

## CITY OF EDMONTON 2024 CONSOLIDATED FINANCIAL STATEMENTS

### Recommendation

That Audit Committee recommend to City Council:

That the 2024 City of Edmonton audited consolidated financial statements, as set out in Attachment 1 of the April 11, 2025, Financial and Corporate Services report FCS02843, be approved.

<b>Requested Action</b>	Decision required		
<b>ConnectEdmonton's Guiding Principle</b>	<b>ConnectEdmonton Strategic Goals</b>		
<b>CONNECTED</b> This unifies our work to achieve our strategic goals.	N/A		
<b>City Plan Values</b>	N/A		
<b>City Plan Big City Move(s)</b>	N/A	<b>Relationship to Council's Strategic Priorities</b>	N/A
<b>Corporate Business Plan</b>	Managing the corporation		
<b>Council Policy, Program or Project Relationships</b>	<ul style="list-style-type: none"> <li>• Bylaw 16097 - Audit Committee Bylaw</li> <li>• C629A - Financial Stabilization Reserve (FSR)</li> <li>• C203D - Debt Management Fiscal Policy</li> </ul>		
<b>Related Council Discussions</b>	<ul style="list-style-type: none"> <li>• March 18, 2025, Financial and Corporate Services report FCS02841, Operating Financial Update - December 31, 2024</li> </ul>		

### Executive Summary

- This report presents the City of Edmonton 2024 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 2024 audited consolidated financial statements for the City of Edmonton meets the legislative

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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 2024 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, 2024, 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, 2024, in accordance with Canadian public sector 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;
  - 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.

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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 22, 2025; and
- 2024 consolidated financial statements for the City of Edmonton.

Attachment 2 includes the Financial Statement Discussion and Analysis for December 31, 2024, 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 2024 Annual Report, which will be made available on the City's website prior to May 1, 2025, as required by the MGA. The City of Edmonton 2024 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 31st 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 2023 Annual Report.

### **2024 Consolidated Financial Statements**

#### Accounting Policies, Standards and Assumptions

Significant accounting policies applied in the preparation of the 2024 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;
- the use of estimates and assumptions;
- accounting policies related to foreign currency, revenue recognition, local improvements, financial instruments, cash and cash equivalents, portfolio investments, debt recoverable, land for resale, liability for contaminated sites, deposits, deferred

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revenues, employee benefit obligations, asset retirement obligations, public-private partnerships and non-financial assets (including tangible capital assets);

- recently adopted accounting standards impacting the 2024 consolidated financial statements, and
- future accounting standard pronouncements that may impact future reporting.

### New Accounting Standards

Effective January 1, 2024, the City adopted the new requirements in Public Sector Standard (PS) 3400, *Revenue* and Public Sector Guidance (PSG)-8, *Purchased Intangibles*. These requirements were adopted on a prospective basis with no adjustments made to comparative figures.

- PS3400 provides a framework for recognizing, measuring and reporting revenue for specific types of revenue by differentiating between revenue that arises from transactions that include performance obligations and transactions that do not have performance obligations. Performance obligations are enforceable promises to provide specific goods or service to a specific payor. This standard applies to certain revenue streams of the City such as user fees, sales of goods and services, franchise fees, licences and permits, and fines and penalties. The adoption of this standard resulted in expanded accounting policy disclosures related to revenue recognition in Note 1 to the City's financial statements. In addition, to conform to the new standard, on January 1, 2024, the City's financial results were impacted by increasing deferred revenue by \$1.0 million and decreasing revenue by \$1.0 million to adjust for the change in revenue recognition. More significant adjustments were for revenues related to licenses and permits, land development applications and lot grading revenues.
- PSG-8 defines intangible assets as identifiable, non-monetary economic resources without physical substance, acquired from an external entity. The guidance allows the recognition of purchased intangible assets in public sector financial statements, and provides a definition and guidance on their recognition, measurement and disclosure, effective for fiscal years beginning on or after April 1, 2023 and applicable for the City's December 31, 2024 year-end financial statements. The guidance was developed to address a gap that public sector organizations were not able to recognize purchased intangibles in government financial statements. The City did not identify any significant purchased intangibles therefore this guidance did not have an impact on the City's financial results.

Effective January 1, 2024, the City adopted the new requirements in PS3160, *Public Private Partnerships*, using a retroactive approach without restatement of comparative figures. PS3160 establishes standards on accounting for partnerships between public and private sector entities where the public sector entity procures infrastructure using a private sector partner. A public-private partnership (P3) is generally defined as infrastructure that is procured by a public sector entity using a private sector partner that is obligated to design, build, finance, operate and maintain the infrastructure. The City has one P3 arrangement with TransEd related to the Valley Line LRT from MillWoods to Downtown. The City has been accounting for this P3 arrangement since inception of the agreement and start of construction using early draft guidance (referred to as exposure drafts)

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provided by the Public Sector Accounting Board. The adoption of this formal accounting standard for P3 arrangements resulted in:

- additional note disclosures in the financial statements regarding private partnership arrangements, and
- an adjustment to the scheduled operating payments for lifecycle rehabilitation on a straight-line basis over the term of the operating period. Previously these payments were expensed as scheduled.

Further information regarding these new accounting standards are detailed in Note 1(s) in the City's financial statements.

### Audit Misstatements

During the year-end close process and the year-end audit, accounting errors were identified in the City's financial statements related to tangible capital asset contributions, portfolio investments, expropriation liabilities and the P3 long-term liability.

The errors were mainly related to transactions occurring before 2024. Administration has made the correcting accounting adjustments in 2024 rather than restating prior period 2023 results. As a result, the transactions and financial statements have been accurately reflected as at December 31, 2024, and Administration is of the opinion that the lack of restatement in 2023 will not influence the economic decisions of users taken on the basis of the financial statements. Furthermore, KPMG does not consider the errors material to the financial statements and they have no effect on their auditor's report. Because some of the errors were not adjusted in the prior period with restatement (2023) they are reflected as uncorrected audit differences in the auditor's report. 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.

Each of these items is discussed further below.

### *Tangible Capital Asset (TCA) Contributions*

Administration identified an error during the year regarding the recognition of a contributed tangible capital asset (TCA). Over 2019 and 2020, Administration incorrectly recorded \$17.9 million in tangible capital assets as contributed. In the normal course of City operations, assets such as roads, land and land improvements are contributed to the City by developers who pay for the assets. Tangible capital assets acquired as contributions by the City are recorded at their fair value on the date received and corresponding revenues are recorded as contributed tangible capital assets on the Consolidated Statement of Operations and Accumulated Surplus. However, in this case, the City had paid for the capital asset through its own funding sources as approved in the capital budget and accordingly recognized the resulting tangible capital asset. As a result the same capital asset was recognized twice. This led to an overstatement of tangible capital assets and contributed tangible capital asset revenue (i.e. the incorrect recognition of the capital asset as a contributed asset). In the 2024 financial statements, this was corrected by decreasing tangible capital assets on the Statement of Financial Position by \$14.5 million (net of amortization expense from 2019 to 2023), decreasing

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contributed tangible capital asset revenue by \$17.9 million and decreasing 2024 amortization expense by \$3.4 million on the on the Statement of Operations and Accumulated Surplus.

To avoid future errors, additional controls are being implemented within the asset contribution process. The controls include a new process to thoroughly review the list of contributed assets with project managers before capitalizing the asset.

### *Portfolio Investments*

During the 2023 year-end financial statement close process, Administration incorrectly assessed the year-end investment holding statements provided by the City's investment custodian to include a double counting of investment earnings related to a gain on sale and a dividend, both in the amount of \$18.5 million. As such, Administration only recognized investment earnings of \$18.5 million in 2023 related to these two distinct investment earnings types, whereas total investment earnings of \$37 million should have been recognized in 2023. In 2024, Administration continued to investigate what was thought to be an error with the City's investment custodian. After extensive review and discussion, it was determined that the dividend and gain on sale were in fact two distinct items. This resulted in an understatement of investment earnings in 2023 in the Statement of Operations and Accumulated Surplus, and an overstatement of unrealized gains in the Statement of Remeasurement Gains and Losses. This was corrected in the 2024 year end financial statements by increasing investment earnings by \$18.5 million and decreasing unrealized gains in the same amount.

### *Expropriation Liability*

An expropriation liability arises when the City takes ownership of private property, with compensation provided to the owner, and a liability is established for the estimated compensation to be provided to the property owner as well as likely payouts to the owner for other damage claims.

The City recognizes the liability within Accounts payable and accrued liabilities, and increases the value of the related land asset within Tangible capital assets, both on the Statement of Financial Position.

Legal Services provides the Financial Services branch and KPMG with a list of all expropriation liabilities each year-end, and updated lists throughout the year-end close process, to ensure the most recent estimate of expropriation liabilities is included within the financial statements.

Upon reviewing the list of expropriation liabilities during the 2024 year-end audit, it was determined that certain expropriation liabilities set up at the end of 2023 were overstated by \$17.3 million based on information available at that time. Majority of the overstatements (\$10.2 million) were adjusted in the 2024 financial statements by decreasing land within Tangible capital assets and an offsetting reduction to Accounts Payable and accrued liabilities. The remainder of the overstatement (\$8.7 million) will be corrected in 2025 and was not adjusted in 2024 financial statements as the error was found late in the audit process and was material to the financial statements.

### *P3 Long-Term Debt Modification*

In February 2016, the City entered into a P3 agreement with the P3 partner to design, build, finance, operate and maintain stage 1 of the Valley Line LRT from Mill Woods to Downtown. The construction period ran from 2016-2023 and the operating period from 2023-2050. During construction of the

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Valley Line LRT, the City recognized capital costs as assets under construction and made progress payments on 50.0 per cent of the capital costs. Payments on the remaining 50.0 per cent of the capital costs were deferred and recognized as a P3 obligation to TransEd of which 16.7 per cent were settled in November 2023 upon service commencement. The remaining 33.3 per cent, which represents P3 long-term debt, is to be repaid by monthly interest and principal payments starting in the operating period (2023), referred to as capital payments.

In 2023, a portion of the P3 long-term debt balance on the Statement of Financial Position included amounts related to monthly capital payments that were not made to the P3 partner due to the project reaching service commencement later than the specified service commencement date. The Valley Line Southeast LRT reached service commencement in October 2023 instead of the specified December 2020 service commencement date included in the project agreement.

In 2024, Administration adjusted the P3 long-term debt resulting in a \$13.1 million write down of the carrying value of the liability related to the capital payments owing before the service commencement date. This was reflected as a reduction in the P3 long-term debt on the Statement of Financial Position and recognized as gain on the modification within the Statement of Operations and Accumulated Surplus.

Upon further discussion with the City's external financial statement auditors (KPMG), they indicated it would have been more appropriate to consider the modification to the P3 long-term debt to have occurred in 2023 when service commencement was achieved, as the forgone capital payments prior to the service commencement date would not be considered contractually owed to the P3 partner under the terms of the project agreement.

As a result this has been identified as a prior period error related to the modification of the P3 long-term debt occurring in 2023 which Administration has decided to correct in the 2024 fiscal year.

Administration has closely reviewed all the above noted audit errors to understand the root causes. The errors are not pervasive or indicative of significant internal control issues. Administration will work to improve processes, and provide additional training where necessary, to mitigate the potential of similar errors in future years.

In addition to these errors, the City's wholly owned subsidiary EPCOR identified prior period errors that resulted in a decrease to the City's investment in EPCOR by \$0.9 million at the end of 2024.

### 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.

### **Environment and Climate Review**

This report was reviewed for environment and climate risks. Based on the review completed no significant interactions with the City's environmental and climate goals were identified within the scope of this report.

### **Attachments**

1. 2024 Consolidated Financial Statements
2. 2024 Financial Statement Discussion and Analysis
3. 2024 Management Assumptions and Estimates