

Chief Financial Officer's Report to
Audit Committee
2023 April 19

ISC: UNRESTRICTED
AC2023-0327
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The City of Calgary 2022 Annual Financial Report

RECOMMENDATION:

That the Audit Committee:

1. Consider this report in conjunction with Report AC2023-0356 "External Auditor's 2022 Year-End Report";
2. Recommends Council approval of The City of Calgary 2022 Annual Financial Report; and
3. Forward to Council as a matter of urgent business to the 2023 April 25 Regular Meeting of Council.

RECOMMENDATION OF THE AUDIT COMMITTEE, 2023 APRIL 19:

That Council approve The City of Calgary 2022 Annual Financial Report.

HIGHLIGHTS

- **What does this mean to Calgarians?** Reporting on our financials is an important way for Administration to provide updates to Council and Calgarians on how the financial resources entrusted to The City are being managed to provide municipal services and infrastructure.
- **Why does this matter?** Financial Reporting compliance with provincial legislation is essential to ensure public confidence and fulfill the public's need for transparency and accountability.
- Council approval of The City of Calgary 2022 Annual Financial Report is required to comply with Section 276(3) of the Municipal Government Act which states that each Municipality must make its financial statements available publicly May 1 of the year following the year for which the statements have been prepared.
- It is recommended that the report be forwarded as an item of urgent business to the 2023 April 25 Regular Meeting of Council in order that the legislated timeline for financial statements to be available to the public be met.
- The City of Calgary 2022 Annual Financial Report includes the 2022 consolidated financial statements which have been audited, by Deloitte LLP, Chartered Professional Accountants and received an unmodified audit opinion. Once the Annual Financial Report has been approved by Council, it will be available electronically on www.calgary.ca.
- The 2022 External Auditor's Year End Report is required for the 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 Report will be brought forward to Council as report AC2023-0356.
- Background and Previous Council Direction is included as Attachment 1.

The City of Calgary 2022 Annual Financial Report

DISCUSSION

The City of Calgary 2022 Annual Financial Report (“Annual Financial Report”) will be published in a one-book landscape format. The publication provides readers with financial and operational information for 2022, climate-related financial disclosures as well as Outlook information for 2023 and beyond.

The Annual Financial Report presents financial information that consolidates all organizations that are controlled by The City, except for The City’s government business enterprise, ENMAX Corporation, which is accounted for on a modified equity basis. To review a high-level overview of The City’s non-consolidated budget to preliminary unaudited actual results for 2022, please refer to the Performance Report that was presented to Executive Committee on 2022 March 22 and is electronically available at this link: [Executive Committee - March 22, 2023 \(escribemeetings.com\)](https://www.escribemeetings.com).

The favorable operating variance of \$258 million as presented in the Performance Report differs from the Annual Financial Report surplus of \$367 million due to the following items which are presented differently under Public Sector Accounting Standards:

- Presentation of debt principal repayments as expenses.
- Limited inclusion of depreciation values only associated with self-supported business units.
- Exclusion of ENMAX and Related Authorities controlled by The City.
- Income treatment of Reserve allocations and timing of Reserve transfers.
- Capital expenditure presentation as total expenditures from capital funding sources

Summary of Financial Results:

The Public Sector Accounting Standards reporting model prescribes five indicators of performance:

1. Net Financial Assets (Debt);
2. Accumulated Surplus (Deficit);
3. Annual Surplus (Deficit);
4. Cash Flow in the Year; and
5. 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 The City stands in terms of resources held and debts owed at the end of the year.

The 2022 consolidated financial statements of The City of Calgary continue to reflect a strong and resilient financial picture of a municipality investing in infrastructure.

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

On the Consolidated Statement of Financial Position:

1. 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

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only used to provide services in the future. The City has a net financial assets position of \$4,487 million. This is an increase of \$937 million from the net financial asset position of \$3,550 million at the end of 2021. This means The City has more financial assets than financial liabilities (including debt). This is primarily due to increases in cash, investments, receivables, other assets and investment in ENMAX Corporation. Financial assets are partially offset by an increase in accounts payable and accrued liabilities, deferred revenue and provision for landfill rehabilitation.

2. **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 inception. The City has an accumulated surplus of \$24,303 million as at 2022 December 31, comprised of \$4,487 million in net financial assets and \$19,816 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:

3. **Annual Surplus:** The City has an annual surplus position of \$1,335 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:

4. **Cash flow in the year:** The increase in cash of \$162 million in the year represents that, from a cash perspective, The City raised enough cash to afford the required cash outflows in the year. Cash was raised through \$1,434 million in operating activities. Cash was spent through a combination of \$850 million in capital activities, \$340 million in investing activities, and \$83 million in financing activities.

On the Consolidated Statement of Changes in Net Financial Assets:

5. **Change in Net Financial Assets in the year:** From 2021 December 31 to 2022 December 31, The City increased its net financial asset position by \$937 million, from \$3,550 million in 2021 to \$4,487 million in 2022. 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 2022 revenues over expenses, amortization of existing tangible capital assets and proceeds on sale of tangible capital assets, less the acquisition and contributions of new capital assets in the year.

Prior Period Adjustment:

In 2022, as a result of continued usage and refinement of capital asset accounting and management systems, prior years tangible capital asset balances were identified that required correction and the consolidated financial statements have been retrospectively adjusted. The tangible capital asset balance previously reported in the 2021 consolidated financial statements as \$19,283 million has been restated to \$19,322 million, resulting in an increase of \$39 million. The change represents 0.2 per cent of tangible capital assets. The adjustment also

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resulted in a prior year increase of \$6 million to developer contributions in kind related to capital, an increase of \$1 million to depreciation expense and an increase of \$34 million to opening equity in non-financial assets.

EXTERNAL ENGAGEMENT AND COMMUNICATION

- Public engagement was undertaken
- Public/interested parties were informed
- Dialogue with interested parties was undertaken
- Public communication or engagement was not required

IMPLICATIONS

Social, Environmental, Economic

The Annual Financial Report demonstrates The City's accomplishments in 2022 in the areas:

- Strong statement of financial position and liquidity;
- Undertook an organization realignment;
- Approval of 2023-2026 Service Plans and Budgets;
- Advancement of the Green Line Project;
- Supporting the recovery of Calgary's Downtown; and
- Preparing our city and infrastructure for a changing climate.

Service and Financial Implications

No anticipated financial impact

Current and Future Operating Budget:

There are no anticipated financial implications as a result of implementing these recommendations.

Current and Future Capital Budget:

There are no anticipated financial implications as a result of implementing these recommendations.

RISK

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 2023 April 25 Regular Meeting of Council, then The City would not be in compliance with this legislative requirement.

ATTACHMENTS

1. Previous Council Direction and Background

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The City of Calgary 2022 Annual Financial Report

- 2. The City of Calgary 2022 Annual Financial Report
- 3. Presentation – 2022 Annual Financial Report

Department Circulation

General Manager/Director	Department	Approve/Consult/Inform
Carla Male	Corporate Planning & Financial Services Department	Approve