



Report to: General Committee

Date of Meeting: April 24, 2006

SUBJECT: Draft 2005 Financial Statements
PREPARED BY: Raj Raman ext.2013

RECOMMENDATION:

That the report "Draft 2005 Consolidated Financial Statements be received;

And That Council approve the Corporation of the Town of Markham's Draft Consolidated Financial Statements for the fiscal year ended December 31, 2005;

And That Council authorize Staff to issue the Consolidated Financial Statements for the fiscal year ended December 31, 2005 upon finalization of all consolidated amounts;

And That two new reserves, the "Election Expenses Reserve" and the "Election Rebate Reserve", be established;

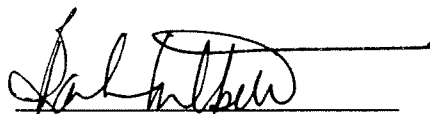
And That Council authorize the transfer of \$484,100 from the 2005 Surplus to the Election Expenses Reserve to fund election expenses;

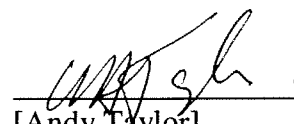
And That Council authorize the transfer of \$150,000 from the 2005 Surplus to the Election Rebate Reserve to fund future election rebate expenses;

And That the funds required to offset the 2006 election expenses be transferred from the Election Expenses Reserve to the Operating Fund;

And That annual transfers to, or draws from the Election Expense Reserve and the Election Rebate Reserve be considered during annual budget deliberations.

**RECOMMENDED
BY:**


[Barb Cribbett]
Treasurer


[Andy Taylor]
Commissioner, Corporate Services]

EXECUTIVE SUMMARY:

The Town of Markham's external auditors, KPMG, have completed their examination of the consolidated financial statements of the Town for the year ending December 31, 2005 and staff have prepared draft statements for Council's consideration.

The statements were prepared in accordance with "Generally Accepted Accounting Principles", the audit was performed in accordance with "Generally Accepted Auditing Standards", and KPMG has expressed an unqualified or "clean" opinion that these statements present fairly the financial position of the Town. These statements indicate how the Town financed its activities and met its cash requirements. Additionally, the statements confirm that the resources were obtained and used in accordance with the operating and capital budgets as approved by Council.

At the time of this report, audited consolidated financial statements for Markham Enterprises Corporation (MEC), previously known as Markham Energy Corporation is not complete. MEC's shareholdings in Powerstream Inc. and Markham District Energy Inc. will be consolidated into the MEC statements. MEC financial information at the end of 2004 is temporarily reflected in the draft 2005 Financial Statements. Upon receipt of MEC's audited financial statements, Staff will publish the Town's statements along with the 2005 Annual Report. Copies of the Report will be distributed to Council when available.

As in previous years, the 2005 statements were prepared in accordance with Public Sector Accounting Board (PSAB) guidelines. PSAB issues recommendations and reporting requirements that serve in the public's interest by strengthening accountability in the public sector by developing, recommending and gaining acceptance of accounting and financial reporting standards.

Under PSAB, municipal reporting requirements should include as a minimum:

- Consolidated Statement of Financial Position
- Consolidated Statement of Financial Activities
- Consolidated Statement of Changes in Financial Position

Additionally, the Town's financial package includes the following:

- Schedule of Operating Fund Activities
- Schedule of Capital Fund Operations
- Schedule of Reserves and Reserve Funds

Comments and a brief explanation for each of the main financial statements are outlined under the Options/Discussion section of this report.

Staff and the Town's auditor KPMG are also recommending the creation of two new reserves, the "Election Expenses" reserve and the "Election Rebate" reserve to improve our compliance with Generally Accepted Accounting Practices.

In conclusion, the financial statements for the year ending December 31, 2005 indicate that the Town of Markham is a well-managed organization and is fiscally responsible to the citizens of Markham.

FINANCIAL CONSIDERATIONS:

The Town's different financial activities are classified into three funds, Operating, Capital and Reserve/ Reserve Funds plus the Town's equity in Markham Enterprises Corporation. Each year, the net result of each of these funds appears under the Municipal Position section of the Consolidated Statement of Financial Position. The comparative balances for 2005 and 2004 are as follows:

(All dollar amounts are in \$000)	2005	2004
Operating Fund	\$3,856	\$13,549
Capital Fund	23,198	24,254
Reserves and Reserve Funds	97,225	90,514
Equity in Markham Enterprises Corporation	<u>162,279</u>	<u>162,279</u>
Total Fund Balances	286,558	290,596

The **Operating Fund Balance**, which is tax and water rate funding, reflects the net result of operating revenues and expenditures. The 2005 Operating Fund Balance is made up of the following:

(All dollar amounts are in \$000)	2005
*General Operating Fund Surplus (tax funded)	\$940
*Transfer for Elections Expenses and Election Rebate	634
Waterworks Fund	2,083
Library Fund	14
Unionville BIA Deficit	(5)
Markham BIA Surplus	12
Community Boards	178
Total Operating Fund Balance	\$3,856

***ITEMS FOR DISCUSSION:**

- General Operating Fund Surplus and Reserve Study Recommendations**

The Town's Reserve Study recommendations, approved by Council on March 8, 2005, state:

"That future year end operating surpluses, if any, be used first to top-up the Corporate Rate Stabilization Reserve to a level equivalent to 15% of local tax revenues..."

The top up required for 2006 is \$1.107M which is in excess of the actual net surplus of \$940K. The shortfall of \$167K will be considered during the 2007 budget and /or 2006 year end results discussions.

- **Transfer for Elections Expenses and Election Rebate**

Finance Staff and the Town's auditor, KPMG, recommend that the funds totaling \$634K (\$484k towards election expenses and \$150K towards the election rebate program) set aside during 2004 and 2005 to pay for election expenses and election rebates (which occur every third year) be transferred from deferred expense accounts into specific reserves in 2006. Further staff recommend that the 2006 Budgeted expenses of \$370K (300K for election expenses and \$70K for election rebate program) also be transferred to the respective reserves. The accumulated balance after the above transfers will be utilized to cover costs of the 2006 Municipal Election and the resulting Election rebates program.

The **Capital and Reserve Funds** reflect the net effect of financial activities during 2005.

The **Equity in Markham Enterprises Corporation** has not been finalized for 2005, and is therefore reflected at 2004 values.

PURPOSE:

To obtain Council's approval of the Town of Markham's December 31, 2005 draft Consolidated Financial Statements, and to seek authorization from Council to publish the Town's financial information as required by the Municipal Act upon finalization of all consolidated amounts.

To further obtain Council's approval to establish two new reserves, the "Election Expenses Reserve" and the "Election Rebate Reserve and for the transfer from the 2005 surplus of \$484K to the Election Expense Reserve and \$150K to the Election Rebate expenses Reserve account.

BACKGROUND:

The Town of Markham's external auditors, KPMG, have completed their examination of the consolidated financial statements of the Town for the year ending December 31, 2005 and staff have prepared draft statements for Council's consideration.

OPTIONS/ DISCUSSION:

Consolidated Statement of Financial Position

This statement describes the financial position of the Corporation in terms of assets and liabilities. This allows the reader to determine whether the financial position has improved or deteriorated.

PSAB requires that assets be classified as either "financial" or "non-financial". As at December 31, 2005, the Town only had financial assets. These assets could be used to discharge existing liabilities or finance future operations. Non-financial assets are acquired, constructed or developed assets that are not used to discharge existing liabilities but are normally employed to deliver government services and are not for sale during the

normal course of operations. PSAB has currently released an exposure draft that will require municipalities to capitalize all future tangible capital assets and to value and record all previous acquisitions. It is expected that the process will become effective in the year 2009-2010.

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. The Corporation's liabilities are estimated as accurately as possible in order that the readers of the statements are provided with a complete picture of the organization's financial position.

Another PSAB presentation requirement is the handling of the Development Charge Reserve Fund which is now reflected as "Deferred Revenue". Accordingly, Development Charge funds that were transferred to fund capital projects and were not expended have been reclassified as Deferred Revenue for statement purposes.

The municipal position represents funding that is available to assist in offsetting future revenue requirements and amounts that have been set aside to finance future expenditures. Municipalities account for and report on a "fund" basis. Traditionally these funds are comprised of operating, capital, reserves, and reserve funds. The Town's net equity in Markham Enterprises Corporation will also be included within this section of the statement.

Markham's municipal fund balance for 2005 is \$283.6 million as compared to \$287.7 million for 2004. This is a result of a decrease of \$9.7 million in Operating Funds, a decrease of \$1.0 million in Capital Funds, and an increase of \$6.7 million in Reserves and Reserve Funds. The decrease in Operating funds is primarily due to the inclusion in the 2004 surplus of a one time transfer of \$8.8 million of deferred revenue that was transferred to Reserves in 2005. The decrease in Capital Fund is due to increased capital expenditure during the year. MEC Equity is temporarily included in the 2005 totals at 2004 values, as the PowerStream Inc. 2005 statements had not been finalized at the time this report was written.

Consolidated Statement of Financial Activities

This statement should account for the difference between a local government's revenue and expenditures, adjusted for any changes in valuation allowances, in the accounting period. This statement also accounts for the combined change in the balances of a local government's funds. Reporting information about the changes in its fund balance helps users to assess the local government's short-term revenue requirements, and its ability to finance its operations and meet its current obligations.

Consolidated Statement of Changes in Financial Position

This statement presents changes in cash and cash equivalents by highlighting the sources and uses of cash. The statement indicates how the Town's activities were financed and how cash requirements were met.

The Consolidated Schedule of *Operating Fund Activities* (Schedule 1) identifies the 2005 year end surplus to be transferred in accordance with recommendations from the recently adopted Reserve and Reserve Fund Study. Additionally, this statement enables the Town's citizens to access the actual operating results against the budgets that Council approved. The surplus of \$ 3.9 million is comprised as follows (all dollar amounts are in \$000's):

Town of Markham (Operating) – surplus (incl. \$634k of accruals reversed towards election related costs)	\$1,574
Town of Markham (Waterworks)	2,083
Sub-Total	\$3,657
Library Board	14
Old Markham BIA	12
Unionville BIA	(5)
Community Boards	178
Total	\$3,856

The Consolidated Schedule of *Capital Fund Activities* (Schedule 2) informs the reader whether permanent financing has been secured for the organization's capital expenditures or whether the financing has been secured but not spent. The Town's balance of \$23.2 million represents a net position indicating capital financing has been secured, but not spent (capital projects have been funded but have not been completed).

The Consolidated Schedule of *Reserves and Reserve Funds Activities* (Schedule 3) represent funds that have been set aside by Council to offset future expenditures in either the operating or capital funds. At December 31, 2005 the Town had Reserves totalling \$28.6 million and Reserve Funds of \$68.6 million, an overall increase of \$6.7 million over 2004. Note 14 (C) provides a listing of the Town's reserves and reserve funds.

Communication

The Municipal Act 2001, Section 295 (1) 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 year as contained in the financial review or

ii) a notice that the information contained in (i) above will be made available at no cost to any tax payer or resident of the municipality upon request; and

b) may provide the information described in sub clause (a)(i) or (ii) to such persons and in such other manner as the treasurer considers appropriate.

Publication of the Town's statements will occur after receipt of the Town's audited financial statements.

Audit Recommendations*Election Expenses Reserve*

Historically, the Town through its annual budgeting process set aside operating funds into a deferred expense account that accumulated for three years, and then was used to offset increased expenses in the year that the Town conducted the municipal elections. The expenses included staffing, renting of polling facilities, printing costs of ballots/envelopes, IT costs for programming and internet support and other associated costs. The Town has set aside \$484K in a deferred revenue account since 2004. (\$150K in the year 2004, \$ 334K in the year 2005). Further, the Town has also included in its 2006 Operating Budget \$300K towards the election expenses making a total of \$784K available aside to fund the 2006 Municipal Election expenses.

During the 2005 audit, the Town's auditor KPMG and Town staff agreed that the proper accounting for setting funds aside to accumulate for higher-than-normal expenditures every 3rd year should be through the use of a reserve, rather than a deferred expense account (which does not meet the matching of revenues and expenses test). Therefore staff recommend that a new reserve, the "Election Expense Reserve" be approved, and the funds in the deferred expense account be transferred into the new reserve.

Election Rebate Reserve

The Town has set aside \$150K in the year 2005 towards the expenses to offset the Election Rebate Program that was approved by Council on October 11, 2005. The Town has also included in the 2006 Operating Budget \$70K towards the Election Rebate program thereby resulting in a total of \$220K set aside to offset expenditures relating to

the program for the 2006 Municipal Election. The approach discussed under the Election Expense Reserve is also recommended for the Election Rebates. A reserve should be set up, and the Election Rebate funds currently in the deferred expense account transferred into the new reserve.

These two transfers will be included in the Town's final surplus of \$1.6 million, but will be transferred into the new designated reserves in 2006, following Council's approval.

Maintaining the Election Expense and Election Rebate Reserves

The Reserves will be funded each year through the Operating Budget and the accumulated funds in the Reserves will be utilized to offset the Election expenses and the Election Rebate program during the year of the election. A transfer from the Election Expenses Reserve will be required for 2006 to offset the projected increased costs for the 2006 Election.

FINANCIAL TEMPLATE (Separate Attachment):

Not applicable

ENVIRONMENTAL CONSIDERATIONS:

Not applicable

ACCESSIBILITY CONSIDERATIONS:

Not applicable

ENGAGE 21ST CONSIDERATIONS:

Not applicable

BUSINESS UNITS CONSULTED AND AFFECTED:

[Insert text here]

ATTACHMENTS:

Appendix "A" Corporation of the Town of Markham's Draft Consolidated Financial Statements, year ended December 31, 2005