

Consolidated Financial Statements of

**THE CORPORATION OF
THE CITY OF MARKHAM**

December 31, 2012

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, 2012, 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, 2012, 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
xxx, 2013
Toronto, Canada

THE CORPORATION OF THE CITY OF MARKHAM

Consolidated Statement of Financial Position

December 31, 2012

(All dollar amounts are in \$000)

	2012	2011 (Restated Note 18)
FINANCIAL ASSETS		
Cash and cash equivalents (Note 4)	\$ 370,550	\$ 363,848
Taxes receivable (Note 7)	39,150	31,918
Unbilled user charges	9,870	8,802
Accounts receivable (Note 17)	55,633	53,691
Investment in Markham Enterprises Corporation (Note 18)	229,949	215,132
Other current assets	3,067	4,123
	708,219	677,514
FINANCIAL LIABILITIES		
Accounts payable and accrued liabilities (Note 9)	107,616	113,432
Deferred revenue (Note 10)	151,227	133,024
Employee future benefits liabilities (Note 12)	26,205	23,879
Long-term liabilities (Note 6)	11,181	11,599
	296,229	281,934
NET FINANCIAL ASSETS	\$ 411,990	\$ 395,580
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 13)	3,444,052	3,297,188
Inventories of supplies	1,212	972
Inventories of Land - Heritage Estates	109	109
Prepaid expenses	1,002	1,042
	\$ 3,446,375	\$ 3,299,311
Lease obligations (Note 15)		
Contingency (Note 16)		
ACCUMULATED SURPLUS (Note 14)	\$ 3,858,365	\$ 3,694,891

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
Year ended December 31, 2012
(All dollar amounts are in \$000)

	2012		2011
	Budget	Actual	Actual
	(Unaudited Note 1)		(Restated Note 18)
Revenues			
Taxation	\$ 121,077	\$ 122,270	\$ 119,934
User charges (Note 11)	65,057	70,268	64,309
Grants	1,529	3,063	8,750
Contributions from developers	-	124,245	85,367
Investment income	13,760	15,697	15,822
Tax penalties	3,375	3,506	3,724
Gain on sale of tangible capital assets	-	1	138
Deferred revenue earned	49,103	63,202	82,760
Equity pick up from Markham Enterprises Corporation (Note 18)	-	9,977	6,347
Interest earned on reserves and reserve funds	-	1,406	1,186
Other	8,274	11,331	12,411
TOTAL REVENUES	262,175	424,966	400,748
Expenses			
General government	39,382	49,186	49,535
Protection to persons and property	40,192	40,496	37,378
Transportation services	25,105	27,691	27,966
Environmental services	22,463	28,012	27,083
Recreation and cultural services	44,047	47,306	46,460
Planning and development services	5,312	9,701	6,750
Other	38	47	41
Write-down of tangible capital assets	-	-	331
Amortization of tangible capital assets	56,977	59,053	55,246
TOTAL EXPENSES	233,516	261,492	250,790
ANNUAL SURPLUS	28,659	163,474	149,958
ACCUMULATED SURPLUS, BEGINNING OF YEAR	3,694,891	3,694,891	3,544,933
ACCUMULATED SURPLUS, END OF YEAR (Note 14)	\$ 3,723,550	\$3,858,365	\$ 3,694,891

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

Year ended December 31, 2012

(All dollar amounts are in \$000)

	2012		2011
	Budget (Unaudited Note 1)	Actual	Actual (Restated Note 18)
Annual surplus	28,659	163,474	149,958
Acquisition of tangible capital assets	(89,482)	(273,564)	(170,500)
Amortization of tangible capital assets	56,977	59,053	55,246
Change in capital work in progress	-	60,916	(24,728)
Disposal of land and land improvements	-	6,731	331
	(3,846)	16,610	10,307
Acquisition of inventories of supplies	-	(1,212)	(972)
Prepaid expenses	-	(1,002)	(1,042)
Consumption of inventories of supplies	-	972	1,067
Use of prepaid expenses	-	1,042	404
Change in net financial assets	(3,846)	16,410	9,764
Net financial assets, beginning of year	395,580	395,580	385,816
Net financial assets, end of year	391,734	411,990	395,580

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

THE CORPORATION OF THE CITY OF MARKHAM
Consolidated Statement of Cash Flows
Year ended December 31, 2012
(All dollar amounts are in \$000)

	2012	2011 (Restated Note 18)
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Annual surplus	163,474	149,958
Amortization of tangible capital assets	59,053	55,246
Developers contribution of tangible capital assets	(124,245)	(85,367)
Change in employee future benefits liabilities	2,326	6,123
Taxes receivable	(7,232)	7,223
Accounts receivable	(1,942)	(2,469)
Unbilled user charges	(1,068)	(838)
Other current assets	1,056	521
Accounts payable and accrued liabilities	(5,817)	31,331
Long term liabilities	(418)	(401)
Deferred revenue	18,203	(14,718)
Inventories of supplies	(240)	95
Prepaid expenses	40	(638)
NET CHANGE IN CASH FROM OPERATING ACTIVITIES	103,190	146,066
CAPITAL ACTIVITIES		
Gain on sale of tangible capital assets	1	138
Net acquisition of tangible capital assets net of developers contribution	(81,671)	(109,668)
NET CHANGE IN CASH USED IN CAPITAL ACTIVITIES	(81,670)	(109,530)
INVESTING ACTIVITIES		
Dividend from Markham Enterprises Corporation	4,786	3,445
Change in equity of Markham Enterprises Corporation	(19,604)	(11,685)
NET CHANGE IN CASH USED IN INVESTING ACTIVITIES	(14,818)	(8,240)
NET CHANGE IN CASH AND CASH EQUIVALENTS	6,702	28,296
OPENING CASH AND CASH EQUIVALENTS	363,848	335,552
CLOSING CASH AND CASH EQUIVALENTS	\$ 370,550	\$363,848
Supplementary information:		
Interest paid	469	235
Interest received	6,917	5,055

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

THE CORPORATION OF THE CITY OF MARKHAM

Notes to the Consolidated Financial Statements

December 31, 2012

(All amounts are in \$000)

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 Generally Accepted Accounting Principles ("GAAP") for governments, as recommended by the Public Sector Accounting Board ("PSAB") of the Canadian Institute of Chartered Accountants ("CICA"). 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 generally accepted accounting principles 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.

THE CORPORATION OF THE CITY OF MARKHAM

Notes to the Consolidated Financial Statements

December 31, 2012

(All amounts are in \$000)

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 occur, providing that the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amounts can be made.

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.

EMPLOYEE FUTURE BENEFITS

The City accounts for its participation in the Ontario Municipal Employee Retirement System ("OMERS"), a multi-employer public sector pension fund, as a defined benefit plan. Vacation entitlements are accrued for as entitlements are earned. Sick leave benefits are accrued where they are vested and subject to pay out when an employee leaves the City's employment. Other employee future benefits are accrued in accordance with the projected benefit method prorated on service and management's best estimate of salary escalation and retirement ages of employees. Actuarial valuations, where necessary for accounting purposes, are performed triennially. The discount rate used to determine the accrued benefit obligation was determined by reference to market interest rates at the measurement date on high quality debt instruments with cash flows that match the timing and amount of expected benefit payments. Unamortized actuarial gains or losses are amortized on a straight-line basis over the expected average remaining service life of the related employee groups. Unamortized actuarial gains/losses for event-triggered liabilities, such as those determined as claims related to Workers Safety and Insurance Board ("WSIB") are amortized over the average expected period during which the benefits will be paid. The cost of plan amendments is accounted for in the period they are adopted.

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

THE CORPORATION OF THE CITY OF MARKHAM

Notes to the Consolidated Financial Statements

December 31, 2012

(All amounts are in \$000)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 attributable 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.

(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.

THE CORPORATION OF THE CITY OF MARKHAM

Notes to the Consolidated Financial Statements

December 31, 2012

(All amounts are in \$000)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 2012 are reflected on the Consolidated Statement of Operations and Accumulated Surplus and on the Consolidated Statement of Change in Net Financial Assets, both of which are unaudited. The Capital budget is on a project-oriented basis, the costs of which may be carried out 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:

	2012			2011
	School Boards	Region	Total	Total
Taxation	\$ 187,538	\$ 224,004	\$ 411,542	\$ 397,669
Payment in lieu of taxes	260	1,054	\$ 1,314	1,207
Supplementary taxes	5,927	6,794	\$ 12,721	23,063
Amount requisitioned and transferred	\$ 193,725	\$ 231,852	\$ 425,577	\$ 421,939

THE CORPORATION OF THE CITY OF MARKHAM
Notes to the Consolidated Financial Statements
December 31, 2012
(All dollar amounts are in \$000)

3. TRUST FUNDS

Trust funds administered by the City for the benefit of others amounting to \$2,255 (2011 - \$2,221) 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

	<u>2012</u>	<u>2011</u>
Cash	\$ 100,267	\$ 137,607
Investments	270,283	226,241
	<u>\$ 370,550</u>	<u>\$ 363,848</u>

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 \$297,197 (2011 - \$240,658) at the end of the year. For the year 2012, the average rate of return earned was 4.14% (2011 - 4.54%). Cash balance includes investments in the amount of \$12,988 (2011 - \$989) 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 8.3% and 13.9% of their salary and the City matches the employee contribution.

Total OMERS contributions amounted to \$17,206 in 2012 (2011 - \$14,766) of which \$8,603 (2011 - \$7,383) represented the City's portion.

6. LONG TERM LIABILITIES

On July 1, 2010, the City received a loan of \$12,000 from Canada Mortgage Housing Corporation ("CMHC") 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 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 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 CORPORATION OF THE CITY OF MARKHAM
Notes to the Consolidated Financial Statements
December 31, 2012
(All dollar amounts are in \$000)

7. TAXES RECEIVABLE

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

	<u>2012</u>	<u>2011</u>
Current year	\$ 24,093	\$ 19,434
Arrears previous years	16,058	13,485
	<u>40,151</u>	<u>32,919</u>
Less: Allowance for uncollectible taxes	(1,001)	(1,001)
Tax Receivable	<u>\$ 39,150</u>	<u>\$ 31,918</u>

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 1998, 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 (2011 - \$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 with 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.

This 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, Auditor General, 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 Parks, 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 service 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 (include cemeteries):

The department is responsible for administration of cemetery maintenance and morgues.

THE CORPORATION OF THE CITY OF MARKHAM
Notes to the Consolidated Financial Statements
December 31, 2012
(All dollar amounts are in \$000)

Revenues	Protection to Persons and Property			Transportation Services		Environmental Services		Recreation and Cultural services		Planning and Development Services		Consolidated	
	General Government	Property										2012	2011 (Restated Note 18)
Taxation, grants in lieu, and assessments	547,430	-	-	-	2	-	-	415	-	-	-	547,847	541,873
Collection for other authorities	(425,577)	-	-	-	-	-	-	-	-	-	-	(425,577)	(421,939)
Taxation for City purposes	121,853	-	-	-	2	-	-	415	-	-	-	122,270	119,934
User charges	1,985	13,528	9,407	21,937	17,384	5,982	44	70,268	64,309				
Grants	27	-	130	986	1,807	113	-	3,063	8,750				
Contributions from developers	124,245	-	-	-	-	-	-	124,245	85,367				
Investment income	15,697	-	-	-	-	-	-	15,697	15,822				
Tax penalties	3,506	-	-	-	-	-	-	3,506	3,724				
Gain on sale of tangible assets	1	-	-	-	-	-	-	1	138				
Deferred revenue earned	63,202	-	-	-	-	-	-	63,202	82,760				
Equity pick up from Markham Enterprises Corporation	9,977	-	-	-	-	-	-	9,977	6,347				
Interest earned on reserves and reserve funds	1,406	-	-	-	-	-	-	1,406	1,186				
Other	5,744	1,001	395	1,261	2,794	137	-	11,331	12,411				
Total Revenues	347,643	14,529	9,932	24,186	22,400	6,232	44	424,966	400,748				

THE CORPORATION OF THE CITY OF MARKHAM
Notes to the Consolidated Financial Statements
December 31, 2012
(All dollar amounts are in \$000)

<u>Expenses</u>	General Government	Protection to Persons and Property	Transpor- -tation services	Environ- mental services	Recreation and Cultural services	Planning and Develop- ment services	Other	2012	2011 (Restated Note 18)
Salaries, Wages and employee benefits	23,997	38,317	11,899	7,264	32,222	6,412	-	120,111	113,858
Operating materials and supplies	15,833	1,097	3,439	5,392	8,952	2,549	47	37,309	30,981
Contracted services	9,796	1,011	12,259	15,042	5,542	148	-	43,798	48,660
Rents and financial expenses	(1,155)	51	94	314	590	592	-	486	1,479
External transfers to others	256	-	-	-	-	-	-	256	235
Long term debt charges	459	20	-	-	-	-	-	479	-
Amortization of tangible capital assets (including write down)	59,053	-	-	-	-	-	-	59,053	55,577
Total Expenses	108,239	40,496	27,691	28,012	47,306	9,701	47	261,492	250,790
Annual Surplus / (Deficit)	239,404	(25,967)	(17,759)	(3,826)	(24,906)	(3,469)	(3)	163,474	149,958

THE CORPORATION OF THE CITY OF MARKHAM
Notes to the Consolidated Financial Statements
December 31, 2012
(All dollar amounts are in \$000)

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:

	<u>2012</u>	<u>2011</u>
Trade accounts payable	\$ 45,907	\$ 43,961
Payable to other governments	45,174	55,183
Payroll liabilities	3,279	2,909
Accrued liabilities	13,256	11,379
	<u>\$ 107,616</u>	<u>\$ 113,432</u>

10. DEFERRED REVENUE

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

	<u>2012</u>	<u>2011</u>
Obligatory Reserve Funds		
Development charges	\$ 122,886	\$ 111,921
Parkland	5,059	(166)
Other	9,400	8,861
Deferred revenue - general	13,882	12,408
	<u>\$ 151,227</u>	<u>\$ 133,024</u>

THE CORPORATION OF THE CITY OF MARKHAM
Notes to the Consolidated Financial Statements
December 31, 2012
(All dollar amounts are in \$000)

11. USER CHARGES

	<u>2012</u>	<u>2011</u>
Water and sewer billings to ratepayers	\$ 81,489	\$ 73,461
Region of York requisitions	(59,552)	(53,718)
City Share	21,937	19,743
Building permits	12,264	13,524
Parking violations	1,858	1,909
Facility rentals	6,344	6,106
Recreational programs	8,157	7,745
Parks construction and maintenance	235	304
Cultural services	2,231	2,010
Engineering fees	4,802	2,916
Planning processing fees	4,514	3,927
Compliance letters/certificates	206	205
Other user charges	7,720	5,920
	<u>\$ 70,268</u>	<u>\$ 64,309</u>

12. EMPLOYEE FUTURE BENEFITS LIABILITIES

	<u>2012</u>	<u>2011</u>
Vacation Pay – City	\$ 2,982	\$ 2,852
Vacation Pay – Library	132	115
Post-retirement benefits	10,319	9,380
Vested sick leave benefits	6,045	5,565
Long term disability	5,138	4,633
Workplace Safety & Insurance Board	1,589	1,334
	<u>\$ 26,205</u>	<u>\$ 23,879</u>

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 \$1,589 (2011 – \$1,334) and was determined by an actuarial valuation updated December 2012. A Workplace Safety and Insurance Reserve Fund, funded by annual contributions from the Operating Fund, has been established to protect against any unknown future liability.

The City also maintains an insurance policy, which protects the Corporation against single claims in excess of \$1,000.

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12. EMPLOYEE FUTURE BENEFITS AND 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 \$6,045 (2011 - \$5,565). The accrued benefit liability and the net benefit cost for the fiscal year were determined by an actuarial valuation.

POST RETIREMENT BENEFITS

Post-retirement benefits are health and dental benefits that the City pays on behalf of its current and retired employees. The City recognizes these post-retirement costs as they are earned during the employee's tenure of service. The benefit liability at December 31, 2012 is \$10,319 (2011 - \$9,380). 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 \$5,138 (2011 - \$4,633) 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 year-end balance of this reserve was \$12,784 (2011 - \$11,154). The accrued benefit liability and the net benefit cost for the fiscal year were determined by an actuarial valuation.

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

	WSIB	Vested Sick Leave	Post Retirement Benefits	LTD	2012	2011
Accrued benefit liability, beginning of year	\$ 1,334	\$ 5,564	\$ 9,380	\$ 4,633	\$ 20,911	\$ 15,276
Service cost	170	295	541	895	1,901	5,782
Interest cost	177	333	687	192	1,389	1,171
Benefit payments	(385)	(137)	(410)	(582)	(1,514)	(1,481)
Amortization of actuarial loss (gain)	293	(10)	121	-	404	164
Accrued benefit liability, end of year	\$ 1,589	\$ 6,045	\$ 10,319	\$ 5,138	\$ 23,091	\$ 20,912

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12. EMPLOYEE FUTURE BENEFITS AND LIABILITIES (continued)

The actuarial valuations of the plans were based upon a number of assumptions about future events, which reflect management's best estimates. The following represents the more significant assumptions made:

	WSIB	Sick Leave	Early Retirement	LTD
Expected inflation rate	0.00%	N/A	N/A	N/A
Expected level of salary increases	3.00%	3.00%	N/A	N/A
Interest discount rate	4.75%	4.25%	4.25%	4.00%

13. TANGIBLE CAPITAL ASSETS

<u>Cost</u>	Balance as at January 1, 2012	Additions	Disposals	Balance as at December 31, 2012
Land and land improvements	\$ 1,609,137	\$ 52,300	\$ (6,731)	\$ 1,654,706
Buildings and building	185,220	74,274	-	259,494
Equipment	22,042	4,613	(2,781)	23,874
Furniture & fixtures	6,781	652	(30)	7,403
Infrastructure	1,051,175	98,242	(3,527)	1,145,890
Library furniture & fixtures	2,771	513	(74)	3,210
Library media collection	12,138	3,632	(1,811)	13,959
Parks and pathways	58,205	5,798	(918)	63,085
Vehicles	12,566	2,930	(3,485)	12,011
Waterworks equipment	935	213	(1)	1,147
Waterworks infrastructure	927,925	30,364	(271)	958,018
Waterworks vehicles	1,292	33	(142)	1,183
Total	\$ 3,890,187	\$ 273,564	\$ (19,771)	\$ 4,143,980
Capital work in progress	86,441	(60,916)	-	25,525
Grand Total	\$ 3,976,628	\$ 212,648	\$ (19,771)	\$ 4,169,505

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13. TANGIBLE CAPITAL ASSETS (continued)

<u>Accumulated amortization</u>	Balance as at January 1, 2012	Additions	Disposals	Balance as at December 31, 2012
Land and land improvements	\$ -	\$ -	\$ -	\$ -
Buildings and building improvements	71,472	5,468	-	76,940
Equipment	9,823	2,397	(2,781)	9,439
Furniture & fixtures	2,201	517	(30)	2,688
Infrastructure	315,025	29,066	(3,528)	340,564
Library furniture & fixtures	1,465	289	(74)	1,680
Library media collection	6,500	1,656	(1,811)	6,345
Parks and pathways	23,036	3,638	(919)	25,756
Vehicles	8,491	1,280	(3,485)	6,286
Waterworks equipment	286	113	(1)	398
Waterworks infrastructure	240,559	14,484	(271)	254,772
Waterworks vehicles	582	145	(142)	585
Total	\$ 679,440	\$ 59,053	\$ (13,040)	\$ 725,453

	Net book value December 31, 2012	Net book value December 31, 2011
Land and land improvements	\$ 1,654,706	\$ 1,609,137
Buildings and building improvements	182,554	113,748
Equipment	14,435	12,219
Furniture & fixtures	4,715	4,580
Infrastructure	805,326	736,150
Library furniture & fixtures	1,530	1,306
Library Media Collection	7,614	5,638
Parks and pathways	37,329	35,169
Vehicles	5,725	4,075
Waterworks equipment	749	648
Waterworks infrastructure	703,246	687,367
Waterworks vehicles	598	710
Total	3,418,527	3,210,747
Capital work in progress	25,525	86,441
Grand Total	\$ 3,444,052	\$ 3,297,188

13. TANGIBLE CAPITAL ASSETS (continued)

a) Capital work in progress

Assets under construction having a value of \$25,525 (2011 - \$86,441) 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 contributed assets received during the year is \$123,670 (2011 - \$83,980) comprised of land in the amount of \$44,503 (2011 - \$43,916), roads infrastructure in the amount of \$55,714 (2011 - \$29,769) and water and wastewater infrastructure in the amount of \$23,453 (2011 - \$10,295).

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.

e) Land and land improvement adjustment

Included in disposals of land and land improvements is an amount of \$5,210 to adjust for previously recorded duplicated additions and \$703 of premature recognition of land ownership.

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14. ACCUMULATED SURPLUS

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

	<u>2012</u>	<u>2011</u> (Restated Note 18)
City operating fund surplus including library and business improvement areas before year-end accounting adjustments	\$ 2,773	\$ 2,061
Year-end accounting adjustments	(2,454)	(2,289)
Operating Surplus (Deficit)	\$ 319	\$ (228)
Equity in Markham Enterprises Corporations	229,949	215,132
Invested in tangible capital assets and others	3,412,006	3,265,580
	<u>\$ 3,642,274</u>	<u>\$ 3,480,484</u>
Reserves set aside for specific purposes by Council:		
Berczy Landscape Feature	203	203
Building Fee	12,018	6,823
Capital Gains	3,457	3,133
Corporate rate stabilization	17,100	16,419
Development Fee	(149)	(1,751)
Election Expenses	618	318
Election Rebate	140	(104)
Facility Ramp Up	7,876	5,495
Firefighters sick leave benefits	6,045	5,565
Insurance	2,696	1,967
Long Term Disability Benefit	12,784	11,154
Partnership	16	16
Waste management	28	28
Waterworks	34,098	31,118
Total reserves	<u>\$ 96,930</u>	<u>\$ 80,384</u>

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14. ACCUMULATED SURPLUS (continued)

	<u>2012</u>	<u>2011</u>
Reserve Funds set aside for specific purposes by Council:		
Cemetery Operations	107	101
Environmental Land Acquisition	7,848	7,759
Environmental Sustainability Fund	243	291
Heritage	449	477
Land Acquisition	3,915	4,019
Library Infrastructure	5,704	5,122
Life Cycle Replacement & Capital	80,383	96,243
Museum	59	58
Theatre	582	489
Trees for Tomorrow	232	230
Workplace Safety & Insurance Board	2,836	2,799
Non-DC Growth	16,803	16,435
Total reserve funds	\$ 119,161	\$ 134,023
Total	\$ 3,858,365	\$ 3,694,891

15. LEASE OBLIGATIONS

- (a) As at December 31, 2012, the City is committed to minimum annual operating lease payments for premises and equipment as follows:

2013	540
2014	180
2015	4
2016	4
2017	4
	<u>\$732</u>

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16. CONTINGENCY

UNSETTLED LEGAL CLAIMS AND POTENTIAL OTHER CLAIMS

The City has been named as the defendant in certain legal actions in which damages have been sought. The outcome of these actions is not determinable at this time and, accordingly, no provision has been made in these financial statements for any liability that may result.

17. ACCOUNTS RECEIVABLE – POWERSTREAM INTEREST

Included in Accounts Receivable is \$7,584 (2011 - \$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 will receive full repayment of the accumulated interest due on October 31, 2013.

The City receives from PowerStream secondary interest on the deferred interest payments from April 2007 up to October 2013.

18. 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. and 34.185% (2011 – 34.185%) of PowerStream Inc.

In accordance with the June 1, 2004 shareholders' agreement, Markham Enterprises Corporation exercised its option to purchase from treasury, an additional 2% of all the issued and outstanding shares after giving effect to the exercise of such an option. An additional 35,087 common shares were purchased in 2005 for cash consideration of \$6,800. On January 1, 2009, the shareholders of PowerStream Inc. and Barrie Hydro Distribution Inc., agreed to amalgamate PowerStream and Barrie Hydro Distribution Inc. The amalgamated corporation retained the PowerStream Inc. corporate name and issued shares to its shareholders namely – Vaughan Holdings Inc., Markham Enterprises Corporation and Barrie Hydro Holdings Inc. Upon amalgamation the shares held by Markham Enterprises Corporation will be 34.185% of the shares issued by PowerStream Inc. At year end, of the total 100,000 common shares issued by PowerStream Inc., 34,185 common shares were registered under Markham Enterprises Corporation.

On November 23, 2010 a Subscription Agreement was signed between PowerStream and its Shareholders for new Class A common shares for the purposes of the Shareholders providing equity the Corporations solar business. As a result of the subscription agreement the articles of incorporation and shareholder agreements was amended which have been re-signed in November 2010. The maximum amount of Class A common shares that are available under the subscription agreement is 100,000.

Of the total 55,195 (2011 – 7,955) Class A common shares issued 25,011 (2011 - 3,604) Class A Common Shares are registered under Vaughan Holdings Inc. (wholly owned the City of Vaughan), 18,869 (2011 - 2,720) Class A Common Shares are registered under Markham Enterprises Corporation (wholly owned by the City of Markham) and 11,315 (2011 – 1,631) Class A common shares are registered under Barrie Hydro Holdings Inc. (wholly owned by the City of Barrie).

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18. INVESTMENT IN MARKHAM ENTERPRISES CORPORATION (continued)

The Shareholder's Agreement, consistent with the original intent of the shareholders, provides the City of Markham, through its wholly owned subsidiary Markham Enterprises Corporation (MEC), with "substantive participating rights" that establish joint control with the City of Vaughan, through its wholly owned subsidiary Vaughan Holdings Inc., over the strategic operating, investing and financing policies of PowerStream.

First time adoption of International Financial Reporting Standards ("IFRS")

Markham Enterprises Corporation ("MEC") which is 100% subsidiary of City of Markham and its subsidiary corporation Markham District Energy ("MDE") and associate corporation PowerStream, adopted IFRS on January 1, 2012.

The adoption of IFRS requires retrospective application of the new accounting framework to January 1, 2011, the date of transition. As a result, the amounts reported by MEC for its December 31, 2011 year end and the opening balance sheet as at the date of transition have been restated.

In preparing its opening IFRS consolidated balance sheet, MEC has adjusted amounts reported previously in its financial statements prepared in accordance with Canadian GAAP. IFRS 1 requires an entity to explain how the transition from its previous GAAP to IFRS affected its reported financial position, financial performance and cash flows by providing reconciliations of shareholders' equity, comprehensive income and cash flows for prior periods.

Accordingly, MEC prepared their first annual financial statements in accordance with IFRS and IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1") has been applied. The adjustments in the City's financials due to IFRS are provided as per below:

As at and for the year ended December 31, 2011, unless otherwise stated	Balance, previously reported	IFRS adjustments to opening accumulated surplus as at January 1, 2011	IFRS adjustment to 2011 surplus	Balance, restated
Investment in Markham Enterprises Corporation	\$199,578	\$17,227	(\$1,673)	\$215,132
Equity pick up from Markham Enterprises Corporation	8,020	-	(1,673)	6,347
Accumulated surplus, January 1, 2011	3,527,706	17,227	-	3,544,933

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18. INVESTMENT IN MARKHAM ENTERPRISES CORPORATION (continued)

The following consolidated financial statements of Markham Enterprises Corporation include the financial information of its subsidiaries Markham District Energy Inc., and PowerStream Inc. for the period from January 1, 2012 to December 31, 2012 and January 1, 2011 to December 31, 2011 under IFRS.

	2012	2011 (Restated Note 18)
Assets		
Current	\$ 85,515	\$ 79,924
Capital	397,332	354,943
Goodwill	14,543	14,543
Other	20,647	19,102
Total Assets	\$ 518,037	\$ 468,512
Liabilities		
Current	70,810	80,054
Other	90,743	52,928
Long Term	126,535	120,398
Total Liabilities	288,088	253,380
Shareholders' Equity		
Common Shares	\$ 82,524	\$ 72,897
Promissory Notes Payable	79,164	79,164
Retained Earnings and contributed surplus	68,261	63,071
Total Shareholders' Equity	229,949	215,132
Total Liabilities and Shareholders' Equity	\$ 518,037	\$ 468,512
Results of Operations		
Revenues	\$ 349,566	\$ 326,912
Operating expenses	339,589	320,565
Net Income	\$ 9,977	\$ 6,347
Equity Pick up in Markham Enterprises Corporation	\$ 9,977	\$ 6,347
Increase in share capital	9,627	5,337
Dividend paid to City of Markham	(4,786)	(3,445)
Adjustments due to IFRS	-	17,227
Change In Equity In Markham Enterprises Corporation	14,818	25,466

19. COMPARATIVE FIGURES

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