

CITY OF EDMONTON 2023 CONSOLIDATED FINANCIAL STATEMENTS

Recommendation

That Audit Committee recommend to City Council:

That the 2023 City of Edmonton audited consolidated financial statements, as set out in Attachment 1 of the April 15, 2024, Financial and Corporate Services report FCS02230, be approved.

Requested Action	Decision required		
ConnectEdmonton's Guiding Principle	ConnectEdmonton Strategic Goals		
CONNECTED This unifies our work to achieve our strategic goals.	N/A		
City Plan Values	N/A		
City Plan Big City Move(s)	N/A	Relationship to Council's Strategic Priorities	Conditions for service success
Corporate Business Plan	Managing the corporation		
Council Policy, Program or Project Relationships	<ul style="list-style-type: none"> • Bylaw 16097 Audit Committee Bylaw • C629 Financial Stabilization Reserve (FSR) • C203D Debt Management Fiscal Policy 		
Related Council Discussions	<ul style="list-style-type: none"> • FCS02229, Operating Financial Update - December 31, 2023, City Council, March 12, 2024 		

Executive Summary

- This report presents the City of Edmonton 2023 audited consolidated financial statements for review and recommendation by the Audit Committee and subsequent review and approval by City Council.
- Audit Committee recommendation and subsequent approval by City Council of the 2023 audited consolidated financial statements for the City of Edmonton meets the legislative

CITY OF EDMONTON 2023 CONSOLIDATED FINANCIAL STATEMENTS

requirements for annual financial reporting set out in the *Municipal Government Act* and Bylaw 16097 - Audit Committee Bylaw.

- Pending 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 2023 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, 2023, and its consolidated results of operations and accumulated surplus, its consolidated statement of remeasurement gains and losses, its consolidated changes in its net financial assets, its consolidated cash flows, and its notes and schedules to the consolidated financial statements for the year ended December 31, 2023, in accordance with Canadian public sector (PS) accounting standards.

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) and (b) specify that the financial statements be prepared in accordance with:

- (a) 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, and
- (b) any modification of the principles or any supplementary accounting standards or principles established by the Minister by regulation.

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;

CITY OF EDMONTON 2023 CONSOLIDATED FINANCIAL STATEMENTS

- 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 (City Administration) has prepared and takes responsibility for the consolidated financial statements (Attachment 1), which includes:

- Management's Responsibility for Financial Reporting;
- 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 23, 2024; and
- 2023 consolidated financial statements for the City of Edmonton.

Attachment 2 includes the Financial Statement Discussion and Analysis for December 31, 2023, which complements the consolidated financial statements.

Subject to the approval of the consolidated financial statements, the contents of Attachment 1 (Consolidated Financial Statements) and Attachment 2 (Financial Statement Discussion and Analysis) will be included within the City of Edmonton 2023 Annual Report, which will be made available on the City's website prior to May 1, 2024, as required by the MGA. The City of Edmonton 2023 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 30th 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 2022 Annual Report.

2023 Consolidated Financial Statements

Accounting Policies, Standards and Assumptions

Significant accounting policies applied in the preparation of the 2023 consolidated financial statements are outlined in Note 1, Attachment 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;

CITY OF EDMONTON 2023 CONSOLIDATED FINANCIAL STATEMENTS

- the use of estimates and assumptions;
- accounting policies related to foreign currency, tax revenue, government transfers, local improvements, financial instruments, cash and cash equivalents, portfolio investments, debt recoverable, land for resale, liabilities for contaminated sites, deposits, deferred revenues, employee benefit obligations, asset retirement obligations, public-private partnerships, and non-financial assets (including tangible capital assets);
- recently adopted accounting standards impacting the 2023 consolidated financial statements, and
- future accounting standard pronouncements that may impact future reporting.

New Accounting Standards

Effective January 1, 2023, the City adopted the new accounting standard PS3280, *Asset Retirement Obligations*, using the modified retroactive approach, therefore prior year 2022 comparative figures were restated. Under PS3280, the City recognized its best estimate of asset retirement obligations associated with post-retirement maintenance and monitoring costs of the City's buildings and equipment. Solid waste landfill closure and post-closure liabilities previously recognized separately are now included within the Asset Retirement Obligation (ARO) on the Consolidated Statement of Financial Position. This new standard resulted in an ARO on the Consolidated Statement of Financial Position at December 31, 2023 of \$203.9 million, representing the estimated obligation primarily related to the removal of asbestos in its buildings at retirement, landfill closure and post-closure care costs from its Clover Bar and Rundle Park landfill sites, and storage tanks.

The ARO reflects the City's legal responsibility for retirement, maintenance and monitoring activities related to tangible capital assets owned or controlled by the City over approximately the next 60 years, mainly related to buildings, equipment and landfills. Funding for these ARO liabilities will be included as a part of the City's capital planning and budgeting process as the timelines for asset retirement activities approach. Further information on the new accounting standard PS3280, *Asset Retirement Obligations*, is included in Note 1t and Note 13 in the City's consolidated financial statements.

Effective January 1, 2023, The City adopted the new accounting standards PS1201, *Financial Statement Presentation*, PS3450, *Financial Instruments*, PS2601, *Foreign Currency Translation* and PS 3041, *Portfolio Investments*. These standards were applied prospectively with no adjustments made to comparative figures. The major changes for the City resulting from these standards are:

- the introduction of a new Consolidated Statement of Remeasurement of Gains and Losses. This new statement includes unrealized gains and losses arising from the fair value measurement of certain financial instruments as well as the City's proportionate share of other comprehensive income that arises when the City includes the results of its subsidiary operations in EPCOR on a modified equity basis.
- the measurement of the City's portfolio investments changed from cost to fair value in situations where equities were actively traded, and

CITY OF EDMONTON 2023 CONSOLIDATED FINANCIAL STATEMENTS

- derivative instruments for foreign exchange forward contracts and fuel price hedge contracts recognized in the financial statements at fair value.

Further information regarding these new accounting standards are detailed in Note 1t in the City's consolidated financial statements.

Attachment 3 outlines the use of management assumptions and estimates in the preparation of the financial statements.

Uncorrected Audit Misstatement

Unidentified Government Transfers:

During 2023, an accounting error was identified by Administration related to the timing of recognizing capital grant revenue for a funding agreement between the City of Edmonton and Province of Alberta for the Yellowhead Trail Freeway Conversion project. The funding agreement was signed in September 2020, however eligible project expenditures could be claimed through the grant dating back to project inception in 2019. The agreement indicated that reimbursements would only be paid in accordance with the cash payment schedule included in the agreement, which was from 2023-2027. The City misinterpreted this to be the period of expenditure eligibility, however upon further review of the grant agreement this was only the period the cash payments would be made to the City based on eligible expenditures. Eligible project expenditures could be claimed as of the projection inception date of 2019. It was determined by Administration that \$60.2 million eligible expenditures were incurred between 2019 and the end of 2022.

Therefore, the correct adjustment to the 2023 consolidated financial statements as a result of under-recognition of capital revenues and government transfers receivable between 2019-2022, would be an increase in government transfers receivable and capital revenues in 2022 of \$60.2 million, with an overall increase in accumulated surplus of \$60.2 million to recognize the grant receivable. Administration has decided to make the adjustment in 2023 rather than restating prior period 2022 results. The transaction has been accurately reflected as at December 31, 2023, and Administration is of the opinion that the lack of restatement in 2022 will not influence the economic decisions of users taken on the basis of the financial statements. Furthermore the error is not considered material to the consolidated financial statements by KPMG (materiality for 2023 financial statement audit is set at \$98 million). The adjustment increased government transfers receivable, capital revenues, and accumulated surplus in 2023 by \$60.2 million. 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.

Overstatement of Expropriation Liability:

In 2022, the City recognized an expropriation liability \$11.5 million greater than estimated as a result of using the incorrect expropriation estimate. The liability was adjusted in 2023 to the correct amount. As a result the expropriation liability and related tangible capital assets (land) is overstated in 2022. Prior period results have not been restated to correct for this error. The transaction has been accurately reflected as at December 31, 2023, and Administration is of the

CITY OF EDMONTON 2023 CONSOLIDATED FINANCIAL STATEMENTS

opinion that the lack of restatement in 2022 will not influence the economic decisions of users taken on the basis of the financial statements. Furthermore the error is not considered material to the consolidated financial statements by KPMG (materiality for 2023 financial statement audit is set at \$98 million).

Community Insight

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. Through various channels (including formal public engagement, community conversations/tables, 311, social media and speakers at Council committees), the City of Edmonton listens to the needs, desires and financial realities of Edmontonians as it procures and delivers infrastructure and services on behalf of the community.

GBA+

GBA+ has not been completed as financial statements reflect the reporting of actual results of the operations of the City.

Attachments

1. 2023 Consolidated Financial Statements
2. 2023 Financial Statement Discussion and Analysis
3. 2023 Management Assumptions and Estimates