



AUDIT

The Corporation of the City of Markham

Audit Findings Report
For the year ended December 31, 2015

KPMG LLP

April 7, 2016

kpmg.ca



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Table of Contents

Executive summary	3
Audit risks and results	4
Accounting estimates	7
Other matters	8
Adjustments and differences	9
Appendices	10

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At the end of the day, we measure our success from the **only perspective that matters – yours.**

Executive summary

Purpose of this report

The purpose of this Audit Findings Report is to assist you, as a member of Council, in your review of the results of our audit of the consolidated financial statements of the Corporation of the City of Markham ("the City") as at and for the year ended December 31, 2015.

Finalizing the audit

As of April 7, 2016, we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include amongst others:

- completing our discussions with council;
- review of the working papers of PowerStream Holdings Inc.'s auditors;

Accounting estimates

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

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

Significant accounting policies and practices

PS 3260 – *Liability for Contaminated Sites* is effective for the year ending December 31, 2015. This standard requires entities to record a liability associated with the remediation costs for contaminated sites. See "Other Matters" section of this report for further details.

- receipt of the signed management representation letter (to be signed upon the approval of the financial statements); and,
- obtaining evidence of the approval of the financial statements.

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

Control and other observations

We did not identify any control deficiencies that we determined to be significant deficiencies in ICFR.

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Audit risks and results

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

Significant financial reporting risks

Our significant findings from the audit

<p>Fraud risk from revenue recognition</p>	<ul style="list-style-type: none"> • Our audit approach consisted of substantive procedures to address the relevant assertions associated with the significant risk. • We did not identify any issues related to fraud risk associated with revenue recognition.
<p>Risk of management override of controls</p>	<ul style="list-style-type: none"> • We performed procedures consistent with professional standards including, testing of journal entries, performing a retrospective review of estimates and evaluating the business rationale of significant transactions. • We did not identify any issues or concerns regarding management override of controls.
<p>Land acquisitions</p>	<ul style="list-style-type: none"> • Completeness of land acquisitions had been identified as a higher risk component of the audit. • KPMG obtained the listing of land additions provided by the legal department and tested substantively by agreeing to surveyor's certificates and land title transfer documents in order to ensure that land transfers were appropriate and recorded in the correct fiscal period. • A listing of all land transfers in fiscal 2016 was also obtained and tested substantively to ensure cut-off for fiscal 2015 was appropriate. No errors were noted.

Audit risks and results

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

Other areas of focus

Our significant findings from the audit

Tangible capital assets	<ul style="list-style-type: none"> During our substantive testing of tangible capital asset additions, we noted that the City recognized \$141.3M (2014 - \$175.2M) in total additions, which is comprised of \$71.8M (2014 - \$130.7M) of assets capitalized from work in progress ("WIP"), \$61.2 (2014 - \$26.0M) relating to assets capitalized from developer contributions and \$8.3 (2014 - \$18.5M) relating to land purchases/acquisitions. We reviewed on a sample basis the additions to tangible capital assets and noted that management has correctly capitalized the additions from work in progress to capital assets, developer contributions land acquisitions. In our testing, we reviewed the developer contribution recognized of \$80.3M (2014 - \$62.6M) on the statement of operations and accumulated surplus and noted that management has appropriately recognized the related revenue.
Deferred revenue earned	<ul style="list-style-type: none"> During our substantive testing, we noted that the City recognized \$51.7M (2014 - \$46.7M) of deferred revenue earned. We obtained the deferred revenue continuity schedule and selected samples for testing to determine if the selected amounts had been recognized in the current year in accordance with the appropriate legislation. Based on our testing, we conclude that deferred revenue was recognized appropriately.
Markham Enterprises Corporation ("MEC") Investment	<ul style="list-style-type: none"> The City recognizes its investment in MEC using the modified equity method. We reviewed the criteria per PS 3070 – Investment in Government Business Enterprises and noted the City's investment in MEC continues to meet all criteria of the section and therefore it is appropriate to continue to record the investment in MEC using the modified equity method of accounting. We reviewed the MEC modified equity method calculation. We noted that there are three major components to the calculation. They are: MEC's current year net income, the purchase of MEC shares by the City in 2015 and MEC's dividend declared and paid to the City. Based on the work performed, KPMG concludes that management has appropriately reflected its investment in MEC using modified equity accounting in accordance with PS 3070 for fiscal 2015.

Audit risks and results

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

Other areas of focus

Our significant findings from the audit

MEC consolidation

- The CPA Handbook Part I, IAS27 Consolidated and Separate Financial Statements requires that “Intragroup balances, transactions, income and expenses shall be eliminated in full.”
- MEC accounts for PowerStream, a joint venture with the City of Barrie and Vaughan, using the proportionate consolidation method.
- We performed substantive work over the MEC consolidation in order to recalculate the City’s investment value in MEC for 2015.
- We reviewed the elimination entries recorded and noted the entries were to eliminate the following intercompany transactions: intercompany receivables/payables between MEC, Markham District Energy and PowerStream Holdings Inc. (“PowerStream”); intercompany sales between Markham District Energy and PowerStream, MEC’s investment in Markham District Energy and PowerStream, and the dividend paid by PowerStream to MEC.
- We conclude that the elimination entries are reasonable, in accordance with IFRS, and are consistent in nature with prior year.
- We also reviewed MEC’s accounting for PowerStream in the consolidation process. We observed that management appropriately proportionally consolidated its investment in PowerStream based on the percentage ownership of 34.185% on a consistent basis.
- We are also required to review the working papers of PowerStream’s auditors.
- For the dividend paid to the City, we reviewed the declaration and payment of the dividend by MEC to the City.
- Based on the work performed, we conclude that the accounting treatment is reasonable in the MEC consolidation.

Accounting estimates

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

We have summarized our assessment of the subjective areas.

Accounting estimates

Estimate KPMG comment

Contingent liabilities

- The CPA Handbook PS 3300 Contingent Liabilities requires that the City recognize a liability when “...it is likely that a future event will confirm that a liability has been incurred at the date of the financial statements; and the amount can be reasonably estimated.”
- At any point in time, the City is subject to a number of matters which could potentially result in the determination of a contingent liability as defined above, including, but not limited to matters such as legal claims, contract settlement accruals etc.
- We reviewed the City’s assessments of contingent liabilities and the process employed to develop and record the estimated liabilities. Where applicable, we met with the individuals responsible for the process and are satisfied that the methodology used is consistent with the approach taken in prior years and has been appropriately reviewed.
- As these items are resolved, it is possible that the final amounts recorded for these liabilities may change, however the amounts currently recorded represent management’s best estimates of exposure given the information presently available.

Amortization expense

- We have also reviewed the estimated useful lives of the various additions from work in progress to tangible capital assets and conclude that they are reasonable.
- Fiscal 2015 amortization expense was recalculated and it was determined that management’s calculation of the amortization expense was appropriate.

Employee future benefits

- We reviewed actuarial reports regarding estimates related to Employee Future Benefits, and conducted tests of detail to assess the reliability of the information used within the reports.
- We recalculated the accruals based on the information noted above, and did not identify any discrepancies.

We believe management’s process for identifying accounting estimates is considered adequate.

Other matters

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

Other matters

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

Matter

KPMG comment

Subsequent Event
PowerStream merger

- At a special Markham Council meeting November 19, 2015, the City approved a transaction that will see PowerStream merge with hydro-electric distribution companies Enersource and Horizon Utilities and an acquisition of Hydro One Brampton Networks Inc.
- Markham and other municipal shareholders have approved the proposed merger, but as at year end the merger was not officially finalized and closed.
- The proposed merger is still pending regulatory approval by the Ontario Energy Board ("OEB").
- Based on the proposed merger, the City would own 15.7% of the merged entity with an equity investment of between \$43.0M and \$47.3M.

Contaminated sites

- A new standard has been issued establishing a standard for the recognition of liabilities for contaminated sites – PS 3260.
- This standard is effective for fiscal years beginning on or after April 1, 2014. The fiscal year ending December 31, 2015 is the first year this standard is applicable to the City.
- The standard indicates that a liability for remediation of contaminated sites should be recognized if the local government is directly responsible or accepts responsibility for the remediation, and it is expected future economic benefits will be given up and a reasonable estimate of the amount can be made.
- This would only impact the City if a property was determined to be a contaminated site requiring remediation.
- KPMG obtained an understanding of the process and methodology undertaken by management to identify and quantify liabilities for contaminated sites in the current and prior year periods.
- We reviewed the work performed by City engineers, discussed significant assumptions with management, and inspected supporting documentation to determine if a liability exists under the contaminated site standard.
- It was determined by management that a financial liability does not exist with respect to PS 3260. KPMG concurs with management's assessment.

Adjustments and differences

Adjustments and differences identified during the audit have been categorized as Corrected "adjustments" or Uncorrected "differences." These include disclosure adjustments and differences.

Professional standards require that we request of management that all identified adjustments or differences be corrected.

Corrected adjustments

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

Uncorrected differences

We did not identify differences that remain uncorrected.

Appendices

Appendix 1: Required communications

Appendix 2: Audit Quality and Risk Management

Appendix 3: Background and professional standards

Appendix 4: Current developments

Appendix 1: Required communications

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

- **Auditors' report** – the conclusion of our audit is set out in our draft auditors' report as attached
- **Management representation letter** – In accordance with professional standards, copies of the management representation letter are provided to Council. The management representation letter is attached.

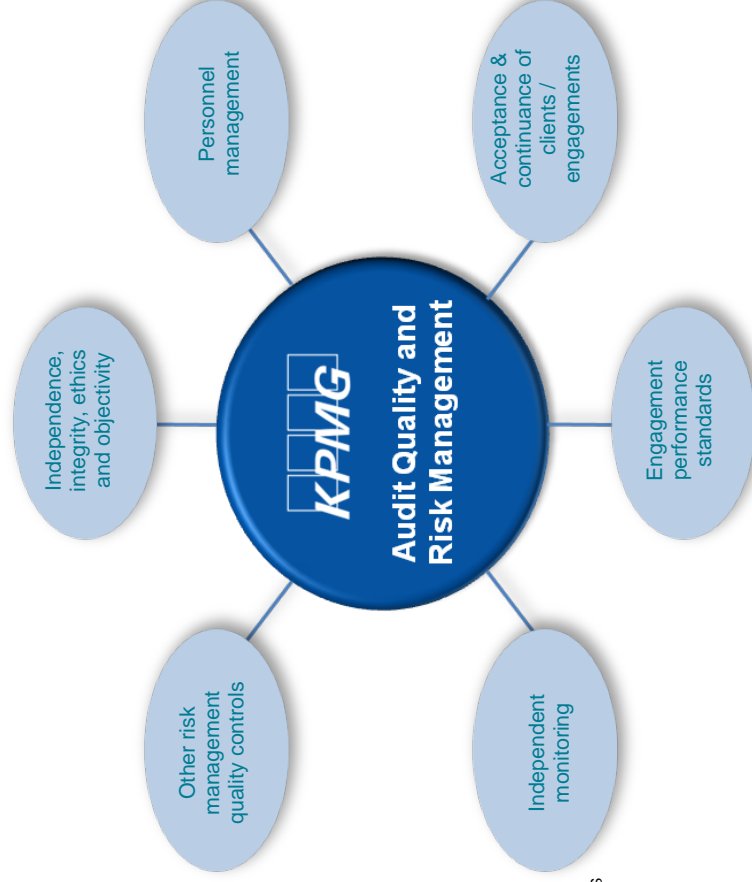
Appendix 2: Audit Quality and Risk Management

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

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

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

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



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

Appendix 3: Background and professional standards

Internal control over financial reporting

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

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

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

Documents containing or referring to the audited financial statements

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

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

Appendix 4: Current developments

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

Standard

PS Introduction

Summary and implications

This standard provides the standards to be followed by government partnerships. Government business partnerships (with all public sector partners) are to follow the standards applicable to publicly accountable entities in Part I of the *CPA Canada Handbook Accounting*. Non-business government partnerships with only government partners can choose either PSA Standards or the standards applicable to publicly accountable entities in Part I of the *CPA Canada Handbook Accounting*. Government partnerships that have one or more private sector partners should use the standards determined by the partners. This section also requires government organizations that meet the new definition of government components to apply the PSA Standards

This standard is effective for fiscal periods beginning on or after January 1, 2017 (the City's December 31, 2017 year-end)

Standard

Summary and implications

PS 3210 - Assets

This standard provides a definition of assets and further expands that definition as it relates to control.

Assets are defined as follows:

- They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.
- The public sector entity can control the economic resource and access to the future economic benefits.
- The transaction or event giving rise to the public sector entity's control has already occurred.

The standard also includes some disclosure requirements related to economic resources that are not recorded as assets to provide the user with better information about the types of resources available to the public section entity.

This standard is effective for fiscal periods beginning on or after April 1, 2017 (the City's December 31, 2018 year-end).

PS 3320 – Contingent Assets

This standard defines contingent assets.

They have two basis characteristics:

- An existing condition or situation that is unresolved at the financial statement date.
- An expected future event that will resolve the uncertainty as to whether an asset exists.

The standard also has specific disclosure requirements for contingent assets when the occurrence of the confirming event is likely.

This standard is effective for fiscal periods beginning on or after April 1, 2017 (the City's December 31, 2018 year-end).

Summary and implications

Standard

PS 3380 – Contractual Rights

This standard defines contractual rights to future assets and revenue.

Information about a public sector entity's contractual rights should be disclosed in notes or schedules to the financial statements and should include descriptions about their nature and extent and the timing. The standard also indicates that the exercise of professional judgment would be required when determining contractual rights that would be disclosed. Factors to consider include, but are not limited to:

- (a) contractual rights to revenue that are abnormal in relation to the financial position or usual business operations; and
- (b) contractual rights that will govern the level of certain type of revenue for a considerable period into the future.

This standard is effective for fiscal periods beginning on or after April 1, 2017 (the City's December 31, 2018 year-end).

PS 2200 Related Party Disclosures

This standard relates to related party disclosures and defines related parties. Related parties could be either an entity or an individual. Related parties exist when one party has the ability to control or has shared control over another party. Individuals that are key management personnel or close family members may also be related parties.

Disclosure is only required when the transactions or events between related parties occur at a value different from what would have been recorded if they were not related and the transactions could have a material financial impact on the financial statements. Material financial impact would be based on an assessment of the terms and conditions underlying the transaction, the financial materiality of the transaction, the relevance of the information and the need for the information to enable the users to understand the financial statements and make comparisons.

This standard also specifies the information required to be disclosed including the type of transactions, amounts classified by financial statement category, the basis of measurement, and the amounts of any outstanding items, any contractual obligations and any contingent liabilities. The standard also requires disclosure of related party transactions that have occurred where no amounts has been recognized.

This standard is effective for fiscal periods beginning on or after April 1, 2017 (the City's December 31, 2018 year-end).

Standard

Summary and implications

<p>PS 3430 Restructuring Transactions</p>	<p>A restructuring transaction in the public sector differs from an acquisition as they generally include either no or nominal payment. It also differs from a government transfer as the recipient would be required to assume the related program or operating responsibility.</p> <p>The standard requires that assets and liabilities are to be measured at their carrying amount. It also prescribes financial statement presentation and disclosure requirements.</p> <p>This standard is effective for fiscal periods beginning on or after April 1, 2018 (the City's December 31, 2019 year-end).</p>	
<p>PS 3420 Inter-entity Transactions</p>	<p>This standard relates to the measurement of related party transactions and includes a decision tree to support the standard.</p> <p>Transactions are recorded a carrying amounts with the exception of the following:</p> <ul style="list-style-type: none"> ● In the normal course of business – use exchange amount ● Fair value consideration – use exchange amount ● No or nominal amount – provider to use carrying amount; recipient choice of either carrying amount or value fair. ● Cost allocation – use exchange amount <p>This standard is effective for fiscal periods beginning on or after April 1, 2017 (the City's December 31, 2018 year-end).</p>	
<p>Standard of Financial Instruments</p>	<p>A standard has been issued, establishing a standard on accounting for and reporting all types of financial instruments including derivatives. The effective date of this standard has recently been deterred and it is now effective for fiscal periods beginning on or after April 1, 2019 (the City's December 31, 2020 year-end).</p> <p>Implications: This standard will require the City to identify any contracts that have embedded derivatives and recognize these on the consolidated statement of financial position at fair value. Portfolio investments in equity instruments are required to be recorded at fair value. Changes in fair value will be reported in a new financial statement – statement of remeasurement gains and losses. This standard sets out a number of disclosures in the financial statements designed to give the user an understanding of the significance of financial instruments to the City. These disclosures include classes of financial instruments and qualitative and quantitative risk disclosures describing the nature and extent of risk by type. The risks to be considered include credit, currency, interest rate, liquidity, and market risk.</p>	

Standard

Revised Standard on Foreign Currency Translation

Summary and implications

A revised standard has been issued establishing standards on accounting for and reporting transactions that are denominated in a foreign currency.

The effective date of this standard has been deferred and is effective for fiscal periods beginning on or after April 1, 2019 (the City's December 31, 2020 year-end). Earlier adoption is permitted. An entity early adopting this standard must also adopt the new financial instruments standard.

Implications: Exchange gains and losses arising prior to settlement are recognized in a new statement of remeasurement gains and losses.

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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, 2015, 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.



Page 2

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, 2015, 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada

DRAFT

KPMG LLP
Chartered Professional Accountants
Yonge Corporate Centre
4100 Yonge Street, Suite 200
Toronto, Ontario M2P 2H3
Canada

Date:

Ladies and Gentlemen:

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the consolidated financial statements (hereinafter referred to as "financial statements") of The Corporation of the City of Markham ("the Entity") as at and for the period ended December 31, 2015.

We confirm that the representations we make in this letter are in accordance with the definitions as set out in **Attachment I** to this letter.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

GENERAL:

- 1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated February 22, 2013, for:
 - a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with the relevant financial reporting framework.
 - b) providing you with all relevant information and access, such as all financial records and related data and complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of shareholders, board of directors and committees of the board of directors that may affect the financial statements, and access to such relevant information.
 - c) such internal control as management determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

- d) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements.

INTERNAL CONTROL OVER FINANCIAL REPORTING:

- 2) We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting of which management is aware.

FRAUD & NON-COMPLIANCE WITH LAWS AND REGULATIONS:

- 3) We have disclosed to you:
 - a) the results of our assessment of the risks that the financial statements may be materially misstated as a result of fraud.
 - b) all information in relation to fraud or suspected fraud that we are aware of and that affects the Entity and involves: management, employees who have significant roles in internal control, or others, where the fraud could have a material effect on the financial statements.
 - c) all information in relation to allegations of fraud, or suspected fraud, affecting the Entity's financial statements, communicated by employees, former employees, regulators, or others.
 - d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements.
 - e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

SUBSEQUENT EVENTS:

- 4) All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.

RELATED PARTIES:

- 5) We have disclosed to you the identity of the Entity's related parties and all the related party relationships and transactions of which we are aware and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

ESTIMATES:

- 6) Measurement methods and significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

NON-SEC REGISTRANTS OR NON-REPORTING ISSUERS:

- 7) We confirm that the Entity is not a Canadian reporting issuer (as defined under any applicable Canadian securities act) and is not a United States Securities and Exchange Commission ("SEC") Issuer (as defined by the Sarbanes-Oxley Act of 2002). We also confirm that the financial statements of the Entity will not be included in the consolidated financial statements of a Canadian reporting issuer audited by KPMG or an SEC Issuer audited by any member of the KPMG organization.

Yours very truly,

THE CORPORATION OF THE CITY OF MARKHAM

By: Ms. Trinela Cane, Commissioner of Corporate Services

By: Mr. Joel Lustig, Treasurer

Attachment I – Definitions

MATERIALITY

Certain representations in this letter are described as being limited to matters that are material. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both.

FRAUD & ERROR

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

RELATED PARTIES

In accordance with Canadian public sector accounting standards (PSAB) a *related party* is defined as:

- One party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence. Two not for profit organizations are related parties if one has an economic interest in the other. Related parties also include management and immediate family members

In accordance with Canadian public sector accounting standards (PSAB) a *related party transaction* is defined as:

- A transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party, regardless of whether any consideration is exchanged. The parties to the transaction are related prior to the transaction. When the relationship arises as a result of the transaction, the transaction is not one between related parties.