240
Distribution of earnings to shareholder	(4,500,000)	-
	<u>\$ 5,882,736</u>	<u>\$ 4,311,821</u>

## 13. 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. There are commitments outstanding as at December 31, 2013 of \$2,195,240 (2012 - \$8,218,494).

## 14. Operating leases:

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

2014	\$ 123,442
2015	123,442
2016	123,442
	<u>\$ 370,326</u>

# SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

## 15. Operating expenses by object:

The following is a summary of operating expenses by object:

	2013	2012
Advertising and promotion	\$ 16,927	\$ 8,410
Amortization	82,904	46,838
Communication	24,282	19,891
Consulting and professional	278,747	62,916
Directors' fees	254,312	106,344
Grants and sponsorship	34,923	6,750
Insurance	25,145	26,664
Indirect cost of property sales	70,922	-
Interest	17,877	143,521
Lease and rentals	141,391	86,404
Marketing	803,376	122,299
Membership and training	31,867	15,520
Research and investigation	2,441	11,113
Salaries and benefits	886,890	648,053
Supplies and materials	63,265	38,032
Service maintenance	18,507	22,584
Travel	12,860	8,523
	<u>\$ 2,766,636</u>	<u>\$ 1,373,862</u>

## 16. 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 4. Preferred share transactions have been disclosed in note 12.

- (i) The Corporation incurred interest expense of \$1,453,474 (2012 - \$881,754) on the Corporation's loans payable to the City.
- (ii) In fiscal 2013, management fees of \$1,009,471 (2012 - \$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 during 2013 for previously invested funds expended to acquire property for the benefit of the Corporation.

# SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

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## 16. Related party transactions (continued):

- (iii) The Corporation earned revenue from the City of \$197,293 (2012 - \$279,901) for consulting services provided in the year.
- (iv) Property taxes, utilities and ancillary items of \$669,256 (2012 - \$271,030) were incurred by the Corporation and payable to the City.
- (v) Permits, deposits and related fees of \$5,869,053 (2012 - \$5,866,163) were incurred by the Corporation and payable to the City.
- (vi) The Corporation incurred development costs of \$745,748 (2012 - \$158,729) on land owned by the City. This amount is included in development costs recoverable from the City of Surrey (note 3(a)).
- (vii) Other real estate property totaling nil (2012 - \$40,775,000) was transferred beneficially from the City to the Corporation in exchange for loans of nil (2012 - \$11,306,545) (note 10), with the residual financed by external debt.

## 17. Budgeted figures:

- (a) Budgeted figures are provided for comparative purposes and were derived from the budget approved by the Board of Directors on February 8, 2013. This budget was subsequently updated to include an additional \$685,006 of costs representing the Corporation's share of operating expenses of the jointly controlled partnerships. The revised budget was approved by the Board of Directors on September 27, 2013 but has not been included in the consolidated statement of operations.
- (b) The budgeted figures included the following items which did not occur in 2013:
  - (i) The acquisition of certain properties to be made available for sale
  - (ii) \$40,000,000 for the purchase of income properties
  - (iii) The reclassification of certain properties from tangible capital assets to properties held-for-sale.

## 18. Comparative information:

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