



Report to: General Committee

Date Report Authored: April 18, 2016

SUBJECT: 2015 Consolidated Financial Statements
PREPARED BY: Sandra Skelcher, Manager Financial Reporting and Payroll

RECOMMENDATION:

- 1) THAT the report titled “2015 Consolidated Financial Statements” be received; and
- 2) THAT Council approve the draft Consolidated Financial Statements of The Corporation of the City of Markham (the City), the City of Markham Public Library (the Library), Community Boards, Business Improvement Areas (BIAs), and Investment in Markham Enterprises Corporation (MEC), for the fiscal year ended December 31, 2015; and,
- 3) THAT Council authorize Staff to issue the final audited Consolidated Financial Statements for the fiscal year ended December 31, 2015 upon receiving the Independent Auditors’ Report; and,
- 4) THAT the KPMG LLP Audit Finding Report for the year ended December 31, 2015 be received; and,
- 5) THAT this matter be forwarded to Council for adoption on April 19, 2016; and,
- 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 or “clean” opinion that the Consolidated Financial Statements present fairly, in all material respects, the consolidated financial position of the City.

The audited Consolidated Financial Statements are a report card on the financial position, health and strength of the City. The 2015 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 2015 Annual Report and will be distributed to Council by the end of May 2016.

PURPOSE:

The purpose of this report is to obtain Council approval of the 2015 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 annually auditing the accounts and transactions of the municipality 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 (commonly referred to as the Balance Sheet)
- Consolidated Statement of Operations and Accumulated Surplus (commonly referred to as the Income Statement)
- Consolidated Statement of Change in Net Financial Assets
- Consolidated Statement of Cash Flows

PSAB Section PS3260 mandates that for fiscal years beginning on or after April 1, 2014, municipal governments are required to account for and record liability for contaminated sites. The City adopted PSAB 3260 for Contaminated Sites in the fiscal year 2015 and had no associated liabilities to report.

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, 2015 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 Consolidated Financial Statements are free from material misstatement.

The Consolidated Financial Statements include the City's wholly owned investment in MEC, including MEC's shares in PowerStream Holding Inc. of 34.185% and Markham District Energy Inc. (MDE) of 100%.

DISCUSSION:**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Balance Sheet)**
(Page 1 - Appendix A)

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 normal business activities.

The City ended the year with financial assets totalling \$669.3M. This represents an increase of \$4.4M (0.7%) from 2014.

The cash and cash equivalents totalled \$319.2M at the end of 2015, an increase of 2.9% from 2014 (2014, \$310.0M). This is in line with the five year average property tax levy increase, offset by annual capital outflows. The City's investments had an effective average rate of return of 3.6% a decrease of 48 basis points over 2014.

Property Tax receivables are the amounts owing from property owners as at December 31, 2015 and include the City's portion, the Regional portion and the Provincial portion for education. Property taxes receivable totalled \$28.9M at the end of 2015 (2014, \$29.2M), which represents 4.7% of the total taxes levied for the year compared to 5.0% in 2014.

Accounts Receivable totalled \$59.5M at the end of 2015 (2014, \$67.4M), a decrease of 11.7% which was mainly due to recovery of the 'ice storm' related receivable and the change in Harmonized Sales Tax (HST) recovery from Province.

Investment in MEC increased by \$7.1M to a total of \$252.9M at the end of 2015. The details of the change are as follows:

	\$ in millions		
	<u>2015</u>	<u>2014</u>	<u>Incr./(Decr.)</u>
Equity in MEC, January 1	\$ 245.8	\$ 233.3	\$ 12.5
Equity pick-up for the year	9.8	5.4	4.4
Increase in share capital	4.9	12.2	(7.3)
Dividend paid by MEC to City	(7.6)	(5.1)	(2.5)
Equity in MEC, December 31	<u>\$ 252.9</u>	<u>\$ 245.8</u>	<u>\$ 7.1</u>

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 \$239.2M, an increase of \$5.6M (2.4%) when compared to 2014. The increase in financial liabilities was mainly related to increases in accounts payable and accrued liabilities offset by reductions in deferred revenues and deposits.

The accounts payable and accrued liabilities were \$108.6, representing a \$13.3M increase when compared with 2014. This change was due to an increase in payables owed to vendors for operational and capital works activities.

Deferred revenues are considered liabilities until the funds are spent. The major deferred revenues include development charges, parkland cash-in-lieu, Federal Gas Tax grants and Section 37 funds. Deferred revenues totalled \$88.1M (2014, \$94.5M) a decrease of \$6.4M (6.8%) from 2014. The decrease was mainly due to construction payments for capital works funded by development charges.

Employee future benefits include liabilities, based on actuarial valuation, for vested sick leave benefits for firefighters, long-term disability (LTD) benefits, Workplace Safety and Insurance Board (WSIB) obligations, and post-retirement benefits. The City has set aside funds in specific purpose reserves and reserve funds, for the financing of these anticipated future costs. The liabilities total \$28.9M, a \$0.7M decrease from 2014.

Long-term liabilities totalled \$13.6M (2014, \$14.2M), a decrease of \$0.6M from 2014 due to the repayment of principal for loans from Canada Mortgage Housing Corporation (CHMC) and the Federation of Canadian Municipalities (FCM).

Non-Financial Assets

Non-financial assets are assets with physical value such as land and property. They include tangible capital assets (TCA), inventories (e.g. salt and sand) and prepaid expenses. The net book value of TCA is comprised of the gross capital assets cost, plus additions, less disposal, less accumulated amortization and other adjustments.

Non-financial assets totalled \$3,757.4M (2014, \$3,648.2M), an increase of \$109.2M, almost all of which is from the acquisition of TCA.

CONSOLIDATED STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS
(Income Statement)

(Page 2 - Appendix A)

This statement accounts for the City's operating revenues and expenditures, and includes amortization of TCA in the accounting period.

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

	\$ in millions	
	<u>2015</u>	<u>2014</u>
Revenues	407.4	366.9
Less: Expenses	<u>299.4</u>	<u>280.0</u>
Annual Surplus	108.0	86.9
Accumulated Surplus at the beginning of year	4,079.5	3,992.6
Accumulated Surplus at the end of year	<u><u>4,187.5</u></u>	<u><u>4,079.5</u></u>

The details of accumulated surplus of \$4,187.5M are outlined in the following table. At the Council meeting on March 1, 2016 Council approved a transfer of the City's 2015 net favorable variance (surplus) in the amount of \$3.3M to the Corporate Rate Stabilization Reserve.

	\$ in millions	
	<u>2015</u>	<u>2014</u>
Operating surplus: including Planning & Design, Engineering, Building Standards and excluding waterworks	3.2	(1.3)
Community Boards and BIAs	0.2	0.1
Waterworks	<u>(0.6)</u>	<u>2.0</u>
Operating Surplus Total (Page 19, Note 15)	2.8	0.8
Equity in Markham Enterprises Corporation	252.9	245.8
Invested in Tangible Capital Assets and Other	3,740.8	3,636.8
Reserves	113.3	110.0
Reserve Funds	77.7	86.1
Total Accumulated Surplus	<u><u>4,187.5</u></u>	<u><u>4,079.5</u></u>

Equity in Markham Enterprises Corporation (Page 18, Note 15 – Appendix A)

This represents the value of investment in MEC of \$252.9M as detailed in the Financial Assets section on page 3 of this report.

Invested in Tangible Capital Assets and Other (Page 18, Note 15 – Appendix A)

The investment in tangible capital assets and other totalled \$3,740.8M. This represents the value of non-financial assets such as Land, Buildings, Equipment and Infrastructure and other adjustments at the year end.

Reserves and Reserve Funds (Page 18, Note 15 – Appendix A)

The Reserves and Reserve Funds totalled \$191.0M of which \$113.3M were Reserves and \$77.7M were Reserve Funds. The Reserves and Reserve Funds are set aside by Council for specific purposes. The 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 \$191.0M (Reserves \$113.3M plus Reserve Funds \$77.7M) total Reserve and Reserve Funds are fully funded from cash and cash equivalents.

\$ in millions

A. Total Cash & Cash Equivalents:	319.2
Reserves	113.3
Reserve Funds	77.7
Deferred Reserve Funds (DCs, Parkland & Gas Tax)	76.9
B. Total Reserves & Reserve Fund & DC:	267.9
 A. - B.	51.3

Reserves

Reserves total \$113.3M, an increase of \$3.3M from 2014. The net increase was the result of the following changes to Reserves:

	\$ in millions		
	<u>2015</u>	<u>2014</u>	<u>Incr. / (Decr.)</u>
Building fee	10.7	13.1	(2.4)
Corporate rate stabilization	14.1	15.3	(1.2)
Development fee	(9.9)	(8.0)	(1.9)
Facility ramp up	12.4	10.0	2.4
Firefighters' sick leave benefits	6.4	6.5	(0.1)
Insurance	3.3	3.3	(0.0)
Long-term disability benefit	17.6	15.9	1.7
Waterworks	54.1	49.2	4.9
Other	4.6	4.7	(0.1)
	113.3	110.0	3.3

Reserve Funds

The Reserve Funds totalled \$77.7M, a decrease of \$8.4M from 2014. The net decrease was a result of the following changes to the Reserve Funds:

	\$ in millions		
	<u>2015</u>	<u>2014</u>	<u>Incr./ (Decr.)</u>
Emerald Ash Borer	(2.0)	1.2	(3.2)
Environmental land acquisition	8.8	8.4	0.4
Land acquisition	(24.7)	(24.3)	(0.4)
Library infrastructure	5.9	5.9	0.0
Life cycle replacement and capital	62.8	65.7	(2.9)
Non-DC growth	10.2	11.8	(1.6)
Post retirement benefits	13.3	12.2	1.1
Workplace Safety & Insurance Board	3.1	3.0	0.1
Other	0.3	2.2	(1.9)
	<u>77.7</u>	<u>86.1</u>	<u>(8.4)</u>

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 version from KPMG LLP.

For the past fourteen 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 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 2015 Annual Report will be submitted to the GFOA.

FINANCIAL CONSIDERATIONS

Not applicable

HUMAN RESOURCES CONSIDERATIONS

Not applicable

ALIGNMENT WITH STRATEGIC PRIORITIES:

Not applicable

BUSINESS UNITS CONSULTED AND AFFECTED:

Not applicable

RECOMMENDED BY:

12/04/2016

12/04/2016

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, 2015](#)

[Appendix B – The Corporation of the City of Markham Audit Findings Report](#)