



Town of Newmarket
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Financial statement discussion and analysis

The Town of Newmarket's consolidated financial statements have been prepared in accordance with reporting standards set by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada. The consolidated financial statements include the financial results of:

- Town of Newmarket;
- 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:

2017 Financial Highlights	2017	2016
Financial position	\$572,492,634	\$545,489,817

Financial position refers to the net position of assets in excess of 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 balance is increasing. Continued focus on increasing assets, while lowering liabilities will keep this indicator on a positive trend.

Capital reserves as a % of accumulated amortization	11.2%	8.8%
Capital reserve contribution/amortization	101.2%	105.6%

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	68.5%
Utility (W/WW) rate supported	244.2%

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

Tax-supported	-9.9%
Utility (W/WW) rate supported	42.3%

Receivables as % of total taxes levied (includes Region and School Board)	2.3%	2.7%	5.0%
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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. Credit Rating agencies consider over 8% a negative factor. In a financial sustainability indicator review of 20 municipalities in the Greater Toronto Area from the 2017 BMA study, the average was 5.0%.

Asset consumption ratio	37.5%	37.0%	40.4%
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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 94 municipalities in the 2017 BMA study, the average was 40.4% which is considered to be moderately new.

Debt service costs as a % of own source revenues	4.4%	4.5%
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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.

Consolidated statement of financial position:

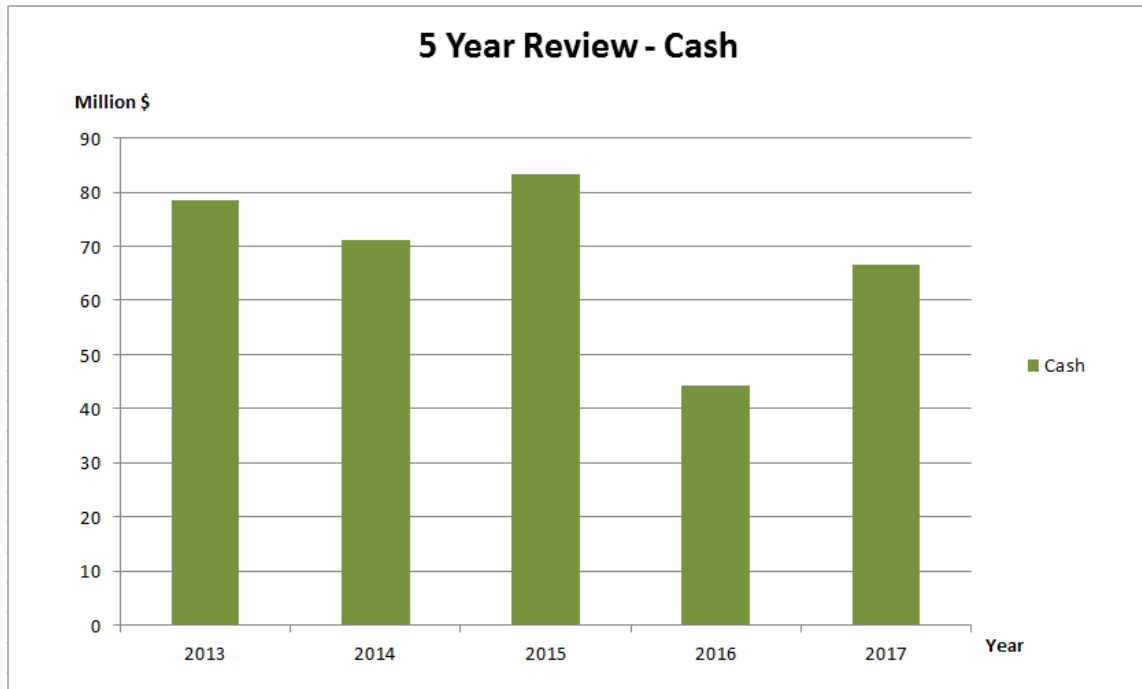
Overview

The Consolidated Statement of Financial Position highlights four key figures that together describe the financial position of a government:

- Cash resources;
- Net financial asset position;
- Non-financial assets, usually held for service provision such as tangible capital assets;
- Accumulated surplus (deficit)

Cash resources

The Town's cash position is closely managed and remains adequate, along with short-term investments, to meet ongoing cash requirements. Management considers all highly liquid investments with maturity of three months or less to be cash equivalents. The year-end cash position has increased to \$66.7 million from \$44.2 million in 2016. For the majority of the year, we were receiving a better interest rate on our bank balance than what we could earn on a short-term investment.



Cash inflows from growth and development increased in 2017, while outflows for capital works decreased from 2016 levels. A large loan receivable from a developer also came due. This resulted in an overall increase of \$22.5 million in cash and cash equivalents.

Net Financial Asset Position

Financial assets include cash and other assets expected to be converted to cash, sold, or consumed within a year. The Town ended the year with net financial assets totaling \$83 million (2016 - \$68 million), an increase of \$15 million. This balance is calculated as total financial assets less liabilities and represents the amount available to finance future operations.

Deferred revenue

Deferred revenues are considered liabilities until the funds are spent or used for their intended purpose. The major deferred revenues include:

- development charges;

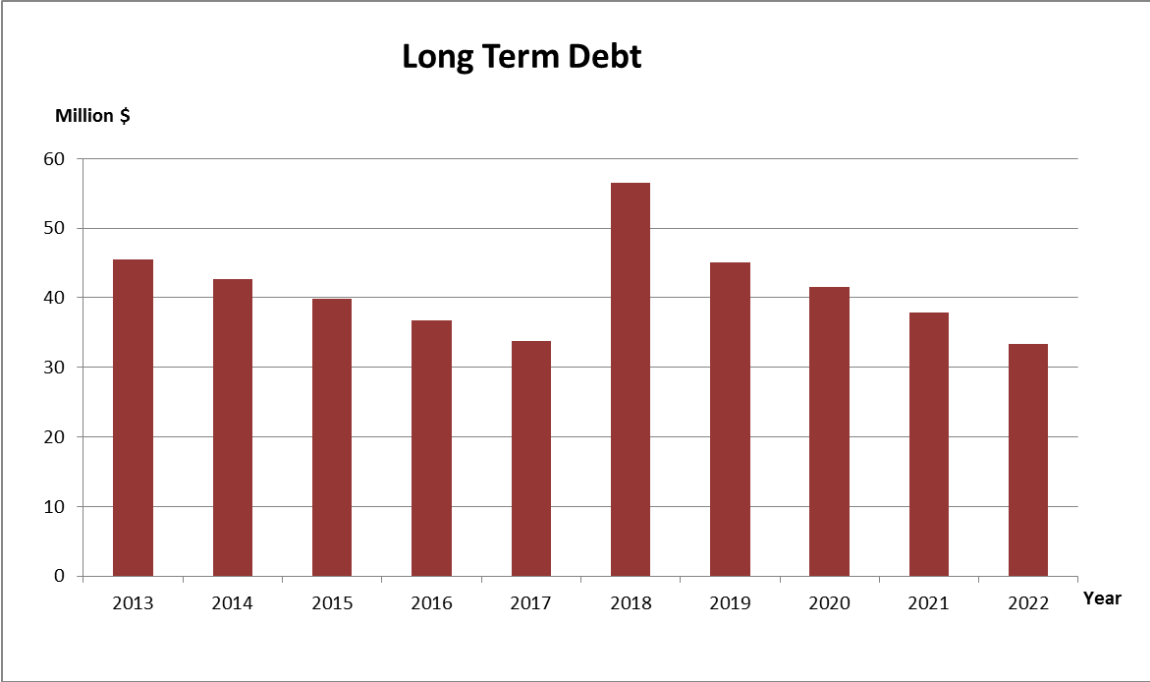
- parkland cash in-lieu;
- engineering administration revenues;
- Federal gas tax grants;
- building permit revenue.

In 2017, the Town collected \$9.7 million in development charges and allocated \$6.3 million to capital projects. In 2017 the Town revised the accounting related to the statutory requirement to record any surplus in Building Services as an obligatory reserve fund.

Long-term debt

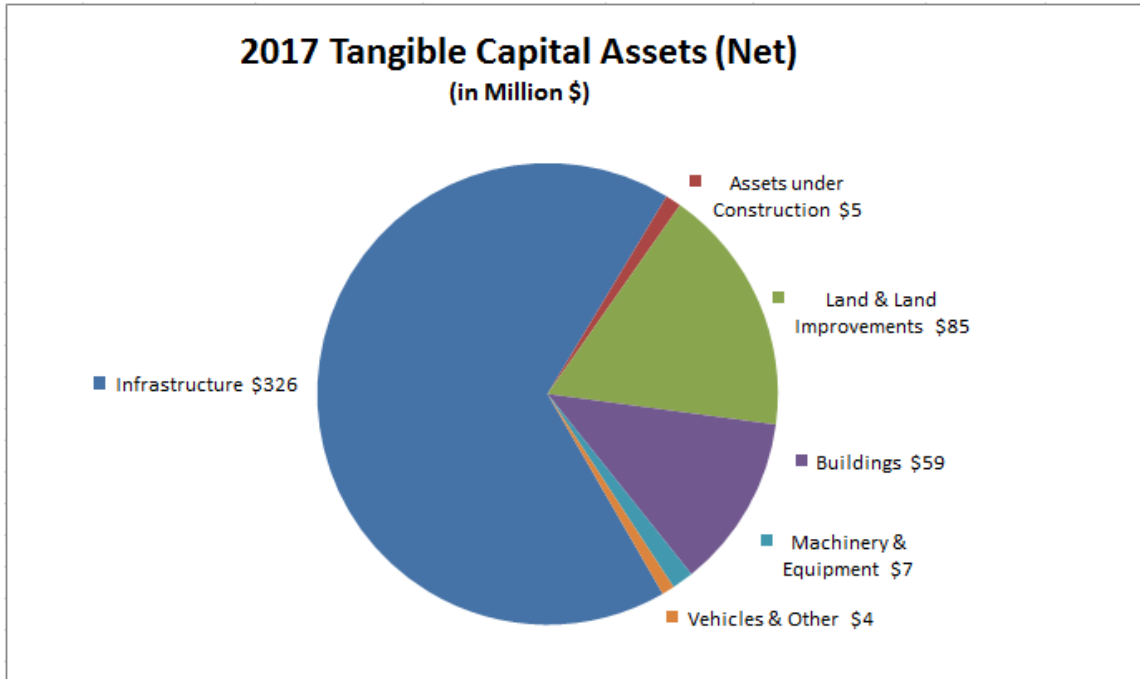
A significant component of the financial liabilities is the Town's long-term debt. A new debt policy was adopted in May 2018 that establishes the criteria for loans. Generally, debt financing is only available for capital expenditures included in the Asset Management Plan when other sources of financing are not available. The revised Policy continues to have a servicing limit (principle and interest) equal to 10% of the Town's own source revenues which is lower than the 25% limit that the province allows municipalities.

In 2017, the Town's actual debt servicing was 4.4% (2016 – 4.5%) - well within policy limits. At an annual interest rate of 5% with a term of 20 years, the Town could borrow another \$105.8 million and still remain within its 10% debt servicing (borrowing) limit. \$3.0 million of principal was repaid in 2017. Debt represents 6.9% of the net book value of Town's tangible capital assets (2016 – 7.7%).



The Town's long-term debt position reflects the pattern of investment in major infrastructure projects. In 2018, a 30 year \$26 million debenture will be issued by Infrastructure Ontario through York Region for the purchase of the Mulock Farm property. 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 2017 capital budget was \$65.8 million, including carry-overs of \$40 million. \$61.3 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 2017. However, only \$11.3 million (18%) of TCA were added in 2017.

One of the Town's goals has been to develop a sustainable capital financing strategy. A review of the Town's asset replacement funds took place 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.

An initial asset management plan was developed in 2014 and a charter for an Asset Management Committee has been created. In 2016 and 2017 the focus was on developing an asset management strategy.

The Town's tangible capital assets (net of amortization expense) increased by \$11.0 million in 2017 compared to an increase of \$10.3 million in 2016.

Accumulated surplus (deficit)

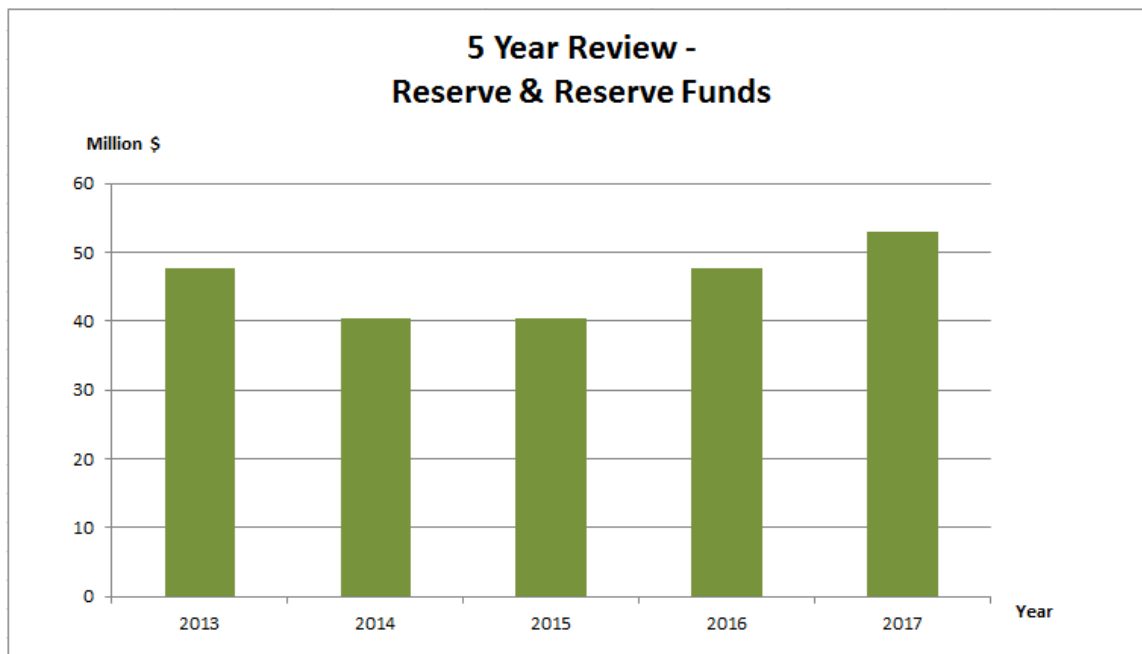
The Town's accumulated surplus for fiscal 2017 is \$572.5 million (2016 - \$545.5 million). The accumulated surplus reflects the resources that have been built up over time at the Town of Newmarket and the balance includes items such as tangible capital assets, equity in Newmarket Hydro Holdings Inc., and various reserves and reserve funds.

ACCUMULATED SURPLUS			
The Accumulated Surplus is comprised of the following:			
		2017	2016
Reserves set aside for specific purposes by Council			
Reserves for operating purposes		\$ 6,087,935	\$ 4,835,657
Reserves for capital purposes		1,142,211	1,098,178
Newmarket Public Library		728,743	582,111
Water & Wastewater Rate Stabilization		4,863,356	4,499,339
Total Reserves		12,822,245	11,015,285
Reserve funds set aside for specific purposes by Council			
Asset replacement funds		27,953,992	22,653,403
Reserve funds for operating purposes		4,155,026	3,581,055
Reserve funds for capital purposes		3,492,415	835,808
Self-insured long-term disability		4,635,192	3,836,012
Total Reserve Funds		40,236,625	30,906,278
Total Reserves and Reserve Funds		53,058,870	41,921,564
Invested in tangible capital assets		486,710,874	475,725,170
Less: amount financed by long-term debt		(33,733,250)	(36,772,663)
Equity in Newmarket Hydro Holdings Inc. (Note 13)		68,949,579	68,130,795
Employee future benefits to be recovered		(3,981,545)	(3,774,473)
Other		1,488,106	259,424
Accumulated Surplus		\$ 572,492,634	\$ 545,489,817

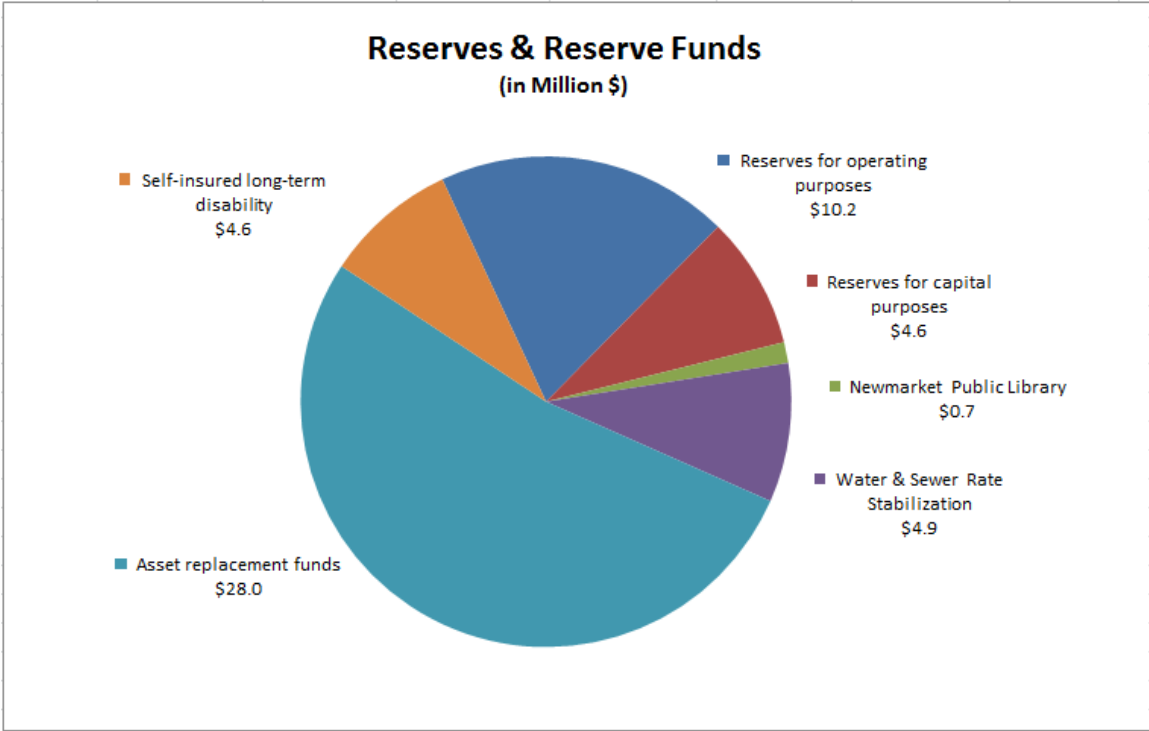
Reserves and reserve funds

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.

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 2017 was \$53.1 million, an increase of \$11.1 million from the beginning of the year. The main factor is an increase of \$5.3 million to the asset replacement reserve funds due to lower spending on capital projects.

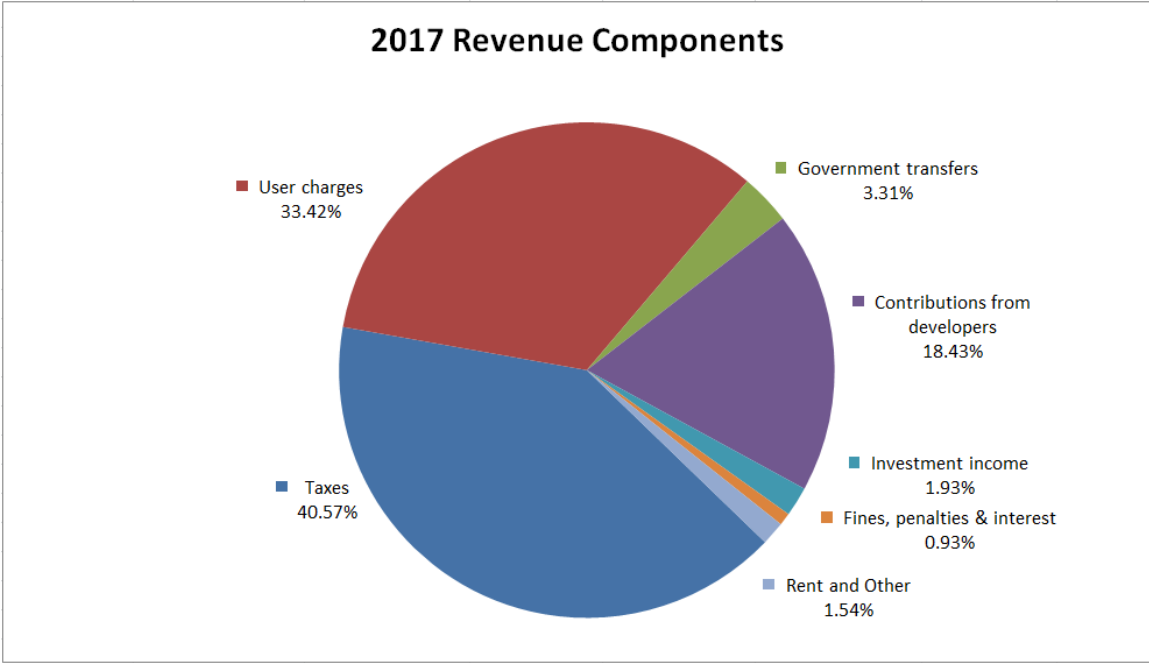


Consolidated statement of operations and surplus

The consolidated statement of operations reports the revenue collected by the Town, the cost of providing municipal services and the resulting annual surplus or deficit.

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 2017 include:

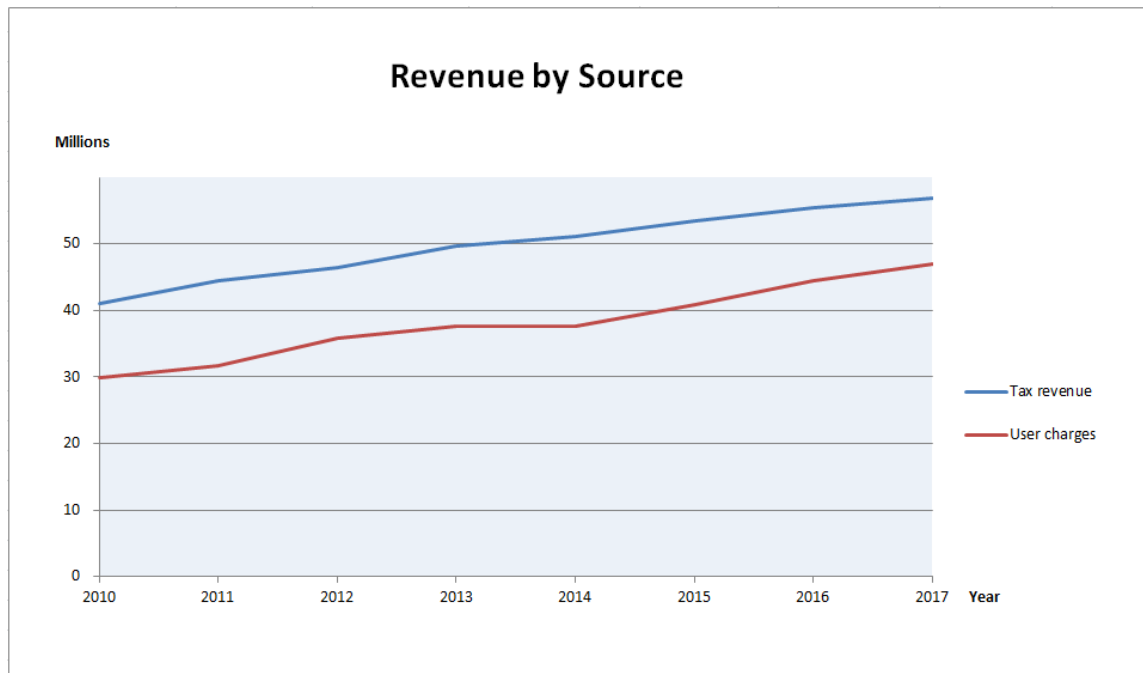
- Property taxes as a percentage of the Town’s revenue have decreased by 2.1%. Reducing our dependence on property taxes is one of the Town’s strategic goals. Supplementary taxes are difficult to predict and sustain. Actual billings in 2017 were \$614,000 which exceeded the budget of \$550,000. This is unusual. Over the previous five 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, were significantly lower than the 2016 level. The Assessment Review Board introduced a totally new process in 2017 which has delayed the start of many appeals. This may similarly affect the write offs processed in 2018.

While charity rebates have remained at relatively the same amount over the last 3 years (an average of \$236,000), vacancy rebates increased again in 2017. Municipalities undertook a review of the program and it has been eliminated for the 2017 tax year. This means 2018 will be the final year to process rebates. The proactive assessment management plan, started in 2014 continues with a shifted focus to undervalued or missing assessment along with open appeals.

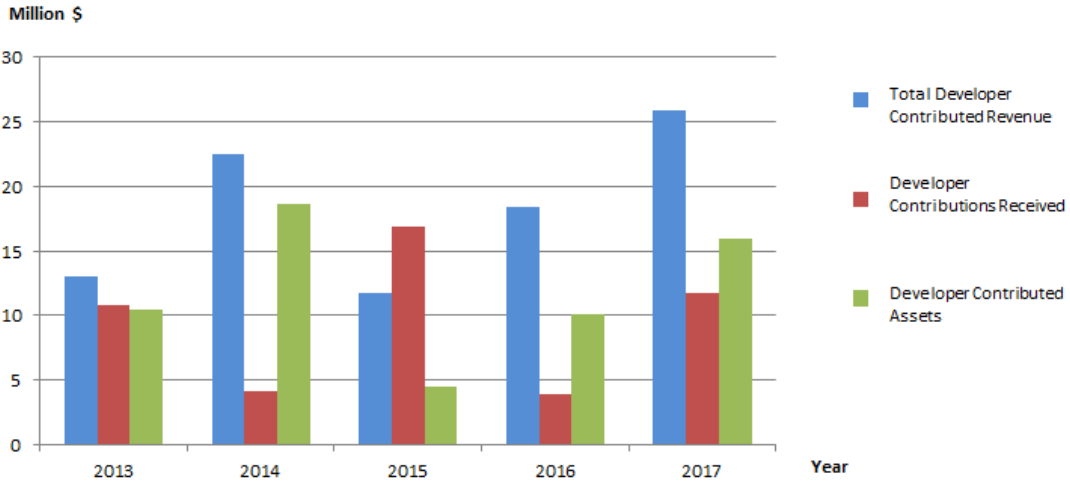
- User charges include water and wastewater revenues, recreation program revenues, license fees, and building permit fees. The majority of user charges are water and wastewater revenues where the average resident’s bill increased by 5.8% from 2016. The average increase for non-residential properties was 9.1%. The increases included an increase in consumption fees of 7.5% for water and 5.0% for wastewater and the basic monthly charge increased by \$1.50 for wastewater.

Building permit revenues were 32% higher than in 2016 and 115% 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 3.0% over 2016.

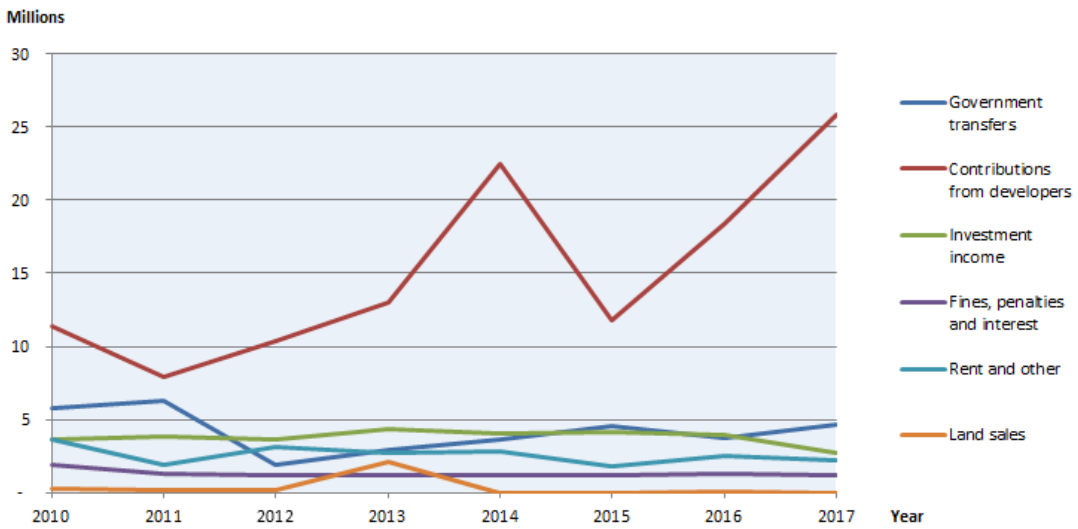


- Government transfers were only 57% of the budgeted level, but 23% above 2016 levels. Most grant funding is only received after costs have been incurred. There is also a lag between the completion of the claims and the receipt of the grant funding. Road projects financed from the Federal Gas Tax were lower than budget by \$2.2 million as some projects were not completed in 2017. 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 \$7.4 million higher than in 2016, mostly due to the significant level of contributed assets (\$16.0 million). Tangible capital assets contributed to the Town included many road segments and the associated infrastructure and sidewalks constructed in 2004, 2005 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.

5 Year Review - Developer Contribution Revenues & Developer Contributions Received



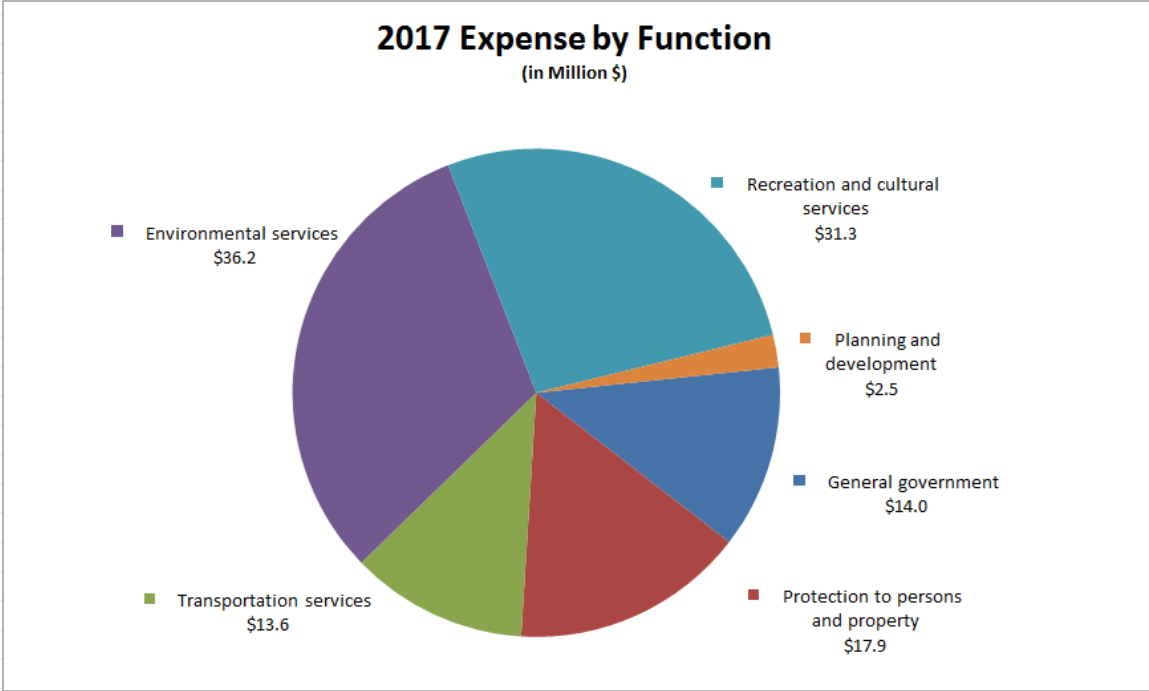
Revenue by Source



- Interest earned on the Operating Fund came in \$209,000 over budget. Short-term rates were close to the interest rate earned on our bank balances throughout the majority of the year which did not incentivize the Town to invest. Reserve Fund balances were higher than expected due to much lower capital spending and earned an additional \$663,000. A non-redeemable GIC in the amount of \$40 million came due in September and another GIC (\$30 million) was not purchased until December when the rates improved. We also started investing in some secondary market GIC's in the latter part of the year. These are GIC's bought back from clients who need to get out of their non-cashable GIC's before maturity and purchased by the Town through our investment broker – Royal Bank of Canada – often with better yields than regular GIC's. Interest on these GIC's is reported based on their effective yield, in accordance with Public Sector Accounting Standards. Our investments also include 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 2018/2019 with an updated budget target methodology.
- Rent and Other continued to come in well below the budget. In 2017 a portion of the construction and design of the new fire station was budgeted by Newmarket, with Aurora's portion reflected as other income. However, the design phase only started in 2017 and is being finalized now. Therefore, there was no contribution from Aurora. This accounts for the majority (approximately \$1 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.
- There were no land sales in 2017.
- 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.

Expenses

The Town provides a wide variety of municipal services to its residents. The chart below provides an overview of these services by functional activities, consistent with provincially-legislated requirements.



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

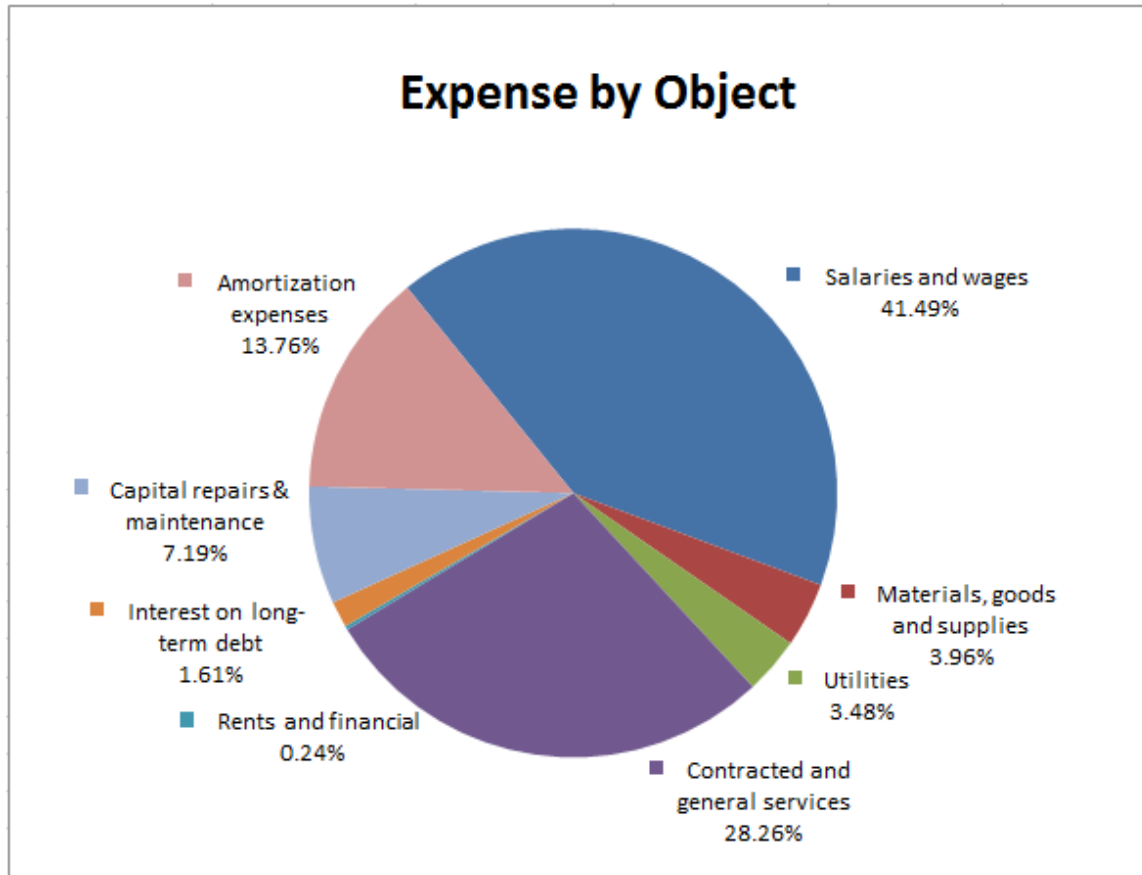
Recreational and cultural services:

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.



Total expenses in 2017 were \$115.5 million, an increase of \$6.0 million over 2016.

- Salaries, wages and benefits are the most significant component of the Town's costs and have increased by \$1.8 million over 2016. The economic increase in 2017 was 1.5%.
- *Materials, goods and supplies remained at 2016 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 10.4% from 2016 levels. Charges from the Region for water and wastewater are the biggest component of this expense category where the increase was 9% for both the treatment and distribution of water and the collection and treatment of wastewater
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- 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 15.4% higher than 2016 levels. The majority of the increase is due to several maintenance programs for drainage improvements.
- Amortization (aka depreciation) has increased by 5.5% over 2016.

Annual (current year) surplus

The annual (current year) surplus for the year was \$27 million.

ANNUAL SURPLUS RECONCILIATION	
Surplus based on operating fund	\$ 2,937
Add: Principal payment on long-term debt	3,039,413
Contributed tangible capital assets	16,026,283
Acquisition of tangible capital assets	11,328,839
Income from Newmarket Hydro Holdings Inc.	818,784
Capital Fund revenues	1,061,892
Reserves and reserve funds revenues	11,137,306
Less: Financing from future revenue	(207,072)
Amortization expenses	(15,939,545)
Loss on disposal of tangible capital assets	(266,020)
Prior period adjustment made in current year	-
Surplus Per Consolidated Statement of Operations	\$ 27,002,817