



Report to: General Committee

Date Report Authored: April 22, 2013

SUBJECT: Draft 2012 Consolidated Financial Statements
PREPARED BY: Judy Rigby, Senior Manager, Financial Planning & Reporting

RECOMMENDATION:

- 1) THAT the report entitled "Draft 2012 Consolidated Financial Statements" be received;
- 2) AND THAT Council approve the draft Consolidated Financial Statements of The Corporation of the City of Markham (the "Consolidated Financial Statements"), which include the City of Markham Public Library (the "Library"), Business Improvement Areas ("BIA"), and Investment in Markham Enterprises Corporation, for the fiscal year ended December 31, 2012;
- 3) AND THAT Council authorize Staff to issue the final audited Consolidated Financial Statements for the fiscal year ended December 31, 2012 upon receiving the Independent Auditors' Report;
- 4) AND THAT an interest bearing Reserve Fund be established for Post-Retirement Benefits for the financing of future costs;
- 5) AND THAT Council authorize Staff to transfer the funds in the amount of \$10,318,800 from the holding balance sheet account to the Post-Retirement Benefits Reserve Fund;
- 6) And that Staff be authorized and directed to do all things necessary to give effect to this resolution.

EXECUTIVE SUMMARY:

Management is responsible for the preparation and fair presentation of the Consolidated 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").

PSAB issues recommendations and reporting requirements that serve 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 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 indicate the financial position of the Corporation of the City of Markham (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 to audit the Consolidated Financial Statements, which comprise the consolidated statement of financial position as at December 31, 2012, the consolidated statement of operations and accumulated surplus, change in net financial assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information. The audit is conducted by KPMG in accordance with Canadian generally accepted auditing standards to obtain reasonable assurance about whether the Consolidated Financial Statements are free from material misstatement.

The Consolidated Financial Statements include the City’s Investment in Markham Enterprises Corporation of 100%, comprised of Markham Enterprises Corporation (“MEC”) shareholdings in PowerStream Inc. of 34.185% and Markham District Energy Inc. (“MDE”) of 100%.

As of April 15, 2013 KPMG has completed the audit field work and the audit of the Consolidated Financial Statements and is expected to express an unqualified or “clean” opinion that the Consolidated Financial Statements present fairly, in all material respects, the consolidated financial position of the City.

The City’s audited Consolidated Financial Statements will be published in the 2012 Annual Report and will be distributed to Council when available.

PURPOSE:

To obtain approval from Council for the draft Consolidated Financial Statements for the year ended December 31, 2012, and to seek authorization from Council to publish the audited financial information as required by the Municipal Act.

BACKGROUND:

As of April 15, 2013 the City’s external auditor KPMG has completed the audit of the Consolidated Financial Statements for the year ended December 31, 2012 prepared by management in accordance with GAAP and PSAB.

OPTIONS/ DISCUSSION:

In order to comply with the regulations of the PSAB, the City’s 2012 draft Consolidated Financial Statements were prepared in accordance with reporting standards PSAB section 1200 and Section 3150. PSAB Section 1200 deals with financial reporting which requires public sector organizations to account and report annually on an accrual basis and PSAB Section PS 3150 requires governments to record and amortize their Tangible Capital Assets (“TCA”) in their financial statements.

The financial statements provide a Statement of Operations and Accumulated Surplus that includes transactions related to TCA. The accumulated surplus represents non-financial assets and includes the City's investments in TCA and inventories. Non-financial assets are not available to discharge existing liabilities but rather are held for use in the provision of services.

Consolidated Statement of Financial Position (Appendix A - page 1)

This statement describes the financial position of the City in terms of financial assets, financial liabilities and non-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 in a year or in the operating cycle. These assets are continually turned over in the course of a business during normal business activity.

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.

Employee Future Benefits include liabilities set aside based on actuarial valuation for Vested Sick Leave Benefits for Firefighters, Long Term Disability Benefits, Workplace Safety and Insurance Board obligations and Post-Retirement Benefits. Management on approval from Council has set aside funds specifically for the financing of future costs to which are held in specific purpose Reserves and Reserve Funds with the exception of Post-Retirement Benefits. Staff recommends that an interest bearing Reserve Fund for Post-Retirement Benefits be established, and the amount of \$10.319M be transferred from the holding balance sheet account to the Reserve Fund.

Both financial assets and 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.

Non-financial assets are assets with physical value such as land and property. It includes tangible capital assets, and inventories of supplies (i.e. salt and sand).

Consolidated Statement of Operations and Accumulated Surplus (Appendix A - page 2)

This statement accounts for a local government's operating revenues and expenditures and includes TCA transactions adjusted for amortization in the accounting period. Contributions from developers for assumed subdivisions during the accounting period and the portion of development charges received and spent during the year for TCA are included as revenues.

The Consolidated Statement of Operations and Accumulated Surplus as follows:

	\$ in millions	
	<u>2012</u>	Restated <u>2011</u>
Revenues	424.966	400.748
Expenses before Amortization and Write-down of TCA	<u>202.439</u>	<u>195.213</u>
	222.527	205.535
Less:		
Amortization of TCA	(59.053)	(55.246)
Write-down of TCA	-	(0.331)
Annual Surplus	<u>163.474</u>	<u>149.958</u>
Accumulated Surplus at the beginning of year	<u>3,694.891</u>	<u>3,544.933</u>
Accumulated Surplus at the end of year	<u>3,858.365</u>	<u>3,694.891</u>

Accumulated surplus consists of individual fund surplus and reserves and reserve funds as follows:

	\$ in millions	
	<u>2012</u>	Restated <u>2011</u>
Operating surplus excluding Planning & Design, Engineering, and Building Standards	0.870	1.994
Community Boards	0.147	0.149
BIA	<u>(0.002)</u>	<u>0.050</u>
Operating surplus excluding Waterworks	1.015	2.193
Waterworks	<u>(0.696)</u>	<u>(2.421)</u>
Operating surplus including Waterworks (Note 14, page 20)	0.319	(0.228)
Equity in Markham Enterprises Corporation (Note 14, page 20)	229.949	215.132
Invested in Tangible Capital Assets and Others (Note 14, page 20)	3,412.006	3,265.580
Reserves (Note 14, page 20)	96.930	80.384
Reserve Funds (Note 14, page 21)	<u>119.161</u>	<u>134.023</u>
Total	<u>3,858.365</u>	<u>3,694.891</u>

Operating Surplus excluding Waterworks

Staff presented to General Committee on March 18, 2013, the 2012 Results of Operations for the City's primary operating budget, Planning & Design operating budget, Engineering operating budget, Building Standards operating budget and Waterworks operating budget. The operating surplus for the City operating budget, excluding Planning & Design, Engineering, Building Standards and Waterworks, was \$0.870M. The final operating surplus, excluding Waterworks at December 31, 2012 is \$1.015M which includes the surplus from Community Boards (\$0.147M) and BIA (\$0.002M).

Waterworks

At the time of budget approval, the budgeted surplus of \$12.086M was transferred to the Waterworks Reserve. Based on the actual operations, the 2012 Waterworks surplus was \$11.390M resulting in an unfavorable variance of (\$0.696M), which will be transferred from the Waterworks Reserve to operating in 2013.

Equity in Markham Enterprises Corporation

This represents the value of Investment in Markham Enterprises Corporation, wholly owned by the City. MEC owns 100% of MDE and 34.185% of PowerStream Inc.

MEC which is 100% subsidiary of the City and its subsidiary corporation MDE and associate corporation PowerStream Inc, adopted International Financial Reporting Standards ("IFRS") on January 1, 2012.

The adoption of IFRS requires retrospective application of the new accounting framework to January 1, 2011, the date of transition. As a result, the amounts reported by MEC for its December 31, 2011 year end and the opening balance sheet as at the date of transition have been restated.

In preparing its opening IFRS consolidated balance sheet, MEC has restated amounts for 2011 that were previously prepared and reported in accordance with Canadian GAAP. IFRS 1 is the First-time Adoption of IFRS ("IFRS 1") and requires an entity to explain how the transition from its previous GAAP to IFRS affected its reported financial position, financial performance and cash flows by providing reconciliations of shareholders' equity, comprehensive income and cash flows for prior periods.

The adoption of IFRS by MEC and the changes to the amounts reported in 2011 require a restatement of 2011 amounts in the City's Consolidated Statement of Financial Position, Statement of Operations and Accumulated Surplus; Statement of Changes in Net Assets the Statement of Cash Flows.

The impact on the City's accumulated surplus on the Equity in Markham Enterprises Corporation amount due to the adoption of IFRS by MEC is:

	\$ in millions	
	<u>2012</u>	<u>Restated 2011</u>
a. Equity in MEC, January 1	215.132	189.665
IFRS adjustments	-	17.227
	<u>215.132</u>	<u>206.892</u>
b. <u>Equity pick-up for the year</u>		
Net Income for the year	9.977	8.020
IFRS adjustments	-	(1.673)
	<u>9.977</u>	<u>6.347</u>
c. Increase in share capital	9.626	5.338
d. Dividend paid by MEC to City	(4.786)	(3.445)
e. Equity in MEC, December 31	<u>229.949</u>	<u>215.132</u>

Invested in Tangible Capital Assets and Others

This represents the value of non-financial assets such as Land, Buildings, Equipment and Infrastructure adjusted for acquisitions, disposals and unfunded liabilities at the year end.

Reserves and Reserve Funds

The Reserves and Reserve Funds are set aside by Council for specific purposes. 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

The Reserves balance of \$96.930M (2011 - \$80.384M) includes \$15.349M relating to capital project originally funded and remaining unspent at the year end and \$81.580M representing an uncommitted Reserve position. The increase of \$16.546M over the previous year mainly represents the net inflow of funds to the Waterworks Reserve (\$2.979M), to the Planning & Engineering Development Fee Reserve (\$1.602M), to the Building Fee Reserve (\$5.195M), to the Long Term Disability Benefit Reserve (\$1.630M), to the Facility Ramp Up for future personnel costs (\$2.381M), to the Capital Gains reserve (\$0.324M), to the Insurance reserve (\$0.729M) and to other Reserves (\$1.706M).

Reserve Funds

The Reserve Funds balance of \$119.161M (2011 - \$134.023M) includes \$28.584M relating to capital projects originally funded and remaining unspent at the year end and \$90.578M representing an uncommitted reserve fund position. The decrease of \$14.862M over the previous year mainly represents the portion of

capital projects originally funded from Life Cycle Reserve (\$15.860M) and other net transfers (\$0.998M).

Consolidated Statement of Change in Net Financial Assets (Appendix A - page 3)

This statement presents changes in non-financial assets such as tangible capital assets, and inventories of supplies. The statement indicates how the City's non-financial assets changed from previous year (i.e. acquisitions/disposals).

Consolidated Statement of Cash Flows (Appendix A - page 4)

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

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, 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 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.

The financial statements will be published on the City's website after receipt of the City's final audited financial statements.

For the past eleven 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 2012 Annual Report will be submitted to Government Finance Officers Association (GFOA).

FINANCIAL CONSIDERATIONS AND TEMPLATE: (external link)

Not applicable

HUMAN RESOURCES CONSIDERATIONS

Not applicable

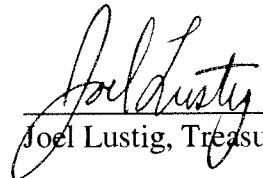
ALIGNMENT WITH STRATEGIC PRIORITIES:

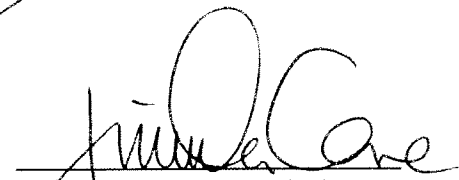
Not applicable

BUSINESS UNITS CONSULTED AND AFFECTED:

Not applicable

**RECOMMENDED
BY:**


Joel Lustig, Treasurer


Trinela Cane, Commissioner
Corporate Services

ATTACHMENTS:

Appendix A – Draft Consolidated Financial Statements of The Corporation of the City of Markham, December 31, 2012

Appendix B – The Corporation of the City of Markham Audit Findings Report