



Report to: General Committee

Meeting Date: April 23, 2019

SUBJECT: 2018 Consolidated Financial Statements
PREPARED BY: Sandra Skelcher, Manager Financial Reporting and Payroll
Kishor Soneji, Senior Accountant

RECOMMENDATION:

- 1) That the presentation titled “2018 Consolidated Financial Statements” be received; and,
- 2) That the report titled “2018 Consolidated Financial Statements” be received; and,
- 3) That Council approve the draft Consolidated Financial Statements of The Corporation of the City of Markham (the City), the City of Markham Public Library (the Library), Community Boards, Business Improvement Areas (BIAs) and Investment in Markham Enterprises Corporation (MEC), for the fiscal year ended December 31, 2018; and,
- 4) That Council authorize Staff to publish the final audited Statements for the fiscal year ended December 31, 2018 upon receiving the Independent Auditors’ Report; and,
- 5) That the KPMG LLP Audit Findings Report for the year ended December 31, 2018 be received; and,
- 6) That this matter be forwarded to Council for adoption on April 30, 2019; and further,
- 7) That Staff be authorized and directed to do all things necessary to give effect to this resolution.

EXECUTIVE SUMMARY:

KPMG LLP has completed an audit of the Consolidated Financial Statements of the City of Markham and has expressed an unqualified opinion that the Statements present fairly, in all material respects, the consolidated financial position of the City.

The audited Statements are a report card on the financial position, health and strength of the City. The 2018 financial results continue to demonstrate Markham’s strong leadership and excellence in financial planning and fiscal prudence.

Following approval, the audited Statements will be included in the 2018 Annual Report which will be published on the City’s website and will be distributed to Council upon completion.

PURPOSE:

The purpose of this report is to obtain Council adoption of the 2018 Statements and to seek authority to publish the audited financial information as required by the Municipal Act (*the Act*).

BACKGROUND: 2018 Consolidated Financial Statements

This report and its appendices are prepared in accordance with *the Act* as follows:

- *Section 286 (1)* requires the Treasurer to report the financial affairs of the municipality to Council.
- *Section 294 (1)* requires a municipality to prepare, for each fiscal year, annual financial statements in accordance with generally accepted accounting principles (GAAP) for local governments as recommended, from time to time, by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPAC).
- *Section 296 (1)* requires a municipality to appoint an auditor, licensed under the Public Accounting Act, who is responsible for annually auditing the accounts and transactions of the municipality and its local boards and expressing an opinion on the financial statements of these bodies based on the audit.

PSAB issues recommendations and reporting requirements that serve the public's interest by strengthening accountability in the public sector through the development, recommendation, and acceptance of accounting and financial reporting standards.

The Statements reflect the financial position of the City, the operating results, and how the City financed its activities and met its cash requirements. Additionally, the Statements confirm that the resources were obtained and used consistent with the Council-approved budgets.

The City engaged the external audit firm KPMG LLP, Chartered Accountants to audit the Statements as at December 31, 2018 and their accompanying Notes to Financial Statements (Notes). The Notes comprise a summary of significant accounting policies and other explanatory information. The audit is conducted in accordance with Canadian Generally Accepted Auditing Standards to obtain reasonable assurance as to whether the Statements are free from material misstatement.

The Statements include the City's wholly owned investment in MEC, including MEC's shares in Alectra Inc. (Alectra) of 15.73% (2017: 15.73%) and Markham District Energy Inc. (MDE) of 100%.

DISCUSSION:**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Balance Sheet)**
(Appendix A – Page 1)

The Statement of Financial Position outlines the City's financial assets, financial liabilities and non-financial assets. The outcome of the statement shows an Accumulated Surplus at year end of \$4,606.58M, an increase of \$151.42M (3.4%) over 2017.

	\$ in millions		
	<u>2018</u>	<u>2017</u>	<u>Incr. / (Decr.)</u>
Financial Assets	854.05	758.95	95.10
Financial Liabilities	<u>364.53</u>	<u>312.19</u>	<u>52.34</u>
Net Financial Assets	489.52	446.76	42.76
Non-Financial Assets	<u>4,117.06</u>	<u>4,008.40</u>	<u>108.66</u>
Accumulated Surplus	<u>4,606.58</u>	<u>4,455.16</u>	<u>151.42</u>

Financial Assets

Financial assets are the resources controlled by the organization as a result of past events and from which future economic benefits are expected. Financial assets include cash and other assets expected to be converted to cash, sold or consumed either within a year or in the operating cycle. These assets are continually turned over in the course of normal business activities.

The City ended the year with financial assets totalling \$854.05M, an increase of \$95.10M (12.5%) over 2017.

Cash and investments increased in 2018 from \$302.20M to \$389.14M (\$86.94M, 28.8%). The major contributors to the increase were in deferred revenues received for parkland cash-in-lieu and development charges. (net \$47.05M). A reduction in cash outflows for capital projects in 2018 compared to 2017 also affected the cash and investment balance at year-end. The average rate of return on investments in 2018 was 3.12% (2017: 2.95%), an increase of 17 basis points from 2017.

Property taxes receivable decreased from \$25.95M to \$25.59M (-\$0.36M) as a result of an increase in collection of taxes due from prior years.

Accounts receivable decreased from \$58.77M to \$47.76M (-\$11.01M, -18.8%) in 2018. Payment of \$7.58M was received from Alectra Inc. for deferred interest on promissory notes issued to the City. Other receivables from the Region of York for shared project agreements were reduced by \$4.51M.

Investment in MEC increased by \$18.16M (5.0%) in 2018. This increase in equity includes the equity pick-up for 2018 of \$21.33M, offset by a reduction in share capital of \$1.54M and is further reduced by dividends received of \$1.63M.

A summary of the overall change in the City's investment in MEC is shown in the following chart:

	\$ in millions		
	2018	2017	Incr. / (Decr.)
Equity in MEC, January 1, 2018	362.16	253.54	108.62
Gain on exchange of shares of PowerStream for shares of Alectra Inc.	-	105.90	(105.90)
Equity pick-up for the year	21.33	10.91	10.42
Increase / (Decrease) in share capital	(1.54)	(1.53)	(0.01)
Dividend paid by MEC to City	(1.63)	(6.66)	5.03
Equity in MEC, December 31, 2018	380.32	362.16	18.16

Financial Liabilities

Financial liabilities are financial obligations to outside organizations or other individuals that are the result of transactions or events that occurred on or before the end of the accounting period.

Financial liabilities were \$364.53M at the end of 2018, an increase of \$52.34M (16.8%) from 2017.

Accounts payable and accrued liabilities increased in 2018 from \$142.73M to \$148.03M (\$5.30M, 3.7%). There was a \$12.08M increase in amounts owed to the Region and School Boards for water purchases, property taxes & development charges, due to timing of payments, as well as a \$2.04M increase in payroll liabilities. These were offset by a \$9.95M decrease in amounts owed to vendors as a result of completion of capital works throughout the year (release of holdbacks).

Deferred revenues increased from \$126.27M to \$173.32M (\$47.05M, 37.3%) in 2018, with a \$30.86M increase in parkland cash-in-lieu receipts, \$5.51M in funds from developers for capital projects and \$4.35M in development charges, accounting for 87% of the total.

Employee future benefits liabilities were nominally adjusted as per actuarial valuations for the current year end.

Long-term liabilities decreased from 12.24M to \$11.53M (-\$0.71M, -5.8%) in recognition of payments toward long-term loans from the Federation of Canadian Municipalities (FCM) and Canada Mortgage & Housing Corp. (CMHC).

Non-Financial Assets

Non-financial assets are assets with physical, rather than cash value. They include tangible capital assets (TCA) such as land & buildings, inventories of supplies such as salt and sand, as well as prepaid expenses.

Non-financial assets totalled \$4,117.06M at the end of 2018, an increase of \$108.66M (2.7%), which is almost entirely (99.5%) related to the addition of tangible capital assets. The major assets purchased, acquired through development or put into service following construction completion in 2018 were land, roads, stormwater & waterworks infrastructure and parks & pathways.

CONSOLIDATED STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS**(Income Statement)****(Appendix A – Page 2)**

This statement accounts for the City's consolidated revenues and expenses from operations, and includes other accounting adjustments such as the value of contributed assets from developers (\$128.13M), deferred revenues earned (\$20.54M), the equity pick up from MEC (\$21.33M) and the amortization of TCA in the accounting period (\$76.38M). The major components of the statement are illustrated below.

	\$ in millions		
	<u>2018</u>	<u>2017</u>	<u>Incr. / (Decr.)</u>
Revenues	561.41	601.79	(40.38)
Less Expenses	<u>409.99</u>	<u>385.87</u>	<u>24.12</u>
Annual Surplus	151.42	215.92	(64.50)
Accumulated Surplus, Beginning of Year	4,455.16	4,239.24	215.92
Accumulated Surplus, End of Year	<u>4,606.58</u>	<u>4,455.16</u>	<u>151.42</u>

The accumulated surplus of \$4,606.58M consists of individual operating fund surplus', equity in MEC, reserves and reserve funds, etc. as outlined in the following table:

	\$ in millions		
	<u>2018</u>	<u>2017</u>	<u>Incr. / (Decr.)</u>
Operating fund surplus (excl. waterworks)	3.58	5.60	(2.02)
Waterworks	0.51	0.35	0.16
Community Boards and BIAs	<u>0.37</u>	<u>0.30</u>	<u>0.07</u>
Operating Surplus Total	4.46	6.25	(1.79)
Equity in Markham Enterprises Corporation	380.32	362.16	18.16
Invested in Tangible Capital Assets and Other	4,071.19	3,971.74	99.45
Reserves and Reserve Funds	<u>150.61</u>	<u>115.01</u>	<u>35.60</u>
Total Accumulated Surplus	<u>4,606.58</u>	<u>4,455.16</u>	<u>151.42</u>

Operating Fund Surplus

At the Council meeting on April 16, 2019, the year end results of operations were brought forward. Council approved the transfer to Reserves of the City's 2018 net favourable operating fund surplus in the amount of \$3.58M. Combining this with the Waterworks surplus of \$0.51M and a surplus of \$0.37M for Community Boards and BIAs, nets the Operating Surplus Total of \$4.46M.

Equity in Markham Enterprises Corporation

This represents the value of the investment in MEC of \$380.31M as detailed in the Financial Assets section on page 4 of this report.

Invested in Tangible Capital Assets and Other

The investment in tangible capital assets and other totaled \$4,071.19M. This represents the net book value of TCA such as Land, Buildings, Equipment and Infrastructure and other adjustments at the year end.

Reserves and Reserve Funds

The Reserves and Reserve Funds are set aside by Council for specific purposes. The inflows into these funds are largely from the operating budget and the outflows are generally to fund capital projects, employee future benefit needs and other initiatives as directed by Council. The Reserves and Reserve Funds totalled \$150.61M at the close of 2018, a increase of \$35.60M from 2017.

The \$150.61M total Reserve and Reserve Funds plus the \$137.77M Deferred Reserve Funds are fully funded as illustrated by the comparison to the total cash and investments below.

	<u>\$ in millions</u>
A. Total Cash & Investments	389.14
Reserves	167.58
Reserve Funds	(16.97)
Deferred Reserve Funds (DCs, Parkland cash-in-lieu, Gas Tax & Section 37)	<u>137.77</u>
B. Total Reserves, Reserve Funds & Deferred Reserve Funds	<u>288.38</u>
A. - B.	<u>100.76</u>

Reserves totalled \$167.58M, an increase of \$23.09M over 2017. The net increase was the result of the following changes to Reserves:

Reserves	\$ in millions		
	2018	2017	Incr. / (Decr.)
Building fee	13.60	10.25	3.35
Capital gains	4.16	4.16	0.00
Corporate rate stabilization	21.13	20.46	0.67
Development fee	1.18	(6.65)	7.83
Facility ramp up	14.86	12.55	2.31
Firefighters sick leave benefits	6.34	6.34	0.00
Insurance	3.93	3.88	0.05
Long-term disability benefit	21.09	20.26	0.83
Waterworks	80.40	71.77	8.63
Other	0.89	1.47	(0.58)
Total Reserves	167.58	144.49	23.09

Reserve Funds increased by \$12.51M from 2017. The increase was a result of the following changes to the Reserve Funds:

Reserve Funds	\$ in millions		
	2018	2017	Incr. / (Decr.)
Environmental land acquisition	9.84	9.51	0.33
Land acquisition	(164.93)	(166.72)	1.79
Library infrastructure	6.22	6.10	0.12
Life cycle replacement and capital	100.83	90.07	10.76
Non-DC growth	6.55	7.15	(0.60)
Post retirement benefits	14.23	13.88	0.35
Workplace Safety & Insurance Board	4.23	4.10	0.13
Other	6.06	6.43	(0.37)
Total Reserve Funds	(16.97)	(29.48)	12.51

Communication

Section 295 (1) of the Act requires municipalities to annually communicate to its ratepayers, the results of the municipality's year end. The financial statements will be published on the City's website upon receipt of the final audited version from KPMG LLP and will form an important part of the City's 2018 Annual Report publication.

For the past seventeen consecutive years, the City has received the Government Finance Officers Association (GFOA) 'Canadian Award for Financial Reporting'. The award provides recognition for excellence in governmental accounting and financial reporting. The receipt of this award signifies that Markham delivered a comprehensive annual financial report that demonstrates full transparency and disclosure over and above the minimum requirements of Generally Accepted Accounting Principles. Upon receiving the Independent Auditor's Report, the 2017 Annual Report will again be submitted to the GFOA.

RECOMMENDED BY:

Joel Lustig
Treasurer

Trinela Cane
Commissioner, Corporate Services

ATTACHMENTS:

2018 Consolidated Financial Statements Presentation

Appendix A – 2018 Consolidated Financial Statements

Appendix B – 2018 Audit Findings Report