

City of Mississauga Corporate Report



<p>Date: May 25, 2023</p> <p>To: Mayor and Members of Council</p>	<p>Originator's files:</p>
<p>From: Shari Lichterman, CPA, CMA, City Manager and Chief Administrative Officer</p>	<p>Meeting date: June 14, 2023</p>

Subject

Enersource AGM and 2022 Enersource Audited Financial Statements

Recommendation

That the City of Mississauga, in its capacity as a shareholder in Enersource Corporation, accepts the audited financial statements of Enersource Corporation as at December 31, 2022 and waives the requirement for an annual general meeting of Enersource Corporation.

Executive Summary

- Enersource Corporation's (Enersource) ownership in Alectra Inc. ("Alectra") is 29.57%.
- The Enersource Board of Directors, at their Board meeting on April 28, 2023, reviewed and approved the 2022 audited financial statements of Enersource (Appendix 1).
- Dividends received from Alectra in 2022 were \$28.1M (2021 \$22.2M)
- Dividends paid to Shareholders in 2022 were \$23.3 million (2021 \$18.6 million):
 - \$21.0 million to the City of Mississauga (90% share)
 - \$2.3 million to BPC Energy (10% share)
- KPMG is the auditor for Enersource up to December 31, 2024 which is aligned with the City's audit term with KPMG.

Background

The shareholder ownership structure of Alectra is as follows: Enersource Corporation - 29.57%, Vaughan Holdings Inc. - 20.5%, Hamilton Utilities Corporation - 17.3%, Barrie Hydro Holdings - 8.4%, , Markham Enterprises Corporation - 15%, St. Catharines Hydro Inc. - 4.6% and Guelph Hydro Electric System Inc. (GHESI) - 4.6%.

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The shareholders of Enersource (“Shareholders”) are the Corporation of the City of Mississauga with a 90% share and BPC Energy Corporation (Borealis) with a 10% share.

Enersource is a company with its principal business activities being to hold the Shareholders’ equity interest in Alectra, receive dividends from Alectra, service its debt and distribute dividends to its shareholders annually.

BDO Canada LLP has been retained by Enersource for a five year contract, to June 2023, to provide accounting and financial reporting services. The contract was recently extended for one year to June 2024.

KPMG LLP has been retained as Enersource’s auditor until December 31, 2024 which is aligned with the City’s contract with KPMG LLP. KPMG LLP completed the 2022 audit of Enersource Corporation. On April 28, 2023, the Audited Financial Statements and Audit Report were presented to the Enersource Board and were received and approved.

On May 15, 2023, the Audit Committee of the City of Mississauga, reviewed and received a report entitled, ‘2022 Audited Financial Statements’ which presented the consolidated financial statements of the City of Mississauga, plus other entities (Library board, BIA’s, Trust and Enersource).

For transparency purposes, it should be noted that Shari Lichterman, as signatory of this corporate report, is also the City-appointed CEO of Enersource.

Comments

The shareholders’ agreement in place between the City of Mississauga, BPC Energy Corporation and Enersource Corporation dated January 31, 2017 requires the audited annual financial statements to be delivered to the shareholders of Enersource on an annual basis. It is a common approach to waive the Annual General Meeting (“AGM”) when there are no substantive matters requiring shareholder action and this has been the practice of Enersource Corporation for several years. Other than waiving the AGM, there are no other Enersource matters for the City to consider at this time.

The Ontario Business Corporations Act authorizes shareholders of a corporation to pass a shareholders’ resolution in lieu of holding an annual general meeting. The Board of Directors of Enersource is recommending that the City and Borealis exercise this option under the Shareholders’ Agreement.

The attached Consolidated Financial Statements of Enersource Corporation is a report card on the financial position, health and strength of Enersource Corporation. The accompanying annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (‘IFRS’) as issued by the International Accounting Standards Board (‘IASB’). These financial statements have been prepared on a historical cost basis. The

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financial statements provide information on the cost of all activities, reflecting the full nature and extent of the Enersource Corporation's financial affairs.

In the opinion of KPMG LLP, the consolidated financial statements present fairly, in all material respects, the consolidated financial statements of Enersource Corporation as of December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Financial Impact

The following represents some highlights (as of Dec. 31, 2022) found in the financial statements, as attached in Appendix 1:

- Total Assets: \$607.2M (2021 \$615.5M)
- Total Liabilities and Shareholder Equity: \$ 607.2M (2021 \$615.5M)
- Total Revenues: \$11.8M (2021 \$30.8M)
- Total Expenses: \$1.5M (2021 \$1.0M)
- Total Comprehensive Income for the year: \$17.7M (2021 \$31.9M)

Key Financial Statement Items:

- Cash balance at the end of 2022, after all dividend payments were made, was \$8.3M (2021 \$7.5M).
- Enersource holds \$45.6M in debt (2021 \$48.1M), through CIBC, as a result of the merger to form Alectra in 2017.
 - Enersource pays off approx. \$2.5M each year
- Shareholders' equity decreased from \$567.3M in 2021 to \$561.6M in 2022, an decrease of \$5.7M
- Share of net income from investment in Alectra was \$10.9M (2021 \$30.2M)
- Majority of the expenses represent debt interest expenses and other administrative expenses to run Enersource Corporation.
- Dividends received from Alectra in 2022 were \$28.1M (2021 \$22.2M), approximately \$5.9M higher than 2021 primarily due to financial impacts and recovery from the pandemic.
 - Q4 2022 dividend was paid in March 2023 (\$8.4M).
- Dividends paid to Shareholders in 2022 were \$23.3M (2021 \$18.6M):
 - \$21.0M to the City of Mississauga (90% share)
 - \$2.3M to BPC Energy (10% share)
- The City continues to provide a loan guarantee on Enersource's \$45.6M debt balance.

Conclusion

This report recommends waiving the Annual General Meeting of Enersource Corporation.

The Enersource Corporation 2022 Audited Financial Statements identifies no concerns. Although Enersource's investment in Alectra decreased from 2021 due to the application of IFRS accounting adjustments, the financial position of Enersource continues to remain fully healthy through sound management and business practices.

Attachments

Appendix 1: 2022 Enersource Corporation Audited Financial Statements



Shari Lichterman, CPA, CMA, City Manager and Chief Administrative Officer

Prepared by: Mark Beauparlant, Manager of Accounting and Financial Reporting