



# REPORT TO COUNCIL

To: **Mayor and Councillors**

Subject: 2020 Consolidated Financial Statements

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

Date: May 3, 2021

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## RECOMMENDATION:

THAT City Council approve the 2020 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 2020 and of the results of the audit of the City of Langley's 2020 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, 2020 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 2020 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, 2020 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, 2020 the City had financial assets of \$99.1M and financial liabilities of \$50.5M resulting in a positive outcome of \$48.6M in net financial assets. This is an increase of \$3.0M over 2019 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 2020, made up primarily of \$264.9M 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 2020, the accumulated surplus increased \$7.9M represented as follows:

2020 Operating surplus	\$ 11,486
Net increase in tangible capital assets	4,744,491
Net increase in reserves	<u>3,122,709</u>
Total increase	<u>\$7,878,686</u>

Investment in infrastructure renewal contributed to the increase in tangible capital assets. In addition to planned reserve contributions, operational savings created by reduced operating capacity and facility closures due to the COVID-19 pandemic combined with higher development fee revenue contributed to the large increase in reserves.

### **Statement of Operations**

When comparing the 2020 actual expenditures to the financial plan, it is important to note the financial plan presented does not reflect any amendments adopted by City Council. This difference is particularly noticeable in 2020 as City Council amended the financial plan in response to the COVID-19 pandemic in order to reduce the financial burden on City taxpayers. In addition, expenditures that were originally budgeted in the capital improvement plan but do not 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 over time so it is expensed in the period.

The annual operating surplus resulted primarily from 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, \$1.0M to the Prosperity Fund and \$5.3M to the Capital Works Reserve.

Table 1 (below) lists the 2020 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**

	2020 Financial Plan	2020	Variance
	(Note 13)		
<b>Revenues</b> (Schedules 2 & 3)			
Property tax revenue (Note 6)	\$ 31,840,560	\$ 30,368,697	\$ (1,471,863)
User fees and other revenue	12,770,840	14,208,891	1,438,051
Gaming proceeds	7,200,000	1,533,582	(5,666,418)
Government transfers (Note 7)	2,610,470	6,166,516	3,556,046
Investment earnings	742,500	1,280,883	538,383
Use of development cost charges (Note 4)	1,372,890	912,211	(460,679)
Gain (loss) on disposal of tangible capital assets	-	(126,378)	(126,378)
Contributed tangible capital assets	-	2,090,095	2,090,095
	<u>56,537,260</u>	<u>56,434,497</u>	<u>(102,763)</u>
<b>Expenses</b> (Schedules 2 & 3)			
General government services	6,257,420	5,407,905	(849,515)
Police service	12,987,650	13,006,829	19,179
Fire service	5,675,060	5,192,210	(482,850)
Other protective services	878,285	789,379	(88,906)
Engineering operations	7,600,815	6,185,837	(1,414,978)
Water utility	4,819,020	4,330,410	(488,610)
Sewer and drainage utility	4,344,965	4,368,535	23,570
Development services	1,445,095	1,218,374	(226,721)
Solid waste	709,610	688,451	(21,159)
Recreation services	5,257,585	4,584,943	(672,642)
Parks	2,949,985	2,782,938	(167,047)
	<u>52,925,490</u>	<u>48,555,811</u>	<u>(4,369,679)</u>
<b>Annual Surplus</b>	<u>\$ 3,611,770</u>	<u>\$ 7,878,686</u>	<u>\$ 4,266,916</u>

**Revenues:**

***Property tax revenue***

The budgeted property tax revenue on the FS was amended by the City to reduce the taxation revenue (\$1,413,520) in response to any financial hardships experienced by property owners due to the COVID-19 pandemic. In addition, supplementary assessment reductions due to successful appeals reduced taxation revenue.

***User fees and other revenue***

User fees and other revenue were \$1,438,051 higher than budget. Licence & permits were approximately \$754,000 more than budget due to sustained development but were consistent with the past few years. Water and sewer fees combined for \$458,578 in reduced revenue due to a decrease in user consumption. External reserve contributions for the special bonds and off street parking reserves amounting to \$758,440 are not budgeted. Capital funding varies due to project timing (Re: carry forward budget from prior years) and funding availability, and

accounted for \$332,200 in additional funding in 2020. Other miscellaneous income varies year to year as unexpected income arises.

### ***Gaming proceeds***

Due to the COVID-19 pandemic, the casino was closed as of March 16, 2020. Gaming proceeds were therefore \$5,666,418 lower than budget.

### ***Government transfers***

Government transfers were \$3,556,046 higher than budget. The City of Langley received \$4,151,000 from the Province of BC as part of the Safe Restart Grant to help address the financial burden of the COVID-19 pandemic. The Hotel tax was approximately \$102,000 lower due to the impact of COVID-19 and GVTA MRN funding which was ceased for 2020 after the first quarter due to TransLink's economic response due to COVID-19 resulting in a drop in revenue of \$537,000. Capital funding revenue variance of \$65,216 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 \$538,383 higher than budget. Although rates of return dropped for 2020 due to the COVID-19 pandemic, balance in accounts and reserves were higher than anticipated due to capital project timing and the delayed remittance of \$5.8 million in school taxes which was allowed by the Province. An increase in damage deposits also improved interest earnings on funds held in trust. Statutory reserve income is not budgeted for and varies depending on reserve fund balance and the timing of expenditures.

### ***Use of development cost charges***

Use of development cost charges (DCC's) was \$460,679 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 and disposed of, including aging infrastructure and vehicles, which resulted in an unbudgeted loss of \$126,378. A loss arises when an infrastructure asset that is not fully amortized is replaced.

### ***Contributed tangible capital assets***

The value of contributed tangible capital assets were \$2,090,095. 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, 2020 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 projects are 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**

2020 variance	\$ (720,266)
Amortization	(75,457)
Non-capitalized expenditure	<u>(53,792)</u>
Operating surplus	<u>\$ (849,515)</u>

#### Major variances:

Community grants	\$ (40,000)
Enterprise fund	(149,000)
Wages & benefits	(340,000)
Legal fees	79,000
Debt servicing costs	(270,000)

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 increased assistance with labour matters. The original budget included debt servicing costs that were delayed until 2021 in a budget amendment.

### **Police Service**

2020 variance	\$ 7,631
Amortization	2,998
Non-capitalized expenditure	<u>8,550</u>
Operating deficit	<u>\$ 19,179</u>

#### Major variances:

RCMP contract	\$ (197,000)
RCMP earned retirement benefit	715,000
RCMP detachment operations	(353,000)
Public safety initiatives	(78,000)
CPO operations	(79,000)

The RCMP contract was under budget due to member vacancies in excess of budget. The City has accrued RCMP earned retirement benefit payable over 10 years, this was offset by a transfer from the future police cost reserve. 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 budget was amended to remove the service. The CPO was closed to the public for the majority of 2020 due to the COVID-19 pandemic.

### ***Fire Service***

2020 variance	\$ (520,698)
Amortization	9,268
Non-capitalized expenditure	28,580
Operating surplus	<u>\$ (482,850)</u>
<u>Major variances:</u>	
Staff vacancies	\$ (336,000)
Training	(144,000)
Paid on Call	(47,000)

Three new positions were vacant until April, as well recent retirements left temporary vacancies in the fire suppression crews. Training for suppression and Paid On Call (POC) members was limited during the year during COVID-19 restrictions. The POC suppression costs were less due to vacancies and difficulty getting responders during the day.

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

2020 variance	<u>\$ (88,906)</u>
Operating surplus	<u>\$ (88,906)</u>
<u>Major variances:</u>	
LYFS	\$ (21,000)
Emergency planning	(33,000)
Victim witness	(25,000)

LYFS had a savings as there was a temporary closure due to the COVID-19 pandemic. Emergency Planning was underspent due to a staff vacancy. Victim witness program was also underspent for the year.

### ***Engineering Operations***

2020 variance	\$ (284,074)
Amortization	158,447
Non-capitalized expenditure	(1,289,351)
Operating surplus	<u>\$ (1,414,978)</u>
<u>Major variances:</u>	
Wages & benefits	\$ (188,000)

Boulevard maintenance	(62,000)
Road maintenance	(42,000)
Streetlight maintenance	(49,000)
Traffic lane markings	20,000
Internal vehicle adjustment	34,000

Annual operating costs vary year to year within areas of the budget. Significant variances include a reduction in boulevard and road maintenance and a decrease in street light maintenance due to conversion to energy efficient LED fixtures. Traffic lane markings increased in the year to address problem areas within 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.

### ***Water Utility Expenses***

2020 variance	\$ (78,086)
Amortization	15,346
Non-capitalized expenditure	(425,870)
Operating surplus	<u>\$ (488,610)</u>

#### Major variances:

GVWD water purchases	\$ (43,000)
Staffing vacancy	(32,000)

Water purchases from GVWD were under budget due to seasonal fluctuations and an associated reduction in consumer usage. Administration labour costs were lower than budget due to temporary vacancies.

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

2020 variance	\$ (27,175)
Amortization	59,486
Non-capitalized expenditure	(8,741)
Operating deficit	<u>\$ 23,570</u>

#### Major variances:

Sewer system maintenance	\$ 18,000
Staffing vacancy	(31,000)
GVS&DD levy	(14,000)

Sewer system maintenance was over budget due to a reallocation of staff resources to increase inspection and testing of the system. Administration labour costs were lower than budget due to temporary vacancies. Additional savings were realized by a decrease in charges from the GVS&DD for sewerage treatment and disposal.



### ***Development Services***

2020 variance	\$ (321,303)
Amortization	(94)
Non-capitalized expenditure	94,676
Operating surplus	<u>\$ (226,721)</u>

#### Major variances:

Economic development	\$ (38,000)
Training and travel	(23,000)
Wages & benefits	(149,000)
Tourism promotion	(102,000)

Economic development activities were curtailed during the COVID-19 pandemic along with a reduction in travel costs due to virtual conferences. Temporary vacancies throughout the department resulted in budget savings. Tourism promotion was under spent due to a decrease in hotel tax revenues, due to COVID-19, which is transferred to Discover Langley City.

### ***Solid Waste***

2020 variance	\$ (21,159)
Operating surplus	<u>\$ (21,159)</u>

#### Major variances:

Advertising	\$ (5,000)
Hazardous waste event	\$ (15,000)

Advertising was curtailed during 2020 and the hazardous waste collection event was cancelled due to the COVID-19 restrictions.

### ***Recreation Services***

2020 variance	\$ (774,934)
Amortization	61,161
Non-capitalized expenditure	41,131
Operating surplus	<u>\$ (672,642)</u>

#### Major variances:

Administration wage & benefits	\$ (158,000)
AAMP	(274,000)
Recreation programming	64,000
Special events	(73,000)
DRC	(44,000)
Timms community centre	(221,000)
Library	(60,000)

Administration labour costs were lower than budgeted due to temporary vacancies and a vacant supervisor position. The COVID-19 pandemic necessitated the temporary closure and/or reduced operating hours of facilities creating a surplus for 2020. AAMP was only operated at a limited capacity for 2 months, recreation programming was often cancelled or run with reduced numbers to maintain social distancing, special events were cancelled and Douglas & Timms community centres were either closed or operating on a reduced schedule. The library also experienced savings due to reduced operating hours and the related savings in security and maintenance costs.

**Parks**

2020 variance	\$ (194,438)
Amortization	36,158
Non-capitalized expenditure	<u>(8,767)</u>
Operating surplus	<u>\$ (167,047)</u>
 <u>Major variances:</u>	
Staff vacancies	\$ (93,000)
Vandalism & homelessness	58,000
Utility fees	(14,000)
Internal vehicle adjustment	(140,000)

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 usage decreased due to reduced consumption. 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	\$ (792,565)
Transfer from future police cost	580,514
Transfer from MRN	<u>185,992</u>
Net transfer under budget	<u>\$ (26,059)</u>

With the closure of the casino due to the COVID-19 pandemic, the City funded the community grants and enterprise fund usually funded by gaming proceeds using the Safe Restart Grant provided by the Province. RCMP vacancies reduced operating costs, making the budgeted transfer from the future police cost reserve unnecessary for the year, however a transfer was completed to fund the RCMP earned retirement benefit accrued in 2020. Transfer from the MRN reserve was used to fund 2020 operating costs as funding from Translink was ceased due to COVID-19.

### ***Transfers to Reserves Accounts***

Interest on reserve accounts	\$ 182,306
Community works fund	(1,289)
Gaming proceeds	(5,642,307)
Future police costs	494,583
Prosperity fund	1,000,000
MRN rehabilitation	(349,255)
Sewer future capital	(173,560)
Water future capital	(177,076)
Net transfer under budget	<u>\$ (4,666,598)</u>

Non-statutory reserve interest income was higher than budget due to unexpended funds in the reserve accounts due to capital project timing. Gaming proceeds were reduced in 2020 as the casino was closed in March due to public health orders stemming from the COVID-19 pandemic. Policy dictates any unexpended police funding is allocated to the future police cost reserve at the end of the year. An additional \$1,000,000 has been allocated to replenish the prosperity fund. The transfer to the MRN reserve was eliminated in 2020 as the funding was not fully supplied by Translink. The transfer to the sewer and water future capital reserve was reduced due to compensate for an overall reduction in annual utility revenue.

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

Capital works	\$ 5,288,115
Machinery replacement	162,330
Off street parking	(3,015)
Transfer in excess of budget	<u>\$ 5,447,430</u>

The operating surplus created by savings due to COVID-19 closures and reduced services, and the remaining funding provided by the Safe Restart Grant 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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Graham Flack, CPA, CMA  
Deputy Director of Corporate Services

Concurrence:



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Darrin Leite, CPA, CA  
Director of Corporate Services

Attachment:

1. 2020 Consolidated Financial Statements

**CHIEF ADMINISTRATIVE OFFICER'S COMMENTS:**

I support the recommendation.



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Francis Cheung, P. Eng.  
Chief Administrative Officer