



Report to: General Committee

Report Date: April 16, 2024

SUBJECT: 2023 Consolidated Financial Statements
PREPARED BY: Jay Pak, Senior Manager Financial Planning and Reporting
Kishor Soneji, Manager Financial Reporting

RECOMMENDATION:

- 1) That the presentation titled “2023 Consolidated Financial Statements” be received; and,
- 2) That the report titled “2023 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, 2023; and,
- 4) That Council authorize Staff to publish the final audited Statements for the fiscal year ended December 31, 2023 upon receiving the Independent Auditors’ Report; and,
- 5) That the KPMG LLP Audit Findings Report for the year ended December 31, 2023 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 2023 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 2023 Annual Report which will be published on the City’s website. A link to the Annual Report will be provided to Council members.

PURPOSE:

The purpose of this report is to obtain Council adoption of the 2023 Statements and to seek authority to publish the audited financial information as required by the **Municipal Act** (the Act).

BACKGROUND:

The 2023 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 (CPA Canada).
- 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.

The Public Sector Accounting Board (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 and its, 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 Council approved budgets.

The City engaged the external audit firm KPMG LLP, Chartered Professional Accountants to audit the Statements as at December 31, 2023 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.

As required by PSAB, the City adopted prospectively PS 1201 Financial Statement Presentation, PS 2601 Foreign Currency Translation, PS 3041 Portfolio Investments and PS 3450 Financial Instruments, and retroactively PS 3280 Asset Retirement Obligations standards for the fiscal year beginning January 1, 2023.

The adoption of these new accounting standards had the following impact on the City's financial statements:

- PS 3280 Asset Retirement Obligations has resulted in the recognition of legal obligations associated with the retirement of certain controlled tangible capital assets.

- PS 3450 Financial Instruments has resulted in the selection of the fair value basis of measurement for certain financial instruments and recognition of unrealized remeasurement gains or losses on the Statement of Remeasurement Gains and Losses.
- PS 1201 Financial Statement Presentation has resulted in the addition of a new financial statement called the Statement of Remeasurement of Gains and Losses that is separate from the Statement of Operations and Accumulated Surplus. This new statement includes unrealized gains and losses arising from the remeasurement of financial instruments and items denominated in foreign currencies and any other comprehensive income that arises when the City includes the results of government business enterprises.

Impact due to adoption of PS 3401 Financial Instruments and PS 3280 Asset Retirement Obligations have been included in the financial statements and their accompanying notes, where applicable, including any necessary restatements and disclosures.

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 and Accumulated Remeasurement of Gains (Losses) at year end of \$5,737.00M, an increase of \$294.45M (5.4%) over 2022.

	<u>\$ in millions</u>		
	<u>2023</u>	<u>2022</u>	<u>Incr. / (Decr.)</u>
Financial Assets	1,014.62	936.79	77.83
Financial Liabilities	<u>506.60</u>	<u>395.27</u>	<u>111.33</u>
Net Financial Assets	508.02	541.52	(33.50)
Non-Financial Assets	<u>5,228.98</u>	<u>4,901.03</u>	<u>327.95</u>
	<u>5,737.00</u>	<u>5,442.55</u>	<u>294.45</u>
Accumulated Surplus	5,726.68	5,442.55	284.13
Accumulated Remeasurement of Gains (Losses)	10.32	-	10.32
	<u>5,737.00</u>	<u>5,442.55</u>	<u>294.45</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 \$1,014.62M, an increase of \$77.83M or 8.3% from 2022.

Cash & cash equivalents and investments increased in 2023 from \$415.53M to \$480.27M (\$64.74M, 15.6%). The increase in cash inflows was driven by a decrease in spending on operating and capital projects in 2023 compared to 2022 (\$36.0M), an increase in investments due to the adoption of PS 3450 Financial Instruments – remeasurement of gains on principal protected notes and share of other comprehensive income of \$10.32M, an increase in other revenues & deposits (\$10.2M) and an increase in Development Charges, Parkland Cash-in-lieu funds & Section 37 funds (\$10.1M). The average rate of return on investments in the general portfolio in 2023 was 6.2% (2022 – 4.3%).

Property taxes receivable increased from \$34.79M to \$43.53M (\$8.74M, 25.1%) was mainly due to an increase in property tax levies for new properties levied towards end of year with a due date in the subsequent year.

Accounts receivable decreased from \$88.03M to \$82.88M (-\$5.15M, -5.9%) in 2023 mainly due to a decrease in receivables from the Region of York and School Boards for tax adjustments and a decrease in receivables for cash-in-lieu.

Investment in MEC increased by \$9.51M (2.4%) in 2023. This increase in investment includes the 2023 equity income of \$25.29M. This was offset by a dividend payment of \$14.82M and a reduction in share capital of \$0.96M (Balance Sheet – Appendix A Page 17 Note 7).

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 \$506.60M at the end of 2023, an increase of \$111.33M (28.2%) from 2022.

Accounts payable and accrued liabilities increased in 2023 from \$157.16M to \$160.94M (\$3.78M, 2.4%) mainly due to an increase in amounts payable to vendors for construction projects (\$5.5M) due to timing, an increase in payables to the Region of York for property tax levies (\$5.8M), offset by a decrease in developer credit liabilities (\$5.8M) and payables to the Region of York and School Boards for development charges (\$2.7M).

Liability for asset retirement obligations increased by \$1.32M from \$18.25M as opening asset retirement liability (due to retroactive implementation of PS 3450 Asset Retirement Obligation) to \$19.57M in 2023 as per note 9 of notes to financial statements (Balance Sheet – Appendix A - Page 18).

Notes payable increased by \$94.00M in 2023 due to timing of payables to vendors for the acquisition of real property. The above amount was paid to the vendor in January 2024 as per the terms of the contractual obligations.

Deferred revenues increased from \$171.12M to \$181.22M (\$10.10M, 5.%) in 2023. The increase was mainly due to higher Development Charges, Parkland Cash-in-Lieu funds & other external funds for capital projects (\$12.60M) due to timing offset by higher usage of Canada Community Building Fund (\$2.50M).

Employee future benefits liabilities increased by \$2.97M or 7.4% which included an increase as per actuarial valuations for the current year end for Workplace Safety and Insurance Board, post employment and sick leave benefits.

Long-term liabilities decreased from \$8.45M to \$7.61M (-\$0.84M, -10.0%) 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 \$5,228.98M at the end of 2023, an increase of \$327.95M (6.7%), which is almost entirely (100.2%) related to net increase in tangible capital assets of \$328.89M offset by a decrease in salt & sand inventory and prepaid expenses. The major assets acquired through development, purchased or put into service following construction completion in 2023 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 \$230.27M (2022 – \$86.04M), deferred revenues earned of \$32.43M (2022 – \$133.30M), equity in income from MEC of \$25.44M (2022 – \$12.09M) and the amortization of TCA \$84.12M (2022 – \$81.20M). During the year, the City adopted PS 3480, Asset Retirement Obligations (ARO) and adjustment on account of the new ARO has been made as required. The major components of the statement are illustrated in the chart below.

	\$ in millions		
	<u>2023</u>	<u>2022</u>	<u>Incr. / (Decr.)</u>
Revenues	768.72	697.50	71.23
Less Expenses	<u>484.59</u>	<u>457.00</u>	<u>27.59</u>
Annual Surplus	284.13	240.50	43.64
Accumulated Surplus, Beginning of Year	5,442.55	5,202.05	240.49
Accumulated Surplus, End of Year	<u>5,726.68</u>	<u>5,442.55</u>	<u>284.13</u>

Revenues

The year-over-year increase in revenues of \$71.23M was driven by an increase in contribution from developers (\$144.23M), equity income from MEC (\$13.35M), property tax levies (\$9.44M) and Investment income (\$8.70M) offset by decreases in deferred revenues earned (-\$100.87M).

Expenses

The expenses increased by \$27.59M in 2023 compared to 2022. This was driven by expense increases in the areas of Recreation, Library and Culture (\$15.16M), Transportation Services¹ (\$4.24M), Environmental Services (\$4.17M), General Government (\$3.18M), and Protection to Persons and Property² (\$1.61M).

Accumulated Surplus (Appendix A – Page 19)

The accumulated surplus of \$5,726.68M consists of individual operating fund surpluses, equity in MEC, tangible capital assets, and reserves and reserve funds as outlined in the following table:

	<u>\$ in millions</u>		
	<u>2023</u>	<u>2022</u>	<u>Incr. / (Decr.)</u>
Operating surplus (excl. waterworks)	4.83	9.57	(4.74)
Waterworks	4.82	2.88	1.94
Destination Markham Corporation	3.67	2.70	0.98
Community Boards and BIAs	<u>0.57</u>	<u>0.57</u>	<u>0.00</u>
Operating Surplus Total	13.89	15.71	(1.82)
Less Transferred to Life Cycle Replacement and Other reserve funds	(4.83)	(9.57)	4.74
Transferred to Waterworks reserve	<u>(4.82)</u>	<u>(2.88)</u>	<u>(1.94)</u>
	4.24	3.27	0.98
Equity income from Markham Enterprises Corporation	407.95	398.44	9.51
Invested in Tangible Capital Assets	5,221.60	4,892.71	328.89
Reserves and Reserve Funds	245.27	196.37	48.90
Adjustment for real property acquisition due to timing	(94.00)	-	(94.00)
Other	<u>(58.37)</u>	<u>(48.23)</u>	<u>(10.14)</u>
Total Accumulated Surplus	<u>5,726.68</u>	<u>5,442.55</u>	<u>284.13</u>

Operating Surplus

The unaudited 2023 year-end results of operations were presented to General Committee on March 19, 2024. 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 \$4.83M. The combined surplus of \$13.89M consists of: \$4.83M from operations, \$4.82M from Waterworks operations, \$3.67M from Destination Markham Corporation, and \$0.57M from the Community Boards and BIAs.

Equity in Markham Enterprises Corporation

This represents the value of the City's investment in MEC of \$407.95M as noted in the Financial Assets section on page 4 of this report (also refer to Appendix A – Page 17, note 7).

¹ Transportation Services includes road, traffic and winter operations.

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

Invested in Tangible Capital Assets

The investment in tangible capital assets and other totaled \$5,221.60M. 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 \$245.27M at the close of 2023, an increase of \$48.90M (24.9%) from 2022.

Reserves totalled \$300.13M, an increase of \$31.73M over 2022. The net increase was the result of the following changes to the Reserves:

	\$ in millions		
	<u>2023</u>	<u>2022</u>	<u>Incr. / (Decr.)</u>
Reserves			
Building fee	15.16	14.51	0.65
Capital gains	12.49	7.20	5.29
Corporate rate stabilization	30.06	29.04	1.02
COVID	3.00	6.70	(3.70)
Development fee	59.60	51.67	7.93
Facility ramp up	38.98	31.56	7.42
Firefighters sick leave benefits	7.26	6.76	0.50
Insurance	4.59	4.45	0.14
Long-term disability benefit	25.69	24.71	0.97
Waterworks	102.25	90.82	11.43
Other	1.05	0.98	0.07
Total Reserves	<u>300.13</u>	<u>268.40</u>	<u>31.73</u>

Reserve Funds increased by \$17.17M from 2022. The increase was the result of the following changes to the Reserve Funds:

	\$ in millions		
	<u>2023</u>	<u>2022</u>	<u>Incr. / (Decr.)</u>
Reserve Funds			
Environmental land acquisition	13.06	12.19	0.87
Heritage land acquisition	0.89	6.70	(5.81)
Land acquisition	(359.56)	(335.42)	(24.14)
Library infrastructure	7.02	6.69	0.33
Life cycle replacement and capital	227.07	193.44	33.63
Non-DC growth	17.84	18.46	(0.62)
Post retirement benefits	20.09	18.51	1.58
Public art acquisition	6.93	5.17	1.76
Stormwater fee	(1.32)	(8.24)	6.92
Workplace Safety & Insurance Board	7.66	5.51	2.15
Other	5.46	4.96	0.50
Total Reserve Funds	<u>(54.86)</u>	<u>(72.03)</u>	<u>17.17</u>

COMMUNICATION

Section 295 (1) of the Act requires municipalities to annually communicate to its taxpayers, 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 2023 Annual Report, published online.

For the past twenty two consecutive years, the City has received the Government Finance Officers Association (GFOA) '*Canadian Award for Financial Reporting*', most recently for the City's 2022 Annual Report and Financial Statements. 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 2023 Annual Report and Financial Statements will again be submitted to the GFOA.

RECOMMENDED BY:

Joseph Silva
Treasurer

Trinela Cane
Commissioner, Corporate Services

ATTACHMENTS:

2023 Consolidated Financial Statements Presentation
Appendix A – 2023 Consolidated Financial Statements
Appendix B – 2023 Audit Findings Report