



Report to: Development Services Committee

Report Date: April 18, 2023

SUBJECT: 2022 Consolidated Financial Statements
PREPARED BY: Jay Pak, Senior Manager Financial Planning and Reporting
Kishor Soneji, Manager Financial Reporting

RECOMMENDATION:

- 1) That the presentation titled “2022 Consolidated Financial Statements” be received; and,
- 2) That the report titled “2022 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, 2022; and,
- 4) That Council authorize Staff to publish the final audited Statements for the fiscal year ended December 31, 2022 upon receiving the Independent Auditors’ Report; and,
- 5) That the KPMG LLP Audit Findings Report for the year ended December 31, 2022 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 2022 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 2022 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 2022 Statements and to seek authority to publish the audited financial information as required by the Municipal Act (*the Act*).

BACKGROUND:

The 2022 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, and 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 in a manner 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, 2022 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% 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 \$5,460.23M, an increase of \$240.66M (4.6%) over 2021.

	\$ in millions		
	<u>2022</u>	<u>2021</u>	<u>Incr. / (Decr.)</u>
Financial Assets	911.31	1,008.40	(97.09)
Financial Liabilities	<u>351.53</u>	<u>456.88</u>	<u>(105.35)</u>
Net Financial Assets	559.78	551.52	8.26
Non-Financial Assets	4,900.45	4,668.05	232.40
Accumulated Surplus	<u>5,460.23</u>	<u>5,219.57</u>	<u>240.66</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 \$911.31M, a decrease of \$97.09M or 9.6% from 2021.

Cash and investments decreased in 2022 from \$516.64M to \$415.53M (\$101.11M, 19.6%). The decrease in cash inflows was driven by an increase in spending on operating and capital projects in 2022 compared to 2021 (\$106.50M) offset by an increase in revenues \$5.40M. The major drivers for the changes were a decrease in Parkland Cash-in-lieu funds (\$91.20M), and an increase in payments to the Region for water (\$38.00M). This was partially offset by an increase in development charges collected \$14.56M, and an increase in the Canada Community Building Fund \$8.10M (formerly Gas Tax). The average rate of return on investments in the general portfolio in 2022 was 4.3% (2021 – 2.73%).

Property taxes receivable increased from \$34.15M to \$34.70M (\$0.64M, 1.9%) due to lower property tax payments collected in 2022 when compared to 2021.

Accounts receivable decreased from \$62.79M to \$62.55M (\$0.24M, 0.4%) in 2022 mainly due to a decrease in receivables from the Region of York for shared projects.

Investment in MEC increased by \$3.62M (0.9%) in 2022. This increase in investment includes the 2022 equity in income of \$12.08M. This was offset by a dividend payment of \$7.41M and a reduction in share capital of \$1.05M.

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

	\$ in millions		
	<u>2022</u>	<u>2021</u>	<u>Incr. / (Decr.)</u>
Equity in MEC, January 1, 2022	394.82	384.98	9.84
Equity in income for the year	12.08	20.12	(8.04)
Decrease in share capital	(1.05)	(1.49)	0.44
Dividend paid by MEC to City	(7.41)	(8.79)	1.38
Equity in MEC, December 31, 2022	<u>398.44</u>	<u>394.82</u>	<u>3.62</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 \$351.43M at the end of 2022, a decrease of \$105.35M (23.1%) from 2021.

Accounts payable and accrued liabilities decreased in 2022 from \$191.66M to \$157.16M (\$34.50M, 18.0%) mainly due to decreases in the net amount owed to Region of York and School Boards for development charges (\$27.30M), Region of York for water purchases and shared capital projects (\$15.20M), offset by increase in liabilities for construction projects, property tax credits and developers credit liabilities (\$7.90M).

Deferred revenues decreased from \$221.53M to \$145.63M (\$75.90M, 34.3%) in 2022. The decrease mainly includes Parkland Cash-in-Lieu funds from developers for capital projects \$91.21M offset by higher development charges collected \$14.60M and other external funding due to timing.

Employee future benefits liabilities increased by \$5.86M or 17% which included an increase as per actuarial valuations for the current year end for post employment and sick leave benefits.

Long-term liabilities decreased from \$9.26M to \$8.45M (-\$0.81M, -8.7%) 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 \$4,900.45M at the end of 2022, an increase of \$232.40M (5.0%), which is almost entirely (99.8%) related to the addition of tangible capital assets of \$229.95M. The major assets acquired through development, purchased or put into service following construction completion in 2022 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 \$86.04M (2021 – \$362.37M), deferred revenues earned of \$133.30M (2021 – \$40.01M), equity in income of MEC of \$12.08M (2021 – \$20.12M) and the amortization of TCA \$81.04M (2021 – \$80.12M). The major components of the statement are illustrated in the chart below.

	\$ in millions		
	<u>2022</u>	<u>2021</u>	<u>Incr. /</u> <u>(Decr.)</u>
Revenues	697.50	856.42	(158.92)
Less Expenses	<u>456.84</u>	<u>401.89</u>	<u>54.95</u>
Annual Surplus	240.66	454.53	(213.87)
Accumulated Surplus, Beginning of Year	<u>5,219.57</u>	<u>4,765.04</u>	<u>454.53</u>
Accumulated Surplus, End of Year	<u>5,460.23</u>	<u>5,219.57</u>	<u>240.66</u>

Revenues

The year-over-year decrease in revenues of \$158.92M was driven by reductions in contribution from developers (\$276.33M) and equity income from MEC (\$8.04M), offset by increases in deferred revenues earned \$93.20M, user charges \$15.50M, investment income \$6.80M and property tax \$6.60M.

Expenses

The expenses increased by \$54.95M in 2022 compared to 2021. This was mainly in the areas of Recreation, Library and Culture (\$21.08M), General Government (\$14.58M), Transportation Services¹ (\$7.47M), Planning and Development Services (\$4.76M) and Protection to Persons and Property² (\$2.77M).

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 \$5,460.23M consists of individual operating fund surpluses, equity in MEC, tangible capital assets, and reserves and reserve funds as outlined in the following table:

	\$ in millions		
	<u>2022</u>	<u>2021</u>	<u>Incr./</u> <u>(Decr.)</u>
Operating surplus (excl. waterworks)	9.57	22.90	(13.33)
Waterworks	2.88	1.89	0.99
Destination Markham Corporation	2.70	1.69	1.01
Community Boards and BIAs	<u>0.57</u>	<u>0.52</u>	<u>0.05</u>
Operating Surplus Total	15.71	27.00	(11.29)
Less: Transferred to Corporate Rate Stabilization reserve	-	(6.99)	6.99
Transferred to Life Cycle Replacement and Other reserve funds	(9.57)	(15.92)	6.35
Transferred to Waterworks reserve	<u>(2.88)</u>	<u>(1.89)</u>	<u>(0.99)</u>
	3.27	2.20	1.07
Equity income from Markham Enterprises Corporation	398.44	394.82	3.62
Invested in Tangible Capital Assets and Other	4,892.14	4,662.19	229.95
Reserves and Reserve Funds	196.37	184.10	12.27
Other	<u>(29.98)</u>	<u>(23.74)</u>	<u>(6.24)</u>
Total Accumulated Surplus	<u>5,460.23</u>	<u>5,219.57</u>	<u>240.66</u>

Operating Surplus

The unaudited 2022 year-end results of operations were presented to General Committee on April 11, 2023. Pending audit results, General Committee approved the transfer of operating surplus to various reserves. The actual surplus from operations (excluding waterworks) presented before the transfers was \$9.57M. The combined surplus: \$9.57M from operations, \$2.88M from Waterworks operations, \$2.70M from Destination Markham Corporation, \$0.57M from the Community Boards and BIAs, results in the Operating Surplus total of \$15.71M, as noted above.

Equity in Markham Enterprises Corporation

This represents the value of the City's investment in MEC of \$398.44M 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 \$4,892.14M. 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 \$196.37M at the close of 2022, an increase of \$12.27M (6.7%) from 2021.

Reserves totalled \$268.40M, an increase of \$25.86M over 2021. The net increase was the result of the following changes to the Reserves:

	\$ in millions		
	<u>2022</u>	<u>13-Jul</u>	<u>Incr. / (Decr.)</u>
Reserves			
Building fee	14.51	14.81	(0.30)
Capital gains	7.20	4.16	3.04
Corporate rate stabilization	29.04	31.12	(2.08)
COVID	6.70	11.45	(4.75)
Development fee	51.67	28.94	22.73
Facility ramp up	31.56	29.01	2.55
Firefighters sick leave benefits	6.76	6.78	(0.02)
Insurance	4.45	4.06	0.39
Long-term disability benefit	24.71	23.77	0.94
Waterworks	90.82	86.66	4.16
Other	0.98	1.78	(0.80)
Total Reserves	<u>268.40</u>	<u>242.54</u>	<u>25.86</u>

Reserve Funds decreased by \$13.59M from 2021. The decrease was a result of the following changes to the Reserve Funds:

	\$ in millions		
	<u>2022</u>	<u>2021</u>	<u>Incr. / (Decr.)</u>
Reserve Funds			
Environmental land acquisition	12.19	11.24	0.95
Heritage land acquisition	6.70	-	6.70
Land acquisition	(335.42)	(271.92)	(63.50)
Library infrastructure	6.69	6.52	0.17
Life cycle replacement and capital	193.44	169.56	23.88
Non-DC growth	18.46	16.40	2.06
Post retirement benefits	18.51	14.91	3.60
Public art acquisition	5.17	5.04	0.13
Stormwater fee	(8.24)	(20.16)	11.92
Workplace Safety & Insurance Board	5.51	5.37	0.14
Other	4.96	4.60	0.36
Total Reserve Funds	<u>(72.03)</u>	<u>(58.44)</u>	<u>(13.59)</u>

The \$196.37M Reserve and Reserve Funds balance and the \$123.42M 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	<u>415.53</u>
Reserves	268.40
Reserve Funds	(72.03)
Deferred Reserve Funds (DCs, Parkland cash-in-lieu, Gas Tax & Section 37)	<u>123.42</u>
B. Total Reserves, Reserve Funds & Deferred Reserve Funds	<u>319.79</u>
A. - B.	<u>95.74</u>

In comparison to the \$415.53M cash and investments balance, \$95.74M 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 2022 Annual Report publication.

For the past twenty one 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 2022 Annual Report will again be submitted to the GFOA.

RECOMMENDED BY:

Mark Visser
Acting Treasurer

Trinela Cane
Commissioner, Corporate Services

ATTACHMENTS:

2022 Consolidated Financial Statements Presentation
Appendix A – 2022 Consolidated Financial Statements
Appendix B – 2022 Audit Findings Report