



Report to: General Committee

Report Date: April 23, 2018

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**SUBJECT:** 2017 Consolidated Financial Statements  
**PREPARED BY:** Sandra Skelcher, Manager Financial Reporting and Payroll  
Kishor Soneji, Senior Accountant

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**RECOMMENDATION:**

- 1) THAT the report titled “2017 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) which includes 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, 2017; and,
- 3) THAT Council authorize Staff to publish the final audited Statements for the fiscal year ended December 31, 2017 upon receiving the Independent Auditors’ Report; and,
- 4) THAT the KPMG LLP Audit Findings Report for the year ended December 31, 2017 be received; and,
- 5) THAT this matter be forwarded to Council for adoption on April 24, 2018; 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 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 2017 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 2017 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 2017 Statements and to seek authority to publish the audited financial information as required by the Municipal Act (*the Act*).

**BACKGROUND: 2017 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, 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 accordance with the budget approved by Council.

The City engaged the external audit firm KPMG LLP, Chartered Accountants to audit the Statements as at December 31, 2017 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 MEC, including MEC's shares in Alectra Inc. (Alectra) of 15.73% (2016: 34.185% shares in PowerStream Holdings Inc.) 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. The outcome of the statement shows an Accumulated Surplus at year end of \$4,455.2M, an increase of \$216.0M (5.1%) over 2016.

	<u>\$ in millions</u>		
	<u>2017</u>	<u>2016</u>	<u>Incr. / (Decr.)</u>
Financial Assets	759.0	715.7	43.3
Financial Liabilities	312.2	313.2	(1.0)
<b>Net Financial Assets</b>	<b>446.8</b>	<b>402.5</b>	<b>44.3</b>
Non-Financial Assets	4,008.4	3,836.7	171.7
<b>Accumulated Surplus</b>	<b>4,455.2</b>	<b>4,239.2</b>	<b>216.0</b>

**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 \$759.0M, an increase of \$43.3M (6.0%) over 2016.

**Cash and cash equivalents** decreased by a net \$59.0M (16.3%) from 2016, noting that major outflows are reflected in the City's increased investment in tangible capital assets. The average rate of return on investments in 2017 was 2.95% (2016: 3.0%), a decrease of 5 basis points from 2016.

**Property taxes receivable** decreased by \$1.6M as a result of an increase in collection of taxes due from prior years.

**Accounts receivable** decreased by \$5.8M (9.0%) in 2017. Timing differences on receivables from other government bodies and loan repayments from associate entities account for 90% of the overall decrease.

**Investment in MEC** increased by \$108.6M (42.8%) from 2016. This increase in equity includes a one-time non-monetary transaction resulting from the formation of Alectra Inc. (Alectra).

On January 31, 2017, MEC disposed of its 34.185% ownership in PowerStream in exchange for 15.73% interest in Alectra while retaining a 34.185% interest in the Ring Fenced Solar Portfolio (a division of Alectra). MEC's de-recognition of PowerStream ownership and the initial interest in Alectra, resulted in the City's share of the overall gain on disposition of \$105.9M.

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

	<b>\$ in millions</b>		
	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>Incr. / (Decr.)</u></b>
Equity in MEC, January 1, 2017	253.5	252.9	0.6
Gain on exchange of shares of PowerStream for shares of Alectra Inc.	105.9	0.0	105.9
Equity pick-up for the year	10.9	10.4	0.5
Increase / (Decrease) in share capital	(1.5)	(2.4)	0.9
Dividend paid by MEC to City	(6.7)	(7.4)	0.7
<b>Equity in MEC, December 31, 2017</b>	<b><u>362.1</u></b>	<b><u>253.5</u></b>	<b><u>108.6</u></b>

### **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 \$312.2M at the end of 2017, a decrease of \$1.0M (-0.3%) from 2016.

**Accounts payable and accrued liabilities** increased by \$0.5M (0.4%) in 2017. Increases were noted in amounts owed to vendors due to timing of invoice payments and in amounts owed to other government bodies for shared capital project funding. These increases were partially offset by the decrease in payroll liabilities resulting from collective bargaining settlements.

**Deferred revenues** decreased by \$1.0M (-0.8%) as spending on capital projects outmatched the inflows of in 2017.

**Employee future benefits liabilities** were nominally adjusted as per actuarial valuations for the current year end.

**Long term liabilities** decreased by \$0.7M (-5.4%) in recognition of payments toward long term loans from the Federation of Canadian Municipalities (FCM) and Canada Mortgage & Housing Corp. (CMHC).

### **Non-Financial Assets**

Non-financial assets are assets with physical, rather than cash value. They include tangible capital assets (TCA) such as land & buildings, inventories of supplies such as salt and sand, as well as prepaid expenses.

Non-financial assets totalled \$4,008.4M, an increase of \$171.7M (4.5%), almost all of which is related to the addition of tangible capital assets. The major assets purchased or put into service in 2017 were land, buildings and infrastructure.

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**CONSOLIDATED STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS (Income Statement)**
**(Page 2 - Appendix A)**

This statement accounts for the City's consolidated revenues and expenses from operations, and includes other year end accounting adjustments such as the amortization of TCA in the accounting period. The major components of the statement are illustrated below.

	<u>\$ in millions</u>		
	<u>2017</u>	<u>2016</u>	<u>Incr. / (Decr.)</u>
Revenues	601.8	438.9	162.9
Less Expenses	<u>385.8</u>	<u>387.2</u>	<u>(1.4)</u>
<b>Annual Surplus</b>	<b>216.0</b>	<b>51.7</b>	<b>164.3</b>
Accumulated Surplus, Beginning of Year	<u>4,239.2</u>	<u>4,187.5</u>	<u>51.7</u>
Accumulated Surplus, End of Year	<u><b>4,455.2</b></u>	<u><b>4,239.2</b></u>	<u><b>216.0</b></u>

The **accumulated surplus** of \$4,455.2M consists of individual fund surplus' or deficits and reserves and reserve funds as outlined in the following table:

	<u>\$ in millions</u>		
	<u>2017</u>	<u>2016</u>	<u>Incr. / (Decr.)</u>
Operating fund surplus (excl. waterworks)	5.6	4.7	0.9
Community Boards and BIAs	0.3	0.3	0.0
Waterworks	<u>0.4</u>	<u>(0.8)</u>	<u>1.2</u>
<b>Operating Surplus Total</b>	<b>6.3</b>	<b>4.2</b>	<b>2.1</b>
Equity in Markham Enterprises Corporation	362.1	253.5	108.6
Invested in Tangible Capital Assets and Other	3,971.8	3,805.8	166.0
Reserves and Reserve Funds	<u>115.0</u>	<u>175.7</u>	<u>(60.7)</u>
<b>Total Accumulated Surplus</b>	<u><b>4,455.2</b></u>	<u><b>4,239.2</b></u>	<u><b>216.0</b></u>

**Operating Fund Surplus**

At the Council meeting on March 20, 2018, the year end results of operations were brought forward. Council approved the transfer to Reserves of the City's 2017 net favourable operating fund surplus in the amount of \$5.6M. Combining this with the surplus of \$0.3M for Community Boards and BIAs and the Waterworks surplus of \$0.4M, nets the Operating Surplus Total of \$6.3M.

**Equity in Markham Enterprises Corporation**

This represents the value of the investment in MEC of \$362.1M as detailed in the Financial Assets section on page 4 of this report.

**Invested in Tangible Capital Assets and Other**

The investment in tangible capital assets and other totaled \$3,971.8M. This represents the net book value of TCA such as Land, Buildings, Equipment and Infrastructure and other adjustments at the year end.

**Reserves and Reserve Funds**

The Reserves and Reserve Funds are set aside by Council for specific purposes. The inflows into these funds are from the operating budgets and the outflows are generally to fund capital and other projects as directed by Council, as well as future employee benefit needs. The Reserves and Reserve Funds totalled \$115.0M at the close of 2017, a decrease of \$60.6M from 2016.

The \$115.0M total Reserve and Reserve Funds plus the \$98.8M Deferred Reserve Funds are fully funded as illustrated by the comparison to the total cash and cash equivalents below.

	<u>\$ in millions</u>
<b>A. Total Cash &amp; Cash Equivalents</b>	<b>302.2</b>
Reserves	144.5
Reserve Funds	(29.5)
Deferred Reserve Funds (DCs, Parkland cash-in-lieu, Gas Tax & Section 37)	<u>98.8</u>
<b>B. Total Reserves, Reserve Funds &amp; Deferred Reserve Funds</b>	<b><u>213.8</u></b>
<b>A. - B.</b>	<b><u>88.4</u></b>

**Reserves** totalled \$144.5M, an increase of \$12.2M over 2016. The net increase was the result of the following changes to Reserves:

	<u>\$ in millions</u>		
<b>Reserves</b>	<u>2017</u>	<u>2016</u>	<u>Incr. / (Decr.)</u>
Building fee	10.3	11.7	(1.4)
Capital gains	4.2	3.7	0.5
Corporate rate stabilization	20.5	19.8	0.7
Development fee	(6.7)	(9.6)	2.9
Facility ramp up	12.5	15.8	(3.3)
Firefighters sick leave benefits	6.3	6.3	0.0
Insurance	3.9	3.3	0.6
Long-term disability benefit	20.3	19.2	1.1
Waterworks	71.8	60.9	10.9
Other	1.4	1.2	0.2
<b>Total Reserves</b>	<b><u>144.5</u></b>	<b><u>132.3</u></b>	<b><u>12.2</u></b>

**Reserve Funds** decreased by \$72.8M from 2016. The decrease was a result of the following changes to the Reserve Funds:

<b>Reserve Funds</b>	<b>\$ in millions</b>		
	<b>2017</b>	<b>2016</b>	<b>Incr. / (Decr.)</b>
Land acquisition	(166.7)	(68.9)	(97.8)
Workplace Safety & Insurance Board	4.1	3.4	0.7
Library infrastructure	6.1	6.0	0.1
Non-DC growth	7.1	8.7	(1.6)
Environmental land acquisition	9.5	9.1	0.4
Post retirement benefits	13.9	13.6	0.3
Life cycle replacement and capital	90.1	73.2	16.9
Other	6.4	(1.8)	8.2
<b>Total Reserve Funds</b>	<b>(29.5)</b>	<b>43.3</b>	<b>(72.8)</b>

**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 integral part of the City’s 2017 Annual Report publication.

For the past sixteen 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 Auditor’s Report, the 2017 Annual Report will again be submitted to the GFOA.

**RECOMMENDED BY:**

2018-04-17

2018-04-17

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Joel Lustig  
Treasurer  
Signed by: cxa

Trinela Cane  
Commissioner, Corporate Services  
Signed by: cxa

**ATTACHMENTS:**

[Appendix A – 2017 Consolidated Financial Statements](#)

[Appendix B – 2017 Audit Findings Report](#)