



# REPORT TO COUNCIL

To: **Mayor and Councillors**

Subject: 2019 Consolidated Financial Statements

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From: Darrin Leite, CPA, CA  
Director of Corporate Services

Date: May 20, 2020

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## RECOMMENDATION:

THAT City Council approve the 2019 Consolidated Financial Statements.

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## 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 2019 and of the results of the audit of the City of Langley's 2019 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, 2019 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 2019 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, 2019 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, 2019 the City had financial assets of \$83.9M and financial liabilities of \$38.3M resulting in a positive outcome of \$45.6M in net financial assets. This is an increase of \$7.0M over 2018 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 2019, made up primarily of \$260.2M 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 2019, the accumulated surplus increased \$9.3M represented as follows:

2019 Operating surplus	\$ 20,383
Net increase in tangible capital assets	2,226,656
Net increase in reserves	<u>7,059,079</u>
Total increase	<u>\$9,306,118</u>

Investment in infrastructure renewal contributed to the increase in tangible capital assets. In addition to planned reserve contributions, sale of road right-of-ways, a number of staffing vacancies and higher development fee revenue contributed to the large increase in reserves.

### **Statement of Operations**

When comparing the 2019 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 was directed, \$525,000 to the Prosperity Fund, \$1,000,000 to the Tax Rate Stabilization Reserve and \$470,000 to the Capital Works Reserve.

Table 1 (below) lists the 2019 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**

	2019 Financial Plan	2019	Variance
	(Note 13)		
<b>Revenues (Schedules 2 &amp; 3)</b>			
Property tax revenue (Note 6)	\$ 29,767,135	\$ 29,601,511	\$ (165,624)
User fees and other revenue	13,343,245	13,410,968	67,723
Gaming proceeds	7,200,000	7,490,986	290,986
Government transfers (Note 7)	1,855,440	2,205,532	350,092
Investment earnings	714,500	1,596,503	882,003
Use of development cost charges (Note 4)	757,350	1,043,567	286,217
Gain (loss) on disposal of tangible capital assets	-	(31,860)	(31,860)
Contributed tangible capital assets	-	1,341,637	1,341,637
	53,637,670	56,658,844	3,021,174
<b>Expenses (Schedules 2 &amp; 3)</b>			
General government services	6,067,635	5,509,973	(557,662)
Police service	13,036,380	12,107,298	(929,082)
Fire service	5,460,645	4,907,545	(553,100)
Other protective services	853,365	805,174	(48,191)
Engineering operations	6,885,930	6,135,382	(750,548)
Water utility	4,456,145	4,116,255	(339,890)
Sewer and drainage utility	3,876,170	3,645,034	(231,136)
Development services	1,506,890	1,579,381	72,491
Solid waste	689,770	683,060	(6,710)
Recreation services	5,087,600	5,056,626	(30,974)
Parks	2,793,900	2,806,998	13,098
	50,714,430	47,352,726	(3,361,704)
<b>Annual Surplus</b>	<b>\$ 2,923,240</b>	<b>\$ 9,306,118</b>	<b>\$ 6,382,878</b>

**Revenues:**

***Property tax revenue***

The actual property tax revenue was \$165,624 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 \$67,723 higher than budget. The most significant variances are as follows: Admin/inspection fees and building permits combined for increased revenues of \$617,000; these were driven by higher than anticipated construction activity. Sale of road right-of-ways provided \$470,000 of unanticipated income. Special bonds contributions from developers of \$94,085 are not budgeted as they are not predictable year to year. Water and sewer fees combined for \$318,000 in reduced revenue due to a decrease in user consumption. Capital funding revenue variance of \$842,000 is due to delays in capital projects and the applicable funding not being received in the current year.

***Gaming proceeds***

Gaming proceeds were \$290,986 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.

***Government transfers***

Government transfers were \$350,092 higher than budget. The gas tax allocation from the Government of Canada was \$132,595 higher due to an approved additional one time payment. Operating transfers from other governments were higher than anticipated by \$51,497 due to agreements based on variable factors such as revenue and cost sharing agreements. Capital funding revenue variance of \$166,000 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 \$882,003 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 \$286,217 higher 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 and disposed of, including aging infrastructure and vehicles, which resulted in an unbudgeted loss of \$31,860.

***Contributed tangible capital assets***

Contributed tangible capital assets was \$1,341,637 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, 2019 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**

2019 variance	\$ (330,184)
Amortization	6,854
Non-capitalized expenditure	(234,332)
Operating surplus	<u>\$ (557,662)</u>

#### Major variances:

Community grants	\$ (16,000)
Enterprise fund	(101,000)
Wages & benefits	(263,000)
Legal fees	32,000
Supplies & services	18,000

Community grants and council enterprise funds were not fully allocated by City Council. Labour costs were lower due to temporary vacancies, employment agreements and unused overtime allocations. Legal fees were over budget due to a case that proceeded to the human rights tribunal. The remaining variance was due to higher than anticipated expenses for miscellaneous supply and contracted service costs.

### **Police Service**

2019 variance	\$ (927,370)
Amortization	(1,712)
Non-capitalized expenditure	-
Operating surplus	<u>\$ (929,082)</u>

#### Major variances:

RCMP contract	\$ (543,000)
RCMP detachment operations	(297,000)
Public safety initiatives	(78,000)
CPO operations	(9,000)

The RCMP contract was under budget due to member vacancies in excess of budget. Detachment operation expenses, managed by the Township of Langley, came in under budget due to staff vacancies and other operational savings. The public safety initiatives were unspent as the initiative has been deferred. The CPO Coordinator and cleaning costs were lower than the budgeted amounts.

### ***Fire Service***

2019 variance	\$ (570,768)
Amortization	9,307
Non-capitalized expenditure	8,361
Operating surplus	<u>\$ (553,100)</u>

#### Major variances:

Staff vacancies	\$ (567,000)
Paid on Call	(56,000)
Turnout gear	25,000
Backup generator	32,000

Three new positions included in the budget remained unfilled during the year. The Paid On Call (POC) suppression and training costs were less due to vacancies and difficulty getting responders during the day. Due to recent staffing changes new turnout gear was purchased for new staff. The emergency backup generator failed during the year requiring a temporary unit to be rented while the permanent replacement was procured.

### ***Other Protective Services***

2019 variance	\$ (48,191)
Operating surplus	<u>\$ (48,191)</u>

#### Major variances:

Emergency planning	(44,000)
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Emergency Planning was underspent due to a staff vacancy and reduced supply expenses.

### ***Engineering Operations***

2019 variance	\$ 82,592
Amortization	304,805
Non-capitalized expenditure	(1,137,945)
Operating surplus	<u>\$ (750,548)</u>

#### Major variances:

Boulevard maintenance	\$ (21,000)
Streetlight maintenance	35,000
Internal vehicle adjustment	66,000

Annual operating costs vary year to year within areas of the budget. Significant variances include a reduction in boulevard maintenance and an increase in street light maintenance due to conversion to energy efficient LED fixtures. 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***

2019 variance	\$ (305,712)
Amortization	6,254
Non-capitalized expenditure	(40,432)
Operating surplus	<u>\$ (339,890)</u>

#### Major variances:

GVWD water purchases	\$ (359,000)
Water system maintenance	64,000
Staffing vacancy	(8,500)

Water purchases from GVWD were under budget due to seasonal fluctuations and an associated reduction in consumer usage. These savings offset additional maintenance and emergency repair costs. Administration labour costs were lower than budget due to temporary vacancies.

### ***Sewer and Drainage Utility Expenses***

2019 variance	\$ (98,735)
Amortization	10,334
Non-capitalized expenditure	(142,735)
Operating surplus	<u>\$ (231,136)</u>

#### Major variances:

Sewer system maintenance	\$ (92,000)
GVS&DD levy	(10,000)

Sewer system maintenance was under budget due to a reallocation of staff resources to other City priorities and development requirements. Additional savings were realized by a decrease in charges from the GVS&DD for sewerage treatment and disposal.

### ***Development Services***

2019 variance	\$ (106,879)
Amortization	1,629
Non-capitalized expenditure	177,741
Operating deficit	<u>\$ 72,491</u>

#### Major variances:

Staffing vacancies	\$ (132,000)
Tourism promotion	30,000

Temporary vacancies throughout the department resulted in budget savings. Tourism promotion was over spent due to an increase in Hotel Tax Revenues being transferred to Discover Langley City.



### ***Solid Waste***

2019 variance	\$ (6,710)
Operating surplus	<u>\$ (6,710)</u>

Major variances:

Contracted services	\$ (6,710)
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Reasonably consistent with budget, variables such as disposal charges, based on weight, vary year to year.

### ***Recreation Services***

2019 variance	\$ (86,730)
Amortization	15,441
Non-capitalized expenditure	<u>40,315</u>
Operating surplus	<u>\$ (30,974)</u>

Major variances:

Position vacancy	\$ (73,000)
Additional staffing savings	(131,000)
Weight room & drop-in	104,000

The Office Supervisor position was vacant during the year. Other recreation labour costs were lower than budgeted due to temporary vacancies and operational adjustments. Higher utilization of the drop-in services and weight room usage required additional staff supervision.

### ***Parks***

2019 variance	\$ (116,990)
Amortization	64,314
Non-capitalized expenditure	<u>65,774</u>
Operating deficit	<u>\$ 13,098</u>

Major variances:

Staff vacancies	\$ (200,000)
Vandalism & homelessness	58,000
Utilities	35,000

Parks expenditures between different locations vary year to year based on required maintenance but overall were under budget. Partial year staff vacancies for newly created positions in tree and boulevard maintenance created a savings in wages & benefits. Over expenditures relating to vandalism and homeless camp cleanup on City property continues to be a challenge for the City. Utility charges for water and electrical consumption increased due to new facilities and landscape installations.

### **Fund transfers:**

#### ***Transfers from Reserves Accounts***

Transfer from gaming proceeds	\$ (122,132)
Transfer from future police cost	(545,000)
Net transfer under budget	<u>\$ (667,132)</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	\$ 298,855
Community works fund	132,595
Gaming proceeds	290,986
Future police costs	382,370
Prosperity fund	525,000
Tax rate stabilization	1,000,000
MRN rehabilitation	(8,863)
Sewer future capital	(35,000)
Water future capital	110,000
Transfer in excess of budget	<u>\$ 2,695,943</u>

Non-statutory reserve interest income was higher due to unexpended funds in the reserve accounts due to capital project timing as well as an increase in investment returns. Additional gas tax received was transferred to the community works fund. Gaming proceeds in excess of the financial plan are transferred to the reserve for future capital investment. Policy dictates any unexpended police funding is allocated to the future police cost reserve at the end of the year. An additional \$525,000 has been allocated to the prosperity fund. An allocation of \$1,000,000 has been made to the tax rate stabilization reserve to provide financial flexibility if future revenues are adversely affected due to the COVID-19 pandemic. The transfer to the sewer future capital reserve was reduced due to compensate for an overall reduction in annual revenue. Operating surplus for the water fund was also transferred to the water future capital reserve.

#### ***Transfers to Statutory Reserve Funds***

Capital works	\$ 470,000
Machinery replacement	59,872
Off street parking	1,265
Transfer in excess of budget	<u>\$ 531,137</u>

The proceeds from the sale of a road right of way 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,



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Darrin Leite, CPA, CA  
Director of Corporate Services

Attachment:

1. 2019 Consolidated Financial Statements

**CHIEF ADMINISTRATIVE OFFICER'S COMMENTS:**

I support the recommendation.



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Francis Cheung, P. Eng.  
Chief Administrative Officer