

Consolidated Financial Statements of

**THE CORPORATION OF  
THE CITY OF MARKHAM**

December 31, 2016

# 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, 2016, 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, 2016, 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 25, 2017  
Toronto, Canada

**THE CORPORATION OF THE CITY OF MARKHAM**  
**Consolidated Statement of Financial Position**  
**December 31, 2016 with comparative figures for 2015**  
**(All dollars amounts are in \$000)**

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	<u>2016</u>	<u>2015</u>
<b>FINANCIAL ASSETS</b>		
Cash and cash equivalents (Note 4)	\$ 361,195	\$ 319,173
Property taxes receivable (Note 7)	27,505	28,894
Unbilled user charges	8,364	7,786
Accounts receivable (Note 18)	64,601	59,548
Investment in Markham Enterprises Corporation (Note 19)	253,541	252,852
Other current assets	490	1,072
	<u>715,696</u>	<u>669,325</u>
<b>FINANCIAL LIABILITIES</b>		
Accounts payable and accrued liabilities (Note 9)	142,158	108,625
Deferred revenues (Note 10)	127,296	88,075
Employee future benefits liabilities (Note 12)	30,848	28,950
Long-term liabilities (Note 6)	12,918	13,577
	<u>313,220</u>	<u>239,227</u>
<b>NET FINANCIAL ASSETS</b>	\$ 402,476	\$ 430,098
<b>NON-FINANCIAL ASSETS</b>		
Tangible capital assets (Note 13)	3,834,145	3,754,464
Inventories of supplies	1,265	1,287
Inventories of land - heritage estates	94	94
Prepaid expenses	1,268	1,559
	<u>3,836,772</u>	<u>3,757,404</u>
<b>ACCUMULATED SURPLUS (Note 15)</b>	\$ 4,239,248	\$4,187,502

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, 2016 with comparative figures for 2015**  
**(All dollars amounts are in \$000)**

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	2016		2015
	Budget	Actual	Actual
<b>Revenues</b>			
Property taxes	\$ 143,903	\$ 144,092	\$ 138,739
User charges (Note 11)	78,080	81,805	73,648
Government transfers (Note 14)	1,596	13,407	12,667
Contributions from developers and others	-	41,564	80,316
Investment income	15,034	15,356	16,071
Tax penalties	3,800	4,177	3,426
Gain on sale of tangible capital assets	-	656	(101)
Deferred revenue earned	52,133	26,950	51,695
Equity pick up from Markham Enterprises Corporation (Note 19)	-	10,406	9,791
Other	5,129	16,906	21,128
<b>TOTAL REVENUES</b>	<b>299,675</b>	<b>355,319</b>	<b>407,380</b>
<b>Expenses</b>			
General government	52,162	56,349	54,750
Protection to persons and property	46,296	47,008	43,780
Transportation services	57,897	57,601	57,154
Environmental services	45,850	51,873	52,996
Recreation and cultural services	73,365	78,165	79,395
Planning and development services	8,947	12,528	11,243
Other	38	49	42
<b>TOTAL EXPENSES</b>	<b>284,555</b>	<b>303,573</b>	<b>299,360</b>
 <b>ANNUAL SURPLUS</b>	 <b>15,120</b>	 <b>51,746</b>	 <b>108,020</b>
 <b>ACCUMULATED SURPLUS, BEGINNING OF YEAR</b>	 <b>4,187,502</b>	 <b>4,187,502</b>	 <b>4,079,482</b>
 <b>ACCUMULATED SURPLUS, END OF YEAR ( Note 15)</b>	 <b>\$ 4,202,622</b>	 <b>\$ 4,239,248</b>	 <b>\$ 4,187,502</b>

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, 2016 with comparative figures for 2015**  
**(All dollars amounts are in \$000)**

	<b>2016</b>		<b>2015</b>
	<b>Budget</b>	<b>Actual</b>	<b>Actual</b>
<b>Annual surplus</b>	<b>15,120</b>	<b>51,746</b>	108,020
Acquisition of tangible capital assets including capital work in progress	<b>(95,243)</b>	<b>(151,146)</b>	(178,276)
Amortization of tangible capital assets	-	<b>70,345</b>	68,775
Disposal/write-down of tangible capital assets	-	<b>1,120</b>	336
	<b>(80,123)</b>	<b>(27,935)</b>	(1,145)
Acquisition of inventories of supplies	-	<b>(1,265)</b>	(1,287)
Acquisition prepaid expenses	-	<b>(1,268)</b>	(1,559)
Consumption of inventories of supplies	-	<b>1,287</b>	1,259
Use of prepaid expenses	-	<b>1,559</b>	1,581
<b>Change in net financial assets</b>	<b>(80,123)</b>	<b>(27,622)</b>	(1,151)
Net financial assets, beginning of year	<b>430,098</b>	<b>430,098</b>	431,249
Net financial assets, end of year	<b>349,975</b>	<b>402,476</b>	430,098

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, 2016 with comparative figures for 2015**  
**(All dollars amounts are in \$000)**

	2016	2015
<b>CASH PROVIDED BY (USED IN):</b>		
<b>OPERATING ACTIVITIES</b>		
Annual surplus	\$ 51,746	\$ 108,020
Add (deduct) items not involving cash		
Amortization of tangible capital assets	70,345	68,775
Disposal of tangible capital assets	1,120	336
Change in employee future benefits and other liabilities	1,898	(737)
Property taxes receivable	1,389	317
Equity pick up in Markham Enterprises Corporation	(10,406)	(9,791)
Change in npn-cash assets and liabilities		
Accounts receivable	(5,053)	7,899
Unbilled user charges	(578)	2,686
Other current assets	582	859
Accounts payable and accrued liabilities	33,533	13,324
Long term liabilities	(659)	(636)
Deferred revenue	39,221	(6,386)
Inventories of supplies	22	(28)
Prepaid expenses	291	22
<b>Net change in cash from operating activities</b>	<b>183,451</b>	<b>184,660</b>
<b>CAPITAL ACTIVITIES</b>		
Acquisition of tangible capital assets	(151,146)	(178,276)
<b>Net change in cash from capital activities</b>	<b>(151,146)</b>	<b>(178,276)</b>
<b>INVESTING ACTIVITIES</b>		
Dividend from Markham Enterprises Corporation	7,444	7,755
Increase(decrease) in share capital of Markham Enterprises Corporation	2,273	(4,980)
<b>Net change in cash from investing activities</b>	<b>9,717</b>	<b>2,775</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>42,022</b>	<b>9,159</b>
<b>OPENING CASH AND CASH EQUIVALENTS</b>	<b>319,173</b>	<b>310,014</b>
<b>CLOSING CASH AND CASH EQUIVALENTS</b>	<b>\$ 361,195</b>	<b>\$ 319,173</b>
<b>Supplementary information:</b>		
Interest paid	460	483
Interest received	7,413	7,490

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 employees 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 employees 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 2016 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.

**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

## 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. The adoption of this standard was inconsequential to the 2016 consolidated financial statements.

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	2016	2015
Taxation	\$ 212,070	\$ 275,985	\$ 488,055	\$ 467,012
Payment in lieu of taxes	245	797	1,042	881
Supplementary taxes	2,880	4,939	7,819	11,616
<b>Amount requisitioned and transferred</b>	<b>\$ 215,195</b>	<b>\$ 281,721</b>	<b>\$ 496,916</b>	<b>\$ 479,509</b>

## 3. TRUST FUNDS

Trust funds administered by the City for the benefit of others amounting to \$2,344 (2015 - \$2,316) 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

	2016	2015
Cash	\$ 147,759	\$ 116,226
Investments	213,436	202,947
	<b>\$ 361,195</b>	<b>\$ 319,173</b>

#### **4. CASH AND CASH EQUIVALENTS (continued)**

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 \$221,949 (2015 - \$227,254) at the end of the year. For the year 2016, the average rate of return earned was 3.00% (2015 - 3.62%). Cash balance includes investments in the amount of \$60,971 (2015 - \$15,000) which has a maturity date of less than three months.

#### **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 \$20,842 (2015 - \$20,546) of which \$10,421 (2015 - \$10,273) represented the City's portion and \$10,421 (2015 - \$10,273) represented employees portion

Since OMERS is a multi-employer pension plan, the City does not recognize any share of the pension plan deficit of \$6.98 billion as of 2015 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:

	2016	2015
Current year	\$ 20,211	\$ 19,628
Arrears prior years	8,295	10,267
	28,506	29,895
Less: Allowance for uncollectible taxes	(1,001)	(1,001)
	\$ 27,505	\$ 28,894

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 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 2013 through 2016 tax years all properties are assessed and taxed based on their CVA as of the valuation date of January 1st, 2012. The 2016 taxation year marks the fourth and final 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 (2015 - \$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 and 2016 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, 2016**  
**(All dollars 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>	<b>2016</b>	<b>2015</b>
<b><u>Revenues</u></b>									
Taxation, grants in lieu, assessments	<b>641,008</b>	-	-	-	-	-	-	<b>641,008</b>	618,248
Collection for other authorities	<b>(496,916)</b>	-	-	-	-	-	-	<b>(496,916)</b>	(479,509)
Property taxes for City purposes	<b>144,092</b>	-	-	-	-	-	-	<b>144,092</b>	138,739
User charges	<b>3,349</b>	<b>10,553</b>	<b>9,315</b>	<b>29,222</b>	<b>22,555</b>	<b>6,776</b>	<b>35</b>	<b>81,805</b>	73,648
Government transfers	<b>11,243</b>	-	-	<b>1,365</b>	<b>620</b>	<b>179</b>	-	<b>13,407</b>	12,667
Contribution from developers and others	<b>41,564</b>	-	-	-	-	-	-	<b>41,564</b>	80,316
Investment income	<b>15,356</b>	-	-	-	-	-	-	<b>15,356</b>	16,071
Tax penalties	<b>4,177</b>	-	-	-	-	-	-	<b>4,177</b>	3,426
Gain on sale of tangible assets	<b>656</b>	-	-	-	-	-	-	<b>656</b>	(101)
Deferred revenue earned	<b>26,950</b>	-	-	-	-	-	-	<b>26,950</b>	51,695
Equity pick up from Markham Enterprises Corporation	<b>10,406</b>	-	-	-	-	-	-	<b>10,406</b>	9,791
Others	<b>14,285</b>	<b>503</b>	<b>483</b>	<b>845</b>	<b>748</b>	<b>39</b>	<b>3</b>	<b>16,906</b>	21,128
<b>Total</b>	<b>272,078</b>	<b>11,056</b>	<b>9,798</b>	<b>31,432</b>	<b>23,923</b>	<b>6,994</b>	<b>38</b>	<b>355,319</b>	407,380
<b><u>Expenses</u></b>									
Salaries, Wages and employee benefits	<b>32,017</b>	<b>42,530</b>	<b>12,656</b>	<b>8,112</b>	<b>39,470</b>	<b>7,678</b>	-	<b>142,463</b>	138,475
Operating Materials and Supplies	<b>11,143</b>	<b>1,151</b>	<b>5,020</b>	<b>5,737</b>	<b>12,926</b>	<b>2,469</b>	<b>49</b>	<b>38,495</b>	37,963
Contracted Services	<b>10,393</b>	<b>1,678</b>	<b>12,105</b>	<b>13,205</b>	<b>9,827</b>	<b>1,855</b>	-	<b>49,063</b>	50,964
Rents and Financial Expenses	<b>(1,547)</b>	<b>91</b>	<b>172</b>	<b>2,518</b>	<b>674</b>	<b>526</b>	-	<b>2,434</b>	2,333
External Transfers to others	<b>313</b>	-	-	-	-	-	-	<b>313</b>	366
Long Term Debt Charges	<b>460</b>	-	-	-	-	-	-	<b>460</b>	484
Amortization of tangible capital assets	<b>3,570</b>	<b>1,558</b>	<b>27,648</b>	<b>22,301</b>	<b>15,268</b>	-	-	<b>70,345</b>	68,775
<b>Total Expenses</b>	<b>56,349</b>	<b>47,008</b>	<b>57,601</b>	<b>51,873</b>	<b>78,165</b>	<b>12,528</b>	<b>49</b>	<b>303,573</b>	299,360
<b>Annual Surplus/(Deficit)</b>	<b>215,729</b>	<b>(35,952)</b>	<b>(47,803)</b>	<b>(20,441)</b>	<b>(54,242)</b>	<b>(5,534)</b>	<b>(11)</b>	<b>51,746</b>	108,020

## 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:

	2016	2015
Trade accounts payable	\$ 51,845	\$ 48,276
Payable to other governments	62,394	37,086
Payroll liabilities	12,864	8,061
Accrued liabilities	15,055	15,202
	<b>\$ 142,158</b>	<b>\$ 108,625</b>

## 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:

	2016	2015
Development charges	\$ 66,039	\$ 69,501
Parkland cash-in-lieu	28,542	(1,528)
Federal Gas tax	4,040	6,016
Section 37 funds	3,417	2,915
	<b>102,038</b>	<b>76,904</b>
Deferred revenue and deposits	<b>25,258</b>	<b>11,171</b>
	<b>\$ 127,296</b>	<b>\$ 88,075</b>

## 11. USER CHARGES

	2016	2015
Water and sewer billing to ratepayers	\$ 111,708	100,926
Region of York requisitions	(83,594)	(75,185)
City share	28,114	25,741
Building permits	9,237	6,005
Culture venues	3,305	2,734
Engineering	3,558	3,832
Facility rentals	7,935	8,084
Licenses	1,592	1,529
Landscaping	1,626	1,860
Parking violations	3,146	2,575
Planning	9,324	4,440
Recreation programs	11,096	10,660
Other	2,872	6,188
Total	\$ 81,805	73,648

## 12. EMPLOYEE FUTURE BENEFITS LIABILITIES

	2016	2015
Vacation pay - City	\$ 2,564	\$ 2,581
Vacation pay - Library	105	131
Post-retirement benefits	13,015	12,868
Vested sick leave benefits	6,340	6,448
Long-term disability	5,998	4,438
Workplace Safety & Insurance Board	2,826	2,484
	\$ 30,848	\$ 28,950

### 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 \$2,826 (2015 - \$2,484) 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 \$6,340 (2015 - \$6,448). The accrued benefit liability and the net benefit cost for the fiscal year were determined by an actuarial valuation updated December 2013.

### **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, 2016 is \$13,015 (2015 - \$12,868). 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 \$5,998 (2015 - \$4,438) 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:

	WSIB	Vested sick- leave	Post- retirement benefits	LTD	2016	2015
Accrued benefit liability, beginning of year	\$ 2,484	\$ 6,448	\$ 12,868	\$ 4,438	\$ 26,238	\$ 26,911
Service cost	252	422	433	472	1,579	1,702
Interest cost	150	287	500	176	1,113	1,340
Benefit payments	(334)	(844)	(683)	(546)	(2,407)	(2,138)
Amortization of actuarial loss(gain)	274	27	(103)	1,458	1,656	(1,577)
<b>Accrued benefit liability, end of year</b>	<b>\$ 2,826</b>	<b>\$ 6,340</b>	<b>\$ 13,015</b>	<b>\$ 5,998</b>	<b>\$ 28,179</b>	<b>\$ 26,238</b>

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:

	WSIB	Vested sick- leave	Post- retirement benefits	LTD
Expected inflation rate	0.00%	N/A	N/A	N/A
Expected level of salary increase	3.00%	3.00%	N/A	N/A
Interest discount rate	4.75%	4.50%	4.50%	4.00%

THE CORPORATION OF THE CITY OF MARKHAM  
Notes to the Consolidated Financial Statements  
December 31, 2016  
(All dollars amounts are in \$000)

13. TANGIBLE CAPITAL ASSETS

	Cost				Accumulated Depreciation				Net Book Value	
	Jan 1, 2016	Additions	Disposals	Dec 31, 2016	Jan 1, 2016	Additions	Disposals	Dec 31, 2016	Balance at Dec 31, 2016	Balance at Dec 31, 2015
Land	1,774,628	66,095	(830)	1,839,893	-	-	-	-	1,839,893	1,774,628
Buildings	345,274	1,879	(515)	346,638	99,188	8,360	(225)	107,323	239,315	246,086
Equipment	28,926	2,668	(2,537)	29,057	13,913	3,224	(2,537)	14,600	14,457	15,013
Furniture & Fixtures	7,610	91	(186)	7,515	4,238	563	(186)	4,615	2,900	3,372
Infrastructure	1,285,613	35,533	(13,032)	1,308,114	415,378	34,184	(13,032)	436,530	871,584	870,234
Library Furniture & Fixtures	2,738	133	(221)	2,650	1,495	247	(221)	1,521	1,129	1,243
Library Media Collection	17,000	1,643	(1,819)	16,824	9,048	2,165	(1,819)	9,394	7,430	7,952
Parks & Pathways	73,753	7,222	(3,938)	77,037	31,419	4,244	(3,938)	31,725	45,312	42,335
Vehicles	15,909	1,492	(1,918)	15,483	7,116	1,747	(1,918)	6,945	8,538	8,793
Waterworks Equipment	1,266	48	(10)	1,304	623	140	(10)	753	551	643
Waterworks Infrastructure	998,113	13,938	(738)	1,011,313	298,228	15,338	(738)	312,828	698,485	699,885
Waterworks Vehicles	1,348	363	(393)	1,318	998	133	(393)	738	580	350
Total	4,552,178	131,105	(26,137)	4,657,146	881,644	70,345	(25,017)	926,972	3,730,174	3,670,534
Capital Work in progress	83,930	20,041		103,971					103,971	83,930
Grand Total	4,636,108	151,146	(26,137)	4,761,117	881,644	70,345	(25,017)	926,972	3,834,145	3,754,464

### 13. TANGIBLE CAPITAL ASSETS (continued)

#### a) Capital work in progress

Assets under construction having a value of \$103,971 (2015 - \$83,930) 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 \$41,592 (2015 - \$74,494) comprised of land in the amount of \$35,008 (2015 - \$17,598), roads infrastructure in the amount of \$4,219 (2015 - \$44,292) and water and wastewater infrastructure in the amount of \$2,365 (2015 - \$12,604).

#### 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:

	2016	2015
Provincial Grant:		
Transportation services	\$ -	\$ 551
Environmental services	1,364	1,180
Recreation and cultural services	620	496
Planning and development services	179	207
	<u>\$ 2,163</u>	<u>\$ 2,434</u>
Federal Grant:		
General government	11,244	10,055
Recreation and cultural services	-	178
	<u>\$ 11,244</u>	<u>\$ 10,233</u>
	<u>\$ 13,407</u>	<u>\$ 12,667</u>

### 15. ACCUMULATED SURPLUS

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

**THE CORPORATION OF THE CITY OF MARKHAM**  
**December 31, 2016**  
**(All dollars amounts are in \$000)**

	2016	2015
City operating fund surplus including library, community boards, and business improvement areas	4,210	2,813
Equity in Markham Enterprises Corporation	253,541	252,852
Invested in tangible capital assets and other	3,805,824	3,740,809
	<b>4,063,575</b>	<b>3,996,474</b>
<b>RESERVES SET ASIDE FOR SPECIFIC PURPOSES BY COUNCIL</b>		
Anti-whistling	318	318
Berczy landscape feature	203	203
Building fee	11,734	10,676
Capital gains	3,680	3,680
Corporate rate stabilization	19,783	14,132
Development fee	(9,612)	(9,861)
Election expenses	710	410
Election rebates	(3)	(156)
Facility ramp up	15,809	12,389
Firefighters sick leave benefits	6,340	6,436
Insurance	3,316	3,316
Long-term disability benefits	19,151	17,637
Partnership	16	16
Waste management	28	28
Waterworks	60,853	54,114
Total reserves	<b>132,326</b>	<b>113,338</b>
<b>RESERVE FUNDS SET ASIDE FOR SPECIFIC PURPOSES BY COUNCIL</b>		
Cemetery expenses	114	112
Emerald Ash Borer	(4,134)	(1,963)
Environmental land acquisition	9,130	8,789
Environmental sustainability fund	132	133
Heritage	384	398
Land acquisition	(68,857)	(24,724)
Library infrastructure	6,011	5,927
Life cycle replacement and capital	73,217	62,773
Museum	60	59
Non-DC growth	8,699	10,242
Post retirement benefits	13,590	13,255
Public art acquisition	1,038	483
Stormwater fee	(736)	(2,069)
Theatre	688	668
Trees for Tomorrow program	35	143
Workplace Safety & Insurance Board (WSIB)	3,365	3,077
WSIB excess compensation	611	387
Total reserves fund	<b>43,347</b>	<b>77,690</b>
<b>Total</b>	<b>4,239,248</b>	<b>4,187,502</b>

## 16. LEASE OBLIGATIONS

- a) As at December 31, 2016, the City is committed to minimum annual operating lease payments for premises and equipment as follows:

2017	\$99
2018	65
2019	27
2020	28
2021	30
2022 and over	23
	<hr/>
	\$272

## 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 (2015 - \$7,584) being 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 @5.58% and @4.03% thereafter until October 2018.

## 19. INVESTMENT IN MARKHAM ENTERPRISES CORPORATION

The City of Markham incorporated corporations under the laws of the Province of Ontario. Markham Enterprises Corporation (Previously Markham Energy Corporation) is wholly owned by the City of Markham. Markham Enterprises Corporation owns 100% of Markham District Energy Inc. (MDE) and 34.185% of PowerStream Holdings Inc. (2015 – 34.185% of PowerStream Inc.).

The PowerStream Holding Inc.'s authorized share capital is made up of an unlimited number of common shares, and an unlimited number of Class A non-voting common shares, all of which are without nominal or par value.

Of the total 119,013 (2015 – 119,013) common shares issued by PowerStream Holdings Inc., 53,931 (2015 - 53,931) common shares are registered under Vaughan Holdings Inc., 40,684 (2015 -40,684) common shares are registered under Markham Enterprises Corporation and 24,398 (2015 - 24,398) common shares are registered under Barrie Hydro Holdings Inc.

## 19. INVESTMENT IN MARKHAM ENTERPRISES CORPORATION (continued)

Of the total 99,997 (2015 – 99,997) Class A common shares issued by PowerStream Holdings Inc., 45,313 (2015 – 45,313) Class A common shares are registered under Vaughan Holdings Inc., 34,184 (2015 – 34,184) Class A common shares are registered under Markham Enterprises Corporation and 20,500 (2015 – 20,500) Class A common shares are registered under Barrie Hydro Holdings 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, 2016 to December 31, 2016.

	2016	2015
<b>Assets</b>		
Current	\$ 111,475	\$ 96,915
Capital	533,894	511,126
Goodwill	15,234	14,565
Other	29,906	29,297
<b>Total Assets</b>	<b>\$ 690,509</b>	<b>\$ 651,903</b>
<b>Liabilities</b>		
Current	145,470	123,199
Other	129,022	117,150
Long Term	162,476	158,702
<b>Total Liabilities</b>	<b>436,968</b>	<b>399,051</b>
<b>Shareholders' Equity</b>		
Common shares	\$ 100,987	\$ 103,260
Promissory notes payable	79,164	79,164
Retained earnings and contributed Surplus	73,390	70,428
<b>Total Shareholders' Equity</b>	<b>253,541</b>	<b>252,852</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 690,509</b>	<b>\$ 651,903</b>
<b>Results of Operations</b>		
Revenues	\$ 487,305	\$ 438,115
Operating expenses	476,899	428,324
<b>Net Income</b>	<b>\$ 10,406</b>	<b>\$ 9,791</b>
Equity pick up in Markham Enterprises Corporation	10,406	9,791
Increase/(decrease) in share capital	(2,273)	4,980
Dividend	(7,444)	(7,755)
<b>Net Change in Equity in Markham Enterprises Corporation</b>	<b>\$ 689</b>	<b>\$ 7,016</b>

## 20. COMPARATIVE FIGURES

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

## **21. SUBSEQUENT EVENT**

On February 1, 2017, PowerStream amalgamated with Horizon Holdings Inc. and Enersource Holdings Inc. to form Alectra Utilities Inc. The previous Shareholders of PowerStream, City of Vaughan, City of Markham and City of Barrie own 46% of Alectra Utilities Inc. This amalgamation was undertaken to improve the reliability of power quality and increase the investment in innovation and technology which is expected to result in savings for customers through efficiencies realized.

On February 28, 2017, Alectra Utilities Inc. purchased Hydro One Brampton Networks for a purchase price of \$607 million, plus closing adjustments.

The accounting and valuation for the amalgamation and purchase is still being finalized, therefore disclosures around the amount of the purchase price and purchased assets and liabilities cannot be determined.

The City, through Markham Enterprises Corporation (MEC), now owns 15.7% of the amalgamated entity.

On March 10, 2017, the City entered into an arrangement to provide \$41.2M of loan guarantees to MEC.



# The Corporation of the City of Markham

**Audit Findings Report**  
**For the year ended December 31, 2016**

*KPMG LLP*

April, 2017

[kpmg.ca/audit](http://kpmg.ca/audit)



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# Executive summary

## Purpose of this report

The purpose of this Audit Findings Report is to assist you, as a member Council, in your review of the results of our audit of the consolidated financial statements (the “financial statements”) of the Corporation of the City of Markham (“the City”) as at and for the year ended December 31, 2016.

## Other matters

We have highlighted other significant matters that we would like to bring to your attention.

*See pages 4 and 5*

## Finalizing the audit

As of April 4, 2017, we have completed the audit of the consolidated financial statements with the exception of

certain remaining procedures, which include amongst others:

- Completing our discussion with council;
- Review of the working papers of PowerStream Holdings Inc.'s auditors;
- Receipt of the signed management representation letter (to be signed upon approval of the financial statements); and,
- Obtaining evidence of the approval of the financial statements.

We will update you (as required by professional standards), on significant matters, *if any*, arising from the completion of the audit, including the completion of the above procedures. Our auditors' report will be dated upon the completion of any remaining procedures.

## Adjustments and differences

We did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements.

## Significant accounting estimates

Overall, we are satisfied with the reasonability of accounting estimates.

The noted areas of estimates relate to depreciation of capital assets, valuations related to land acquisitions, receivables, accruals and employee future benefits.

This Audit Findings Report should not be used for any other purpose or by anyone other than the Audit Committee. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Findings Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

# Audit risks and results

Inherent risk of material misstatement is the susceptibility of a balance or assertion to misstatement which could be material, individually or when aggregated with other misstatements, assuming that there are no related controls.

Significant financial reporting risks	Our response and significant findings
Fraud risk from revenue recognition	<ul style="list-style-type: none"> <li>• Our audit approach consisted of substantive procedures to address the relevant assertions associated with this significant risk.</li> <li>• We did not identify any issues related to fraud risk associated with revenue recognition.</li> </ul>
Risk of management override of controls	<ul style="list-style-type: none"> <li>• We performed procedures consistent with professional standards including, testing of journal entries, performing a retrospective review of estimates and evaluating the business rationale of significant transactions.</li> <li>• We did not identify any issues or concerns regarding management override of controls.</li> </ul>
Land Acquisitions	<ul style="list-style-type: none"> <li>• Completeness of land acquisitions had been identified as a higher risk component of the audit.</li> <li>• KPMG obtained the listing of land additions provided by the legal department and tested substantively by agreeing to surveyor's certificates and land title transfer documents in order to ensure that land transfers were appropriate and recorded in the correct fiscal period.</li> <li>• A listing of all land transfers in fiscal 2017 was also obtained and tested substantively to ensure cut-off for fiscal 2016 was appropriate. No errors were noted.</li> </ul>

# Audit risks and results

Significant findings from the audit regarding other areas of focus are as follows:

Other areas of focus	Our response and significant findings
Tangible capital assets	<ul style="list-style-type: none"> <li>During our substantive testing of tangible capital asset additions, we noted that the City recognized \$131.1M (2015 - \$141.3M) in total additions, which is comprised of \$89.5M (2015 - \$71.8M) of assets capitalized from work in progress ("WIP"), \$7.1M (2015 - \$61.2M) relating to assets capitalized from developer contributions and \$34.4M (2015 - \$8.3M) relating to land purchases/acquisitions.</li> <li>We reviewed on a sample basis the additions to tangible capital assets and noted that management has correctly capitalized the additions from work in progress to capital assets and developer contributions land acquisitions.</li> <li>In our testing, we reviewed the developer contribution recognized of \$41.5M (2015 - \$80.3M) on the statement of operations and accumulated surplus and noted that management has appropriately recognized the related revenue.</li> </ul>
Deferred revenue earned	<ul style="list-style-type: none"> <li>During our substantive testing, we noted that the City recognized \$26.9M (2015 - \$51.7M) of deferred revenue earned.</li> <li>We obtained the deferred revenue continuity schedule and selected samples for testing to determine if the selected amounts had been recognized in the current year in accordance with the appropriate legislation.</li> <li>Based on our testing, we conclude that deferred revenue was recognized appropriately.</li> </ul>
Markham Enterprises Corporation ("MEC") Investment	<ul style="list-style-type: none"> <li>The City recognizes its investment in MEC using the modified equity method.</li> <li>We reviewed the criteria per PS 3070 – Investment in Government Business Enterprises and noted the City's investment in MEC continues to meet all criteria of the section and therefore it is appropriate to continue to record the investment in MEC using the modified equity method of accounting.</li> <li>We reviewed the MEC modified equity method calculation. We noted that there are three major components to the calculation. They are: MEC's current year net income, the sale of MEC shares by the City in 2016 and MEC's dividend declared and paid to the City.</li> <li>Based on the work performed, KPMG concludes that management has appropriately reflected its investment in MEC using modified equity accounting in accordance with PS 3070 for fiscal 2016.</li> </ul>

# Audit risks and results

Significant findings from the audit regarding other areas of focus are as follows:

Other areas of focus	Our response and significant findings
MEC consolidation	<ul style="list-style-type: none"> <li>• The CPA Handbook Part I, IAS27 Consolidated and Separate Financial Statements requires that "Intragroup balances, transactions, income and expenses shall be eliminated in full."</li> <li>• MEC accounts for PowerStream, a joint venture with the City of Barrie and Vaughan, using the proportionate consolidation method.</li> <li>• We performed substantive work over the MEC consolidation in order to recalculate the City's investment value in MEC for 2016.</li> <li>• We reviewed the elimination entries recorded and noted the entries were to eliminate the following intercompany transactions: intercompany receivables/payables between MEC, Markham District Energy and PowerStream Holdings Inc. ("PowerStream"); intercompany sales between Markham District Energy and PowerStream, MEC's investment in Markham District Energy and PowerStream, and the dividend paid by PowerStream to MEC.</li> <li>• We conclude that the elimination entries are appropriate, in accordance with IFRS, and are consistent in nature with prior year.</li> <li>• We also reviewed MEC's accounting for PowerStream in the consolidation process. We observed that management appropriately proportionally consolidated its investment in PowerStream based on the percentage ownership of 34.185% on a consistent basis.</li> <li>• We are also required to review the working papers of PowerStream's auditors.</li> <li>• For the dividend paid to the City, we reviewed the declaration and payment of the dividend by MEC to the City.</li> <li>• Based on the work performed, we conclude that the accounting treatment is reasonable in the MEC consolidation.</li> </ul>

# Critical accounting estimates

## Critical accounting estimates

Management is required to disclose information in the consolidated financial statements about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to carrying amounts of assets and liabilities within the next financial year. Generally, these are considered to be "critical accounting estimates."

We have summarized our assessment of the subjective areas.

Asset / liability	KPMG comment
Contingent liabilities	<ul style="list-style-type: none"> <li>The CPA Handbook PS 3300 Contingent Liabilities requires that the City recognize a liability when <i>"...it is likely that a future event will confirm that a liability has been incurred at the date of the financial statements; and the amount can be reasonably estimated."</i></li> <li>At any point in time, the City is subject to a number of matters which could potentially result in the determination of a contingent liability as defined above, including, but not limited to matters such as legal claims, contract settlement accruals etc.</li> <li>We reviewed the City's assessments of contingent liabilities and the process employed to develop and record the estimated liabilities. Where applicable, we met with the individuals responsible for the process and are satisfied that the methodology used is consistent with the approach taken in prior years and has been appropriately reviewed.</li> <li>As these items are resolved, it is possible that the final amounts recorded for these liabilities may change, however the amounts currently recorded represent management's best estimates of exposure given the information presently available.</li> </ul>
Amortization expense	<ul style="list-style-type: none"> <li>We have also reviewed the estimated useful lives of the various additions from work in progress to tangible capital assets and conclude that they are reasonable.</li> <li>Fiscal 2016 amortization expense was recalculated and it was determined that management's calculation of the amortization expense was appropriate.</li> </ul>
Employee future benefits	<ul style="list-style-type: none"> <li>We reviewed actuarial reports regarding estimates related to Employee Future Benefits, and conducted tests of detail to assess the reliability of the information used within the reports.</li> <li>We recalculated the accruals based on the information noted above, and did not identify any discrepancies.</li> </ul>

# Other matters

Professional standards require us to communicate Other Matters to Council, such as those relating to the City's related parties, compliance with new accounting standards, and other significant items encountered during the audit.

We have highlighted below other significant matters that we would like to bring to your attention:

Subsequent Event PowerStream merger	<ul style="list-style-type: none"><li>• At a special Markham Council meeting November 19, 2015, the City approved a transaction that will see PowerStream merge with hydro-electric distribution companies Enersource and Horizon Utilities and an acquisition of Hydro One Brampton Networks Inc.</li><li>• On January 31, 2017 PowerStream amalgamated with Horizon Holdings Inc. and Enersource Holdings Inc. to form Alectra Utilities Inc. The previous Shareholders of PowerStream: the City of Vaughan, City of Markham and City of Barrie own 46% of Alectra Utilities Inc.</li><li>• On February 28, 2017 Alectra Utilities purchased Hydro One Brampton Networks for a purchase price of \$607million, plus closing adjustments.</li><li>• The City's ownership share of Alectra Utilities Inc. is 15.7%.</li></ul>

# Adjustments and differences

Based on both qualitative and quantitative considerations, management have decided not to correct certain differences, and represented to us that the uncorrected differences—individually and in the aggregate—are, in their judgment, not material to the financial statements.

## Corrected adjustments

We did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements.

## Uncorrected differences

We did not identify differences that remain uncorrected.

# Appendices

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**Appendix 1: Required communications**

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**Appendix 2: Audit Quality and Risk Management**

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**Appendix 3: Background and professional standards**

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**Appendix 4: Current developments**

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# Appendix 1: Required communications

In accordance with professional standards, there are a number of communications that are required during the course of and upon completion of our audit. These include:

- **Auditors' report** – the conclusion of our audit is set out in our draft auditors' report.
- **Management representation letter** –In accordance with professional standards, copies of the management representation letter are provided to the Audit Committee. Management have provided you with a copy of the representation letter for the audit of the financial statements.

# Appendix 2: Audit Quality and Risk Management

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards.

Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarises the six key elements of our quality control systems

Visit <http://www.kpmg.com/Ca/en/services/Audit/Pages/Audit-Quality-Resources.aspx> for more information.

- Other controls include:
  - Before the firm issues its audit report, the Engagement Quality Control Reviewer reviews the appropriateness of key elements of publicly listed client audits.
  - Technical department and specialist resources provide real-time support to audit teams in the field.
- We conduct regular reviews of engagements and partners. Review teams are independent and the work of every audit partner is reviewed at least once every three years.
- We have policies and guidance to ensure that work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm's standards of quality.
- All KPMG partners and staff are required to act with integrity and objectivity and comply with applicable laws, regulations and professional standards at all times.



- We do not offer services that would impair our independence.
- The processes we employ to help retain and develop people include:
  - Assignment based on skills and experience;
  - Rotation of partners;
  - Performance evaluation;
  - Development and training; and
  - Appropriate supervision and coaching.
- We have policies and procedures for deciding whether to accept or continue a client relationship or to perform a specific engagement for that client.
- Existing audit relationships are reviewed annually and evaluated to identify instances where we should discontinue our professional association with the client.

# Appendix 3: Background and professional standards

## Internal control over financial reporting

As your auditors, we are required to obtain an understanding of internal control over financial reporting (ICFR) relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on internal control. Accordingly, we do not express an opinion on the effectiveness of internal control.

Our understanding of ICFR was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies and therefore, there can be no assurance that all significant deficiencies and other control deficiencies have been identified. Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors.

The control deficiencies communicated to you are limited to those control deficiencies that we identified during the audit.

## Documents containing or referring to the audited financial statements

We are required by our professional standards to read only documents containing or referring to audited financial statements and our related auditors' report that are available through to the date of our auditors' report. The objective of reading these documents through to the date of our auditors' report is to identify material inconsistencies, if any, between the audited financial statements and the other information. We also have certain responsibilities, if on reading the other information for the purpose of identifying material inconsistencies, we become aware of an apparent material misstatement of fact.

We are also required by our professional standards when the financial statements are translated into another language to consider whether each version, available through to the date of our auditors' report, contains the same information and carries the same meaning.

# Appendix 4: Current Developments

The following is a summary of the accounting standard changes that are relevant to the City

Topic	Summary
PS Introduction	<p>This standard provides the standards to be followed by government partnerships. Government business partnerships (with all public sector partners) are to follow the standards applicable to publicly accountable entities in Part I of the <i>CPA Canada Handbook Accounting</i>. Non-business government partnerships with only government partners can choose either PSA Standards or the standards applicable to publicly accountable entities in Part I of the <i>CPA Canada Handbook Accounting</i>. Government partnerships that have one or more private sector partners should use the standards determined by the partners. This section also requires government organizations that meet the new definition of government components to apply the PSA Standards.</p> <p>This standard is effective for fiscal periods beginning on or after January 1, 2017 (the City's December 31, 2017 year end).</p>
PS 3210 Assets	<p>This standard provides a definition of assets and further expands that definition as it relates to control.</p> <p>Assets are defined as follows:</p> <ul style="list-style-type: none"> <li>• They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.</li> <li>• The public sector entity can control the economic resource and access to the future economic benefits.</li> <li>• The transaction or event giving rise to the public sector entity's control has already occurred.</li> </ul> <p>The standard also includes some disclosure requirements related to economic resources that are not recorded as assets to provide the user with better information about the types of resources available to the public sector entity.</p> <p>This standard is effective for fiscal periods beginning on or after April 1, 2017 (the City's December 31, 2018 year end).</p>
PS 3320 Contingent Assets	<p>This standard defines contingent assets. They have two basis characteristics:</p> <ul style="list-style-type: none"> <li>• An existing condition or situation that is unresolved at the financial statement date.</li> <li>• An expected future event that will resolve the uncertainty as to whether an asset exists.</li> </ul> <p>The standard also has specific disclosure requirements for contingent assets when the occurrence of the confirming event is likely.</p> <p>This standard is effective for fiscal periods beginning on or after April 1, 2017 (the City's December 31, 2018 year end).</p>

PS 3380 Contractual Rights	<p>This standard defines contractual rights to future assets and revenue.</p> <p>Information about a public sector entity's contractual rights should be disclosed in notes or schedules to the financial statements and should include descriptions about their nature and extent and the timing. The standard also indicates that the exercise of professional judgment would be required when determining contractual rights that would be disclosed. Factors to consider include, but are not limited to:</p> <ul style="list-style-type: none"> <li>(a) contractual rights to revenue that are abnormal in relation to the financial position or usual business operations; and</li> <li>(b) contractual rights that will govern the level of certain type of revenue for a considerable period into the future.</li> </ul> <p>This standard is effective for fiscal periods beginning on or after April 1, 2017 (the City's December 31, 2018 year end.)</p>
PS 2200 Related Party Disclosures	<p>This standard relates to related party disclosures and defines related parties. Related parties could be either an entity or an individual. Related parties exist when one party has the ability to control or has shared control over another party. Individuals that are key management personnel or close family members may also be related parties.</p> <p>Disclosure is only required when the transactions or events between related parties occur at a value different from what would have been recorded if they were not related and the transactions could have a material financial impact on the financial statements. Material financial impact would be based on an assessment of the terms and conditions underlying the transaction, the financial materiality of the transaction, the relevance of the information and the need for the information to enable the users to understand the financial statements and make comparisons.</p> <p>This standard also specifies the information required to be disclosed including the type of transactions, amounts classified by financial statement category, the basis of measurement, and the amounts of any outstanding items, any contractual obligations and any contingent liabilities. The standard also requires disclosure of related party transactions that have occurred where no amounts has been recognized.</p> <p>This standard is effective for fiscal periods beginning on or after April 1, 2017 (the City's December 31, 2018 year end).</p>
PS 3430 Restructuring Transactions	<p>A restructuring transaction in the public sector differs from an acquisition as they generally include either no or nominal payment. It also differs from a government transfer as the recipient would be required to assume the related program or operating responsibility.</p> <p>The standard requires that assets and liabilities are to be measured at their carrying amount. It also prescribes financial statement presentation and disclosure requirements.</p> <p>This standard is effective for fiscal periods beginning on or after April 1, 2018 (the City's December 31, 2019 year end).</p>
PS 3420 Inter-entity Transactions	<p>This standard relates to the measurement of related party transactions and includes a decision tree to support the standard.</p> <p>Transactions are recorded a carrying amounts with the exception of the following:</p> <ul style="list-style-type: none"> <li>• In the normal course of business – use exchange amount</li> <li>• Fair value consideration – use exchange amount</li> <li>• No or nominal amount – provider to use carrying amount; recipient choice of either carrying amount or value fair.</li> </ul>

	<ul style="list-style-type: none"> <li>• Cost allocation – use exchange amount</li> </ul> <p>This standard is effective for fiscal periods beginning on or after April 1, 2017 (the City's December 31, 2018 year end).</p>
PS 3450 Financial Instruments	<p>A standard has been issued, establishing a standard on accounting for and reporting all types of financial instruments including derivatives. The effective date of this standard has recently been deferred and it is now effective for fiscal periods beginning on or after April 1, 2019 (the City's December 31, 2019 year end).</p> <p>This standard will require the City to identify any contracts that have embedded derivatives and recognize these on the consolidated statement of financial position at fair value. Portfolio investments in equity instruments are required to be recorded at fair value. Changes in fair value will be reported in a new financial statement – statement of remeasurement gains and losses. This standard sets out a number of disclosures in the financial statements designed to give the user an understanding of the significance of financial instruments to the City. These disclosures include classes of financial instruments and qualitative and quantitative risk disclosures describing the nature and extent of risk by type. The risks to be considered include credit, currency, interest rate, liquidity, and market risk.</p>
Revised Standard PS 2601 Foreign Currency Translation	<p>A revised standard has been issued establishing standards on accounting for and reporting transactions that are denominated in a foreign currency.</p> <p>The effective date of this standard has been deferred and is effective for fiscal periods beginning on or after April 1, 2019 (The City's December 31, 2020 year-end). Earlier adoption is permitted. An entity early adopting this standard must also adopt the new financial instruments standard.</p> <p>This standard will require exchange gains and losses arising prior to settlement are recognized in a new statement of remeasurement gains and losses.</p>

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