



Report to: General Committee

Date Report Authored: April 28, 2014

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**SUBJECT:** 2013 Consolidated Financial Statements  
**PREPARED BY:** Kishor Soneji, Senior Accountant  
Raymond Law, Manager Business Operations

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**RECOMMENDATION:**

- 1) THAT the report entitled “2013 Consolidated Financial Statements” be received;
- 2) AND THAT Council approve the Consolidated Financial Statements of The Corporation of the City of Markham (the “Consolidated Financial Statements”), which include the City of Markham Public Library (the “Library”), Business Improvement Areas (“BIAs”), and Investment in Markham Enterprises Corporation, for the fiscal year ended December 31, 2013;
- 3) AND THAT Council authorize Staff to issue the final audited Consolidated Financial Statements for the fiscal year ended December 31, 2013 upon receiving the Independent Auditor’s Report;
- 4) AND THAT the KPMG LLP Audit Finding Report for the year ended December 31, 2013 be received;
- 5) AND THAT the 2013 favourable variance of \$36,920 for the Flato Markham Theatre not be transferred to the Theatre Endowment Reserve Fund;
- 6) AND 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 (the “City”) and has expressed an unqualified or “clean” opinion that the Consolidated Financial Statements present fairly, in all material respects, the consolidated financial position of the City.

The 2013 surplus before winter maintenance, ice storm expenses and year-end accounting adjustments was \$1.614M. However, the results of operations incurred a net deficit of \$3.181M after considering the winter maintenance, ice storm expenses and year-end accounting adjustments.

The audited Consolidated Financial Statements are a report card on the financial position, health and strength of the City. The 2013 financial results continue to demonstrate Markham’s strong leadership and excellence in financial planning and fiscal prudence.

The audited Consolidated Financial Statements will be published in the 2013 Annual Report and will be distributed to Council at the end of May 2014.

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**PURPOSE:**

To obtain Council approval of the 2013 Consolidated Financial Statements and to seek authority to publish the audited financial information as required by the *Municipal Act* (the “*Act*”).

**BACKGROUND:**

This report is 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 financial statements in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”) for governments as recommended, from time to time, by the Public Sector Accounting Board (“PSAB”) of the Canadian Institute of Chartered Accountants (“CICA”).

*Section 296.(1)* requires a municipality to appoint a licensed auditor who is responsible for auditing the accounts and transactions of the municipality annually and express an opinion on the municipality’s financial statements.

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.

Under PSAB, municipal reporting requirements include:

- Consolidated Statement of Financial Position
- Consolidated Statement of Operations and Accumulated Surplus
- Consolidated Statement of Change in Net Financial Assets
- Consolidated Statement of Cash Flows

The Consolidated Financial 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 accordance with the budget as approved by Council.

The City engaged the external audit firm KPMG LLP, Chartered Accountants to audit the Consolidated Financial Statements as at December 31, 2013 and their accompanying notes, comprising 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 about whether the Consolidated Financial Statements are free from material misstatement.

The Consolidated Financial Statements include the City’s wholly owned investment in Markham Enterprises Corporation (“MEC”), including MEC’s shares in PowerStream Holdings Inc. of 34.185% and Markham District Energy Inc. (“MDE”) of 100%.

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**OPTIONS/ DISCUSSION:****Consolidated Statement of Financial Position (Appendix A - page 1)**

The Statement of Financial Position outlines the City's financial assets, financial liabilities and non-financial assets.

**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 to flow to the organization. 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 a business during normal business activity.

The City ended the year with financial assets totalling \$671.3M. This represents a decrease of \$34.7M (4.92%) from 2012. The decrease in financial assets was mainly related to capital outflow. The cash and cash equivalents balance totalled \$338.6M at the end of 2013. The City's investments have an effective average rate of return of 4.35%, an increase of 21 basis points over 2012.

Investment in MEC increased by \$5.613M to a total of \$233.3M. The details of this change are provided under the "Equity in Markham Enterprises Corporation" section of this report.

**Financial Liabilities**

Financial liabilities are financial obligations to outside organizations or individuals that are the result of transactions or events that occurred on or before the end of the accounting period.

Financial liabilities were \$237.4M, a decrease of \$58.8M (19.8%) when compared to 2012. The decrease in financial liabilities was mainly related to reductions in development charges and obligatory reserves, and payables.

Development charges and obligatory reserves totalled \$117.3M, a decrease of \$33.9M from 2012. The decrease was mainly due to increases in capital works obligations. These funds are considered liabilities as they are non-discretionary in terms of use and represent capital works obligations to be constructed by the City in the future.

The total accounts payable and accrued liabilities balance was \$81.4M, representing a \$26.2M decrease when compared with 2012. The decrease was due to the reduction in payables to vendors for operational or capital works activity.

Employee future benefits include liabilities set aside based on actuarial valuation for vested sick leave benefits for fire-fighters, long-term disability (LTD) benefits, Workplace Safety and Insurance Board obligations, and post-retirement benefits. The City has set aside funds in specific purpose reserves and reserve funds, for the financing of anticipated future costs. These liabilities total \$28.0M, a \$1.8M increase from 2012.

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**Non-Financial Assets**

Non-financial assets are assets with physical value such as land and property. It includes tangible capital assets (“TCA”), and inventories of supplies (e.g. salt and sand).

The net book value of TCA as at December 31, 2013 total \$3,992.6M. The net book value is comprised of the gross capital asset cost, plus additions, less disposals, less the accumulated amortization and adjustments. The amortization expense was \$63.0M. Assets under construction totalling \$67.4M are not amortized until the assets are brought into service.

During the course of audit, KPMG LLP identified a performance improvement observation related to the land acquisitions through the assumption of subdivisions recorded in 2013. Approximately \$20.8M of land additions transferred to the City in prior years was recorded in 2013.

PSAB 3150 regulations came into effect in 2009, requiring municipalities to account for and report on TCA. Prior to the launch of PSAB 3150, the City had a process to account for changes in City-owned land. The process, involving Information Technology Services (“ITS”) and the Legal Services departments, captures all changes to City-owned land and is reconciled annually to the records of the Municipal Property Assessment Corporation (“MPAC”). In 2008, Staff reviewed the procedures and controls in place, and deemed the process a viable method of recording and accounting for land changes under PSAB 3150.

It has been the City’s practice, to cut-off all land transaction updates for the calendar year, in conjunction with MPAC’s cut-off date of October 31, so that the balancing reconciliation could be done. This created a gap in the process for financial reporting of TCA. However, as a consistent 12 months of land changes (November to October) would be reported each fiscal year, no significant impact was foreseen. This practice was reviewed and accepted by KPMG LLP.

In May 2012, the Region of York updated the Regional Development Charges by-laws, with an effective date of June 18, 2012. The new Development Charges rates increased significantly. The by-laws included a pre-payment clause, which effectively allowed developers to pre-pay applicable Development Charges on or before June 18, 2012 at the lower, outgoing by-law rates. A condition of this clause was that subdivision agreements must be executed with six months. This resulted in an unusually high volume of subdivision agreements executed in December of 2012. Since the late year land transfers to the City were not captured until after the 2012 cut-off and reconciliation with MPAC records, they were not recorded until 2013. Therefore, the land assets were understated on the 2012 financial statements by \$20.8M.

This anomaly has prompted a review of the process and controls currently in place with regard to recording land acquisitions and sales. Staff have refined the process in order to ensure the reporting of land transfers will coincide with the calendar year. The initial step of this improvement relates to requirements for the Surveyor’s Certificate, which is included with development agreements. More detail will be requested, including full

measurement of land areas for land parcels being transferred to the City. Staff will also require a copy of the certificate upon registration of the plan, so that they can capture the changes, not included by MPAC, in the final calendar months of each year. Staff will implement the new process in 2014.

The City has recorded the corrections in the 2013 financial statements as well as re-casted 2012 financial statements. The re-casted financial statements now reflect the \$20.8M of land additions in 2012 through a corresponding credit of \$17.2M as revenue (contributions from developers) and \$3.6M adjustment to the accumulated surplus opening balance, for land additions with ownership transfers prior to 2012.

### **Consolidated Statement of Operations and Accumulated Surplus (Appendix A - page 2)**

This statement accounts for the City's operating revenues and expenditures, and includes TCA transactions adjusted for amortization in the accounting period. Contributions from developers for assumed subdivisions during the accounting period, and the portion of development charges received and spent during the year for TCA are included as revenues.

The Consolidated Statement of Operations and Accumulated Surplus are summarized below:

	\$ in millions	
	<u>2013</u>	<b>Re-casted</b> <u>2012</u>
Revenues	389.691	442.135
Expenses before amortization	211.070	202.439
	<u>178.620</u>	<u>239.696</u>
Less:		
Amortization of tangible capital assets	(63.038)	(59.053)
Annual Surplus	<u>115.583</u>	<u>180.643</u>
Accumulated Surplus at the beginning of year	3,876.991	3,696.348
Accumulated Surplus at the end of year	<u>3,992.574</u>	<u>3,876.991</u>

The following table outlines the Accumulated Surplus, which consists of individual fund surpluses, and reserves and reserve funds.

	\$ in millions	
	<u>2013</u>	<u>Re-casted 2012</u>
Operating surplus excluding Planning & Design, Engineering, and Building Standards	(3.181)	0.870
Community Boards and BIAs	0.159	0.145
Operating surplus/(deficit) excluding Waterworks	(3.022)	1.015
Waterworks	(1.515)	(0.696)
Operating surplus/(deficit) including Waterworks	(4.537)	0.319
Equity in Markham Enterprises Corporation	233.349	227.736
Invested in tangible capital assets and others	3,525.643	3,432.845
Reserves and Reserve Funds	238.119	216.091
<b>Total</b>	<u>3,992.574</u>	<u>3,876.991</u>

#### Operating Surplus / (Deficit) excluding Waterworks

Staff presented to General Committee on March 3, 2014 the results of operations for 2013, including the City's primary operating budget, Planning & Design budget, Engineering budget, Building Standards budget and Waterworks budget.

The total result of operations excluding Waterworks incurred a net deficit of (\$3.181M) and is broken-down as:

	\$ in millions
City's surplus before winter maintenance, ice storm and year-end accounting adjustments	1.614
Winter maintenance unfavorable variance	(1.810)
Ice storm	(1.090)
Year-end accounting adjustments	(1.895)
<b>Net deficit</b>	<u>(3.181)</u>

Council approved funding the net deficit of (\$3.181M) as follows:

- a. LTD Reserve in the amount of \$0.281M for the City's day-to-day operating surplus of \$1.614M, net of year-end accounting adjustments of \$1.895M; and
- b. Corporate Rate Stabilization Reserve in the amount of \$2.900M for winter maintenance unfavorable variance of (\$1.810M) and ice storm related costs of (\$1.091M) incurred in 2013.

The net operating deficit, excluding Waterworks as at December 31, 2013 is \$3.022M, which includes the surplus of \$0.156M and \$0.003M from Community Boards and BIAS, respectively.

At the General Committee meeting on April 7, 2014 the Flato Markham Theatre Advisory Board requested the Theatre Department's favourable variance of \$36,920 be

transferred to the Theatre Endowment Reserve Fund. Since Council has already approved the funding of 2013 results of operations, which incurred a deficit of \$3.181M, Staff is recommending that Council not approve the transfer of the Theatre Department's favourable variance of \$36,920 to the Theatre Endowment Reserve Fund.

#### Waterworks

At the time of budget approval, the budgeted surplus of \$13.784M was transferred to the Waterworks Reserve. Based on the actual operations, the 2013 Waterworks surplus was \$12.269M resulting in an unfavorable variance of \$1.515M, which will be funded from the Waterworks Reserve in 2014.

#### Equity in Markham Enterprises Corporation

This represents the value of investment in Markham Enterprises Corporation, wholly owned by the City. MEC owns 100% of MDE and 34.185% of PowerStream Inc.

PowerStream Inc. was re-structured on July 24, 2013 to PowerStream Holdings Inc. (PowerStream).

In 2013, PowerStream identified an error in property, plant, equipment (distribution assets category) for the year ended December 31, 2011. Accordingly, MEC financial statements were restated, reflecting a \$2.213M reduction in 2012.

The impact on the City's accumulated surplus on the Equity in Markham Enterprises Corporation is:

	\$ in millions		
	<b>Re-casted</b>		
	<b><u>2013</u></b>	<b><u>2012</u></b>	<b><u>Variance</u></b>
a. Equity in MEC, January 1	227.736	215.132	12.604
b. Equity pick-up:			
Net Income for the year	7.648	9.977	(2.329)
c. Increase in share capital	3.550	9.626	(6.076)
d. Dividend paid by MEC to City	(5.585)	(4.786)	(0.799)
e. Adjustment due to correction	-	(2.213)	2.213
f. Equity in MEC, December 31	<u>233.349</u>	<u>227.736</u>	<u>5.613</u>

#### Invested in Tangible Capital Assets and Others

This represents the value of non-financial assets such as Land, Buildings, Equipment and Infrastructure adjusted for acquisitions, disposals and unfunded liabilities at the year end.

#### Reserves and Reserve Funds

The Reserves and Reserve Funds are set aside by Council for specific purposes. Inflows into these funds are from the operating budget and the outflows are generally to fund capital and other projects as directed by Council. The City's Reserves and Reserve Funds have increased by 67.7% from \$142.8M to \$238.1M, in last five years.

Reserves

Reserves total \$109.276M, an increase of \$12.346M from 2012. The increase is the result of the following changes to Reserves:

	<u>\$ in millions</u>
- Waterworks	8.130
- Building fee	1.985
- Long-term disability benefit	1.680
- Facility ramp-up	1.555
- Other	2.350
- Development fee	<u>(3.354)</u>
	12.346

Reserve Funds

The Reserve Funds total \$128.843M, an increase of 9.682M from 2012. The increase is a result of changes to the following Reserve Funds:

	<u>\$ in millions</u>
- Post-retirement benefits	11.251
- Emerald Ash Borer	0.596
- Other	0.242
- Non-DC growth	<u>(2.407)</u>
	9.682

**Consolidated Statement of Change in Net Financial Assets (Appendix A - page 3)**

This statement presents changes in non-financial assets such as tangible capital assets, and inventories of supplies. The statement indicates how the City's non-financial assets changed from the previous year (i.e. acquisitions/disposals).

**Consolidated Statement of Cash Flows (Appendix A - page 4)**

This statement presents changes in cash and cash equivalents by highlighting the sources and uses of cash. The statement indicates how the City's activities were financed and how cash requirements were met.

**Communication**

Section 295. (1) of the *Act* requires municipalities to annually communicate to its ratepayers, the results of the municipality's year end. Section 295.(1) reads as follows:

- “Within 60 days after receiving the audited financial statements of the municipality for the previous year, the treasurer of the municipality,
- (a) shall publish in a newspaper having general circulation in the municipality,
    - (i) a copy of the audited financial statements, the notes to the financial statements, the auditor's report and the tax rate information for the current and previous year as contained in the financial review, or

- (ii) a notice that the information described in subclause (i) will be made available at no cost to any taxpayer or resident of the municipality upon request; and
- (b) may provide the information described in subclause (a) (i) or (ii) to such persons and in such other manner as the treasurer considers appropriate. 2001, c. 25, s. 295 (1).”

The financial statements will be published on the City’s website upon receipt of the final audited financial statements from KPMG LLP.

For the past twelve years, the City has received the Canadian Award for Financial Reporting which provides recognition for excellence in governmental accounting and financial reporting. The receipt of this award signifies that the City 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 Auditor’s Report, the 2013 Annual Report will be submitted to the Government Finance Officers Association (GFOA).

**FINANCIAL CONSIDERATIONS AND TEMPLATE: (external link)**

Not applicable

**HUMAN RESOURCES CONSIDERATIONS**

Not applicable

**ALIGNMENT WITH STRATEGIC PRIORITIES:**

Not applicable

**BUSINESS UNITS CONSULTED AND AFFECTED:**

Not applicable

**RECOMMENDED**


**BY:**

24/04/2014

24/04/2014

X 

Joel Lustig  
Treasurer

X 

Trinela Cane  
Commissioner, Corporate Services

**ATTACHMENTS:**

Appendix A – Consolidated Financial Statements of the Corporation of the City of Markham, December 31, 2013

Appendix B – The Corporation of the City of Markham Audit Findings Report