



REPORT TO COUNCIL

To: **Mayor and Councillors**

Subject: 2022 Consolidated Financial Statements

File #: 1880.00

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

Date: May 2, 2023

RECOMMENDATION:

THAT City Council approve the 2022 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 2022 and of the results of the audit of the City of Langley's 2022 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, 2022 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 2022 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, 2022 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, 2022 the City had financial assets of \$135M and financial liabilities of \$80M resulting in a positive outcome of \$55M in net financial assets. This is an increase of \$7M from 2021 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 2022, made up primarily of \$277M 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 2022, the accumulated surplus increased \$11.7M represented as follows:

2022 Operating surplus	\$ 29,362
Net increase in tangible capital assets	4,809,612
Net increase in reserves	<u>6,875,797</u>
Total increase	<u>\$11,714,771</u>

Investment in infrastructure renewal contributed to the increase in tangible capital assets. In addition to planned reserve contributions, gaming proceeds exceeded budget by \$1M and operational savings combined with higher interest earnings 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 2022 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 surplus is compromised as follows:

General operating fund surplus	\$ 10,132
Sewer operating fund surplus	8,034
Water operating fund surplus	<u>11,196</u>
2022 Operating surplus	<u>\$29,362</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 (\$462,716), tax rate stabilization reserve (\$419,761), and capital works reserve (\$900,000) 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 as well as underspent funds for maintenance, testing and inspection. This surplus was reduced by allocating additional funds to the sewer future capital reserve (\$425,000) to provide funding for future infrastructure projects.

The water operating fund surplus resulted from an increase in revenue due to community water consumption which was offset by the higher than anticipated cost of

water system maintenance and water main breaks. This surplus was reduced by allocating additional funds to the sewer future capital reserve (\$150,000) to provide funding for future infrastructure projects.

Table 1 (below) lists the 2022 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

	2022 Financial Plan	2022	Variance
Revenues			
Property tax revenue	\$ 33,943,035	\$ 33,866,252	\$ (76,783)
User fees and other revenue	15,553,135	17,092,293	1,539,158
Gaming proceeds	7,000,000	8,070,079	1,070,079
Government transfers	1,910,385	3,584,648	1,674,263
Investment earnings	625,750	2,096,198	1,470,448
Use of development cost charges	2,867,285	1,096,037	(1,771,248)
Gain (loss) on disposal of tangible capital assets	-	(94,989)	(94,989)
Contributed tangible capital assets	-	870,342	870,342
	<u>61,899,590</u>	<u>66,580,860</u>	<u>4,681,270</u>
Expenses			
General government services	6,596,475	6,325,922	(270,553)
Police service	15,164,710	14,607,261	(557,449)
Fire service	5,929,620	5,795,066	(134,554)
Other protective services	903,830	779,914	(123,916)
Engineering operations	8,812,915	6,712,111	(2,100,804)
Water utility	5,358,640	5,119,111	(239,529)
Sewer and drainage utility	4,994,490	4,222,410	(772,080)
Development services	1,504,110	1,578,260	74,150
Solid waste	777,090	747,432	(29,658)
Recreation services	5,570,670	5,661,522	90,852
Parks	3,255,695	3,317,080	61,385
	<u>58,868,245</u>	<u>54,866,089</u>	<u>(4,002,156)</u>
Annual Surplus	<u>\$ 3,031,345</u>	<u>\$ 11,714,771</u>	<u>\$ 8,683,426</u>

Revenues:

Property tax revenue

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

User fees and other revenue

Engineering admin/inspection fees were approximately \$229,238 more than budget due to sustained growth in development. Licence and permit fees were under budget by \$76,335 during the year, although increased development activity continues. Tax penalties and interest were \$75,505 higher due to economic priorities of tax payers and leaving property taxes unpaid at the due date. Sewer & water operations combined for \$523,393 in more fees than anticipated due to an increase in community consumption and a rate increase. External reserve contributions for the special bonds reserve of \$891,415 are not budgeted, but are consistent with development activity. Capital funding varies due to project timing and fund availability and accounted for \$29,000 in additional funding. Other miscellaneous income varies year to year and was \$33,058 less than budgeted for 2022.

Gaming proceeds

Gaming proceeds were \$1,070,079 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 \$1,674,263 higher than budget. The hotel tax was \$154,018 over budget due to the continued tourism sector recovery from the impacts of COVID-19. Operating transfers from other governments were lower than anticipated by \$58,674 due to agreements based on variable factors such as revenue and cost sharing agreements. Capital funding revenue variance of \$1,578,919 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 \$1,470,448 higher than budget. Rates of return increased dramatically in 2022 due to the Bank of Canada trying to adjust for aggressive inflation, 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 \$1,771,248 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.

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 \$94,989. 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 \$870,342. 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, 2022 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

2022 variance	\$ (146,582)
Amortization	21,684
Assets from operations	(56,304)
Non-capitalized expenditure	<u>(89,351)</u>
Operating surplus	<u>\$ (270,553)</u>

Major variances:

Community grants	\$ (22,000)
Enterprise fund	(63,000)
Wages & benefits	(128,000)
Election costs	21,000
Software	58,000
Audit fees	29,000
Security	41,000
Debt servicing costs	6,000
Training and travel	(53,000)
Internal vehicle adjustment	(39,000)

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. Election costs were higher due to increased staffing requirements. Software purchases and subscriptions increased as we continue to expand staff and move to cloud based services. Audit fees were over budget due to an increase to our contract after budget approval. Security expenses were over budget due to increased need for enforcement. The debt servicing costs were more than expected as the final interest rate was higher than budgeted. Training and travel costs were lower than budgeted as many conferences and training opportunities were still postponed or virtual due to COVID. 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

2022 variance	\$ (597,716)
Amortization	40,267
Operating surplus	<u>\$ (557,449)</u>
<u>Major variances:</u>	
RCMP contract	\$ (24,000)
RCMP detachment operations	(512,000)
CPO operations	(61,000)

The RCMP contract costs was slightly under budget by 0.2%, as costs of overtime and other expenses varies year to year. Detachment operation expenses, managed by the Township of Langley, came in under budget due to staff vacancies and other operational savings. The CPO operated at a reduced capacity due to the COVID-19 pandemic.

Fire Service

2022 variance	\$ (127,697)
Amortization	29,531
Non-capitalized expenditure	(36,388)
Operating surplus	<u>\$ (134,554)</u>
<u>Major variances:</u>	
Wages & benefits	\$ (70,000)
Mutual aid	(35,000)
Paid on Call	(46,000)
Equipment, maintenance and supplies	23,000

Partial year staff vacancies were present in management and firefighter positions. Chargeable mutual aid was not required in 2022. The POC suppression and training costs were less due to vacancies and difficulty getting responders during the day. Equipment, maintenance and supply costs for the year were more than anticipated.

Other Protective Services

2022 variance	\$ (123,916)
Operating surplus	<u>\$ (123,916)</u>
 <u>Major variances:</u>	
LYFS	\$ (26,000)
Emergency planning	(71,000)
Victim witness	(24,000)

LYFS had a savings as there was 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

2022 variance	\$ 97,209
Amortization	134,417
Non-capitalized expenditure	<u>(2,332,430)</u>
Operating surplus	<u>\$ (2,100,804)</u>
 <u>Major variances:</u>	
Staffing vacancy	\$ (127,500)
Snow removal	170,000
Training and travel	(8,000)
Internal vehicle adjustment	66,000

Annual operating costs vary year to year within areas of the budget based on required maintenance and community priorities. A new environmental sustainability coordinator position created in 2022 remained vacant for the year. Snow cleanup and removal was more than budget due to multiple large weather events. Training and travel costs were lower than budgeted as many conferences and training opportunities were still postponed or virtual due to COVID. 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

2022 variance	\$ 97,211
Amortization	25,763
Non-capitalized expenditure	<u>(362,503)</u>
Operating surplus	<u>\$ (239,529)</u>
 <u>Major variances:</u>	
GVWD water purchases	\$ 53,000
System maintenance	52,000
Staffing vacancy	(31,000)
Internal vehicle adjustment	25,000

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. Administration labour costs were lower than budget due to temporary vacancies. 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

2022 variance	\$ (168,048)
Amortization	22,146
Non-capitalized expenditure	<u>(626,178)</u>
Operating surplus	<u>\$ (772,080)</u>
 <u>Major variances:</u>	
Sewer system maintenance	\$ (151,000)
Staffing vacancy	(30,000)
GVS&DD levies	(9,000)
Internal vehicle adjustment	25,000

Sewer system maintenance was under budget due to a reallocation of staff resources to other priorities including development related upgrades and capital projects. Administration labour costs were lower than budget due to temporary vacancies. GVS&DD levies for sewer treatment were underbudget. 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

2022 variance	\$ 90,675
Amortization	1,850
Non-capitalized expenditure	<u>(18,375)</u>
Operating deficit	<u>\$ 74,150</u>
 <u>Major variances:</u>	
Staffing vacancy	\$ (15,000)
Training and travel	(11,000)
Economic development	(32,000)
Sustainability initiatives	(15,000)
Tourism promotion	156,000
Internal vehicle adjustment	7,000

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. Investment in economic development was delayed as the OCP was developed. A carbon neutral emissions offset project was not identified in 2022 so the annual allotment remained

unspent. Tourism promotion was overspent due to an increase in hotel tax revenues which is transferred to Discover Langley City.

Solid Waste

2022 variance	\$ (29,658)
Operating surplus	<u>\$ (29,658)</u>

Major variances:

Solid waste collection and disposal	\$ (26,000)
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Solid waste collection and disposal was under budget due to rate fluctuations and disposal quantities.

Recreation Services

2022 variance	\$ 130,966
Amortization	47,663
Non-capitalized expenditure	<u>(87,777)</u>
Operating deficit	<u>\$ 90,852</u>

Major variances:

Banking charges	\$ 9,000
Al Anderson Memorial Pool	21,000
Douglas recreation centre	12,000
Timms community centre	15,000
Library	18,000
Weightroom, Gymnasium & Games room	152,000
Other recreation programming	(63,000)
Special events	(30,000)

Banking charges and fees have increased as more transactions are processed online and via credit card. Al Anderson Memorial Pool was over budget due to increased utility rates and charges. Rental income was lower than budget at Douglas Recreation Centre and Timms Community Centre. Maintenance and security costs for the library were higher than budgeted. Weightroom, gymnasium and the games room were over budget due to having dedicated staff in each individual area to monitor and support customer's activities. Other recreation programming generated additional revenue due to high participation rates. Special events were under expended in 2022 due to reduced expenditures and offsetting sponsorship revenue.

Parks

2022 variance	\$ 33,179
Amortization	54,241
Non-capitalized expenditure	<u>(26,035)</u>
Operating deficit	<u>\$ 61,385</u>

Major variances:

Park maintenance	\$ (107,000)
City image maintenance	60,000
Playground maintenance	20,000
Internal vehicle adjustment	60,000

Parks expenditures between different locations vary year to year based on required maintenance and community priorities. City image maintenance includes over expenditures relating to garbage removal, vandalism and homeless camp cleanup on City properties. Increased playground maintenance was required to ensure equipment and areas were repaired and safe to operate. 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 Operating Surplus

Transfer from surplus	\$ (100,000)
Net transfer under budget	<u>\$ (100,000)</u>

Transfer from surplus to provide temporary funding for the election and other expenditures was not required.

Transfers from Reserves Accounts

Transfer from gaming proceeds	\$ (139,197)
Transfer from future police cost	(135,000)
Net transfer under budget	<u>\$ (274,197)</u>

As per policy the City funded the community grants and enterprise fund by gaming proceeds, not all funds were expended in 2022. 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	\$ 365,993
Community works fund	4,984
Gaming proceeds	1,070,079
Future police costs	462,716
Tax rate stabilization	419,761
MRN rehabilitation	(1,032)
Sewer future capital	425,000
Water future capital	150,000
Net transfer over budget	<u>\$ 2,897,501</u>

Non-statutory reserve interest income was higher than budget as rates of return increased dramatically in 2022 due to the Bank of Canada trying to adjust for aggressive inflation, balance

in accounts and reserves were higher than anticipated due to capital project timing.. The Federal Government transfer of gas tax in 2022 was slightly higher than anticipated. 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. Additional operating surplus was allocated to the future police cost reserve, tax rate stabilization reserve 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 transfers to the sewer and water future capital reserves was increased to allocate surplus from higher consumption billings to the reserve for future capital projects.

Transfers to Statutory Reserve Funds

Capital works	\$ 900,000
Machinery replacement	(222,354)
Off street parking	(585)
Transfer in excess of budget	<u>\$ 677,061</u>

The general fund operating surplus created by additional revenue and expenditure savings was transferred to the capital works reserve for future investment through our capital improvement plan. Due to excess vehicle maintenance and fuel costs the transfer to the machinery replacement reserve was reduced.

BUDGET IMPLICATIONS:

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

Respectfully Submitted,



Graham Flack, CPA, CMA
Deputy Director of Corporate Services

Concurrence:



Darrin Leite, CPA, CA
Director of Corporate Services

Attachment:

1. 2022 Consolidated Financial Statements

CHIEF ADMINISTRATIVE OFFICER'S COMMENTS:

I support the recommendation.



Francis Cheung, P. Eng.
Chief Administrative Officer