

The City of Calgary 2018 Annual Report

EXECUTIVE SUMMARY

The City of Calgary 2018 Annual Report includes the 2018 financial statements which have been audited, by Deloitte LLP, Chartered Professional Accountants and received an unmodified audit opinion.

ADMINISTRATION RECOMMENDATION:

That the Audit Committee:

1. Consider this report in conjunction with Report AC2019-0438 "2018 External Auditor's Year-End Report";
2. Recommends Council approval of The City of Calgary 2018 Annual Report, and
3. Forward to Council as a matter of urgent business to the 2019 April 29 Regular Meeting of Council.

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; and
- 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 "Canadian generally accepted accounting principles for municipal governments, which are the standards approved by the Public Sector Accounting Board

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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 City of Calgary 2018 Annual Report (“Annual Report”) will be published in a one-book landscape format. The publication provides readers with financial and operational information for 2018, as well as Outlook information.

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 Operations, other financial highlights, as well as details for where the public can obtain complete copies of the Annual Report. The Annual Report will also be available electronically on www.calgary.ca.

Prior Period Adjustments:

In 2018, Administration identified adjustments to capital deposits, developer contributions, government transfers related to capital and reserves that required correction due to the timing of revenue and funding recognition. This correction has been reflected in these financial statements as a prior period adjustment to 2017 figures:

- Capital deposits on the statement of financial position previously reported in the 2017 financial statements as \$827 million has been restated to \$713 million;
- The 2017 statement of operations has decreased developer contributions by \$5 million; and increased government transfers related to capital by \$41 million;
- Accumulated surplus, beginning of year on the statement of operations increased by \$78 million; and
- Reserves previously reported in the 2017 financial statements as \$2,044 million have been restated to \$2,033 million, resulting in a decrease of \$11 million to reserves and an increase of \$11 million to the capital fund.

These restated amounts had no effect on The City's cash balances, property tax revenues or any other balances influencing property tax assessments.

Summary of Financial Results:

The Public Sector Accounting Standards (PSAS) 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.

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The 2018 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, 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 only used to provide services in the future. The City has a net financial assets position of \$1,919 million. This is an increase of \$225 million from the net financial asset position of \$1,694 million at the end of 2017. This means The City has more financial assets than financial liabilities (including debt). This is primarily due to increases in cash, investments and receivables. Financial assets are partially offset by an increase in liabilities which are governed by agreements with the parties involved, including funds owed for goods and services already received (accounts payable and accrued liabilities), and capital deposits that are restricted to specific types of capital.
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 \$19,695 million as at December 31, 2018, comprised of \$1,919 million in net financial assets and \$17,776 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 \$1,022 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 and cash equivalents 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 \$1,602 million in operating activities. Cash was spent through a combination of \$1,235 million in capital activities, \$105 million in investing activities, and \$150 million in financing activities.

On the Consolidated Statement of Changes in Net Financial Assets:

5. Change in Net Financial Assets in the year: From December 31, 2017 to December 31, 2018, The City increased its net financial asset position by \$225 million, from \$1,694 million in 2017 to \$1,919 million in 2018. 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 2018 revenues over expenses and amortization 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 2018 External Auditor's Year End Audit 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 Audit Report will be brought forward to Council as report AC2019-0438. 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 Annual Report identifies key messages and accomplishments by The City in 2018 in the area of "Better serving citizens, communities, and customers".

Financial Capacity

Current and Future Operating Budget:

The Annual Report highlights current operating results for 2018, however, there are no specific financial implications as a result of this report.

Current and Future Capital Budget:

The Annual Report highlights current capital results for 2018, however, there are no specific financial implications as a result of 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 2019 April 29 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 2018 Annual Report 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

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