



REPORT TO COUNCIL

To: **Mayor and Councillors**

Subject: **2018 Consolidated Financial Statements**

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From: Graham Flack, CPA, CMA
Deputy Director of Corporate Services

Date: April 24, 2019

RECOMMENDATION:

That City Council approve the 2018 Consolidated Financial Statements.

PURPOSE:

As required by Section 167 of the Community Charter the audited financial statements have to be presented to Council. The purpose of this report is to provide Council with information about the financial results of 2018 and of the results of the audit of the City of Langley's 2018 financial statements.

POLICY:

Not applicable.

COMMENTS/ANALYSIS:

Section 167 of the Community Charter requires that the City produce annual audited financial statements. The annual financial statements and the auditor's report for the year ended December 31, 2018 are attached to this report.

The statements that are attached have been prepared in accordance with the Canadian Public Sector Accounting Standards as prescribed by the Public Sector Accounting Board ("PSAB") of the Chartered Professional Accountants of Canada. The goal of these standards are to provide better financial and performance information for government decision-making, accountability and comparability between government organizations.

The accounting firm of BDO Canada LLP was retained to conduct the 2018 audit and to express an opinion as to whether the consolidated financial statements fairly present the financial position of the City of Langley as at December 31, 2018 and the results of its operations for the year. In addition to an external audit, the City maintains and regularly reviews a comprehensive system of internal controls to help safeguard City assets and to provide reliable financial information.

The consolidated financial statements present financial information that is useful in evaluating the local government's financial condition at the end of the accounting period and its financial performance during the accounting period. They report a local government's actual financial activities in comparison to planned activities and the resulting financial condition of the local government. They are not intended to replace a variety of other financial reports used in planning, analysis and decision-making, nor are they intended to be the sole measure of government performance in the period.

Statement of Financial Position

At December 31, 2018 the City had financial assets of \$73.0M and financial liabilities of \$34.4M resulting in a positive outcome of \$38.6M in net financial assets. This is an increase of \$3.6M over 2017 and provides a positive indicator of the City's financial flexibility, its ability to finance operating activities and meet current financial obligations.

Non-financial assets have also increased in 2018, made up primarily of \$257.9M in tangible capital assets. Assets are a significant economic resource managed by the City and are a key component in the delivery of services to our citizens.

The accumulated surplus does not represent excess funds that can be allocated to fund a particular expenditure in the future but rather provide a picture of how the City is managing its economic resources. It could also be interpreted as the net worth of the organization. If we raise revenue to cover costs or acquire a new tangible capital asset a surplus will result. If the City does not invest in the maintenance and renewal of our assets over time, the accumulated surplus will decrease through the amortization charge. The annual surplus will gauge how we are maintaining our assets.

In 2018, the accumulated surplus increased \$11.3M represented as follows:

2018 Operating surplus	\$ 87,068
Net increase in tangible capital assets	7,624,550
Net increase in reserves	<u>3,543,921</u>
Total increase	<u>\$11,255,539</u>

Construction of Douglas Crescent and the replacement and refurbishment of some large drainage culverts contributed to the large increase in tangible capital assets. Sale of road right-of-ways and record setting development fees contributed to the large increase in reserves.

Statement of Operations

When comparing the 2018 actual expenditures to the financial plan, it is important to note the financial plan presented does not reflect any amendments adopted by City Council. In addition, expenditures that were originally budgeted in the capital improvement plan but don't result in a tangible capital asset have been reallocated and expensed in the operating departments that they relate to. For example, traffic studies are not an asset that can be amortized (depreciated) over time so it is expensed in the period.

The annual operating surplus resulted primarily from a combination of higher revenues, lower departmental expenditures and larger transfer to reserves. Excluding the policing operating surplus, which per City Council policy has to be directed to the Future Police Cost Reserve, the remainder of the general operating surplus of \$1.8 million was directed, \$350,000 to the Prosperity Fund and \$1,450,000 to the Capital Works Reserve.

Table 1 (below) lists the 2018 variance by functional area. A variance analysis on each area is provided below the table. The amounts quoted in the analysis are approximate and are intended to account for the major part of the variances being discussed.

Table 1 – Consolidated Statement of Operations

	2018 Financial Plan	2018	Variance
(Note 13)			
Revenues (Schedules 2 & 3)			
Property tax revenue (Note 6)	\$ 27,661,540	\$ 27,504,153	\$ (157,387)
User fees and other revenue	11,756,070	15,772,694	4,016,624
Gaming proceeds	6,800,000	7,752,596	952,596
Government transfers (Note 7)	1,754,190	1,953,717	199,527
Investment earnings	607,350	1,186,465	579,115
Use of development cost charges (Note 4)	1,098,900	797,718	(301,182)
Gain (loss) on disposal of tangible capital assets	-	420,894	420,894
Contributed tangible capital assets	-	1,117,743	1,117,743
	49,678,050	56,505,980	6,827,930
Expenses (Schedules 2 & 3)			
General government services	5,215,095	5,126,883	(88,212)
Police service	12,343,840	12,004,352	(339,488)
Fire service	4,822,775	4,436,465	(386,310)
Other protective services	826,425	798,060	(28,365)
Engineering operations	6,293,735	5,820,568	(473,167)
Water utility	3,961,085	3,988,915	27,830
Sewer and drainage utility	3,535,945	3,710,405	174,460
Development services	1,461,295	1,159,947	(301,348)
Solid waste	657,410	655,515	(1,895)
Recreation services	4,877,935	4,784,063	(93,872)
Parks	2,540,965	2,765,268	224,303
	46,536,505	45,250,441	(1,286,064)
Annual Surplus	\$ 3,141,545	\$ 11,255,539	\$ 8,113,994

Revenues:

Property tax revenue

The actual property tax revenue was \$157,387 lower than budget. The variance was primarily due to property assessment appeals and an associated reduction in property taxes.

User fees and other revenue

User fees and other revenue were \$4,016,624 higher than budget. The most significant variances are as follows: Admin/inspection fees and building permits combined for increased revenues of \$1,116,000; these were driven by record breaking construction activity. Water and sewer fees combined for \$400,000 in additional revenue due to an increase in user consumption. Sale of road right-of-ways provided \$1,630,000 of unanticipated income. Special bonds contributions from developers of \$437,000 are not budgeted as they are not predictable year to year. Capital funding revenue variance of \$392,000 is due to the prior year's carry over budget not being reflected in the current year financial plan.

Gaming proceeds

Gaming proceeds were \$952,596 higher than budget. Gaming proceeds are outside of the control of the City and are dictated by the operations of the gaming facility and gambling activity of the users. 2018 was the City's highest year of revenue sharing since the opening of the casino in 2005.

Government transfers

Government transfers were \$199,527 higher than budget. An operating grant from Translink was \$104,000 higher due to an approved expansion of the MRN network. Operating transfers from other governments were lower than anticipated by \$22,020 due to agreements based on variable factors such as revenue and cost sharing agreements. Capital funding revenue variance of \$117,545 is due to the prior year's carryover budget not being reflected in the current year financial plan as well as timing of construction activity and grant payments.

Investment earnings

Investment earnings were \$579,115 higher than budget. The City experienced an increase in interest earnings during the year due to increasing rates and an increase in investment holdings. Non-statutory reserve income was higher due to unexpended funds in the reserve accounts due to capital project timing. Statutory reserve income is not budgeted for and also varies depending on reserve fund balance and the timing of expenditures.

Use of development cost charges

Use of development cost charges (DCC's) was \$301,182 lower than budget. Use of DCC's varies against budget due to the capital budget carry forward amounts from prior years, but it is consistent with project timing.

Gain on disposal of tangible capital assets

Assets were sold, including a portion of road and vehicles, which resulted in an unbudgeted gain of \$420,894.

Contributed tangible capital assets

Contributed tangible capital assets was \$1,117,743 higher than budget. Contributed tangible capital assets are infrastructure works funded by developers which are required during development. Amounts are not budgeted and can fluctuate depending on the scope and timing of construction within the community.

Expenses:

Overall, 2018 expenses were under budget; however the results vary in each functional area as operating needs develop during the year and priorities are adjusted from the original financial plan. An amended financial plan bylaw is required to provide for these budget variances.

Amortization fluctuates annually based on the addition and disposal of tangible capital assets. Non-capitalized expenditures represent expenditures within our Capital Improvement Plan section of the Financial Plan, but do not create a tangible capital asset that can be amortized. These variances can be particularly large as unused budget from prior years is carried forward until the project is complete. The financial plan amounts presented do not include these amounts from prior years.

The significant areas of variance from the budget estimates are as follows with a particular focus on the operating surplus/deficit in each functional area.

General Government Services

2018 variance	\$ (268,770)
Amortization	21,489
Non-capitalized expenditure	159,069
Operating surplus	<u>\$ (88,212)</u>

Major variances:

Community grants	\$ (31,000)
Enterprise fund	(68,000)
Administration	(49,000)
Corporate services	(55,000)
City hall maintenance	(72,000)
Council remuneration	8,000
Internal vehicle adjustment	(11,000)

Community Grants and Council Enterprise funds were not fully allocated by City Council. Administration had lower labour costs due to less overtime and the timing when pay step increments happened. There was less corporate wide training undertaken. Corporate Services was underspent due to staff vacancies and unused casual time allotment. City hall maintenance was under budget due to staff vacancies and reduced operating expenses offset by higher security guard costs. Council remuneration was higher than budget due to a change in the remuneration policy. Internal vehicle adjustments reverse vehicle charge out rates in excess of vehicle maintenance costs; the financial plan includes funding at the full rate.

Police Service

2018 variance	\$ (360,120)
Amortization	632
Non-capitalized expenditure	20,000
Operating surplus	<u>\$ (339,488)</u>

Major variances:

RCMP contract	\$ (90,000)
RCMP detachment operations	(233,000)
Public safety initiatives	(30,000)
CPO operations	(7,000)

The RCMP contract was slightly under budget due lower wage costs for RCMP members offset by higher retroactive wage settlement costs than were budgeted. Detachment operation expenses, managed by the Township of Langley, came in under budget due to staff vacancies and the City's percentage share of detachment costs was higher based on the formula that uses the rolling average criminal code cases as one of the factors. The City had higher crime

statistics, increasing the City's share from 23.896% to 23.952%. The public safety initiatives were unspent as the initiative was deferred. The CPO Coordinator costs and telecommunication costs were lower than the budgeted amounts.

Fire Service

2018 variance	\$ (409,335)
Amortization	33,037
Non-capitalized expenditure	(10,012)
Operating surplus	<u>\$ (386,310)</u>

Major variances:

Staff vacancies	\$ (278,000)
Paid on Call	(105,000)
EComm radio delay	(27,000)

There was lower staffing costs due to a vacancy for the Fire Prevention Officer position, less overtime and acting pay and lower overhead percentage being applied. The Paid On Call (POC) suppression and training costs were less due to vacancies and difficulty getting responders during the day. As well, medical assistance calls were reduced due to the way ambulances were dispatched by the Province requiring less calls to be attended by the POC. A delayed adoption of the EComm radio system created a savings during 2018.

Other Protective Services

2018 variance	\$ (28,365)
Operating surplus	<u>\$ (28,365)</u>

Major variances:

Emergency planning	(31,000)
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Emergency Planning was underspent due to a staff vacancy and reduced supply expenses.

Engineering Operations

2018 variance	\$ 755
Amortization	59,360
Non-capitalized expenditure	(533,282)
Operating surplus	<u>\$ (473,167)</u>

Major variances:

Labour costs	\$ (97,000)
Snow removal	(72,000)
Wire theft	88,000
Internal vehicle adjustment	85,000

Labour costs were lower due to staffing vacancies. Due to environmental conditions snow removal was under budget for 2018. Wire theft and vandalism costs were higher than anticipated. Internal vehicle adjustments reverse vehicle charge out rates in excess of vehicle maintenance costs; the financial plan includes funding at the full rate.

Water Utility Expenses

2018 variance	\$ (78,726)
Amortization	38,970
Non-capitalized expenditure	67,586
Operating deficit	<u>\$ 27,830</u>
<u>Major variances:</u>	
GVWD water purchases	\$ (126,000)
Water system maintenance	27,000
Internal vehicle adjustment	8,000

Water purchases from GVWD were under budget due to seasonal fluctuations and consumer usage. These savings offset additional maintenance and emergency repair costs. Internal vehicle adjustments reverse vehicle charge out rates in excess of vehicle maintenance costs; the financial plan includes funding at the full rate.

Sewer and Drainage Utility Expenses

2018 variance	\$ (35,885)
Amortization	43,896
Non-capitalized expenditure	166,449
Operating deficit	<u>\$ 174,460</u>
<u>Major variances:</u>	
Sewer system maintenance	\$ (58,000)
GVS&DD levy	12,000
Internal vehicle adjustment	17,000

Sewer system maintenance was under budget due to a reallocation of staff resources to other City priorities and development requirements. This savings was offset by an increase in charges from the GVS&DD for sewerage treatment and disposal. Internal vehicle adjustments reverse vehicle charge out rates in excess of vehicle maintenance costs; the financial plan includes funding at the full rate.

Development Services

2018 variance	\$ (177,816)
Amortization	2,889
Non-capitalized expenditure	(126,421)
Operating surplus	<u>\$ (301,348)</u>

Major variances:

Staffing vacancies	\$ (166,000)
Carbon neutral activities	(19,000)
Tourism promotion	6,000
Internal vehicle adjustment	2,000

Vacant building inspector positions and less clerical support resulted in budget savings. Sustainability initiatives relating to lighting upgrades were deferred to the following year and budgeted in the Capital Improvement Plan. Tourism promotion was over spent due to an increase in Hotel Tax Revenues being transferred to Discover Langley City. Internal vehicle adjustments reverse vehicle charge out rates in excess of vehicle maintenance costs; the financial plan includes funding at the full rate.

Solid Waste

2018 variance	\$ (1,895)
Operating surplus	<u>\$ (1,895)</u>

Major variances:

Contracted services	\$ (2,000)
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Reasonably consistent with budget, variables such as disposal charges based on weight vary year to year.

Recreation Services

2018 variance	\$ (58,391)
Amortization	24,476
Non-capitalized expenditure	(59,957)
Operating surplus	<u>\$ (93,872)</u>

Major variances:

DRC/Timms Community Centres	\$ (41,000)
Advertising	(12,000)

The largest contributing factor to the recreation variance is higher labour costs to supervise the drop-in facilities and the weight room offset by higher revenues by patrons. Advertising costs were less due to the recreation guide no longer being printed for inclusion in the local newspaper, rather guides were posted online and available for pick up at our facilities.

Parks

2018 variance	\$ 12,148
Amortization	154,294
Non-capitalized expenditure	57,861
Operating deficit	<u>\$ 224,303</u>

Major variances:

Utility charges	\$ 20,000
Homeless camp cleanup	64,000
Internal vehicle adjustment	(72,000)

Parks expenditures between different locations vary year to year based on required maintenance but overall were over budget. The most significant over expenditure relates to homeless camp cleanup on City property, this continues to be a challenge for the City. Internal vehicle adjustments reverse vehicle charge out rates in excess of vehicle maintenance costs; the financial plan includes funding at the full rate.

Fund transfers:

Transfers from Reserves Accounts

Transfer from gaming proceeds	\$ (101,525)
Transfer from future police cost	(360,377)
Net transfer under budget	<u>\$ (461,902)</u>

As the community grants and enterprise fund were under expended for the year, the gaming proceeds were not required as a funding source. RCMP vacancies reduced operating costs, making the transfer from the future police cost reserve unnecessary for the year.

Transfers to Reserves Accounts

Interest on reserve accounts	\$ 160,690
Community works fund	5,223
Gaming proceeds	952,596
Prosperity fund	350,000
MRN rehabilitation	102,732
Sewer future capital	200,000
Water future capital	310,000
Transfer in excess of budget	<u>\$ 2,081,241</u>

Non-statutory reserve income was higher due to unexpended funds in the reserve accounts due to capital project timing as well as an increase in investment returns. Gaming proceeds in excess of the financial plan are transferred to the reserve for future capital investment. An additional \$350,000 has been allocated to the prosperity fund. MRN rehabilitation is higher than anticipated due to an approved increase in funding from Translink. Operating surplus for the sewer and water fund was also transferred to the sewer and water reserves.

Transfers to Statutory Reserve Funds

Capital works	\$ 3,079,989
Machinery replacement	32,243
Off street parking	(1,084)
Transfer in excess of budget	<u>\$ 924,790</u>

The general operating surplus was transferred to the capital works reserve for future investment through our capital improvement plan. The excess of vehicle revenue over maintenance costs is transferred to the machinery replacement reserve at year end.

BUDGET IMPLICATIONS:

A financial plan amendment is required to fund any over expenditures and revised transfers to reserves.

Respectfully Submitted,



Graham Flack, CMA, CPA
Deputy Director of Corporate Services

Attachment:

1. 2018 Consolidated Financial Statements

DEPUTY CHIEF ADMINISTRATIVE OFFICER'S COMMENTS:

I support the recommendation.



Darrin Leite, CA, CPA
Deputy Chief Administrative Officer