

Consolidated Financial Statements of

**THE CORPORATION OF
THE CITY OF MARKHAM**

December 31, 2015

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.

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.

Chartered Accountants, Licensed Public Accountants

April 20, 2016
Toronto, Canada

THE CORPORATION OF THE CITY OF MARKHAM
Consolidated Statement of Financial Position
December 31, 2015 with comparative figures for 2014
(All dollars amounts are in \$000)

	<u>2015</u>	<u>2014</u>
FINANCIAL ASSETS		
Cash and cash equivalents (Note 4)	\$ 319,173	\$ 310,014
Property Taxes receivable (Note 7)	28,894	29,211
Unbilled user charges	7,786	10,472
Accounts receivable (Note 18)	59,548	67,447
Investment in Markham Enterprises Corporation (Note 19)	252,852	245,836
Other current assets	1,072	1,931
	<u>669,325</u>	<u>664,911</u>
FINANCIAL LIABILITIES		
Accounts payable and accrued liabilities (Note 9)	108,625	95,301
Deferred revenues (Note 10)	88,075	94,461
Employee future benefits liabilities (Note 12)	28,950	29,687
Long-term liabilities (Note 6)	13,577	14,213
	<u>239,227</u>	<u>233,662</u>
NET FINANCIAL ASSETS	\$ 430,098	\$ 431,249
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 13)	3,754,464	3,645,299
Inventories of supplies	1,287	1,259
Inventories of land - heritage estates	94	94
Prepaid expenses	1,559	1,581
	<u>3,757,404</u>	<u>3,648,233</u>
ACCUMULATED SURPLUS (Note 15)	\$ 4,187,502	\$4,079,482

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

THE CORPORATION OF THE CITY OF MARKHAM
Consolidated Statement of Operations and Accumulated Surplus
For the year ended December 31, 2015 with comparative figures for 2014
(All dollars amounts are in \$000)

	2015		2014
	Budget	Actual	Actual
Revenues			
Property Taxes	\$ 138,000	\$ 138,739	\$ 132,788
User charges (Note 11)	72,534	73,648	67,884
Government transfers (Note 14)	1,515	12,667	17,188
Contributions from developers and others	-	80,316	62,615
Investment income	15,023	15,754	20,427
Tax penalties	3,500	3,426	3,393
Gain on sale of tangible capital assets	-	(101)	42
Deferred revenue earned	28,109	51,695	46,670
Equity pick up from Markham Enterprises Corporation (Note 19)	-	9,791	5,442
Interest earned on reserves and reserve funds	-	317	1,147
Other	4,778	21,128	9,326
TOTAL REVENUES	263,459	407,380	366,922
Expenses			
General government	45,646	51,134	47,702
Protection to persons and property	42,700	42,330	41,813
Transportation services	28,290	30,093	32,322
Environmental services	24,200	31,469	26,733
Recreation and cultural services	54,230	64,274	54,710
Planning and development services	6,350	11,243	10,929
Other	38	42	48
Amortization of tangible capital assets	68,811	68,775	65,757
TOTAL EXPENSES	270,265	299,360	280,014
ANNUAL SURPLUS	(6,806)	108,020	86,908
ACCUMULATED SURPLUS, BEGINNING OF YEAR	4,079,482	4,079,482	3,992,574
ACCUMULATED SURPLUS, END OF YEAR (Note 15)	\$ 4,072,676	\$ 4,187,502	\$ 4,079,482

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

THE CORPORATION OF THE CITY OF MARKHAM
Consolidated Statement of Change in Net Financial Assets
For the year ended December 31, 2015 with comparative figures for 2014
(All dollars amounts are in \$000)

	2015		2014
	Budget	Actual	Actual
Annual surplus	(6,806)	108,020	86,908
Acquisition of tangible capital assets including capital work in progress	(75,360)	(178,276)	(154,594)
Amortization of tangible capital assets	68,811	68,775	65,757
Disposal/write-down of land and land improvements	-	336	70
	(13,355)	(1,145)	(1,859)
Acquisition of inventories of supplies	-	(1,287)	(1,259)
Acquisition prepaid expenses	-	(1,559)	(1,581)
Consumption of inventories of supplies	-	1,259	869
Inventories of land - heritage estates	-	-	15
Use of prepaid expenses	-	1,581	1,249
Change in net financial assets	(13,355)	(1,151)	(2,566)
Net financial assets, beginning of year	431,249	431,249	433,815
Net financial assets, end of year	417,894	430,098	431,249

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

THE CORPORATION OF THE CITY OF MARKHAM
Consolidated Statement of Cash Flows
For the year ended December 31, 2015 with comparative figures for 2014
(All dollars amounts are in \$000)

	<u>2015</u>	<u>2014</u>
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Annual surplus	\$ 108,020	\$ 86,908
Add (deduct) items not involving cash		
Amortization of tangible capital assets	68,775	65,757
Disposal of tangible capital assets	336	71
Change in employee future benefits and other liabilities	(737)	1,709
Property Taxes receivable	317	1,218
Equity pick up in Markham Enterprises Corporation	(9,791)	(5,442)
Change in non-cash assets and liabilities		
Accounts receivable	7,899	(10,330)
Unbilled user charges	2,686	(519)
Other current assets	859	805
Accounts payable and accrued liabilities	13,324	13,009
Long term liabilities	(636)	3,466
Deferred revenue	(6,386)	(22,924)
Inventories of supplies	(28)	(390)
Inventories of land - heritage estates	-	15
Prepaid expenses	22	(332)
NET CHANGE IN CASH FROM OPERATING ACTIVITIES	184,660	133,021
CAPITAL ACTIVITIES		
Acquisition of tangible capital assets	(178,276)	(154,594)
NET CHANGE IN CASH FROM CAPITAL ACTIVITIES	(178,276)	(154,594)
INVESTING ACTIVITIES		
Dividend from Markham Enterprises Corporation	7,755	5,162
Increase in share capital of Markham Enterprises Corporation	(4,980)	(12,208)
NET CHANGE IN CASH FROM INVESTING ACTIVITIES	2,775	(7,046)
NET CHANGE IN CASH AND CASH EQUIVALENTS	9,159	(28,619)
OPENING CASH AND CASH EQUIVALENTS	310,014	338,633
CLOSING CASH AND CASH EQUIVALENTS	\$ 319,173	\$ 310,014
Supplementary information:		
Interest paid	483	484
Interest received	7,490	7,154

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

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of The Corporation of The City of Markham (the City) are prepared by management in accordance with Canadian public sector accounting standards, as recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPA Canada). Significant accounting policies adopted by the City are as follows:

REPORTING ENTITY

These consolidated financial statements reflect the assets, liabilities, revenues and expenses of the reporting entity. The reporting entity is comprised of all organizations, local boards and committees accountable for the administration of their financial affairs and resources, to the City, and which are owned or controlled by the City, including the following:

- City of Markham Public Library Board
- Old Markham Village Business Improvement Area
- Unionville Business Improvement Area

Inter-entity transactions and balances are eliminated on consolidation.

INVESTMENT IN MARKHAM ENTERPRISES CORPORATION

Markham Enterprises Corporation (MEC) and its subsidiaries are accounted for on a modified equity basis, consistent with the Canadian public sector accounting standards as recommended by PSAB for government business enterprises. Under the modified equity basis of accounting, the business enterprise's accounting principles are not adjusted to conform to those of the City, and inter-organizational transactions and balances are not eliminated. The City recognizes its equity interest in the annual income or loss of MEC in its consolidated statement of operations and accumulated surplus with a corresponding increase or decrease in its investment asset account. Any dividends that the City may receive from MEC are reflected as reductions in the investment asset account.

ACCOUNTING FOR REGION AND SCHOOL BOARD TRANSACTIONS

The property taxes, other revenues, expenses, assets and liabilities with respect to the operations of the Regional Municipality of York (the Region) and the York Region District School Boards (School Boards) are not reflected in the municipal fund balances of these financial statements.

TRUST FUNDS

Trust funds and their related operations administered by the municipality are not consolidated, but are reported separately on the "Trust Funds Statement of Financial Position" and the "Trust Funds Statement of Operations and Fund Balances".

BASIS OF ACCOUNTING

Revenues are recorded in the period in which the transactions or events occurred that gave rise to the revenue.

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

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

GOVERNMENT TRANSFERS

Government transfers are recognized in the financial statements in the period in which the events giving rise to the transfer occurred, providing that the transfers are authorized, any eligibility criteria and stipulations have been met, and reasonable estimates of the amounts can be made.

The City adopted PS 3410, *Government Transfers* that establishes the recognition, measurement and disclosure requirements for government transfers. It provides specific revenue recognition criteria for transferring government and recipient government.

DEFERRED REVENUE

Funds received for specific purposes are accounted for as deferred revenue until the City discharges the obligation, which led to receipt of the funds.

PROPERTY TAXES AND RELATED REVENUES

Property tax billings are prepared by the City based on assessment rolls compiled by the Municipal Property Assessment Corporation (MPAC). Property tax rates are established annually by City Council, incorporating amounts to be raised for local services and amounts that the City is required to collect on behalf of the Region and School Boards for education purposes. Realty taxes are billed based on the assessment rolls provided by MPAC.

A normal part of the assessment process is the issuance of supplementary assessment rolls that provide updated information with respect to changes in property assessment. Once a supplementary assessment roll is received, the City determines the property taxes applicable and issues supplementary tax bills. Assessments and the related property taxes are subject to appeal. Any supplementary billing adjustments made necessary by the determination of such changes will be recognized in the fiscal year they are determined and the impact shared with the Region and School Boards as appropriate.

The City is entitled to collect interest and penalties on overdue property taxes. These revenues are recorded in the period the interest and penalties are levied.

The City adopted PS 3510, *Property Tax Revenues* that addresses recognition and reporting of property tax revenue. This establishes recognition of revenue when they meet the definition of an asset, and are authorized by a legislature or Council when the taxable event occurs.

EMPLOYEE FUTURE BENEFITS

The City accounts for its participation in the Ontario Municipal Employee Retirement System (OMERS), a multi-employer public sector pension fund, as a defined benefit plan. Vacation entitlements are accrued for as entitlements are earned. Sick leave benefits are accrued where they are vested and subject to pay out when an employee leaves the City's employment. Other employees future benefits are accrued in accordance with the projected benefit method prorated on service and management's best estimate of salary escalation and retirement ages of employees. Actuarial valuations, where necessary for accounting purposes, are performed triennially. The discount rate used to determine the accrued benefit obligation was determined by

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

reference to market interest rates at the measurement date on high quality debt instruments with cash flows that match the timing and amount of expected benefit payments. Unamortized actuarial gains or losses are amortized on a straight-line basis over the expected average remaining service life of the related employees groups. Unamortized actuarial gains/losses for event-triggered liabilities, such as those determined as claims related to Workers Safety and Insurance Board (WSIB) are amortized over the average expected period during which the benefits will be paid. The cost of plan amendments is accounted for in the period they are adopted.

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

INVESTMENT INCOME

Investment income is reported as revenue in the period earned. Investment income earned on obligatory reserve funds is added to the fund balance and forms part of the respective deferred revenue and/or obligatory reserve funds balance.

NON-FINANCIAL ASSETS

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

(i) **Tangible Capital Assets**

Tangible capital assets are recorded at cost which includes amounts that are directly attributed to acquisition, construction, development or betterment of the asset. The cost, less residual value of the tangible capital assets, excluding land, are amortized on a straight line basis over their estimated useful lives as follows:

Asset	Useful Life - Years
Buildings and building improvements	40
Equipment	5 – 20
Furniture and fixtures	10 – 15
Infrastructure	10 – 100
Library furniture and fixtures	10
Library media collection	7
Park and pathways	10 – 60
Vehicles	7 – 9
Waterworks equipment	9
Waterworks infrastructure	15 – 100
Waterworks vehicles	7

Amortization is prorated to six months in the year of acquisition and in the year of disposal. Assets under construction are not amortized until the asset is available for productive use.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Contributions of Tangible Capital Assets

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt and also are recorded as revenue. Tangible capital assets conveyed from developers are recorded at the estimated engineering value at time of registration.

(iii) Works of Art and Cultural and Historic Assets

Works of art and cultural and historic assets are not recorded as assets in these financial statements.

(iv) Interest Capitalization

Interest is capitalized whenever external debt is issued to finance the construction of tangible capital assets.

(v) Inventories of Supplies

Inventories of supplies held for consumption are recorded at the lower of cost and replacement cost.

USE OF ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenditures during the period. Actual results could differ from these estimates.

BUDGET FIGURES

The approved operating and capital budgets for 2015 are reflected on the Consolidated Statement of Operations and Accumulated Surplus and on the Consolidated Statement of Change in Net Financial Assets. The Capital budget is on a project-oriented basis, the costs of which may be carried but over one or more years and, therefore, may not be comparable with the current year actual amounts.

SEGMENT DISCLOSURE

The City adopted PSAB Standard 2700 for Segment Disclosures. A segment is defined as a distinguishable activity or group of activities of a government for which it is appropriate to separately report financial information to achieve the objectives of the standard. The City has provided definitions of the segments used and presented financial information in segmented format in Note 8.

REPORTING FOR CONTAMINATED SITES

The City adopted PSAB Standard PS 3260 Liability for Contaminated Sites effective January 1, 2015. Under PS 3260, contaminated sites are defined as the result of contamination being introduced in air, soil, water or sediment of a chemical, organic or radioactive material or live

THE CORPORATION OF THE CITY OF MARKHAM
Notes to the Consolidated Financial Statements
Year ended December 31, 2015
(All dollars amounts are in \$000)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

organism that exceeds an environmental standard. This standard relates to sites that are not in productive use and sites in productive use where an unexpected event resulted in contamination. The City adopted this standard on a prospective basis. The adoption of this standard as at January 1, 2015 was inconsequential to the 2015 consolidated financial statements.

Contaminated sites are defined as the result of contamination being introduced that exceeds an environmental standard. A liability for remediation of contaminated sites is recognized, net of any expected recoveries, when all of the following criteria are met.

- an environmental standard exists
- contamination exceeds the environmental standard
- the organization is directly responsible or accepts responsibility for the liability
- future economic benefits will be given up, and
- a reasonable estimate of the liability can be made.

2. OPERATIONS OF SCHOOL BOARDS AND THE REGION OF YORK

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

	School Boards	Region of York	2015	2014
Property Taxes	\$ 204,796	\$ 262,216	\$ 467,012	\$ 440,545
Payment in lieu of taxes	203	678	881	1,277
Supplementary taxes	5,603	6013	11,616	11,622
Amount requisitioned and transferred	\$ 210,602	\$ 268,907	\$ 479,509	\$ 453,444

3. TRUST FUNDS

Trust funds administered by the City for the benefit of others amounting to \$2,316 (2014 - \$2,298) 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

	2015	2014
Cash	\$ 116,226	\$ 75,860
Investments	202,947	234,154
	\$ 319,173	\$310,014

4. CASH AND CASH EQUIVALENTS (continued)

Investments consist of authorized investments pursuant to the provisions of the Municipal Act and include short-term instruments of various financial institutions, government bonds, and Treasury Bills. Investments, which are reported at cost for money market and face value for bonds, had a market value of \$227,254 (2014 - \$245,432) at the end of the year. For the year 2015, the average rate of return earned was 3.62% (2014 - 4.10%). Cash balance includes investments in the amount of \$15,000 (2014 - \$6,000) which has a maturity date of less than three months.

5. PENSION AGREEMENTS

The City makes contributions to the Ontario Municipal Employees Retirement System (OMERS), which is a multi-employer plan, on behalf of its employees. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of credited service and average earnings. Employees contribute between 9.0% and 15.9% of their salary and the City matches the employee contribution.

Total OMERS contributions amounted to \$20,546 (2014 - \$20,274) of which \$10,273 (2014 - \$10,137) represented the City's portion.

Since OMERS is a multi-employer pension plan, the City does not recognize any share of the pension plan deficit of \$7.0 billion as of 2015 based on the fair market value of the Plan's assets, as this is a joint responsibility of all Ontario municipalities and their employees.

6. LONG TERM LIABILITIES

On July 1, 2010 and April 14, 2014, the City received a loan of \$12,000 from Canada Mortgage Housing Corporation (CMHC) and a \$4,000 low-interest loan from Federation of Canadian Municipalities (FCM) respectively through the Region. As a lower tier municipality the City does not have the ability to borrow long-term funds, and as such the borrowing was done through the Region. The loan received on July 1, 2010 was used to fund the purchase of the Markham District Energy Birchmount plant. The plant was subsequently leased back to Markham District Energy (MDE), a 100% subsidiary of MEC. The loan received on April 14, 2014 was used to fund the cost of Cornell Community Centre.

The loan of \$12,000 is to be amortized over a period of 20 years, at an interest rate of 4.04%. An annual payment to the Region of \$886 consists of principal and interest. The first payment was due July 1, 2011. The loan of \$4,000 is to be amortized over a period of 20 years, at an interest rate of 2%. An annual payment to Region of \$244 consists of principal and interest. The first payment was due October 4, 2014.

7. PROPERTY TAXES RECEIVABLE

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

	2015	2014
Current year	\$ 19,628	\$ 20,306
Arrears prior years	10,267	9,906
	29,895	30,212
Less: Allowance for uncollectible taxes	(1,001)	(1,001)
	\$ 28,894	\$ 29,211

The Municipal Property Assessment Corporation (MPAC) is responsible for the valuation of the current value assessment (CVA) of all properties in Ontario. MPAC determines the CVA for all properties and provides it annually to municipalities in the form of an Assessment Roll, which municipalities use to calculate property taxes for each individual property. The Province of Ontario introduced a four-year property assessment cycle in 2009, which included a mandatory phase-in of reassessment increases for all properties. The Province chose to repeat the four-year assessment cycle and therefore, for the 2013 through 2016 tax years all properties are assessed and taxed based on their CVA as of the valuation date of January 1st, 2012. The 2016 taxation year marks the fourth and final year of the current phase-in cycle. The City of Markham's property tax revenue and property tax receivables rely on the stability of the assessment roll, which is subject to annual assessment appeals that create an amount of uncertainty related to the amount of property tax receivables. This financial uncertainty continues to illustrate the requirement of the provision allowance, which was established in the amount of \$1,001 (2014 - \$1,001). Further, as a result of an initiative by the Chair of the Assessment Review Board (ARB), a commitment was made by the ARB to address the regular and systemic backlog of all property assessment appeals, which resulted in a significant increase in the property tax adjustments for the 2014 and 2015 taxation years.

There is no impact on the "Consolidated Statement of Operations and Accumulated Surplus".

8. SEGMENTED INFORMATION

The City is a diverse municipal government that provides a wide range of services to its citizens. For management reporting purposes, the City's operations and activities are organized functionally based on services provided. The segmented information with a brief description of the service area is as follows:

General Government:

General government service area includes the Office of Mayor and Members of Council, Chief Administrative Officer, Human Resources, Legal, Sustainability Office, Legislative Services, Financial Services, Corporate Communications and Community Engagement, and Information Technology Services. The departments are responsible for general governance and corporate management.

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.

8. SEGMENTED INFORMATION (continued)

Transportation Services:

Transportation service area includes Roads, Parking Control and Asset Management. The departments are responsible for road maintenance, hard top and loose top maintenance, winter patrol, salt, sanding, snow removal, street lighting and administration of parking.

Environmental Services:

Environmental service area includes Waterworks and Waste Management. The departments are responsible for the administration of the sanitary and storm sewer system, distribution of water, and the administration of garbage collection and garbage recycling.

Recreation and Cultural Services:

The recreation and cultural service area includes Park, Recreation services, Culture services and Public Libraries. The departments are responsible for providing and facilitating the development and maintenance of high quality parks, recreation services and cultural services, and administration of libraries.

Planning and Development Services:

Planning and development services area includes Planning and Urban Design and Engineering. The departments are responsible for administration of land use plans and policies for sustainable development of the City.

Other:

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

THE CORPORATION OF THE CITY OF MARKHAM
Year ended December 31, 2015
(All dollars amounts are in \$000)

8. Segmented Information - Note 8 (Contd..)

	<i>General Government</i>	<i>Protection to persons and property</i>	<i>Transportation services</i>	<i>Environmental Services</i>	<i>Recreation and Cultural services</i>	<i>Planning and Development</i>	<i>Other</i>	2015	2014
<u>Revenues</u>									
Property taxes, grants in lieu, assessments	618,248	-	-	-	-	-	-	618,248	586,232
Collection for other authorities	(479,509)	-	-	-	-	-	-	(479,509)	(453,444)
Property taxes for City purposes	138,739	-	-	-	-	-	-	138,739	132,788
	-	-	-	-	-	-	-	-	-
User charges	3,502	7,283	8,542	26,922	21,563	5,815	21	73,648	67,884
Government transfers	10,054	-	551	1,180	675	207	-	12,667	17,188
Contribution from developers and others	80,316	-	-	-	-	-	-	80,316	62,615
Investment income	15,754	-	-	-	-	-	-	15,754	20,427
Tax penalties	3,426	-	-	-	-	-	-	3,426	3,393
Gain on sale of tangible assets	(101)	-	-	-	-	-	-	(101)	42
Deferred revenue earned	51,695	-	-	-	-	-	-	51,695	46,670
Equity pick up from Markham Enterprises Corporation	9,791	-	-	-	-	-	-	9,791	5,442
Interest earned on reserves and reserve funds	317	-	-	-	-	-	-	317	1,147
Others	18,662	417	374	677	962	33	3	21,128	9,326
Total	332,155	7,700	9,467	28,779	23,200	6,055	24	407,380	366,922
<u>Expenses</u>									
Salaries, wages and employee benefits	31,623	40,317	12,756	7,824	38,734	7,221	-	138,475	125,247
Operating materials and supplies	11,112	1,195	4,484	5,638	12,405	3,087	42	37,963	39,014
Contracted services	9,055	745	12,707	15,547	12,497	413	-	50,964	46,761
Rents and financial expenses	(1,506)	73	146	2,460	638	522	-	2,333	2,462
External transfers to others	366	-	-	-	-	-	-	366	289
Long term debt charges	484	-	-	-	-	-	-	484	484
Amortization of tangible capital assets	3,616	1,450	27,061	21,527	15,121	-	-	68,775	65,757
Total Expenses	54,750	43,780	57,154	52,996	79,395	11,243	42	299,360	280,014
Annual Surplus	277,405	(36,080)	(47,687)	(24,217)	(56,195)	(5,188)	(18)	108,020	86,908

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:

	2015	2014
Trade accounts payable	\$ 48,276	\$ 46,504
Payable to other governments	37,086	30,230
Payroll liabilities	8,061	5,490
Accrued liabilities	15,202	13,077
	\$ 108,625	\$ 95,301

10. DEFERRED REVENUE AND DEPOSITS

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

	2015	2014
Development charges	\$ 69,501	\$ 87,452
Parkland cash-in-lieu	(1,528)	(4,349)
Federal Gas tax	6,016	7,156
Section 37 funds	2,915	2,385
	76,904	92,644
Other deferred revenue and deposits	11,171	1,817
	\$ 88,075	\$ 94,461

THE CORPORATION OF THE CITY OF MARKHAM
Notes to the Consolidated Financial Statements
December 31, 2015
(All dollars amounts are in \$000)

11. USER CHARGES

	2015	2014
Water and sewer billing to ratepayers	\$ 100,926	90,775
Region of York requisitions	(75,185)	(65,735)
City share	25,741	25,040
Building permits	6,005	7,098
Culture venues	2,734	2,449
Engineering	3,832	1,944
Facility rentals	8,084	7,096
Licenses	1,529	1,474
Landscaping	1,860	1,063
Parking violations	2,575	2,341
Planning	4,440	3,637
Recreation programs	10,660	9,827
Other	6,188	5,915
Total	\$ 73,648	67,884

12. EMPLOYEE FUTURE BENEFITS LIABILITIES

	2015	2014
Long-term disability	\$ 4,438	\$ 6,287
Post-retirement benefits	12,868	12,000
Vacation pay - City	2,591	2,645
Vacation pay - Library	121	131
Vested sick leave benefits	6,448	6,463
Workplace Safety & Insurance Board	2,484	2,161
	\$ 28,950	\$ 29,687

WORKPLACE SAFETY & INSURANCE OBLIGATIONS (WSIB)

Effective January 1, 1999, the Corporation of the City of Markham became a Schedule II employer under the Workplace Safety and Insurance Act and follows a policy of self insurance for all its employees. The City remits payments to the WSIB as required to fund disability payments. The estimated future liability relating to WSIB amounted to \$2,161 (2014 - \$2,161) and was determined by an actuarial valuation updated December 2013. A Workplace Safety and Insurance Reserve Fund, funded by annual contributions from the Operating Fund, have been established to protect against any unknown future liability.

12. EMPLOYEE FUTURE BENEFITS LIABILITIES (continued)

VESTED SICK-LEAVE BENEFITS

Under the sick leave benefit plan, which is available only to the City's Firefighters, employees can accumulate unused sick leave and may become entitled to a cash payment when they leave the City's employment. The liability for these accumulated days, to the extent that they have vested and could be taken in cash by an employee on termination, amounted to approximately \$6,463 (2014 - \$6,463). The accrued benefit liability and the net benefit cost for the fiscal year were determined by an actuarial valuation.

POST-RETIREMENT BENEFITS

The City provides for post-retirement benefits (extended health and dental benefits) to eligible retiring employees to age 65. The City recognizes these post-retirement costs as they are earned during the employee's tenure of service. The benefit liability at December 31, 2015 is \$12,000 (2014 - \$12,000). The accrued benefit liability and the net benefit cost for the fiscal year were determined by an actuarial valuation.

LONG-TERM DISABILITY (LTD)

The City provides long term disability benefits to eligible employees. At the year end, the accrued liability of \$6,287 (2014 - \$6,287) represents the actuarial valuation of benefits to be paid on the history of claims with employees. The City has established a long term disability reserve to reduce future impact of these obligations. The accrued benefit liability and the net benefit cost for the fiscal year were determined by an actuarial valuation for December, 2015.

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

	WSIB	Vested sick- leave	Post- retirement benefits	LTD	2015	2014
Accrued benefit liability, beginning of year	\$ 2,161	\$ 6,463	\$ 12,000	\$ 6,287	\$ 26,911	\$ 25,089
Service cost	244	396	609	453	1702	2,188
Interest cost	146	291	731	172	1340	1,358
Benefit payments	(318)	(728)	(562)	(530)	(2,138)	(2,091)
Amortization of actuarial loss(gain)	251	26	90	(1,944)	(1,577)	367
Accrued benefit liability, end of year	\$ 2,484	\$ 6,448	\$ 12,868	\$ 4,438	\$ 26,238	\$ 26,911

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

	WSIB	Vested sick- leave	Post- retirement benefits	LTD
Expected inflation rate	0.00%	N/A	N/A	N/A
Expected level of salary increase	3.00%	3.00%	N/A	N/A
Expected percentage of health care decrease	-1.25%	N/A	-0.20%	N/A
Interest discount rate	4.75%	4.50%	5.50%	4.00%

THE CORPORATION OF THE CITY OF MARKHAM
Notes to the Consolidated Financial Statements
December 31, 2015
(All dollars amounts are in \$000)

13. TANGIBLE CAPITAL ASSETS

	Cost				Accumulated Depreciation				Net Book Value	
	Balance at Jan 1, 2015	Additions	Disposals & Adjustments	Balance at Dec 31, 2015	Balance at Jan 1, 2015	Additions	Disposals & Adjustments	Balance at Dec 31, 2015	Balance at Dec. 31,2015	Balance at Dec. 31,2014
Land	1,742,280	32,684	(336)	1,774,628	-	-	-	-	1,774,628	1,742,280
Buildings	344,204	1,070	-	345,274	90,853	8,335	-	99,188	246,086	253,351
Equipment	26,365	3,193	(632)	28,926	11,387	3,158	(632)	13,913	15,013	14,978
Furniture & Fixtures	7,533	109	(32)	7,610	3,709	561	(32)	4,238	3,372	3,824
Infrastructure	1,219,492	78,586	(12,465)	1,285,613	394,826	33,017	(12,465)	415,378	870,235	824,666
Library Furniture & Fixtures	3,267	191	(720)	2,738	1,962	253	(720)	1,495	1,243	1,305
Library Media Collection	16,011	2,051	(1,062)	17,000	7,958	2,152	(1,062)	9,048	7,952	8,053
Parks & Pathways	72,346	4,111	(2,704)	73,753	29,957	4,166	(2,704)	31,419	42,334	42,389
Vehicles	14,211	2,518	(820)	15,909	6,216	1,720	(820)	7,116	8,793	7,995
Waterworks Equipment	1,249	35	(18)	1,266	504	137	(18)	623	643	745
Waterworks Infrastructure	982,382	16,715	(984)	998,113	284,080	15,132	(984)	298,228	699,885	698,302
Waterworks Vehicles	1,347	1	-	1,348	854	144	-	998	350	493
Total	4,430,687	141,264	(19,773)	4,552,178	832,306	68,775	(19,437)	881,644	3,670,534	3,598,381
Capital Work in progress	46,918	37,012		83,930					83,930	46,918
Grand Total	4,477,605	178,276	(19,773)	4,636,108	832,306	68,775	(19,437)	881,644	3,754,464	3,645,299

13. TANGIBLE CAPITAL ASSETS (continued)

a) Capital work in progress

Assets under construction having a value of \$83,930 (2014 - \$46,918) have not been amortized. Amortization of these assets will commence when the asset is put into service.

b) Contributed Tangible Capital Assets

Contributed tangible capital assets have been recognized at fair market value at the date of contribution. The value of contribution assets received during the year is \$74,494 (2014 - \$44,487) comprised of land in the amount of \$17,598 (2014 - \$19,903), roads infrastructure in the amount of \$44,292 (2014 - \$17,019) and water and wastewater infrastructure in the amount of \$12,604 (2014 - \$7,565).

c) Tangible Capital Assets Disclosed at Nominal Values

Where an estimate of fair value could not be made, the tangible capital asset was recognized at a nominal value.

d) Works of Art and Historical Treasures

The City manages and controls various works of art and non-operational historical cultural assets including buildings, artifacts, paintings and sculptures located at City sites and public display areas. These assets are not recorded as tangible capital assets and are not amortized.

14. GOVERNMENT TRANSFERS

The City recognizes the transfer of government funding as revenue in the year the events giving rise to the transfer occurred. The details of government transfer for the year are:

	2015	2014
Provincial Grant:		
Transportation services	\$ 551	\$ 5,599
Environmental services	1,180	972
Recreation and cultural services	496	427
Planning and development services	207	165
	<u>\$ 2,434</u>	<u>\$ 7,163</u>
Federal Grant:		
General government	10,055	9,840
Environmental services	-	1
Recreation and cultural services	178	184
Planning and development services	-	-
	<u>\$ 10,233</u>	<u>\$ 10,025</u>
	<u>\$ 12,667</u>	<u>\$ 17,188</u>

THE CORPORATION OF THE CITY OF MARKHAM

December 31, 2015

(All dollars amounts are in \$000)

15. ACCUMULATED SURPLUS

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

	2015	2014
City operating fund surplus including library, community boards and business improvement areas	2,813	776
Equity in Markham Enterprises Corporation	252,852	245,836
Invested in tangible capital assets and other	3,740,809	3,636,760
	3,996,474	3,883,372
RESERVES SET ASIDE FOR SPECIFIC PURPOSES BY COUNCIL		
Anti-whistling	318	318
Berczy landscape feature	203	203
Building fee	10,676	13,105
Capital gains	3,680	3,680
Corporate rate stabilization	14,132	15,259
Development fee	(9,861)	(7,966)
Election expenses	410	150
Election rebates	(156)	280
Facility ramp up	12,389	10,017
Firefighters sick leave benefits	6,436	6,463
Insurance	3,316	3,316
Long-term disability benefits	17,637	15,904
Partnership	16	16
Waste management	28	28
Waterworks	54,114	49,204
Total reserves	113,338	109,977
RESERVE FUNDS SET ASIDE FOR SPECIFIC PURPOSES BY COUNCIL		
Cemetery expenses	112	111
Emerald Ash Borer	(1,963)	1,158
Environmental land acquisition	8,789	8,433
Environmental sustainability fund	133	153
Heritage	398	438
Land acquisition	(24,724)	(24,296)
Library infrastructure	5,927	5,855
Life cycle replacement and capital	62,773	65,714
Museum	59	61
Non-DC growth	10,242	11,795
Post retirement benefits	13,255	12,239
Public art acquisition	483	451
Stormwater fee	(2,069)	(78)
Theatre	668	635
Trees for Tomorrow program	143	239
Workplace Safety & Insurance Board (WSIB)	3,077	3,040
WSIB excess compensation	387	185
Total reserves fund	77,690	86,133
Total	4,187,502	4,079,482

16. LEASE OBLIGATIONS

- a) As at December 31, 2015, the City is committed to minimum annual operating lease payments for premises and equipment as follows:

2016	\$495
2017	498
2018	500
2019	462
2020	210
2021 and over	53
	\$2,218

17. CONTINGENCY

UNSETTLED LEGAL CLAIMS AND POTENTIAL OTHER CLAIMS

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

18. ACCOUNTS RECEIVABLE – POWERSTREAM INTEREST

Included in Accounts Receivable is \$7,584 (2014 - \$7,584) being interest @ 5.58% per annum due for the period October 2006 to September 2008 on promissory notes issued by PowerStream. City Council has approved the deferral of this payment and future quarterly interest payments due up to September 2008 for a period of 5 years from September 2008. The City received deferral request from PowerStream for another five years at the interest rate of 4.03% per annum which was approved by City Council in May 2013.

The City receives from PowerStream secondary interest on the deferred interest payments from April 2007 up to October 2013 @5.58% and @4.03% thereafter until October 2018.

19. INVESTMENT IN MARKHAM ENTERPRISES CORPORATION

The City of Markham incorporated corporations under the laws of the Province of Ontario. Markham Enterprises Corporation (Previously Markham Energy Corporation) is wholly owned by the City of Markham. Markham Enterprises Corporation owns 100% of Markham District Energy Inc. (MDE) and 34.185% of PowerStream Holdings Inc. (2014 – 34.185% of PowerStream Inc.).

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

Of the total 119,013 (2014 – 112,945) common shares issued by PowerStream Holdings Inc., 53,931 (2014 - 51,181) common shares are registered under Vaughan Holdings Inc., 40,684 (2014 -38,610) common shares are registered under Markham Enterprises Corporation and 24,398 (2014 - 23,154) common shares are registered under Barrie Hydro Holdings Inc.

19. INVESTMENT IN MARKHAM ENTERPRISES CORPORATION (continued)

Of the total 99,997 (2014 – 99,997) Class A common shares issued by PowerStream Holdings Inc., 45,313 (2014 – 45,313) Class A common shares are registered under Vaughan Holdings Inc., 34,184 (2014 – 34,184) Class A common shares are registered under Markham Enterprises Corporation and 20,500 (2014 – 20,500) Class A common shares are registered under Barrie Hydro Holdings Inc.

The following consolidated financial statements of Markham Enterprises Corporation include the financial information of its subsidiaries Markham District Energy Inc., and PowerStream Holdings Inc. for the period from January 1, 2015 to December 31, 2015.

	2015	2014
Assets		
Current	\$ 96,915	\$ 103,330
Capital	511,126	481,302
Goodwill	14,565	14,543
Other	29,297	25,443
Total Assets	\$ 651,903	\$ 624,618
Liabilities		
Current	123,199	98,983
Other	117,150	108,795
Long Term	158,702	171,003
Total Liabilities	399,051	378,781
Shareholders' Equity		
Common shares	\$ 103,260	\$ 98,280
Promissory notes payable	79,164	79,164
Retained earnings and contributed Surplus	70,428	68,392
Total Shareholders' Equity	252,852	245,836
Total Liabilities and Shareholders' Equity	\$ 651,903	\$ 624,618
Results of Operations		
Revenues	\$ 438,115	\$ 399,570
Operating expenses	428,324	394,128
Net Income	\$ 9,791	\$ 5,442
Equity pick up in Markham Enterprises Corporation	9,791	5,442
Increase in share capital	4,980	12,208
Dividend	(7,755)	(5,162)
Net Change in Equity in Markham Enterprises Corporation	\$ 7,016	\$ 12,488

20. COMPARATIVE FIGURES

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

21. SUBSEQUENT EVENT

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), which is estimated to take a minimum of six months and approval under the federal Competition Act. On the closing of the proposed merger, the City would own 15.7% of the merged entity, with an equity investment of between \$43.0M and \$47.3M.