



REPORT TO COUNCIL

To: **Mayor Schaffer and Councillors**

Subject 2017 Consolidated Financial Statements

Report #: 18-022

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

File #: 1880.00

Doc #: 156210

Date: April 30, 2016

RECOMMENDATION:

THAT City Council approve the 2017 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 2017 and of the results of the audit of the City of Langley's 2017 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, 2017 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 2017 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, 2017 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, 2017 the City had financial assets of \$64.2M and financial liabilities of \$29.2M resulting in a positive outcome of \$35.0M in net financial assets. This is an increase of \$2.2M over 2016 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 2017, made up primarily of \$250.3M of 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 2017, the accumulated surplus increased \$12.7M represented as follows:

| | |
|---|---------------------|
| 2017 Operating surplus | \$ 15,039 |
| Net increase in tangible capital assets | 10,554,128 |
| Net increase in reserves | <u>2,145,966</u> |
| Total increase | <u>\$12,715,133</u> |

Construction of 203 St and 56 Ave contributed to the large increase in tangible capital assets.

Statement of Operations

When comparing the 2017 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 of \$624,000 was directed to the Capital Works Reserve.

Table 1 (below) lists the 2017 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

| | 2017 Financial Plan | 2017 Actuals | Variance |
|---|---------------------|----------------------|---------------------|
| Revenues | | | |
| Property tax revenue | \$ 26,240,955 | \$ 26,152,151 | \$ (88,804) |
| User fees and other revenue | 11,116,135 | 12,601,039 | 1,484,904 |
| Gaming proceeds | 6,400,000 | 7,577,431 | 1,177,431 |
| Government transfers | 7,226,355 | 7,573,037 | 346,682 |
| Investment earnings | 338,500 | 783,277 | 444,777 |
| Use of development cost charges | 1,440,565 | 782,621 | (657,944) |
| Contributed tangible capital assets | - | 253,717 | 253,717 |
| | 52,762,510 | 55,723,273 | 2,960,763 |
| Expenses | | | |
| General government services | 4,934,135 | 4,684,312 | (249,823) |
| Police service | 11,786,840 | 11,112,031 | (674,809) |
| Fire service | 4,539,645 | 4,448,691 | (90,954) |
| Other protective services | 814,245 | 765,810 | (48,435) |
| Engineering operations | 7,753,495 | 5,852,316 | (1,901,179) |
| Water utility | 4,322,605 | 3,865,341 | (457,264) |
| Sewer and drainage utility | 3,640,175 | 3,348,534 | (291,641) |
| Development services | 1,224,730 | 1,161,110 | (63,620) |
| Solid waste | 622,110 | 631,752 | 9,642 |
| Recreation services | 4,494,710 | 4,765,358 | 270,648 |
| Parks | 2,292,955 | 2,288,464 | (4,491) |
| Loss on disposal of tangible capital assets | - | 84,421 | 84,421 |
| | 46,425,645 | 43,008,140 | (3,417,505) |
| Annual surplus | \$ 6,336,865 | \$ 12,715,133 | \$ 6,378,268 |

Revenues:

Property tax revenue

The actual property tax revenue was \$88,804 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 \$1,484,904 higher than budget. The most significant variances are as follows: Admin/inspection fees and building permits combined for increased revenues of \$877,000 these were driven by record breaking construction activity. Water and sewer fees combined for \$121,000 in additional revenue due to an increase in user consumption. Special bonds contributions from developers of \$299,000 are not budgeted as they are not predictable year to year. Capital funding revenue variance of \$172,000 is due to the prior year's carry over budget not being reflected in the current year financial plan.

Gaming proceeds

Gaming proceeds were \$1,177,431 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. 2017 was the City's highest year of revenue sharing since the opening of the casino in 2005.

Government transfers

Government transfers were \$346,682 higher than budget. Operating transfers from other governments were lower than anticipated by \$25,810 due to agreements based on variable factors such as revenue and cost sharing agreements. Capital funding revenue variance of \$372,492 is due to the prior year's carryover budget, for projects like 203 St., not being reflected in the current year financial plan as well as timing of construction activity and grant payments.

Investment earnings

Investment earnings were \$444,777 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 \$657,944 lower than budget. Use of DCC varies against budget due to the capital budget carry forward amounts from prior years, but it is consistent with project timing.

Contributed tangible capital assets

Contributed tangible capital assets was \$253,717 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, 2017 expenses were under budget; however the results vary in each functional area as operating needs develop throughout 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

| | |
|-----------------------------|---------------------|
| 2017 variance | \$ (249,823) |
| Amortization | (38,428) |
| Non-capitalized expenditure | 122,162 |
| Operating surplus | <u>\$ (166,089)</u> |

Major variances:

| | |
|-----------------------------|-------------|
| Community grants | \$ (38,000) |
| Enterprise fund | (61,000) |
| Corporate services | (54,000) |
| City hall maintenance | (36,000) |
| Council travel & benefits | 33,000 |
| Internal vehicle adjustment | (15,000) |

Community Grants and Council Enterprise funds were not fully allocated by City Council. Corporate Services was underspent due to delayed wage increases, staff vacancies and unused casual time allotment. City hall maintenance was under budget due to staff vacancies and reduced operating expenses. Council travel expenses were higher than budget. The travel policy was amended half way through the year but the higher budget allocations will not be reflected until 2018. Council benefit costs were reallocated from the general fund overhead accounts to be reflected specifically under the Council remuneration account. This expenditure wasn't budgeted in this way in 2017. Internal vehicle adjustments reverse excess vehicle charge out rates in excess of vehicle maintenance costs; the financial plan includes funding at the full rate.

Police Service

| | |
|-------------------|---------------------|
| 2017 variance | \$ (674,809) |
| Amortization | (21,754) |
| Operating surplus | <u>\$ (696,563)</u> |

Major variances:

| | |
|----------------------------|--------------|
| RCMP contract | \$ (400,000) |
| RCMP detachment operations | (248,000) |
| Public safety initiatives | (30,000) |
| CPO operations | (18,000) |

The RCMP contract was under budget due to 5.82 member vacancies and lower wage costs for RCMP members from the retroactive wage settlement costs that were budgeted. Detachment operation expenses, managed by the Township of Langley, came in under budget due to staff vacancies and the City's percentage share of detachment costs was lower based on the formula that uses general property assessments between the municipalities as one of the factors. The Township had a higher assessment increase than the City, lowering the City's share from 24.038% to 23.896%. The public safety initiatives were unspent as the initiative was deferred. The CPO Coordinator costs and telecommunication costs were lower than the budgeted amounts.

Fire Service

| | |
|-----------------------------|--------------------|
| 2017 variance | \$ (90,954) |
| Amortization | 18,776 |
| Non-capitalized expenditure | (7,019) |
| Operating surplus | <u>\$ (79,197)</u> |

Major variances:

| | |
|-------------------------------|--------------|
| EComm radio delay | \$ (100,000) |
| Staff recruitment | 35,000 |
| Building repairs and supplies | (14,000) |

A delayed adoption of the EComm radio system created a savings during 2017, the system will be operational during 2018. Staff recruitment costs were higher than budgeted to fill a number of vacancies. Savings were recognized in building repairs and miscellaneous supply costs.

Other Protective Services

| | |
|-------------------------|--------------------|
| 2017 variance | \$ (48,435) |
| Operating surplus | <u>\$ (48,435)</u> |
| <u>Major variances:</u> | |
| LYFS counselling | \$ (30,000) |
| Emergency planning | (23,000) |

LYFS was under budget due to contractor changes and unused counselling hours. Emergency Planning was underspent due to a staff vacancy and reduced supply expenses.

Engineering operations

| | |
|-----------------------------|------------------|
| 2017 variance | \$ (1,901,179) |
| Amortization | (224,359) |
| Non-capitalized expenditure | <u>2,209,306</u> |
| Operating deficit | <u>\$ 83,768</u> |
| <u>Major variances:</u> | |
| Snow removal | \$ 189,000 |
| Reduced maintenance | (26,000) |
| Internal vehicle adjustment | (80,000) |

Due to environmental conditions snow removal was over budget for 2017. Other expenses varied throughout the budget due to reactive maintenance requirements. Capital projects and development activity can temporarily reduce maintenance activity. Internal vehicle adjustments reverse excess vehicle charge out rates in excess of vehicle maintenance costs; the financial plan includes funding at the full rate.

Water Utility Expenses

| | |
|-----------------------------|---------------------|
| 2017 variance | \$ (457,264) |
| Amortization | (20,055) |
| Non-capitalized expenditure | <u>375,754</u> |
| Operating surplus | <u>\$ (101,565)</u> |
| <u>Major variances:</u> | |
| GVWD water purchases | \$ (103,000) |
| Water system maintenance | 31,000 |
| Internal vehicle adjustment | (30,000) |

Water purchases from GVWD were under budget due to seasonal fluctuations and consumer usage. These savings were offset additional maintenance and emergency repair costs. Internal vehicle adjustments reverse excess vehicle charge out rates in excess of vehicle maintenance costs; the financial plan includes funding at the full rate.

Sewer and Drainage Utility Expenses

| | |
|-----------------------------|--------------------|
| 2017 variance | \$ (291,641) |
| Amortization | (36,169) |
| Non-capitalized expenditure | 250,751 |
| Operating surplus | <u>\$ (77,059)</u> |

Major variances:

| | |
|-----------------------------|-------------|
| Sewer system maintenance | \$ (74,000) |
| GVS&DD levy | 14,000 |
| Internal vehicle adjustment | (17,000) |

Sewer system maintenance was under budget due to a reallocation of staff resources to other City priorities and development requirements. This savings was offset by an increase in charges from the GVS&DD for sewerage treatment and disposal. Internal vehicle adjustments reverse excess vehicle charge out rates in excess of vehicle maintenance costs; the financial plan includes funding at the full rate.

Development Services

| | |
|-----------------------------|-----------------|
| 2017 variance | \$ (63,620) |
| Amortization | (908) |
| Non-capitalized expenditure | 64,382 |
| Operating surplus | <u>\$ (146)</u> |

Major variances:

| | |
|-----------------------------|-----------|
| Operating expenses | \$ 15,000 |
| Carbon neutral activities | (19,000) |
| Tourism promotion | 13,000 |
| Internal vehicle adjustment | (10,000) |

Operating expenses for the department were higher due to increased development activity driving up wages and material costs. Sustainability initiatives relating to lighting upgrades were deferred to the following year and budgeted in the Capital Improvement Plan. Tourism promotion was over spent due to an increase in Hotel Tax Revenues being transferred to Discover Langley City. Internal vehicle adjustments reverse excess vehicle charge out rates in excess of vehicle maintenance costs; the financial plan includes funding at the full rate.

Garbage Collection

| | |
|-------------------|-----------------|
| 2017 variance | \$ 9,642 |
| Operating deficit | <u>\$ 9,642</u> |

Major variances:

| | |
|---------------------|-----------|
| Contracted services | \$ 10,000 |
|---------------------|-----------|

Reasonably consistent with budget, variables such as disposal charges based on weight vary year to year.

Recreation Services

| | |
|-----------------------------|------------------|
| 2017 variance | \$ 270,648 |
| Amortization | (168,941) |
| Non-capitalized expenditure | (4,710) |
| Operating deficit | <u>\$ 96,997</u> |

Major variances:

| | |
|-----------------------------|-----------|
| DRC/Timms Community Centres | \$ 42,000 |
| Recreation programming | 126,000 |
| Al Anderson Memorial Pool | (65,000) |

The largest contributing factor to the recreation variance is the net over expenditure related to use of the drop-in facilities and the weight room. Increased facility usage and staff supervision of the public has demanded higher staffing costs. The high usage has also required additional staffing for the management and maintenance of the recreation facilities. The 2018 Financial Plan included increased funding to help address these issues. These costs were offset by additional revenue generated by Al Anderson Memorial Pool due to increase patronage.

Parks

| | |
|-----------------------------|--------------------|
| 2017 variance | \$ (4,491) |
| Amortization | (78,851) |
| Non-capitalized expenditure | 66,339 |
| Operating surplus | <u>\$ (17,003)</u> |

Major variances:

| | |
|-----------------------------|-----------|
| Parks maintenance | \$ 15,000 |
| Homeless camp cleanup | 70,000 |
| Internal vehicle adjustment | (102,000) |

Parks expenditures between different locations vary year to year based on required maintenance but overall were over budget. The most significant over expenditure relates to homeless camp cleanup on City property, this continues to be a challenge for the City. Internal vehicle adjustments reverse excess 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 | \$ (99,015) |
| Transfer from Future Police Cost | (587,700) |
| Net transfer under budget | <u>\$ (686,715)</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 | \$ 209,398 |
| Community Works Fund | 980 |
| Gaming Proceeds | 1,177,431 |
| Future Police Costs | 104,573 |
| MRN Rehabilitation | (12,461) |
| Sewer Future Capital | 125,000 |
| Water Future Capital | 160,000 |
| Transfer in excess of budget | <u>\$ 1,764,921</u> |

Non-statutory reserve income was higher due to unexpended funds in the reserve accounts due to capital project timing. Gaming proceeds in excess of the financial plan are transferred to the reserve for future capital investment. The future police cost reserve funding is due to lower number of members than contracted for and sharing formula with the Township of Langley. Operating surplus for the Sewer and Water fund was also transferred to the sewer and water reserves.

Transfers to Statutory Reserve Funds

| | |
|------------------------------|-------------------|
| Capital Works | \$ 624,000 |
| Machinery Replacement | 300,490 |
| Off Street Parking | 300 |
| Transfer in excess of budget | <u>\$ 924,790</u> |

The general operating surplus 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 the any over expenditures and revised transfers to reserves.

ALTERNATIVES:

None.

Respectfully Submitted,



Graham Flack, CMA, CA
Director of Corporate Services

Attachment(s): 2017 Consolidated Financial Statements

CHIEF ADMINISTRATIVE OFFICER'S COMMENTS:

I support the recommendation.



Francis Cheung, P. Eng.
Chief Administrative Officer