

Consolidated Financial Statements of

**THE CORPORATION OF  
THE CITY OF MARKHAM**

December 31, 2014

DRAFT

# 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, 2014, 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, 2014, 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 29, 2015  
Toronto, Canada

THE CORPORATION OF THE CITY OF MARKHAM  
Consolidated Statement of Financial Position  
December 31, 2014 with comparative figures for 2013  
(All dollars amounts are in \$000)

	2014	2013
<b>FINANCIAL ASSETS</b>		
Cash and cash equivalents (Note 4)	\$ 310,014	\$ 338,633
Taxes receivable (Note 7)	29,211	30,429
Unbilled user charges	10,472	9,953
Accounts receivable (Note 18)	67,366	57,036
Investment in Markham Enterprises Corporation (Note 19)	245,836	233,349
Other current assets	1,931	2,736
	<b>664,830</b>	<b>672,136</b>
<b>FINANCIAL LIABILITIES</b>		
Accounts payable and accrued liabilities (Note 9)	95,301	82,292
Deferred revenues (Note 10)	94,380	117,304
Employee future benefits liabilities (Note 12)	29,687	27,978
Long-term liabilities (Note 6)	14,213	10,747
	<b>233,581</b>	<b>238,321</b>
<b>NET FINANCIAL ASSETS</b>	<b>\$ 431,249</b>	<b>\$ 433,815</b>
<b>NON-FINANCIAL ASSETS</b>		
Tangible capital assets (Note 13)	3,645,299	3,556,532
Inventories of supplies	1,259	869
Inventories of land - heritage estates	94	109
Prepaid expenses	1,581	1,249
	<b>3,648,233</b>	<b>3,558,759</b>
<b>ACCUMULATED SURPLUS (Note 15)</b>	<b>\$ 4,079,482</b>	<b>\$3,992,574</b>

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, 2014 with comparative figures for 2013**  
**(All dollars amounts are in \$000)**

	2014		2013
	Budget	Actual	Actual
<b>Revenues</b>			
Taxation	\$ 131,708	\$ 132,788	\$ 125,660
User charges (Note 11)	70,577	67,884	67,790
Government transfers (Note 14)	1,536	17,188	11,702
Contributions from developers and others	-	62,615	64,239
Investment income	19,151	20,427	20,740
Tax penalties	3,500	3,393	3,763
Gain on sale of tangible capital assets	-	42	849
Deferred revenue earned	40,054	46,670	69,151
Equity pick up from Markham Enterprises Corporation (Note 19)	-	5,442	7,648
Interest earned on reserves and reserve funds	-	1,147	1,497
Other	4,223	9,326	6,333
<b>TOTAL REVENUES</b>	<b>270,749</b>	<b>366,922</b>	<b>379,372</b>
<b>Expenses</b>			
General government	43,189	47,702	33,285
Protection to persons and property	42,327	41,813	41,539
Transportation services	27,057	32,322	35,478
Environmental services	23,729	26,733	28,747
Recreation and cultural services	50,942	54,710	52,674
Planning and development services	6,168	10,929	8,985
Other	38	48	43
Amortization of tangible capital assets	66,675	65,757	63,038
<b>TOTAL EXPENSES</b>	<b>260,125</b>	<b>280,014</b>	<b>263,789</b>
<b>ANNUAL SURPLUS</b>	<b>10,624</b>	<b>86,908</b>	<b>115,583</b>
<b>ACCUMULATED SURPLUS, BEGINNING OF YEAR</b>	<b>3,992,574</b>	<b>3,992,574</b>	<b>3,876,991</b>
<b>ACCUMULATED SURPLUS, END OF YEAR ( Note 15)</b>	<b>\$ 4,003,198</b>	<b>\$ 4,079,482</b>	<b>\$ 3,992,574</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, 2014 with comparative figures for 2013**  
**(All dollars amounts are in \$000)**

	2014		2013
	Budget	Actual	Actual
<b>Annual surplus</b>	<b>10,624</b>	<b>86,908</b>	115,583
Acquisition of tangible capital assets	(153,124)	(175,143)	(113,251)
Amortization of tangible capital assets	66,675	65,757	63,038
Change in capital work in progress	-	20,549	(41,942)
Disposal/write-down of land and land improvements	-	70	514
	(75,825)	(1,859)	23,942
Acquisition of inventories of supplies	-	(1,259)	(869)
Acquisition prepaid expenses	-	(1,581)	(1,249)
Inventories of land - heritage estates	-	(94)	(109)
Consumption of inventories of supplies	-	869	1,212
Inventories of land - heritage estates	-	109	109
Use of prepaid expenses	-	1,249	1,002
<b>Change in net financial assets</b>	<b>(75,825)</b>	<b>(2,566)</b>	24,038
Net financial assets, beginning of year	433,815	433,815	409,777
Net financial assets, end of year	357,990	431,249	433,815

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, 2014 with comparative figures for 2013**  
**(All dollars amounts are in \$000)**

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	2014	2013
<b>CASH PROVIDED BY (USED IN):</b>		
<b>OPERATING ACTIVITIES</b>		
Annual surplus	\$ 86,908	\$ 115,583
Amortization of tangible capital assets	65,757	63,038
Developers contribution of tangible capital assets and others	(62,615)	(64,239)
Change in employee future benefits and other liabilities	1,709	1,773
Change in non-cash assets and liabilities		
Tax receivable	1,218	8,721
Accounts receivable	(10,330)	(524)
Unbilled user charges	(519)	(83)
Other current assets	805	331
Accounts payable and accrued liabilities	13,009	(26,203)
Long term liabilities	3,466	(434)
Deferred revenue	(22,924)	(33,923)
Inventories of supplies	(390)	343
Inventories of land - heritage estates	15	-
Prepaid expenses	(332)	(247)
Equity pick up in Markham Enterprises Corporation	(5,442)	(7,648)
<b>NET CHANGE IN CASH FROM OPERATING ACTIVITIES</b>	<b>70,335</b>	<b>56,488</b>
<b>CAPITAL ACTIVITIES</b>		
Proceeds of sale of tangible capital assets	42	849
Net Acquisition of tangible capital assets net of developers contribution	(91,950)	(91,289)
<b>NET CHANGE IN CASH FROM CAPITAL ACTIVITIES</b>	<b>(91,908)</b>	<b>(90,440)</b>
<b>INVESTING ACTIVITIES</b>		
Dividend from Markham Enterprises Corporation	5,162	5,585
Increase in share capital of Markham Enterprises Corporation	(12,208)	(3,550)
<b>NET CHANGE IN CASH FROM INVESTING ACTIVITIES</b>	<b>(7,046)</b>	<b>2,035</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(28,619)</b>	<b>(31,917)</b>
<b>OPENING CASH AND CASH EQUIVALENTS</b>	<b>338,633</b>	<b>370,550</b>
<b>CLOSING CASH AND CASH EQUIVALENTS</b>	<b>\$ 310,014</b>	<b>\$ 338,633</b>
<b>Supplementary information:</b>		
Interest paid	484	444
Interest received	7,154	7,095

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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 taxation, 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.

### TAXATION AND RELATED REVENUES

Property tax billings are prepared by the City based on assessment rolls compiled by the Municipal Property Assessment Corporation ("MPAC"). 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 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 taxes. These revenues are recorded in the period the interest and penalties are levied.

The City adopted PS 3510, *Tax Revenues* that addresses recognition and reporting of 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



## 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

employees. Actuarial valuations, where necessary for accounting purposes, are performed triennially. The discount rate used to determine the accrued benefit obligation was determined by reference to market interest rates at the measurement date on high quality debt instruments with cash flows that match the timing and amount of expected benefit payments. Unamortized actuarial gains or losses are amortized on a straight-line basis over the expected average remaining service life of the related 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 2014 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.

**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:

## 2. OPERATIONS OF SCHOOL BOARDS AND THE REGION OF YORK (continued)

	School Boards	Region of York	2014	2013
Taxation	\$ 195,352	\$ 245,193	\$ 440,545	\$ 430,285
Payment in lieu of taxes	234	1043	1,277	1,294
Supplementary taxes	4,881	6741	11,622	7,168
<b>Amount requisitioned and transferred</b>	<b>\$ 200,467</b>	<b>\$ 252,977</b>	<b>\$ 453,444</b>	<b>\$ 438,747</b>

## 3. TRUST FUNDS

Trust funds administered by the City for the benefit of others amounting to \$2,296 (2013 - \$2,282) 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

	2014	2013
Cash	\$ 75,860	\$ 109,520
Investments	234,154	229,113
	<b>\$ 310,014</b>	<b>\$ 338,633</b>

Investments consist of authorized investments pursuant to the provisions of the Municipal Act and include short-terms 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 \$245,432 (2013 - \$235,138) at the end of the year. For the year 2014, the average rate of return earned was 4.10% (2013 - 4.35%). Cash balance includes investments in the amount of \$6,000 (2013 - \$54,935) 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 \$20,274 (2013 - \$19,214) of which \$10,137 (2013 - \$9,607) represented the City's portion.

Since OMERS is a multi-employer pension plan, the City does not recognize any share of pension plan deficit \$7,078,000 (2013 - \$8,641,000) based on 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 principle 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. TAXES RECEIVABLE**

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

	<b>2014</b>	<b>2013</b>
Current year	\$ 20,919	\$ 21,524
Arrears prior years	9,293	9,906
	<b>30,212</b>	<b>31,430</b>
Less: Allowance for uncollectible taxes	(1,001)	(1,001)
	<b>\$ 29,211</b>	<b>\$ 30,429</b>

MPAC continues to refine the property assessment based on values updated to 2008 in the City and across the Province. These values were used by the City to compute the 2009 to 2012 property tax bills. In 2012, MPAC re-assessed all properties in Ontario and these values will be used as the basis for 2013 to 2016 property tax bills. However, the property tax revenue and tax receivables of the City are subject to measurement uncertainty as a number of submitted appeals have yet to be heard. As a result, there are remaining outstanding tax appeals retroactive to several years, some of which have not yet been finalized. This additional financial uncertainty continues the need for the allowance established for tax appeals in the amount of \$1,001 (2013 - \$1,001). The provision is required due to a number of different types of tax adjustments, including frozen assessment listing ("FAL") appeals, new construction retroactive appeals, and commercial vacancy rebates. Any supplementary billings adjustments made necessary by the determination of such changes will be recognized in the fiscal year they occur and the effect shared with the Region and School Boards as appropriate.

As part of its 2004 budget, the Ontario Government implemented new provisions through Bill 83 that permitted Ontario municipalities to expand capping provisions for the multi-residential, commercial and industrial classes beginning in the 2005 tax year. The Region adopted these new tax provisions and the effect is to limit annual assessment related tax increases to 10% over the previous year tax level or 5% of previous year full Current Value Assessment ("CVA") taxes. The effect of these policies is to move properties to full CVA taxes sooner. The adjustments caused by this legislation may also impact the amounts of rebates which the area municipalities must issue to certain charitable organizations and the interest and penalties the area municipalities can collect on arrears of taxes where it is subsequently determined that such amounts have been overstated. The Region continues to enforce these provisions.

The program is administered by the Region on behalf of the area municipalities, and therefore, 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.

### **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 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 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, 2013**  
**(All dollars amounts are in \$000)**

**8. Segmented Information continued**

	General Government	Protection to persons and property	Transportation services	Environmental Services	Recreation and Cultural services	Planning and Development	Others	Total 2014	Total 2013
<b>Revenues</b>									
Taxation, grants in lieu, assessments	586,232	-	-	-	-	-	-	586,232	564,407
Collection for other authorities	(453,444)	-	-	-	-	-	-	(453,444)	(438,747)
Taxation for City purposes	132,788	-	-	-	-	-	-	132,788	125,660
User charges	2,991	8,347	6,865	26,119	19,903	3,642	17	67,884	67,790
Government transfers	9,840	-	5,599	972	612	165	-	17,188	11,702
Contribution from developers and others	62,615	-	-	-	-	-	-	62,615	64,239
Investment income	20,427	-	-	-	-	-	-	20,427	20,740
Tax penalties	3,393	-	-	-	-	-	-	3,393	3,763
Gain on sale of tangible assets	42	-	-	-	-	-	-	42	849
Deferred revenue earned	46,670	-	-	-	-	-	-	46,670	69,151
Equity pick up from Markham Enterprises Corporation	5,442	-	-	-	-	-	-	5,442	7,648
Interest earned on reserves and reserve funds	1,147	-	-	-	-	-	-	1,147	1,497
Others	8,678	16	-	173	454	-	5	9,326	6,333
<b>Total</b>	<b>294,033</b>	<b>8,363</b>	<b>12,464</b>	<b>27,264</b>	<b>20,969</b>	<b>3,807</b>	<b>22</b>	<b>366,922</b>	<b>379,372</b>
<b>Expenditures</b>									
Salaries, wages and employee benefits	20,639	40,123	13,108	7,901	36,131	7,345	-	125,247	114,832
Operating materials and supplies	16,513	981	5,240	2,552	10,692	2,988	48	39,014	35,015
Contracted services	11,154	620	13,794	13,892	7,304	(3)	-	46,761	47,768
Rents and financial expenses	(1,377)	89	180	2,387	584	599	-	2,462	2,453
External transfers to others	289	-	-	-	-	-	-	289	239
Long term debt charges	484	-	-	-	-	-	-	484	444
Amortization of tangible capital assets	65,757	-	-	-	-	-	-	65,757	63,038
<b>Total Expenses</b>	<b>113,459</b>	<b>41,813</b>	<b>32,322</b>	<b>26,732</b>	<b>54,711</b>	<b>10,929</b>	<b>48</b>	<b>280,014</b>	<b>263,789</b>
<b>Annual Surplus/(Deficit)</b>	<b>180,574</b>	<b>(33,450)</b>	<b>(19,858)</b>	<b>532</b>	<b>(33,742)</b>	<b>(7,122)</b>	<b>(26)</b>	<b>86,908</b>	<b>115,583</b>

## 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:

	2014	2013
Trade accounts payable	\$ 46,504	\$ 37,448
Payable to other governments	30,230	22,060
Payroll liabilities	5,490	5,252
Accrued liabilities	13,077	17,532
	<b>\$ 95,301</b>	<b>\$ 82,292</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:

	2014	2013
Development charges	\$ 87,504	\$ 97,926
Parkland cash-in-lieu	(4,349)	286
Federal Gas tax	7,156	7,936
Section 37 funds	2,385	4,295
	<b>92,696</b>	<b>110,443</b>
Other deferred revenue and deposits	1,684	6,861
	<b>\$ 94,380</b>	<b>\$ 117,304</b>

## 11. USER CHARGES

	2014	2013
Water and sewer billing to ratepayers	\$ 90,775	85,543
Region of York requisitions	(65,735)	(61,845)
City share	25,040	23,698
Building permits	7,098	9,258
Culture venues user charges	2,449	2,418
Engineering fees	1,944	2,583
Facility rentals	7,096	6,896
Licenses	1,474	1,524
Landscaping fees	1,063	697
Parking violations	2,341	2,082
Planning fees	3,637	3,386
Recreation programs	9,827	9,443
Other user charges	5,915	5,805
Total	\$ 67,884	67,790

## 12. EMPLOYEE FUTURE BENEFITS LIABILITIES

	2014	2013
Vacation pay - City	\$ 2,645	\$ 2,767
Vacation pay - Library	131	122
Post-retirement benefits	12,000	11,161
Vested sick leave benefits	6,463	6,406
Long-term disability	6,287	5,688
Workplace Safety & Insurance Board	2,161	1,834
	\$ 29,687	\$ 27,978

### 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 \$2,161 (2013 - \$1,834) and was determined by an actuarial valuation updated December 2013. 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.



## 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 \$6,463 (2013 - \$6,406). The accrued benefit liability and the net benefit cost for the fiscal year were determined by an actuarial valuation.

### 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, 2014 is \$12,000 (2013 - \$11,161). The accrued benefit liability and the net benefit cost for the fiscal year were determined by an actuarial valuation.

### LONG-TERM DISABILITY (LTD)

The City provides long term disability benefits to eligible employees. At the year end, the accrued liability of \$6,287 (2013 - \$5,688) 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 updated December, 2014.

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

	WSIB	Vested sick- leave	Post- retirement benefits	LTD	2014	2013
Accrued benefit liability, beginning of year	\$ 1,834	\$ 6,406	\$ 11,161	\$ 5,688	\$ 25,089	\$ 23,091
Service cost	233	372	576	1007	2188	1,989
Interest cost	143	291	689	235	1358	1,375
Benefit payments	(300)	(632)	(516)	(643)	(2,091)	(1,755)
Amortization of actuarial loss(gain)	251	26	90	-	367	389
<b>Accrued benefit liability, end of year</b>	<b>\$ 2,161</b>	<b>\$ 6,463</b>	<b>\$ 12,000</b>	<b>\$ 6,287</b>	<b>\$ 26,911</b>	<b>\$ 25,089</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%	5.50%	4.00%

**THE CORPORATION OF THE CITY OF MARKHAM**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2014**  
**(All dollars amounts are in \$000)**

**13. TANGIBLE CAPITAL ASSETS**

	Cost			Accumulated depreciation			Net book value	
	Balance at Jan 1, 2014	Additions	Disposals	Balance at Jan 1, 2014	Additions	Disposals	Balance at Dec 31, 2014	Balance at Dec 31, 2013
	\$	\$	\$	\$	\$	\$	\$	\$
Land and land improvements	1,716,643	25,707	(70)	1,742,280	-	-	1,742,280	1,716,643
Buildings and building improvements	266,507	77,697	-	344,204	7,435	-	253,351	183,089
Equipment	24,753	2,836	(1,224)	26,365	2,975	(1,224)	14,978	15,117
Furniture & fixtures	7,418	147	(32)	7,533	557	(32)	3,823	4,234
Infrastructure	1,181,871	42,214	(4,593)	1,219,492	31,657	(4,593)	824,666	814,109
Library furniture & fixtures	3,301	142	(176)	3,267	284	(176)	1,305	1,447
Library media collection	15,099	2,159	(1,247)	16,011	2,057	(1,247)	8,053	7,951
Parks & pathways	65,863	9,268	(2,785)	72,346	3,987	(2,785)	42,389	37,108
Vehicles	13,289	3,326	(2,404)	14,211	1,550	(2,404)	7,995	6,219
Waterworks equipment	1,103	163	(17)	1,249	127	(17)	745	709
Waterworks infrastructure	971,217	11,426	(261)	982,382	14,960	(261)	698,302	701,836
Waterworks vehicles	1,343	58	(54)	1,347	168	(54)	493	603
Total	4,268,407	175,143	(12,863)	4,430,687	65,757	(12,793)	3,598,379	3,489,065
Capital work in progress	67,467	(20,549)		46,918			46,918	67,467
<b>Grand Total</b>	<b>4,335,874</b>	<b>154,594</b>	<b>(12,863)</b>	<b>4,477,605</b>	<b>65,757</b>	<b>(12,793)</b>	<b>3,645,299</b>	<b>3,556,531</b>

### 13. TANGIBLE CAPITAL ASSETS (continued)

#### a) Capital work in progress

Assets under construction having a value of \$46,918 (2013 - \$67,467) 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 \$44,487 (2013 - \$46,960) comprised of land in the amount of \$19,903 (2013 - \$24,101), roads infrastructure in the amount of \$17,019 (2013 - \$16,767) and water and wastewater infrastructure in the amount of \$7,565 (2013 - \$6,092).

#### 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:

	2014	2013
Provincial Grant:		
Transportation services	\$ 5,599	\$ -
Environmental services	972	994
Recreation and cultural services	427	421
Planning and development services	165	118
	<u>\$ 7,163</u>	<u>\$ 1,533</u>
Federal Grant:		
General government	9,840	9,404
Environmental services	1	10
Recreation and cultural services	184	754
Planning and development services	-	1
	<u>\$ 17,188</u>	<u>\$ 11,702</u>

## 15. ACCUMULATED SURPLUS

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

	2014	2013
City operating fund surplus (deficit) including library and business improvement areas before year-end accounting adjustments	3,038	(2,642)
Year-end accounting adjustments	(2,262)	(1,895)
Operating surplus / (deficit)	776	(4,537)
Equity in Markham Enterprises Corporation	245,836	233,349
Invested in tangible capital assets and other	3,636,760	3,525,643
	3,883,372	3,754,455
RESERVES SET ASIDE FOR SPECIFIC PURPOSES BY COUNCIL		
Anti-whistling	318	318
Berczy landscape feature	203	203
Building fee	13,105	14,003
Capital gains	3,680	3,457
Corporate rate stabilization	15,259	17,963
Development fee	(7,966)	(3,503)
Election expenses	150	917
Election rebates	280	210
Facility ramp up	10,017	9,431
Firefighters sick leave benefits	6,463	6,406
Insurance	3,316	3,135
Long-term disability benefits	15,904	14,464
Partnership	16	16
Waste management	28	28
Waterworks	49,204	42,228
Total reserves	109,977	109,276
RESERVE FUNDS SET ASIDE FOR SPECIFIC PURPOSES BY COUNCIL		
Cemetery expenses	111	109
Emerald Ash Borer	1,158	596
Environmental land acquisition	8,433	8,076
Environmental sustainability fund	153	186
Heritage	438	428
Land acquisition	(24,296)	4,218
Library infrastructure	5,855	5,778
Life cycle replacement and capital	65,714	80,024
Museum	61	61
Non-DC growth	11,795	14,396
Post retirement benefits	12,239	11,251
Public art acquisition	451	-
Stormwater fee	(78)	-
Theatre	635	611
Trees for Tomorrow program	239	236
Workplace Safety & Insurance Board (WSIB)	3,040	2,873
WSIB excess compensation	185	-
Total reserves fund	86,132	128,843
<b>Total</b>	<b>4,079,482</b>	<b>3,992,574</b>

## 16. LEASE OBLIGATIONS

- a) As at December 31, 2014, the City is committed to minimum annual operating lease payments for premises and equipment as follows:

2015	\$497
2016	495
2017	498
2018	500
2019	462
2020 and over	263
	<hr/>
	\$2,715

## 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 (2013 - \$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. (2013 – 34.185% of PowerStream Inc.).

The original entity, PowerStream Inc., reorganized its structure by establishing a corporation as its new parent entity – PowerStream Holdings Inc. on July 24, 2013.

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 112,945 (2013 – 100,000) common shares issued by PowerStream Holdings Inc., 51,181 (2013 - 45,315) common shares are registered under Vaughan Holdings Inc., 38,610 (2013 -34,185) common shares are registered under Markham Enterprises Corporation and 23,154 (2013 - 20,500) common shares are registered under Barrie Hydro Holdings Inc.

# 19. INVESTMENT IN MARKHAM ENTERPRISES CORPORATION (continued)

Of the total 99,997 (2013 – 69,223) Class A common shares issued by PowerStream Holdings Inc., including an issue of 3,918 and 26,856 Class A common shares in January 2014 and November 2014 respectively; 45,313 (2013 – 29,225) Class A common shares are registered under Vaughan Holdings Inc., 34,184 (2013 – 25,003) Class A common shares are registered under Markham Enterprises Corporation and 20,500 (2013 – 14,995) 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, 2014 to December 31, 2014 and the financial information of its subsidiaries MDE and PowerStream Inc. for the period from January 1, 2014 to December 31, 2014.

	2014	2013
<b>Assets</b>		
Current	\$ 103,330	\$ 88,438
Capital	481,302	442,749
Goodwill	14,543	14,543
Other	25,443	16,459
<b>Total Assets</b>	<b>\$ 624,618</b>	<b>\$ 562,189</b>
<b>Liabilities</b>		
Current	97,515	112,705
Other	110,264	98,321
Long Term	171,003	117,814
<b>Total Liabilities</b>	<b>378,782</b>	<b>328,840</b>
<b>Shareholders' Equity</b>		
Common shares	\$ 98,280	\$ 86,074
Promissory notes payable	79,164	79,164
Retained earnings and contributed Surplus	68,392	68,111
<b>Total Shareholders' Equity</b>	<b>245,836</b>	<b>233,349</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 624,618</b>	<b>\$ 562,189</b>
<b>Results of Operations</b>		
Revenues	\$ 399,570	\$ 379,099
Operating expenses	394,128	371,451
<b>Net Income</b>	<b>\$ 5,442</b>	<b>\$ 7,648</b>
Equity pick up in Markham Enterprises Corporation	5,442	7,648
Increase in share capital	12,208	3,550
Dividend	(5,162)	(5,585)
<b>Net Change in Equity in Markham Enterprises Corporation</b>	<b>\$ 12,488</b>	<b>\$ 5,613</b>

## 20. COMPARATIVE FIGURES

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