

Auditors' Report

To the Members of Council, Inhabitants
and Ratepayers of The Corporation of
The Town of Markham:

We have audited the consolidated statement of financial position of The Corporation of The Town of Markham as at December 31, 2006 and the consolidated statement of financial activities and changes in financial position for the year then ended. These financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Town as at December 31, 2006 and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Toronto, Ontario
March XX, 2007

THE CORPORATION OF THE TOWN OF MARKHAM

Consolidated Statement of Financial Position

December 31, 2006

(All dollar amounts are in \$000)

	2006	2005
ASSETS		
FINANCIAL ASSETS		
Cash and cash equivalents (Note 4)	\$ 291,687	\$ 266,441
Taxes receivable (Note 7)	30,842	33,540
Unbilled user charges	5,191	5,306
Accounts receivable (Note 17)	20,654	14,446
Investment in Markham Enterprises Corporation (Note 18)	168,191	168,191
Other current assets	225	156
	516,790	488,080
LIABILITIES		
Accounts payable and accrued liabilities (Note 9)	53,459	53,569
Deferred revenues (Note 10)	152,367	133,598
Employee future benefits liabilities (Note 12)	12,781	11,361
	218,607	198,528
NET FINANCIAL ASSETS	\$ 298,183	\$ 289,552
MUNICIPAL POSITION		
FUND BALANCES		
Operating Fund (Note 14)	\$ 3,814	\$ 3,856
Capital Fund (Note 14)	25,997	23,198
Reserves and Reserve Funds (Note 14)	103,099	97,225
Equity in Markham Enterprises Corporation (Note 18)	168,191	168,191
FUND BALANCES	301,101	292,470
AMOUNTS TO BE RECOVERED (Note 6)		
From reserves and reserve funds on hand	(2,918)	(2,918)
MUNICIPAL POSITION	\$ 298,183	\$ 289,552

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

THE CORPORATION OF THE TOWN OF MARKHAM

Consolidated Statement of Financial Activities

Year ended December 31, 2006

(All dollar amounts are in \$000)

	2006		2005
	Budget	Actual	Actual
Revenues			
Taxation	\$ 93,954	\$ 94,357	\$ 88,036
User charges (Note 11)	50,561	48,672	46,830
Grants	4,772	4,270	1,869
Contributions from developers	33,177	14,983	38,502
Investment income	11,672	16,100	13,279
Tax penalties	3,375	3,436	3,376
Other	10,926	12,303	9,603
TOTAL REVENUES	208,437	194,121	201,495
Expenditures			
Operating			
General government	29,725	27,191	25,419
Protection to persons and property	29,270	29,229	26,233
Transportation services	17,297	16,413	17,099
Environmental services	16,185	16,278	14,571
Recreation and cultural services	34,748	34,603	32,920
Planning and development	6,015	5,878	5,816
Other	27	622	519
Subtotal	133,267	130,214	122,577
Capital			
General government	11,409	5,279	13,401
Protection to persons and property	3,201	1,303	2,839
Transportation services	42,802	18,530	34,791
Environmental services	7,027	7,328	6,923
Recreation and cultural services	6,339	18,579	22,292
Planning and development	2,775	6,037	2,710
Subtotal	73,553	57,056	82,956
TOTAL EXPENDITURES	206,820	187,270	205,533
	1,617	6,851	(4,038)
Equity in Markham Enterprises Corporation (Note 18)	-	-	5,866
INCREASE IN NET FINANCIAL ASSETS	1,617	6,851	1,828
CHANGE IN FUND BALANCE	\$ 1,617	\$ 6,851	\$ 1,828

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

THE CORPORATION OF THE TOWN OF MARKHAM

Consolidated Statement of Changes in Financial Position

Year ended December 31, 2006

(All dollar amounts are in \$000)

	2006	2005
OPERATING ACTIVITIES		
Net revenues	\$ 6,851	\$ 1,828
Subtotal	6,851	1,828
Uses		
Increase in taxes receivable	-	(5,464)
Increase in accounts receivable	(6,208)	(889)
Increase in unbilled user charges	-	(146)
Increase in other current assets	(69)	-
Decrease in accounts payable and accrued liabilities	(110)	-
Decrease in deferred revenue	-	(1,757)
Subtotal	(6,387)	(8,256)
Sources		
Decrease in unbilled user charges	115	-
Decrease in taxes receivables	2,698	-
Decrease in other current assets	-	76
Increase in accounts payable and accrued liabilities	-	3,673
Increase in deferred revenue	18,769	-
Increase in employee benefits liabilities	1,420	1,233
Subtotal	23,002	4,982
Net Increase/(decrease) from operating activities	23,466	(1,446)
INVESTING ACTIVITIES		
Dividend from Markham Enterprises Corporation	1,780	-
Equity in Markham Enterprises Corporation	-	(5,866)
Net Increase/(decrease) from investing activities	1,780	(5,866)
NET CHANGE IN CASH AND CASH EQUIVALENTS	25,246	(7,312)
OPENING CASH AND CASH EQUIVALENTS	266,441	273,753
CLOSING CASH AND CASH EQUIVALENTS	\$ 291,687	\$ 266,441

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

THE CORPORATION OF THE TOWN OF MARKHAM

Notes to the Consolidated Financial Statements

December 31, 2006

(All dollar amounts are in \$000)

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of The Corporation of The Town of Markham are the representations of management prepared in accordance with local government accounting standards, as recommended by the Public Sector Accounting Board ("PSAB") of the Canadian Institute of Chartered Accountants. Significant aspects of the accounting policies are as follows:

REPORTING ENTITY

These consolidated financial statements reflect the assets, liabilities, revenues and expenditures of the operating fund, capital fund, and reserve and reserves funds 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 Town, and which are owned or controlled by the Town, including the following:

- Town of Markham Public Library Board
- Old Markham Village Business Improvement Area
- Unionville Business Improvement Area
- Toronto Buttonville Airport (Markham) Inc.

All material inter-entity transactions and balances are eliminated on consolidation.

INVESTMENT IN MARKHAM ENTERPRISES CORPORATION

Markham Enterprises Corporation 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 Town, and inter-organizational transactions and balances are not eliminated. The Town recognizes its equity interest in the annual income or loss of Markham Enterprises Corporation in its statement of financial activities with a corresponding increase or decrease in its investment asset account. Any dividends that the Town may receive from Markham Enterprises Corporation will be reflected as reductions in the investment asset account.

ACCOUNTING FOR REGION AND SCHOOL BOARD TRANSACTIONS

The taxation, other revenues, expenditures, assets and liabilities with respect to the operations of the school boards and the Region of York are not reflected in the municipal fund balances of these financial statements.

THE CORPORATION OF THE TOWN OF MARKHAM

Notes to the Consolidated Financial Statements

December 31, 2006

(All dollar amounts are in \$000)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Financial Activities 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.

Expenditures are the cost of goods and services acquired in the period whether or not payment has been made or invoices received.

TANGIBLE CAPITAL ASSETS

Expenditures made on capital assets are reported as capital expenditures in the statement of financial activities in the period incurred.

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 Town discharges the obligation, which led to receipt of the funds.

TAXATION AND RELATED REVENUES

Property tax billings are prepared by the Town based on assessment rolls compiled by the Municipal Property Assessment Corporation ("MPAC"). Tax rates are established annually by Town Council, incorporating amounts to be raised for local services and amounts that the Town is required to collect on behalf of the Region of York and for education purposes. Realty taxes are billed based on the assessment rolls provided by MPAC. Taxation revenues are recorded at the time tax billings are issued.

THE CORPORATION OF THE TOWN OF MARKHAM

Notes to the Consolidated Financial Statements

December 31, 2006

(All dollar amounts are in \$000)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Town 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 regional government and school boards as appropriate.

The Town 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 Town accounts for its participation in the Ontario Municipal Employee Retirement System (OMERS), a multi-employer public sector pension fund, as a defined contribution plan. Vacation entitlements are accrued for as entitlements are earned. Sick leave benefits are accrued where they are vested and subject to pay out when an employee leaves the Town's employ. Other post-employment 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. 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.

INVESTMENT INCOME

Investment income earned on surplus operating funds, capital funds, reserves and reserve funds (other than obligatory reserve funds) is reported as revenue in the period earned. Investment income earned on obligatory reserve funds, such as development charges, is added to the fund balance and forms part of the respective deferred revenue balance.

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.

THE CORPORATION OF THE TOWN OF MARKHAM

Notes to the Consolidated Financial Statements

December 31, 2006

(All dollar amounts are in \$000)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

BUDGET FIGURES

The approved operating and capital budgets for 2006 are reflected on the Consolidated Schedules of Operating Fund Activities, Capital Fund Activities and Financial Activities. The budgets established for the capital fund operations are 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. As well, the municipality does not budget for activity within Reserve Funds, with the exception being those transactions which affect either the operating or capital funds.

2. OPERATIONS OF SCHOOL BOARDS AND THE REGION OF YORK

Further to Note 1, requisitions were made by the York Region and School Boards requiring the Town to collect property taxes and payments in lieu of property taxes on their behalf. The amounts collected and remitted are summarized as follows:

	2006			2005
	Boards	York	Total	Total
Taxation	\$ 164,774	\$ 170,082	\$ 334,856	\$ 324,758
Payment in lieu of taxes	223	1,015	\$ 1,238	1,360
Supplementary taxes	4,528	4,167	\$ 8,695	9,867
Amount requisitioned and transferred	\$ 169,525	\$ 175,264	\$ 344,789	\$ 335,985

3. TRUST FUNDS

Trust funds administered by the municipality for the benefit of others amounting to \$ 1,551 (2005 - \$1,609) have not been included in the "Consolidated Statement of Financial Position" nor have their operations been included in the "Consolidated Statement of Financial Activities". 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".

THE CORPORATION OF THE TOWN OF MARKHAM

Notes to the Consolidated Financial Statements

December 31, 2006

(All dollar amounts are in \$000)

4. CASH AND CASH EQUIVALENTS

	<u>2006</u>	<u>2005</u>
Cash (bank indebtedness)	\$ 5,330	\$ 5,284
Investments	286,357	261,157
	<u>\$ 291,687</u>	<u>\$ 266,441</u>

Investments, which are reported at cost for money market and face value for bonds, had a market value of \$ 286,797 (2005 - \$262,298) at the end of the year. 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. For the year 2006, the average rate of return earned was 4.40% (2005 - 3.99%).

5. PENSION AGREEMENTS

The municipality makes contributions to the Ontario Municipal Employees Retirement System (OMERS), which is a multi-employer plan, on behalf of its staff. 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 service and rates of pay.

The amount contributed to OMERS for 2006 was \$4,758 (2005 - \$3,942).

6. AMOUNTS TO BE RECOVERED

	<u>2006</u>	<u>2005</u>
Sick Leave	\$ 2,918	\$ 2,918
	<u>\$ 2,918</u>	<u>\$ 2,918</u>

THE CORPORATION OF THE TOWN OF MARKHAM

Notes to the Consolidated Financial Statements

December 31, 2006

(All dollar amounts are in \$000)

7. TAXES RECEIVABLE

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

	2006	2005
Current year	\$ 20,480	\$ 23,052
Arrears previous years	12,243	13,601
	32,723	36,653
Less Allowance	(1,881)	(3,113)
	\$ 30,842	\$ 33,540

MPAC continues to refine the assessed property values established in 2003 in the Town and across the Province. These values were used by the Town to compute the 2006 property tax bills. However, the property tax revenue and tax receivables of the Town are subject to measurement uncertainty as a number of submitted appeals have yet to be heard. Additionally, the Province enacted legislation that permits taxpayers and/or municipalities to file tax appeals retroactive to 1998, many 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 \$1,881 (2005 - \$3,113). 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 regional government 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 of York adopted these new tax policies 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 municipality must issue to certain charitable organizations and the interest and penalties the municipality can collect on arrears of taxes where it is subsequently determined that such amounts have been overstated. These policies continued in Region of York in 2006.

This program is administered by the Region of York on behalf of the area municipalities, and therefore, there is no impact on the "Consolidated Statement of Financial Activities".

THE CORPORATION OF THE TOWN OF MARKHAM

Notes to the Consolidated Financial Statements

December 31, 2006

(All dollar amounts are in \$000)

8. CLASSIFICATION OF EXPENDITURES BY OBJECT

The Consolidated Statement of Financial Activities presents the expenditures by function; the following classifies those same expenditures by object:

	<u>2006</u>	<u>2005</u>
Salaries, wages and employee benefits	\$ 85,459	\$ 78,825
Operating materials and supplies	23,999	21,692
Contracted services	19,249	20,359
Rents and financial expenses	1,305	1,521
External transfers to others	202	180
Tangible capital assets	57,056	82,956
Total expenditures by object	<u>\$ 187,270</u>	<u>\$ 205,533</u>

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 the Town of 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>2006</u>	<u>2005</u>
Trade accounts payable	\$ 28,441	\$ 25,525
Payable to other governments	15,020	14,458
Payroll liabilities	3,185	3,014
Accrued liabilities	6,813	10,572
	<u>\$ 53,459</u>	<u>\$ 53,569</u>

THE CORPORATION OF THE TOWN OF MARKHAM

Notes to the Consolidated Financial Statements

December 31, 2006

(All dollar amounts are in \$000)

10. DEFERRED REVENUE

Deferred revenues represent 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>2006</u>	<u>2005</u>
Obligatory Reserve Funds		
Development charges	\$ 141,566	\$ 123,616
Parkland	7,421	6,625
Other	218	191
Deferred revenue - general	3,162	3,166
	<u>\$ 152,367</u>	<u>\$ 133,598</u>

11. USER CHARGES

	<u>2006</u>	<u>2005</u>
Water and sewer billings to ratepayers	\$ 45,908	\$ 43,733
Region of York requisitions	(31,951)	(30,632)
Town Share	13,957	13,101
Building permits	6,339	10,354
Parking violations	1,732	1,345
Facility rentals	5,199	4,851
Recreational programs	6,597	6,148
Parks construction and maintenance	261	248
Cultural services	1,403	1,609
Engineering fees	3,825	1,539
Planning processing fees	3,985	2,438
Compliance letters/certificates	239	230
Other user charges	5,135	4,967
	<u>\$ 48,672</u>	<u>\$ 46,830</u>

THE CORPORATION OF THE TOWN OF MARKHAM

Notes to the Consolidated Financial Statements

December 31, 2006

(All dollar amounts are in \$000)

12. EMPLOYEE FUTURE BENEFITS LIABILITIES

	2006	2005
Vacation Pay – Town	\$ 2,067	\$ 2,010
Vacation Pay – Library	74	73
Employee future benefits	5,643	4,878
Vested sick leave benefits	4,383	3,854
Workplace Safety & Insurance Board	614	546
	\$ 12,781	\$ 11,361

EMPLOYEE FUTURE BENEFITS

Employee Future Benefits are health and dental benefits that the Town of Markham pays on behalf of its current and retired employees. The Town recognizes these post-retirement costs as they are earned during the employee's tenure of service. The benefit liability at December 31, 2006 is \$5,643 (2005 - \$4,878). The liability recorded by the Town has been determined by an actuarial study completed December 2006.

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

	2006				2005
	WSIB	Vested Sick Leave	Employee Future benefits	Total	Total
Accrued benefit liability, beginning of year	\$ 546	\$ 3,854	\$ 4,878	\$ 9,278	\$ 8,402
Service cost	152	207	369	728	564
Interest cost	34	286	484	804	596
Benefit payments	(118)	(4)	(258)	(380)	(342)
Amortization of actuarial loss (gain)	-	40	170	210	58
Accrued benefit liability, end of year	\$ 614	\$ 4,383	\$ 5,643	\$ 10,640	\$ 9,278

THE CORPORATION OF THE TOWN OF MARKHAM

Notes to the Consolidated Financial Statements

December 31, 2006

(All dollar amounts are in \$000)

12. EMPLOYEE FUTURE BENEFITS 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
Expected inflation rate	0.00%	N/A	N/A
Expected level of salary increases	3.00%	3.50%	N/A
Interest discount rate	6.00%	6.25%	6.25%

VESTED SICK LEAVE BENEFITS

Under the sick leave benefit plan, which is available only to the Town's firefighters, employees can accumulate unused sick leave and may become entitled to a cash payment when they leave the municipality'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 \$4,383 (2005 - \$3,854). The accrued benefit liability and the net periodic benefit cost were determined by an actuarial valuation updated December 2006.

WORKPLACE SAFETY & INSURANCE OBLIGATIONS

Effective January 1, 1999, the Corporation of the Town 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 Town remits payments to the WSIB as required to fund disability payments. The estimated future liability relating to WSIB amounted to \$614 (2005 - \$546) and was determined by an actuarial evaluation completed December 2004 and updated December 2006. A Workplace Safety and Insurance Reserve Fund, funded by annual contributions from the Operating Fund, has also been established to protect against any unknown future liability.

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

THE CORPORATION OF THE TOWN OF MARKHAM

Notes to the Consolidated Financial Statements

December 31, 2006

(All dollar amounts are in \$000)

13. COMPARATIVE FIGURES

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

14. MUNICIPAL FUND BALANCES AT THE END OF THE YEAR

(a) Operating fund balance

	2006	2005
Available for reduction of future taxation		
Town	\$ 3,746	\$ 3,810
Library	55	14
Business Improvement Areas	13	32
	<u>\$ 3,814</u>	<u>\$ 3,856</u>

(b) Capital fund balance

	2006	2005
Funds available for the acquisition of tangible capital assets	<u>\$ 25,997</u>	<u>\$ 23,198</u>

THE CORPORATION OF THE TOWN OF MARKHAM

Notes to the Consolidated Financial Statements

December 31, 2006

(All dollar amounts are in \$000)

14. MUNICIPAL FUND BALANCES AT THE END OF THE YEAR (continued)

(c) Reserves and Reserve Funds

	2006	2005
Reserves set aside for specific purposes by Council:		
Waste management process	26	25
Waterworks purposes	7,719	6,390
Firefighters sick leave benefits	2,918	2,918
Corporate rate stabilization	12,539	13,515
Facility Ramp-up	-	18
Partnership	15	15
Long Term Disability Benefit	4,523	3,118
Development Fee	255	-
Election Rebate	220	-
Building Fee	2,218	2,627
Total reserves	\$ 30,433	\$ 28,626
Reserve Funds set aside for specific purposes by Council:		
Theatre	\$ 345	\$ 282
Museum	48	70
Heritage	482	458
Environmental Land Acquisition	4,298	3,649
Environmental Sustainability Fund	51	132
Library	2,195	1,602
Workplace Safety & Insurance Board	1,889	1,859
Life Cycle Replacement & Capital	58,631	56,560
Land Acquisition	1,031	510
10% Non-DC Growth	3,696	3,477
Total reserve funds	\$ 72,666	\$ 68,599
Total Reserves and Reserve Funds	\$ 103,099	\$ 97,225

THE CORPORATION OF THE TOWN OF MARKHAM

Notes to the Consolidated Financial Statements

December 31, 2006

(All dollar amounts are in \$000)

15. LEASE OBLIGATIONS

- (a) As at December 31, 2006, the Town is committed to minimum annual operating lease payments for premises and equipment as follows:

2007	\$	191
2008		139
2009		92
2010		87
2011		87
		<hr/>
		\$596

- (b) The Toronto Buttonville Airport (Markham) Inc. ("TBAI"), a wholly-owned subsidiary of the Town, entered into an agreement to lease the Buttonville Airport property for a period of nine years for the term of January 1, 2002 to December 31, 2010. Annual rental payment is limited to the funding provided by the Region of York, the Greater Toronto Airport Authority and from any other source during the term of this lease, whether paid directly or as rent.

16. CONTINGENCY

UNSETTLED LEGAL CLAIMS AND POTENTIAL OTHER CLAIMS

The Town 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.

MARKHAM ENTERPRISES CORPORATION

A class action claiming \$500,000 in restitutionary payments plus interest was served on November 18, 1998. The action was initiated against Toronto Hydro Electric Commission as the representative of the Defendant Class consisting of all municipal electric utilities in Ontario, which have charged late payment charges on overdue utility bills at any time after April 1, 1981. The claim is that late payment penalties result in the municipal electric utilities receiving interest at effective rates in excess of that permitted under Section 347(1)(b) of the Criminal Code.

The Electricity Distributors Association is undertaking the defence of this class action. At this time it is not possible to determine the effect, if any, on the financial position of Markham Enterprises Corporation and on that of the Town of Markham.

THE CORPORATION OF THE TOWN OF MARKHAM

Notes to the Consolidated Financial Statements

December 31, 2006

(All dollar amounts are in \$000)

17. ACCOUNTS RECEIVABLE - POWER STREAM INTEREST

Included in Accounts Receivable is \$951,514.89, being the 5.58% per annum interest due for the period October to December 2006 on promissory notes issued by Power Stream. 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 Town will receive full repayment of the accumulated interest due on October 31, 2013.

The Town will receive from Power Stream secondary interest on the deferred interest payments from April 2007 up to October 2013.

18. INVESTMENT IN MARKHAM ENTERPRISES CORPORATION

The Town of Markham incorporated corporations under the laws of the Province of Ontario. Markham Enterprises Corporation (Previously Markham Energy Corporation) is wholly owned by the Town of Markham. Markham Enterprises Corporation owns 100% of Markham District Energy Inc. and 43% (2005 – 43%) of Power Stream 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 35.0877 common shares were purchased during the current year for cash consideration of \$6,800. At year end, of the total 1,035.0877 common shares issued, by Power Stream Inc., 445.0877 (2005 – 445.0877) common shares were registered under Markham Enterprises Corporation.

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

The following consolidated financial statements of Markham Enterprises Corporation include the financial information of its subsidiaries Markham District Energy Inc., and Power Stream Inc. for the period from January 1, 2006 to December 31, 2006.

THE CORPORATION OF THE TOWN OF MARKHAM

Notes to the Consolidated Financial Statements

December 31, 2006

(All dollar amounts are in \$000).

18. INVESTMENT IN MARKHAM ENTERPRISES CORPORATION (continued)

	2006	2005
Assets		
Current		\$ 75,291
Capital		183,111
Goodwill		14,185
Other		7,572
Total Assets	\$ -	\$ 280,159
Liabilities		
Current		52,354
Other		15,014
Long Term		44,600
Total Liabilities	-	111,968
Shareholders' Equity		
Common Shares		\$ 66,727
Promissory Notes Payable		79,624
Retained Earnings and contributed surplus		21,840
Total Shareholders' Equity	-	168,191
Total Liabilities and Shareholders' Equity	\$ -	\$ 280,159
Results of Operations		
Revenues		\$ 261,140
Operating expenses		255,699
Net Income	\$ -	\$ 5,441
Adjustment due to proportionate share increase in Power Stream		3,349
Proportionate share of dividend payment from retained earning in Power Stream		(2,924)
Change in equity in Markham Enterprises Corporation	-	5,866

THE CORPORATION OF THE TOWN OF MARKHAM

Consolidated Schedule of Operating Fund Activities

Year ended December 31, 2006

(All dollar amounts are in \$000)

Schedule 1

	2006		2005
	Budget	Actual	Actual
REVENUES			
Taxation – all classes	\$ 93,954	\$ 94,357	\$ 88,036
User charges (Note 11)	50,561	48,672	46,830
Grants	849	1,200	1,410
Investment income	11,672	11,738	11,762
Tax penalties	3,375	3,436	3,376
Other	5,483	5,231	6,816
Total Revenue	165,894	164,634	158,230
EXPENDITURES			
General government	29,725	27,191	25,419
Protection to persons and property	29,270	29,229	26,233
Transportation services	17,297	16,413	17,099
Environmental services	16,185	16,278	14,571
Recreation and cultural services	34,748	34,603	32,920
Planning and development	6,015	5,878	5,816
Other	27	25	22
Total Expenditures	133,267	129,617	122,080
NET REVENUES	32,626	35,017	36,150
FINANCING AND TRANSFERS			
Transfer to Reserves and Reserve Funds	(32,626)	(35,059)	(45,843)
Net financing and transfers	(32,626)	(35,059)	(45,843)
CHANGE IN OPERATING FUND	0	(42)	(9,693)
SURPLUS, BEGINNING OF YEAR	-	3,856	13,549
SURPLUS, END OF YEAR	\$ 0	\$ 3,814	\$ 3,856

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

THE CORPORATION OF THE TOWN OF MARKHAM

Consolidated Schedule of Capital Fund Activities

Year ended December 31, 2006
(All dollar amounts are in \$000)

Schedule 2

	2006		2005
	Budget	Actual	Actual
REVENUES			
Government of Canada grants	\$ 3,544	\$ 1,987	\$ 25
Province of Ontario grants	380	1,083	434
Contributions from developers	3,029	1,707	1,117
Developers revenue earned	31,805	13,276	37,385
Other	5,097	7,072	2,787
Total revenues	43,854	25,125	41,748
EXPENDITURES			
General government	10,784	5,279	13,401
Protection to persons and property	3,201	1,303	2,839
Transportation services	42,802	18,530	34,791
Environmental services	7,652	7,328	6,923
Recreation and cultural services	6,339	18,579	22,292
Planning and development	2,775	6,037	2,710
Total expenditures	73,554	57,056	82,956
NET EXPENDITURES	(29,700)	(31,931)	(41,208)
FINANCING AND TRANSFERS			
Transfer from Reserves and Reserve Funds	29,700	34,730	40,152
Transfer from Operating Funds	-	-	-
Net financing and transfers	29,700	34,730	40,152
CHANGE IN CAPITAL FUND	0	2,799	(1,056)
OPENING CAPITAL FUND	-	23,198	24,254
CLOSING CAPITAL FUND	\$ 0	\$ 25,997	\$ 23,198

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

THE CORPORATION OF THE TOWN OF MARKHAM

Consolidated Schedule of Reserves and Reserve Funds Activities

Year ended December 31, 2006

(All dollar amounts are in \$000)

Schedule 3

	2006	2005
REVENUES		
Investment income	4,362	1,517
Total revenues	4,362	1,517
EXPENDITURES		
Other	597	497
Total expenditures	597	497
NET REVENUES/(EXPENDITURE)	3,765	1,020
FINANCING/NET TRANSFERS FROM (TO) OTHER FUNDS		
Dividend from Markham Enterprises Corporation	1,780	-
Transfer from Operating Funds	35,059	45,843
Transfer to Capital Funds	(34,730)	(40,152)
Total net transfers	2,109	5,691
CHANGE IN RESERVE AND RESERVE FUNDS	5,874	6,711
OPENING BALANCE	97,225	90,514
ENDING BALANCE	\$ 103,099	\$ 97,225

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