

Consolidated Financial Statements of

**THE CORPORATION OF
THE CITY OF MARKHAM**

December 31, 2017

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of the Corporation of the City of Markham (the City), which comprise the consolidated statement of financial position as at December 31, 2017, the consolidated statement of operations and accumulated surplus, change in net financial assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the City's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation of the City of Markham as at December 31, 2017, and its consolidated results of operations and accumulated surplus, 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.

Chartered Accountants, Licensed Public Accountants

April 24, 2018
Vaughan, Canada

THE CORPORATION OF THE CITY OF MARKHAM
Consolidated Statement of Financial Position
December 31, 2017 with comparative figures for 2016
(All dollar amounts are in \$000)

	<u>2017</u>	<u>2016</u>
FINANCIAL ASSETS		
Cash and cash equivalents (Note 4)	302,196	361,195
Property taxes receivable (Note 7)	25,946	27,505
Unbilled user charges	9,378	8,364
Accounts receivable (Note 18)	58,785	64,601
Investment in Markham Enterprises Corporation (Note 19)	362,159	253,541
Other current assets	488	490
	758,952	715,696
FINANCIAL LIABILITIES		
Accounts payable and accrued liabilities (Note 9)	142,726	142,158
Deferred revenues (Note 10)	126,276	127,296
Employee future benefits liabilities (Note 12)	30,953	30,848
Long-term liabilities (Note 6)	12,236	12,918
	312,191	313,220
NET FINANCIAL ASSETS	446,761	402,476
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 13)	4,005,265	3,834,145
Inventories of supplies	1,263	1,265
Inventories of land - heritage estates	86	94
Prepaid expenses	1,790	1,268
	4,008,404	3,836,772
ACCUMULATED SURPLUS (Note 15)	4,455,165	4,239,248

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, 2017 with comparative figures for 2016
(All dollar amounts are in \$000)

	2017		2016
	Budget	Actual	Actual
Revenues			
Property taxes	151,088	150,884	144,092
User charges (Note 11)	173,740	168,205	165,399
Government transfers (Note 14)	10,641	8,305	13,407
Contributions from developers and others	4,492	71,142	41,564
Investment income	21,893	20,519	15,356
Tax penalties	3,950	4,215	4,177
Gain on sale of tangible capital assets	-	275	656
Deferred revenue earned	18,959	48,690	26,950
Equity pick up from Markham Enterprises Corporation (Note 19)	-	116,806	10,406
Other	16,073	12,748	16,906
TOTAL REVENUES	400,836	601,789	438,913
Expenses			
General government	64,860	56,278	56,349
Protection to persons and property	47,779	46,337	47,008
Transportation services	60,537	57,624	57,601
Environmental services	142,260	132,319	135,467
Recreation and cultural services	77,743	81,268	78,165
Planning and development services	12,569	11,944	12,528
Other	48	102	49
TOTAL EXPENSES	405,796	385,872	387,167
ANNUAL SURPLUS	(4,960)	215,917	51,746
ACCUMULATED SURPLUS, BEGINNING OF YEAR	4,239,248	4,239,248	4,187,502
ACCUMULATED SURPLUS, END OF YEAR (Note 15)	4,234,288	4,455,165	4,239,248

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, 2017 with comparative figures for 2016
(All dollar amounts are in \$000)

	2017		2016
	Budget	Actual	Actual
Annual surplus	(4,960)	215,917	51,746
Acquisition of tangible capital assets including capital work in progress	(135,029)	(244,178)	(151,146)
Amortization of tangible capital assets	73,169	72,890	70,345
Disposal/write-down of tangible capital assets	-	168	1,120
	(66,820)	44,797	(27,935)
Acquisition of inventories of supplies	-	(1,255)	(1,265)
Acquisition prepaid expenses	-	(1,790)	(1,268)
Consumption of inventories of supplies	-	1,265	1,287
Use of prepaid expenses	-	1,268	1,559
Change in net financial assets	(66,820)	44,285	(27,622)
Net financial assets, beginning of year	402,476	402,476	430,098
Net financial assets, end of year	335,656	446,761	402,476

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, 2017 with comparative figures for 2016
(All dollar amounts are in \$000)

	<u>2017</u>	<u>2016</u>
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Annual surplus	215,917	51,746
Add (deduct) items not involving cash		
Amortization of tangible capital assets	72,890	70,345
Disposal of tangible capital assets	168	1,120
Change in employee future benefits and other liabilities	105	1,898
Property taxes receivable	1,559	1,389
Equity pick up in Markham Enterprises Corporation	(116,806)	(10,406)
Change in non-cash assets and liabilities		
Accounts receivable	5,816	(5,053)
Unbilled user charges	(1,014)	(578)
Other current assets	2	582
Accounts payable and accrued liabilities	568	33,533
Long term liabilities	(682)	(659)
Deferred revenue	(1,020)	39,221
Inventories of supplies	10	22
Prepaid expenses	(522)	291
Net change in cash from operating activities	176,991	183,451
CAPITAL ACTIVITIES		
Acquisition of tangible capital assets	(244,178)	(151,146)
Net change in cash from capital activities	(244,178)	(151,146)
INVESTING ACTIVITIES		
Dividend from Markham Enterprises Corporation	6,656	7,444
Increase(decrease) in share capital of Markham Enterprises Corporation	1,532	2,273
Net change in cash from investing activities	8,188	9,717
NET CHANGE IN CASH AND CASH EQUIVALENTS	(58,999)	42,022
OPENING CASH AND CASH EQUIVALENTS	361,195	319,173
CLOSING CASH AND CASH EQUIVALENTS	302,196	361,195
Supplementary information:		
Interest paid	437	460
Interest received	8,153	7,413

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:

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.

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.

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.

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".

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)

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.

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.

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.

EMPLOYEE FUTURE BENEFITS

The City accounts for its participation in the Ontario Municipal Employee Retirement System (OMERS), a multi-employer public sector pension fund, as a defined benefit plan. Vacation entitlements are accrued for as entitlements are earned. Sick leave benefits are accrued where they are vested and subject to pay out when an employee leaves the City's employment. Other employee future benefits are accrued in accordance with the projected benefit method prorated on service and management's best estimate of salary escalation and retirement ages of employees. Actuarial valuations, where necessary for accounting purposes, are performed triennially. The discount rate used to determine the accrued benefit obligation was determined by

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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/losses for event-triggered liabilities, such as those determined as claims related to Workers 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.

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.

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 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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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.

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.

BUDGET FIGURES

The approved operating and capital budgets for 2017 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 21).

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 8.

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

THE CORPORATION OF THE CITY OF MARKHAM
Notes to the Consolidated Financial Statements
Year ended December 31, 2017
(All dollar amounts are in \$000)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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
- 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.

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	2017	2016
Taxation	223,593	292,103	515,696	488,055
Payment in lieu of taxes	260	790	1,050	1,042
Supplementary taxes	3,296	3,400	6,696	7,819
Amount requisitioned and transferred	227,149	296,293	523,442	496,916

3. TRUST FUNDS

Trust funds administered by the City for the benefit of others amounting to \$2,414 (2016 - \$2,344) 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 trust funds have been reported separately on the "Trust Funds Statement of Financial Position" and "Trust Funds Statement of Financial Activities and Fund Balances".

4. CASH AND CASH EQUIVALENTS

	2017	2016
Cash	92,346	147,759
Investments	209,850	213,436
	302,196	361,195

4. CASH AND CASH EQUIVALENTS (continued)

Cash balance includes investments in the amount of \$58,161 (2016 - \$60,971) which has 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 \$215,663 (2016 - \$221,949) at the end of the year. For the year 2017, the average rate of return earned was 2.95% (2016 – 3.00%).

5. 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 \$23,106 (2016 - \$20,842) of which \$11,553 (2016 - \$10,421) represented the City's portion and \$11,553 (2016 - \$10,421) represented employees portion

Since OMERS is a multi-employer pension plan, the City does not recognize any share of the pension plan deficit of \$5.4 billion as of 2017 based on the fair market value of the Plan's assets, as this is a joint responsibility of all Ontario municipalities and their employees.

6. 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.

7. PROPERTY TAXES RECEIVABLE

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

	2017	2016
Current year	19,748	20,211
Arrears prior years	7,199	8,295
	26,947	28,506
Less: Allowance for uncollectible taxes	(1,001)	(1,001)
	25,946	27,505

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 2018 taxation year marks the second 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 (2016 - \$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, which resulted in a significant increase in the property tax adjustments for the 2015, 2016 and 2017 taxation years.

There is no impact on the "Consolidated Statement of Operations and Accumulated Surplus".

8. 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. The segmented information with a brief description of the service area is as follows:

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.

8. SEGMENTED INFORMATION (continued)

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.

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.

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.

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.

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.

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, 2017
(All dollar amounts are in \$000)

Segmented Information - Note 8 (Contd..)

	<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>	2017	2016
Revenues									
Taxation, grants in lieu, assessments	674,326	-	-	-	-	-	-	674,326	641,008
Collection for other authorities	(523,442)	-	-	-	-	-	-	(523,442)	(496,916)
Property taxes for City purposes	150,884	-	-	-	-	-	-	150,884	144,092
User charges	3,189	8,707	11,544	112,339	23,902	8,392	132	168,205	165,399
Government transfers	5,959	-	8	1,333	819	186	-	8,305	13,407
Contribution from developers and others	71,142	-	-	-	-	-	-	71,142	41,564
Investment income	20,519	-	-	-	-	-	-	20,519	15,356
Tax penalties	4,215	-	-	-	-	-	-	4,215	4,177
Gain on sale of tangible assets	275	-	-	-	-	-	-	275	656
Deferred revenue earned	48,690	-	-	-	-	-	-	48,690	26,950
Equity pick up from Markham Enterprises Corporation	116,806	-	-	-	-	-	-	116,806	10,406
Others	10,032	439	519	949	801	5	3	12,748	16,906
Total	431,711	9,146	12,071	114,621	25,522	8,583	135	601,789	438,913
Expenses									
Salaries, Wages and employee benefits	30,787	41,955	13,193	7,436	40,237	7,454	-	141,062	142,463
Operating Materials and Supplies	11,306	1,174	4,441	1,545	12,707	1,075	102	32,350	38,495
Contracted Services	11,236	1,477	11,777	97,822	11,123	3,259	-	136,694	132,657
Rents and Financial Expenses	(1,536)	98	74	2,638	649	156	-	2,079	2,434
External Transfers to others	360	-	-	-	-	-	-	360	313
Long Term Debt Charges	437	-	-	-	-	-	-	437	460
Amortization of tangible capital assets	3,688	1,633	28,139	22,878	16,552	-	-	72,890	70,345
Total Expenses	56,278	46,337	57,624	132,319	81,268	11,944	102	385,872	387,167
Annual Surplus/(Deficit)	375,433	(37,191)	(45,553)	(17,698)	(55,746)	(3,361)	33	215,917	51,746

9. 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:

	2017	2016
Trade accounts payable	54,758	51,845
Payable to other governments	67,921	62,394
Payroll liabilities	5,946	12,864
Accrued liabilities	14,101	15,055
	142,726	142,158

10. DEFERRED REVENUE AND DEPOSITS

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:

	2017	2016
Development charges	53,787	66,039
Parkland cash-in-lieu	34,190	28,542
Federal Gas tax	7,491	4,040
Section 37 funds	3,350	3,417
	98,818	102,038
Deferred revenue and deposits	27,458	25,258
	126,276	127,296

11. USER CHARGES

	2017	2016
Water and sewer billing to ratepayers	111,284	111,708
Building permits	7,332	9,237
Culture venues	3,351	3,305
Engineering	8,265	3,558
Facility rentals	7,946	7,935
Licenses	1,631	1,592
Landscaping	1,988	1,626
Parking violations	2,970	3,146
Planning	7,925	9,324
Recreation programs	11,894	11,096
Other	3,619	2,872
Total	168,205	165,399

12. EMPLOYEE FUTURE BENEFITS LIABILITIES

	2017	2016
Long-term disability	5,864	5,998
Post-retirement benefits	13,107	13,015
Vacation pay - City	2,638	2,564
Vacation pay - Library	136	105
Vested sick leave benefits	5,980	6,340
Workplace Safety & Insurance Board	3,228	2,826
	30,953	30,848

WORKPLACE SAFETY & INSURANCE OBLIGATIONS (WSIB)

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 \$3,228 (2016 - \$2,826) and was determined by an actuarial valuation. A Workplace Safety and Insurance Reserve Fund, funded by annual contributions from the Operating Fund, have 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.

12. EMPLOYEE FUTURE BENEFITS LIABILITIES (continued)

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 \$5,980 (2016 - \$6,340). The accrued benefit liability and the net benefit cost for the fiscal year were determined by an actuarial valuation updated December 2016.

POST-RETIREMENT BENEFITS

The City provides for post-retirement benefits (extended health and dental benefits) to eligible retiring employees to age 65. The City recognizes these post-retirement costs as they are earned during the employee's tenure of service. The benefit liability at December 31, 2017 is \$13,107 (2016 – \$13,015). The accrued benefit liability and the net benefit cost for the fiscal year were determined by an actuarial valuation updated December 2015.

LONG-TERM DISABILITY (LTD)

The City provides long term disability benefits to eligible employees. At the year end, the accrued liability of \$5,864 (2016 – \$5,998) 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, 2015.

Information about the City's defined benefit plans is as follows:

	LTD	Post- retirement benefits	Vested sick- leave	WSIB	2017	2016
Accrued benefit liability, beginning of year	5,998	13,015	6,340	2,826	28,179	26,238
Service cost	491	462	439	244	1,636	1,579
Interest cost	180	509	236	183	1,108	1,113
Benefit payments	(562)	(776)	(683)	(376)	(2,397)	(2,407)
Amortization of actuarial loss(gain)	(243)	(103)	(352)	351	(347)	1,656
Accrued benefit liability, end of year	5,864	13,107	5,980	3,228	28,179	28,179

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- retirement 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	4.00%	4.50%	4.00%	4.00%

THE CORPORATION OF THE CITY OF MARKHAM
Notes to the Consolidated Financial Statements
December 31, 2017
(All dollar amounts are in \$000)

13. TANGIBLE CAPITAL ASSETS

	Cost				Accumulated Depreciation				Net Book Value	
	Jan 1, 2017	Additions	Disposals & Adjustments		Jan 1, 2017	For the year	Disposals & Adjustments		Balance at Dec 31, 2017	Balance at Dec 31, 2016
			Dec 31, 2017	Dec 31, 2017			Dec 31, 2017	Dec 31, 2017		
Land	1,839,893	126,149	(168)	1,965,874	-	-	-	-	1,965,874	1,839,893
Buildings	346,638	57,372	-	404,010	107,323	9,102	-	116,425	287,585	239,315
Equipment	29,057	4,701	(1,593)	32,165	14,600	3,448	(1,593)	16,455	15,710	14,457
Furniture & Fixtures	7,515	218	(34)	7,699	4,615	574	(34)	5,155	2,544	2,900
Infrastructure	1,308,114	63,049	(13,523)	1,357,640	436,530	35,013	(13,523)	458,020	899,620	871,584
Library Furniture & Fixtures	2,650	950	(214)	3,386	1,521	272	(214)	1,579	1,807	1,129
Library Media Collection	16,824	3,293	(1,702)	18,415	9,394	2,276	(1,702)	9,968	8,447	7,430
Parks & Pathways	77,037	11,037	(3,101)	84,973	31,725	4,541	(3,101)	33,165	51,808	45,312
Vehicles	15,483	1,327	(1,294)	15,516	6,945	1,792	(1,294)	7,443	8,073	8,538
Waterworks Equipment	1,304	97	(26)	1,375	753	140	(26)	867	508	551
Waterworks Infrastructure	1,011,313	21,951	(1,164)	1,032,100	312,828	15,577	(1,164)	327,241	704,859	698,485
Waterworks Vehicles	1,318	127	(129)	1,316	738	155	(129)	764	552	580
Sub total	4,657,146	290,271	(22,948)	4,924,469	926,972	72,890	(22,780)	977,082	3,947,387	3,730,174
Capital Work in progress	103,971	(46,093)		57,878					57,878	103,971
Total	4,761,117	244,178	(22,948)	4,982,347	926,972	72,890	(22,780)	977,082	4,005,265	3,834,145

13. TANGIBLE CAPITAL ASSETS (continued)

a) Capital work in progress

Assets under construction having a value of \$57,878 (2016 - \$103,971) 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 \$68,305 (2016 - \$41,592) comprised of land in the amount of \$28,089 (2016 - \$35,008), roads infrastructure in the amount of \$28,860 (2016 - \$4,219) and water and wastewater infrastructure in the amount of \$11,356 (2016 - \$2,365).

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.

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:

	2017	2016
Provincial Grant:		
Transportation services	8	-
Environmental services	1,333	1,364
Recreation and cultural services	819	620
Planning and development services	186	179
	2,346	2,163
Federal Grant:		
General government	5,959	11,244
	5,959	11,244
	8,305	13,407

THE CORPORATION OF THE CITY OF MARKHAM
December 31, 2017
(All dollar amounts are in \$000)

15. ACCUMULATED SURPLUS

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

	2017	2016
City operating fund surplus including library, community boards, and business improvement areas	6,252	4,210
Equity in Markham Enterprises Corporation	362,159	253,541
Invested in tangible capital assets and other	3,971,738	3,805,824
	4,340,149	4,063,575
RESERVES SET ASIDE FOR SPECIFIC PURPOSES BY COUNCIL		
Anti-whistling	-	318
Berczy landscape feature	203	203
Building fee	10,251	11,734
Capital gains	4,160	3,680
Corporate rate stabilization	20,459	19,783
Development fee	(6,650)	(9,612)
Election expenses	860	710
Election rebates	416	(3)
Facility ramp up	12,547	15,809
Firefighters sick leave benefits	6,340	6,340
Insurance	3,884	3,316
Long-term disability benefits	20,260	19,151
Partnership	-	16
Waste management	-	28
Waterworks	71,765	60,853
Total reserves	144,495	132,326
RESERVE FUNDS SET ASIDE FOR SPECIFIC PURPOSES BY COUNCIL		
Cemetery expenses	115	114
Emerald Ash Borer	956	(4,134)
Environmental land acquisition	9,506	9,130
Environmental sustainability fund	131	132
Heritage	362	384
Land acquisition	(166,721)	(68,857)
Library infrastructure	6,097	6,011
Life cycle replacement and capital	90,067	73,217
Museum	17	60
Non-DC growth	7,148	8,699
Post retirement benefits	13,876	13,590
Public art acquisition	1,423	1,038
Stormwater fee	1,799	(736)
Theatre	749	688
Trees for Tomorrow program	42	35
Workplace Safety & Insurance Board (WSIB)	4,097	3,365
WSIB excess compensation	857	611
Total reserves fund	(29,479)	43,347
Total	4,455,165	4,239,248

16. LEASE OBLIGATIONS

- a) As at December 31, 2017, the City is committed to minimum annual operating lease payments for premises and equipment as follows:

2018	\$66
2019	28
2020	29
2021	30
2022	24
2023 and over	0
	<hr/>
	\$177
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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. ACCOUNTS RECEIVABLE – POWERSTREAM INTEREST

Included in Accounts Receivable is \$7,584 (2016 - \$7,584) bearing interest @ 5.58% per annum due for the period October 2006 to September 2008 on promissory notes issued by PowerStream. City Council has approved the deferral of this payment and future quarterly interest payments due up to September 2008 for a period of 5 years from September 2008. The City received deferral request from PowerStream for another five years at the interest rate of 4.03% per annum which was approved by City Council in May 2013.

The City receives from PowerStream secondary interest on the deferred interest payments from April 2007 up to October 2013 at 4.41% and at 4.03% thereafter until October 2018. This agreement has been carried forward to Alectra Inc.

19. INVESTMENT IN MARKHAM ENTERPRISES CORPORATION

- (a) Markham Enterprises Corporation is wholly owned by the City of Markham. Markham Enterprises Corporation (MEC) owns 100% of Markham District Energy Inc. (MDE) and 15.73% of Alectra Inc. (2016 – 34.185% of PowerStream Inc.).

The following consolidated financial statements of Markham Enterprises Corporation include the financial information of its subsidiaries Markham District Energy Inc., and PowerStream Holdings Inc. for the period from January 1, 2017 to January 31, 2017 and Alectra Inc. for the period February 1, 2017 to December 31, 2017.

19. INVESTMENT IN MARKHAM ENTERPRISES CORPORATION (continued)

	2017	2016
Assets		
Current	13,475	111,475
Capital	120,016	533,894
Goodwill	-	15,234
Investment in Alectra Inc. (Note 19b)	311,497	-
Other	1,778	29,906
Total Assets	446,766	690,509
Liabilities		
Current	8,884	145,470
Other	56,715	129,022
Long Term	19,008	162,476
Total Liabilities	84,607	436,968
Shareholder's Equity		
Common shares	99,456	100,987
Promissory notes payable	79,184	79,164
Retained earnings and contributed Surplus	183,519	73,390
Total Shareholder's Equity	362,159	253,541
Total Liabilities and Shareholder's Equity	446,766	690,509
Results of Operations		
Revenues	72,668	487,305
Operating expenses	61,752	476,899
Net Income	10,916	10,406
Equity pick up in Markham Enterprises Corporation	10,916	10,406
Gain on exchange of shares of PowerStream for shares of Alectra Inc.	105,890	-
Increase/(decrease) in share capital	(1,532)	(2,273)
Dividend	(6,656)	(7,444)
Net Change in Equity in Markham Enterprises Corporation	108,618	689
Opening shareholder's equity	253,541	252,852
Closing shareholder's equity	362,159	253,541

- (b) On January 31, 2017, through a series of amalgamations, the Corporation disposed of its ownership share of its partially owned subsidiary, PowerStream Holdings Inc. ("PowerStream") in exchange for an ownership share in the newly incorporated entity, Alectra Inc. ("Alectra"). PowerStream amalgamated with Enersource Holdings Inc. ("Enersource") and Horizon Holdings Inc. ("Horizon") to form Alectra. Alectra's primary businesses is to distribute electricity to customers in municipalities in the greater golden horseshoe area as well as provide non-regulated energy services. In

19. INVESTMENT IN MARKHAM ENTERPRISES CORPORATION (continued)

consideration for its disposition of its 34.185% interest in PowerStream, the Corporation received a 15.73% ownership interest in Alectra's issued and outstanding common shares. Accordingly, the Corporation is considered to have significant influence over Alectra's financial and operating policies and has accounted for its investment in Alectra under the equity method.

Alectra also issued Class S shares to the former PowerStream shareholders relating to Ring Fenced Solar Portfolio, a division of Alectra. In accordance with the Solar Services and Indemnity Agreement between the former PowerStream shareholders and Alectra, the solar division within Alectra is beneficially owned indirectly by the former PowerStream shareholders and as such, allocates the risks and rewards of Ring Fenced Solar Portfolio's operations to the former PowerStream shareholders through Alectra's Class S shares. As such, the Corporation retains a 34.185% ownership of Class S shares of Alectra.

As a result of the Alectra formation on January 31, 2017, the Corporation derecognized its investment in PowerStream at cost and recognized its initial 15.73% equity interest in Alectra and its 34.185% ownership in the Ring Fenced Solar Portfolio at fair value resulting in a gain on disposition of \$105,890 recorded in the MEC Statement of Comprehensive Income.

The following table summarizes the financial information of Alectra and Ring Fenced Solar Portfolio as included in Alectra Inc. financial statements, adjusted for fair value adjustments at December 31, 2017. The table also reconciles the summarized financial information to the carrying amount of the MEC's interest in Alectra.

Current assets	702,000
Non-current assets	3,779,000
Current liabilities	(739,000)
Non-current liabilities	(2,094,000)
Net assets	1,648,000
Exclude net assets of Ring Fenced Solar Portfolio	(30,974)
Fair value bump of PowerStream, not recognized within Alectra Inc.'s financial statements	295,938
Adjusted net assets of Alectra Inc. to which MEC holds a 15.73% interest	1,912,964
Carrying value of investment in Alectra excluding Ring Fenced Solar (1,912,964 x 15.73%)	300,909
Carrying value of investment in Alectra's Ring Fenced Solar Portfolio (30,974 x 34.185%)	10,588
Combined Carrying value of investment	311,497

The budget figures presented in these consolidated financial statements are based on Council approved 2017 budget. The following table reconciles the approved budget figures as presented in these financial statements using the accrual basis of accounting.

Revenues	
Approved operating budget	361,305
Approved capital budget	81,474
Transfer from reserve funds	(41,943)
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Total revenues	400,836
Expenses	
Approved operating budget	361,305
Transfer to reserve funds	(48,385)
Expenses not capitalized	19,615
Post-employment benefit expenses	92
Amortization	73,169
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Total expenses	405,796
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Annual surplus/(deficit)	(4,960)
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21. SUBSEQUENT EVENT

On February 28, 2018, Alectra Inc. entered into a Merger Participation Agreement (MPA) with Alectra Utilities, Guelph Municipal Holdings Inc. (GMHI) and Guelph Hydro Electric Systems Inc. (GHESI). GMHI is the parent of GHESI. GHESI is principally an LDC regulated by the OEB.

The MPA provides terms and conditions under which Alectra Utilities will amalgamate with GHESI. Subject to meeting certain conditions with MPA, at the closing date, Alectra will issue 485,000 Class G Common Shares to GMHI in consideration for all of the issued and outstanding shares of GHESI and, thereafter, Alectra Utilities will amalgamate with GHESI. Such common shares issuance by Alectra Inc. would represent an effective 4.63% interest in its aggregate issued and outstanding classes of common shares. The effective interest conveyed was as negotiated between the parties based on the perspective relative fair values of Alectra Inc. and GHESI.

The Merger is subject to the approval of OEB based on a MAADs application expected to be issued thereto by the parties in early March. Subject to a satisfactory OEB decision approving the merger, Alectra Inc. anticipates a closing date on or before January 1, 2019.

Alectra Inc. expects that the merger contemplated under the MPA will result in more efficient and enhanced service delivery through lower operating costs while providing significant benefits for communities and shareholders.

Upon the completion of MPA, the shareholding of the MEC in Alectra Inc.'s regulated business will be changed from 15.73% to 15.00%.

21. SUBSEQUENT EVENT (continued)

On March 26, 2018 the Board of Directors of Alectra Inc. approved a return of capital of \$6M to class S shareholders, of which \$4M relates to 2017.

22. COMPARATIVE FIGURES

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