



The Corporation of the Town of Markham

Audit Findings Report to the Audit Committee

For the year ending December 31, 2007

AUDIT

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This Audit Findings Report (the "Report") for the year ended December 31, 2007 provides an overview of the results of our audit.

This Report is confidential and intended solely for the use of the Audit Committee in carrying out and discharging its responsibilities, and should not be used for any other purposes. No responsibility for loss or damages, if any, to any third party is accepted as this Report has not been prepared for, and is not intended for, any other purposes.

This Report is a by-product of the audit and is therefore a derivative communication and should not be distributed to others outside the Town without our prior written consent.

KPMG LLP, Chartered Accountants , Licensed Public Accountants

Topics for discussion

Auditors initiating discussion with the Audit Committee

We have issued this Report to assist you in your review of the Town's financial statements.

The matters that we raise within this Report arise from the audit and are matters that we believe need to be brought to your attention.

We propose to highlight the following topics at the upcoming Audit Committee meeting. We welcome your questions and look forward to discussing our findings with you at this meeting.

<u>Topic</u>	<u>Audit Committee action</u>
Audit Committee input (page 2)	Raise potential concerns, questions and requests
Audit status (page 3)	Review and discuss
Significant matters (page 4) <ul style="list-style-type: none">■ Severance accrual■ Deferred revenue■ Tangible capital assets■ Investment in MEC	Review and discuss
Misstatements (page 7)	Review and discuss
Designated public documents (page 9)	Review and discuss

Topics for discussion (continued)

Risk Identification & Management Committee input/matters to be raised with the auditors

This Report may not include all matters of interest to you. Please let us know of other areas you would like to discuss with us.

- Audit Committee members should use this section to note any areas of potential concern that should be raised and discussed at the audit findings meeting.

Audit status

Audit Status: Complete

- We have completed our audit of the Town of Markham's financial statements in accordance with professional standards.
- We expect to be in a position to release our audit report dated April 18, 2008, subject to:
 - receipt of the representation letter
 - completing our discussions with the Audit Committee
 - obtaining the Council's approval of the financial statements.

Significant matters

Severance Accrual

- During the year, an employee was terminated with a salary continuance until April 2009. The total continuance is \$208,000 however the Town only accrued \$104,000. Under EIC 134 all severance payments must be accrued when the decision to terminate is made and communicated to the individual.

Effects on the audit

- Under EIC 134 all severance accruals should be recorded once the decision to terminate is formalized and it is communicated to the effected individual. Therefore, since both conditions have been met, KPMG has proposed an adjusting entry to record to complete severance obligation. This entry was agreed to by Town management and has been recorded within the financial statements.

Deferred revenue

- During the review of deferred revenue, KPMG noted a number of deferred revenue accounts which were overstated as funds had not been collected. The overstated accounts include interest on water systems, program and facility bookings and water meter, recycling boxes and other charges to developers.
- Interest on Water Systems: In 2007, the Town installed water systems for new subdivisions whereby the costs would be recovered from homeowners. These costs can be paid in full or be paid over 10 years with interest. The recoveries have been recorded properly however the interest (totalling \$1,721,167) has been recorded as deferred revenue and accounts receivable. However since the interest is not receivable until the year is past, no deferred revenue should be recorded until funds are received.
- Program and Facility Bookings: Consistent with prior years, the CLASS system records deferred revenue and accounts receivable when a participant registers for a program. When the funds are received the A/R is reversed. When the program is initiated the revenue is recorded. However at any given point in time, there are participants who have not paid but whose program has not run either. These balances are included in deferred revenue and A/R and at year end total \$657,136. Again, deferred revenue should not be recorded until funds are received.
- Water Meter, Recycling Boxes and Other Charges to Developers: Developers sign an agreement for water meters, blue boxes and other charges that are provided by the Town. These are recorded as deferred revenue, regardless of whether or not the funds have been received. At year end, \$532,366 was deferred but was not supported by cash receipts.

Effect on the Audit

- KPMG has reviewed the deferred revenue accounts and validated on a sample basis, which balances are supported by cash receipts the remaining items were removed from deferred revenue according to an entry proposed by KPMG and booked by management. See summary of adjustments.

Tangible Capital Assets, CICA PS 3150, PSG 7

Significant matters (continued)

- Canadian municipalities will be required to present information about the entire stock of their tangible capital assets and amortization in the financial statements to demonstrate stewardship and the cost of using those assets to deliver programs and provide services.
- This section applies to municipalities for fiscal years beginning on or after January 1, 2009. Earlier adoption is encouraged.

Transitional provisions

- Public Sector Accounting Guideline 7 - Tangible Capital Assets of Local Governments provides that local governments should commence disclosing information about their tangible capital assets in their December 31, 2007 financial statements.

Actions taken by Management

- In 2007, the Town of Markham has worked towards compliance with the reporting requirements and has added a new note to their financial statements (note 19) to incorporate the requirements of PSG 7. As at December 31, 2007, the municipality obtained a complete listing of all Land, Building, Vehicle and Furniture inventories with valuation of these assets in progress. Work has also begun on establishing policies relating to Tangible Capital Asset reporting, including asset classifications, useful life and depreciation methods.

Investment in Markham Enterprises Corporation

- The Town wholly owns Markham Enterprises Corporation which in turn owns 100% of Markham District Energy and 43% of Powerstream.

Actions taken by Management

- The investment in Markham Enterprises Corporation ("MEC") is accounted for on a modified equity basis. Under the modified equity basis, the business enterprise's accounting principles are not adjusted to conform with those of the Town and inter-organizational transactions and balances are not eliminated.
- The Town's share of net income of MEC at December 31, 2007 is \$11,833,000 and has been recorded in the Consolidated Statement of Financial Activities.

Effects on the audit

- KPMG is in agreement with the accounting treatment adopted by the Town as at December 31, 2007.

Misstatements

Misstatements

- Management is responsible for the financial statements and, accordingly, evaluates uncorrected misstatements to determine whether individually, and in the aggregate, these misstatements, in their judgement, are material to the financial statements.
- Misstatements identified during the audit ("audit differences") are outlined in the following pages. These have been separated between corrected and uncorrected audit differences.

Audit Differences

- Misstatements identified during the audit ("audit differences") are defined in Appendix 3. There are no unadjusted audit differences and the corrected audit differences have been summarized on the next page.

Control deficiencies implications

- We have considered whether, for each corrected audit difference, the audit difference was the result of a control deficiency.
- We have not identified any control deficiencies.

Discussion with the Audit Committee

- Correction of all audit differences

Misstatements (continued)

Summary of corrected audit differences

Description	Balance sheet effect of correction ¹			Income statement effect of correction ¹
	Assets \$'000	Liabilities \$'000	Equity \$'000	
To bring refundable deposits for landscaping etc into reserves		149		(149)
To reclassify PILs in a credit position to A/P	246	(246)		
To accrue invoice related to 2007		(62)		62
To reclassify funds from accruals to payable to other government		870 (870)		
To accrue full salary continuance.		(104)		104
To reduce deferred revenue for funds not received before year end. (re water systems)	(1,721)	1,721		
To increase accounts receivable for funds recoverable from developers	113			(113)
To reduce deferred revenue from CLASS system for programs which have not began and for which cash has not been received.	(657)	657		
To reduce deferred revenue from developers for cash not received	(532)	532		

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Other matters

Designated public documents

As at the date of this Report, we have completed all the procedures required by professional standards and there are no unresolved matters to report.

Definition

Designated public documents include:

- glossy annual report
- other public documents when auditors have been engaged to read or perform services with respect to that document

Professional standards

Professional standards require auditors to:

- determine whether the financial statements and the audit report have been accurately reproduced, including comparing the financial statements and the audit report ultimately posted on The Town of Markham's Web site to the original
- read the designated public document and assess whether any of the information appears to be inconsistent with the financial statements or the auditor's knowledge obtained in the course of the audit
- discuss with Management any information that appears to be inconsistent or a material misstatement of fact or a misrepresentation that auditors may become aware of upon reading the designated public document
- report any unresolved matters to the Audit Committee.

Professional standards do not require auditors to perform any other procedures.

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Appendices

Appendix 1 – Independence letter

The Corporation of the Town of Markham
101 Town Centre Boulevard
Markham, ON, L3R 9W3

April 18, 2008

Dear Members of the Audit Committee:

We have been engaged to express an opinion on the financial statements of The Corporation of the Town of Markham (the “Town”) as at and for the year ended December 31, 2007.

Professional standards require that we communicate at least annually with you regarding all relationships between the Town (and its related entities²) and us that, in our professional judgment, may reasonably be thought to bear on our independence.

In determining which relationships to report, these standards require us to consider relevant rules and related interpretations prescribed by the Institute of Chartered Accountants of Ontario and applicable legislation, covering such matters as:

- a) provision of services in addition to the audit engagement
- b) other relationships such as:
 - holding a financial interest, either directly or indirectly, in a client
 - holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client
 - personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client
 - economic dependence on a client.

We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since February 16, 2007, the date of our last letter.

² A related entity is defined as:

- (a) in the case of a client that is a reporting issuer, an entity that has control over a client, or over which the client has control, or that is under common control with a client, including the client's parent company and any subsidiaries
- (b) in the case of a client that is not a reporting issuer, an entity over which the client has control, or that has control over the client provided the client is material to such entity, and an entity that is under common control with the client provided such entity and the client are both material to the controlling entity
- (c) an entity over which a client has significant influence, unless the Town is not material to the client; and
- (d) an entity that has significant influence over a client, unless the client is not material to the Town

PROVISION OF SERVICES

The following summarizes the professional services rendered by us to the Town (and its related entities) for the year ended December 31, 2007.

Description of Service
Audit
Audit of the financial statements of the Corporation of the Town of Markham for the year ended December 31, 2007
Audit of the financial statements of the local boards of the Corporation of the Town of Markham for the year ended December 31, 2007 including:
Unionville Business Improvement Area
Markham Village Business Improvement Area
Markham Public Library Board
National Centre for Medical Device Development
Innovation Synergy Centre in Markham
Trust Funds
Markham District Energy
Markham Enterprises Corporation
Varley-McKay Art Foundation of Markham
Audit of the financial statement related to gas tax revenue and expenditure for the year ended December 31, 2007.
Audit of the financial statement related to Markham Theatre Audio Console Replacement Capital Project for the period ended March 31, 2008.
Assistance related to the implementation of PS 3150 Tangible Capital Assets

OTHER RELATIONSHIPS

We are not aware of any relationships between the Town (and its related entities) and us that, in our professional judgment, may reasonably be thought to bear on our independence that have occurred from January 1, 2007 to April 18, 2008.

CONFIRMATION OF INDEPENDENCE

Professional standards require that we confirm our independence to you in the context of the Rules of Professional Conduct/Code of Ethics of the Institute of Chartered Accountants of Ontario.

Accordingly, we hereby confirm that we are independent with respect to the Town (and its related entities) within the meaning of the Rules of Professional Conduct/Code of Ethics of the Institute of Chartered Accountants of Ontario as of April 18, 2008.

OTHER MATTERS

This letter is confidential and intended solely for use by those with oversight responsibility for the financial reporting process in carrying out and discharging its responsibilities and should not be used for any other purposes. No responsibility for loss or damages, if any, to any third party is accepted as this letter has not been prepared for, and is not intended for, any other purpose. This letter should not be distributed to others outside the Town without our prior written consent.

We look forward to discussing with you the matters addressed in this letter as well as other matters that may be of interest to you. We will be prepared to answer any questions you may have regarding our independence as well as other matters.

Yours very truly,

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, slightly slanted style. Below the signature is a single horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Accountants, Licensed Public Accountants

Appendix 2 – Management Letter



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PRIVATE & CONFIDENTIAL

The Corporation of the Town of Markham
101 Town Centre Boulevard
Markham, ON, L3R 9W3

April 18, 2008

Dear Mr. John Livey:

We have audited the financial statements of The Corporation of the Town of Markham (the "Town"), as of and for the year ended December 31, 2007, and have issued our audit report thereon dated April 18, 2008. In planning and performing our audit of the Town's financial statements, we considered the Town's internal control over financial reporting in order to determine the nature, extent and timing of our auditing procedures for the purpose of expressing our opinion on the financial statements. A financial statement audit does not include examining the effectiveness of internal control and does not provide assurance on internal control.

The maintenance of adequate controls designed to fulfill control objectives is the responsibility of management. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, controls found to be functioning at a point in time, may later be found deficient because of the performance of those responsible for applying them, and there can be no assurance that controls currently in existence will prove to be adequate in the future as changes take place in the organization.

Our consideration of internal control over financial reporting in our audit of the financial statements would not necessarily disclose all internal control matters that might be significant weaknesses under assurance standards established by the Canadian Institute of Chartered Accountants. A weakness in internal control is a deficiency in the design or effective operation of internal control. A weakness in internal control is significant if the deficiency is such that a material misstatement is not likely to be prevented or detected in the financial statements being audited. During our audit of the financial statements upon which we reported on April 18, 2008, no matters came to our attention

involving the design or operating effectiveness of internal control over financial reporting that we consider to be significant weaknesses in internal control as defined above. We have not considered internal control over financial reporting since the date of our audit report.

This letter is a by-product of the financial statement audit and is therefore a derivative communication. This letter has been prepared solely for the use of management in discharging their responsibilities with respect to the financial statements and is not intended for any other purposes.

This letter should not be distributed to others outside the Town without our prior written consent. We disclaim any liability to any third party who may rely upon this letter.

Very truly yours,

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, stylized font. Below the signature is a single horizontal line that starts under the "K" and ends under the "P", extending across the width of the signature.

Chartered Accountants, Licensed Public Accountants

cc. Audit Committee

Deferred revenues:

Observation:

As noted earlier in the findings report, there are a number of deferred revenue balances at year end which are not supported by cash received, due to the manner in which the system tracks revenues. By including items which are not received as deferred revenue, the Town is inflating both accounts receivable and deferred revenue.

Recommendation:

KPMG recommends that the Town should implement a policy whereby at year end, all deferred revenue accounts are reviewed to ensure that the balances represent valid cash receipts for future events.

Management response:

Noted. Town will review all year end deferred revenue accounts to ensure that the balances represent valid cash receipts.

Appendix 3 – KPMG's Audit Committee resources

IFRS Related

- Managing the Transition to IFRS: Special Considerations for SEC registrants, KPMG (09/2007)
- The Transition to IFRS: Implications for the Audit Committee, Audit Institute (05/2007)
- Managing the Transition to IFRS: The Journey to 2011, KPMG (05/2007)
- KPMG IFRS Web site – www.kpmg.ca/ifrs

Internal Control

- Certification of Internal Control: Revised Certification Rules, KPMG (06/2007)
- Certification of Internal Control: Evaluating Design, KPMG (08/2006)

General

- Audit Committee Update, Issue 2007-02, Audit Committee Institute
- Shaping the Canadian Audit Committee Agenda (2006 edition), Audit Committee Institute
- Canadian Audit Committee Members – 2005-06, Audit Committee Institute (12/2006)
- Our System of Audit Quality Controls, KPMG (2006)
- Accountability e-Lert – periodic electronic newsletter. Subscribe at www.kpmg.ca/accountability
- Governance of Tax – Discussion paper, KPMG (2007)
- Focus on Financial Reporting, KPMG (12/2007)
- Audit Committee Institute – Risk Identification & Management Committee Roundtables held each spring and fall
- Audit Committee Institute Web site – www.kpmg.ca/auditcommittee

Appendix 4 – Glossary

Audit differences are proposed adjustments of misstatements in the financial statements that, in the auditor's professional judgement, may have not been detected except through the audit procedures performed. Any misstatement identified by Management during the audit and subsequently corrected is not considered an audit difference.

Income Statement Method (Rollover Method) is a method of quantifying misstatements. This method considers the impact of misstatements primarily from the income statement perspective. Misstatements are quantified as the amount by which the income statement is misstated. This method considers the reversing or correcting effect of prior year misstatements but ignores the accumulation of immaterial misstatements in the balance sheet over multiple periods.

Material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual financial statements will not be prevented or detected.

Misstatements generally consist of differences between the amount, classification, or presentation of a reported financial statement element, account, or item and the amount, classification, or presentation that would have been reported under the financial reporting framework.