2013 Consolidated Financial Statements

April 28, 2014

Presentation to General Committee

Markham Pan Am Centre

MARKHAM

Agenda

1. Background
2. Audit Findings
3. Reporting of Land Transfers
4. Land Transfer Reporting Process
5. 2013 Consolidated Financial Statements
6. Presentation by KPMG LLP – Audit Findings Report
7. Next Steps

1. Background

- The *Municipal Act* requires:
  - the Treasurer to report the financial affairs of the municipality to Council
  - Municipalities to prepare financial statements annually
  - Municipalities to have the financial statements audited by a licensed auditor
- Consolidated financial statements include the Business Improvement Areas (BIAs), Community Boards and Investment in Markham Enterprises Corporation.

1. Background

- Section PS1200 requires governments to report on an annual basis and include the following:
  - 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

2. Audit Findings

- KPMG LLP has completed the field audit of the City and its associate corporations’ financial records.
- KPMG LLP 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.

2. Audit Findings

- KPMG LLP identified a performance improvement observation related to the land acquisitions through the assumption of subdivisions recorded in 2013.
- Approximately $20.8M of land additions transferred to the City in prior years were recorded in 2013.
- The City has recorded the corrections in the 2013 financial statements and re-casted 2012 financial statements.
- To mitigate potential understatement in future, KPMG LLP has recommended review of current process in obtaining the relevant information required for capitalization of land.

3. Reporting of Land Transfers

- The processes used to capture and record changes to City owned tangible capital assets (TCA) have been in place since PSAB 3150 came into effect in 2009.
- Each fiscal year, land transfers from the 12 month period beginning in November of the preceding year through October of the current year, would be recorded.
- The calendar year was not used so that data could be reconciled with the Municipal Property Assessment Corporation's (MPAC) data.
- This process was reviewed and accepted by KPMG LLP.

3. Reporting of Land Transfers

- An update to the Region of York's Development Charges By-laws in 2012 resulted in a high volume of sub-division agreement executions in November and December 2012.
- Consequently, the land transferred to the City from these sub-divisions recorded after the 2012 cut-off and was reported as 2013 transactions.
- The land assets were understated on the 2012 financial statements by $20.8M
- KMPG LLP recommended, based on the materiality of the differences, that the 2012 financial statements be re-casted.

4. Land Transfer Reporting Process

- Staff have refined the process in order to ensure the reporting of land transfers will coincide with the calendar year.
- The new process will be implemented in 2014.

5. 2013 Consolidated Financial Statements

Consolidated Statements of Operations and Accumulated Surplus

($ in millions)

	2013	Re-casted 2012
Revenues	389.691	442.135
Expenses before amortization	211.070	202.439
	178.620	239.696
Less:		
Amortization of tangible capital assets	(63.038)	(59.053)
Annual Surplus	115.583	180.643
Accumulated Surplus at the beginning of year	3,876.991	3,696.348
Accumulated Surplus at the end of year	3,992.574	3,876.991

5. 2013 Consolidated Financial Statements
Details of the Annual Surplus
($ in millions)

	2013	Re-casted 2012	Variance
Annual Surplus for the year	115.583	180.643	(65.060)
Major factors:			
Deferred revenue earned (development charges)	69.151	55.508	13.643
User fees	67.790	70.268	(2.478)
Contribution from developers	64.239	141.414	(77.175)
Equity in Markham Enterprises Corporation	7.648	9.977	(2.329)

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5. 2013 Consolidated Financial Statements
Details of the Accumulated Surplus
($ in millions)

	2013	Re-casted 2012
City's surplus before winter maintenance, ice storm and year-end accounting adjustments	1.614	1.692
Winter maintenance variance	(1.810)	1.632
Ice storm	(1.090)	-
Year-end accounting adjustments	(1.895)	(2.454)
Net surplus/(deficit) from operations	(3.181)	0.870
Community Boards and BIAs	0.159	0.145
Operating surplus/(deficit) excluding Waterworks	(3.022)	1.015
Waterworks	(1.515)	(0.696)
Operating surplus/(deficit) including Waterworks	(4.537)	0.319
Equity in Markham Enterprises Corporation	233.349	227.736
Invested in tangible capital assets and others	3,525.643	3,432.845
Reserves and Reserve Funds	238.119	216.091
Total	3,992.574	3,876.991

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Presentation by KPMG LLP, (Kevin Travers, Partner) Audit Findings Report

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Next Steps

- General Committee approval of 2013 Consolidated Financial Statements
- General Committee forward their recommendations to Council

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