



Report to: General Committee

Meeting Date: April 20, 2020

SUBJECT: 2019 Consolidated Financial Statements
PREPARED BY: Sandra Skelcher, Senior Manager, Financial Planning and Reporting
Kishor Soneji, Senior Accountant

RECOMMENDATION:

- 1) That the presentation titled “2019 Consolidated Financial Statements” be received; and,
- 2) That the report titled “2019 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), including Community Boards, Business Improvement Areas (BIAs) , and Investment in Markham Enterprises Corporation (MEC), for the fiscal year ended December 31, 2019; and,
- 4) That Council authorize Staff to publish the final audited Statements for the fiscal year ended December 31, 2019 upon receiving the Independent Auditors’ Report; and,
- 5) That the KPMG LLP Audit Findings Report for the year ended December 31, 2019 be received; and,
- 6) That this matter be forwarded to Council for adoption on April 28, 2020; 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 2019 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 2019 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 2019 Statements and to seek authority to publish the audited financial information as required by the Municipal Act (*the Act*).

BACKGROUND: 2019 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, 2019 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% (2018: 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 \$4,698.86M, an increase of \$92.27M (2.0%) over 2018.

	\$ in millions		
	<u>2019</u>	<u>2018</u>	<u>Incr. / (Decr.)</u>
Financial Assets	813.62	854.07	(40.45)
Financial Liabilities	<u>336.75</u>	<u>364.55</u>	<u>(27.80)</u>
Net Financial Assets	476.87	489.52	(12.65)
Non-Financial Assets	<u>4,221.99</u>	<u>4,117.07</u>	<u>104.92</u>
Accumulated Surplus	<u>4,698.86</u>	<u>4,606.59</u>	<u>92.27</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 \$813.62M, a decrease of \$40.45M (-4.7%) from 2018.

Cash and investments decreased in 2019 from \$389.14M to \$344.48M (\$44.66M, -11.5%).

The decrease in cash outflows was driven by an increase in spending on capital projects in 2019 compared to 2018 (net \$78.1M). This was partially offset by a one-time increase in federal gas tax funding (\$10.2M), an increase in the Markham Enterprises Corporation (MEC) dividend (\$6.8M), property taxes (\$5.8M) and municipal accommodation tax revenue (\$3.7M).

The average rate of return on investments in 2019 was 3.40% (2018: 3.12%), an increase of 28 basis points over 2018.

Property taxes receivable increased from \$25.59M to \$26.65M (\$1.06M, 4.1%) related to increased property taxes levied in 2019.

Accounts receivable increased from \$59.03M to \$61.02M (\$1.99M, 3.4%) in 2019 due to an increase in receivables from the Region of York for shared projects.

Investment in MEC increased by \$1.16M (0.3%) in 2019.

This increase in investment includes the equity pick-up for 2019 of \$10.81M and gain on the merger of Guelph Municipal Holdings Inc. with Alectra Inc. of \$0.66M. This was offset by a reduction in dividends of \$8.46M and a reduction in share capital of \$1.85M.

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

	\$ in millions		
	<u>2019</u>	<u>2018</u>	<u>Incr. / (Decr.)</u>
Equity in MEC, January 1, 2019	380.32	362.16	18.16
Gain on merger of Guelph Municipal Holdings with Alectra Inc.	0.66	-	0.66
Equity pick-up for the year	10.81	21.33	(10.52)
Increase / (Decrease) in share capital	(1.85)	(1.54)	(0.31)
Dividend paid by MEC to City	(8.46)	(1.63)	(6.83)
Equity in MEC, December 31, 2019	<u>381.48</u>	<u>380.32</u>	<u>1.16</u>

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 \$336.75M at the end of 2019, a decrease of \$27.80M (-7.6%) from 2018.

Accounts payable and accrued liabilities increased in 2019 from \$148.52M to \$151.24M (\$2.72M, 1.8%).

There was an increase of \$11.90M in amounts accrued for payments owed to vendors for completion of capital works, refundable deposits and to Destination Markham Corp. for its share of municipal accommodation tax revenue collected in 2019. These were offset by a \$9.20M decrease in the net amount owed to the Region for water purchases and shared projects.

Deferred revenues decreased from \$172.85M to \$142.61M (\$30.24M, -17.5%) in 2019. Decreases included \$18.87M in development charges, \$14.35M in parkland cash-in-lieu and \$6.03M in funds from developers for capital projects. These were offset by increase in the federal gas tax and section 37 funds of \$9.01M.

Employee future benefits liabilities were nominally increased by \$.045M as per actuarial valuations for the current year end.

Long-term liabilities decreased from 11.53M to \$10.80M (-\$0.73M, -6.3%) in recognition of payments toward long-term loans from the Federation of Canadian Municipalities (FCM) and Canada Mortgage & Housing Corporation (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 \$4,221.99M at the end of 2019, an increase of \$104.92M (2.5%), which is almost entirely (99.6%) related to the addition of tangible capital assets. The major assets purchased, acquired through development or put into service following construction completion in 2019 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 (\$41.64M), deferred revenues earned (\$65.54M), the equity pick up from MEC (\$11.48M) and the amortization of TCA in the accounting period (\$78.19M). The major components of the statement are illustrated in the chart below.

The year-over-year decrease in revenues of \$32.20M was driven by less contributions from developers (\$86.49M) and a reduction in the equity pick up from MEC (\$9.85M), partially offset by an increase in deferred revenue earned (\$45.00M).

The expense increase of \$26.95M in 2019 compared to 2018 was mainly in the areas of transportation services (\$14.41M) and environmental services (\$13.32M). Amortization expenses and contracted services for water/wastewater, winter maintenance and road repairs were the major contributors.

	\$ in millions		
	<u>2019</u>	<u>2018</u>	<u>Incr. / (Decr.)</u>
Revenues	529.21	561.41	(32.20)
Less Expenses	<u>436.94</u>	<u>409.99</u>	<u>26.95</u>
Annual Surplus	92.27	151.42	(59.15)
Accumulated Surplus, Beginning of Year	<u>4,606.59</u>	<u>4,455.17</u>	<u>151.42</u>
Accumulated Surplus, End of Year	<u>4,698.86</u>	<u>4,606.59</u>	<u>92.27</u>

The accumulated surplus of \$4,698.86M consists of individual operating fund surpluses, equity in MEC, reserves and reserve funds, etc. as outlined in the following table:

	<u>\$ in millions</u>		
	<u>2019</u>	<u>2018</u>	<u>Incr. / (Decr.)</u>
Operating fund surplus (excl. waterworks)	3.04	3.58	(0.54)
Waterworks	1.98	0.52	1.46
Community Boards and BIAs	<u>0.44</u>	<u>0.37</u>	<u>0.07</u>
Operating Surplus Total	5.46	4.47	0.99
Equity in Markham Enterprises Corporation	381.48	380.32	1.16
Invested in Tangible Capital Assets and Other	4,181.86	4,071.19	110.67
Reserves and Reserve Funds	<u>130.06</u>	<u>150.61</u>	<u>(20.55)</u>
Total Accumulated Surplus	<u>4,698.86</u>	<u>4,606.59</u>	<u>92.27</u>

Operating Fund Surplus

The 2019 year-end results of operations are also on today's General Committee agenda. Council authority to transfer the operating surplus of \$3.04M to reserves is included in the report. Combining this with a surplus of \$1.98M from Waterworks operations, \$0.44M from the Community Boards and BIAs, results in the Operating Surplus Total of \$5.46M as noted above.

Equity in Markham Enterprises Corporation

This represents the value of the City's investment in MEC of \$381.48M 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 \$4,181.86M.

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 represent the means by which the City keeps track of monetary resources set aside by Council for specific, future 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 \$132.04M at the close of 2019, a decrease of \$18.57M from 2018.

The \$132.04M total Reserve and Reserve Funds plus the \$112.78M Deferred Reserve Funds are fully funded, as illustrated in the comparison to the total cash and investments below.

	<u>\$ in millions</u>
A. Total Cash & Investments	344.48
Reserves	173.53
Reserve Funds	(43.47)
Deferred Reserve Funds (DCs, Parkland cash-in-lieu, Gas Tax & Section 37)	<u>112.78</u>
B. Total Reserves, Reserve Funds & Deferred Reserve Funds	<u>242.84</u>
A. - B.	<u>101.64</u>

Reserves totalled \$173.53M, an increase of \$5.95M over 2018. The net increase was the result of the following changes to Reserves:

	\$ in millions		
Reserves	<u>2019</u>	<u>2018</u>	<u>Incr. / (Decr.)</u>
Building fee	11.16	13.60	(2.44)
Capital gains	4.16	4.16	0.00
Corporate rate stabilization	22.53	21.13	1.40
Development fee	0.36	1.18	(0.82)
Facility ramp up	19.53	14.86	4.67
Firefighters sick leave benefits	6.78	6.34	0.44
Insurance	4.06	3.93	0.13
Long-term disability benefit	21.98	21.09	0.89
Waterworks	82.16	80.40	1.76
Other	0.81	0.89	(0.08)
Total Reserves	<u>173.53</u>	<u>167.58</u>	<u>5.95</u>

Reserve Funds decreased by \$26.50M from 2018. The decrease was a result of the following changes to the Reserve Funds:

	\$ in millions		
Reserve Funds	<u>2019</u>	<u>2018</u>	<u>Incr. / (Decr.)</u>
Environmental land acquisition	10.33	9.84	0.49
Land acquisition	(215.24)	(164.93)	(50.31)
Library infrastructure	6.37	6.22	0.15
Life cycle replacement and capital	120.80	100.83	19.97
Non-DC growth	9.06	6.55	2.51
Post retirement benefits	14.57	14.23	0.34
Workplace Safety & Insurance Board	4.33	4.23	0.10
Other	6.31	6.06	0.25
Total Reserve Funds	<u>(43.47)</u>	<u>(16.97)</u>	<u>(26.50)</u>

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 2019 Annual Report publication.

For the past eighteen 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 Auditors' Report, the 2019 Annual Report will again be submitted to the GFOA.

RECOMMENDED BY:

Joel Lustig
Treasurer

Trinela Cane
Commissioner, Corporate Services

ATTACHMENTS:

2019 Consolidated Financial Statements Presentation
Appendix A – 2019 Consolidated Financial Statements
Appendix B – 2019 Audit Findings Report