

## CITY OF EDMONTON 2021 CONSOLIDATED FINANCIAL STATEMENTS

### RECOMMENDATION

That Audit Committee recommend to City Council:

That the 2021 City of Edmonton audited consolidated financial statements, as set out in Attachment 1 of the April 12, 2022, Financial and Corporate Services report FCS01074, be approved.

### Report Purpose

#### City Council decision required

City Council is being asked to approve the 2021 City of Edmonton audited consolidated financial statements.

### Executive Summary

- This report presents the City of Edmonton 2021 audited consolidated financial statements for review and recommendation by the Audit Committee and subsequent review and approval by City Council.
- Pending discussions with Audit Committee, the approval of the financial statements by City Council and obtaining a signed management representation letter, KPMG LLP is prepared to issue an audit opinion for the City of Edmonton 2021 consolidated financial statements. The audit opinion would state that the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the City of Edmonton as at December 31, 2021, and its consolidated results of operations, its consolidated changes in its net financial assets, and its consolidated cash flows for the year ended December 31, 2021, in accordance with Canadian public sector accounting standards.
- Audit Committee recommendation and approval by City Council of the 2021 audited consolidated financial statements for the City of Edmonton meets the legislative requirements for annual financial reporting set out in the Municipal Government Act and Bylaw 16097 Audit Committee Bylaw.

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## REPORT

Section 276(3) of the *Municipal Government Act* (MGA) requires:

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, MGA 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 included in the CPA Canada Public Sector Accounting Handbook published by the Chartered Professional Accountants of Canada, as amended from time to time.

Bylaw 16097 Audit Committee Bylaw sets out the authority of Audit Committee as it relates to the financial statements, as outlined in sections 22 and 23 of the bylaw:

22. The Committee will annually review the following matters:

- a. the completeness and clarity of financial statement reporting;
- b. estimates and assumptions underlying financial statement reporting;
- c. financial statement reporting practices;
- d. compliance with generally accepted accounting standards for the public sector or changes to those standards;
- e. impact of any change in the City's reporting practices on the City's financial statements; and
- f. issues affecting approval of the City's audited financial statements.

23. The Committee will recommend to Council:

- a. that the annual audited financial statements be approved; and
- b. further actions or information that Council may desire in relation to the City's financial reporting.

Management has prepared and takes responsibility for the consolidated financial statements. Attachment 1 includes:

- Management's Responsibility for Financial Reporting;

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- Independent Auditors' Report provided by KPMG LLP, to be signed subsequent to obtaining a signed management representation letter and approval of consolidated financial statements by City Council on April 19, 2022; and
- 2021 consolidated financial statements for the City of Edmonton.

Attachment 2 includes the Financial Statement Discussion and Analysis for December 31, 2021, which complements the consolidated financial statements. Subject to the approval of the consolidated financial statements, the content of Attachment 1 (Consolidated Financial Statements) and Attachment 2 (Financial Statement Discussion and Analysis) will be included within the City of Edmonton 2021 Annual Report, available on the City's website prior to May 1, 2022, as required by the MGA. The City of Edmonton 2021 Annual Report will be submitted to the Government of Alberta's Minister of Municipal Affairs and provided to other statement users, including other governments, financial institutions, credit rating agencies, insurers, universities and libraries. Summary financial reporting will also be made public.

For the 28th consecutive year, the quality of the City of Edmonton's financial reporting was recognized with the Government Finance Officers Association Canadian Award for Financial Reporting for Edmonton's 2020 Annual Report.

### **Impact of COVID-19 Pandemic**

Over the course of the 2021 fiscal year, the City continued to be impacted by COVID-19. The pandemic continues to impact the City's financial results with revenue reduction and increased expenses.

Additional details with respect to the City's response to the COVID-19 pandemic and its financial implications for the City's financial statements are included in Note 1 (v) to the consolidated financial statements, as well as the Financial Statement Discussion and Analysis (Attachment 2).

### **2021 Consolidated Financial Statements**

#### Accounting Policies, Standards and Assumptions

Significant accounting policies applied in the preparation of the 2021 consolidated financial statements are outlined in Note 1 to the consolidated financial statements, and cover concepts such as:

- what comprises the City's reporting entity;
- the use of accrual accounting as the basis of accounting;
- the use of estimates and assumptions accounting policies related to foreign currency, tax revenue, government transfers, local improvements, cash and cash equivalents, investments, debt recoverable, land for resale, liabilities for contaminated sites, deposits, deferred revenues, employee benefit obligations, landfill closure and liabilities, public-private

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partnerships, non-financial assets (including tangible capital assets), reserves for future expenditures and equity in tangible capital assets; and

- future accounting standard pronouncements that may impact future reporting.

No new accounting standards were adopted during the year ended December 31, 2021. The preparation of consolidated financial statements requires management to make a number of estimates and assumptions that impact the reported amounts of assets, liabilities, accumulated surplus, revenues and expenses. To assist Audit Committee and City Council in their review, a summary of the significant management assumptions has been included in Attachment 3.

### Uncorrected Audit Misstatement

In 2019 the City recognized an impairment of the previous Metro Line LRT signaling system for accounting purposes, as reflected in the 2019 consolidated financial statements, in the amount of \$55.9 million. A portion of the signaling system had been funded through the provincial Green Transit Incentives Program (GreenTRIP). The GreenTRIP agreement requires funds to be applied towards assets that are operational for at least 10 years after project completion. With the asset being impaired, the signaling system costs were no longer eligible in accordance with the grant agreement. As a result, in 2020 the City began discussions with the province on reallocation of these funds towards other eligible projects. In 2021, after receiving approval from the province, the City reallocated the GreenTRIP funds towards the Stadium LRT Station Upgrade project and bus purchases. This reallocation of funding allowed the City to preserve the funding received from the Government of Alberta but in a different year and for different projects. This reallocation of funding was approved by City Council through the Fall 2021 Supplemental Capital Budget Adjustment process.

In accordance with accounting standards, the grant proceeds are to be recognized as capital revenues to offset related eligible expenditures, when they are incurred. In order to account for the transaction, the GreenTRIP capital revenues of \$29 million that were recognized in prior years have now been reallocated to new eligible projects for future use (Stadium LRT Station Upgrade project and bus purchases). The related grant revenues were reversed in 2021 once the province approved the reallocation and will be applied and recognized in future years.

The uncorrected audit misstatement reflects the fact that in 2021 the City adjusted the revenue that was previously recognized between 2011-2020 under a provincial contribution agreement in order to reallocate it to a new project. The amount is not material to the financial statements and stems from a revised funding allocation received in the current year. The amount only relates to a reallocation of grant funding amongst projects. There is no impact on the City's accumulated surplus at December 31, 2021. As such KPMG agrees that no prior period adjustment is required, however identifies the misstatement due to the timing of when the adjustment was recognized in the financial statements.

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## **COMMUNITY INSIGHT**

The City of Edmonton's financial statements are the instruments that allow Council to achieve the goals of ConnectEdmonton and the Big City Moves of The City Plan. Through various channels (including formal public engagement, community conversations/tables, 311, social media and speakers at Committees of Council), the City of Edmonton listens to the needs, desires and financial realities of Edmontonians as it delivers programs and services on behalf of the community. The City of Edmonton's programs and services should enable a better life for all Edmontonians; Administration is committed to providing financial reporting back to Council and residents that demonstrates how the City has delivered on the goals and objectives set out in the budget.

## **GBA+**

As the financial statements reflect the reporting of actual results that provide the quantitative results of the operations of the City, additional GBA+ is not completed for these reports.

## **ATTACHMENTS**

1. 2021 Consolidated Financial Statements
2. 2021 Financial Statement Discussion and Analysis
3. 2021 Management Assumptions and Estimates