

2015 CITY OF CALGARY ANNUAL REPORT

EXECUTIVE SUMMARY

The 2015 financial statements included in the attached City of Calgary 2015 Annual Report have been audited, without qualification, by Deloitte, Chartered Professional Accountants, Chartered Accountants. Administration is seeking approval to issue The City of Calgary 2015 Annual Report.

ADMINISTRATION RECOMMENDATION(S)

That the Audit Committee:

1. Consider this report in conjunction with Report AC2016-0289 "2015 External Auditor's Year-End Report";
2. Recommends Council approval of the 2015 City of Calgary Annual Report.

RECOMMENDATION OF THE AUDIT COMMITTEE, DATED 2016 APRIL 14:

That the Administration recommendations contained in Report AC2016-0310 be approved.

Excerpt from the Minutes of the Regular Meeting of the Audit Committee Dated 2016 April 14:

"And further, that the corrections as indicated on the distribution entitled "The City of Calgary, Changes to the 2015 Annual Report" be incorporated into the City of Calgary 2015 Annual Report prior to being forwarded to Council.

CARRIED"

PREVIOUS COUNCIL DIRECTION / POLICY

The Audit Committee's Terms of Reference (included in Bylaw 48M2012) as approved by Audit Committee and Council, state that the Audit Committee, with respect to the City's Financial Disclosure and Accounting Practices:

- a) Oversee the integrity of and review the Annual Financial Statements and recommends their approval to Council;
- b) Review and discuss the City's compliance with financial reporting procedures with Administration, the City Auditor and External Auditor;
- c) Engage Administration, the City Auditor, and the External Auditor in candid discussions regarding issues that may alter judgement or affect the quality of the reporting process and search for insight into the results;
- d) Review and discuss areas where changes in accounting standards could have a material impact on financial results, and may request a detailed analysis, prepared by Administration in consultation with the External Auditor, of the implications of those changes;
- e) Maintain open lines of communication with the External Auditor, the City Auditor and Administration.

BACKGROUND

Section 276(3) of the Municipal Government Act provides:

"Each municipality must make its financial statements, or a summary of them, and the auditor's report of the financial statements available to the public in the manner the Council considers

Approval(s): (CFO) Sawyer, Eric concurs with this report. Author: An, Cathy
City Clerk's: M. Carlo

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appropriate by May 1 of the year following the year for which the financial statements have been prepared.”

Further to this, Section 276(1)(a) specifies that the financial statements be prepared in accordance with “the generally accepted accounting principles for municipal governments, which are the standards approved by the Public Sector Accounting Board included in the CPA Canada Public Sector Accounting Handbook published by the Chartered Professional Accountants of Canada, as amended from time to time”.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

The 2015 Annual Report will be published in a one-book landscape format, consistent with the multi-year business plan and budget. The publication provides readers with financial and operational information for 2015. The Annual Report contains the following sections:

- Calgary at a Glance;
- Message from the Mayor;
- City Council;
- Corporate Governance and Accountability;
- Audit Committee;
- City of Calgary Administration;
- Message from The City Manager;
- Making life better every day.
- Financial Information;
 - Financial Statement Discussion and Analysis;
 - Financial Synopsis;
- Consolidated Financial Statements;
 - Responsibility for Financial Reporting;
 - Independent Auditors' Report;
 - Consolidated Financial Statements (audited); and
- Financial and Statistical Schedules (unaudited).

Upon Council's approval of the Annual Report, a Report to Citizens will be placed in the Calgary Herald summarizing the Statement of Financial Position, Statement of Financial Activities, and other financial highlights as well as advising the public where complete copies of the Annual Report can be obtained. The Annual Report will also be available electronically on www.calgary.ca.

Prior Period Adjustments:

In 2009, The City of Calgary (“The City”) adopted the new accounting standards recommended by the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Standards (PSAS) handbook. These new standards include Tangible Capital Assets (TCA) (PS3150, Tangible Capital Assets).

In 2014, as a result of continued usage and refinement of capital asset accounting and management systems, certain defined asset balances were identified that required prior period correction. This was as a result of review and reconciliation of work in progress and tangible

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capital asset balances. The effect of correcting these misstatements was to reduce the net book value of TCA at December 31, 2014 by \$16.017 million. Similarly, equity in non-financial assets, a category within accumulated surplus at December 31, 2014 reduced by \$16.017 million. Included in this correction is \$9.885 million of assets that were accounted for in Work in Progress ("WIP") and TCA. Also during the fiscal 2014 year, \$4.411 million was reclassified from WIP to land inventory. The net effect of correcting this misstatement was to increase 2014 land inventory by \$4.411 and increase the 2014 capital fund by \$4.411 million.

During the fiscal 2014 year an additional \$3.666 million was added to land inventory. The net effect of correcting this misstatement was to increase 2014 land inventory by \$3.666 million and increase the 2014 capital fund by \$3.666 million.

These restated amounts relate solely to the accounting for TCA and land inventory and had no effect on The City's cash balances, property tax revenues or any other balances influencing The City's operating budget, capital budget, grants received, debt borrowings, property tax assessments or any other related balances. During 2014, Administration developed a TCA project team and continued in 2015 in taking on a comprehensive review to mitigate the TCA challenge.

In 2014, miscellaneous revenue and transfer payments were decreased by \$3.682 million to account for elimination of intercompany balances. This adjustment had no impact on accumulated surplus.

Since inception, Calgary Arts Development Authority Ltd. ("CADA") and Calgary Economic Development Ltd. ("CED") have been accountable for the administration of their financial affairs and resources to The City and have been controlled by The City. Historically, the assets, liabilities, revenues, and expenses of the operating fund, capital fund, and reserves fund of these entities were not considered significantly material to be included in The City's consolidated financial statements. In 2015, through discussions held with CADA and CED, it was determined that cSPACE Projects and the Calgary Film Centre Ltd. were accountable and controlled by CADA and CED respectively. Accordingly, CADA and CED have been consolidated in the financial statements of The City, with the 2014 comparative figures restated for this change in accounting treatment. This restatement had the effect of increasing financial assets by \$13.451 million, financial liabilities by \$11.378 million and non-financial assets by \$13.444 million.

Summary of Financial Results:

The Canadian Public Sector Accounting Standards (PSAS) reporting model prescribes five indicators of performance: net financial assets (debt), accumulated surplus (deficit), annual surplus (deficit); cash flow in the year, and the change in net financial assets (debt) in the year. Together, these indicators help the reader understand how well The City has managed its finances in the year and where it stands in terms of resources held and debts owed at the end of the year.

The 2015 consolidated financial statements of The City of Calgary continue to reflect a strong and healthy financial picture of a municipality investing in infrastructure.

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Each of the five indicators of financial health is described in detail, as follows:

On the Consolidated Statement of Financial Position:

Net Financial Assets: calculated as total financial assets less financial liabilities. The focus on financial assets as separate from non-financial assets is critical, as financial assets can be used to discharge liabilities or provide services, while non-financial assets are normally only used to provide services in the future. The City has a net financial assets position of \$1,249 million. This is an increase from the net financial asset position of \$536.6 million at the end of 2014. This means The City has more financial assets than financial liabilities (including debt). This is primarily due to the increase in its investment balances and decreases in long term debt and partially offset by an increase in bank indebtedness, capital deposits, and employee benefit obligations.

Accumulated Surplus: This indicator represents The City's total net economic resources, both financial and non-financial and it is the sum of net financial performance since the beginning of time. The City has an accumulated surplus of \$16,250 million as at December 31, 2015, comprised of \$1,249 million in net financial assets and \$15,001 million in non-financial assets.

This surplus means that there are net resources (both financial and physical) that can be used to provide future services. This total accumulated surplus also indicates that, over time, The City has raised enough funds to cover annual operations and contributions to capital programs and that borrowing has been for capital purposes only. A further breakdown of the elements of the accumulated surplus is provided in Note 17 of the consolidated financial statements.

On the Consolidated Statement of Operations and Accumulated Surplus:

Annual Surplus: The City has an annual surplus position of \$1,165 million, meaning enough funds were raised in the year to afford the total cost of providing services and a contribution to investment in new capital assets in the year.

On the Consolidated Statement of Cash Flows:

Increase in cash and cash equivalents in the year: The increase in cash and cash equivalents in the year represents that, from a cash perspective, The City essentially raised enough cash to afford the required cash outflows in the year. Cash was raised through \$1,649 million in operating activities. Cash was spent through a combination of \$1,026 million in capital activities, \$357 million in investing activities and \$243 million in financing activities.

On the Consolidated Statement of Changes in Net Financial Assets:

Change in Net Financial Assets in the year: From December 31 2014 to December 31 2015, The City increased its net financial asset position by \$537 million, from \$713 million in 2014 to \$1,250 million in 2015. The change in the year is a measure of whether the revenues raised were sufficient to cover the spending in the year, including any capital spending to acquire new assets. The increase in the year was primarily a result of the excess of 2015 revenues over expenses and depreciation of existing tangible capital assets, less the acquisition and contributions of new capital assets in the year.

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Stakeholder Engagement, Research and Communication

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Strategic Alignment

The 2015 External Auditor's Year End Audit Report is needed for Audit Committee to fulfill its audit governance responsibilities, with respect to confirming the integrity of The City's Annual Financial Statements and recommending its approval to Council. The External Auditor's Year End Audit Report will be brought forward to Council as report AC2016-0289. Financial Reporting compliance with provincial legislation is essential to ensure public confidence and fulfill the public's need for transparency and accountability.

Social, Environmental, Economic (External)

The City of Calgary Annual Report 2015 identifies key messages and accomplishments by The City in 2015, in the area of Making life better every day.

Financial Capacity

Current and Future Operating Budget:

The City of Calgary Annual Report 2015 highlights current operating results for 2015, however, there are no specific financial implications associated with this report.

Current and Future Capital Budget:

The City of Calgary Annual Report 2015 highlights current capital results for 2015, however, there are no specific financial implications associated with this report.

Risk Assessment

Each municipality must make its financial statements, or a summary of them, and the auditor's report of the financial statements available to the public by May 1 of the year following the year for which the financial statements have been prepared. If Council does not approve this report at the 2016 April 25 Regular Meeting of Council, then The City would not be in compliance with this legislative requirement.

REASON(S) FOR RECOMMENDATION(S):

Council approval of The City of Calgary Annual Report 2015 is required to comply with Section 276(3) of the Municipal Government Act:

"Each municipality must make its financial statements, or a summary of them, and the auditor's report of the financial statements available to the public in the manner the Council considers appropriate by May 1 of the year following the year for which the financial statements have been prepared."

ATTACHMENT(S)

Revised The City of Calgary Annual Report 2015

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