

## Financial statement discussion and analysis

The consolidated financial statements provide a picture of the Town's financial position as at December 31, 2015 and report the revenue and expenses for the year. Besides the Town of Newmarket, the statements also include:

- Newmarket Public Library Board;
- The Main Street District Business Improvement Association;
- The Town's proportionate share of the joint venture with the Town of Aurora – Central York Fire Services

The Town's investment in Newmarket Hydro Holdings Inc. is accounted for on a modified equity basis.

2015 Financial Indicators	2015	2014
Financial Position	\$529,279,625	\$516,873,175
Receivables as % of total taxes levied	3.16%	3.36%
Asset consumption ratio	36.29%	35.46%
Capital reserves as a % of accumulated amortization	6.94%	6.32%
Capital reserve contribution/amortization	91.57%	87.94%
Debt service costs as a % of own source revenues	4.77%	5.12%

### **Financial Position:**

This term refers to the ending net position of assets in excess of all liabilities. Positive balances indicate the Town's ability to cover debt obligations and to have funds set aside for future sustainability. Year over year the Town has improved this ratio from 2009. Continued focus on increasing assets and tangible capital asset additions and replacements, while lowering liabilities will keep this indicator on a positive trend.

**Receivables as % of taxes levied:**

Uncollected property taxes as a percentage of total taxes charged is a good indication of the strength of the local economy and the ability of the community to pay their annual taxes. The Town has a low ratio showing good economic health, increased liquidity, and strong controls over tax collection. The Ministry of Municipal Affairs and Housing considers a ratio below 10% to be low risk. In a financial sustainability indicator review of 22 municipalities in the Greater Toronto Area from the 2015 BMA study, the average was 6%.

**Asset consumption ratio:**

The asset consumption ratio shows the value of the tangible capital assets that have been consumed. Total accumulated amortization is calculated as a percentage of the gross cost of depreciable assets. This ratio highlights the aged condition of the Town's physical assets and potential asset replacement needs. A higher ratio may indicate significant replacement needs. Out of 104 municipalities in the 2015 BMA study, the average was 39.2% (Newmarket 36.3%) which is considered to be moderately new.

**Capital reserve as % of accumulated amortization, and % of reserve contribution:**

These two ratios show the level of reserve funding for future capital purposes compared to the total depreciation to date and to the current rate of amortization. The more the Town funds capital reserves as compared to the annual amortization expense, the less the infrastructure gap grows.

The breakdown of the capital reserve contribution/amortization was as follows:

Tax-supported	82.2%
Utility supported	113.2%

The breakdown of capital reserves/accumulated amortization was as follows:

Tax-supported	-12.6%
Utility supported	38.0%

**Debt service costs as % of own source revenues:**

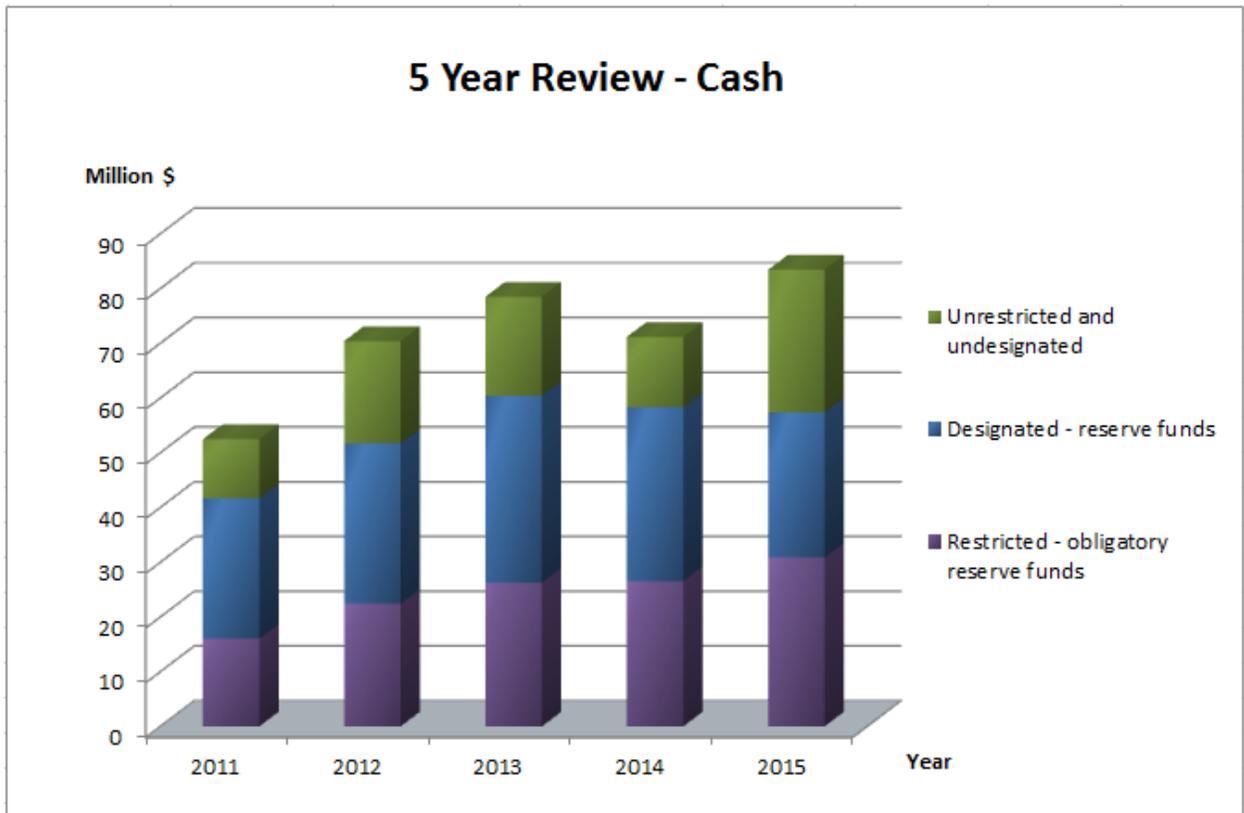
This ratio indicates the extent to which the Town's own source revenues are committed to debt charges. The Ministry of Municipal Affairs and Housing considers a ratio between 5% and 10% to be a moderate risk and a ratio below 5% to be low risk. This is the same calculation as used for the Annual Repayment Limit.

# Consolidated statement of financial position: Highlights

The statement of financial position is similar to a private enterprise's balance sheet. It reports the municipality's financial position at the end of the accounting period (December 31).

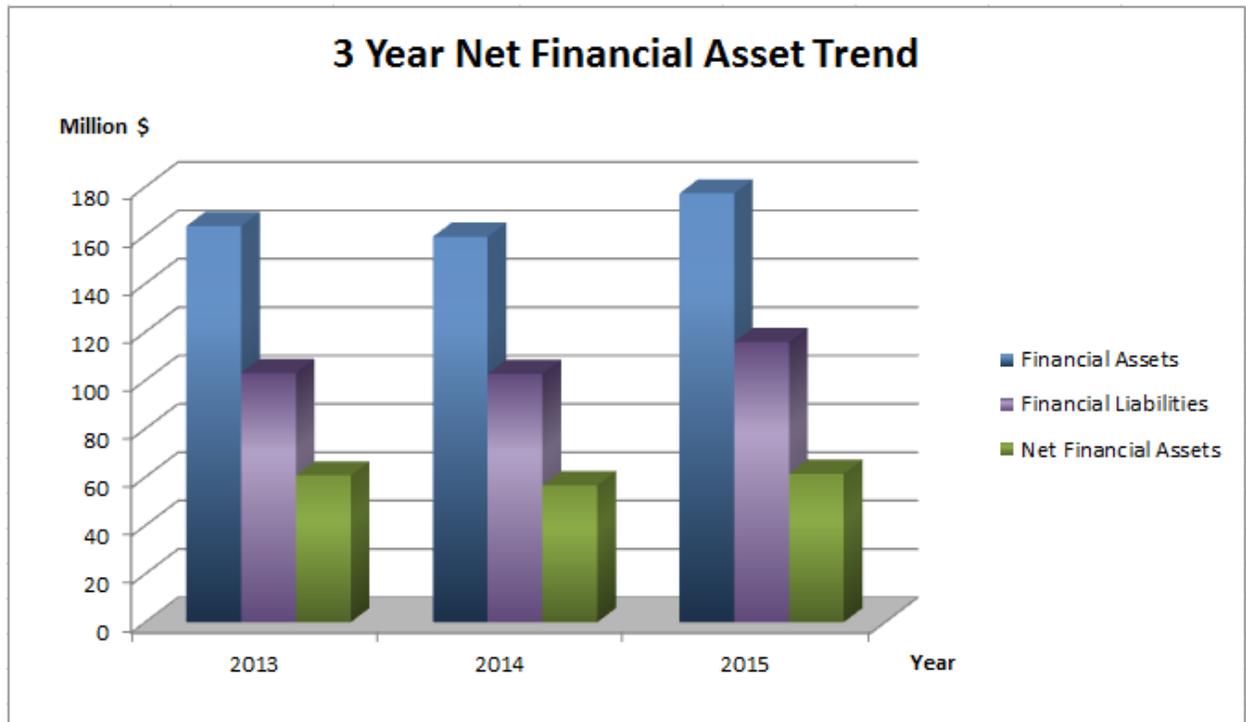
## **Cash**

The Town ended the year with a cash position \$12.3 million higher than that of 2014 but \$6.5 million higher than the year-end position budgeted. Cash includes our \$40 million non-redeemable guaranteed investment certificate, as it was due within 3 months of the end of the year and therefore considered as a cash equivalent. Two factors for the increased cash position included the \$16.9 million in contributions from developers, as well as the higher accounts payable position of \$32.4 million. Unrestricted and undesignated cash has increased due to the change in accounting for a portion of our long-term disability benefits from a restricted reserve fund to a liability.



## Net Financial Assets

The difference between financial assets and liabilities is a strong measure of the financial position of the Town. Positive balances indicate the Town's ability to meet long term commitments and have funds set aside for future sustainability. The Town's net financial assets were \$4.8 million higher than last year's restated level.

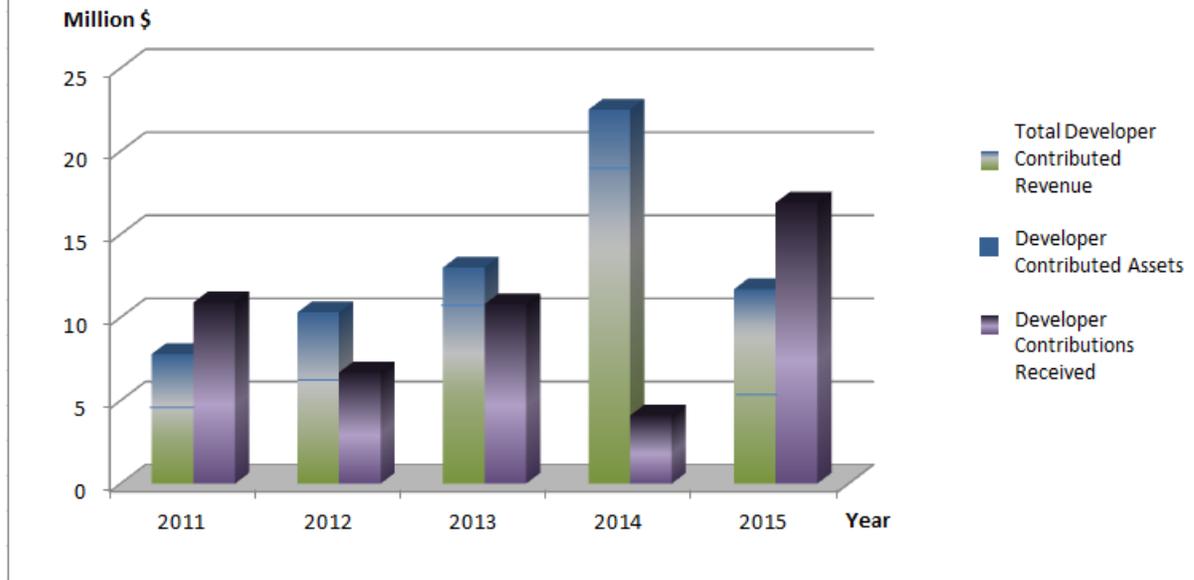


## Deferred revenue

Deferred revenue represents unexpended development charge and engineering administration revenues, unspent restricted grants from the Federal and Provincial governments, and prepaid building permit revenue. In 2015, the Town collected \$16.9 million in cash contributions from developers and \$4.5 million in capital contributions were transferred to the Town. Of this total, \$11.8 million was recognized as revenue. Funding of \$5.4 million (budget \$9 million) was applied to the associated capital projects.

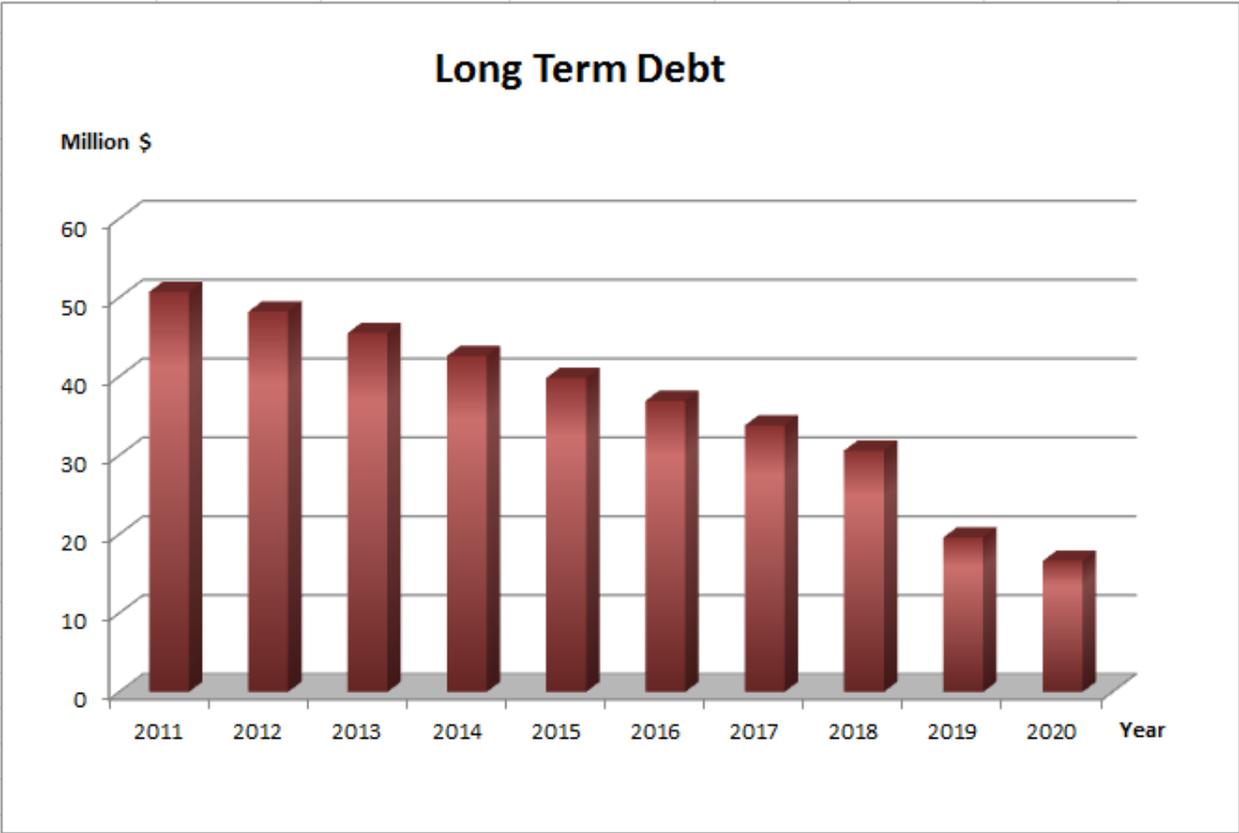
We deferred \$1.4 million in building permit revenue, as per our policy, as we do not deem building permit revenue to be earned until 90 days after collection of the fees with issuance of the permit. This is the average time for the building department to perform the majority of its duties and for the refund period to expire. Last year's deferred building permit fees of \$118,000 were recognized in 2015.

## 5 Year Review - Developer Contribution Revenues & Developer Contributions Received



### *Long-term debt*

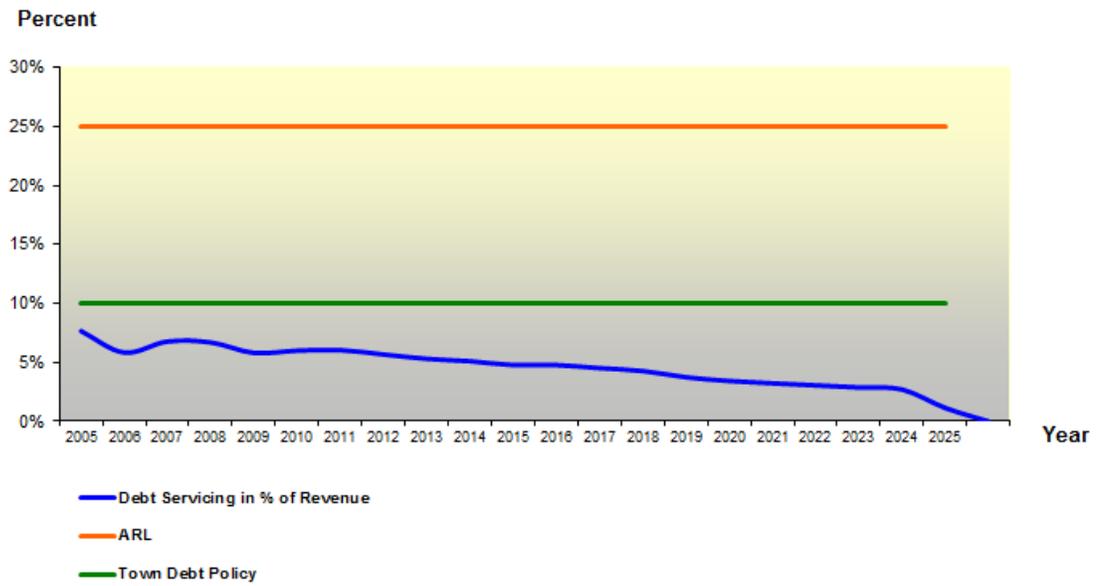
A significant component of the financial liabilities is the Town's long-term debt. In accordance with the Town's Debt Policy, the amount of debt is limited to the purchase of land and other capital assets when other sources of financing are not available. The Policy also limits the servicing limit (principle and interest) to 10% of the Town's own source revenues which is lower than the 25% limit that the province allows municipalities. As part of our financial sustainability strategy, the debt policy will be updated in 2016. In 2015, the Town's actual debt servicing was 4.8% (2014 – 5.1%) - well within policy limits. At an annual interest rate of 5% with a term of 20 years, the Town could borrow another \$87.3 million and still remain within its 10% debt servicing (borrowing) limit. \$2.7 million of principal was repaid in 2015.



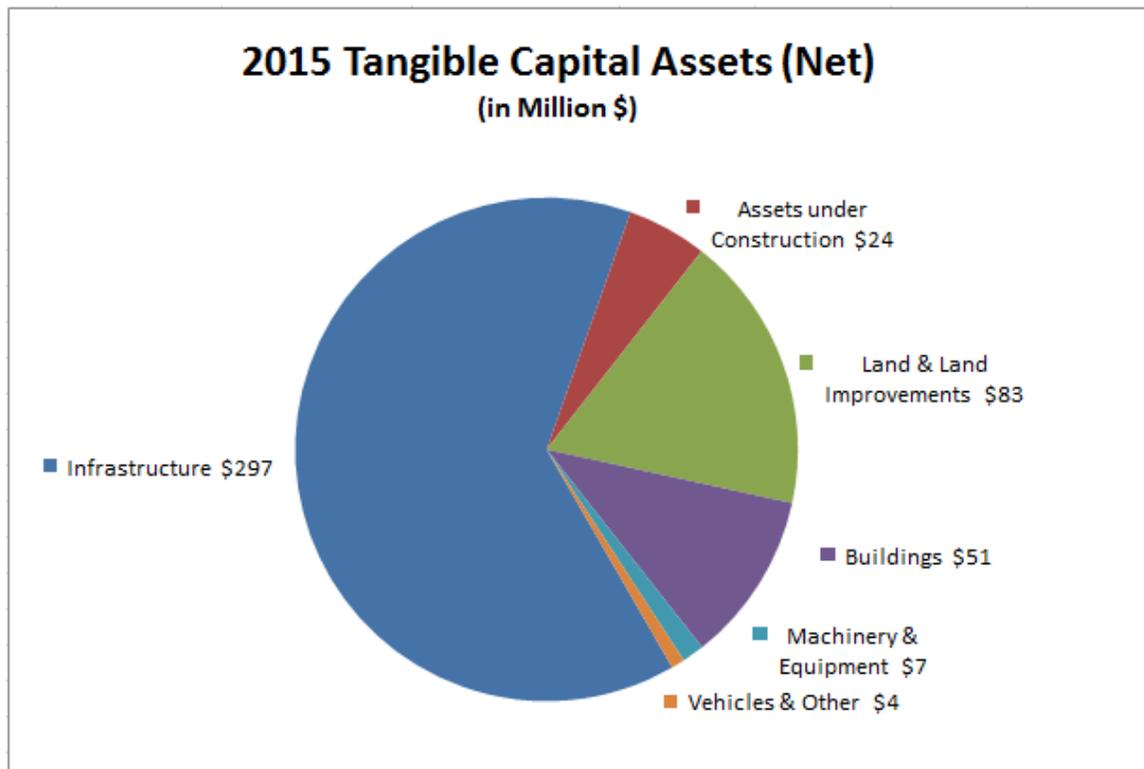
The Town's long-term debt position reflects the pattern of investment in major infrastructure projects. In 2016, \$2.9 million of debt retirement is expected. Debt represents 8.5% of the net book value of Town's tangible capital assets (2014 – 9.3%).

In 2019 the debentures for the Operations Centre are scheduled to be paid off which account for \$8 million of the repayments in that year.

### Debt vs. Town Debt Policy and Provincial ARL



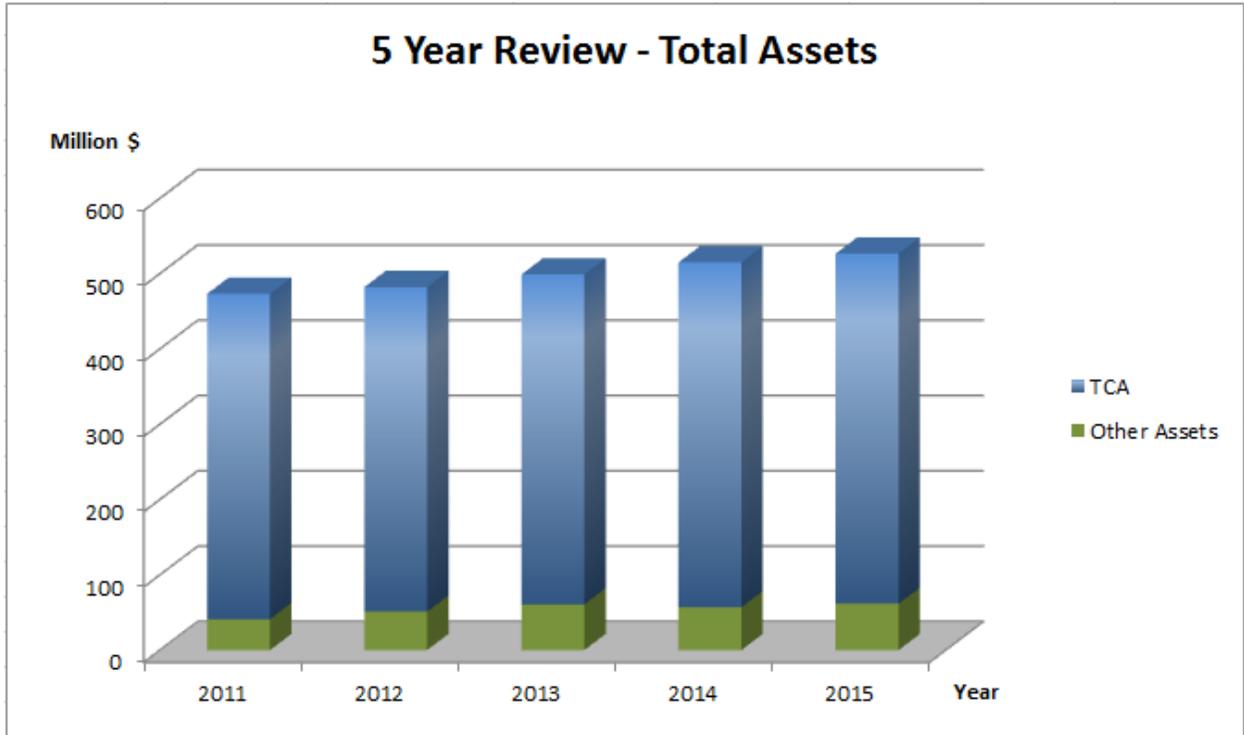
## Non-financial assets



The 2015 capital budget was \$57.5 million, including carry-overs of \$28.1 million. \$53.5 million of this amount was budgeted for tangible capital assets (TCA), with the remainder being major repair and maintenance expenses, annual program costs, and items below the threshold for TCA. Of the TCA budget, 33% or \$17.6 million was projected to be completed in 2015. However, \$19.7 million (34%) of TCA were added in 2015.

One of the Town's goals has been to develop a sustainable capital financing strategy. The review has been done and included a review of the Town's asset replacement funds to determine what the financial requirements will be to replace the Town's assets and how the Town's annual contributions to these reserve funds compare. Additional capital levies of 0.8% (2013), 0.74% (2014), 1% (2015), and 0.8% (2016) were added in recent years.

The Town has a TCA policy and consideration is being given to adjusting the life expectancy of some infrastructure categories, in light of recommendations that came out of the Capital Financing Sustainability Strategy and our historical spending patterns. An asset management plan was developed in 2014. A charter for an Asset Management Committee has been created and there are plans to expand and enhance the plan.



The Town increased their tangible capital assets by \$19.7 million in 2015, while \$18.1 million was added in 2014. In 2015, many road rehabilitation projects were completed, \$4.1 million was spent on the Old Town Hall Restoration, \$2.6 million was spent on the Honeywell Streetlight Retrofit, and \$1.5 million was spent on the Magna Solar Panel Project.

## Accumulated surplus

The accumulated surplus is the Town's ending net position of assets in excess of liabilities. The three most significant components of the accumulated surplus are the investment in tangible capital assets, the Town's equity in Newmarket Hydro Holdings Inc., and reserves and reserve funds.

### THE CORPORATION OF THE TOWN OF NEWMARKET Notes to the Consolidated Financial Statements December 31, 2015

#### Accumulated Surplus

The Accumulated Surplus is comprised of the following:

	2015	2014
<b>Reserves set aside for specific purposes by Council</b>		
Reserves for operating purposes	\$ 4,507,618	\$ 4,719,091
Reserves for capital purposes	806,259	1,173,308
Newmarket Public Library	627,847	543,697
Building Code Act Fees	5,381,847	5,316,860
Water & Wastewater Rate Stabilization	2,832,711	1,089,450
<b>Total Reserves</b>	<b>14,156,282</b>	<b>12,842,406</b>
<b>Reserve funds set aside for specific purposes by Council</b>		
Asset replacement funds	18,394,533	15,905,427
Reserve funds for operating purposes	3,578,753	3,752,975
Reserve funds for capital purposes	946,736	4,786,563
Self-insured long-term disability	3,401,975	3,358,123
<b>Total Reserve Funds</b>	<b>26,321,997</b>	<b>27,803,088</b>
<b>Total Reserves and Reserve Funds</b>	<b>40,478,279</b>	<b>40,645,494</b>
Invested in tangible capital assets	465,439,466	458,240,103
Less: amount financed by long-term debt	(39,753,155)	(42,618,901)
Surplus land	155,285	155,285
Operating surplus	15,135	-
Funds available for future capital expenses	617,247	156,878
Funds to be provided from future revenues	(449,046)	(1,085,870)
Equity in Newmarket Hydro Holdings Inc.	66,317,053	64,645,924
Employee future benefits to be recovered	(3,540,639)	(3,265,738)
<b>Accumulated Surplus</b>	<b>\$ 529,279,625</b>	<b>\$ 516,873,175</b>

## ***Reserve and reserve funds***

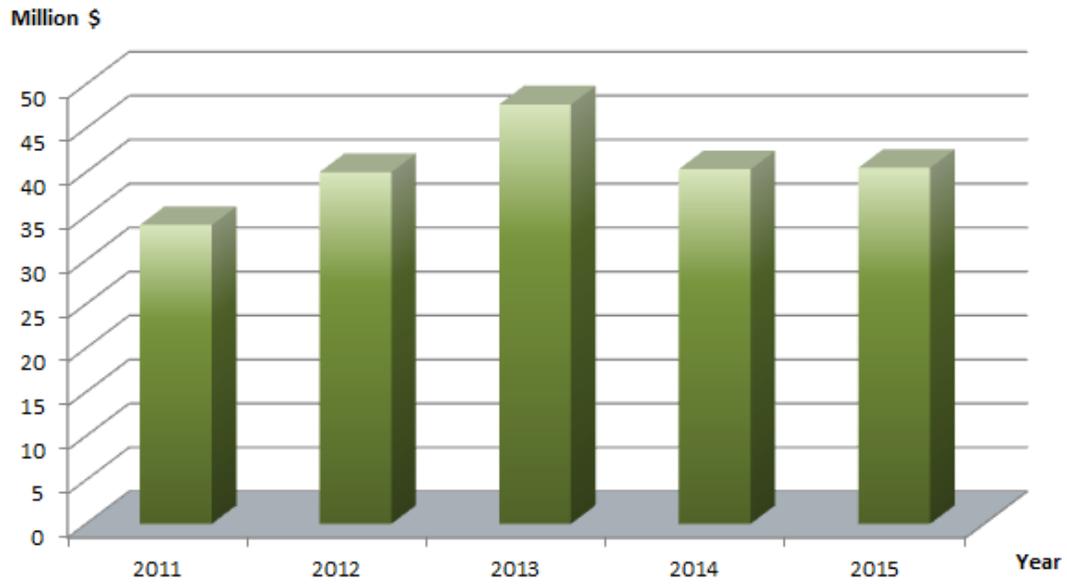
Reserve and reserve funds are used to set aside funding for the future replacement of the Town's assets, as well as other expected and unexpected obligations. It is a key component of the Town's strategy of being financially sustainable. They also help to minimize potential fluctuations in the tax rate, which is commonly referred to as Rate Stabilization.

Beginning in 2011, a significant increase in the reserves and reserve funds was achieved. In 2011, the increase is comprised of \$2 million in debt financing received from FCM, \$770,000 from the Park Shop sale and \$2 million in allocated, but unspent, ARF contributions. In 2012 the Town increased several operating contingency reserves, nearly \$1.4 million was added to the Building Permits Reserve and there continued to be large allocated, but unspent, ARF contributions. In 2013 another \$1.65 million was added to the Building Permits Reserve and designated capital reserve funds increased due to the sale of the Rawluk Property. Discretionary operating reserves increased due to the transfer of the receipt of a \$500,000 supplementary dividend from Newmarket Hydro Holdings and operational contingency reserves were increased for the Ontario Municipal Board hearing associated with property along the Yonge/Davis corridor.

2014 was impacted by a number of extraordinary factors, including costs above the rate of inflation and unforeseen one-time costs. Our financial sustainability strategy and fiscal policies placed the Town in a position where these unexpected events could be covered by drawing on our reserves. A water and wastewater surplus of \$1.1 million was recognized in 2014 and transferred to the rate stabilization reserves. The target, as incorporated in to the 6-year plan, is 5 to 10% of annual revenues which would represent combined reserves of up to \$3 million.

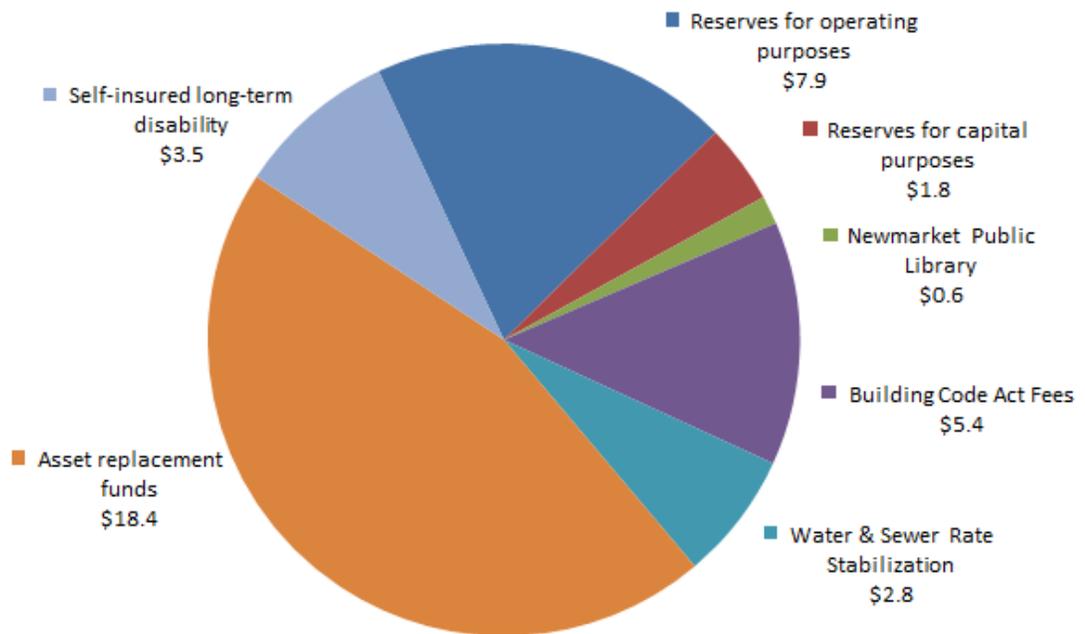
In 2015 a number of one-time favorable factors contributed to the small operating surplus and enabled us to increase some of our benefit reserves. We reclassified a portion of our long-term disability benefits obligation from a reserve fund to a liability and restated 2014 which resulted in a decrease of \$4.6 million in each of the two years.

## 5 Year Review - Reserve & Reserve Funds



The total of the Town's reserves and reserve funds at the end of 2015 was \$40.5 million, a decrease of only \$100,000 from the beginning of the year.

## Reserve & Reserve Funds (in Million \$)



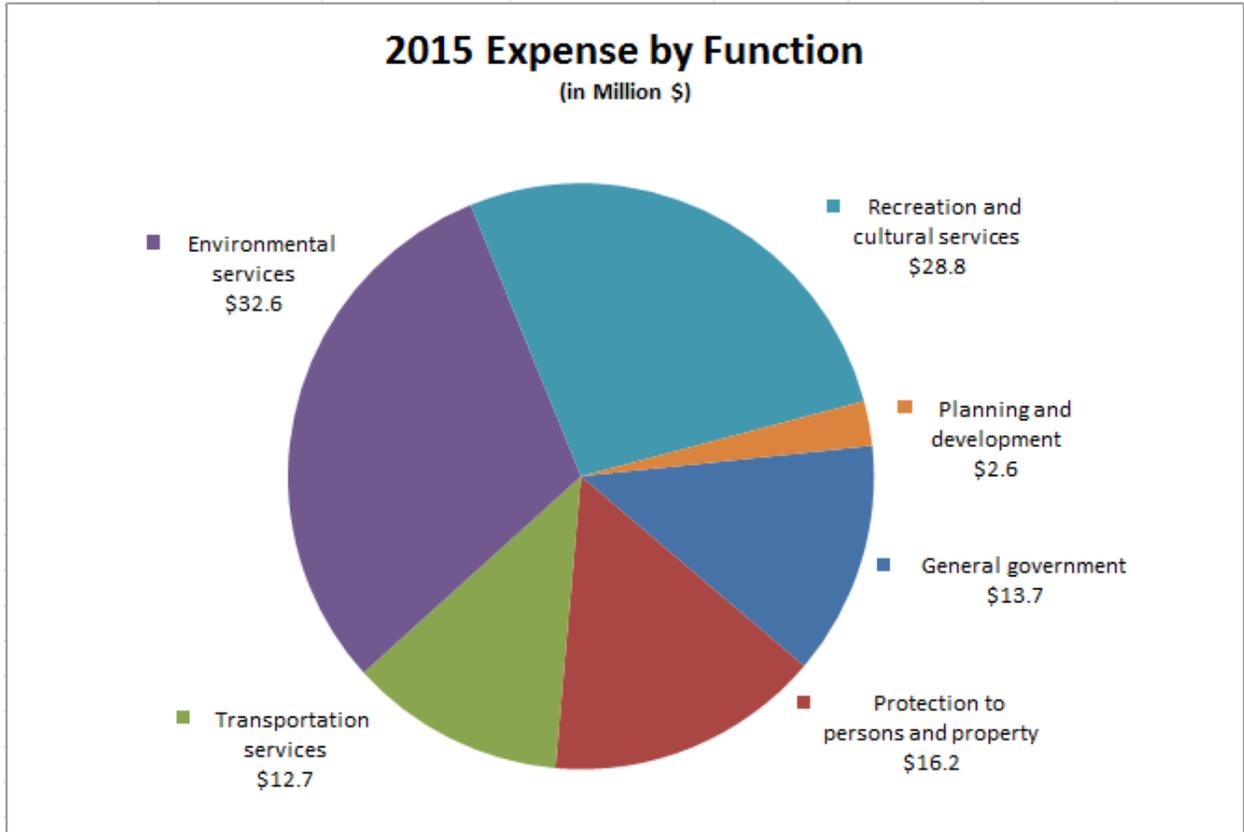
## Consolidated statement of operations and surplus: Highlights

The consolidated statement of operations reports the annual surplus or deficit from operations during the year. The statement shows the revenues recognized, the cost of government services provided, and the difference between them.

Annual Surplus Reconciliation	
<b>Surplus based on operating fund</b>	<b>\$ 15,135</b>
<b>Add:</b> Principal payment on long-term debt	<b>2,865,746</b>
Contributed tangible capital assets	<b>4,532,696</b>
<b>Acquisition of tangible capital assets</b>	<b>19,680,659</b>
<b>Net equity in earnings of Newmarket Hydro Holdings Inc.</b>	<b>1,671,129</b>
<b>Capital Fund revenues</b>	<b>582,438</b>
<b>Reserves and reserve funds revenues</b>	<b>444,476</b>
<b>Less:</b> Financing from future revenue	<b>(274,901)</b>
Amortization expenses	<b>(16,432,222)</b>
Loss on disposal of tangible capital assets	<b>(67,014)</b>
Prior period adjustment made in current year	<b>(611,691)</b>
<b>Surplus Per Consolidated Statement of Operations</b>	<b>\$ 12,406,450</b>

## Expenses

The Town provides a wide variety of municipal services to its residents. The chart below provides an overview of these services and shows the relative proportion of the Town's budget that is allocated to these services.



Some of the major services included in each category are:

### **General government:**

Finance, Human Resources, Information Technology, Communications, Legal, Customer Services, Clerks Office, Council and Executive Office expenses

### **Protection to persons and property:**

Fire services, Licensing, and Bylaw Enforcement

### **Transportation services:**

Roads and Road Maintenance, Snowplowing, Operations and Capital Projects Engineering

### **Environmental services:**

Water and Wastewater Services, and Solid Waste Collection

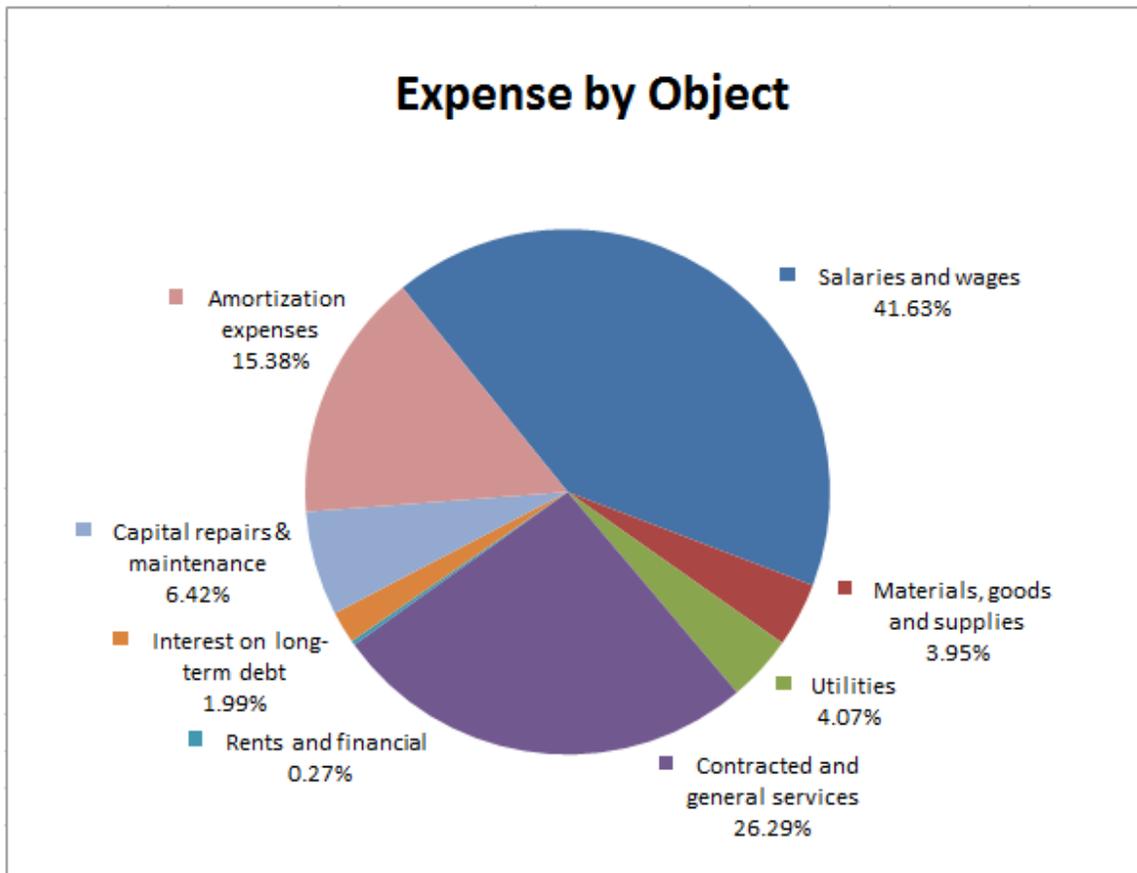
**Recreational and cultural services:**

Programs and Facility costs at all Recreation Centres, Parks Maintenance, Library, Theatre and Museum

**Planning and development:**

Planning and Building, Engineering and Development, and Economic Development

*Schedule 2 to the Consolidated Financial Statements (pages 28-30) shows a breakdown of these costs by service bundle.*



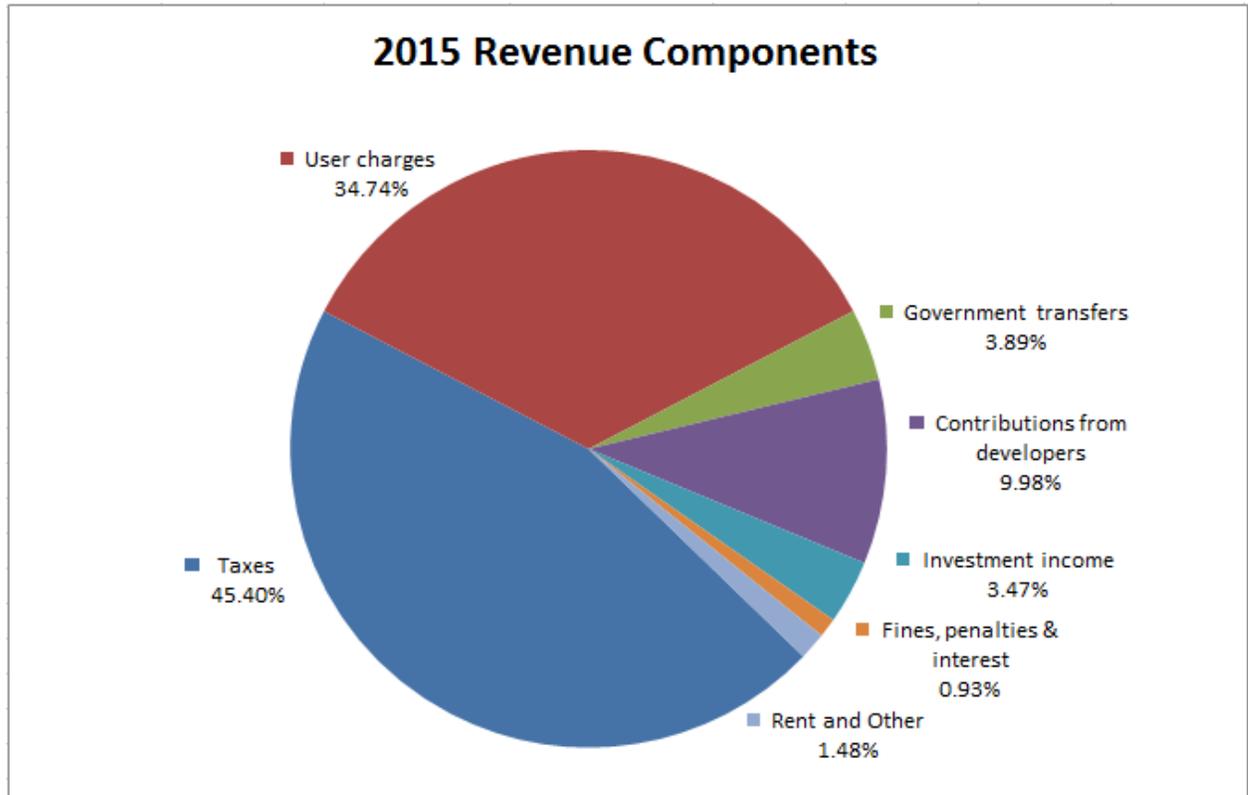
Some highlights of the Town’s 2015 expenses include:

- Salaries, wages and benefits are the most significant component of the Town’s costs and have increased by \$1.68 million over 2014. The economic increase in 2015 was 2.0% and the rate for OMERS decreased slightly from 2014’s level. The increase to salaries and benefits for Central York Fire Services was 3% in 2015.
- Materials, goods and supplies were 12.4% lower than 2014 levels. Minor capital, water meters and materials for main replacement, rental of voting and other equipment, and repairs and maintenance are included here.

- Contracted and general services have increased by 5.1% from 2014 levels. Charges from the Region for water and wastewater are the biggest component of this expense category and increased by 8%.
- Rents and financial expenses were 57% higher mainly to a year-end provision made for tax adjustments. While improvements are starting to be evident from our proactive assessment management, there are still a number of open appeals, as well as some old accounts that are at risk.
- Capital repairs and maintenance includes capital expenses that do not meet the definition of TCA and annual maintenance programs. Some examples include parks spot improvements, playground equipment replacement, playground resurfacing, sidewalk spot repairs and trail rehabilitation. These expenses were 15% higher than 2014 levels. One reason for the increase was emergency water and wastewater repairs, necessary after the severe winter that was contracted out due to staff shortages.
- Amortization (aka depreciation) has increased by 3.4% over 2014 due to additions of new tangible capital assets. As part of the implementation of our asset management plan, we have reviewed our estimates for the expected useful life of our assets. Some asset classes, namely sewers and watermains, are being amortized over a shorter period than we normally replace them and revisions are anticipated in 2016 to bring the two closer together.

## Revenues

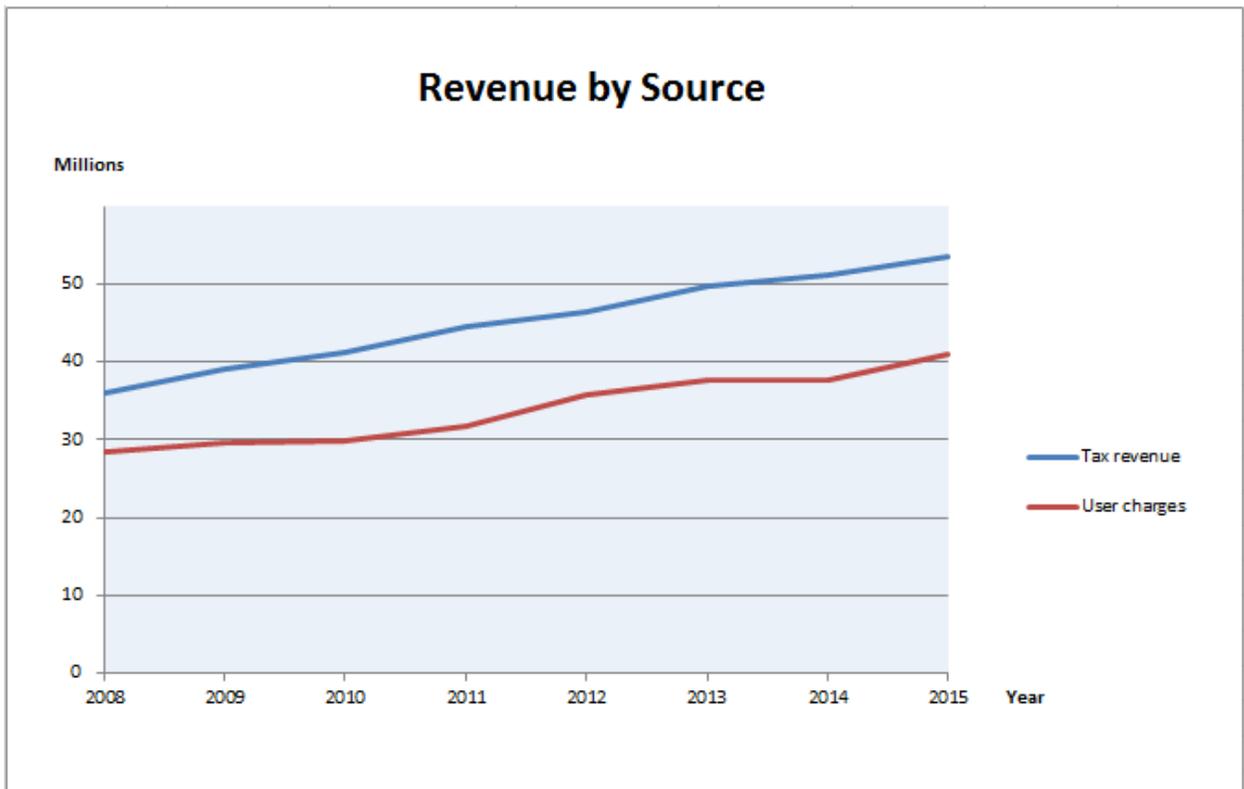
The Town pays for the services it delivers through a variety of revenue streams including property taxes, user charges, government transfers, and contributions from developers, investment income; fines, penalties and interest; rent, land sales, and the sale of goods.



Revenue highlights for 2015 include:

- Property taxes as a percentage of the Town's revenue have increased by 3.7% to a more normal level. Abnormally high tax write-offs in 2014 is the reason for the lower percentage in that year. Supplementary taxes are difficult to predict and sustain. Actual collections in 2015 were only \$479,000 compared to a budget of \$850,000. Over the previous four years we have seen a high of \$1.2 million in 2013 and a low of \$402,000 in 2012. Higher write offs and provisions, which reduce tax revenues, continued the trend experienced in 2014. Charity rebates were at approximately the same level as 2014. Vacancy rebates, at \$472,000, were lower than 2014's level of \$554,000, due to the more diligent verification process implemented in 2015. The proactive assessment management plan, started in 2014, gained traction in 2015. With a full staff compliment in place in September, Taxes focused efforts on open appeals. They have been actively investigating property inspections related to appeal to try to reduce assessment loss.

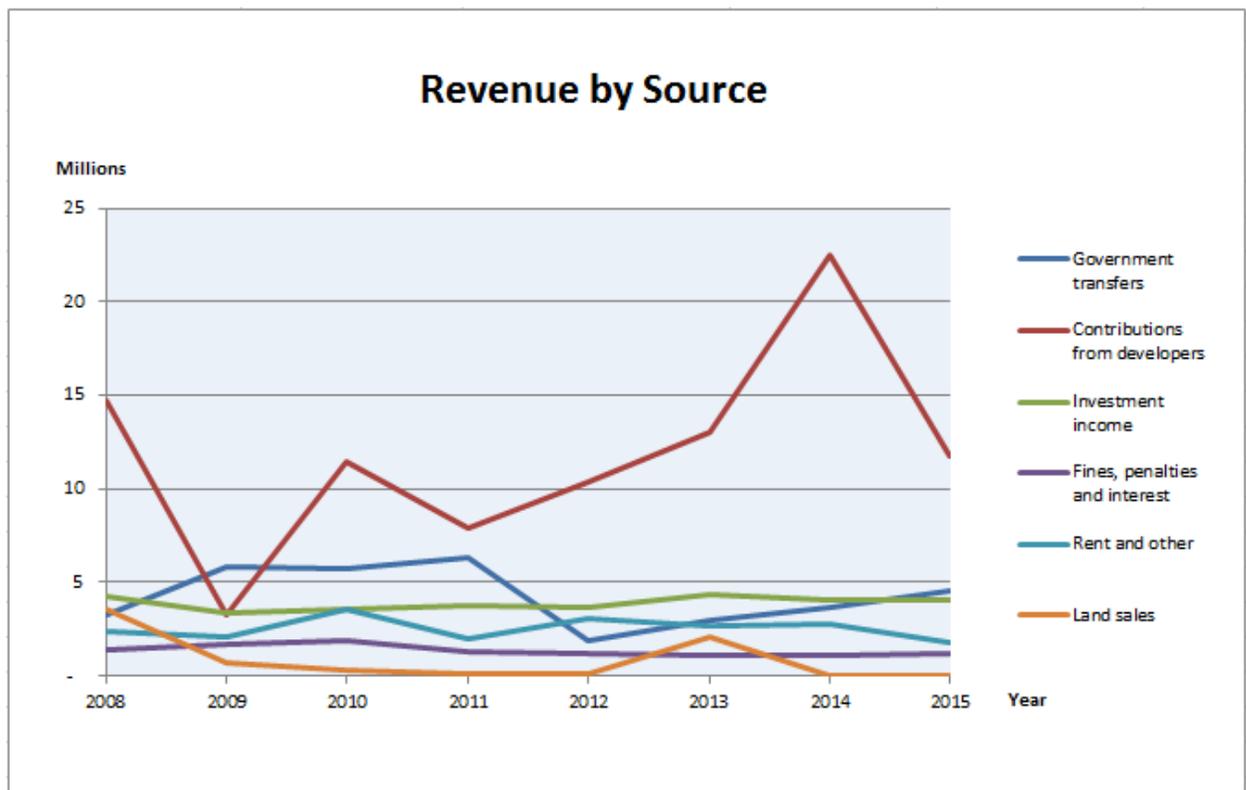
- User charges include water and wastewater revenues, recreation program revenues, license fees, and building permit fees. The majority of user charges are water and wastewater revenues where the average resident's bill increased by 5.7% from 2014, due to a combination of an increase in consumption fees of 4% for water and 14% for wastewater with no increase to the basic monthly charge. Building permit revenues were 4.8% higher than in 2014 and 57% more than the budgeted amount. There has been no price increase to the fees since 2010, yet the reserve has continued to increase over the last several years. A review of the fee structure was undertaken in 2015 by BMA Consulting and as a result new fees came in to effect in 2016. Fees and charges for recreation and culture programs and services were increased by an average of 3% over 2014.



- Government transfers were 22% below budget, but higher than 2014 levels. Most grant funding is only received after costs have been incurred. There is also a lag between the completion of the claims and the receipt of the grant funding. We received \$611,000 from each of the Provincial and Federal governments for the Old Town Hall Project. Road projects financed from the Federal Gas Tax were lower than budget by \$2.4 million as one of the projects not started in 2015. Multi-year capital budgeting, a key recommendation that came out of the Capital Financing Sustainability

Strategy, should result in more accurate budgeting of expenditures and the related financing.

- Contributions from developers were \$10.7 million lower than in 2014, mostly due to the significant level of contributed assets in 2014 (\$18.6 million). Tangible capital assets equaling \$4.5 million were contributed to the Town in 2015 and were comprised of a Storm Water Management Pond constructed in 1997 and many road segments and the associated infrastructure constructed in 2011. The assumption of subdivisions is not budgeted for, as the amounts and timing are difficult to predict (see the red line on the chart below). Capital fund developer contributions are mostly development charges (DC's) and are driven by financing requirements for capital projects. \$2.9 million in developer contributions were applied to the Old Town Hall Restoration Project. Contributions by developers to reserve funds were 119% over the budgeted level.



- Interest earned on the Operating Fund came in \$44,000 over budget. Reserve Fund balances were higher than expected due to lower capital spending and earned an additional \$303,000. Our investments included two non-redeemable GIC's totalling \$45 million, as well as a number of non-traditional investments – loan to a user group, the installation of solar panels, and the energy retrofit project. The lack of a multi-year capital budget makes cash forecasting and long-term investing problematic. This will be addressed more in 2016/2017 pursuant to a more aggressive short-term investing

strategy and with a full Finance compliment and the creation of multi-year budgets/forecasts.

- Rent and Other came is significantly lower than the budget. The 2015 sponsorship payment of \$500,000 by Magna was received in 2014 and applied directly to the debenture payments in 2015, creating a shortfall to budget in this category. In addition, some revenue contributions have not materialized or are affected by the timing of projects, as many of the associated capital projects have not started or have not been completed.
- The land sales reflect the net gain on the sale of a portion of Muriel Street.
- Gains (losses) on the disposal of tangible capital assets are not budgeted. However, when roads, trails or walkways are reconstructed any remaining unamortized cost represents a loss, as there are no proceeds. In 2015 some minor net losses were recognized due to road and the underlying infrastructure reconstruction.