



REPORT TO COUNCIL

To: **Mayor and Councillors**

Subject: 2023 Consolidated Financial Statements

File #: 1880.00

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

Date: May 7, 2024

RECOMMENDATION:

THAT City Council approve the 2023 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 2023 and of the results of the audit of the City of Langley's 2023 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, 2023 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 2023 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, 2023 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, 2023 the City had financial assets of \$144M and financial liabilities of \$91M resulting in a positive outcome of \$53M in net financial assets. While this is a decrease of \$2M from 2022, it still 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 2023, made up primarily of \$301M 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 2023, the accumulated surplus increased \$21.5M represented as follows:

2023 operating deficit	\$(180,504)
Net increase in tangible capital assets	15,659,036
Net increase in reserves	<u>6,069,668</u>
Total increase	<u>\$21,548,200</u>

Investment in land and infrastructure renewal contributed to the increase in tangible capital assets. In addition to planned reserve contributions, \$7,186,000 from the Growing Communities Fund supplied by the Province of BC has been transferred to reserves for future eligible expenditures. Surplus funds from operations and higher interest earnings contributed to a larger than anticipated transfer to reserves. These larger reserve contributions helped offset the \$15.3M in reserves used to invest in capital infrastructure.

Statement of Operations

When comparing the 2023 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:

Operating surplus - General	\$ 23,456
Operating surplus – Sewer & Drainage	8,412
Operating deficit - Water	<u>(212,372)</u>
Total 2023 Operating deficit	<u>(\$180,504)</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 Capital Works Reserve (\$2.9M) to replenish the reserve and provide additional funds for future projects. As well, a transfer was made to the Tax Rate Stabilization Reserve (\$1M) to be applied against future debt servicing costs.

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 (\$350,000) to provide funding for future infrastructure projects.

The water operating fund deficit resulted from an increase in community water consumption charged by Metro Vancouver. This was partially offset by higher bi-monthly water fees and operational savings due to position vacancies and reduced maintenance costs. The revenue associated with annual billing customers that experienced increased water consumption will be billed as part of their 2024 property taxes.

Table 1 (below) lists the 2023 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

	2023 Financial Plan	2023	Variance
Revenues			
Property tax revenue	\$ 38,344,745	\$ 38,038,593	\$ (306,152)
User fees and other revenue	17,779,315	17,072,635	(706,680)
Gaming proceeds	7,500,000	7,990,632	490,632
Government transfers	5,149,665	10,155,913	5,006,248
Investment earnings	1,560,000	5,078,758	3,518,758
Use of development cost charges	2,108,025	1,161,456	(946,569)
Gain (loss) on disposal of tangible capital assets	-	13,247	13,247
Contributed tangible capital assets	-	1,439,277	1,439,277
	72,441,750	80,950,511	8,508,761
Expenses			
General government services	9,677,920	7,553,780	(2,124,140)
Police service	15,697,740	15,918,047	220,307
Fire service	6,938,040	6,286,793	(651,247)
Other protective services	934,945	807,467	(127,478)
Engineering operations	9,288,485	6,957,223	(2,331,262)
Water utility	6,826,420	5,197,381	(1,629,039)
Sewer and drainage utility	5,940,570	4,671,036	(1,269,534)
Development services	1,656,450	1,814,303	157,853
Solid waste	819,130	815,521	(3,609)
Recreation services	6,207,810	5,728,790	(479,020)
Parks	4,004,605	3,651,970	(352,635)
	67,992,115	59,402,311	(8,589,804)
Annual Surplus	\$ 4,449,635	\$ 21,548,200	\$ 17,098,565

Revenues:

Property tax revenue

Property tax revenue was \$306,152 lower than budget. 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 was \$706,680 lower than budget. Engineering admin/inspection fees were \$165,740 more than budget due to sustained growth in development. Parking and space rentals from filming activity was \$43,838 more than anticipated. Tax penalties and interest were \$75,683 higher due to economic priorities of tax payers and leaving property taxes unpaid at the due date. Sewer & water operations combined for \$121,967 in fees more than anticipated due to an increase in community consumption. External reserve contributions for the special bonds reserve of \$193,940 are not budgeted, but are consistent with development activity. Capital funding varies due to project timing and fund availability and accounted for \$1,299,249 in reduced funding. Other miscellaneous income varies year to year and was \$8,599 more than budgeted for 2023.

Gaming proceeds

Gaming proceeds were \$490,632 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 \$5,006,248 higher than budget. The hotel tax was \$214,331 over budget due to the continued tourism sector recovery from the impacts of COVID-19. Operating transfers from other governments were higher than anticipated by \$71,077 due to agreements based on variable factors such as revenue and cost sharing agreements. Capital funding reduced revenue variance of \$2,465,160 is due timing of construction activity and grant payments. In 2023, the City received an unbudgeted transfer of \$7,186,000 from the Province of BC for the Growing Communities Fund, this was transferred to a reserve for future expenditures.

Investment earnings

Investment earnings were \$3,518,758 higher than budget. Rates of return increased dramatically in 2023 due to the Bank of Canada trying to adjust for aggressive inflation, in addition the 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 interest 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 \$946,569 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 gain of \$13,247.

Contributed tangible capital assets

The value of contributed tangible capital assets was \$1,439,277. 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, 2023 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

2023 variance	\$ (885,941)
Amortization	75,128
Accretion	4,349
Non-capitalized expenditure	<u>(1,317,676)</u>
Operating surplus	<u>\$ (2,124,140)</u>

Major variances:

Community grants	\$ (15,000)
Enterprise allocation	(140,000)
Wages & benefits	(299,000)
Software	82,000
Legal & professional fees	28,000
Postage, printing & supplies	33,000
Security	20,000
Tax & utilities on City acquired properties	163,000
Debt servicing costs	(762,000)
Training and travel	(20,000)
Internal vehicle adjustment	(10,000)

Community grants and council enterprise funds were not fully allocated by City Council. Wage & benefit costs were lower due to temporary vacancies and unused overtime allocations. Software purchases and subscriptions increased as we continue to expand staff and move to cloud based services. Legal & professional fees were over budget due to an increase in legal services and a actuarial evaluation report. Postage, printing & supply costs were over budget due to an increase in mailed marketing and communications. Security expenses were over budget due to increased need for enforcement. Tax and utility charges related to recently acquired properties were not included in the budget, in future years these properties will be exempt from charges. The debt servicing costs were less than expected authorized borrowing had not yet been issued. Training and travel costs were lower than budgeted as many conferences and training opportunities are now being provided virtually. 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

2023 variance	\$ 183,748
Amortization	19,333
Non-capitalized expenditure	17,226
Operating deficit	<u>\$ 220,307</u>
 <u>Major variances:</u>	
RCMP contract	\$ 752,000
RCMP detachment operations	(539,000)
CPO operations	(28,000)

The RCMP contract was higher than anticipated due to results of the cost sharing formula with the Township of Langley as the budget is based on contract strength and actual costs are based on a sharing formula. In addition, the contract wage rate for RCMP personnel increased 1% higher than budget. As well, the 2017 to 2021 retroactive payment on the equity adjustment was paid out in 2023. These increases were offset by lower than expected detachment operation costs and reduced costs at the community police office due to temporary vacancies of contract staff.

Fire Service

2023 variance	\$ (662,254)
Amortization	(14,451)
Non-capitalized expenditure	25,458
Operating surplus	<u>\$ (651,247)</u>
 <u>Major variances:</u>	
Wages & benefits	\$ (558,000)
Paid on Call	(81,000)
Training	(21,000)

Partial year staff vacancies were present in management and firefighter positions. The POC suppression and training costs were less due to vacancies and difficulty getting responders during the day. Training costs were reduced in conjunction with staff vacancies.

Other Protective Services

2023 variance	\$ (127,478)
Operating surplus	<u>\$ (127,478)</u>

Major variances:

LYFS	\$ (15,000)
Emergency planning	(82,000)
Dog control	(6,000)
Victim witness	(24,000)

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

Engineering Operations

2023 variance	\$ (334,580)
Amortization	222,662
Accretion	18,868
Non-capitalized expenditure	<u>(2,238,212)</u>
Operating surplus	<u>\$ (2,331,262)</u>

Major variances:

Wages & benefits	\$ (404,000)
Snow removal	(30,000)
MRN maintenance	(67,000)
Tools & supplies	17,000
Road maintenance	46,000
Street sweeping	36,000
Sidewalk maintenance	11,000
Signal maintenance	32,000

Annual operating costs vary year to year within areas of the budget based on required maintenance and community priorities. Wage & benefit costs were lower due to temporary vacancies, unused overtime allocations and reallocation of resources. Snow cleanup and removal was less than budget due to mild weather events. Maintenance on Major Road Network, funded by Translink, was lower than anticipated. Increased maintenance costs were directed to high priority areas including roads, street sweeping, sidewalks and signals.

Water Utility Expenses

2023 variance	\$ 257,085
Amortization	27,138
Non-capitalized expenditure	<u>(1,913,262)</u>
Operating surplus	<u>\$ (1,629,039)</u>

Major variances:

GVWD water purchases	\$ 340,000
System maintenance	(58,000)
Staffing vacancy	(44,000)
Internal vehicle adjustment	19,000

Water purchases from GVWD were over budget due to seasonal fluctuations and an associated increase in consumer usage during the summer months. Annual operating costs vary year to year within areas of the budget based on required maintenance and community priorities resulting in system maintenance being lower than budget. 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

2023 variance	\$ (281,156)
Amortization	38,718
Non-capitalized expenditure	<u>(1,027,096)</u>
Operating surplus	<u>\$ (1,269,534)</u>

Major variances:

Sewer system maintenance	\$ (240,000)
Staffing vacancy	(38,000)
GVS&DD levies	(9,000)
Internal vehicle adjustment	7,000

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

2023 variance	\$ 141,878
Amortization	3,065
Non-capitalized expenditure	12,910
Operating deficit	<u>\$ 157,853</u>

Major variances:

Staffing vacancy	\$ (89,000)
Economic development	15,000
Tourism promotion	214,000

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 has increased with the adoption of the new Official Community Plan. Tourism promotion was overspent due to an increase in hotel tax revenues which is transferred to Discover Langley City.

Solid Waste

2023 variance	\$ (3,609)
Operating surplus	<u>\$ (3,609)</u>

Major variances:

Advertising	\$ (5,000)
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Program on budget for year, underspent advertising funding as electronic media was used compared to print, and promotions were included with other publications.

Recreation Services

2023 variance	\$ (274,195)
Amortization	17,592
Accretion	12,620
Non-capitalized expenditure	(235,037)
Operating surplus	<u>\$ (479,020)</u>

Major variances:

Banking charges	\$ 15,000
Al Anderson Memorial Pool	(82,000)
Staffing vacancy	(178,000)
Advertising & printing	(30,000)
Weightroom, Gymnasium & Games room	90,000
Other recreation programming	(65,000)
Special events	(16,000)

Banking charges and fees have increased as more transactions are processed online and via credit card. Al Anderson Memorial Pool was under budget due to increased facility usage and the related entrance fees. Wage & benefit costs were lower due to temporary staffing vacancies. Advertising and communications funding was reduced as electronic media was used compared to print. 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 2023 due to the cancellation of the Tri-It triathlon and Douglas Day.

Parks

2023 variance	\$ (82,988)
Amortization	126,915
Accretion	10,654
Non-capitalized expenditure	<u>(407,216)</u>
Operating surplus	<u>\$ (352,635)</u>
 <u>Major variances:</u>	
Park maintenance	\$ (78,000)
Boulevard maintenance	(103,000)
City image maintenance	33,000
Internal vehicle adjustment	75,000

Parks expenditures between different locations vary year to year based on required maintenance and community priorities. Park maintenance was under budget due to reduced expenditures in nature trails, small neighbourhood parks and Brydon park due to recent upgrades requiring less maintenance. Boulevard maintenance was under budget due to reduced expenditures in hanging baskets and tree maintenance. City image maintenance includes over expenditures relating to garbage removal, vandalism and homeless camp cleanup on City properties. 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	\$ (177,124)
Transfer from future police cost	<u>(6,422)</u>
Net transfer under budget	<u>\$ (183,546)</u>

As per policy, the City funded the community grants and enterprise fund by gaming proceeds, not all funds were expended in 2023. The entire budgeted transfer from the future police cost reserve was unnecessary for the year.

Transfers to Reserves Accounts

Interest on reserve accounts	\$ 1,088,957
Community works fund	11,495
Gaming proceeds	490,632
Tax rate stabilization	1,003,722
MRN rehabilitation	127,278
Sewer future capital	350,000
Net transfer over budget	<u>\$ 3,072,084</u>

Non-statutory reserve interest income was higher than budget as rates of return increased dramatically in 2023 due to the Bank of Canada trying to adjust for aggressive inflation. In addition, the balance in accounts and reserves were higher than anticipated due to capital project timing. The Federal Government transfer of gas tax in 2023 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. Excess funds budgeted for debt servicing have been transferred to the tax rate stabilization reserve to be applied against future debt servicing costs. The transfer to the MRN reserve represents the surplus of fund received from TransLink for MRN maintenance and renewal. The transfers to the sewer future capital reserve was increased to allocate surplus from lower repair and maintenance expenditures to the reserve for future capital projects.

Transfers to Statutory Reserve Funds

Capital works	\$ 2,905,210
Growing communities fund	7,186,000
Machinery replacement	(25,978)
Off street parking	180
Transfer in excess of budget	<u>\$ 10,065,412</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. In 2023, the City received an unbudgeted transfer of \$7,186,000 from the Province of BC for the Growing Communities Fund, this was transferred to a reserve for future expenditures. 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. 2023 Consolidated Financial Statements

CHIEF ADMINISTRATIVE OFFICER'S COMMENTS:

I support the recommendation.



Francis Cheung, P. Eng.
Chief Administrative Officer