



# REPORT TO COUNCIL

To: **Mayor and Councillors**

Subject: 2021 Consolidate Financial Statements

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

Date: May 2, 2022

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## RECOMMENDATION:

THAT City Council approve the 2021 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 2021 and of the results of the audit of the City of Langley's 2021 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, 2021 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 2021 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, 2021 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, 2021 the City had financial assets of \$104M and financial liabilities of \$56M resulting in a positive outcome of \$48M in net financial assets. This is a small decrease of \$0.6M from 2020 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 2021, made up primarily of \$272M 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 2021, the accumulated surplus increased \$6.8M represented as follows:

2021 Operating deficit	\$	(36,414)
Net increase in tangible capital assets		7,348,059
Net decrease in reserves		<u>(503,276)</u>
Total increase		<u>\$6,808,369</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 due to the COVID-19 pandemic combined with higher development fee revenue contributed to a larger than anticipated transfer to reserves. These larger reserve contributions helped offset the reserves used to invest in capital infrastructure.

### **Statement of Operations**

When comparing the 2021 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 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 deficit is compromised as follows:

General operating fund surplus	\$	22,375
Sewer operating fund surplus		2,811
Water operating fund deficit		<u>(61,600)</u>
2021 Operating deficit		<u>\$(36,414)</u>

The general operating fund surplus resulted primarily from an increase in development related revenues and lower departmental expenditures. This surplus was reduced by allocating additional funds to the future police cost reserve (\$500,000), tax rate stabilization reserve (\$576,580), prosperity fund (\$500,000) and capital works reserve (\$1,150,000) to replenish these reserves and provide additional funds for future projects and expenditures.

The sewer operating fund surplus resulted from an increase in revenue due to higher user fees based on consumption. This surplus was reduced by allocating additional funds to the sewer future capital reserve (\$130,000) to provide funding for future infrastructure projects.

The water operating fund deficit resulted from an increase in revenue due to community water consumption which was offset by the higher than anticipated cost of water service connections to new water mains.

Table 1 (below) lists the 2021 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**

	2021 Financial Plan	2021	Variance
	(Note 13)		
<b>Revenues</b> (Schedules 2 & 3)			
Property tax revenue (Note 7)	\$ 32,016,650	\$ 31,989,060	\$ (27,590)
User fees and other revenue	13,988,290	14,797,258	808,968
Gaming proceeds	-	4,103,377	4,103,377
Government transfers (Note 8)	5,667,700	4,543,636	(1,124,064)
Investment earnings	574,000	907,665	333,665
DCC revenue recognized (Note 5)	884,670	1,130,277	245,607
Loss on disposal of tangible capital assets	-	(455,659)	(455,659)
Contributed tangible capital assets	-	2,692,587	2,692,587
	53,131,310	59,708,201	6,576,891
<b>Expenses</b> (Schedules 2 & 3)			
General government services	5,937,410	5,838,671	(98,739)
Police service	13,609,535	13,533,401	(76,134)
Fire service	5,714,710	5,405,448	(309,262)
Other protective services	881,435	798,241	(83,194)
Engineering operations	7,348,225	6,941,732	(406,493)
Water utility	4,639,490	5,570,458	930,968
Sewer and drainage utility	4,288,440	4,397,326	108,886
Development services	1,371,560	1,278,655	(92,905)
Solid waste	715,160	715,036	(124)
Recreation services	5,463,260	4,961,936	(501,324)
Parks	3,081,720	3,458,928	377,208
	53,050,945	52,899,832	(151,113)
<b>Annual Surplus</b>	\$ 80,365	\$ 6,808,369	\$ 6,728,004

## **Revenues:**

### ***Property tax revenue***

Supplementary assessment reductions due to successful appeals reduced taxation revenue after the budget was adopted.

### ***User fees and other revenue***

User fees and other revenue were \$808,968 higher than budget. Development related revenue was over budget \$576,000 due to increased building activity. The sale of a statutory right of way and other miscellaneous revenue produced \$259,000 in unplanned revenue. Additional funds from water and sewer billings due to increased community consumption increased utility revenue by \$485,000. External reserve contributions/refunds for the special bonds reserve amounting to (\$255,100) 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 unspent funding in 2021. Other miscellaneous income varies year to year as unexpected income arises.

### ***Gaming proceeds***

Due to the COVID-19 pandemic, the casino was temporarily closed and gaming proceeds were not expected in 2021. Casino operations resumed on July 1, 2021, and gaming proceeds were therefore \$4,103,377 over budget.

### ***Government transfers***

Government transfers were \$1,124,063 lower than budget. In 2020, the City of Langley received funding from the Province of BC as part of the Safe Restart Grant to help address the financial burden of the COVID-19 pandemic, the original budget reflected the recognition of \$793,000 in 2021, after adoption of the financial plan, it was decided to recognize all of the revenue in the prior year, which created a budget shortfall for the same amount in 2021. Capital funding revenue variance of \$543,000 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 \$333,665 higher than budget. Although rates of return dropped for 2021 due to the COVID-19 pandemic, balance in accounts and reserves were higher than anticipated due to capital project timing. 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.

### ***DCC revenue recognized***

Use of development cost charges (DCC's) was \$245,607 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.

### ***Loss on disposal of tangible capital assets***

Assets were sold and disposed of, including aging infrastructure and vehicles, which resulted in an unbudgeted loss of \$455,659. 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 \$2,692,587. 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, 2021 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***

2021 variance	\$ (257,272)
Amortization	(51,306)
Non-capitalized expenditure	209,839
Operating surplus	<u>\$ (98,739)</u>

#### **Major variances:**

Community grants	\$ (64,000)
Enterprise fund	(48,000)
Wages & benefits	(304,000)
Legal fees	232,000
Security	38,000
Debt servicing costs	(135,000)

Community grants and council enterprise funds were not fully allocated by City Council. Labour costs were lower due to temporary vacancies and unused overtime allocations. Legal fees were over budget due to increased assistance with labour matters. Security expenses were over budget due to vaccine passport enforcement. The debt servicing costs were delayed until 2022 as the borrowing was not complete at year end.

### **Police Service**

2021 variance	\$ (97,525)
Amortization	19,157
Non-capitalized expenditure	2,234
Operating surplus	<u>\$ (76,134)</u>

#### Major variances:

RCMP contract	\$ 402,000)
RCMP detachment operations	(424,000)
CPO operations	(75,000)

The RCMP contract costs were higher due to the retroactive settlement for the first union contract. 2.5%/yr was accrued between 2017 to 2021 (16% compounded) but the actual increased was 23.77%. Detachment operation expenses, managed by the Township of Langley, came in under budget due to staff vacancies and other operational savings. The CPO was closed to the public for the majority of 2021 due to the COVID-19 pandemic, and then reopened in a reduced capacity.

### **Fire Service**

2021 variance	\$ (363,036)
Amortization	30,200
Non-capitalized expenditure	23,574
Operating surplus	<u>\$ (309,262)</u>

#### Major variances:

Staff vacancies	\$ (201,000)
Training	(75,000)
Paid on Call	(47,000)
Equipment and insurance	(25,000)

Partial year staff vacancies were present in management and firefighter positions. Training for suppression and Paid On Call (POC) members was limited during the year due to COVID-19 restrictions and staff shortages. The POC suppression costs were less due to vacancies and difficulty getting responders during the day. Equipment and insurance costs for the year were less than anticipated.

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

2021 variance	\$ (83,194)
Operating surplus	<u>\$ (83,194)</u>
<u>Major variances:</u>	
LYFS	\$ (34,000)
Emergency planning	(30,000)
Victim witness	(17,000)

LYFS had a savings as there was both staff and contractor vacancies during the year. Emergency Planning was underspent due to a staff vacancy. Victim witness program was also underspent for the year.

### ***Engineering Operations***

2021 variance	\$ (84,359)
Amortization	254,609
Non-capitalized expenditure	(576,743)
Operating surplus	<u>\$ (406,493)</u>
<u>Major variances:</u>	
Wages & benefits	\$ (229,000)
Major road network	27,000
Road & sidewalk maintenance	39,000
Streetlight maintenance	22,000
Internal vehicle adjustment	58,000

Annual operating costs vary year to year within areas of the budget. In all areas combined, there was labour savings offset by increased maintenance for the major road network, roads and sidewalk maintenance and streetlights. 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***

2021 variance	\$ 353,481
Amortization	7,984
Non-capitalized expenditure	569,503
Operating deficit	<u>\$ 930,968</u>
<u>Major variances:</u>	
GVWD water purchases	\$ 211,000
System maintenance	48,000
Water service connections	126,000
Staffing vacancy	(16,000)

Water purchases from GVWD were over budget due to seasonal fluctuations and an associated increase in consumer usage. System maintenance was higher than budget due to repair of water main breaks. Water service connections for moving existing services to new water mains were also over budget. Administration labour costs were lower than budget due to temporary vacancies.

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

2021 variance	\$ 65,614
Amortization	(9,584)
Non-capitalized expenditure	52,856
Operating deficit	<u>\$ 108,886</u>

#### Major variances:

Sewer system maintenance	\$ 39,000
Staffing vacancy	(16,000)
Emergency flooding	34,000

Sewer system maintenance was over budget due to a reallocation of staff resources to increase inspection, testing and repairs of the system. Administration labour costs were lower than budget due to temporary vacancies. Emergency flooding was over budget due to a major response event.

### ***Development Services***

2021 variance	\$ (113,736)
Amortization	(430)
Non-capitalized expenditure	21,261
Operating surplus	<u>\$ (92,905)</u>

#### Major variances:

Wages & benefits	\$ (82,000)
Training and travel	(17,000)
Sustainability initiatives	(20,000)
Tourism promotion	10,000

Temporary vacancies throughout the department resulted in budget savings. Training and travel costs were lower than expected due to utilization of temporary staff to fill vacancies. A carbon neutral emissions offset project was not identified in 2021 so the annual allotment remained unspent. Tourism promotion was over spent due to a increase in hotel tax revenues which is transferred to Discover Langley City.

### **Solid Waste**

2021 variance	\$ (124)
Operating surplus	<u>\$ (124)</u>
<u>Major variances:</u>	
N/A	\$ -

Solid waste collection and disposal was in line with the budget for 2021.

### **Recreation Services**

2021 variance	\$ (571,876)
Amortization	40,363
Non-capitalized expenditure	30,189
Operating surplus	<u>\$ (501,324)</u>
<u>Major variances:</u>	
Administration wage & benefits	\$ (26,000)
AAMP	(167,000)
Recreation programming	13,000
Special events	(77,000)
DRC	(34,000)
Timms community centre	(243,000)
Library	(37,000)

Administration labour costs were lower than budgeted due to temporary vacancies. The COVID-19 pandemic necessitated the reduced operating hours of facilities creating a surplus for 2021. AAMP was only operated at a limited capacity, recreation programming was often cancelled or run with reduced numbers to maintain social distancing, special events were cancelled and Douglas & Timms community centres were 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**

2021 variance	\$ (54,905)
Amortization	134,840
Non-capitalized expenditure	297,273
Operating deficit	<u>\$ 377,208</u>
<u>Major variances:</u>	
Holiday displays	\$ 45,000
Vandalism & homelessness	54,000
Disposal fees	(17,000)
Internal vehicle adjustment	(126,000)

Parks expenditures between different locations vary year to year based on required maintenance but overall were under budget. Additional holiday displays were installed throughout the downtown core. Over expenditures relating to vandalism and homeless camp cleanup on City property continues to be a challenge for the City. Waste disposal fees were under budget. 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	\$ 598,683
Transfer from future police cost	<u>(135,000)</u>
Net transfer over budget	<u>\$ 463,683</u>

As per policy the City funded the community grants and enterprise fund by gaming proceeds, as the City anticipated the casino to be closed for all of 2021 this was not originally planned. RCMP vacancies reduced operating costs, making the budgeted transfer from the future police cost reserve unnecessary for the year.

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

Interest on reserve accounts	\$ (37,218)
Community works fund	137,576
Gaming proceeds	4,103,377
Future police costs	500,000
Tax rate stabilization	576,580
Prosperity fund	500,000
MRN rehabilitation	46,700
Sewer future capital	<u>130,000</u>
Net transfer over budget	<u>\$ 5,957,015</u>

Non-statutory reserve interest income was lower than budget due a lower rate of return on investments. The Federal Government transfer of gas tax in 2021 was doubled to assist municipalities with the economic effects of the pandemic. Gaming proceeds were originally not budgeted in 2021 as it was expected to remain closed due to the COVID-19 pandemic; however casino operations resumed in July. Additional operating surplus was allocated to the future police cost reserve, tax rate stabilization reserve and prosperity fund to replenish these reserves and provide additional funds for future projects and expenditures. The transfer to the MRN reserve represents the surplus of fund received from Translink for MRN maintenance and renewal. The transfer to the sewer future capital reserve was increased to allocate surplus from higher consumption billings to the reserve for future capital projects.

**Transfers to Statutory Reserve Funds**

Capital works	\$ 1,150,000
Machinery replacement	61,135
Off street parking	(405)
Transfer in excess of budget	<u>\$ 1,210,730</u>

The general fund operating surplus created by additional development revenue and savings due to COVID-19 reduced services 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. 2021 Consolidated Financial Statements

**CHIEF ADMINISTRATIVE OFFICER'S COMMENTS:**

I support the recommendation.



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Francis Cheung, P. Eng.  
Chief Administrative Officer