

2013 CITY OF CALGARY ANNUAL REPORT

EXECUTIVE SUMMARY

The 2013 financial statements included in the attached City of Calgary 2013 Annual Report have been audited, without qualification, by Deloitte, Chartered Accountants. Administration is seeking approval to issue The City of Calgary 2013 Annual Report.

ADMINISTRATION RECOMMENDATION(S)

That the Audit Committee:

1. Consider this report in conjunction with Report AC2014-0327 "2013 External Auditor's Report";
2. Recommends Council approval of the 2013 City of Calgary Annual Report, and
3. Forward to Council as a matter of urgent business to the 2014 April 28 Regular meeting of Council.

PREVIOUS COUNCIL DIRECTION / POLICY

The Audit Committee's Terms of Reference, 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 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 recommended from time to time by the Canadian Institute of Chartered Accountants".

INVESTIGATION: ALTERNATIVES AND ANALYSIS

The 2013 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 2013. The Annual Report contains the following sections:

- Message from the Mayor;

2013 CITY OF CALGARY ANNUAL REPORT

- Corporate Governance and Accountability;
- Calgary City Council;
- Message from The City Manager;
- Audit Committee;
- City of Calgary Administration;
- Technology
- Community
- Flood Response
- Flood Recovery
- Financial Information;
 - Financial Statement Discussion and Analysis;
 - Financial Synopsis;
- Consolidated Financial Statements
 - Responsibility for Financial Reporting;
 - 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 Report can be obtained. The Report will also be available electronically on www.calgary.ca.

Flood Event

On June 20, 2013 The City experienced a major flood event and a State of Local Emergency (SOLE) was declared within The City. The flood caused significant damage to The City's Tangible Capital Asset (TCA) balances. While The City has completed a substantial portion of the work to restore conditions to pre-flood, it is expected that remediation and mitigation efforts will continue into 2014 and beyond.

The City holds various insurance policies with multiple insurance providers which have been and will be used to fund a portion of the remediation and recovery efforts. The City has received cash advances totalling \$50.0 million from insurance providers relating to building and content losses which are reflected in Miscellaneous revenue on the Consolidated Statement of Operations and Accumulated Surplus. The City incurred \$68.9 million insurance related capital expenditures and \$3.4 million in operating related expenditures. This was funded by the cash advance received from the insurance providers, with the remainder being funded internally until the insurance claims are processed and finalized.

The City has also applied to the Province of Alberta Disaster Recovery Program (DRP) to recover eligible capital costs related to the flood event. The City received cash advances of \$63.0 million during 2013. The City has incurred \$32.2 million in DRP related capital expenditures, the total of which has been funded by the DRP advance.

2013 CITY OF CALGARY ANNUAL REPORT

The City has also received \$12.6 million from the Province of Alberta restricted to be used for the Erosion Control Mitigation Program of which none has been spent at the end of the year.

Prior Period Adjustments:

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

In 2013, 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 capital asset balances. As the 2013 year progressed, it was identified that certain balances required correction. As a result, all business units endeavoured to review and investigate any remaining issues related to TCA and adjust as appropriate. The effect of correcting these misstatements was to reduce the net book value of tangible capital assets at December 31, 2012 by \$15 million, from \$12.982 billion to \$12.967 billion. Similarly, equity in non-financial assets, a category within accumulated surplus, at December 31, 2012 reduced by \$15 million, from \$9.652 billion to \$9.637 billion.

These restated amounts relate solely to the accounting for tangible capital assets and had no effect on The City's cash balances, net financial asset position, property tax revenues or any other balances influencing The City's operating budget, capital budget, grants received, property tax assessments or any other related balances. In 2014, Administration will be taking a comprehensive review and plan to mitigate the TCA challenge.

Summary of Financial Results:

The Canadian Public Sector Accounting Standards (PSAB) reporting model prescribes five indicators of performance: net financial assets (debt), accumulated surplus (or deficit), annual surplus (or 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 2013 consolidated financial statements of The City of Calgary continue to reflect a strong and healthy financial picture of a municipality investing in infrastructure.

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 \$586.0 million. This is an increase from the net financial asset position of \$140.1 million at the end of 2012.

2013 CITY OF CALGARY ANNUAL REPORT

This means The City has more financial assets than financial liabilities (including debt). This is primarily due to the increase in its investment in ENMAX and investment balances partially offset by increases in debt and other liabilities. This is reflective of the use of debt to partially finance infrastructure maintenance and growth.

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 \$14.3 billion as at December 31, 2013, comprised of \$586.0 million in net financial assets and \$13.7 billion 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 \$1.1 billion, 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 a combination of \$1.2 billion in operating activities and \$239.7 million in financing activities. Cash was spent through a combination of \$840.2 million in capital activities and \$540.6 million in investing activities.

On the Consolidated Statement of Changes in Net Financial Assets:

Change in Net Financial Assets in the year: From December 31 2012 to December 31 2013, The City increased its net financial asset position by \$445.9 million, from \$140.1 million in 2012 to \$586.0 million in 2013. 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 2013 revenues over expenses and depreciation of existing tangible capital assets, less the acquisition and contributions of new capital assets in the year.

Stakeholder Engagement, Research and Communication

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 Report can be obtained. The Report will also be available electronically on The City's home page at www.calgary.ca.

2013 CITY OF CALGARY ANNUAL REPORT

Strategic Alignment

The 2013 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 AC2014-0327. 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 2013 identifies key messages and accomplishments by The City in 2013, in the areas of Technology, Community, Flood Response, and Flood Recovery.

Financial Capacity

Current and Future Operating Budget:

The City of Calgary Annual Report 2013 highlights current operating results for 2013, however, there are no specific financial implications associated with this report.

Current and Future Capital Budget:

The City of Calgary Annual Report 2013 highlights current capital results for 2013, 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 2014 April 28 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 2013 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)

The City of Calgary Annual Report 2013