



Report to: General Committee

Date Report Authored: April 27, 2015

SUBJECT: 2014 Consolidated Financial Statements
PREPARED BY: Sandra Skelcher, Acting Manager Financial Reporting and Payroll

RECOMMENDATION:

- 1) THAT the report entitled “2014 Consolidated Financial Statements” be received; and,
- 2) THAT Council approve the draft City 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, 2014; and,
- 3) THAT Council authorize Staff to issue the final audited Consolidated Financial Statements for the fiscal year ended December 31, 2014 upon receiving the Independent Auditors’ Report; and,
- 4) THAT the KPMG LLP Audit Finding Report for the year ended December 31, 2014 be received; and,
- 5) THAT this matter be forward to Council for adoption on April 28, 2015; 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 2014 financial results continue to demonstrate Markham’s strong leadership and excellence in financial planning and fiscal prudence.

The audited Consolidated Financial Statements will be included in the 2014 Annual Report which will be distributed to Council in May 2015.

PURPOSE:

The purpose of this report is to obtain Council approval of the 2014 City 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, 2014 as well as the 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 City Consolidated Financial Statements include the City's wholly owned investment in MEC including MEC's shares in PowerStream Holdings Inc. of 34.185% and in Markham District Energy Inc. (MDE) of 100%.

DISCUSSION:**CONSOLIDATED STATEMENT OF FINANCIAL POSITION****(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 available to 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 within 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 \$664.8M (2013, \$672.1M). This represents a decrease of \$7.3M (1.1%) from 2013.

The cash and cash equivalents totalled \$310.0M at the end of 2014 (2013, \$338.6M). The decrease of \$28.6M was mainly due to capital outflows for the Pan Am and South East Community Centres. The City's investments had an average rate of return of 4.10% a decrease of 25 basis points over 2013.

Taxes receivable are monies owing from property owners as at December 31st, 2014 and include the City's portion, the Regional portion and the Provincial portion for education. Taxes receivable totalled \$29.2M at the end of 2014 (2013, \$30.4M), which represents 5.0% of the total taxes levied for the year compared to 5.4% in 2013.

Accounts receivable totalled \$67.4M at the end of 2014 (2013, \$57.0M). The increase of \$10.4M (18.1%) was mainly due to receivables for the December 2013 Ice Storm and Harmonized Sales Tax (HST) from the Province.

Investment in MEC increased by \$12.5M to a total of \$245.8M. The details of this change are as follows:

	\$ in millions		
	<u>2014</u>	<u>2013</u>	<u>Incr. / (Decr.)</u>
Equity in MEC, January 1	233.3	227.7	5.6
Equity pick-up for the year	5.4	7.6	(2.2)
Increase in share capital	12.2	3.6	8.7
Dividend paid by MEC to City	(5.2)	(5.6)	0.4
Equity in MEC, December 31	<u>245.8</u>	<u>233.3</u>	<u>12.5</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 \$233.6M (2013, \$238.3M), a decrease of \$4.7M (2.0%) when compared to 2013. The decrease was mainly related to a reduction in deferred revenues and partially offset by an increase in accounts payable and accrued liabilities.

The accounts payable and accrued liabilities were \$95.3M (2013, 82.3M), representing a \$13.0M increase (15.8%). This change was due to an increase in amounts payable to vendors for operational or 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 \$94.4M (2013, \$117.3M), a decrease of \$22.9M (19.5%). The decrease was due to construction payments for capital assets funded through development charges.

Employee future benefits include liabilities set aside based on an actuarial valuation for vested sick leave benefits for fire-fighters, 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. These liabilities totalled \$29.7M (2013, \$28.0M), a \$1.7M increase from 2013.

Long-term liabilities totalled \$14.2M (2013, \$10.7M), an increase of \$3.5M from 2013 due to a low-interest loan received from the Federation of Canadian Municipalities (FCM).

Non-Financial Assets

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

Non-financial assets totalled \$3,648.3M (2013, \$3,558.8M), an increase of \$89.5M. The change was mainly due to the acquisition of TCA.

CONSOLIDATED STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS

(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>2014</u>	<u>2013</u>
Revenues	366.9	379.4
Less: Expenses	<u>(280.0)</u>	<u>(263.8)</u>
Annual Surplus	86.9	115.6
Accumulated Surplus at the beginning of year	<u>3,992.6</u>	<u>3,877.0</u>
Accumulated Surplus at the end of year	<u>4,079.5</u>	<u>3,992.6</u>

The details of the accumulated surplus of \$4,079.5M are outlined in the table below. At the Council meeting on March 10, 2015 Council approved funding of the City's 2014 net unfavourable variance of (\$1.3M) from the Corporate Rate Stabilization Reserve.

	\$ in millions	
	<u>2014</u>	<u>2013</u>
Operating deficit including Planning & Design, Engineering, Building Standards and excluding Waterworks	(1.3)	(3.2)
Community Boards and BIAs	<u>0.1</u>	<u>0.2</u>
Operating surplus excluding Waterworks	(1.2)	(3.0)
Waterworks	<u>2.0</u>	<u>(1.5)</u>
Operating surplus including Waterworks (Page 18, Note 15)	0.8	(4.5)
Equity in Markham Enterprises Corporation (Page 18, Note 15)	245.8	233.3
Invested in Tangible Capital Assets and Other (Page 18, Note 15)	3,636.8	3,525.6
Reserves (Page 18, Note 15)	110.0	109.3
Reserve Funds (Page 18, Note 15)	<u>86.1</u>	<u>128.8</u>
Total	<u>4,079.5</u>	<u>3,992.6</u>

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

This represents the value of investment in MEC of \$245.8M 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 \$3,636.8M. This represents the value of non-financial assets such as land, buildings, equipment, infrastructure and other adjustments at the year end.

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

The Reserves and Reserve Funds totalled \$196.1M of which \$110.0M were Reserves and \$86.1M 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.

Reserves

Reserves totalled \$110.0M, an increase of \$0.7M from 2013. The net increase was the result of the following changes to Reserves:

	\$ in millions		
	<u>2014</u>	<u>2013</u>	<u>Incr. / (Decr.)</u>
Building fee	13.1	14.0	(0.9)
Corporate rate stabilization	15.3	18.0	(2.7)
Development fee	(8.0)	(3.5)	(4.5)
Facility Ramp-up	10.0	9.4	0.6
Firefighters sick leave benefits	6.5	6.4	0.1
Insurance	3.3	3.1	0.2
Long term disability benefits	15.9	14.5	1.4
Waterworks	49.2	42.2	7.0
Other	4.7	5.2	(0.5)
	<u>110.0</u>	<u>109.3</u>	<u>0.7</u>

Reserve Funds

The Reserve Funds totalled \$86.1M, a decrease of \$42.7M from 2013. The net decrease was a result of the following changes to the Reserve Funds:

	\$ in millions		
	<u>2014</u>	<u>2013</u>	<u>Incr. / (Decr.)</u>
Emerald Ash Borer	1.2	0.6	0.6
Environmental land acquisition	8.4	8.0	0.4
Land acquisition	(24.3)	4.2	(28.5)
Library infrastructure	5.9	5.8	0.1
Life cycle replacement and capital	65.7	80.0	(14.3)
Non-DC growth	11.8	14.4	(2.6)
Post retirement benefits	12.2	11.2	1.0
Work Place Safety & Insurance Board	3.0	2.8	0.2
Other	2.2	1.6	0.6
	<u>86.1</u>	<u>128.6</u>	<u>(42.7)</u>

The Land Acquisition Reserve Fund decreased by \$28.5M mainly due to changes in the funding sources of land parcels purchased in previous years.

Over the past 10 years, there were several land purchases for future municipal uses that have yet to be determined. As well, there were purchases where land was acquired for a specific purpose, but original plans have been changed. Various funding sources, including the Development Charges Reserve and the City's general investment portfolio balance, were used in the past for land acquisitions. If the ultimate use of the land was uncertain, the funding source was changed to the Land Acquisition Reserve. These funding changes resulted in the Land Acquisition Reserve having a negative balance. However, it is anticipated that the Reserve will be made whole once the properties are sold, or used for a defined municipal purpose, as the funds will be transferred back to the Reserve.

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 thirteen 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 2014 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:

17/04/2015

17/04/2015

X 

Joel Lustig
Treasurer

X 

Trinela Cane
Commissioner, Corporate Services

ATTACHMENTS:

[Appendix A – Draft Consolidated Financial Statements of The Corporation of the City of Markham, December 31, 2014](#)

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