

Consolidated Financial Statements of

**THE CORPORATION OF THE CITY
OF MARKHAM**

And Independent Auditor's Report thereon

Year ended December 31, 2025

INDEPENDENT AUDITOR'S REPORT

To the Members of Council, Inhabitants and Ratepayers of The Corporation of the City of Markham

Opinion

We have audited the consolidated financial statements of The Corporation of the City of Markham (the City), which comprise:

- the consolidated statement of financial position as at December 31, 2025
- the consolidated statement of operations and accumulated surplus for the for the year then ended
- the consolidated statement of change in net financial assets for the year then ended
- the consolidated statement of remeasurement of gains and losses for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the City as at December 31, 2025, and its consolidated results of operations and accumulated surplus, its consolidated change in net financial assets, its consolidated remeasurement of gains and losses and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's report.

We are independent of the City in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the City's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the City or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the City's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the City's ability to continue as a going concern. If we conclude that material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the City to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the group as a basis for forming an opinion on the group financial statements. We are responsible for the direction, supervision and review of the audit work performed for the purposes of the group audit. We remain solely responsible for our audit opinion.

DRAFT

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

THE CORPORATION OF THE CITY OF MARKHAM

Consolidated Statement of Financial Position
(In thousands of dollars)

December 31, 2025, with comparative information for 2024

	2025	2024
Financial Assets		
Cash and cash equivalents (note 5)	\$ 259,073	\$ 268,276
Investments (note 5)	466,292	354,296
Property taxes receivable (note 6)	46,270	50,766
Accounts receivable	97,750	87,573
Investment in Markham Enterprises Corporation (note 7)	379,910	355,822
	1,249,295	1,116,733
Financial Liabilities		
Accounts payable and accrued liabilities (note 8)	242,849	186,429
Liability for asset retirement obligation (note 12 (e))	19,571	19,571
Deferred revenue (note 9)	259,829	278,873
Employee future benefits liabilities (note 10)	48,735	44,799
Long-term liabilities (note 11)	5,836	6,738
	576,820	536,410
Net financial assets	672,475	580,323
Non-Financial Assets		
Tangible capital assets (note 12)	6,121,793	5,862,749
Inventories	2,768	3,068
Prepaid expenses	4,691	4,163
	6,129,252	5,869,980
Commitments (note 16)		
Contingencies (note 17)		
Contractual rights (note 21)		
Accumulated surplus	\$ 6,801,727	\$ 6,450,303
Comprising:		
Accumulated operating surplus (note 15)	\$ 6,717,972	\$ 6,414,791
Accumulated remeasurement gains	83,755	35,512

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE CITY OF MARKHAM

Consolidated Statement of Operations
(In thousands of dollars)

Year ended December 31, 2025, with comparative information for 2024

	December 31, 2025	December 31, 2025	December 31, 2024
	Budget (note 19)	Actual	Actual
Revenue:			
Property taxes	\$ 197,376	\$ 200,555	\$ 192,366
User charges (note 13)	239,802	231,495	231,050
Government transfers (note 14)	11,625	24,794	19,362
Contributions from developers and others	48,782	236,704	612,277
Investment income	23,872	50,437	39,671
Tax penalties	5,901	7,864	7,312
Gain on sale of tangible capital assets	-	323	-
Deferred revenue earned	39,886	49,689	39,817
Equity income from Markham			
Enterprises Corporation (note 7)	10,840	35,039	28,421
Other	5,844	21,753	21,994
	583,928	858,653	1,192,270
Expenses: (note 18)			
General government	84,901	76,013	72,708
Protection to persons and property	65,252	68,118	61,188
Transportation services	79,293	79,493	70,319
Environmental services	192,187	192,862	177,191
Recreation and cultural services	105,750	111,021	102,879
Planning and development services	21,241	27,935	19,856
Other	35	30	17
	548,659	555,472	504,158
Annual surplus	\$35,269	303,181	688,112
Accumulated operating surplus, beginning of year		6,414,791	5,726,679
Accumulated operating surplus, end of year (note 15)		\$ 6,717,972	\$ 6,414,791

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE CITY OF MARKHAM

Consolidated Statement of Change in Net Financial Assets
(In thousands of dollars)

Year ended December 31, 2025, with comparative information for 2024

	December 31, 2025	December 31, 2025	December 31, 2024
	Budget	Actual	Actual
Annual surplus	\$ 35,269	\$ 303,181	\$ 688,112
Acquisition of tangible capital assets	(215,555)	(109,718)	(115,423)
Contributed tangible capital assets (note 12)	–	(236,704)	(612,277)
Amortization of tangible capital assets	86,363	87,378	85,432
Loss (gain) on disposal of tangible capital assets	–	–	731
Proceeds from disposal of tangible capital assets	–	–	383
	(93,923)	44,137	46,958
Acquisition of inventories	–	(2,768)	(3,068)
Acquisition of prepaid expenses	–	(4,691)	(4,163)
Consumption of inventories	–	3,068	3,588
Use of prepaid expenses	–	4,163	3,793
	–	(228)	150
Change in net financial assets excluding net remeasurement gains	(93,923)	43,909	47,108
Net remeasurement gains for the year	–	48,243	25,189
Net change in net financial assets	(93,923)	92,152	72,297
Net financial assets, beginning of year	580,323	580,323	508,026
Net financial assets, end of year	\$ 486,400	\$ 672,475	\$ 580,323

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE CITY OF MARKHAM

Consolidated Statement of Remeasurement Gains and Losses
(In thousands of dollars)

Year ended December 31, 2025, with comparative information for 2024

	2025	2024
Accumulated remeasurement gains, beginning of year	\$ 35,512	\$ 10,323
Realized amounts reclassified	(13,893)	(2,002)
Unrealized gains in the current year attributable to portfolio investments	61,236	26,891
Share of other comprehensive income (loss) from Markham Enterprises Corporation	900	300
Accumulated remeasurement gains, end of year	\$ 83,755	\$ 35,512

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE CITY OF MARKHAM

Consolidated Statement of Cash Flows
(In thousands of dollars)

Year ended December 31, 2025, with comparative information for 2024

	2025	2024
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ 303,181	\$ 688,112
Add (deduct) items not involving cash:		
Amortization of tangible capital assets	87,378	85,432
Loss (gain) on disposal of tangible capital assets	-	731
Employee future benefits liabilities	3,936	1,535
Equity income of Markham Enterprises Corporation	(35,039)	(28,421)
Contributed tangible capital assets	(236,704)	(612,277)
	122,752	135,112
Change in non-cash operating items:		
Property taxes receivable	4,496	(7,236)
Accounts receivable	(10,177)	(4,688)
Accounts payable and accrued liabilities	56,420	25,493
Notes payable	-	(94,000)
Long-term liabilities	(902)	(870)
Deferred revenue	(19,044)	97,651
Inventories	300	520
Prepaid expenses	(528)	(370)
	153,317	151,612
Financing activities:		
Dividend from Markham Enterprises Corporation	10,841	11,966
Proceeds from the refund of promissory notes from Alectra Inc.	-	67,867
Return of capital	1,010	1,012
	11,851	80,845
Capital activities:		
Net of purchase of investments and proceeds	(64,653)	(63,907)
Investing activities:		
Acquisition of tangible capital assets	(109,718)	(115,423)
Proceeds from disposal of tangible capital assets	-	383
	(109,718)	(115,040)
Increase in cash and cash equivalents	(9,203)	53,510
Cash and cash equivalents, beginning of year	268,276	214,766
Cash and cash equivalents, end of year	\$ 259,073	\$ 268,276
Supplementary information:		
Interest paid	\$ 213	\$ 245
Interest received	10,032	13,422

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE CITY OF MARKHAM

Notes to Consolidated Financial Statements
(In thousands of dollars)

Year ended December 31, 2025

The consolidated financial statements of The Corporation of the City of Markham (the "City") are prepared by management in accordance with Canadian public sector accounting standards, as recommended by the Public Sector Accounting Board ("PSAB") of the Chartered Professional Accountants of Canada ("CPA Canada").

1. Significant accounting policies:

(a) Basis of consolidation:

These consolidated financial statements reflect the assets, liabilities, revenue and expenses of the reporting entity. The reporting entity is comprised of all organizations, local boards and committees accountable for the administration of their financial affairs and resources, to the City, and which are owned or controlled by the City, including the following:

- City of Markham Public Library Board;
- Old Markham Village Business Improvement Area;
- Unionville Business Improvement Area; and
- Destination Markham Corporation.

Inter-entity transactions and balances are eliminated on consolidation.

(b) Investment in Markham Enterprises Corporation:

Markham Enterprises Corporation ("MEC") and its subsidiaries are accounted for on a modified equity basis, consistent with the Canadian public sector accounting standards as recommended by PSAB for government business enterprises. Under the modified equity basis of accounting, the business enterprise's accounting principles are not adjusted to conform to those of the City, and inter-organizational transactions and balances are not eliminated. The City recognizes its equity interest in the annual income or loss of MEC in its consolidated statement of operations with a corresponding increase or decrease in its investment asset account. The share of other comprehensive income or loss in MEC is recognized in the City's consolidated statement of remeasurement gains and losses. Any dividends that the City may receive from MEC are reflected as reductions in the investment asset account.

THE CORPORATION OF THE CITY OF MARKHAM

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2025

1. Significant accounting policies (continued):

(c) Accounting for Region and School Board transactions:

The property taxes, other revenue, expenses, assets and liabilities with respect to the operations of the Regional Municipality of York (the "Region") and the York Region District School Boards ("School Boards") are not reflected in the municipal fund balances of these consolidated financial statements.

(d) Trust funds:

Trust funds and their related operations administered by the municipality are not consolidated but are reported separately on the trust funds statement of financial position and the trust funds statement of operations and fund balances.

(e) Basis of accounting:

Revenue is recorded in the year in which the transactions or events occurred that gave rise to the revenue.

Expenses are the cost of goods and services acquired in the year whether or not payment has been made or invoices received.

(f) Financial instruments:

PS 3450, Financial Instruments, establishes standards on the recognition and measurement of different categories of financial instruments, including derivatives.

The City's investments in Principal Protected Notes ("PPNs") meet the criteria of a financial instrument with an embedded derivative. The standards permit financial instruments containing one or more embedded derivatives to be designated as a hybrid (combined) instrument and carried at fair value. This designation is irrevocable. The City has elected to record the PPNs at fair value. The cumulative change in fair value of these financial instruments is recorded in accumulated surplus as remeasurement gain and losses and is included in the value of the investments presented in the consolidated statement of financial position. Upon disposition of the PPNs, the cumulative remeasurement gains and losses are reclassified to the consolidated statement of operations, and all other gains and losses related to the disposition of the PPNs are directly recorded in the consolidated statement of operations.

THE CORPORATION OF THE CITY OF MARKHAM

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2025

1. Significant accounting policies (continued):

Investments also include bonds and debentures which are recorded and measured at amortized cost. Discounts and premiums arising on the purchase of these investments are amortized over the term of the investments. If there is a loss of value that is other than a temporary decline in value, the respective investment will be written down to market value to recognize the loss in the consolidated statement of operations.

(g) Government transfers:

Government transfers are recognized in the consolidated financial statements in the year in which the events giving rise to the transfer occurred, providing that the transfers are authorized, any eligibility criteria and stipulations have been met, and reasonable estimates of the amounts can be made.

The City adopted PS 3410, Government Transfers, that establishes the recognition, measurement and disclosure requirements for government transfers. It provides specific revenue recognition criteria for transferring government and recipient government.

(h) Deferred revenue:

Funds received for specific purposes are accounted for as deferred revenue until the City discharges the obligation, which led to receipt of the funds.

(i) Property taxes and related revenue:

Property tax billings are prepared by the City based on assessment rolls compiled by the Municipal Property Assessment Corporation ("MPAC"). Property tax rates are established annually by City Council, incorporating amounts to be raised for local services and amounts that the City is required to collect on behalf of the Region and School Boards for education purposes. The realty taxes are billed based on the assessment rolls provided by MPAC.

A normal part of the assessment process is the issuance of supplementary assessment rolls that provide updated information with respect to changes in property assessment. Once a supplementary assessment roll is received, the City determines the property taxes applicable and issues supplementary tax bills. These assessments and the related property taxes are subject to appeal. Any supplementary billing adjustments made necessary by the determination of such changes will be recognized in the fiscal year they are determined and the impact shared with the Region and School Boards as appropriate.

THE CORPORATION OF THE CITY OF MARKHAM

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2025

1. Significant accounting policies (continued):

The City is entitled to collect interest and penalties on overdue property taxes. These revenues are recorded in the year the interest and penalties are levied.

(j) Employee future benefits liabilities:

The City accounts for its participation in the Ontario Municipal Employee Retirement System ("OMERS"), a multi-employer public sector pension fund, which is accounted for as a defined benefit plan. Vacation entitlements are accrued for as entitlements are earned. Sick leave benefits are accrued where they are vested and subject to pay out when an employee leaves the City's employment. Other employee future benefits are accrued in accordance with the projected benefit method prorated on service and management's best estimate of salary escalation and retirement ages of employees. Actuarial valuations, where necessary for accounting purposes, are performed triennially. The discount rate used to determine the accrued benefit obligation was determined by reference to market interest rates at the measurement date on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments. Unamortized actuarial gains or losses are amortized on a straight-line basis over the expected average remaining service life of the related employee groups.

Unamortized actuarial gains or losses for event-triggered liabilities, such as those determined as claims related to Workplace Safety and Insurance Board ("WSIB") are amortized over the average expected year during which the benefits will be paid. The cost of plan amendments is accounted for in the year they are adopted.

The City, on approval from City Council, has set aside funds specifically for the financing of future costs.

(k) Investment income:

Investment income is reported as revenue in the year earned. Investment income earned on obligatory reserve funds is added to the fund balance and forms part of the respective deferred revenue and/or obligatory reserve funds balance.

THE CORPORATION OF THE CITY OF MARKHAM

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2025

1. Significant accounting policies (continued):

(l) Non-financial assets:

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

(m) Tangible capital assets:

Tangible capital assets are recorded at cost which includes amounts that are directly attributed to acquisition, construction, development or betterment of the asset. The cost, less residual value of the tangible capital assets, excluding land, are amortized on a straight-line basis over their estimated useful lives in number of years as follows:

Buildings	40
Equipment	5 - 20
Furniture and fixtures	10 - 15
Infrastructure	10 - 100
Library materials, furniture and fixtures	7 - 10
Park and pathways	10 - 60
Vehicles	7 - 9
Waterworks equipment	9
Waterworks infrastructure	15 - 100

Amortization is prorated to six months in the year of acquisition and in the year of disposal. Assets under construction are not amortized until the asset is available for productive use.

(i) Contributions of tangible capital assets:

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt and also are recorded as revenue. Tangible capital assets conveyed from developers are recorded at the estimated engineering value at the time of registration.

(ii) Works of art and cultural and historic assets:

Works of art and cultural and historic assets are not recorded as assets in these consolidated financial statements.

THE CORPORATION OF THE CITY OF MARKHAM

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2025

1. Significant accounting policies (continued):

(iii) Interest capitalization:

Interest is capitalized whenever external debt is issued to finance the construction of tangible capital assets.

(n) Assets:

The assets standard provides additional guidance on the definition of assets and what is meant by economic resources, control, past transactions and events and from which future economic benefits are to be obtained. For the year ended December 31, 2025, all the material assets have been reported.

(o) Inventories:

Inventories of supplies held for consumption are recorded at the lower of cost and replacement cost. Inventories of heritage land held for sale are recorded at lower of the cost or net realizable value.

(p) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenue and expenses during the year. Actual results could differ from these estimates.

THE CORPORATION OF THE CITY OF MARKHAM

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2025

1. Significant accounting policies (continued):

(q) Budget figures:

The approved operating and capital budgets for 2025 are reflected on the consolidated statement of operations and on the consolidated statement of change in net financial assets. The capital budget is reported on a project-oriented basis, the costs of which may be carried over one or multiple years and, therefore, may not be comparable with the current year actual amounts. The budget presented in these consolidated financial statements has been reconciled to the approved budgets to reflect the accrual basis of accounting in note 19. As a result of changes to the Municipal Act, 2001 (Part VI Special Powers and Duties of the Head of Council) that affected the associated impact to the City's budget process, City Council approved in-year additions to the 2025 capital budget plan resulting in a change to the 2025 capital budget from \$178,989 as originally approved to \$183,265.

(r) Segment disclosure:

A segment is defined as a distinguishable activity or group of activities of a government for which it is appropriate to separately report financial information to achieve the objectives of the standard. The City has provided definitions of the segments used and presented financial information in segmented format in note 18.

(s) Contaminated sites:

Contaminated sites are defined as sites that are contaminated as a result of contamination being introduced in air, soil, water or sediment of a chemical, organic or radioactive material or live organism that exceeds an environmental standard. This standard relates to sites that are not in productive use and sites in productive use where an unexpected event resulted in contamination.

THE CORPORATION OF THE CITY OF MARKHAM

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2025

1. Significant accounting policies (continued):

A liability for remediation of contaminated sites is recognized, net of any expected recoveries, when all of the following criteria are met:

- an environmental standard exists;
- future economic benefits will be given up; and
- a reasonable estimate of the liability can be made.

(t) Asset retirement obligations:

PS 3280, Asset Retirement Obligations ("ARO"), is recognized when, as at the financial reporting date, all of the following criteria are met:

- There is a legal obligation to incur retirement costs in relation to a tangible capital asset;
- The past transaction or event giving rise to the liability has occurred;
- It is expected that future economic benefits will be given up; and
- A reasonable estimate of the amount can be made.

The substantial portion of ARO liability for the City stems from the removal of asbestos in several of the buildings owned by the City. The ARO liability for removal of asbestos has been based on actual demolition cost of a building containing asbestos. The City has also identified associated costs related to the asbestos disposal and calculated a cost per square foot, which was applied to the remaining buildings built before 1990. Where renovations had taken place, the gross area of the structure was pro-rated to account for partial abatement. Assumptions used in the calculations are revised on an annual basis. However, there is no change in assumptions for the year ended December 31, 2025.

THE CORPORATION OF THE CITY OF MARKHAM

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2025

1. Significant accounting policies (continued):

The City elected not to apply present value technique to measuring ARO liability and as a result does not recognize any accretion expenses in the consolidated financial statements.

(u) Public Private Partnerships (“P3”):

PS 3160, Public Private Partnerships, provides for accounting and reporting infrastructure assets and liabilities arising from public private partnership (P3) arrangements in the public sector. It applies to arrangements where a public sector entity collaborates with a private sector partner to design, build, acquire, or improve infrastructure; finance the project beyond its readiness for use; and operate and/or maintain the infrastructure. The standard requires recognition of the infrastructure asset and a corresponding liability when the public sector entity controls the asset's purpose, use, and residual interest, and expects to benefit from its service potential while being exposed to related risks. The asset is initially measured at cost, representing its fair value at the recognition date, and subsequently amortized over its useful life. The liability is measured based on the nature of consideration provided to the private partner, following either the financial liability model or the user-pay model. There is no impact of this standard for the year ended December 31, 2025.

(v) Revenue:

PS 3400, Revenue, provides a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement. It distinguishes between exchange transactions (with performance obligations) and non-exchange transactions (without performance obligations). Revenue from exchange transactions is recognized when performance obligations are satisfied, while revenue from non-exchange transactions is recognized when the public sector entity has the authority to claim or retain the resources and a past event has occurred. The standard also provides guidance on measuring revenue, including considerations for variable consideration and non-cash transactions.

(w) Purchased Intangibles:

PSG-8, Purchased Intangibles provides guidance on recognizing and accounting for purchased intangible assets in the public sector. It defines purchased intangibles as identifiable non-monetary economic resources acquired through an arm's length transaction. The guideline requires recognition when the asset meets the criteria under PS 1000, Financial Statement Concepts, and PS 3210, Assets. However, it does not prescribe detailed accounting treatment,

THE CORPORATION OF THE CITY OF MARKHAM

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2025

1. **Significant accounting policies (continued):**

instead directing entities to existing public sector accounting standards. PSG-8 does not apply to intangibles acquired through transfers, public private partnerships, or inter-entity transactions.

(x) Contractual rights and obligations:

Contractual rights reflect future rights to economic resources arising from contracts and/or agreements that will result in both an asset and revenue in future fiscal years. Contractual rights for the year ended on December 31, 2025, are disclosed in note 21.

Contractual obligations represent obligations, that will result in liabilities upon the completion of agreed upon terms specified in contracts and/or agreements in future fiscal years. For further details regarding the City's contractual obligations, including the nature, extent and timing of these types of transactions, please refer to note 16.

(y) Contingent assets and liabilities:

Contingent assets and contingent liabilities arise from circumstances when the City is uncertain whether it has an asset and/or liability on the date of the consolidated financial statements. The existence of the asset and/or liability is ultimately dependent upon the occurrence or non-occurrence of a future event that is outside of the entity's control.

For the year ended December 31, 2025, the City is not aware of any contingent asset. However, disclosure regarding the City's contingent liabilities, including the nature, extent, and basis of estimates (if available), can be found in note 17.

(z) Related party transactions:

A related party exists when one party has the ability to exercise control or shared control over the other. Related parties also include key management personnel, such as City Councilors, as well as their close family members.

PS 2200 - Related Party Disclosure, requires the City to disclose circumstances in which the entity enters into transactions with its related parties at a value different from that which would have been arrived at if the parties were unrelated (i.e. not at arm's length) and these transactions are considered to have a significant financial impact on the City's consolidated financial statements. In the event qualifying transactions are identified, the City would disclose the nature of relationships with all involved parties, type of related party transaction, and amounts recognized in the consolidated financial statements.

THE CORPORATION OF THE CITY OF MARKHAM

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2025

1. Significant accounting policies (continued):

(aa) Reserves and reserve funds:

Reserve funds are comprised of funds set aside for specific purposes. The City Council has authorized the allocation of interest to reserve funds but not to reserves. There are two types of reserve funds:

- Obligatory reserve funds are funds received and set aside for specific purposes by legislation or contractual agreements. These funds can only be used for prescribed purposes and are reported as deferred revenue on the consolidated statement of financial position.
- Council directed reserve funds are created by council for specific purposes through bylaw and are reported in the accumulated surplus balance on the consolidated statement of financial position.

2. Future accounting pronouncements:

These standards and amendments were not yet effective for the year ended December 31, 2025, and have therefore not been applied in preparing these consolidated financial statements. Management is currently assessing the impact of these accounting standards updates on future consolidated financial statements.

- (a) The Conceptual Framework for Financial Reporting in the Public Sector was revised and 2024-2025 Annual Improvements to Public Sector Accounting Standards were issued. The PSAB approved amendments providing terminology updates to align various sections of the PSAS Handbook with PSAB's Conceptual Framework and Reporting Model. These revisions and amendments are effective for fiscal years beginning on or after April 1, 2026 (the City's December 31, 2027 yearend).
- (b) PS 1202 - Financial Statement Presentation will replace the current section PS 1201. This guideline is effective for fiscal years beginning on or after April 1, 2026 (the City's December 31, 2027 yearend).
- (c) PS 3251 - Employee Benefits, will replace the current sections PS 3250 and PS 3255. The proposed section is currently pending final approval, with an expected effective date of April 1, 2029 (the City's December 31, 2030 yearend).

THE CORPORATION OF THE CITY OF MARKHAM

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2025

- (d) PS 3150, Tangible Capital Assets. The PSAB has issued amendments related to PS 3150 in May 2025 as a result of implementing its Government Not-for-Profit Strategy, which incorporates the PS 4200 series into public sector accounting standards with potential customization. The amendments to this section are effective for fiscal periods beginning on or after April 1, 2030 (the City's December 31, 2031 yearend).
- (e) PS 3155, Intangible Assets, will replace the current section PSG 8, Purchased Intangibles. The proposed section is currently pending final approval and an effective date for the proposed standard is currently not known.

3. Operations of School Boards and the Region of York:

Further to note 1, requisitions were made by the Region and School Boards requiring the City to collect property taxes and payments in lieu of property taxes on their behalf. The amounts collected and remitted are summarized as follows:

	School Boards	Region	2025	2024
Taxation	\$ 256,768	\$ 423,735	\$ 680,503	\$ 655,724
Payment in lieu of taxes	339	1,370	1,709	1,496
Supplementary taxes	1,322	2,670	3,992	10,000
	\$ 258,429	\$ 427,775	\$ 686,204	\$ 667,220

4. Pension agreements:

The City makes contributions to the OMERS, which is a multi-employer plan, on behalf of its employees. The plan is a defined benefit plan which specifies the amount of retirement benefit to be received by the employees based on the length of credited service and average earnings. Employees contribute between 9.0% and 15.9% of their salary and the City matches the employee contribution.

Total OMERS contributions amounted to \$33,491 (2024 - \$27,938) of which \$16,755 (2024 - \$13,969) represented the City's portion and \$16,736 (2024 - \$13,969) represented employees' portion. Since OMERS is a multi-employer pension plan, the City does not recognize any share of the pension plan deficit of \$1.3 billion as of December 31, 2025 (2024 - \$2.9 billion) based on the fair market value of the plan's assets, as this is a joint responsibility of all Ontario municipalities and their employees.

THE CORPORATION OF THE CITY OF MARKHAM

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2025

5. Cash and cash equivalents and investments:

	2025	2024
Cash and cash equivalents	\$ 259,073	\$ 268,276
Investments	466,292	354,296
	\$ 725,365	\$ 622,572

The cash and cash equivalent balance includes no investments (2024 - \$3,848) which have a maturity date of less than three months. Investments consist of authorized investments pursuant to the provisions of the Municipal Act and include short-term instruments of various financial institutions, government bonds and treasury bills. As at December 31, 2025, investments, which are reported at cost and amortized cost, Investments, had a market value of \$215,490 (2024 - \$146,177). Investments balance also includes PPN of \$222,244 (2024 - \$159,752) which are reported at fair market value and include \$82,705 (2024 - \$35,362) attributable to unrealized gain which is recorded through the accumulated remeasurement gains on the consolidated statement of remeasurement of gains and losses.

6. Property taxes receivable:

The balance in property taxes receivable, including penalties and interest, is comprised of the following:

	2025	2024
Current year	\$ 35,093	\$ 40,560
Arrears prior years	14,783	13,157
	49,876	53,717
Less allowance for uncollectible taxes	3,606	2,951
	\$ 46,270	\$ 50,766

The MPAC is responsible for current value assessment ("CVA") of all properties in Ontario. MPAC determines the CVA for all properties and provides it annually to municipalities in the form of an assessment roll, which the municipalities use to calculate property taxes for each individual property.

The most recent province-wide property assessment was made in 2016 which continues to be the basis for property assessments for property tax determination.

THE CORPORATION OF THE CITY OF MARKHAM

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2025

6. Property taxes receivable (continued):

The City's property tax revenue and property tax receivables rely on the stability of the assessment roll, which is subject to annual assessment appeals that create an amount of uncertainty related to the amount of property tax receivables. Based on the current tax assessments, the City has provided a provision allowance in the amount of \$ 3,606 (2024 - \$2,951).

7. Investment in Markham Enterprises Corporation:

MEC is wholly owned by the City. MEC owns 100% (2024 - 100%) of Markham District Energy Inc. ("MDE") and 15% of Alectra Inc. ("Alectra") (2024 - 15%).

The following consolidated financial statements of MEC include the financial information of its subsidiaries MDE and Alectra for the period from January 1, 2025 to December 31, 2025.

	2025	2024
Assets		
Current	\$ 23,744	\$ 21,203
Capital assets	194,908	168,875
Investment in Alectra	351,133	328,725
Other	1,945	1,828
Total assets	\$ 571,730	\$ 520,631
Liabilities and Shareholder's Equity		
Liabilities:		
Current	\$ 17,442	\$ 47,472
Non-current	174,378	117,337
Total liabilities	191,820	164,809
Shareholder's equity:		
Common shares	88,838	89,848
Promissory notes payable	11,317	11,317
Retained earnings and contributed surplus	279,755	254,657
Total shareholder's equity	379,910	355,822
Total liabilities and shareholder's equity	\$ 571,730	\$ 520,631

THE CORPORATION OF THE CITY OF MARKHAM

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2025

7. Investment in Markham Enterprises Corporation (continued):

	2025	2024
Results of operations		
Revenue	\$ 73,173	\$ 60,330
Operating expenses	38,134	31,909
Net income	35,039	28,421
Share of other comprehensive income (loss)	900	300
City's share of net income and other comprehensive income in MEC	\$ 35,939	\$ 28,721
Investment in MEC, beginning of year	\$ 355,822	\$ 407,946
City's share of net income and other comprehensive income in MEC	35,939	28,721
Dividend received	(10,841)	(11,966)
Proceeds from the refund of promissory note from Alectra	-	(67,867)
Return of capital	(1,010)	(1,012)
Investment in MEC, end of year	\$ 379,910	\$ 355,822

8. Accounts payable and accrued liabilities:

Accounts payable and accrued liabilities include financial obligations to outside organizations and individuals as a result of transactions and events on or before the end of the accounting year. They are the result of contracts, agreements and legislation in force at the end of the year that require the City to pay for goods and services acquired or provided prior to year end. A breakdown of accounts payable and accrued liabilities is as follows:

	2025	2024
Payable to other governments	\$ 129,816	\$ 61,959
Trade accounts payable	90,718	86,612
Accrued liabilities	14,926	26,066
Payroll liabilities	7,389	11,792
	\$ 242,849	\$ 186,429

THE CORPORATION OF THE CITY OF MARKHAM

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2025

9. Deferred revenue:

Deferred revenue - obligatory reserve funds constitute funds received that have been set aside for specific purposes as outlined in provincial legislation (such as Community Benefit Charge and Section 37 funds), City by-laws and third-party agreements. Deferred revenue - general includes cash received for user charges and security deposits. These amounts will be recognized as revenue in the fiscal year the services are performed, or eligible expenses are incurred. The following represents the activity and year end balances for deferred revenue.

	Balance, beginning of year	Receipts	Revenue earned	Balance, end of year
Obligatory reserve funds				
Development charges	\$ 205,082	\$ 16,349	\$ 32,948	\$ 188,483
Canada Community Building Fund	16,957	11,633	19,149	9,441
Section 37 funds	9,205	-	125	9,080
Community benefit charge	2,273	-	1,175	1,098
Other	3	-	-	3
	233,520	27,982	53,397	208,105
General				
Deferred revenue and deposits	45,353	52,650	46,279	51,724
	\$ 278,873	\$ 80,632	\$ 99,676	\$ 259,829

THE CORPORATION OF THE CITY OF MARKHAM

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2025

10. Employee future benefits liabilities:

	2025	2024
Long-term disability benefits (note 10(a))	\$ 6,677	\$ 6,405
Post-employment benefits (note 10(b))	20,970	19,169
Vested sick leave benefits (note 10 (c))	7,663	7,260
Workplace Safety and Insurance Board (note 10 (d))	8,213	7,570
	43,523	40,404
Vacation pay - City	5,015	4,208
Vacation pay - Library	197	187
	\$ 48,735	\$ 44,799

(a) Long-term disability benefits ("LTD"):

The City provides LTD benefits to eligible employees. As at December 31, 2025, the accrued liability of \$ 6,677 (2024 - \$6,405) represents the actuarial valuation of benefits to be paid, based on the history of claims with employees. The City has established a LTD reserve to reduce the future impact of these obligations. The accrued benefit liability and the net benefit cost for the fiscal year were determined by an actuarial valuation for December 2023 and projected to December 2025.

(b) Post-employment benefits:

The City provides for post-employment benefits extended health and dental benefits to eligible retiring employees to age 65. The City recognizes these post-employment costs as they are earned during the employee's tenure of service. As at December 31, 2025, the post-employment benefit liability is \$20,970 (2024 - \$19,169). The accrued benefit liability and the net benefit cost for the fiscal year were determined by an actuarial valuation for December 2024 and projected to December 2025.

THE CORPORATION OF THE CITY OF MARKHAM

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2025

10. Employee future benefits liabilities (continued):

(c) Vested sick-leave benefits:

Under the sick-leave benefit plan, which is available only to the City's firefighters, employees can accumulate unused sick leave and may become entitled to a cash payment when they leave the City's employment. As at December 31, 2025, the liability for these accumulated days, to the extent that they have vested and could be taken in cash by an employee on termination, amounted to \$ 7,663 (2024 - \$7,260). The accrued benefit liability and the net benefit cost for the fiscal year were determined by an actuarial valuation for December 2024 and projected to December 2025.

(d) Workplace Safety and Insurance Board ("WSIB") Obligations:

Effective January 1, 1999, the City became a Schedule II employer under the Workplace Safety and Insurance Act and follows a policy of self-insurance for all its employees. The City remits payments to the WSIB as required to fund disability payments. As at December 31, 2025, the estimated future liability relating to the WSIB claims amounted to \$ 8,213 (2024 - \$7,570) and was determined by an actuarial valuation. A Workplace Safety and Insurance Reserve Fund, funded by annual contributions from the Operating Fund, has been established to protect against any unknown future liability. The accrued benefit liability and the net benefit cost for the fiscal year were determined by an actuarial valuation for December 2022 and projected to December 2025.

THE CORPORATION OF THE CITY OF MARKHAM

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2025

10. Employee future benefits liabilities (continued):

Information about the City's self-insured, defined benefit plans is as follows:

	LTD	Post-employment benefits	Vested sick leave	WSIB	2025	2024
Accrued benefit liability, beginning of year	\$ 6,405	\$ 19,169	\$ 7,260	\$ 7,570	\$ 40,404	\$ 39,074
Service cost	1,133	1,142	615	943	3,833	3,628
Interest cost	296	813	317	433	1,859	1,750
Increase due to plan amendment/survivor awards	–	1,462	–	–	1,462	–
Benefit payments	(1,216)	(1,545)	(597)	(990)	(4,348)	(4,390)
Amortization of actuarial loss (gain)	59	(71)	68	257	313	342
Accrued benefit liability, end of year	6,677	20,970	7,663	8,213	43,523	40,404
Unamortized actuarial loss (gain)	173	(231)	(133)	(1,821)	(2,012)	(2,354)
Accrued benefit obligation, end of year	\$6,850	\$20,739	\$7,530	\$6,392	\$41,511	\$38,050

The actuarial valuations of the plans were based upon a number of assumptions about the future events, which reflect management's best estimates. The following represents the significant assumptions made:

	LTD	Post-employment benefits	Vested sick leave	WSIB
Expected inflation rate	N/A	2.00%	2.00%	2.50%
Expected level of salary increase	N/A	3.00%	3.00%	3.00%
Interest discount rate	4.50%	4.25%	4.25%	4.50%
Expected Average Remaining Service Life in years	N/A	13	14	11

THE CORPORATION OF THE CITY OF MARKHAM

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2025

11. Long-term liabilities:

As a lower-tier municipality the City does not have the ability to borrow long-term funds, and as such the borrowing is done through the Region. The long-term liabilities issued and outstanding are as follows:

	2025	2024
Canada Mortgage Housing Corporation loan (a)	\$ 3,940	\$ 4,639
Federation of Canadian Municipalities loan (b)	1,896	2,099
	\$ 5,836	\$ 6,738

(a) The loan of \$12,000 received on July 1, 2010 from Canada Mortgage Housing Corporation through the Region, was used to fund the purchase of the Markham District Energy Birchmount plant. The plant was subsequently leased back to MDE, a 100% owned subsidiary of MEC. The loan is to be amortized over a period of 20 years, at an interest rate of 4.04%. An annual payment to the Region of \$886 consists of principal and interest.

(b) The loan of \$4,000 received on April 14, 2014 from Federation of Canadian Municipalities through the Region was used to fund the cost of Cornell Community Centre. The loan is to be amortized over a period of 20 years, at an interest rate of 2%. An annual payment to the Region of \$244 consists of principal and interest.

Principal payments are repayable annually as follows:

2026	\$	934
2027		967
2028		1,002
2029		1,038
2030		1,076
Thereafter		819
	\$	5,836

THE CORPORATION OF THE CITY OF MARKHAM

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2025

12. Tangible capital assets:

(a) Assets under construction:

Assets under construction having a value of \$100,642 (2024 - \$51,249) have not been amortized. Amortization of these assets will commence when the asset is put into service.

(b) Contributed tangible capital assets:

Contributed tangible capital assets have been recognized at fair market value at the date of contribution. If the fair market value estimate cannot be reasonably made at the time of contribution, these assets are recorded at nominal value initially and the estimate is updated when a reasonable fair market value estimate can be made. The value of contributed assets received during the year is \$ 236,704 (2024 - \$612,277) comprised of land in the amount of \$ 210,984 (2024 - \$576,098), infrastructure in the amount of \$ 17,470 (2024 - \$7,197) and waterworks equipment and infrastructure in the amount of \$ 7,950 (2024 - \$26,562) and other developers' contributions of \$300 (2024 - \$2,420).

(c) Tangible capital assets disclosed at nominal values:

Where an estimate of fair value cannot be made, the tangible capital asset is recognized at a nominal value. Land is the only asset where nominal values are assigned.

(d) Works of art and historical treasures:

The City manages and controls various works of art and non-operational historical cultural assets including buildings, artifacts, paintings and sculptures located at City sites and public display areas. These assets are not recorded as tangible capital assets and are not amortized.

(e) Asset retirement obligations:

The cost of tangible capital assets and accumulated depreciation for buildings and infrastructure includes \$ 19,571 (2024 - \$19,571) and \$ 19,331 (2024 - \$19,250) respectively, attributable to asset retirement costs. As at December 31, 2025, these buildings and infrastructure assets remained in productive use, thus the carrying value of the liability for the asset retirement obligation remained consistent with the values reported in 2024.

THE CORPORATION OF THE CITY OF MARKHAM

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2025

12. Tangible capital assets (continued):

	Cost			Balance, end of year	Accumulated depreciation			Net book value		
	Balance, beginning of year	Additions and transfers	Disposals and adjustments		Balance, beginning of year	For the year	Disposals and adjustments	Balance, end of year	2025	2024
Land	\$ 3,668,311	\$ 211,578	\$ -	\$ 3,879,889	\$ -	\$ -	\$ -	\$ -	\$ 3,879,889	\$ 3,668,311
Buildings	491,548	358	-	491,906	207,923	10,903	-	218,826	273,080	283,625
Equipment	53,461	15,768	(3,480)	65,749	23,604	6,468	(3,480)	26,592	39,157	29,857
Furniture and fixtures	2,504	162	(723)	1,943	1,792	161	(723)	1,230	713	712
Infrastructure	1,643,055	38,360	(10,339)	1,671,076	660,366	40,592	(10,339)	690,619	980,457	982,689
Library materials, furniture and fixtures	16,672	2,064	(3,435)	15,301	10,517	1,764	(3,435)	8,846	6,455	6,155
Parks and Pathways	132,643	4,934	(5,073)	132,504	50,609	6,821	(5,073)	52,357	80,147	82,034
Vehicles	22,195	3,766	(2,884)	23,077	8,538	2,573	(2,884)	8,227	14,850	13,657
Waterworks equipment and infrastructure	1,180,047	20,039	(2,252)	1,197,834	435,587	18,096	(2,252)	451,431	746,403	744,460
Total	7,210,436	297,029	(28,186)	7,479,279	1,398,936	87,378	(28,186)	1,458,128	6,021,151	5,811,500
Capital work in progress	51,249	49,393	-	100,642	-	-	-	-	100,642	51,249
	\$ 7,261,685	\$ 346,422	\$ (28,186)	\$ 7,579,921	\$ 1,398,936	\$ 87,378	\$ (28,186)	\$ 1,458,128	\$ 6,121,793	\$ 5,862,749

THE CORPORATION OF THE CITY OF MARKHAM

Notes to Consolidated Financial Statements
(In thousands of dollars)

Year ended December 31, 2025

13. User charges:

	2025	2024
Water and sewer billing to ratepayers	\$ 157,326	\$ 148,995
Recreation programs	17,753	16,280
Building permits	16,053	14,242
Facility rentals	13,836	13,057
Other	6,111	5,379
Planning and landscaping	5,639	10,752
Engineering	4,782	12,800
Culture venues	4,259	3,872
Parking violations	3,338	3,358
Licenses	2,398	2,315
Total	\$ 231,495	\$ 231,050

Other user charges include property tax administration fees, waterworks services and legal administration fees.

14. Government transfers:

The City recognizes the transfer of government funding as revenue in the year the events giving rise to the transfer occur. The details of government transfers for December 31 are:

	2025	2024
Provincial grants:		
General government	\$ -	\$ 100
Environmental services	2,645	2,464
Recreation and cultural services	407	407
Planning and development services	772	770
	3,824	3,741
Federal grants:		
General government	19,151	14,184
Environmental services	1,643	1,295
Recreation and cultural services	176	130
Planning and development services	-	12
	20,970	15,621
	\$ 24,794	\$ 19,362

THE CORPORATION OF THE CITY OF MARKHAM

Notes to Consolidated Financial Statements
(In thousands of dollars)

Year ended December 31, 2025

15. Accumulated operating surplus:

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

	2025	2024
City operating fund surplus including library, community boards, Destination Markham Corporation and business improvement areas	\$ 15,255	\$ 18,498
Less transferred to reserve and reserve funds	10,727	14,141
	4,528	4,357
Equity in Markham Enterprises Corporation	379,910	355,822
Invested in tangible capital assets	6,121,793	5,862,749
Other	(91,889)	(92,233)
	6,414,342	6,130,695
Reserves set aside for specific purposes by council:		
Berczy landscape feature	203	203
Building fee	21,267	18,401
Capital gains	41,204	22,352
Corporate rate stabilization	30,046	30,046
Development fee	47,823	62,238
Election expenses	840	540
Election rebates	721	658
Facility ramp up	44,622	42,636
Firefighters sick leave benefits	8,024	7,760
Insurance	6,684	5,651
Long-term disability benefits	25,685	25,685
Waterworks	134,224	124,538
	361,343	340,708

THE CORPORATION OF THE CITY OF MARKHAM

Notes to Consolidated Financial Statements
(In thousands of dollars)

Year ended December 31, 2025

15. Accumulated operating surplus (continued):

	2025	2024
Reserve funds set aside for specific purposes by council:		
Cemetery expenses	144	139
Emerald Ash Borer	192	192
Environmental land acquisition	14,707	13,969
Environmental sustainability fund	64	62
Heritage	856	485
Heritage land acquisition	863	863
Land acquisition	(418,533)	(398,622)
Library infrastructure	7,627	7,374
Life cycle replacement and capital	266,542	254,836
Municipal accommodation tax	2,543	-
Non-DC growth	25,755	23,536
Post-retirement benefits	21,811	21,086
Public art acquisition	8,755	9,068
Stormwater fee	(3,475)	(2,387)
Theatre	1,231	1,147
Trees for Tomorrow program	369	439
WSIB	9,563	8,037
WSIB excess compensation	3,273	3,164
	(57,713)	(56,612)
Total	\$ 6,717,972	\$ 6,414,791

16. Commitments:

As at December 31, 2025, the City is committed to minimum annual operating lease payments for premises and equipment as follows:

2026	\$	114
2027		100
2028		52

THE CORPORATION OF THE CITY OF MARKHAM

Notes to Consolidated Financial Statements
(In thousands of dollars)

Year ended December 31, 2025

17. Contingencies:

Unsettled legal claims and potential other claims:

The City has been named as the defendant in certain legal actions in which damages have been sought. The outcome of these actions is not determinable at this time and, accordingly, no provision has been made in these consolidated financial statements for any liability that may result.

18. Segmented information:

The City is a diverse municipal government that provides a wide range of services to its citizens. For management reporting purposes, the City's operations and activities are organized functionally based on services provided. Certain allocation methodologies are employed in the preparation of segmented financial information. User charges and other revenues are allocated to the segments based upon the segment that generated the revenue. Government transfers are allocated to the segment based upon the purpose for which the transfer was made. Deferred revenues earned and developer contributions are allocated to general government.

The segmented information of revenues and expenses with a brief description of the service area, is as follows:

(a) General government:

General government service area includes the Office of Mayor and Members of Council, Chief Administrative Officer, People Services (Human Resources), Legal, Sustainability and Asset Management Office, Legislative Services, Financial Services, Corporate Communications and Community Engagement and Information Technology Services. The departments are responsible for general governance and corporate management.

(b) Protection to persons and property:

Protection service area includes Fire and Emergency Services and Building Standards. The departments are responsible to perform fire prevention and protection, fire alarm, building services and other auxiliary services.

THE CORPORATION OF THE CITY OF MARKHAM

Notes to Consolidated Financial Statements
(In thousands of dollars)

Year ended December 31, 2025

18. Segmented information (continued):

(c) Transportation services:

Transportation service area includes roads, parking control and asset management. The departments are responsible for road maintenance, hard-top and loose-top maintenance, winter patrol, salt, sanding, snow removal, street lighting and administration of facilities and parking.

(d) Environmental services:

Environmental service area includes Waterworks and Waste Management. The departments are responsible for the administration of the sanitary and storm sewer system, distribution of water, and the administration of garbage collection and garbage recycling.

(e) Recreation and cultural services:

The recreation and cultural service area includes park, recreation services, culture services and Markham Public Libraries. The departments are responsible for providing and facilitating the development and maintenance of high-quality parks, recreation services and cultural services and administration of libraries.

(f) Planning and development services:

Planning and development services area includes planning and urban design and engineering. The departments are responsible for administration of land use plans and policies for sustainable development of the City.

(g) Other:

The Legislative Services department is responsible for administration of cemetery maintenance and morgues.

THE CORPORATION OF THE CITY OF MARKHAM

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2025

18. Segmented information (continued):

	General government	Protection to persons and Transportation property	Environmental services	Recreation and cultural services	Planning and development services	Other	2025	2024
Revenue:								
Property taxes	\$ 200,555	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 200,555	\$ 192,366
User charges	11,402	16,624	1,089	158,901	33,053	10,426	231,495	231,050
Government transfers	19,152	-	-	4,287	583	772	24,794	19,362
Contribution from developers and others	236,704	-	-	-	-	-	236,704	612,277
Investment income	50,437	-	-	-	-	-	50,437	39,671
Tax penalties	7,864	-	-	-	-	-	7,864	7,312
Gain on sale of tangible capital assets	323	-	-	-	-	-	323	-
Deferred revenue earned	49,689	-	-	-	-	-	49,689	39,817
Equity income from Markham Enterprises Corporation	35,039	-	-	-	-	-	35,039	28,421
Other	16,940	470	1,189	236	1,151	1,767	21,753	21,994
	628,105	17,094	2,278	163,424	34,787	12,965	858,653	1,192,270
Expenses:								
Salaries, wages and employee benefits	44,847	61,795	21,256	10,037	60,110	11,697	209,742	190,671
Operating materials and supplies	15,139	2,006	8,436	1,692	15,144	1,141	43,588	37,982
Contracted services	13,351	1,651	16,195	151,554	13,230	14,961	210,942	187,048
Rents and financial	(2,699)	296	398	3,828	1,187	136	3,146	2,425
External transfers to others	463	-	-	-	-	-	463	370
Long-term debt charges	213	-	-	-	-	-	213	245
Amortization of tangible capital assets	4,699	2,370	33,208	25,751	21,350	-	87,378	85,417
	76,013	68,118	79,493	192,862	111,021	27,935	555,472	504,158
Annual surplus (deficit)	\$ 552,092	\$ (51,024)	\$ (77,215)	\$ (29,438)	\$ (76,234)	\$ (14,970)	\$ 303,181	\$ 688,112

THE CORPORATION OF THE CITY OF MARKHAM

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2025

19. Budget figures:

The budget figures presented in these consolidated financial statements are based on the Council approved 2025 budget, inclusive of in-year additions to the capital budget due to change in Municipal Act, 2001 (note 1(q)). The following table reconciles the approved budget figures as presented in these consolidated financial statements using the accrual basis of accounting.

	2025	2024
Revenue:		
Approved operating budget	\$ 496,183	\$ 469,433
Approved capital budget	183,265	128,195
Transfer from reserve funds	(95,520)	(65,651)
	583,928	531,977
Expenses:		
Approved operating budget	496,183	469,433
Transfer to reserve funds	(66,569)	(64,371)
Expenses not capitalized	31,724	30,502
Post-employment benefit	958	361
Amortization	86,363	84,830
	548,659	520,755
Annual surplus (deficit)	\$ 35,269	\$ 11,222

THE CORPORATION OF THE CITY OF MARKHAM

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2025

20. Trust funds:

Trust funds administered by the City for the benefit of others amounting to \$2,507 (2024 - \$2,462) have not been included in the consolidated statement of financial position of the City nor have their operations been included in the consolidated statement of operations of the City. The details of the trust funds are as follows:

(a) Morgan Park Trust Fund:

The T. & G. Morgan Memorial Fund in Markham Village was established in 1918 as a result of the last Will and Testament of George Morgan to hold funds, the interest earned on which can be used to offset certain maintenance costs of Morgan Park. As at December 31, 2025, the trust fund balance was \$97 (2024 - \$94).

(b) Varley-McKay Art Foundation Trust Fund:

The Varley-McKay Art Foundation Trust Fund was established by Council Resolution on December 11, 2001. The Varley-McKay Art Foundation Trust Fund is funded by the amount received from the Estate of Kathleen G. McKay. Interest earned on these funds is available to the Varley-McKay Art Foundation of Markham to fund art appreciation and development. As at December 31, 2025, the trust fund balance was \$1,351 (2024 - \$1,299).

(c) Markham Environmental Advisory Committee Trust Fund:

The Markham Environmental Advisory Committee (previously the Markham Conservation Committee) Trust Fund was established by Council Resolution on April 15, 1992 to receive donations, grants, subsidies, and other amounts, to be used to cover costs associated with conservation and naturalization programs and projects undertaken by the Markham Environmental Advisory Committee. As at December 31, 2025, the trust fund balance was nil (2024 - nil).

THE CORPORATION OF THE CITY OF MARKHAM

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2025

20. Trust funds (continued):

(d) Cemetery Trust Funds:

The Cemetery Trust Funds was established under the Regulations of the Cemeteries Act (the "Regulations") to accumulate certain funds from the sale or transfer of an interment right to a purchaser in accordance with the Regulations. These funds are to be held in trust for the care and maintenance of the cemetery. Interest earned on amounts held by the Cemetery Trust Funds is used towards the maintenance, security and preservation of the cemetery, its grounds, buildings, equipment and markers in accordance with the Regulations. As at December 31, 2025, the trust fund balance was \$945 (2024 - \$945).

(e) Older Adults In Action Trust Fund:

Council Resolution established the Older Adults in Action Trust Fund on March 10, 1998 to collect donations for the Club and Older Adult Centre. As at December 31, 2025, the trust fund balance was \$12 (2024 - \$12).

(f) Markham History - Research and Publication Trust Fund:

The Markham History – Research and Publication Trust Fund was established by Council Resolution on June 1, 2004 to plan and monitor the implementation of research, writing, digitizing and production of historical media that illuminates various themes in Markham's history. As at December 31, 2025, the trust fund balance was \$102 (2024 - \$112).

THE CORPORATION OF THE CITY OF MARKHAM

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2025

21. Contractual rights:

The City revenue to be generated in the future, in relation to existing lease agreements are approximately \$24,525. The City has also entered into Provincial funding agreements, whereby the estimated future funding is \$ 34,144.

	Lease agreements	Provincial funding agreements
2026	\$ 4,368	\$ 11,086
2027	4,066	11,529
2028	4,018	11,529
2029	3,572	-
2030	2,554	-
Thereafter	5,947	-
Total	\$ 24,525	\$ 34,144

22. Financial instruments:

(a) Fair value measurement hierarchy:

All financial instruments must be classified in accordance with the significance of the inputs used in making fair value measurements. The fair value hierarchy prioritizes the valuation techniques used to determine the fair value of a financial instrument based on whether the inputs to those techniques are observable or unobservable:

- Level 1 - when valuation can be based on quoted prices in active markets for identical assets and liabilities;
- Level 2 - when they are valued using quoted prices for similar assets and liabilities, quoted prices in markets that are not active, or models using inputs that are observable; and
- Level 3 - when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable.

THE CORPORATION OF THE CITY OF MARKHAM

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2025

22. Financial instruments (continued):

Fair value inputs are taken from observable markets where possible, but if they are unavailable, judgement is required in establishing fair value. The City's fair value hierarchy is classified as Level 2 for PPN. The classification for disclosure purposes has been determined in accordance with generally accepted pricing models, based on discounted cash flow analysis, with the most significant inputs being the contractual terms of the instrument and the market discount rates that reflect the credit risk of counterparties.

2025	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	\$ 259,073	\$ –	\$ –	\$ 259,073
Investments	244,048	222,244	–	466,292
Property taxes receivable	46,270	–	–	46,270
Accounts receivable	97,750	–	–	97,750
Financial liabilities				
Accounts payable and accrued liabilities	242,849	–	–	242,849
Long-term liabilities	5,836	–	–	5,836
<hr/>				
2024	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	\$ 268,276	\$ –	\$ –	\$ 268,276
Investments	194,544	159,752	–	354,296
Property taxes receivable	50,766	–	–	50,766
Accounts receivable	87,573	–	–	87,573
Financial liabilities				
Accounts payable and accrued liabilities	186,429	–	–	186,429
Long-term liabilities	6,738	–	–	6,738

THE CORPORATION OF THE CITY OF MARKHAM

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2025

22. Financial instruments (continued):

The carrying amount of cash and cash equivalents, investments excluding those as disclosed in note 5, property taxes receivables, accounts receivable, accounts payable and accrued liabilities and long-term liabilities approximate their fair value due to the short-term maturity of these financial instruments.

The carrying value and fair value of the City's other financial instruments are as follows:

	2025		2024	
	Carrying value	Fair value	Carrying value	Fair value
Principal protected notes	\$137,500	\$222,444	\$ 125,400	\$ 159,752
Bonds	199,048	215,490	151,212	146,177
GICs	45,000	45,000	45,000	45,000
	<u>\$381,548</u>	<u>\$482,734</u>	<u>\$ 321,612</u>	<u>\$ 350,929</u>

(b) Credit risk:

Credit risk is the risk of a financial loss to the City if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Such risks arise principally from certain financial assets held by the City consisting of accounts receivable.

As at December 31, 2025, there were no significant balances of accounts receivable due from any single customer. There was nil (2024 - nil) of write-offs during the year except for the write offs of \$541 (2024 - \$636) related to Section 354 of the Municipal Act, 2001 which was approved by the City Council . The City actively monitors accounts receivable and has the right to enforce payment as per the contract. Management has reviewed the outstanding accounts receivable and determined that no allowance for doubtful accounts is required, as all amounts are expected to be collected. Accounts receivable consist primarily of amounts due from related parties that are profitable entities, as well as accrued interest on investments, which is expected to be collected upon the maturity of the underlying investments. Based on the nature of these balances and the financial position of the counterparties, management considers the risk of non-collection to be minimal.

THE CORPORATION OF THE CITY OF MARKHAM

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2025

22. Financial instruments (continued):

(c) Liquidity risk:

Liquidity risk is the risk that the City will not be able to meet its obligations as they become due. The City's objective is to have sufficient liquidity to meet these liabilities when due. The City monitors its cash balance and cash flows generated from operations to meet its liquidity requirements.

Contractual cash flows:

2025	Carrying value	Within 1 year	1 - 5 years	> 5 years	Total
Accounts payable and accrued liabilities	\$242,849	\$242,849	\$ -	\$ -	\$ 242,849
Liability for asset retirement obligation	19,571	-	-	19,571	19,571
Long-term liabilities	5,836	934	4,083	819	5,836
	\$268,256	\$243,783	\$4,083	\$20,390	\$ 268,256

2024	Carrying value	Within 1 year	1 - 5 years	> 5 years	Total
Accounts payable and accrued liabilities	\$ 186,429	\$ 186,429	\$ -	\$ -	\$ 186,429
Liability for asset retirement obligation	19,571	-	-	19,571	19,571
Long-term liabilities	6,738	901	5,015	822	6,738
	\$ 212,738	\$ 187,330	\$ 5,015	\$ 20,393	\$ 212,738

THE CORPORATION OF THE CITY OF MARKHAM

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2025

22. Financial instruments (continued):

(d) Market risk:

Market risk is the risk that changes in market price, such as foreign exchange rates, interest rates and other price risks, will affect the City's net results of operations or the fair value of its holdings of financial instruments.

- Foreign currency risk - the City is not exposed to any significant currency risk due to limited foreign currency transactions.
- Interest rate risk - the City limits its exposure to interest rate risk by issuing long-term fixed rate debt in the form of debentures, and promissory notes. At December 31, 2025, the City did not hold financial assets or financial liabilities that expose it to significant variation in cash flow due to fluctuations in interest rates.
- Other price risk - other price risk arises when the fair value of equity funds changes due to a decrease in a stock market index or other risk variables. The City's exposure to this type of risk is limited to investments in PPN.