

Consolidated Financial Statements of

**THE CORPORATION OF THE
CITY OF MARKHAM**

December 31, 2020

Independent Auditor's Report

(To be provided following Council adoption of the financial statements)

THE CORPORATION OF THE CITY OF MARKHAM
Consolidated Statement of Financial Position
December 31, 2020 with comparative figures for 2019
(All dollar amounts are in \$000's)

	Note	2020	2019
FINANCIAL ASSETS			
Cash and investments	4	\$371,353	344,476
Property taxes receivable	5	37,506	26,653
Accounts receivable		59,477	61,016
Investment in Markham Enterprises Corporation	6	384,983	381,477
		\$853,319	813,622
FINANCIAL LIABILITIES			
Accounts payable and accrued liabilities	7	\$140,962	\$151,241
Deferred revenues	8	173,584	142,603
Employee future benefits liabilities	9	34,305	32,103
Long-term liabilities	10	10,043	10,800
		\$358,894	\$336,747
NET FINANCIAL ASSETS		\$494,425	\$476,875
NON-FINANCIAL ASSETS			
Tangible capital assets	11	\$4,265,760	\$4,217,849
Inventories		1,632	2,118
Prepaid expenses		3,220	2,021
		\$4,270,612	\$4,221,988
Contingency	16		
Contractual rights	20		
Financial risk management	21		
ACCUMULATED SURPLUS	14	\$4,765,037	\$4,698,863

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, 2020 with comparative figures for 2019
(All dollar amounts are in \$000's)

	Note	Budget (Note 18)	2020	2019
Revenues				
Property taxes		\$166,674	\$167,013	\$162,536
User charges	12	204,394	183,161	189,080
Government transfers	13	12,961	20,112	15,573
Contributions from developers and others		2,811	53,025	41,637
Investment income		14,893	14,201	14,824
Tax penalties		4,276	1,438	4,811
Gain (loss) on sale of tangible capital assets		-	(134)	128
Deferred revenue earned		32,569	14,365	65,543
Equity in income of Markham Enterprises Corporation	6	-	15,486	11,476
Other		6,157	6,092	15,149
TOTAL REVENUES		\$444,735	\$474,759	\$520,757
Expenses				
General government		\$48,747	\$46,714	\$44,799
Protection to persons and property		54,271	51,704	52,041
Transportation services		75,513	64,260	75,509
Environmental services		165,305	159,650	159,498
Recreation and cultural services		92,855	73,195	85,622
Planning and development services		18,239	13,033	10,986
Other		34	29	24
TOTAL EXPENSES		\$454,964	\$408,585	\$428,479
ANNUAL SURPLUS (DEFICIT)		(\$10,229)	\$66,174	\$92,278
ACCUMULATED SURPLUS, BEGINNING OF YEAR		4,698,863	4,698,863	4,606,585
ACCUMULATED SURPLUS, END OF YEAR	14	\$4,688,634	\$4,765,037	\$4,698,863

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, 2020 with comparative figures for 2019
(All dollar amounts are in \$000's)

	Budget	2020	2019
Annual surplus	(\$10,229)	\$66,174	\$92,278
Acquisition of tangible capital assets	(141,737)	(127,641)	(182,824)
Amortization of tangible capital assets	79,630	79,258	78,188
Loss on disposal of tangible capital assets	-	134	(128)
Proceeds from disposal of tangible capital assets	-	338	272
	(\$72,336)	\$18,263	(\$12,214)
Acquisition of inventories of supplies	-	(1,546)	(2,032)
Acquisition of prepaid expenses	-	(3,220)	(2,021)
Consumption of inventories of supplies	-	2,032	1,503
Use of prepaid expenses	-	2,021	2,119
	-	(\$713)	(\$431)
Change in net financial assets	(\$72,336)	\$17,550	(\$12,645)
Net financial assets, beginning of year	476,875	476,875	489,520
Net financial assets, end of year	\$404,539	\$494,425	\$476,875

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, 2020 with comparative figures for 2019
(All dollar amounts are in \$000's)

	<u>2020</u>	<u>2019</u>
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Annual surplus	\$66,174	\$92,278
Add (deduct) items not involving cash		
Amortization of tangible capital assets	79,258	78,188
Loss (gain) on disposal of tangible capital assets	134	(128)
Change in employee future benefits and other liabilities	2,202	454
Equity in income of Markham Enterprises Corporation	(15,486)	(11,476)
Contributed tangible assets	(50,842)	(39,796)
Change in non-cash assets and liabilities		
Property taxes receivable	(10,853)	(1,062)
Accounts receivable	1,539	(1,990)
Accounts payable and accrued liabilities	(10,279)	2,717
Long term liabilities	(757)	(730)
Deferred revenue	30,981	(30,244)
Inventories	486	(529)
Prepaid expenses	(1,199)	98
Net change in cash from operating activities	\$91,358	\$87,780
CAPITAL ACTIVITIES		
Acquisition of tangible capital assets	(76,799)	(143,028)
Proceeds from disposal of tangible capital assets	338	272
Net change in cash from capital activities	(\$76,461)	(\$142,756)
INVESTING ACTIVITIES		
Dividend from Markham Enterprises Corporation	10,280	8,460
Decrease in share capital of Markham Enterprises Corporation	1,700	1,851
Net change in cash from investing activities	\$11,980	\$10,311
NET CHANGE IN CASH AND CASH EQUIVALENTS	\$26,877	(\$44,665)
OPENING CASH AND CASH EQUIVALENTS	344,476	389,141
CLOSING CASH AND CASH EQUIVALENTS	\$371,353	\$344,476
Supplementary information:		
Interest paid	360	387
Interest received	7,274	9,468

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
- 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 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".

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

f) Investments

Investments consist of bonds and debentures and are recorded 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 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.

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 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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

j) 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 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.

k) 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.

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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 the time of registration.

(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

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 cost.

m) 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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Budget Figures

The approved operating and capital budgets for 2020 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 in Note 18.

o) 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 17.

p) Reporting for 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.

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
- 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.

q) Future accounting pronouncements

These standards and amendments were not effective for the year ended December 31, 2020, and have not been applied in preparing consolidated financial statements. Management is currently assessing the impact of the following accounting standards update on the future consolidated financial statements.

Standards applicable for fiscal years beginning on or after April 1, 2022 (the City's December 31, 2023 year-end):

- (i) PS 3450 Financial Instruments establishes the standard on how to account for and report all types of financial instruments including derivatives.
- (ii) PS 2601 Foreign Currency Translation, which replaces PS 2600, establishes the standard on how to account for and report transactions that are denominated in a foreign currency in government financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

- (iii) PS 1201 Financial Statement Presentation, which replaces PS 1200, establishes general reporting principles and standard for the disclosure of information in government financial statements. The standard introduces the Statement of Remeasurement Gains or Losses, which reports changes in the values of financial assets and financial liabilities arising from their remeasurement at current exchange rates and/or fair value.
- (iv) PS 3401 Portfolio Investments, which replaces PS 3040, establishes standards on how to account for and report portfolio investments in government financial statements.
- (v) PS 3280 Asset Retirement Obligations, establishes on how to account for and report a liability for asset retirement obligations.

Standards applicable for fiscal years beginning on or after April 1, 2023 (the City's December 31, 2024 year-end):

- (vi) PS 3400 Revenue, establishes standards on how to account for and report on revenue, specifically differentiating between revenue arising from transactions that include performance obligations, referred to as exchange transactions and transactions that do not have performance obligations, referred to as non-exchange transactions.

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	2020	2019
Taxation	\$248,502	\$340,232	\$588,734	\$568,398
Payment-in-lieu of taxes	352	1,023	1,375	1,295
Supplementary taxes	1,571	2,546	4,117	5,957
Amount requisitioned and transferred	\$250,425	\$343,801	\$594,226	\$575,650

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 (2019 - \$24,512) of which \$11,465 (2019 - \$12,256) represented the City's portion and \$11,465 (2019 - \$12,256) represented employees portion. Since OMERS is a multi-employer pension plan, the City does not recognize any share of the pension plan deficit of \$3.2 billion as of 2020 (2019 - \$3.4 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 the Consolidated Financial Statements
Year ended December 31, 2020
(All dollar amounts are in \$000's)

4. CASH AND INVESTMENTS

	2020	2019
Cash	\$177,336	\$142,544
Investments	194,017	201,932
	\$371,353	\$344,476

Cash balance includes investments in the amount of \$16,000 (2019 - \$10,000) 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 \$211,575 (2019 - \$213,099) at the end of the year.

5. PROPERTY TAXES RECEIVABLE

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

	2020	2019
Current year	\$27,365	\$21,711
Prior years	11,142	5,943
	38,507	27,654
Less: Allowance for uncollectible taxes	(1,001)	(1,001)
	\$37,506	\$26,653

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 2020 taxation year marks the fourth and last 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 (2019 - \$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.

THE CORPORATION OF THE CITY OF MARKHAM
Notes to the Consolidated Financial Statements
Year ended December 31, 2020
(All dollar amounts are in \$000's)

6. 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 15.00% of Alectra Inc. (2019 – 15.00%).

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, 2020 to December 31, 2020.

	2020	2019
Assets		
Current	20,304	21,811
Capital	123,999	127,105
Investment in Alectra Inc.	307,066	309,255
Other	1,778	1,778
Total Assets	453,147	459,949
Liabilities		
Current	10,575	9,616
Other	53,939	57,878
Long Term	3,650	10,977
Total Liabilities	68,164	78,471
Shareholder's Equity		
Common shares	94,365	96,065
Promissory notes payable	79,184	79,184
Retained earnings and contributed Surplus	211,434	206,228
Total Shareholder's Equity	384,983	381,477
Total Liabilities and Shareholder's Equity	453,147	459,948
Results of Operations		
Revenues	39,310	37,030
Operating expenses	23,824	25,020
Gain on acquisition of GHESI	-	657
Net Income	15,486	12,667
Impact of adoption of IFRS 16 on retained earnings	-	(1,191)
Net equity in income of Markham Enterprises Corporation	15,486	11,476
Return of capital	(1,700)	(1,851)
Dividend	(10,280)	(8,460)
Net change in equity in Markham Enterprises Corporation	3,506	1,165
Opening shareholder's equity	381,477	380,312
Closing shareholder's equity	384,983	381,477

THE CORPORATION OF THE CITY OF MARKHAM
Notes to the Consolidated Financial Statements
Year ended December 31, 2020
(All dollar amounts are in \$000's)

7. 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:

	2020	2019
Trade accounts payable	\$59,545	\$53,416
Payable to other governments	63,481	71,279
Payroll liabilities	4,157	6,873
Accrued liabilities	13,779	19,673
	\$140,962	\$151,241

8. 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	Amounts received	Revenue earned	Closing balance
Development charges	\$38,412	\$42,808	\$12,440	\$68,780
Parkland cash-in-lieu	50,695	8,268	484	58,479
Federal Gas Tax	15,132	10,212	10,782	14,562
Section 37 funds	8,470	370	1,374	7,466
Other	70	-	67	3
	\$112,779	\$61,658	\$25,147	\$149,290
Deferred revenue and deposits	29,824	14,683	20,213	24,294
	\$142,603	\$76,341	\$45,360	\$173,584

9. EMPLOYEE FUTURE BENEFITS LIABILITIES

	2020	2019
Long-term disability	\$5,944	\$5,903
Post-employment benefits	12,997	13,050
Vested sick leave benefits	6,609	6,214
Workplace Safety and Insurance Board	4,824	3,837
	\$30,374	\$29,004
Vacation pay - City	3,748	2,938
Vacation pay - Library	183	161
	\$34,305	\$32,103

a) Long-Term Disability Benefits (LTD)

The City provides long-term disability benefits to eligible employees. At the year end, the accrued liability of \$5,944 (2019 – \$5,903) 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, 2020 is \$12,997 (2019 – \$13,050). The accrued benefit liability and the net benefit cost for the fiscal year were determined by an actuarial valuation for December 2018.

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 \$6,609 (2019 - \$6,214). The accrued benefit liability and the net benefit cost for the fiscal year were determined by an actuarial valuation for December 2018.

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 \$4,824 (2019 - \$3,837) 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 2019.

THE CORPORATION OF THE CITY OF MARKHAM
Notes to the Consolidated Financial Statements
Year ended December 31, 2020
(All dollar amounts are in \$000's)

9. 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	2020	2019
Accrued benefit liability, beginning of year	\$5,903	\$13,050	\$6,214	\$3,837	\$29,004	\$28,732
Service cost	920	489	570	955	2,934	2,147
Interest cost	194	454	268	204	1,120	1,090
Benefit payments	(894)	(1,000)	(478)	(445)	(2,817)	(2,935)
Amortization of actuarial loss (gain)	(179)	4	35	273	133	(30)
Accrued benefit liability, end of year	\$5,944	\$12,997	\$6,609	\$4,824	\$30,374	\$29,004
Unamortized actuarial (gain) loss	(168)	(1,458)	403	1,137	(86)	(366)
Accrued benefit obligation, end of year	\$5,776	\$11,539	\$7,012	\$5,961	\$30,288	\$28,638

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	2.00%	1.75%	1.75%
Expected level of salary increase	N/A	3.00%	2.75%	3.00%
Interest discount rate	3.50%	4.00%	4.00%	3.50%
Expected average remaining service life in years	N/A	13	13	12

10. 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.

10. LONG-TERM LIABILITIES (continued)

Principal payments are repayable annually as follows:

2021	\$784
2022	811
2023	840
2024	870
2025	901
2026 and thereafter	5,837
	<u>\$10,043</u>

11. TANGIBLE CAPITAL ASSETS

a) Capital work in progress

Assets under construction having a value of \$42,284 (2019 - \$24,379) 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 \$50,842 (2019 - \$39,796) comprised of land in the amount of \$37,239 (2019 - \$5,957), roads infrastructure in the amount of \$9,959 (2019 - \$25,683) and water and wastewater infrastructure in the amount of \$3,644 (2019 - \$8,156).

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. Land is the only asset where nominal values were 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.

THE CORPORATION OF THE CITY OF MARKHAM
Notes to the Consolidated Financial Statements
Year ended December 31, 2020
(All dollar amounts are in \$000's)

11. TANGIBLE CAPITAL ASSETS (continued)

	Cost				Accumulated Depreciation				Net book value 2020	Net book value 2019
	Jan 1, 2020	Additions	Disposals & adjustments	Dec 31, 2020	Jan 1, 2020	Depreciation expense	Disposals & adjustments	Dec 31, 2020		
Land	2,125,946	47,139	(433)	2,172,652	-	-	-	-	2,172,652	2,125,946
Buildings	418,314	4,970	(161)	423,123	136,228	10,196	(120)	146,304	276,819	282,086
Equipment	33,325	5,719	(3,546)	35,498	18,254	3,663	(3,547)	18,370	17,128	15,071
Furniture & fixtures	8,062	119	(535)	7,646	6,218	578	(535)	6,261	1,385	1,844
Infrastructure	1,494,529	23,912	(8,534)	1,509,907	517,246	38,395	(8,534)	547,107	962,800	977,283
Library materials, furniture & fixtures	21,778	1,427	(3,695)	19,510	12,862	2,402	(3,695)	11,569	7,941	8,916
Parks & pathways	96,902	6,224	(2,909)	100,217	36,216	5,423	(2,909)	38,730	61,487	60,686
Vehicles	16,794	1,706	(1,360)	17,140	9,721	1,930	(1,360)	10,291	6,849	7,073
Waterworks equipments & infrastructure	1,074,271	18,520	(2,217)	1,090,574	359,706	16,671	(2,218)	374,159	716,415	714,565
Total	5,289,921	109,736	(23,390)	5,376,267	1,096,451	79,258	(22,918)	1,152,791	4,223,476	4,193,470
Capital Work in progress	24,379	17,905	-	42,284	-	-	-	-	42,284	24,379
Grand Total	5,314,300	127,641	(23,390)	5,418,551	1,096,451	79,258	(22,918)	1,152,791	4,265,760	4,217,849

THE CORPORATION OF THE CITY OF MARKHAM
Notes to the Consolidated Financial Statements
Year ended December 31, 2020
(All dollar amounts are in \$000's)

12. USER CHARGES

	2020	2019
Water and sewer billing to ratepayers	\$137,100	\$130,470
Building permits	5,244	6,184
Culture venues	537	3,772
Engineering	10,182	7,385
Facility rentals	4,510	9,458
Licenses	1,360	1,617
Landscaping	4,477	1,581
Parking violations	2,333	3,493
Planning	11,555	5,922
Recreation programs	2,244	13,901
Other	3,619	5,297
Total	\$183,161	\$189,080

13. 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 transfers for the year are:

	2020	2019
Provincial Grants:		
General government - Safe Restart Agreement and others	\$6,958	\$ -
Environmental services	1,603	1,297
Recreation and cultural services	359	647
Planning and development services	257	308
	\$9,177	\$2,252
Federal Grants:		
General government - Gas Tax	10,787	13,321
Recreation and cultural services	148	-
	\$10,935	\$13,321
Total	\$20,112	\$15,573

THE CORPORATION OF THE CITY OF MARKHAM
Notes to the Consolidated Financial Statements
Year ended December 31, 2020
(All dollar amounts are in \$000's)

14. ACCUMULATED SURPLUS

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

	2020	2019
City operating fund surplus including library, community boards, and business improvement areas	\$16,641	\$5,462
Equity in Markham Enterprises Corporation	384,983	381,477
Invested in tangible capital assets	4,265,760	4,217,849
Other	(27,192)	(35,978)
	\$4,640,192	\$4,568,810
Reserves set aside for specific purposes by Council		
Berczy landscape feature	\$203	\$203
Building fee	7,483	11,155
Capital gains	4,160	4,160
Corporate rate stabilization	23,280	22,527
Development fee	10,011	364
Election expenses	531	231
Election rebates	566	385
Facility ramp up	23,891	19,535
Firefighters sick leave benefits	6,776	6,776
Insurance	4,059	4,059
Long-term disability benefits	22,872	21,975
Waterworks	80,130	82,159
	\$183,962	\$173,529
Reserve Funds set aside for specific purposes by Council		
Cemetery expenses	\$122	\$120
Emerald Ash Borer	192	387
Environmental land acquisition	10,713	10,326
Environmental sustainability fund	95	95
Heritage	339	339
Land acquisition	(243,055)	(215,236)
Library infrastructure	6,449	6,366
Life cycle replacement and capital	133,008	120,800
Museum	19	19
Non-DC growth	12,728	9,063
Post retirement benefits	14,757	14,566
Public art acquisition	4,018	3,158
Stormwater fee	(6,470)	(133)
Theatre	895	879
Trees for Tomorrow program	7	6
Workplace Safety and Insurance Board (WSIB)	5,314	4,334
WSIB excess compensation	1,752	1,435
	\$(59,117)	\$(43,476)
Total	\$4,765,037	\$4,698,863

15. LEASE OBLIGATIONS

As at December 31, 2020, the City is committed to minimum annual operating lease payments for premises and equipment as follows:

2021	\$89
2022	67
2023	43
2024	43
2025	43
2026 and thereafter	130
	<u>\$415</u>

16. 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.

17. 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.

17. 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 the Consolidated Financial Statements
Year ended December 31, 2020
(All dollar amounts are in \$000's)

17. 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>	2020	2019
Revenues									
Property taxes	\$167,013	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$167,013	\$162,536
User charges	2,778	6,455	13,132	138,032	6,733	16,031	-	183,161	189,080
Government transfers	17,744	-	-	1,604	507	257	-	20,112	15,573
Contribution from developers and others	53,025	-	-	-	-	-	-	53,025	41,637
Investment income	14,201	-	-	-	-	-	-	14,201	14,824
Tax penalties	1,438	-	-	-	-	-	-	1,438	4,811
Gain on sale of tangible assets	(134)	-	-	-	-	-	-	(134)	128
Deferred revenue earned	14,365	-	-	-	-	-	-	14,365	65,543
Equity in income of Markham Enterprises Corporation	15,486	-	-	-	-	-	-	15,486	11,476
Others	3,836	339	652	775	481	-	9	6,092	15,149
Total	289,752	6,794	13,784	140,411	7,721	16,288	9	474,759	520,757
Expenses									
Salaries, Wages and employee benefits	22,209	47,593	14,711	8,288	33,795	7,651	-	134,247	143,121
Operating Materials and Supplies	12,291	958	4,512	1,297	9,205	486	29	28,778	39,863
Contracted Services	10,235	1,168	13,700	123,300	10,866	4,771	-	164,040	164,549
Rents and Financial Expenses	(2,052)	109	145	2,825	293	125	-	1,445	1,964
External Transfers to others	402	-	-	-	55	-	-	457	407
Long Term Debt Charges	360	-	-	-	-	-	-	360	387
Amortization of tangible capital assets	3,269	1,876	31,192	23,940	18,981	-	-	79,258	78,188
Total Expenses	46,714	51,704	64,260	159,650	73,195	13,033	29	408,585	428,479
Annual Surplus (Deficit)	\$243,038	\$(44,910)	\$(50,476)	\$(19,239)	\$(65,474)	\$3,255	\$(20)	\$66,174	\$92,278

18. BUDGET FIGURES

The budget figures presented in these consolidated financial statements are based on the Council approved 2020 budget. The following table reconciles the approved budget figures as presented in these financial statements using the accrual basis of accounting.

	2020	2019
Revenues		
Approved operating budget	\$408,129	\$393,712
Approved capital budget	111,488	124,686
Transfer from reserve funds	(65,082)	(66,239)
<hr/>		
Total revenues	\$454,535	\$452,159
Expenses		
Approved operating budget	408,129	393,712
Transfer to reserve funds	(53,191)	(53,178)
Expenses not capitalized	30,249	21,733
Post-employment benefit expenses	(53)	106
Amortization	79,630	78,565
<hr/>		
Total expenses	\$464,764	\$440,938
<hr/>		
Annual surplus (deficit)	\$(10,229)	\$11,221

19. TRUST FUNDS

Trust funds administered by the City for the benefit of others amounting to \$2,441 (2019 - \$2,436) 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 can be used to offset certain maintenance costs of Morgan Park. As at December 31, 2020 the balance was \$86 (2019 - \$84).

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, 2020 the balance was \$1,299 (2019 - \$1,299).

19. 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, 2020 the balance was nil (2019 - \$nil).

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, 2020 the balance was \$943 (2019 - \$943).

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, 2020 the balance was \$11 (2019 - \$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, 2019 the balance was \$102 (2019 - \$100).

20. CONTRACTUAL RIGHTS

City revenues to be generated in the future, in relation to existing lease agreements are approximately \$32,783. The City has also entered into Provincial funding agreements, whereby the estimated future funding is \$31,753.

	Lease agreements	Provincial funding agreements
2021	\$3,469	\$10,433
2022	3,447	10,433
2023	3,060	10,887
2024	3,026	-
2025	4,060	-
2026 and thereafter	15,721	-
	\$32,783	\$31,753

21. FINANCIAL RISK MANAGEMENT

It is management's opinion that the City is not exposed to significant liquidity, interest rate, credit, market, or cash flow risk. There has been no change to the risk exposure from 2019, except as noted below.

General economic risk:

During the year, the COVID-19 outbreak was declared a pandemic by the World Health Organization. This has resulted in the Canadian and Provincial governments enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have resulted in a decline in revenues due to the cancellation of events and lockdown measures.

The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on operations is not known at this time. These emergency measures and economic impacts could include potential future decreases in revenue and expenses.

22. COMPARATIVE FIGURES

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