

Consolidated Financial Statements of

**THE CORPORATION OF
THE CITY OF MARKHAM**

December 31, 2018

INDEPENDENT AUDITORS' REPORT

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

Opinion

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

- the consolidated statement of financial position as at December 31, 2018
- the consolidated statement of operations for the year then ended
- the consolidated statement of changes in net financial assets 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 Corporation of the City of Markham as at December 31, 2018, and its consolidated results of operations, its consolidated changes in net financial assets 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 Auditors’ Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other 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 Corporation’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 Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation’s financial reporting process.

Auditors’ Responsibility 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 auditors’ 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.

THE CORPORATION OF THE CITY OF MARKHAM
Notes to the Consolidated Financial Statements
Year ended December 31, 2018
(All dollar amounts are in \$000)

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 Corporation'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 Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Corporation 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities within the Group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada
Date: April 30, 2019

THE CORPORATION OF THE CITY OF MARKHAM
Consolidated Statement of Financial Position
December 31, 2018 with comparative figures for 2017
(All dollar amounts are in \$000)

	Note	2018	2017
FINANCIAL ASSETS			
Cash and investments	4	\$ 389,141	\$ 302,196
Property taxes receivable	5	25,591	25,946
Unbilled user charges		10,889	9,378
Accounts receivable	6	47,760	58,785
Investment in Markham Enterprises Corporation	7	380,312	362,159
Other current assets		360	488
		854,053	758,952
FINANCIAL LIABILITIES			
Accounts payable and accrued liabilities	8	148,032	142,726
Deferred revenue	9	173,322	126,276
Employee future benefits liabilities	10	31,649	30,953
Long-term liabilities	11	11,530	12,236
		364,533	312,191
NET FINANCIAL ASSETS		\$ 489,520	\$ 446,761
NON-FINANCIAL ASSETS			
Tangible capital assets	12	4,113,357	4,005,265
Inventories of supplies		1,503	1,263
Inventories of land - heritage estates		86	86
Prepaid expenses		2,119	1,790
		4,117,065	4,008,404
ACCUMULATED SURPLUS	15	\$ 4,606,585	\$4,455,165

The accompanying notes are an integral part of these financial statements.

THE CORPORATION OF THE CITY OF MARKHAM
Consolidated Statement of Operations and Accumulated Surplus
For the year ended December 31, 2018 with comparative figures for 2017
(All dollar amounts are in \$000)

	Note	2018		2017
		Budget	Actual	Actual
Revenues				
Property taxes		\$ 156,260	\$ 156,737	\$ 150,884
User charges	13	194,255	192,852	\$ 168,205
Government transfers	14	12,142	11,158	8,305
Contributions from developers and others		169	128,130	71,142
Investment income		16,243	15,726	20,519
Tax penalties		4,158	4,482	4,215
Gain on sale of tangible capital assets		-	873	275
Deferred revenue earned		16,556	20,543	48,690
Equity pick up from Markham Enterprises Corporation	7	-	21,327	116,806
Other		5,565	9,578	12,748
TOTAL REVENUES		405,348	561,406	601,789
Expenses				
General government		60,698	52,289	56,278
Protection to persons and property		47,710	49,254	46,337
Transportation services		62,506	61,103	57,624
Environmental services		153,573	146,179	132,319
Recreation and cultural services		86,710	88,324	81,268
Planning and development services		14,667	12,803	11,944
Other		48	34	102
TOTAL EXPENSES		425,912	409,986	385,872
ANNUAL SURPLUS (DEFICIT)		(20,564)	151,420	215,917
ACCUMULATED SURPLUS, BEGINNING OF YEAR		4,455,165	4,455,165	4,239,248
ACCUMULATED SURPLUS, END OF YEAR	15	\$ 4,434,601	\$ 4,606,585	\$ 4,455,165

The accompanying notes are an integral part of these financial statements.

THE CORPORATION OF THE CITY OF MARKHAM
Consolidated Statement of Change in Net Financial Assets
For the year ended December 31, 2018 with comparative figures for 2017
(All dollar amounts are in \$000)

	2018		2017
	Budget	Actual	Actual
Annual surplus (deficit)	(20,564)	151,420	215,917
Acquisition of tangible capital assets	(131,845)	(185,230)	(244,178)
Amortization of tangible capital assets	73,757	76,384	72,890
Disposal/write-down of tangible capital assets	-	754	168
	(78,652)	43,328	44,797
Acquisition of inventories of supplies	-	(1,503)	(1,255)
Acquisition prepaid expenses	-	(2,119)	(1,790)
Consumption of inventories of supplies	-	1,263	1,265
Use of prepaid expenses	-	1,790	1,268
Change in net financial assets	(78,652)	42,759	44,285
Net financial assets, beginning of year	446,761	446,761	402,476
Net financial assets, end of year	368,109	489,520	446,761

The accompanying notes are an integral part of these financial statements.

THE CORPORATION OF THE CITY OF MARKHAM
Consolidated Statement of Cash Flows
For the year ended December 31, 2018 with comparative figures for 2017
(All dollar amounts are in \$000)

	<u>2018</u>	<u>2017</u>
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Annual surplus	151,420	215,917
Add (deduct) items not involving cash		
Amortization of tangible capital assets	76,384	72,890
Disposal/write down of tangible capital assets	754	168
Change in employee future benefits and other liabilities	696	105
Equity pick up in Markham Enterprises Corporation	(21,327)	(116,806)
Contributed tangible capital assets	(120,344)	(68,305)
Change in non-cash assets and liabilities		
Property taxes receivable	355	1,559
Accounts receivable	11,025	5,816
Unbilled user charges	(1,511)	(1,014)
Other current assets	128	2
Accounts payable and accrued liabilities	5,306	568
Long-term liabilities	(706)	(682)
Deferred revenue	47,046	(1,020)
Inventories of supplies	(240)	10
Prepaid expenses	(329)	(522)
Net change in cash from operating activities	148,657	108,686
CAPITAL ACTIVITIES		
Acquisition of tangible capital assets	(64,886)	(175,873)
Net change in cash from capital activities	(64,886)	(175,873)
INVESTING ACTIVITIES		
Dividend from Markham Enterprises Corporation	1,634	6,656
Decrease in share capital of Markham Enterprises Corporation	1,540	1,532
Net change in cash from investing activities	3,174	8,188
NET CHANGE IN CASH AND CASH EQUIVALENTS	86,945	(58,999)
OPENING CASH AND CASH EQUIVALENTS	302,196	361,195
CLOSING CASH AND CASH EQUIVALENTS	389,141	302,196
Supplementary information:		
Interest paid	412	437
Interest received	9,075	8,153

The accompanying notes are an integral part of these consolidated financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

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). Significant accounting policies adopted by the City are as follows:

a) Reporting Entity

These consolidated financial statements reflect the assets, liabilities, revenues 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

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 and accumulated surplus with a corresponding increase or decrease in its investment asset account. Any dividends that the City may receive from MEC are reflected as reductions in the investment asset account.

c) Accounting for Region and School Board Transactions

The property taxes, other revenues, 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 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

Revenues are recorded in the period in which the transactions or events occurred that gave rise to the revenue.

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

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Government Transfers

Government transfers are recognized in the financial statements in the period 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.

g) 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.

h) Property Taxes and Related Revenues

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

The City adopted PS 3510, *Property Tax Revenues* that addresses recognition and reporting of property tax revenue. This establishes recognition of revenue when they meet the definition of an asset, and are authorized by a legislature or Council when the taxable event occurs.

i) Employee Future Benefits

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 contribution 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

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 period during which the benefits will be paid. The cost of plan amendments is accounted for in the period they are adopted.

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

j) Investment Income

Investment income is reported as revenue in the period 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.

k) 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.

(i) 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:

Asset	Useful Life - Years
Buildings and building improvements	40
Equipment	5 – 20
Furniture and fixtures	10 – 15
Infrastructure	10 – 100
Library furniture and fixtures	10
Library media collection	7
Park and pathways	10 – 60
Vehicles	7 – 9
Waterworks equipment	9
Waterworks infrastructure	15 – 100
Waterworks vehicles	7

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.

(ii) 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 time of registration.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(iii) Works of Art and Cultural and Historic Assets

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

(iv) Interest Capitalization

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

(v) Inventories of Supplies

Inventories of supplies held for consumption are recorded at the lower of cost and replacement cost.

(vi) Inventories of land

Inventories of heritage land held for sale and are recorded at cost.

l) 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 revenues and expenditures during the period. Actual results could differ from these estimates.

m) Budget Figures

The approved operating and capital budgets for 2018 are reflected on the Consolidated Statement of Operations and Accumulated Surplus and on the Consolidated Statement of Change in Net Financial Assets. The Capital budget is on a project-oriented basis, the costs of which may be carried but over one or more years and, therefore, may not be comparable with the current year actual amounts. The budget presented in these financial statements has been reconciled to the approved budgets to reflect the accrual basis of accounting (Note 19).

n) Segment Disclosure

The City adopted PSAB Standard 2700 for Segment Disclosures. 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.

o) Reporting for Contaminated Sites

The City adopted PSAB Standard PS 3260 Liability for Contaminated Sites effective January 1, 2015. Under PS 3260, contaminated sites are defined as the 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 City adopted this standard on a prospective basis.

Contaminated sites are defined as the result of contamination being introduced that exceeds an environmental standard. 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

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

- contamination exceeds the environmental standard
- the organization is directly responsible or accepts responsibility for the liability
- future economic benefits will be given up, and
- a reasonable estimate of the liability can be made.

p) Adoption of accounting policies

The City has adopted the following PSAB Standards effective January 1, 2018:

(i) Assets (PS 3210)

PS 3210 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, 2018, all material assets have been disclosed and reported within this definition.

(ii) Contingent Assets (PS 3320)

PS 3320 introduces a definition for possible assets arising from existing conditions or situations involving uncertainty which will be ultimately resolved when one of more future events occur that are not within the government's control. Disclosure of a contingent asset is required under this standard when the occurrence of a confirming future event is likely.

(iii) Contractual Rights (PS 3380)

PS 3380 requires the disclosure of information in regards to future rights to economic resources arising from contracts or agreements that will result in a future economic benefit. Such disclosure includes the nature, extent and timing of contractual rights. The City is involved with various contracts and agreements arising in the ordinary course of business. This results in contractual rights to economic resources.

(iv) Related Party disclosures (PS 2200)

A related party exists when one party has the ability to exercise control or shared control over the other. Related parties include key management personnel, their close family members and the entities they control or have shared control over. Related party transactions are disclosed if they occurred at a value different from that which would have been arrived at if parties were unrelated and the transaction has material effect on the consolidated financial statements

(v) Inter-Entity Transactions (PS 3420)

PS 3420 provides guidance on how to account for and report transactions between public sector entities that comprise a governments reporting entity. This section provides guidance for the measurement of these transactions. All City transactions are recorded at the exchange amount, being the amount agreed to by both parties.

2. 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 of York	2018	2017
Taxation	\$ 235,528	\$ 307,840	\$ 543,368	\$ 515,696
Payment in lieu of taxes	270	707	977	1,050
Supplementary taxes	2,370	3,592	5,962	6,696
Amount requisitioned and transferred	\$ 238,168	\$ 312,139	\$ 550,307	\$ 523,442

3. PENSION AGREEMENTS

The City makes contributions to the Ontario Municipal Employees Retirement System (OMERS), which is a multi-employer plan, on behalf of its employees. The plan is a defined benefit plan which specifies the amount of the 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 \$22,930 (2017 - \$23,106) of which \$11,465 (2017 - \$11,553) represented the City's portion and \$11,465 (2017 - \$11,553) represented employees portion

Since OMERS is a multi-employer pension plan, the City does not recognize any share of the pension plan deficit of \$4.2 billion as of 2018 (2017 - \$5.9 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.

4. CASH AND INVESTMENTS

	2018	2017
Cash	\$ 169,044	\$ 92,346
Investments	220,097	209,850
	\$ 389,141	\$302,196

Cash balance includes investments in the amount of \$12,169 (2017 - \$58,161) 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. Investments, which are reported at cost for money market and face value for bonds, had a market value of \$217,695 (2017 - \$215,663) at the end of the year. For the year 2018, the average rate of return earned was 3.12% (2017 - 2.95%).

5. PROPERTY TAXES RECEIVABLE

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

	2018	2017
Current year	\$ 20,029	\$ 19,748
Arrears prior years	6,563	7,199
	26,592	26,947
Less: Allowance for uncollectible taxes	(1,001)	(1,001)
	\$ 25,591	\$ 25,946

The Municipal Property Assessment Corporation (MPAC) is responsible for the valuation of the 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 Province of Ontario introduced a four-year property assessment cycle in 2009, which included a mandatory phase-in of reassessment increases for all properties. The Province chose to repeat the four-year assessment cycle and therefore, for the 2017 through 2020 tax years, all properties are assessed and taxed based on their CVA as of the valuation date of January 1st, 2016. The 2019 taxation year marks the third year of the current phase-in cycle.

The City of Markham'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. This financial uncertainty continues to illustrate the requirement of the provision allowance, which was established in the amount of \$1,001 (2017 - \$1,001). Further, as a result of an initiative by the Chair of the Assessment Review Board (ARB), a commitment was made by the ARB to address the regular and systemic backlog of all property assessment appeals.

6. ACCOUNTS RECEIVABLE – ALECTRA INC. INTEREST

Alectra Inc. owed a sum of \$7,584 (2017 - \$7,584) being interest at 5.58% per annum due for the period October 2006 to September 2008 on promissory notes issued to the City along with the deferred interest payment.

On October 31, 2018, Alectra Inc. made a payment of deferred interest in the amount of \$7,584 (2017 - \$7,584) owed on promissory notes issued by Alectra Inc. The deferred interest was accrued during the period of October 2006 to September 2008 at a rate of 5.58% per annum on the promissory notes. During the deferral period, the City received secondary interest on the deferred interest payments. All secondary interest amounts outstanding was also paid on October 31, 2018.

THE CORPORATION OF THE CITY OF MARKHAM
Notes to the Consolidated Financial Statements
Year ended December 31, 2018
(All dollar amounts are in \$000)

7. INVESTMENT IN MARKHAM ENTERPRISES CORPORATION

Markham Enterprises Corporation (MEC) is wholly owned by the City of Markham. MEC owns 100% of Markham District Energy Inc. (MDE) and 15.73% of Alectra Inc. (2017 – 15.73%).

The following consolidated financial statements of Markham Enterprises Corporation include the financial information of its subsidiaries Markham District Energy Inc. and Alectra Inc. for the period from January 1, 2018 to December 31, 2018.

	2018	2017
Assets		
Current	18,717	13,475
Capital	117,879	120,016
Investment in Alectra Inc.	316,007	311,497
Other	1,778	1,778
Total Assets	454,381	446,766
Liabilities		
Current	8,674	8,884
Other	54,418	56,715
Long Term	10,977	19,008
Total Liabilities	74,069	84,607
Shareholder's Equity		
Common shares	97,916	99,456
Promissory notes payable	79,184	79,184
Retained earnings and contributed Surplus	203,212	183,519
Total Shareholder's Equity	380,312	362,159
Total Liabilities and Shareholder's Equity	454,381	446,766
Results of Operations		
Revenues	45,667	72,668
Operating expenses	24,340	61,752
Net Income	21,327	10,916
Equity pick up in Markham Enterprises Corporation	21,327	10,916
Gain on exchange of shares of PowerStream for shares of Alectra Inc.	-	105,890
(Decrease) in share capital	(1,540)	(1,532)
Dividend	(1,634)	(6,656)
Net Change in Equity in Markham Enterprises Corporation	18,153	108,618
Opening shareholder's equity	362,159	253,541
Closing shareholder's equity	380,312	362,159

THE CORPORATION OF THE CITY OF MARKHAM
Notes to the Consolidated Financial Statements
Year ended December 31, 2018
(All dollar amounts are in \$000)

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 period. They are the result of contracts, agreements and legislation in force at the end of the accounting period that require Markham to pay for goods and services acquired or provided prior to the accounting date. A breakdown of the accounts payable and accrued liabilities is as follows:

	2018	2017
Trade accounts payable	\$ 44,812	\$ 54,758
Payable to other governments	80,004	67,921
Payroll liabilities	7,983	5,946
Accrued liabilities	15,233	14,101
	\$ 148,032	\$ 142,726

9. DEFERRED REVENUE

Deferred revenue represents user charges and fees which have been collected but for which the related services have yet to be performed. These amounts will be recognized as revenues in the fiscal year the services are performed. The following is the current status of the deferred revenues:

	Opening Balance	Inflows	Revenues earned	Closing Balance
Development charges	\$53,787	\$23,351	\$19,006	\$58,132
Parkland cash-in-lieu	34,190	32,396	1,536	65,050
Federal Gas tax	7,491	9,780	8,903	8,368
Section 37 funds	3,350	2,865	-	6,215
	98,818	68,392	29,445	137,765
Deferred revenue and deposits	27,458	9,603	1,504	35,557
	\$126,276	\$77,995	\$30,949	\$173,322

10. EMPLOYEE FUTURE BENEFITS LIABILITIES

	2018	2017
Long-term disability	\$ 5,877	\$ 5,864
Post employment benefits	13,184	13,107
Vacation pay - City	2,792	2,638
Vacation pay - Library	125	136
Vested sick leave benefits	6,142	5,980
Workplace Safety & Insurance Board	3,529	3,228
	\$ 31,649	\$ 30,953

10. EMPLOYEE FUTURE BENEFITS LIABILITIES (continued)

a) Long-Term Disability Benefits (LTD)

The City provides long-term disability benefits to eligible employees. At the year end, the accrued liability of \$5,877 (2017 – \$5,864) represents the actuarial valuation of benefits to be paid on the history of claims with employees. The City has established a long-term disability reserve to reduce 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 2017.

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. The benefit liability at December 31, 2018 is \$13,184 (2017 – \$13,107). The accrued benefit liability and the net benefit cost for the fiscal year were determined by an actuarial valuation updated December 2015.

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. 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 approximately \$6,142 (2017 - \$5,980). The accrued benefit liability and the net benefit cost for the fiscal year were determined by an actuarial valuation updated December 2016.

d) Workplace Safety and Insurance Board (WSIB) Obligations

Effective January 1, 1999, the Corporation of the City of Markham 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. The estimated future liability relating to WSIB amounted to \$3,529 (2017 - \$3,228) 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 2016.

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

		LTD	Post employment benefits	Vested sick- leave	WSIB	2018	2017
Accrued benefit liability, beginning of year	\$	5,864	\$ 13,107	\$ 5,980	\$ 3,228	\$ 28,179	\$ 28,179
Service cost		858	492	465	252	2,067	1,636
Interest cost		181	518	239	186	1,124	1,108
Benefit payments		(847)	(830)	(582)	(374)	(2,633)	(2,397)
Amortization of actuarial loss(gain)		(179)	(103)	40	237	(5)	(347)
Accrued benefit liability, end of year	\$	5,877	\$ 13,184	\$ 6,142	\$ 3,529	\$ 28,732	\$ 28,179

10. EMPLOYEE FUTURE BENEFITS LIABILITIES (continued)

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 more significant assumptions made:

	LTD	Post employment benefits	Vested sick- leave	WSIB
Expected inflation rate	N/A	N/A	N/A	0.00%
Expected level of salary increase	N/A	N/A	3.00%	3.00%
Interest discount rate	3.50%	4.50%	4.00%	4.00%

11. LONG-TERM LIABILITIES

On July 1, 2010 and April 14, 2014, the City received a loan of \$12,000 from Canada Mortgage Housing Corporation (CMHC) and a \$4,000 low-interest loan from Federation of Canadian Municipalities (FCM) respectively through the Region. As a lower-tier municipality the City does not have the ability to borrow long-term funds, and as such the borrowing was done through the Region. The loan received on July 1, 2010 was used to fund the purchase of the Markham District Energy Birchmount plant. The plant was subsequently leased back to Markham District Energy (MDE), a 100% subsidiary of MEC. The loan received on April 14, 2014 was used to fund the cost of Cornell Community Centre.

The loan of \$12,000 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. The first payment was due July 1, 2011. The loan of \$4,000 is to be amortized over a period of 20 years, at an interest rate of 2%. An annual payment to Region of \$244 consists of principal and interest. The first payment was due October 4, 2014.

12. TANGIBLE CAPITAL ASSETS

a) Capital work in progress

Assets under construction having a value of \$27,857 (2017 - \$57,878) 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. The value of contribution assets received during the year is \$120,344 (2017 - \$68,305) comprised of land in the amount of \$70,344 (2017 - \$28,089), roads infrastructure in the amount of \$38,166 (2017 - \$28,860) and water and wastewater infrastructure in the amount of \$11,834 (2017 - \$11,356).

c) Tangible Capital Assets Disclosed at Nominal Values

Where an estimate of fair value could not be made, the tangible capital asset was recognized at a nominal value.

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.

THE CORPORATION OF THE CITY OF MARKHAM
Notes to the Consolidated Financial Statements
Year ended December 31, 2018
(All dollar amounts are in \$000)

12. TANGIBLE CAPITAL ASSETS (continued)

	Cost				Accumulated Depreciation				Net Book Value	
	Jan 1, 2018	Additions	Disposals & Adjustments	Dec 31, 2018	Jan 1, 2018	For the year	Disposals & Adjustments	Dec 31, 2018	Balance at Dec,31, 2018	Balance at Dec,31, 2017
Land	1,965,874	79,397	(754)	2,044,517	-	-	-	-	2,044,517	1,965,874
Buildings	404,010	6,588	-	410,598	116,425	9,894	-	126,319	284,279	287,585
Equipment	32,165	3,683	(1,873)	33,975	16,455	3,623	(1,873)	18,205	15,770	15,710
Furniture & Fixtures	7,699	318	(59)	7,958	5,155	596	(59)	5,692	2,266	2,544
Infrastructure	1,357,640	92,673	(8,914)	1,441,399	458,020	36,663	(8,914)	485,769	955,630	899,620
Library Furniture & Fixtures	3,386	1	(383)	3,004	1,579	288	(383)	1,484	1,520	1,807
Library Media Collection	18,415	2,370	(1,674)	19,111	9,968	2,438	(1,674)	10,732	8,379	8,447
Parks & Pathways	84,973	9,539	(3,191)	91,321	33,165	4,873	(3,191)	34,847	56,474	51,808
Vehicles	15,516	1,243	(701)	16,058	7,443	1,856	(701)	8,598	7,460	8,073
Waterworks Equipment	1,375	40	(119)	1,296	867	140	(119)	888	408	508
Waterworks Infrastructure	1,032,100	19,147	(640)	1,050,607	327,241	15,848	(640)	342,449	708,158	704,859
Waterworks Vehicles	1,316	252	(54)	1,514	764	165	(54)	875	639	552
Total	4,924,469	215,251	(18,362)	5,121,358	977,082	76,384	(17,608)	1,035,858	4,085,500	3,947,387
Capital work in progress	57,878	(30,021)		27,857					27,857	57,878
Grand Total	4,982,347	185,230	(18,362)	5,149,215	977,082	76,384	(17,608)	1,035,858	4,113,357	4,005,265

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13. USER CHARGES

	2018	2017
Water and sewer billing to ratepayers	\$ 121,384	111,284
Building permits	11,791	7,332
Culture venues	3,613	3,351
Engineering	10,231	8,265
Facility rentals	9,196	7,946
Licenses	1,808	1,631
Landscaping	3,362	1,988
Parking violations	3,056	2,970
Planning	10,357	7,925
Recreation programs	13,244	11,894
Other	4,810	3,619
Total	\$ 192,852	168,205

14. GOVERNMENT TRANSFERS

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

	2018	2017
Provincial Grant:		
Transportation services	-	8
Environmental services	1,260	1,333
Recreation and cultural services	658	819
Planning and development services	337	186
	\$ 2,255	\$ 2,346
Federal Grant:		
General government	8,903	5,959
	\$ 8,903	\$ 5,959
	\$ 11,158	\$ 8,305

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15. ACCUMULATED SURPLUS

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

	2018	2017
City operating fund surplus including library, community boards, and business improvement areas	4,464	6,252
Equity in Markham Enterprises Corporation	380,312	362,159
Invested in tangible capital assets and other	4,071,191	3,971,738
	4,455,967	4,340,149
RESERVES SET ASIDE FOR SPECIFIC PURPOSES BY COUNCIL		
Berczy landscape feature	203	203
Building fee	13,603	10,251
Capital gains	4,160	4,160
Corporate rate stabilization	21,131	20,459
Development fee	1,179	(6,650)
Election expenses	8	860
Election rebates	675	416
Facility ramp up	14,861	12,547
Firefighters sick leave benefits	6,340	6,340
Insurance	3,932	3,884
Long-term disability benefits	21,093	20,260
Waterworks	80,400	71,765
Total reserves	167,585	144,495
RESERVE FUNDS SET ASIDE FOR SPECIFIC PURPOSES BY COUNCIL		
Cemetery expenses	117	115
Emerald Ash Borer	552	956
Environmental land acquisition	9,838	9,506
Environmental sustainability fund	111	131
Heritage	345	362
Land acquisition	(164,929)	(166,721)
Library infrastructure	6,218	6,097
Life cycle replacement and capital	100,832	90,067
Museum	18	17
Non-DC growth	6,549	7,148
Post employment benefits	14,229	13,876
Public art acquisition	2,723	1,423
Stormwater fee	224	1,799
Theatre	813	749
Trees for Tomorrow program	29	42
Workplace Safety & Insurance Board (WSIB)	4,234	4,097
WSIB excess compensation	1,130	857
Total reserve funds	(16,967)	(29,479)
Total	4,606,585	4,455,165

16. LEASE OBLIGATIONS

As at December 31, 2018, the City is committed to minimum annual operating lease payments for premises and equipment as follows:

2019	\$71
2020	72
2021	74
2022	67
2023	43
2024 and over	216
	<hr/>
	\$543

17. CONTINGENCY

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 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 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, Human Resources, Legal, Sustainability 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.

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
Year ended December 31, 2018
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18. SEGMENTED INFORMATION (continued)

	<i>General Government</i>	<i>Protection to persons and property</i>	<i>Transportation services</i>	<i>Environmental Services</i>	<i>Recreation and Cultural services</i>	<i>Planning and Development</i>	<i>Others</i>	2018	2017
<u>Revenues</u>									
Taxation, grants in lieu, assessments	707,044	-	-	-	-	-	-	707,044	674,326
Collection for other authorities	(550,307)	-	-	-	-	-	-	(550,307)	(523,442)
Property taxes for City purposes	156,737	-	-	-	-	-	-	156,737	150,884
User charges	3,158	13,374	13,759	122,347	26,464	13,728	22	192,852	168,205
Government transfers	8,903	-	-	1,260	658	337	-	11,158	8,305
Contribution from developers and others	128,130	-	-	-	-	-	-	128,130	71,142
Investment income	15,726	-	-	-	-	-	-	15,726	20,519
Tax penalties	4,482	-	-	-	-	-	-	4,482	4,215
Gain on sale of tangible assets	873	-	-	-	-	-	-	873	275
Deferred revenue earned	20,543	-	-	-	-	-	-	20,543	48,690
Equity pick up from Markham Enterprises Corporation	21,327	-	-	-	-	-	-	21,327	116,806
Others	6,717	387	675	815	974	5	5	9,578	12,748
Total	366,596	13,761	14,434	124,422	28,096	14,070	27	561,406	601,789
<u>Expenses</u>									
Salaries, Wages and employee benefits	26,627	44,777	14,447	8,073	46,474	7,684	-	148,082	141,062
Operating Materials and Supplies	11,007	1,058	4,363	1,445	14,189	1,110	34	33,206	32,350
Contracted Services	11,582	1,592	12,779	110,467	8,932	3,869	-	149,221	136,694
Rents and Financial Expenses	(1,426)	121	94	2,674	703	140	-	2,306	2,079
External Transfers to others	375	-	-	-	-	-	-	375	360
Long Term Debt Charges	412	-	-	-	-	-	-	412	437
Amortization of tangible capital assets	3,712	1,706	29,420	23,520	18,026	-	-	76,384	72,890
Total Expenses	52,289	49,254	61,103	146,179	88,324	12,803	34	409,986	385,872
Annual Surplus/(Deficit)	314,307	(35,493)	(46,669)	(21,757)	(60,228)	1,267	(7)	151,420	215,917

THE CORPORATION OF THE CITY OF MARKHAM
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19. BUDGET FIGURES

The budget figures presented in these consolidated financial statements are based on the Council approved 2018 budget. The following table reconciles the approved budget figures as presented in these financial statements using the accrual basis of accounting.

	2018	2017
	\$	\$
Revenues		
Approved operating budget	378,456	361,305
Approved capital budget	77,715	81,474
Transfer from reserve funds	(50,823)	(41,943)
Total revenues	405,348	400,836
Expenses		
Approved operating budget	378,456	361,305
Transfer to reserve funds	(46,004)	(48,385)
Expenses not capitalized	19,627	19,615
Post-employment benefit expenses	77	92
Amortization	73,756	73,169
Total expenses	425,912	405,796
Annual surplus/(deficit)	(20,564)	(4,960)

20. TRUST FUNDS

Trust funds administered by the City for the benefit of others amounting to \$2,431 (2017 - \$2,414) have not been included in the "Consolidated Statement of Financial Position" nor have their operations been included in the "Consolidated Statement of Operations and Accumulated Surplus". The details of trust funds administered by the City and their Financial Position and Statement of Financial Activities and Fund Balances 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, 2018 the balance was \$82 (2017 - \$80).

b) Varley-McKay Art Foundation Trust Fund

The Varley-McKay Art Foundation Trust Fund was established by Council Resolution on December 11, 2001. This trust 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, 2018 the balance was \$1,299 (2017 - \$1,299).

20. TRUST FUNDS (continued)

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, 2018 the balance was nil (2017 - \$2).

d) Cemetery Trust Fund

The Cemetery Trust Fund was established under the Regulations of the Cemeteries Act 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 Fund 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, 2018 the balance was \$942 (2017 - \$928).

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, 2018 the balance was \$10 (2017 - \$10).

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, 2018 the balance was \$98 (2017 - \$95).

21. CONTRACTUAL RIGHTS

City revenues to be generated in the future, in relation to existing lease agreements are approximately \$28,057. The City has also entered into Provincial funding agreements, whereby the estimated future funding is \$51,713.

<u>Year</u>	<u>Lease agreements</u>	<u>Provincial funding agreements</u>
2019	2,682	9,980
2020	2,528	9,980
2021	2,466	10,433
2022	2,444	10,433
2023	2,107	10,887
2024 and beyond	15,830	-
Total	28,057	51,713

22. SUBSEQUENT EVENT

On January 1, 2019, Alectra Inc. amalgamated with Guelph Hydro Electric Systems Inc. ("GHESI"). Alectra Inc. issued 485,000 Class G Common Shares to Guelph Municipal Holdings Inc. ("GMHI") in consideration for all the issued and outstanding shares of GHESI. This common shares issuance by the Alectra Inc. represents an effective 4.6% interest in its aggregate issued and outstanding classes of common shares. The amalgamation is expected to result in more efficient and enhanced service delivery through lower operating costs, while providing significant benefits for communities and shareholders.

The new shareholder ownership structure as a result of this merger is as follows: Barrie Hydro Holdings – 8.4%, Enersource Corporation – 29.6%, Hamilton Utilities Corporation – 17.3%, Markham Enterprises Corporation – 15%, St. Catharines Hydro Inc. – 4.6%, Vaughan Holdings Inc. – 20.5% and GMHI – 4.6%.

The accounting and valuation for the amalgamation is still being finalized. Consequently, disclosures regarding the amount of the purchased assets and liabilities cannot be determined.

23. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.