



Report to: General Committee

Report Date: June 4, 2012

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<b>SUBJECT:</b>	Draft 2011 Consolidated Financial Statements
<b>PREPARED BY:</b>	Kishor Soneji, Ext.2681
	Raj Raman, Ext.2013

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**RECOMMENDATION:**

1. That the report “Draft 2011 Consolidated Financial Statements” be received;
2. And That Council approve Markham’s Draft Consolidated Financial Statements including Markham Enterprises Corporation (MEC) for the fiscal year ended December 31, 2011;
3. And That Council authorize Staff to issue the Financial Statements (including MEC) for the fiscal year ended December 31, 2011 upon receiving the auditors’ final report;
4. And that Staff be authorized and directed to do all things necessary to give effect to this resolution.

**EXECUTIVE SUMMARY:**

Markham’s external auditors, KPMG, have completed the examination of the consolidated financial statements for the year ended December 31, 2011. Attached are the draft consolidated financial statements for Council’s consideration.

The audit was performed in accordance with “Generally Accepted Auditing Standards”, and KPMG is expected to express an unqualified or “clean” opinion that the consolidated financial statements present fairly the financial position of Markham. These statements indicate the financial position of Markham, the operating results and how Markham 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.

At the time of this report KPMG has completed the field audit of Town and MEC and are in the process of finalizing the audit report. The enclosed 2011 Draft Consolidated Financial Statements includes Markham’s Equity in Markham Enterprises Corporation (MEC) that includes MEC’s shareholdings in Powerstream Inc. and Markham District Energy Inc. (MDE). Markham’s final 2011 financial statements will be published upon receipt of MEC’s audited financial statements and copies of the 2011 Annual Report will be distributed to Council when available.

As in previous years, the 2011 statements were prepared in accordance with Public Sector Accounting Board (PSAB) guidelines. 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 should 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 Flow

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

**PURPOSE:**

To obtain Council's approval of Markham's December 31, 2011 Draft Consolidated Financial Statements, and to seek authorization from Council to publish the financial information as required by the Municipal Act upon finalization of all consolidated amounts.

**BACKGROUND:**

Markham's external auditors, KPMG, have completed the examination of the consolidated financial statements including MEC for the year ended December 31, 2011 and staff has prepared draft financial statements for Council's consideration.

**OPTIONS/ DISCUSSION:**

In order to comply with the regulations of the Public Sector Accounting Board, Markham's 2011 draft 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 tangible capital assets. The accumulated surplus represents non financial assets and includes Markham's investments in tangible capital assets and inventories. Non financial assets are not available to discharge existing liabilities but rather are held for use in the provision of services.

**2011 Consolidated Statement of Financial Position (Appendix A - page 1)**

This statement describes the financial position of Markham 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.

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, 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 revenue and expenditures and includes Tangible Capital Asset (TCA) transactions adjusted for amortization in the accounting period. Contribution from developers for assumed sub divisions during the accounting period and the portion of development charges received and spent during the year for TCA are included as revenue.

The 2011 draft financial statements show Accumulated Surplus as follows:

	\$ in millions	
	<b><u>2011</u></b>	<b><u>2010</u></b>
Revenues	402.421	306.075
Expenses before Amortization and Write-down of TCA	<u>195.213</u>	<u>177.093</u>
	207.208	128.982
Less:		
Amortization of TCA	(55.246)	(53.636)
Write-down of TCA	<u>(0.331)</u>	<u>(0.989)</u>
Annual Surplus	151.631	74.357
Accumulated Surplus at the beginning of year	<u>3,527.706</u>	<u>3,453.349</u>
Accumulated Surplus at the end of year	<u><u>3,679.337</u></u>	<u><u>3,527.706</u></u>

	\$ in millions	
	<u>2011</u>	<u>2010</u>
<b><u>Break-down of Accumulated Surplus at the end of year:</u></b>		
Operating surplus including Library, Building Services, Planning & Design and Engineering	1.994	2.111
Community Boards	0.149	0.136
BIA's	0.050	(0.083)
Operating surplus excluding Waterworks	2.193	2.164
Waterworks	(2.421)	0.444
Operating surplus including Waterworks (Note 14, page 23)	(0.228)	2.608
Equity in Markham Enterprises Corporation (Note 14, page 23)	199.578	189.665
Investment in Tangible Capital Assets and other (Note 14, page 23)	3,265.580	3,152.742
Reserves (Note 14, page 23)	80.384	61.699
Reserve Funds (Note 14, page 24)	134.023	120.992
	<u>3,679.337</u>	<u>3,527.706</u>

**Operating Surplus**

Staff presented to General Committee in April 2012, Markham's operating surplus for 2011 at \$1.7M (excluding Building Services, Planning & Design, Engineering and Waterworks). The final operating surplus at the year end is \$2.2M which includes the surplus from Community Boards (\$0.149M) and the BIA's (\$0.050M) and re-classification of salaries and benefit expenses related to Waterworks.

**Equity in Markham Enterprises Corporation**

This represents the value of investment in Markham Enterprises Corporation (MEC) that is wholly owned by the Town. MEC owns 100% of Markham District Energy (MDE) and 34.185% of Power Stream Inc. The increase in value of the investment from previous year in the amount of \$9.913M is due to the proportionate share of net revenue from Power Stream and MDE of \$8.020M, increase in share capital \$5.338M less dividend received during the year \$3.445M.

**Investment 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.

**Reserve and Reserve Funds**

The Reserve 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.

**Reserve**

The Reserve balance of \$80.384M includes \$17.088M relating to capital projects originally funded and remaining unspent at the year end and \$63.296M representing an uncommitted Reserve position. The increase of \$18.685M (\$80.384M minus \$61.699M) over the previous year mainly represents the portion

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of capital projects originally funded from the Waterworks Reserve (\$6.092M) remaining unspent at the year end, the transfer of net deficit from Engineering, and Planning & Design operations to the Development Fee Reserve (\$0.972M), transfer of Building Services operations to Building Fee Reserve (\$6.733M), transfer of Long Term Disability (\$1.514M), Facility Ramp Up (\$2.970M), Capital Gain transfer (\$1.355M), Insurance (\$0.492M) and other net operating transfers (\$0.501M)

#### Reserve Funds

The Reserve Funds balance of \$134.023M includes \$24.419M relating to capital projects originally funded and remaining unspent at the year end and \$109.604M representing an uncommitted reserve fund position. The increase of \$13.031M (\$134.023M minus \$120.992M) over the previous year mainly represents the portion of capital projects originally funded from Life Cycle Reserve (\$1.564M), Non Development Charge Growth Reserve (\$9.660M) Environmental Land Acquisition (\$0.516M), land Acquisition (\$0.698M) and others (\$0.593M).

#### **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 Town'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 Town'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 Markham's website after receipt of the Town's final audited financial statements.

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For the past 10 years, Markham has received the Canadian Award for Financial Reporting which provides recognition for excellence in governmental accounting & financial reporting. The receipt of this award signifies that Markham delivered a comprehensive annual financial report that demonstrated full transparency and disclosure over and above the minimum requirements of generally accepted accounting principles. Upon receiving the auditor's report, the 2011 Annual Report will be submitted to GFOA.

**RECOMMENDED BY:**

14/06/2012

A handwritten signature in black ink, appearing to read "Joel Lustig".

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Joel Lustig  
Treasurer

14/06/2012

A handwritten signature in black ink, appearing to read "Trinela Cane".

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Trinela Cane  
Commissioner of Corporate Services

**ATTACHMENTS:**

[Appendix A - Corporation of the Town of Markham](#)

[Draft Consolidated Financial Statements, December 31, 2011](#)