

City of Edmonton 2010 Consolidated Financial Statements

Recommendation:

That Audit Committee recommend to City Council.

That the 2010 City of Edmonton audited consolidated financial statements, as outlined in Attachment 1 of the April 18, 2011, Finance and Treasury Department report 2011CF5878, be approved.

Report Summary

This report provides the 2010 audited consolidated financial statements for the City of Edmonton, for review and recommendation by Audit Committee and subsequent review and approval by City Council.

Previous Council/Committee Action

At the December 16, 2009, City Council meeting, Bylaw 15310 Audit Committee Bylaw, received three readings. Section 8 of Bylaw 15310, sets out the authority of Audit Committee as it relates to financial reporting, including the:

- Authority and responsibility to report and recommend to City Council:
- (a) approval of the annual audited financial statements
- (b) any further actions or decisions the Committee deems appropriate regarding the City's financial reporting

Report

The *Municipal Government Act* requires that each municipality prepare annual financial statements in compliance with

public sector accounting standards established by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

The financial statements are required to be audited independently and submitted to the provincial Minister of Municipal Affairs (the Minister).

Attachment 1, includes the 2010 consolidated financial statements (the financial statements) for the City of Edmonton. Management has prepared and takes responsibility for the financial statements as has been acknowledged in Management's Responsibility for Financial Reporting, included within Attachment 1. KPMG LLP has audited the financial statements and will sign the Auditors' Report included in Attachment 1, when the financial statements have been approved by City Council.

The Canadian Auditing Standards, Section 700.41(b), instituted a change for audits of financial statements for periods ending on or after December 14, 2010. The date of the auditor's report, and consequently the signing of the report, will be no earlier than the date of approval of the financial statements in final form by the board of directors or other similar body (City Council). This represents a significant change from past standards, under which the date of substantial completion of the auditor's examination was used as the date of the auditor's report.

The signatures of the Mayor and one of the Councillors, who sit on the Audit Committee at the bottom of the Consolidated Statement of Financial Position, will signify the approval by City Council. The content of Attachment 1,

subject to approval, will be included within the City of Edmonton 2010 Annual Report, to be available on the City's website by May 1, 2011, and in hard copy format in mid-May.

The Annual Report will be submitted to the Minister 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 available to citizens, with a reference to where the complete Annual Report is available.

The City of Edmonton continues to be recognized for sound fiscal management through affirmation of the Dominion Bond Rating Service, credit rating of AA (high) and Standard and Poors AA+. The quality of Edmonton's financial reporting was recognized with the Government Finance Officers Association Canadian Award for Financial Reporting for the 2009 Annual Report.

Financial Reporting Changes for 2010

With the 2010 financial statements, the City has fully consolidated the Non-Profit Housing Corporation, with the change applied retroactively. Intercompany transactions and balances have been eliminated. The prior year financial statements included Non-Profit Housing Corporation on a modified equity basis and did not eliminate intercompany amounts. Note 23 to the financial statements provides further detail with respect to the Change in Accounting Policy.

2010 Organizational Changes

The 2010 financial statements fully consolidate the Fort Edmonton Management Company and the Edmonton Combative Sports Commission, to reflect organizational changes made by the City.

2010 Consolidated Financial Statements

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

- what comprises the City reporting entity
- the use of the accrual basis of accounting
- the use of estimates and assumptions
- policies impacting the valuation or accounting treatment of foreign currency, land for resale, investments, debt recoverable, non-financial assets (including tangible capital assets), reserves for future expenditures and equity in tangible capital assets

The preparation of financial statements requires management to make a number of estimates and assumptions, which impact the reported amounts of assets, liabilities, revenues and expenses. A summary of the significant management assumptions has been included in Attachment 2, to assist Audit Committee and City Council in their understanding.

The **Consolidated Statement of Financial Position** is used to evaluate

the City's ability to finance its activities and meet its liabilities and commitments. Financial and non-financial assets are considered separately. Financial assets such as cash, investments and receivables are generally available to discharge liabilities or provide services. Non-financial assets such as inventories and tangible capital assets are normally used to provide services. For the City, the net financial asset position of \$1.7 billion, primarily relates to the significant investment in the EPCOR subsidiary.

The decrease in net financial assets of \$313.7 million from the prior year is primarily from increased net long-term debt. Although the outstanding debt has increased, the City is still well within the debt limits and debt servicing limits legislated within the Regulations to the *Municipal Government Act*, as outlined in note 8 to the financial statements. Administration continues to monitor debt and debt servicing limits closely and will be providing City Council with quarterly updates as an integral part of quarterly performance reporting in 2011.

A second financial indicator highlighted on the Consolidated Statement of Financial Position is the accumulated surplus, reflecting the total net economic resources that have been built up over time. The composition of the accumulated surplus, including operating surplus, reserves and equity invested in tangible capital assets is shown in Note 13 to the financial statements. A schedule of reserves has been provided in Note 12. Overall the City has maintained a strong accumulated surplus with a total of \$10.4 billion, an increase of 4.9 percent from the prior year. The yearly change

in the accumulated surplus is made up of the annual excess of revenues over expenses for the year of \$483.3 million.

The **Consolidated Statement of Operations** outlines revenues collected by the City and their application to provide municipal services. Total revenues of \$1.9 billion were modestly higher than in 2009, although slightly lower than budget. Expenses of \$2 billion were slightly lower than the 2010 approved budget. Consequently, expenses incurred in the provision of municipal services were managed within the approved budget. The consolidated revenues in excess of expenses for the year of \$483.3 million, also includes government transfers for capital, developer and customer contributions for capital and the net comprehensive income adjustment for EPCOR subsidiary operations.

The **Consolidated Statement of Changes in Net Financial Assets (or Net Debt)** explains the change in the overall net financial assets on the Consolidated Statement of Financial Position. Net financial assets of \$1.7 billion have decreased from \$2.1 billion in 2009. Although decreased, the City continues to have a strong net financial asset position. The decrease results from net tangible capital asset acquisitions, which exceed the excess of revenues over expenses for the year, the debt taken to finance the assets and the amortization expense recorded. Net financial assets generally represent the financial position available to finance future operations.

The **Consolidated Statement of Cash Flows** summarizes the sources and uses of cash in 2010. The cash

position, comprised of cash and temporary investments, has decreased to \$92.4 million from \$117.0 million. During the year, cash was raised in a combination of \$491.2 million from operations, \$141.7 million from investing activities, and \$351.5 from net borrowing. \$1.01 billion was spent to acquire capital.

Schedule 1 to the financial statements, **Consolidated Schedule of Tangible Capital Assets**, has been added as a separate continuity schedule this year. The schedule provides an overview of assets managed and put into use to provide municipal services, less any asset dispositions and accumulated amortization. The 2010 net increase to \$8.6 billion from \$7.8 billion in 2009 is as a result of asset acquisitions of \$1.2 billion, less amortization recognized of \$328.9 million.

Schedule 2 to the financial statements, **Consolidated Segment Disclosures**, provides an analysis of revenues and expenses (by object) for each of the significant business groupings within the reporting entity. Note 22 to the financial statements provides a description of each of the segments. The Consolidated Segment Disclosures schedules tie, in total, to the Consolidated Statement of Operations.

Policy

The 2010 audited consolidated financial statements meet the requirements as set out in the *Municipal Government Act*, and are in compliance with the professional accounting standards as set by the Public Sector Accounting Board. Finance and Treasury Department report 2011CF5878

complies with Audit Committee Bylaw 15310.

Corporate Outcomes

This report supports financial reporting relating to Edmonton's financial sustainability and governance.

Justification of Recommendation

Recommendation by Audit Committee and approval by City Council of the annual audited financial statements for the City of Edmonton, meets a legislative requirement for financial reporting.

Attachments

1. Financial Information Report
2. Management Assumptions and Estimates