



Report to: Council

Report Date: April 20, 2021

SUBJECT: 2020 Consolidated Financial Statements
PREPARED BY: Lisa Chen, Senior Manager Financial Planning and Reporting
Kishor Soneji, Senior Accountant

RECOMMENDATION:

- 1) That the presentation titled “2020 Consolidated Financial Statements” be received; and,
- 2) That the report titled “2020 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), Destination Markham Corporation and Investment in Markham Enterprises Corporation (MEC), for the fiscal year ended December 31, 2020; and,
- 4) That Council authorize Staff to publish the final audited Statements for the fiscal year ended December 31, 2020 upon receiving the Independent Auditors’ Report; and,
- 5) That the KPMG LLP Audit Findings Report for the year ended December 31, 2020 be received; and further,
- 6) 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 2020 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 2020 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 2020 Statements and to seek authority to publish the audited financial information as required by the Municipal Act (*the Act*).

BACKGROUND:

The 2020 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 Professional Accountants to audit the Statements as at December 31, 2020 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% (2019: 15%) 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 \$4,765.04M, an increase of \$66.17M (1.4%) over 2019.

	\$ in millions		
	<u>2020</u>	<u>2019</u>	<u>Incr. /</u> <u>(Decr.)</u>
Financial Assets	853.32	813.62	39.70
Financial Liabilities	<u>358.89</u>	<u>336.74</u>	<u>22.15</u>
Net Financial Assets	494.43	476.88	17.55
Non-Financial Assets	<u>4,270.61</u>	<u>4,221.99</u>	<u>48.62</u>
Accumulated Surplus	<u>4,765.04</u>	<u>4,698.87</u>	<u>66.17</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 \$853.32M, a increase of \$39.70M (4.9%) from 2019.

Cash and investments increased in 2020 from \$371.35M to \$344.48M (\$26.87M, 7.8%). The increase in cash inflows was driven by a decrease in spending on capital projects in 2020 compared to 2019 (\$38.2M), an increase from the Safe Restart Agreement funding (\$9.67M), an increase in development charges collected (\$6.9M) and an increase in the Markham Enterprises Corporation (MEC) dividends (\$1.8M). This was partially offset by a decrease in the property taxes collected (\$16.9M), municipal accommodation tax revenue (\$3.0M) and a decrease in revenues for Recreation, Library and Culture. The average rate of return on investments in 2020 was 2.84% (2019: 3.40%), a decrease of 56 basis points from 2019.

Property taxes receivable increased from \$26.65M to \$37.51M (\$10.86M, 40.8%). In 2020, Council approved property tax and fee relief measures to help residents and businesses experiencing financial hardship due to the COVID-19 pandemic. Due to waiving of penalty and interest charges on property taxes in arrears, the property receivable balance increased in 2020.

Accounts receivable decreased from \$61.02M to \$59.48M (\$1.54M, 2.5%) in 2020 due to a decrease in receivables from the Region of York for shared projects.

Investment in MEC increased by \$3.50M (0.9%) in 2020. This increase in investment includes the 2020 equity in income of \$15.48M. This was offset by a reduction in the dividends of \$10.28M and a reduction in share capital of \$1.70M.

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

	\$ in millions		
	<u>2020</u>	<u>2019</u>	<u>Incr. / (Decr.)</u>
Equity in MEC, January 1, 2020	381.48	380.32	1.16
Gain on merger of Guelph Municipal Holdings with Alectra Inc.	-	0.66	(0.66)
Equity in income for the year	15.48	10.81	4.67
Increase / (Decrease) in share capital	(1.70)	(1.85)	0.15
Dividend paid by MEC to City	(10.28)	(8.46)	(1.82)
Equity in MEC, December 31, 2020	<u>384.98</u>	<u>381.48</u>	<u>3.50</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 \$358.89M at the end of 2020, an increase of \$22.15M (6.6%) from 2019.

Accounts payable and accrued liabilities decreased in 2020 from \$151.24M to \$140.96M (\$10.28M, 6.8%) mainly due to decreases in net amount owed to Region of York for water purchases and shared capital projects (\$7.9M), vendors for construction projects (\$5.9M) and payroll liabilities (\$2.4M). These were offset by a \$3.70M increase in outstanding amounts owed to vendors for refundable deposits as a result of completion of capital works due to timing.

Deferred revenues increased from \$142.61M to \$173.58M (\$30.97M, 21.7%) in 2020. Increases included \$30.37M in development charges collected, and \$7.78M in parkland cash-in-lieu funds from developers for capital projects. These were offset by a decrease in the Federal Gas Tax and Section 37 funds of \$1.07M.

Employee future benefits liabilities increased by \$2.20M which included an increase of \$1.4M as per actuarial valuations for the current year end.

Long-term liabilities decreased from 10.80M to \$10.04M (\$0.76M, 7.0%) 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 and buildings, inventories of supplies such as salt and sand, as well as prepaid expenses.

Non-financial assets totalled \$4,270.61M at the end of 2020, an increase of \$48.62M (1.2%), which is almost entirely (99.9%) related to the addition of tangible capital assets of \$4,265.76. The major assets purchased, acquired through development or put into service following construction completion in 2020 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 of \$53.02M, deferred revenues earned of \$14.37M, the equity in income of MEC of \$15.49M and the amortization of TCA in the accounting period of \$79.26M. The major components of the statement are illustrated in the chart below.

	\$ in millions		
	<u>2020</u>	<u>2019</u>	<u>Incr. / (Decr.)</u>
Revenues	474.76	520.76	(46.00)
Less Expenses	<u>408.59</u>	<u>428.48</u>	<u>(19.89)</u>
Annual Surplus	66.17	92.28	(26.10)
Accumulated Surplus, Beginning of Year	4,698.87	4,606.59	92.28
Accumulated Surplus, End of Year	<u>4,765.04</u>	<u>4,698.87</u>	<u>66.17</u>

Revenues

The year-over-year decrease in revenues of \$46.00M was driven by decreases in deferred revenues earned (\$51.18M), storm water fees (\$8.82M) and user charges (\$5.92M), partially offset by increases in contributions from developers (\$11.39M), equity in income of MEC (\$4.67M), and property taxes (\$4.48M).

Expenses

The expenses decreased by \$19.89M in 2020 compared to 2019. This was mainly in the areas of Recreation, Library and Culture (\$12.43M) and Transportation Services (\$11.25M), partially offset by increases in General Government and Planning & Development Services (\$3.96M).

Accumulated Surplus (Appendix A – page 19)

The accumulated surplus of \$4,765.04M consists of individual operating fund surplus', equity in MEC, tangible capital assets, and reserves and reserve funds as outlined in the following table:

	\$ in millions		
	<u>2020</u>	<u>2019</u>	<u>Incr. / (Decr.)</u>
Operating surplus (excl. waterworks)	9.41	3.04	6.37
Waterworks	4.57	1.98	2.59
Destination Markham Corporation	2.16	-	2.16
Community Boards and BIAs	<u>0.50</u>	<u>0.44</u>	<u>0.06</u>
Operating Surplus Total	16.64	5.46	11.18
Equity in income of Markham Enterprises Corporation	384.98	381.48	3.50
Invested in Tangible Capital Assets and Other	4,265.76	4,217.85	47.91
Reserves and Reserve Funds	124.85	130.06	(5.21)
Other	<u>(27.19)</u>	<u>(35.98)</u>	<u>8.79</u>
Total Accumulated Surplus	<u>4,765.04</u>	<u>4,698.87</u>	<u>66.17</u>

Operating Surplus

The unaudited 2020 year-end results of operations was presented to General Committee on March 1, 2021. Pending audit results, Council approved the transfer of operating surplus to reserves. The actual surplus from operations is \$9.41M. Combining this with a surplus of \$4.57M from Waterworks operations, \$2.16M from Destination Markham Corporation, \$0.50M from the Community Boards and BIAs, results in the Operating Surplus total of \$16.64M as noted above.

Equity in Markham Enterprises Corporation

This represents the value of the City's investment in MEC of \$384.98M as detailed in the Financial Assets section on page 4 of this report.

Invested in Tangible Capital Assets

The investment in tangible capital assets and other totaled \$4,265.76. This represents the net book value of TCA such as land, buildings, equipment, infrastructure and other adjustments at 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 \$124.85M at the close of 2020, a decrease of \$5.21M from 2019.

The \$124.85M total Reserve and Reserve Funds plus the \$149.29M 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	371.35
Reserves	183.96
Reserve Funds	(59.12)
Deferred Reserve Funds (DCs, Parkland cash-in-lieu, Gas Tax & Section 37)	<u>149.29</u>
B. Total Reserves, Reserve Funds & Deferred Reserve Funds	<u>274.13</u>
A. - B.	<u>97.22</u>

Reserves totalled \$183.96M, an increase of \$10.43M over 2019. The net increase was the result of the following changes to the Reserves:

	<u>\$ in millions</u>		
	<u>2020</u>	<u>2019</u>	<u>Incr. / (Decr.)</u>
Reserves			
Building fee	7.48	11.16	(3.68)
Capital gains	4.16	4.16	0.00
Corporate rate stabilization	23.28	22.53	0.75
Development fee	10.01	0.36	9.65
Facility ramp up	23.89	19.53	4.36
Firefighters sick leave benefits	6.78	6.78	0.00
Insurance	4.06	4.06	0.00
Long-term disability benefit	22.87	21.98	0.89
Waterworks	80.13	82.16	(2.03)
Other	1.30	0.81	0.49
Total Reserves	<u>183.96</u>	<u>173.53</u>	<u>10.43</u>

Reserve Funds decreased by \$15.64M from 2019. The decrease was a result of the following changes to the Reserve Funds:

	\$ in millions		
	<u>2020</u>	<u>2019</u>	<u>Incr. / (Decr.)</u>
Reserve Funds			
Environmental land acquisition	10.71	10.33	0.38
Land acquisition	(243.05)	(215.24)	(27.81)
Library infrastructure	6.45	6.37	0.08
Life cycle replacement and capital	133.01	120.80	12.21
Non-DC growth	12.73	9.06	3.67
Post retirement benefits	14.76	14.57	0.19
Public art acquisition	4.02	3.16	0.86
Stormwater fee	(6.47)	(0.13)	(6.34)
Workplace Safety & Insurance Board	5.31	4.33	0.98
Other	3.41	3.27	0.14
Total Reserve Funds	<u>(59.12)</u>	<u>(43.48)</u>	<u>(15.64)</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 2020 Annual Report publication.

For the past nineteen 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 2020 Annual Report will again be submitted to the GFOA.

RECOMMENDED BY:

Joel Lustig
Treasurer

Trinela Cane
Commissioner, Corporate Services

ATTACHMENTS:

2020 Consolidated Financial Statements Presentation
Appendix A – 2020 Consolidated Financial Statements
Appendix B – 2020 Audit Findings Report