

## Financial statement discussion and analysis

The consolidated financial statements provide a picture of the Town's financial position as at December 31, 2016 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 Area;
- 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.

A selection of financial indicators are explained below:

### 2016 Financial Highlights

Financial Position	\$551,260,252	\$529,279,625
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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.

Capital reserves as a % of accumulated amortization	8.82%	7.65%
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Capital reserve contribution/amortization	105.59%	91.57%
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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 more the infrastructure gap narrows.

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

Tax-supported	80.6%
Utility (W/WW) rate supported	211.9%

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

Tax-supported	-8.45%
Utility (W/WW) rate supported	57.70%

2016 Financial Highlights	2016	2015	*2016 BMA Study
Receivables as % of total taxes levied (includes Region and School Board)	2.73%	3.16%	5.7%

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 2016 BMA study, the average was 5.7%.

Asset consumption ratio	36.94%	36.29%	39.8%
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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 102 municipalities in the 2016 BMA study, the average was 39.8% which is considered to be moderately new.

Debt service costs as a % of own source revenues	4.50%	4.77%
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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 that used for the Annual Repayment Limit.

\*based on average results from the 2016 Municipal Study.

## Consolidated statement of financial position: Overview

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 \$39.3 million lower than that of 2015 but \$6.5 million higher than the year-end position budgeted. Last year 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.



## ***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 \$12.8 million higher than last year's level.

## ***Deferred revenue***

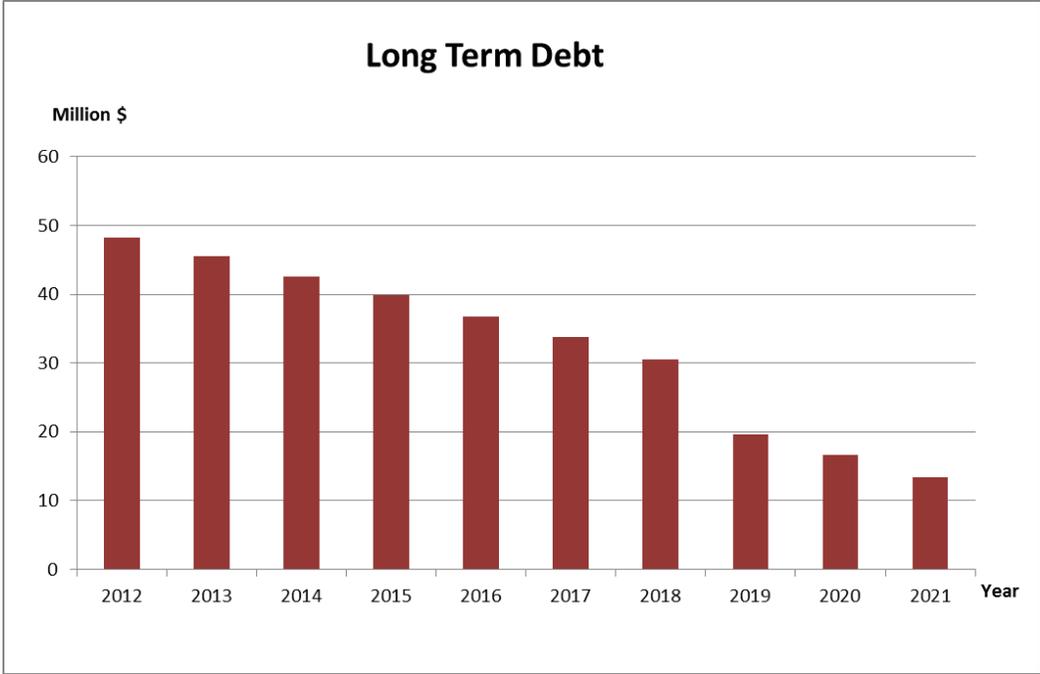
Deferred revenue represents:

- unexpended development charge and engineering administration revenues;
- unspent restricted grants from the Federal and Provincial governments;
- and prepaid building permit revenue.

In 2016, the Town collected \$2.8 million in development charges and allocated \$6.2 million to capital projects. We deferred \$386,000 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 \$1.4 million were recognized in 2016.

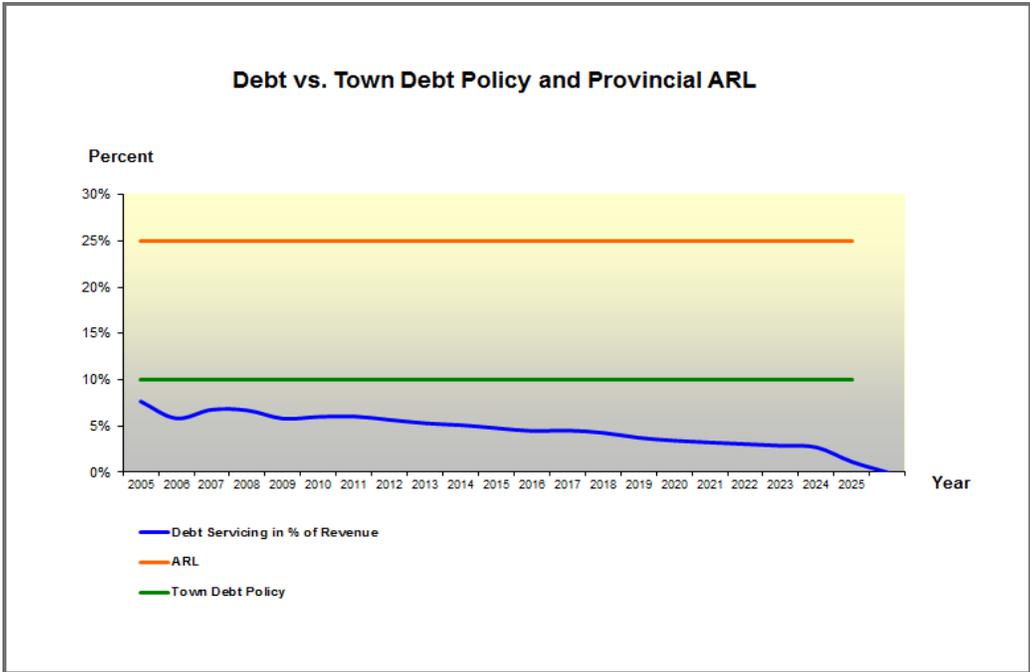
## ***Long-term debt***

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 2017. In 2016, the Town's actual debt servicing was 4.5% (2015 – 4.8%) - well within policy limits. At an annual interest rate of 5% with a term of 20 years, the Town could borrow another \$98.2 million and still remain within its 10% debt servicing (borrowing) limit. \$2.8 million of principal was repaid in 2016.

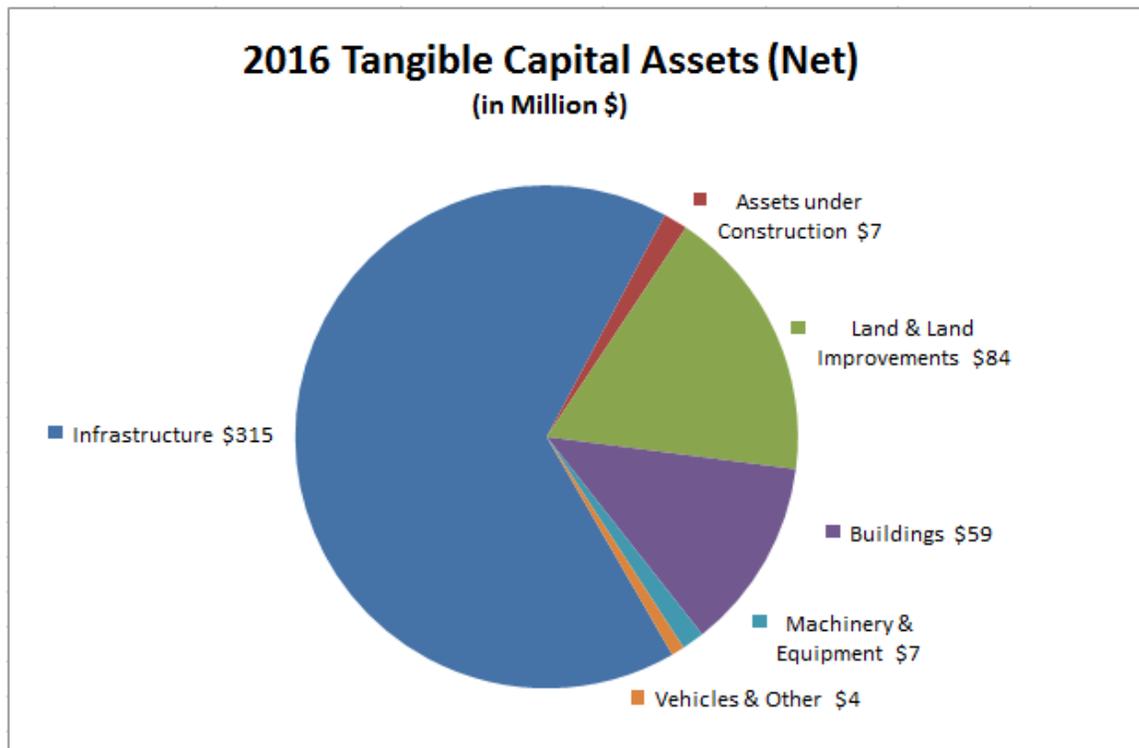


The Town’s long-term debt position reflects the pattern of investment in major infrastructure projects. In 2017, \$3.1 million of debt retirement is expected. Debt represents 7.7% of the net book value of Town’s tangible capital assets (2015 – 8.5%).

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.



## Non-financial assets



The 2016 capital budget was \$65.5 million, including carry-overs of \$38.8 million. \$61.1 million of this amount was budgeted for tangible capital assets (TCA), with the remainder being major repair and maintenance expenses and items below the threshold for TCA. Of the TCA budget, 33% or \$20.2 million was projected to be completed in 2016. However, \$15.6 million (25%) of TCA were added in 2016.

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 0.84% (2013), 0.74% (2014), 1% (2015), and 0.8% (2016) were added in recent years. The 2017 contributions to the asset replacement funds were maintained at 2016 levels.

The Town has a TCA policy and in 2016 the estimated useful life of underground assets was extended from 50 years to 80 years to better reflect their longevity and actual replacement cycle. The road paved surface category was reduced from 25 years to 20 years to coincide with the replacement cycle of the associated underground assets. The impact of these changes was a decrease of approximately \$1.3 million in amortization expense.

An initial asset management plan was developed in 2014 and a charter for an Asset Management Committee has been created. In 2016, the focus was on developing an asset management strategy.

The Town's tangible capital assets (net of amortization expense) increased by \$10.3 million in 2016 compared to an increase of \$19.7 million in 2015. In 2016, \$8.2 million was spent on road related projects, \$2.3 million was spent for Newmarket's share of the land acquisition in Aurora for the new fire station, \$1.4 million was spend on Viva Next Infrastructure on Davis Drive, and \$1.3 million was spent on the Old Town Hall Restoration.

## 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, 2016

#### Accumulated Surplus

The Accumulated Surplus is comprised of the following:

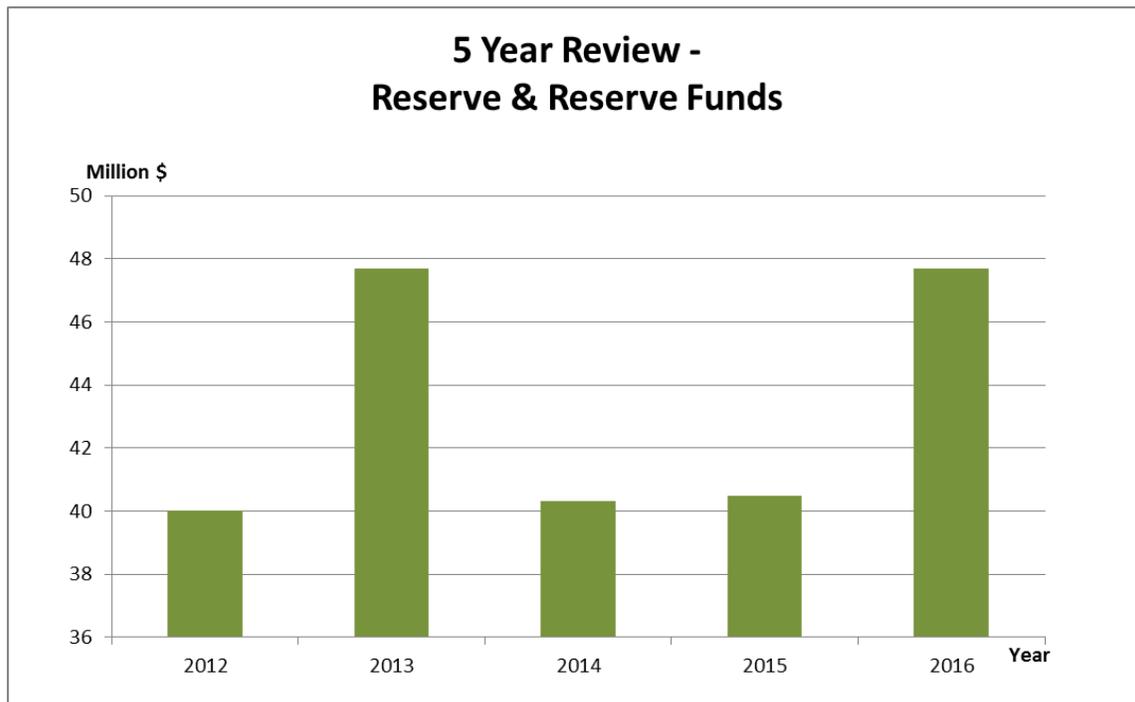
	2016	2015
<b>Reserves set aside for specific purposes by Council</b>		
Reserves for operating purposes	\$ 4,869,267	\$ 4,507,618
Reserves for capital purposes	1,098,178	806,259
Newmarket Public Library	582,111	627,847
Building Code Act Fees	5,770,435	5,381,847
Water & Wastewater Rate Stabilization	4,499,339	2,832,711
<b>Total Reserves</b>	<b>16,819,330</b>	<b>14,156,282</b>
<b>Reserve funds set aside for specific purposes by Council</b>		
Asset replacement funds	22,653,403	18,394,532
Reserve funds for operating purposes	3,547,445	3,432,638
Reserve funds for capital purposes	835,809	1,092,852
Self-insured long-term disability	3,836,012	3,401,975
<b>Total Reserve Funds</b>	<b>30,872,669</b>	<b>26,321,997</b>
<b>Total Reserves and Reserve Funds</b>	<b>47,691,999</b>	<b>40,478,279</b>
Invested in tangible capital assets	475,725,170	465,439,466
Less: amount financed by long-term debt	(36,772,663)	(39,753,155)
Surplus land	155,285	155,285
Operating surplus	3,323	15,135
Funds available for future capital expenses	366,407	617,247
Funds to be provided from future revenues	(265,591)	(449,046)
Equity in Newmarket Hydro Holdings Inc. (Note 11)	68,130,795	66,317,053
Employee future benefits to be recovered	(3,774,473)	(3,540,639)
<b>Accumulated Surplus</b>	<b>\$ 551,260,252</b>	<b>\$ 529,279,625</b>

## Reserves and reserve funds

Reserves 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 and utility rates, which is commonly referred to as Rate Stabilization.

The large increase in 2013 was followed by a difficult year in 2014 with 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.

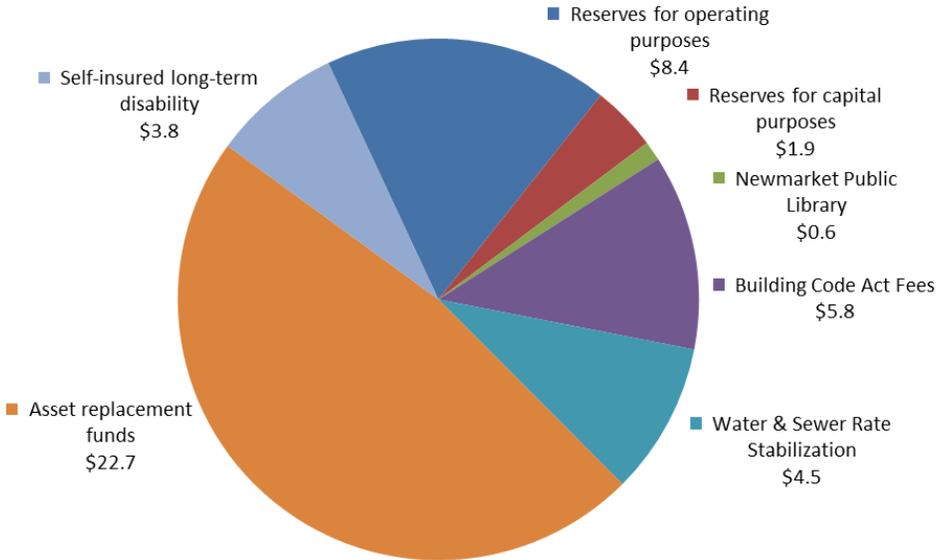
In 2015, we reclassified a portion of our long-term disability benefits obligation from a reserve fund to a liability and restated 2014 which resulted in a decrease of \$4.6 million in each of the two years.



The total of the Town's reserves and reserve funds at the end of 2016 was \$47.7 million, an increase of \$7.2 million from the beginning of the year. The main factor is an increase of \$4.3 million to the asset replacement reserve funds due to lower spending on capital projects.

# Reserves & Reserve Funds

(in Million \$)



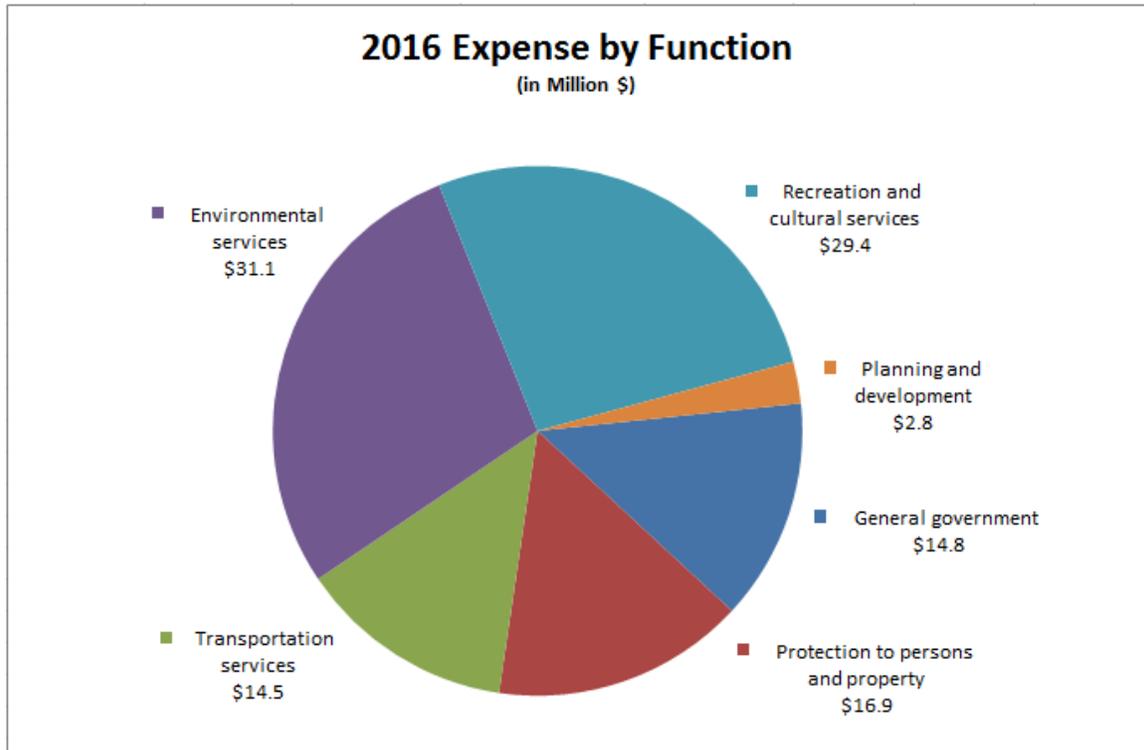
## Consolidated statement of operations and surplus: Highlights

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.

<b>Annual Surplus Reconciliation</b>	
<b>Surplus based on operating fund</b>	<b>\$ 3,323</b>
<b>Add: Principal payment on long-term debt</b>	<b>2,980,491</b>
<b>Contributed tangible capital assets</b>	<b>10,089,926</b>
<b>Acquisition of tangible capital assets</b>	<b>15,625,785</b>
<b>Net equity in earnings of Newmarket Hydro Holdings Inc.</b>	<b>1,813,742</b>
<b>Capital Fund revenues</b>	<b>(194,902)</b>
<b>Reserves and reserve funds revenues</b>	<b>7,213,720</b>
<b>Less: Financing from future revenue</b>	<b>(233,834)</b>
<b>Amortization expenses</b>	<b>(15,114,325)</b>
<b>Loss on disposal of tangible capital assets</b>	<b>(203,299)</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

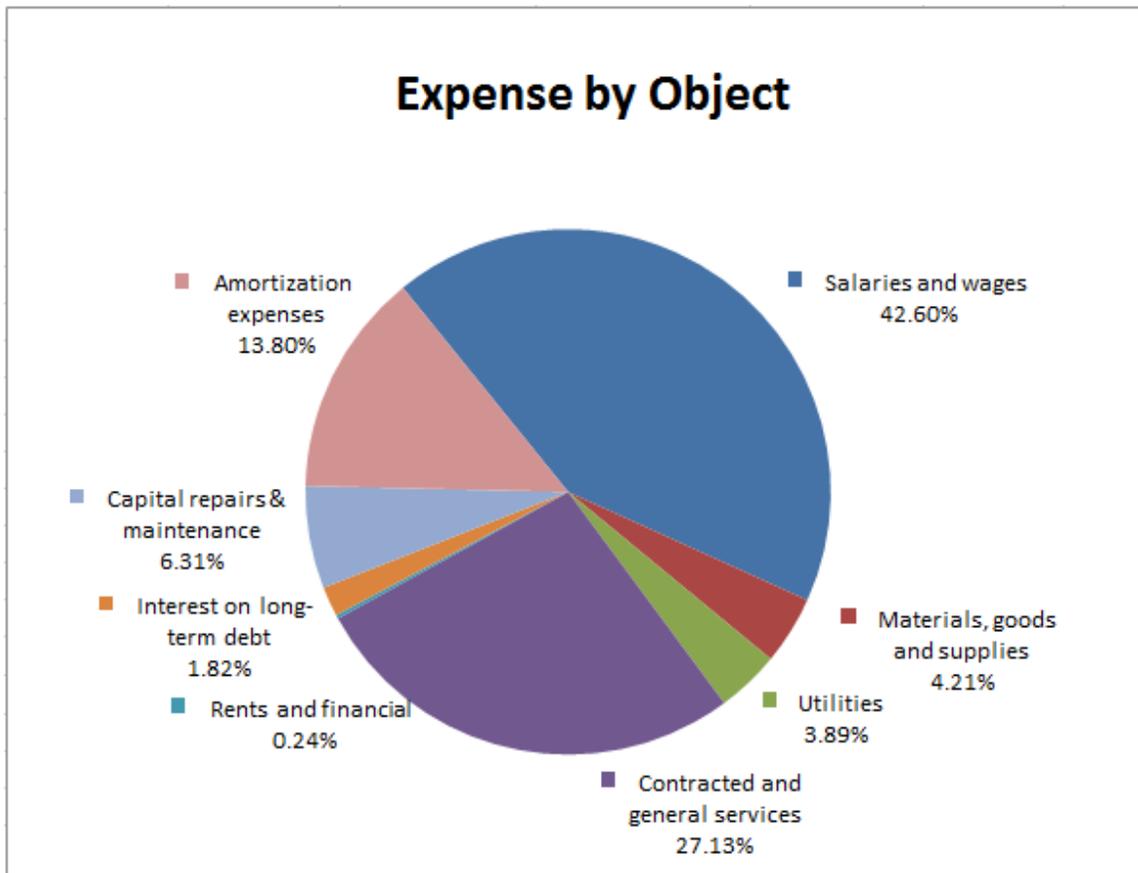
**Recreational and cultural services:**

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.*



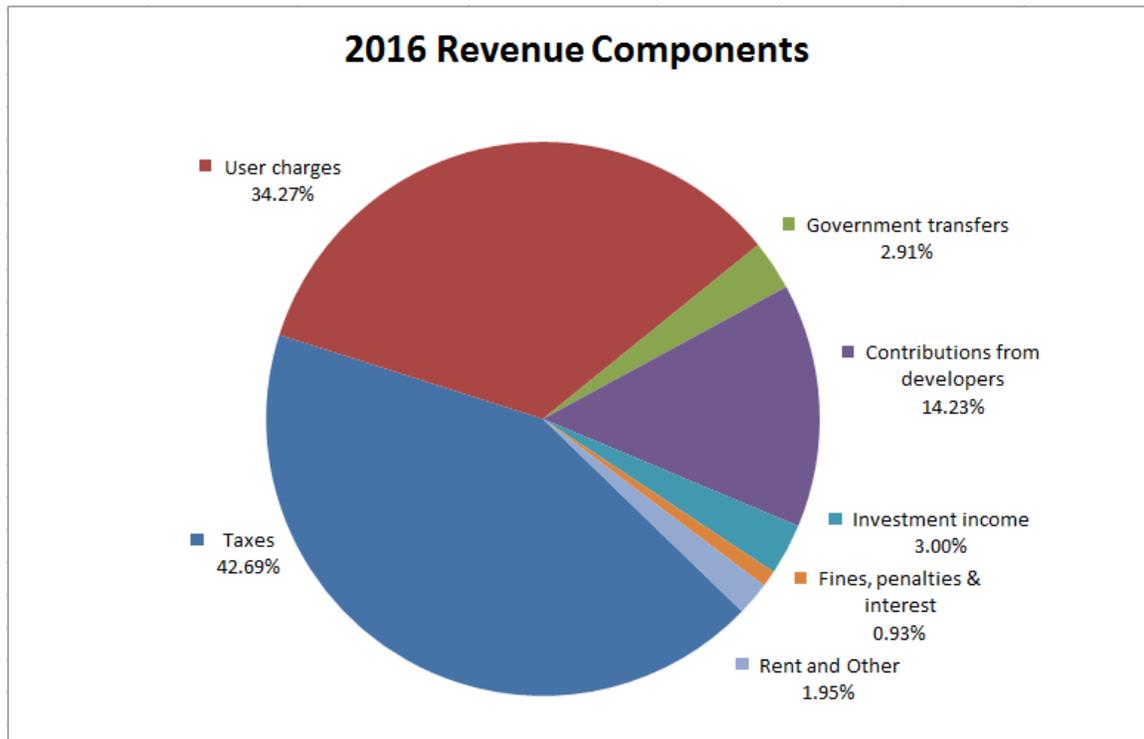
Some highlights of the Town’s 2016 expenses include:

- Salaries, wages and benefits are the most significant component of the Town’s costs and have increased by \$1.68 million over 2015. The economic increase in 2016 was 1.3%.
- Materials, goods and supplies were 9.5% higher than 2015 levels. Minor capital, water meters and materials for main replacement, equipment rental, and repairs and maintenance are included here.

- Contracted and general services have increased by 5.8% from 2015 levels. Charges from the Region for water and wastewater are the biggest component of this expense category where the blended increase was 9%.
- 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 6.6% higher than 2015 levels. Two reasons for the increase are the large purchase of replacement breathing apparatus for Fire, as well as costs for the asset management project.
- Amortization (aka depreciation) has decreased by 8.3% over 2015. As part of the implementation of our asset management plan, we reviewed our estimates for the expected useful life of our assets. In 2016, the sewer and watermain categories were extended from 50 years to 80 years to better reflect their longevity and actual replacement cycle. To coincide with the replacement cycle of the associated underground assets, the road paved surface category was reduced from 25 years to 20 years. The impact of these changes was a decrease of \$1.3 million in amortization expense.

## Revenues

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



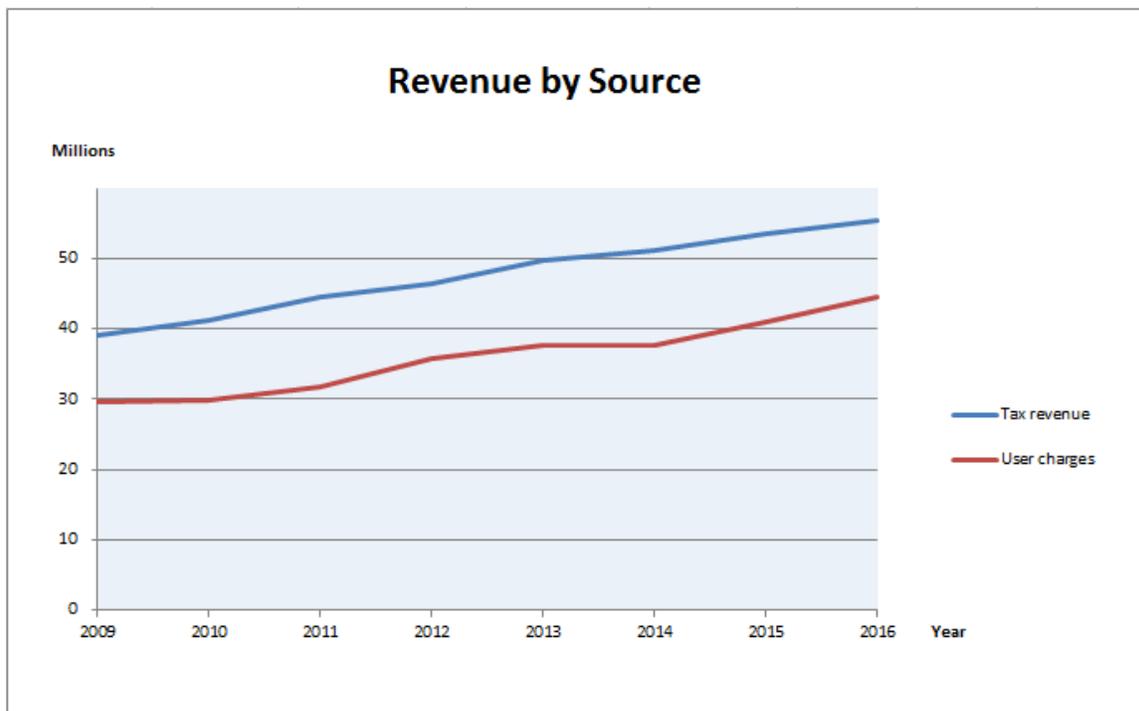
Revenue highlights for 2016 include:

- Property taxes as a percentage of the Town's revenue have decreased by 2.7%. Reducing our dependence on property taxes is one of the Town's strategic goals.

Supplementary taxes are difficult to predict and sustain. Actual collections in 2016 were only \$395,000 compared to a budget of \$826,000. 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. While charity rebates have remained at relatively the same amount over the last 3 years (an average of \$232,000), vacancy rebates increased in 2016. An increased number of applications have been identified, despite a more diligent verification process implemented in 2015. Municipalities are undertaking a review of the whole program. The proactive assessment management plan, started in 2014 continued in 2015 and 2016, with a focus on open appeals. They have been actively investigating property inspections related to appeals

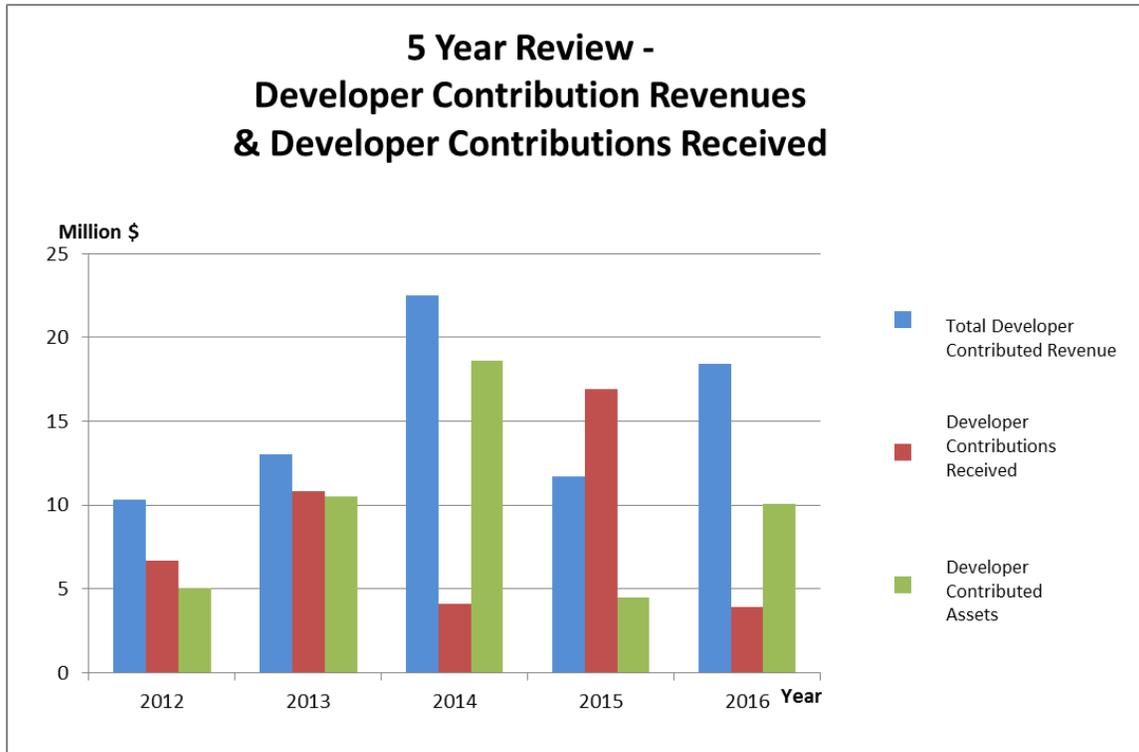
to try to reduce assessment loss. As of the end of the year only 9 appeals were still open from prior years.

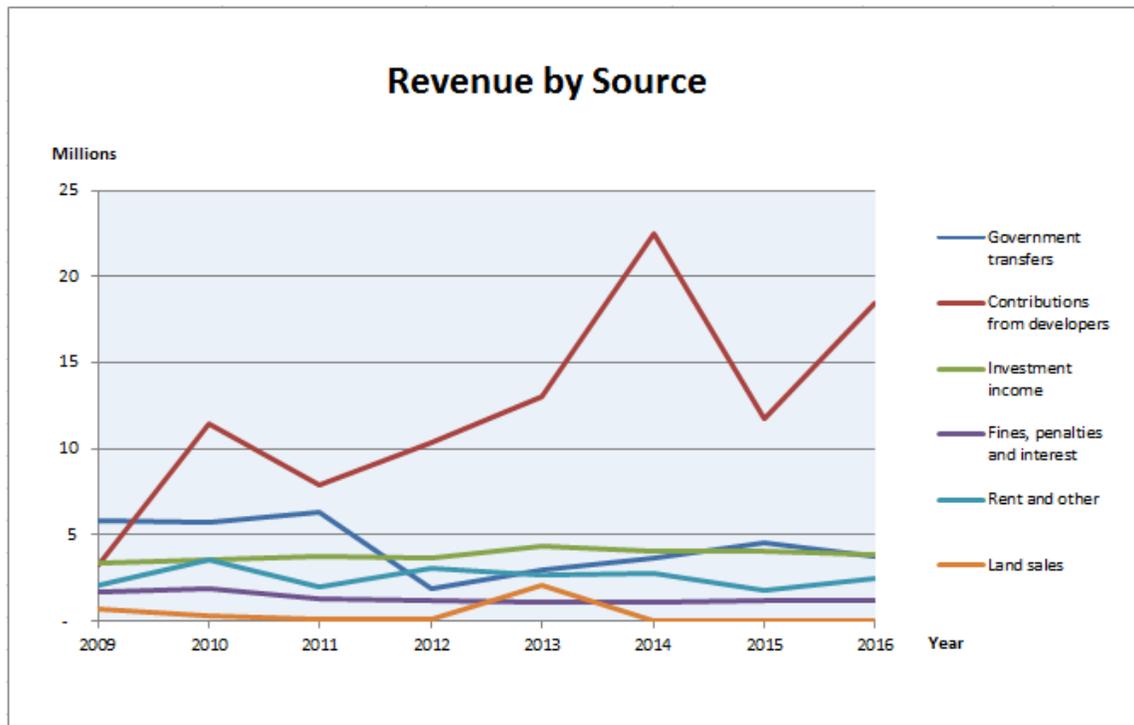
- User charges include water and wastewater revenues, recreation program revenues, license fees, and building permit fees. The majority of user charges are water and wastewater revenues where the average resident's bill increased by 6.5% from 2015, due to a combination of an increase in the volumetric rate of 2.5% for water and 14% for wastewater with no increase to the basic monthly charge. Building permit revenues were 52% higher than in 2015 and 63% 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 which resulted in a modified fee structure in 2016. Fees and charges for recreation and culture programs and services were increased on average by 3.5% over 2015.



- Government transfers were 33% below budget and below 2015 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 \$619,000 in combined grants from 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 some projects were not started in 2016. 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 \$6.7 million higher than in 2015, mostly due to the significant level of contributed assets (\$10.1 million). Tangible capital assets contributed to the Town included many road segments and the associated infrastructure and sidewalks constructed in 2010 and 2011. The assumption of subdivisions is not budgeted for, as the amounts and timing are difficult to predict (see the red line on Revenue by Source chart on the next page). Capital fund developer contributions are mostly development charges (DC's) and are driven by financing requirements for capital projects.





- Interest earned on the Operating Fund came in \$33,000 under budget. Reserve Fund balances were higher than expected due to lower capital spending and earned an additional \$248,000. 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 2017/2018 with an updated budget target methodology.
- Rent and Other came in significantly lower than the budget. The full cost of the land, construction and design of the new fire station was budgeted by Newmarket, with Aurora's portion reflected as other income. However, each municipality paid for their respective share of the land directly. Therefore, there was no contribution from Aurora. The design phase did not start until 2017. This explains the majority (approximately \$3 million) of the variance. 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.
- Land sales reflect the permanent granting of an easement to Enbridge for which the Town received compensation.
- 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.