



Report to: General Committee

Report Date: April 19, 2022

SUBJECT: 2021 Consolidated Financial Statements
PREPARED BY: Lisa Chen, Senior Manager Financial Planning and Reporting
Kishor Soneji, Senior Accountant

RECOMMENDATION:

- 1) That the presentation titled “2021 Consolidated Financial Statements” be received; and,
- 2) That the report titled “2021 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, 2021; and,
- 4) That Council authorize Staff to publish the final audited Statements for the fiscal year ended December 31, 2021 upon receiving the Independent Auditors’ Report; and,
- 5) That the KPMG LLP Audit Findings Report for the year ended December 31, 2021 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 2021 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 2021 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 2021 Statements and to seek authority to publish the audited financial information as required by the Municipal Act (*the Act*).

BACKGROUND:

The 2021 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, 2021 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 Markham Enterprises Corporation (MEC), including MEC's shares in Alectra Inc. (Alectra) of 15% (2020: 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 \$5,219.57M, an increase of \$454.53M (9.5%) over 2020.

	\$ in millions		
	<u>2021</u>	<u>2020</u>	<u>Incr. / (Decr.)</u>
Financial Assets	1,008.40	853.32	155.08
Financial Liabilities	<u>456.88</u>	<u>358.89</u>	<u>97.99</u>
Net Financial Assets	551.52	494.43	57.09
Non-Financial Assets	4,668.05	4,270.61	397.44
Accumulated Surplus	<u>5,219.57</u>	<u>4,765.04</u>	<u>454.53</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 \$1,008.40M, an increase of \$158.08M or 18.2% from 2020.

Cash and investments increased in 2021 from \$371.35M to \$516.65M (\$145.30M, 39.1%). The increase in cash inflows was driven by a decrease in spending on operating and capital projects in 2021 compared to 2020 (\$85.30M), an increase in development charges collected (\$36.90M) and an increase in Canada Community Building Fund \$8.10M (formerly Gas Tax), Parkland Cash-in-lieu funds (\$7.10M) and an increase from COVID relief funding (\$9.80M). This was partially offset by a decrease in water sales (\$5.00M). The average rate of return on investments in 2021 was 2.73% (2020 – 2.84%), a decrease of 11 basis points from 2020.

Property taxes receivable decreased from \$37.51M to \$34.15M (\$3.36M, 9.0%) due to an increase in the provision related to the potential of future tax appeals as a result of COVID (\$1.95M) and an increase in payments from 2020.

Accounts receivable increased from \$59.48M to \$62.79M (\$3.31M, 5.6%) in 2021 mainly due to an increase in receivables from the Region of York for shared projects.

Investment in MEC increased by \$9.83M (2.6%) in 2021. This increase in investment includes the 2021 equity in income of \$20.12M. This was offset by a dividend payment of \$8.79M and a reduction in share capital of \$1.49M.

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

	\$ in millions		
	<u>2021</u>	<u>2020</u>	<u>Incr. / (Decr.)</u>
Equity in MEC, January 1, 2021	384.98	381.48	3.49
Equity income for the year	20.12	15.48	4.64
Increase / (Decrease) in share capital	(1.49)	(1.70)	0.21
Dividend paid by MEC to City	(8.79)	(10.28)	1.49
Equity in MEC, December 31, 2021	<u>394.82</u>	<u>384.98</u>	<u>9.83</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 \$456.88M at the end of 2021, an increase of \$97.99M (27.3%) from 2020.

Accounts payable and accrued liabilities increased in 2021 from \$140.96M to \$191.66M (\$50.70M, 36.0%) mainly due to increases in the net amount owed to Region of York and School Boards for development charges (\$20.4M), developers for development charge credit liabilities (\$10.3M), Region of York for water purchases and shared capital projects (\$11.4M), vendors for construction projects and refundable deposits as a result of completion of capital works due to timing (\$11.3M). These were offset by reduction in payroll liabilities (\$0.90M).

Deferred revenues increased from \$173.58M to \$221.53M (\$47.95M, 27.6%) in 2021. Increases include \$36.90M in development charges collected, \$8.10M in Canada Community Building Fund (formerly Federal Gas Tax) and \$7.20M in Parkland Cash-in-Lieu funds from developers for capital projects. These were offset by a \$4.30M decrease in Section 37 funds and other external funding due to timing.

Employee future benefits liabilities increased by \$0.13M which included an increase as per actuarial valuations for the current year end.

Long-term liabilities decreased from \$10.04M to \$9.26M (-\$0.78M, -7.8%) in recognition of payments toward long-term loans from the Federation of Canadian Municipalities (FCM) and Canada Mortgage and 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 \$4,668.05M at the end of 2021, an increase of \$397.44M (9.3%), which is almost entirely (99.9%) related to the addition of tangible capital assets of \$4,662.19. The major assets acquired through development, purchased or put into service following construction completion in 2021 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 \$366.33M (2020 – \$53.03M), deferred revenues earned of \$40.10M (2020 – \$14.37M), equity in income of MEC of \$20.12M (2020 – \$15.49M) and the amortization of TCA \$80.12M (2020 – \$79.26M). The major components of the statement are illustrated in the chart below.

	\$ in millions		
	<u>2021</u>	<u>2020</u>	<u>Incr. / (Decr.)</u>
Revenues	856.42	474.76	381.66
Less Expenses	<u>401.89</u>	<u>408.59</u>	<u>(6.69)</u>
Annual Surplus	454.53	66.17	388.36
Accumulated Surplus, Beginning of Year	4,765.04	4,698.87	66.17
Accumulated Surplus, End of Year	<u>5,219.57</u>	<u>4,765.04</u>	<u>454.53</u>

Revenues

The year-over-year increase in revenues of \$381.66M was driven by increases in contribution from developers (\$314.20M), deferred revenues earned (\$25.73M), equity income from MEC (\$4.63M), user charges (\$17.99M), and storm water fee (\$9.92M).

Expenses

The expenses decreased by \$6.69M in 2021 compared to 2020. This was mainly in the areas of Recreation, Library and Culture (\$11.39M) and Transportation Services¹ (\$4.02M), partially offset by increases in General Government and Protection to Persons and Property² (\$5.44M).

¹ Transportation Services includes road, traffic and winter operations.

² Protection to Persons and Property includes by-law enforcement, inspections and fire services.

Accumulated Surplus (Appendix A – page 19)

The accumulated surplus of \$5,219.57M 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>2021</u>	<u>2020</u>	<u>Incr. / (Decr.)</u>
Operating surplus (excl. waterworks)	22.90	9.41	13.49
Waterworks	1.89	4.57	(2.68)
Destination Markham Corporation	1.69	2.16	(0.47)
Community Boards and BIAs	<u>0.52</u>	<u>0.50</u>	<u>0.02</u>
Operating Surplus Total	27.00	16.64	10.36
Less: Transferred to Corporate Rate Stabilization reserve	(6.99)	-	(6.99)
Transferred to Life Cycle Replacement and Capital reserve fund	(15.92)	-	(15.92)
Transferred to Waterworks reserve	<u>(1.89)</u>	<u>-</u>	<u>(1.89)</u>
	2.20	16.64	(14.44)
Equity income from Markham Enterprises Corporation	394.82	384.98	9.84
Invested in Tangible Capital Assets and Other	4,662.19	4,265.76	396.43
Reserves and Reserve Funds	184.10	124.85	59.25
Other	<u>(23.74)</u>	<u>(27.19)</u>	<u>3.45</u>
Total Accumulated Surplus	<u>5,219.57</u>	<u>4,765.04</u>	<u>454.53</u>

Operating Surplus

The unaudited 2021 year-end results of operations were presented to General Committee on March 21, 2022. Pending audit results, Council approved the transfer of operating surplus to reserves. The operating surplus (excluding waterworks) presented at that time was \$22.58M. During the audit the following adjustments were entered and increased the operating surplus to \$22.90M:

City of Markham's Non-Consolidated Surplus (in millions)	Amount
As reported to GC on March 31, 2022	\$ 22.58
Provision for future tax appeals (surplus allocation is usually transferred in the following fiscal year but starting in 2021 we recorded in the same fiscal year). This decreases the surplus.	(0.65)
Increase in winter maintenance expenses (2021 invoices recorded after the March 21, 2022, General Committee meeting). This decreases the surplus.	(0.30)
The auditors did not support the \$2M provision for pending pool repairs as a result of extended pool closures until the expenses were incurred. This amount was originally to be funded from the COVID Reserve and was also reversed. Staff then followed a similar approach as 2020 by funding general COVID expenses (masks, cleaning supplies, and extra security) from the COVID Reserve. This increases the surplus.	1.27
	<u>\$ 22.90</u>

The combined surplus: \$22.90M from operations, \$1.89M from Waterworks operations, \$1.69M from Destination Markham Corporation, \$0.52M from the Community Boards and BIAs, results in the Operating Surplus total of \$27.00M, as noted in the previous page.

Equity in Markham Enterprises Corporation

This represents the value of the City's investment in MEC of \$394.82M 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 \$4,662.19. 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 requirements and other initiatives as directed by Council. The Reserves and Reserve Funds totalled \$184.10M at the close of 2021, an increase of \$59.26M (47.5%) from 2020.

Reserves totalled \$242.54M, an increase of \$58.58M over 2020. The net increase was the result of the following changes to the Reserves:

	\$ in millions		
	<u>2021</u>	<u>2020</u>	<u>Incr. / (Decr.)</u>
Reserves			
Building fee	14.81	7.48	7.33
Capital gains	4.16	4.16	0.00
Corporate rate stabilization	31.12	23.28	7.84
COVID	11.45	-	11.45
Development fee	28.94	10.01	18.93
Facility ramp up	29.01	23.89	5.12
Firefighters sick leave benefits	6.78	6.78	0.00
Insurance	4.06	4.06	0.00
Long-term disability benefit	23.77	22.87	0.90
Waterworks	86.66	80.13	6.53
Other	1.78	1.30	0.48
Total Reserves	<u>242.54</u>	<u>183.96</u>	<u>58.58</u>

Reserve Funds increased by \$0.67M from 2020. The increase was a result of the following changes to the Reserve Funds:

	\$ in millions		
	<u>2021</u>	<u>2020</u>	<u>Incr. / (Decr.)</u>
Reserve Funds			
Environmental land acquisition	11.24	10.71	0.53
Land acquisition	(271.92)	(243.05)	(28.87)
Library infrastructure	6.52	6.45	0.07
Life cycle replacement and capital	169.56	133.01	36.55
Non-DC growth	16.40	12.73	3.67
Post retirement benefits	14.91	14.76	0.15
Public art acquisition	5.04	4.02	1.02
Stormwater fee	(20.16)	(6.47)	(13.69)
Workplace Safety & Insurance Board	5.37	5.31	0.06
Other	4.60	3.42	1.18
Total Reserve Funds	<u>(58.44)</u>	<u>(59.11)</u>	<u>0.67</u>

The \$184.10M Reserve and Reserve Funds balance and the \$201.09M Deferred Reserve Funds balance are fully funded as compared to the total cash and investments balance below:

	<u>\$ in millions</u>
A. Total Cash & Investments	516.64
Reserves	242.54
Reserve Funds	(58.44)
Deferred Reserve Funds (DCs, Parkland cash-in-lieu, Gas Tax & Section 37)	<u>201.09</u>
B. Total Reserves, Reserve Funds & Deferred Reserve Funds	<u>385.19</u>
A. - B.	<u>131.45</u>

In comparison to the \$516.64M cash and investments balance, \$131.45M remains for use in daily operations.

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 2021 Annual Report publication.

For the past twenty 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 2021 Annual Report will again be submitted to the GFOA.

RECOMMENDED BY:

Joel Lustig
Treasurer

Trinela Cane
Commissioner, Corporate Services

ATTACHMENTS:

2021 Consolidated Financial Statements Presentation
Appendix A – 2021 Consolidated Financial Statements
Appendix B – 2021 Audit Findings Report