



Report to: General Committee

Report Date: April 18, 2017

SUBJECT: 2016 Consolidated Financial Statements and Reserve and Reserve Fund Analysis

PREPARED BY: Sandra Skelcher, Manager Financial Reporting and Payroll

RECOMMENDATION:

- 1) THAT the report titled “2016 Consolidated Financial Statements and Reserve & Reserve Fund Analysis” 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, 2016; and,
- 3) THAT Council authorize Staff to issue the final audited Consolidated Financial Statements for the fiscal year ended December 31, 2016 upon receiving the Independent Auditors’ Report; and,
- 4) THAT the KPMG LLP Audit Finding Report for the year ended December 31, 2016 be received; and,
- 5) THAT this matter be forwarded to Council for adoption on April 25, 2017; and,
- 6) THAT the Waste management process reserve (account 086-2700110) be closed and the balance of \$27,882.79 transferred to the Lifecycle replacement and capital reserve fund; and
- 7) THAT the Partnership reserve (account 086-2700830) be closed and the balance of \$15,612.00 transferred to the Lifecycle replacement and capital reserve fund; and
- 8) THAT the Anti-whistling reserve (account 086-2700870) be closed and the balance of \$506.17 transferred to the Lifecycle replacement and capital reserve fund; and
- 9) THAT the Road resurfacing reserve fund (account 087-2800132) be closed and the balance of \$5,734.16 transferred to the City-wide hard deferred reserve fund; and
- 10) THAT the Tree replacement reserve fund (account 087-2800150) be closed and the balance of \$6,271.00 transferred to the Trees for tomorrow reserve fund; and
- 11) THAT the Waterworks reserve fund (account 087-2800165) be closed and the balance of \$239,080.10 transferred to the Waterworks stabilization reserve; and
- 12) 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 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 2016 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 2016 Annual Report and will be distributed to Council upon completion.

PURPOSE:

The purpose of this report is to obtain Council approval of the 2016 Consolidated Financial Statements and to seek authority to publish the audited financial information as required by the *Municipal Act* (the *Act*).

In addition, Staff are recommending that six Reserve & Reserve Funds with minor balances and limited activity be closed and balances transferred to other related reserves and reserve funds.

BACKGROUND: 2016 Consolidated Financial Statements

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.

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 approved by Council.

The City engaged the external audit firm KPMG LLP, Chartered Accountants to audit the Consolidated Financial Statements as at December 31, 2016 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%.

Note: Following the amalgamation of PowerStream Holding Inc. into Alectra Utilities Inc., the City, through MEC, will own 15.7% of the amalgamated entity.

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 bottom line outcome of the statement shows an Accumulated Surplus at year end of \$4,239.2M, an increase of \$51.7M (1.2%) over 2015.

	\$ in millions		
	2016	2015	Inc. / (Decr.)
FINANCIAL ASSETS	715.6	669.3	46.3
FINANCIAL LIABILITIES	<u>313.2</u>	<u>239.2</u>	<u>74.0</u>
NET FINANCIAL ASSETS	402.4	430.1	(27.7)
NON-FINANCIAL ASSETS	3,836.8	3,757.4	79.4
ACCUMULATED SURPLUS	<u>4,239.2</u>	<u>4,187.5</u>	<u>51.7</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 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 \$715.6M. This represents an increase of \$46.3M (6.9%) over 2015.

The cash and cash equivalents increased by \$42.0M (13.2%) from 2015. While inflows from growth & development increased in 2016, outflows on capital works & vendor payments remained on par with spending in 2015. The average rate of return on cash and investments in 2016 was 3.0% (2015: 3.6%), a decrease of 60 basis points from 2015.

Property Tax receivables decreased by \$1.4M (-4.8%) from 2015. As illustrated in Note 7 of the financial statements, the decrease is most noticeable in amounts owing from prior years' levies. In 2015, amounts in arrears represented 35.5% of the total property tax receivables as compared to only 30.2% in 2016.

Accounts Receivable increased by \$5.1M (8.5%) from 2015. Interest accrued on investments (\$2.2M over 2015) & tax levies receivable from the School Boards, as a result of ARB adjustments, (\$3.0M) are the main contributors.

Investment in MEC increased by \$0.6M (0.3%) from 2015. The details of the change are as follows:

	\$ in millions		
	<u>2016</u>	<u>2015</u>	<u>Incr. / (Decr.)</u>
Equity in MEC, January 1, 2016	252.9	245.8	7.1
Equity pick-up for the year	10.4	9.8	0.6
Increase(decrease) in share capital	(2.4)	5.0	(7.4)
Dividend paid by MEC to City	(7.4)	(7.7)	0.3
Equity in MEC December 31, 2016	<u>253.5</u>	<u>252.9</u>	<u>0.6</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 \$313.2M at the end of 2016, an increase of \$74.0M (30.9%) over 2015. The major contributors to the increase are deferred revenues and accounts payable and accrued liabilities.

The accounts payable and accrued liabilities increased by \$33.5M (30.9%) over 2015. Accruals for amounts owed to vendors increased by \$28.7M due to the timing of invoice payments.

Deferred revenues, considered liabilities until the funds are spent, increased by \$39.2M (44.5%) over 2015. Funds from Developers increased by \$3.7M while Parkland cash-in-lieu increased by \$30.1M. Over half of the Parkland cash-in-lieu increase was due to the change in funding source

related to the 11093 Warden Avenue land parcel, while the remainder was from developer contributions.

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.

Non-financial assets totalled \$3,836.8M, an increase of \$79.4M (2.1%), almost all of which is related to tangible capital assets.

CONSOLIDATED STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS (Income Statement)

(Page 2 - Appendix A)

This statement accounts for the City's consolidated revenues and expenditures, and includes other accounting adjustments such as the amortization of TCA in the accounting period.

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

	\$ in millions		
	2016	2015	Inc. / (Decr.)
Revenues	355.3	407.4	(52.1)
Less Expenses	<u>303.6</u>	<u>299.4</u>	<u>4.2</u>
Annual Surplus	51.7	108.0	(56.3)
Accumulated Surplus, Beginning of Year	<u>4,187.5</u>	<u>4,079.5</u>	<u>108.0</u>
Accumulated Surplus, End of Year	<u>4,239.2</u>	<u>4,187.5</u>	<u>51.7</u>

The accumulated surplus of \$4,239.2M consists of individual fund surplus or deficit and reserves and reserve funds as outlined in the following table:

	\$ in millions		
	<u>2016</u>	<u>2015</u>	<u>Incr. / (Decr.)</u>
Operating fund surplus, excluding waterworks	4.7	3.2	1.5
Community Boards and BIAs	0.3	0.2	0.1
Waterworks	(0.8)	(0.6)	(0.2)
Operating Surplus Total	4.2	2.8	1.4
Equity in Markham Enterprises Corporation	253.5	252.9	0.6
Invested in Tangible Capital Assets and Other	3,805.8	3,740.8	65.0
	4,063.5	3,996.5	67.0
Reserves	132.3	113.3	19.0
Reserve Funds	43.4	77.7	(34.3)
Total Accumulated Surplus (Page 18, Note 15 - Appendix A)	4,239.2	4,187.5	51.7

Operating Fund Surplus

At the Council meeting on March 21, 2017, the year end results of operations were presented and Council approved the transfer to Reserves of the City's 2016 net favorable operating fund surplus in the amount of \$4.7M. Combining this with the surplus of \$0.3M for Community Boards and BIAs and the Waterworks deficit of \$0.8M, nets the Operating Surplus Total of \$4.2M.

Equity in Markham Enterprises Corporation

This represents the value of investment in MEC of \$253.5M 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 totalled \$3,805.8M. 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

The Reserves and Reserve Funds totalled \$175.6M of which \$132.3M were Reserves and \$43.3M 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 \$175.6M total Reserve and Reserve Funds plus the Deferred reserve funds are fully funded as illustrated by the comparison to the total cash and cash equivalents below.

	\$ in millions
A. Total Cash & Cash Equivalents	361.2
Reserves	132.3
Reserve Funds	43.3
Deferred Reserve Funds (DCs, Parkland & Gas Tax)	99.4
B. Total Reserves, Reserve Funds & Deferred Reserve Funds	275.1
A. - B.	86.1

Reserves

Reserves total \$132.3M, an increase of \$19.0M from 2015. The net increase was the result of the following changes to Reserves:

Reserves	\$ in millions		
	2016	2015	Incr. / (Decr.)
Building fee	11.7	10.7	1.0
Corporate rate stabilization	19.8	14.1	5.7
Development fee	(9.6)	(9.9)	0.3
Facility ramp up	15.8	12.4	3.4
Firefighters sick leave benefits	6.3	6.4	(0.1)
Insurance	3.3	3.3	0.0
Long-term disability benefit	19.2	17.6	1.6
Waterworks	60.9	54.1	6.8
Other	4.9	4.6	0.3
Total Reserves	132.3	113.3	19.0

Reserve Funds

Reserve Funds totalled \$43.3M, a decrease of \$34.4M from 2015. The net decrease was a result of the following changes to the Reserve Funds:

Reserve Funds	\$ in millions		
	2016	2015	Incr. / (Decr.)
Emerald Ash Borer	(4.1)	(2.0)	(2.1)
Environmental land acquisition	9.1	8.8	0.3
Land acquisition	(68.9)	(24.7)	(44.2)
Library infrastructure	6.0	5.9	0.1
Life cycle replacement and capital	73.2	62.8	10.4
Non-DC growth	8.7	10.2	(1.5)
Post retirement benefits	13.6	13.3	0.3
Workplace Safety & Insurance	3.4	3.1	0.3
Other	2.3	0.3	2.0
Total Reserve Funds	43.3	77.7	(34.4)

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 2016 Annual Report publication.

For the past fifteen 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 2016 Annual Report will again be submitted to the GFOA.

RESERVE & RESERVE FUND ANALYSIS

Through financial activity monitoring, Staff have identified six reserve and reserve funds that have minimal balances and/or have been inactive for several years.

Waste Management Process Reserve (account 086-2700110)

This reserve was established in 1992 as a waste management capital reserve. The last project funded from this reserve was the 3-Stream implementation in 2005. As waste related projects are now funded from the Lifecycle reserve fund, the Waste management process reserve has become redundant. Staff recommend that the Waste management process reserve be closed and the current balance of \$27.8k transferred to the Lifecycle replacement and capital reserve fund.

Partnership reserve (account 086-2700830)

This reserve was established in 2004 as a Pilot Community Partnership with Longo Bros. Fruit Market Inc. and revenues were to be re-directed to clean air initiatives. The last clean air project funding activity was in 2005. Hybrid vehicle replacements and many other 'green Markham' initiatives are generally funded from the Lifecycle reserve fund.

Staff recommend that the Partnership reserve be closed and the current balance of \$15.6k be transferred to the Lifecycle replacement and capital reserve fund.

Anti-whistling reserve (account 086-2700870)

This reserve was established in 2013 for projects related to the elimination of level rail crossings. The reserve has been almost depleted, holding a balance of only \$0.5k. Staff recommend that the Anti-whistling reserve be closed and the balance transferred to the Lifecycle replacement and capital reserve fund.

Road resurfacing reserve fund (account 087-2800132)

Funds were received from developers for uncompleted road work in industrial areas. The reserve has been almost depleted, holding a balance of only \$5.7k. Staff recommend that the Road resurfacing deferred reserve fund be closed and the balance transferred to the City-wide hard services reserve fund.

Tree replacement reserve fund (account 087-2800150)

Closing of this reserve fund was approved by Council in 2004 with a recommendation that remaining funds be transferred to Tree replacement project 6197. The project was completed under budget and remaining funds were returned to the reserve. Staff recommend that the Tree replacement reserve fund be closed and the \$6.3k balance transferred to the Trees for tomorrow reserve fund.

Waterworks reserve fund (account 087-2800165)

This reserve fund was established in 1995 as a waterworks capital reserve. The last project funded from this reserve was for infrastructure in 2008. As all waterworks related projects are now funded from the Waterworks stabilization reserve, Staff recommend that the Waterworks reserve fund be closed and the \$239.0k balance transferred to the Waterworks stabilization reserve.

RECOMMENDED BY:

10/04/2017

X

Joel Lustig
Treasurer

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Trinela Cane
Commissioner Corporate Services

ATTACHMENTS:

[Appendix A – 2016 Consolidated Financial Statements](#)

[Appendix B – 2016 Audit Findings Report](#)