Financial statement discussion and analysis

The consolidated financial statements provide a picture of the Town's financial position as at December 31, 2014 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.

Themes reflected in the consolidated statements include:

- Town cost drivers and unforeseen expenses
- Investment strategy
- Sustainable financial strategy

2014 Financial Indicators	2014	2013
Financial Position	$520,701,790	$499,830,879
Receivables as % of total taxes levied	3.36%	3.98%
Asset consumption ratio	35.46%	35.16%
Capital reserves as a % of accumulated amortization	6.32%	6.12%
Capital reserve contribution/amortization	87.94%	86.41%
Debt service costs as a % of own source revenues	5.31%	5.19%

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 23 municipalities in the Greater Toronto Area from the 2014 BMA study, the average was 6.4%.

Asset consumption ratio:
The asset consumption ratio expresses the accumulated amortization of depreciable assets as a percentage of the total reported value of depreciable assets. This ratio highlights the aged condition of the Town's physical assets and potential asset replacement needs. Out of 95 municipalities in the 2014 BMA study, the average was 37.6%.

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 in 2014 was as follows:

Tax-supported	85.1%
Utility supported	94.1%

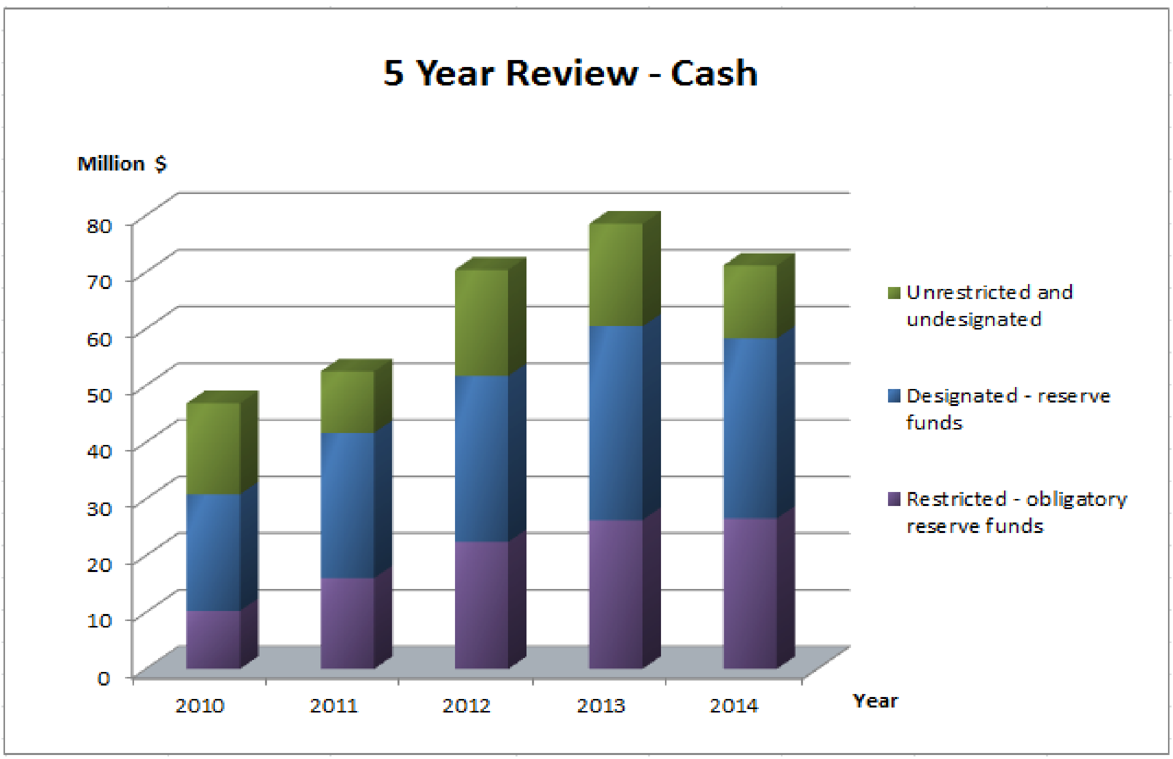
Debt service costs as % of own source revenues:
This ratio indicates the extent to which the Town's own source revenues are committed to debt charges. The Ministry of Municipal Affairs and Housing considers a ratio between 5% and 10% to be a moderate risk. This is the same calculation as used for the 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 $7.3 million lower than that of 2013 but $6.5 million higher than the year-end position budgeted. Cash includes our $20 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. Contributions from developers, at $4.2 million, were below the budget of $5.6 million and $6.6 million less than 2013's level of $10.8 million. Investment income was $4.1 million compared to $1.6 million in 2013. $26.9 million was spent on contracted and general services compared to last year's level of $23.7million. $7.0 million was spent on capital repairs and maintenance compared to a budget of $5.0 million and 2013's level of $4.9 million. $18.1 million was spent on capital projects compared to a budget of $15.8 million; $12.1 million was spent in 2013.

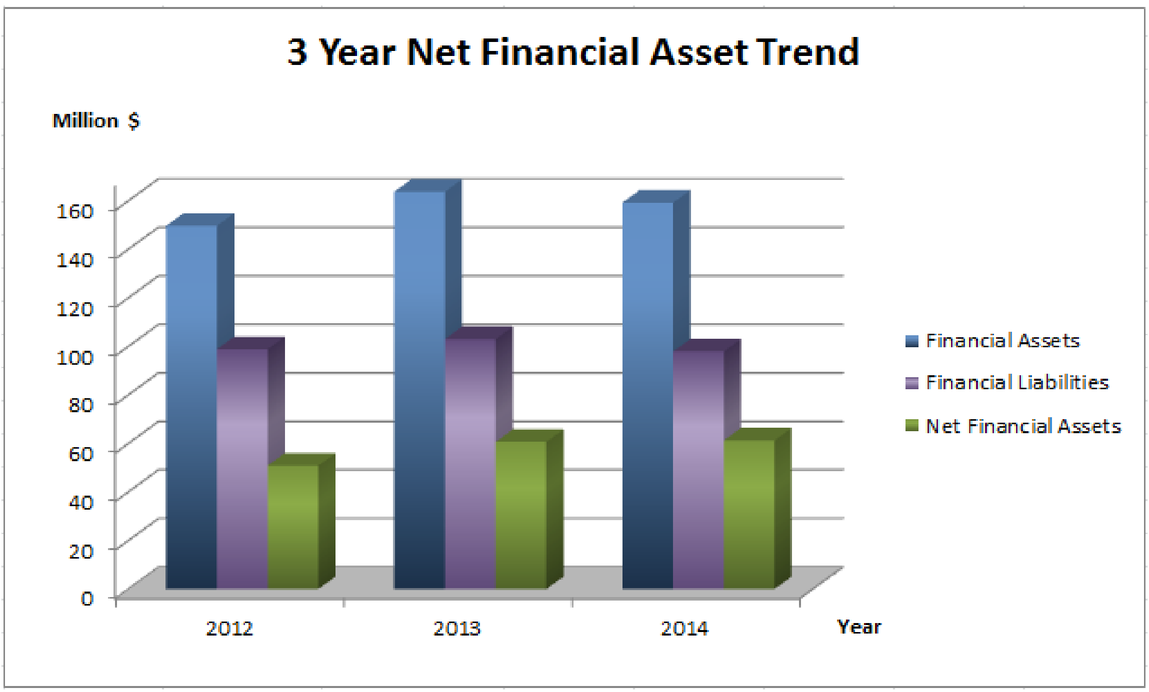


Net Financial Assets

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.

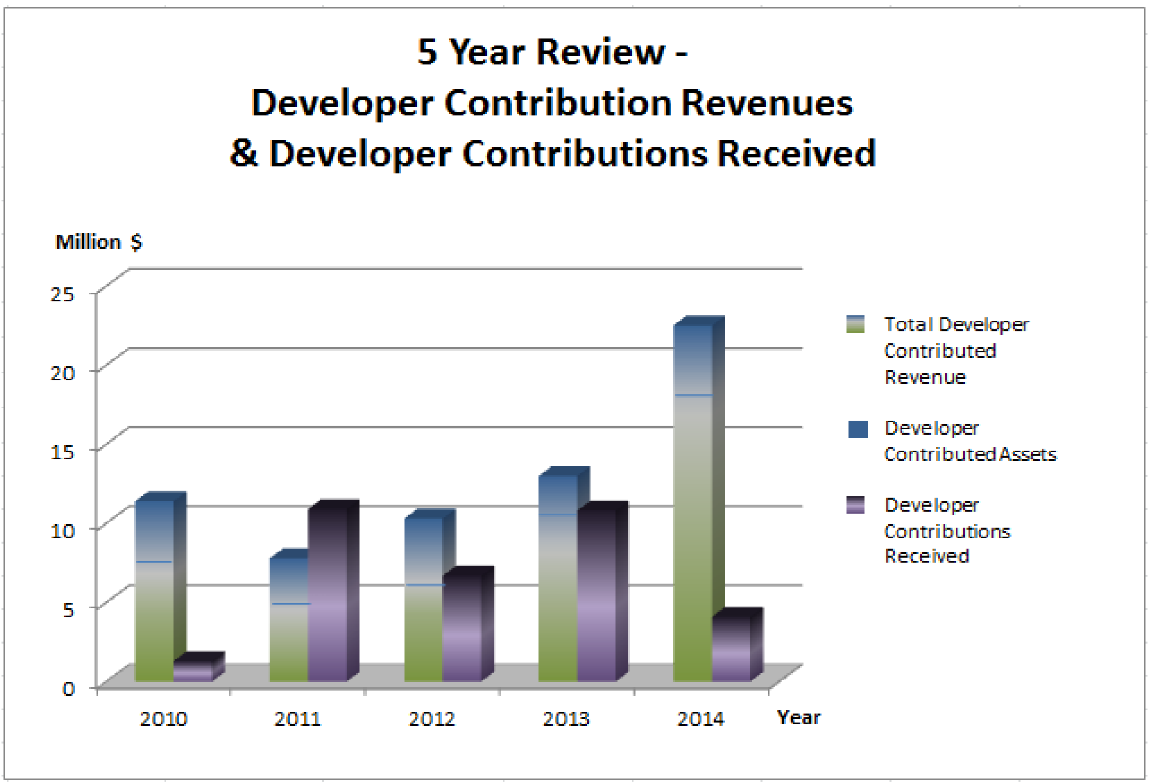
The Town's net financial assets were only $625,000 higher than last year's level. Development charges collected from developers were $3.9 million lower than last year, and $4 million below budget. Funding of $1.9 million (budget $2.9 million) was applied to the associated capital projects and $18.1 million in tangible capital assets were acquired.

We deferred $118,000 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 $669,000 were recognized in 2014.



Deferred revenue

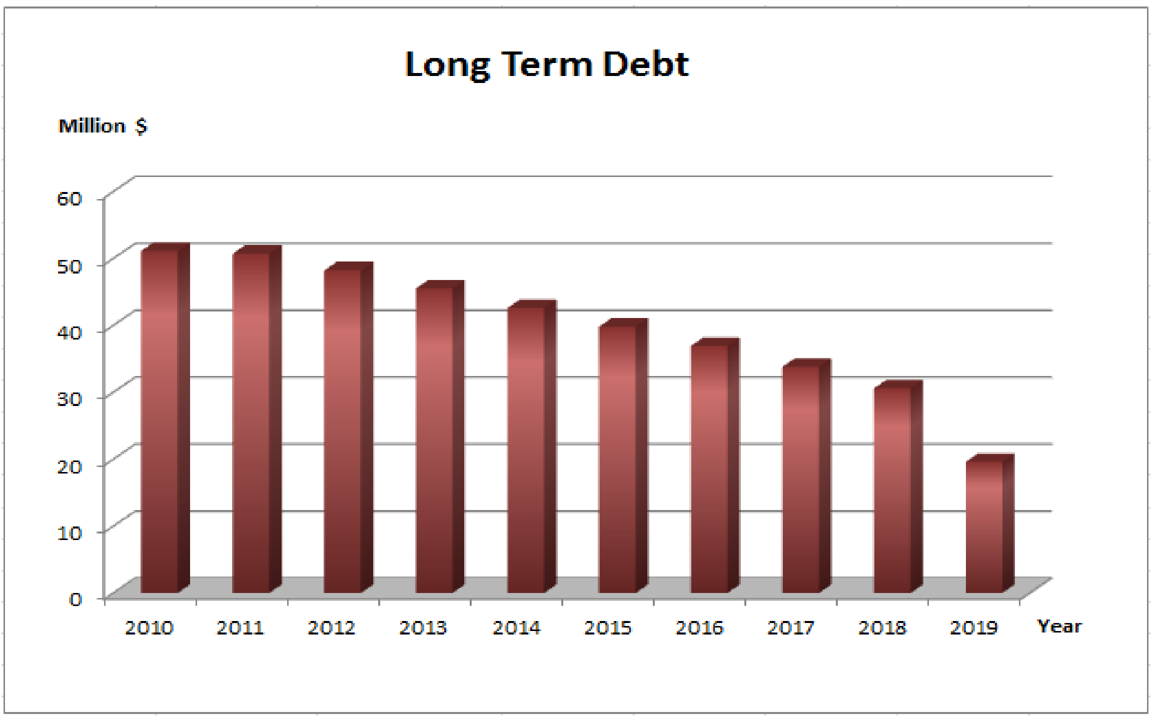
Deferred revenue represents unexpended development charge and engineering administration revenues, unspent restricted grants from the Federal and Provincial governments, and prepaid building permit revenue. In 2014, the Town collected $4.1 million in cash contributions from developers and $18.6 million in capital contributions were transferred to the Town. Of this total, $22.5 million was recognized as revenue. These contributed assets are not budgeted for. In 2013 $10.8 million was collected from developers, $13.0 million was recognized as revenue, $10.5 million of which was tangible capital assets assumed by the Town.



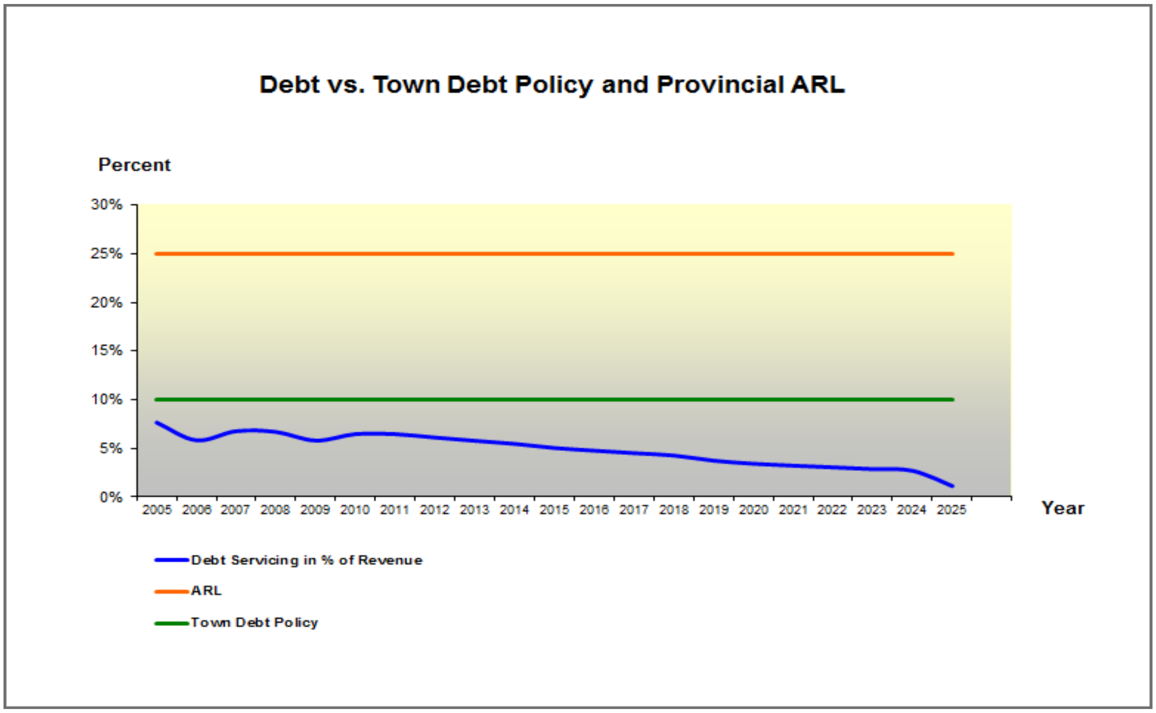
Prior to 2011 the gas tax and engineering administration reserves were not recognized as deferred revenue and were included in accumulated surplus.

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 2015. In 2014, the Town's actual debt servicing was 5.3% (2013 – 5.2%) - well within policy limits. At an annual interest rate of 5% with a term of 20 years, the Town could borrow another $79.6 million and still remain within its 10% debt servicing (borrowing) limit. $2.7 million of principal was repaid in 2014.

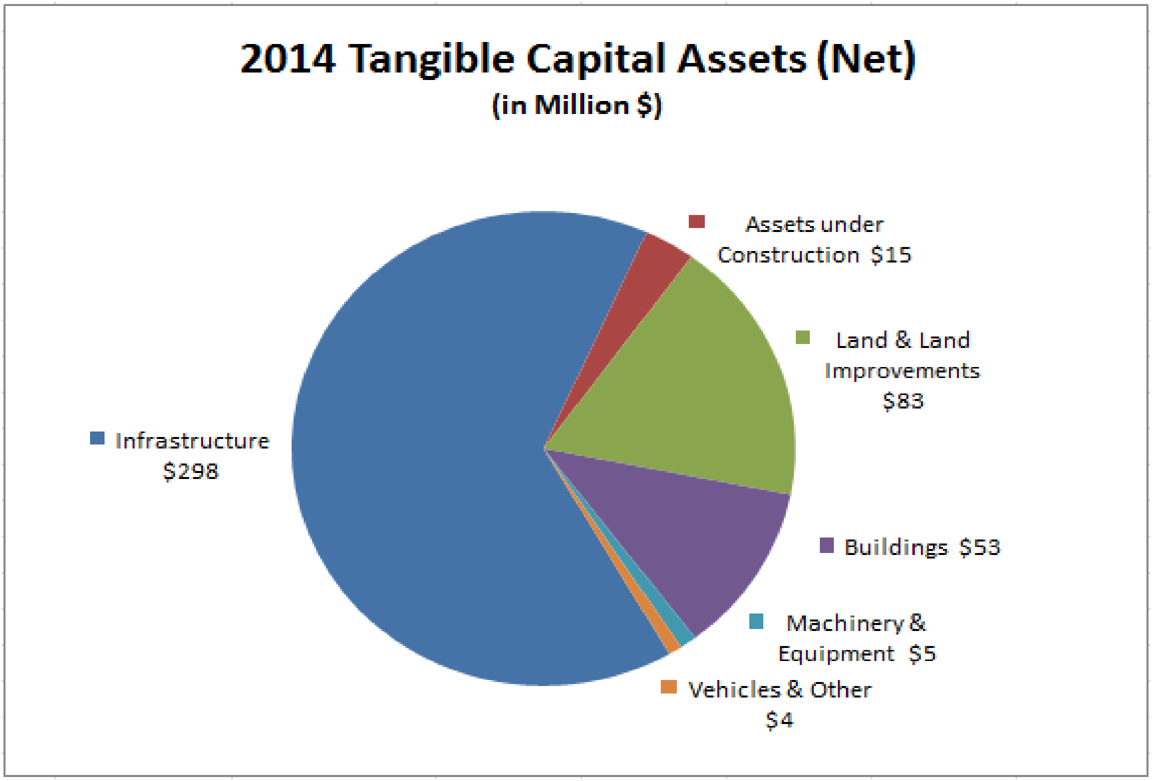


The Town's long-term debt position reflects the pattern of investment in major infrastructure projects. In 2015, $2.8 million of debt retirement is expected. Debt represents 9.3% of the net book value of Town's tangible capital assets (2013 – 10.4%).



Debt vs. Town Debt Policy and Provincial ARL
Percent
30%
25%
20%
15%
10%
5%
0%
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
2024
2025
Year
Debt Servicing in % of Revenue
ARL
Town Debt Policy

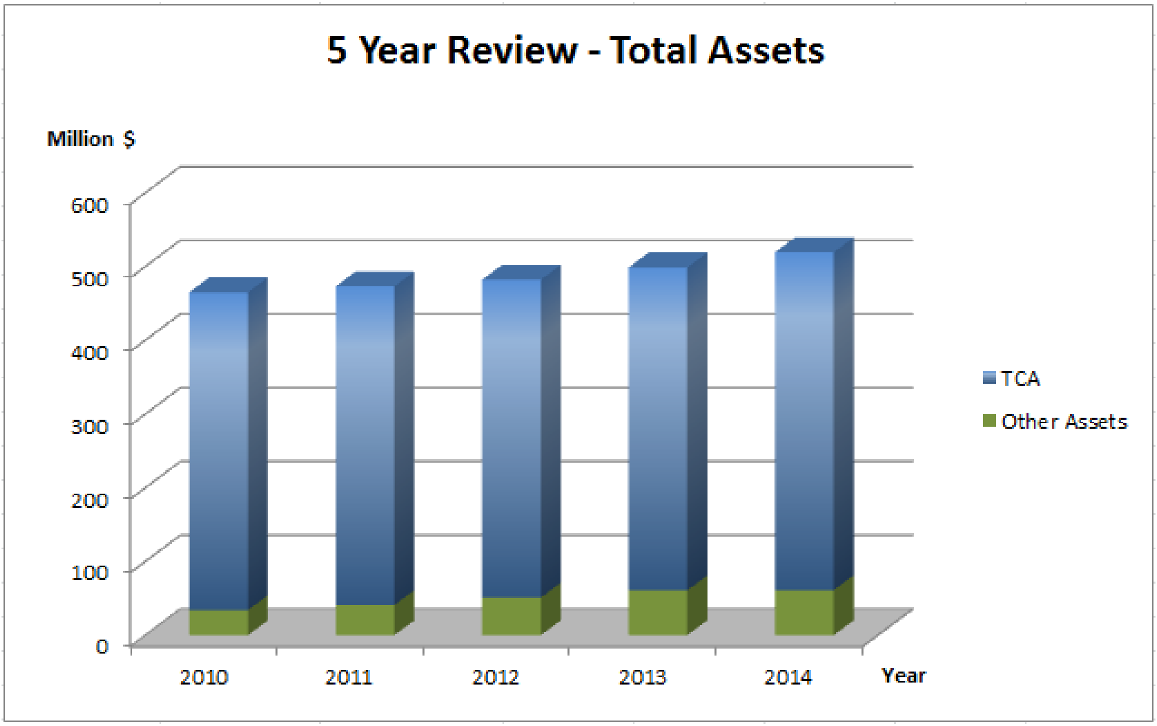
Non-financial assets



The 2014 capital budget was $51.4 million, including carry-overs of $27.7 million. $47.8 million of the $51.4 million were expenditures 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 $15.8 million was projected to be completed in 2014. However, $18.1 million (35%) of TCA were added in 2014.

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) and 1% (2015) 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 $18.1 million in 2014 compared to $12.1 million in 2013. In 2014, many road rehabilitation projects were completed, a replacement Pumper for CYFS was acquired, $2.5 million was spent on the Old Town Hall Restoration, and $4.3 million was spent on the Honeywell Streetlight Retrofit.

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, 2014

The Accumulated Surplus is comprised of the following:

	2014	2013
Reserves set aside for specific purposes by Council		
Cash flow reserves	$ -	$ 1,101,458
Reserves for operating purposes	4,719,091	5,819,864
Reserves for capital purposes	1,173,308	505,567
Newmarket Public Library	543,697	590,995
Building Code Act Fees	5,316,860	5,488,245
Water & Sewer Rate Stabilization	1,089,450	-
Total Reserves	12,842,406	13,506,129
Reserve funds set aside for specific purposes by Council		
Asset replacement funds	15,905,427	14,539,143
Reserve funds for operating purposes	3,941,608	4,465,363
Reserve funds for capital purposes	4,787,710	8,827,635
Self-insured long-term disability	7,129,874	6,312,270
Total Reserve Funds	31,764,619	34,144,411
Total Reserves and Reserve Funds	44,607,025	47,650,540
Invested in tangible capital assets	458,240,103	438,113,140
Less: amount financed by long-term debt	(42,618,901)	(45,537,657)
Surplus land	155,285	33,598
Operating surplus	-	61,696
Funds available for future capital expenses	156,878	900,457
Funds to be provided from future revenues	(1,085,870)	(1,245,825)
Equity in Newmarket Hydro Holdings Inc.	64,513,188	62,967,404
Employee future benefits to be recovered	(3,265,738)	(3,112,474)
Accumulated Surplus	$520,701,970	$ 499,830,879

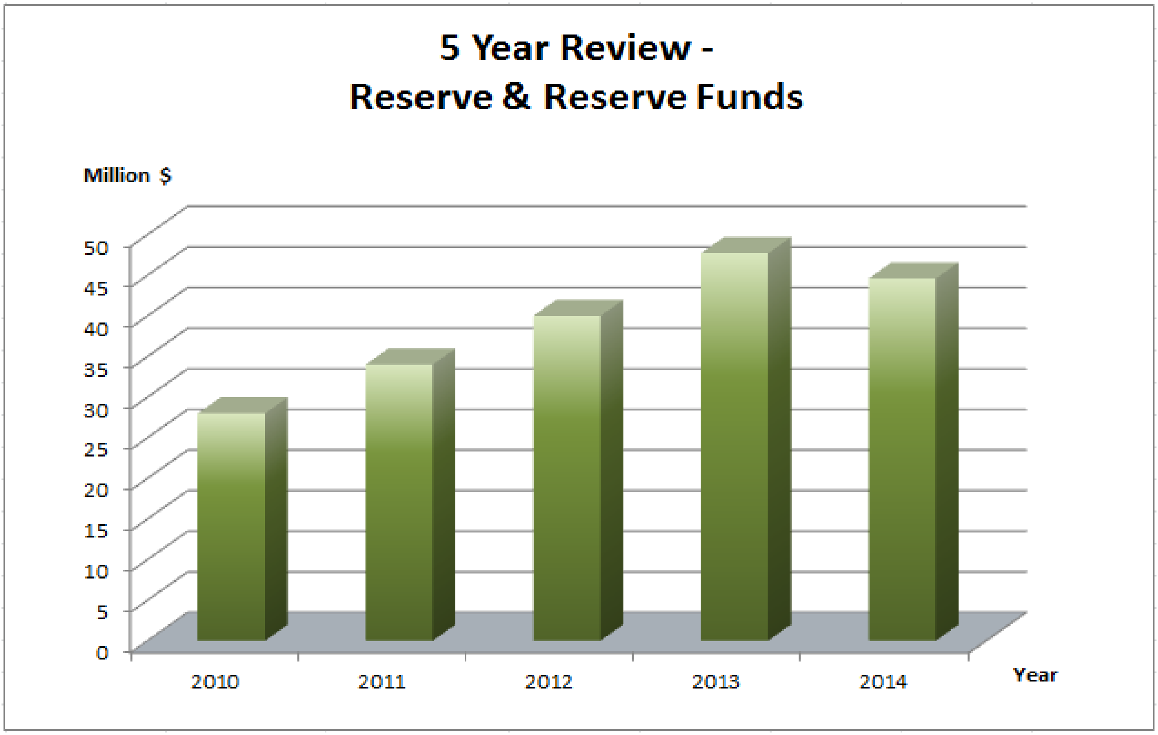
Reserve and reserve funds

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.

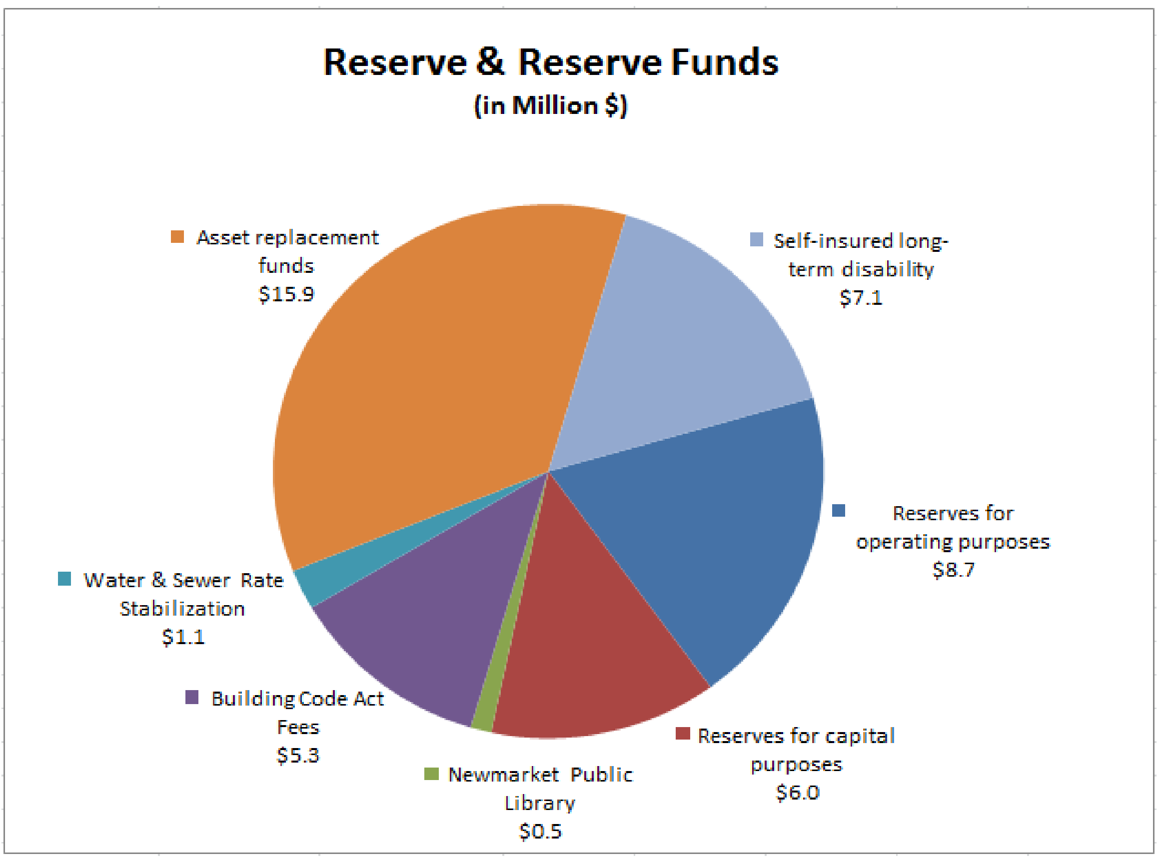
The five year picture shows that beginning in 2011, a significant increase in the reserves and reserve funds were achieved. In 2011, the increase is comprised of $2 million in debt financing received from FCM, $770,000 from the Park Shop sale and $2 million in allocated, but unspent, ARF contributions. 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. Operational contingency reserves decreased by $1.3 million, due to draws for insurance (higher premiums and an unforeseen OMEX supplementary assessment for prior years), legal (OMB related costs associated with the Glenway property), and winter control. General capital reserves decreased by $3.8 million to finance the Honeywell streetlighting retrofit project. Discretionary operating reserves were used to cover portions of the OMEX supplementary assessment and the NEER summary, as well as higher tax adjustments and write offs. The transfer of the $1.1 million working fund reserve balance mitigated these decreases.

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.



The total of the Town's reserves and reserve funds at the end of 2014 was $44.6 million, a decrease of $3 million from the beginning of the year.



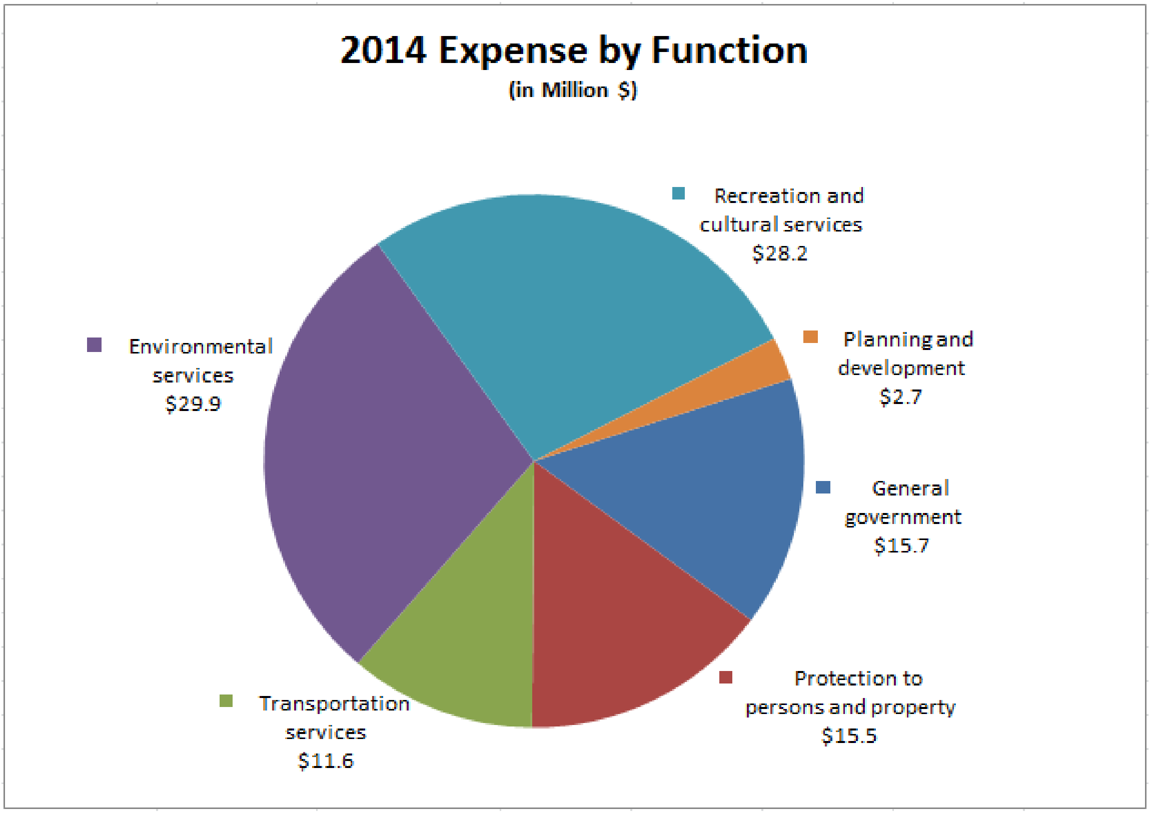
Consolidated statement of operations and surplus: Highlights

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			
Surplus based on operating fund		**$**	**(61,696)**
Add:	Principal payment on long-term debt		**2,918,756**
	Contributed tangible capital assets		**18,599,230**
	Acquisition of tangible capital assets		**18,128,932**
	Net equity in earnings of Newmarket Hydro Holdings Inc.		**1,545,784**
	Capital Fund revenues		**(609,894)**
	Reserves and reserve funds revenues		**(3,043,515)**
Less:	**Financing from future revenue**		**(153,264)**
	Amortization expenses		**(15,890,594)**
	Loss on disposal of tangible capital assets		**(562,647)**
Surplus Per Consolidated Statement of Operations		**$**	**20,871,092**

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

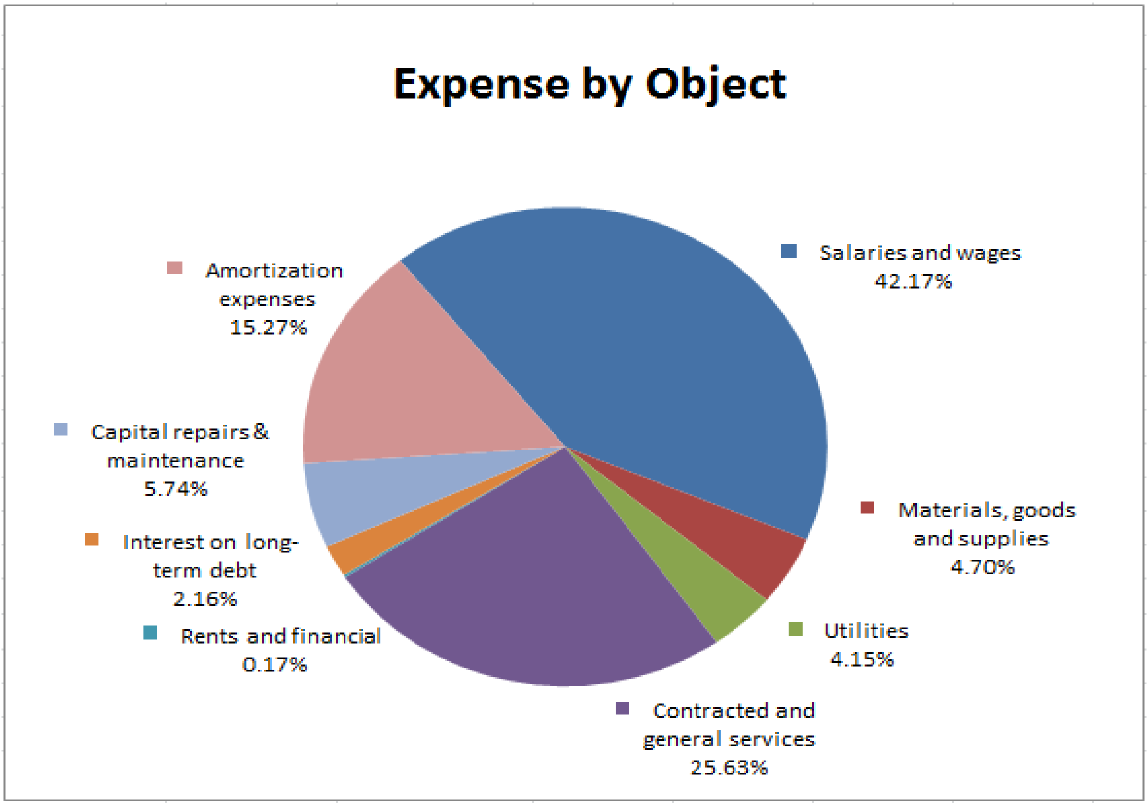
Transportation services:
Roads and Road Maintenance, Snowplowing, Operations and Capital Projects Engineering

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 27-29) shows a breakdown of these costs by service bundle.



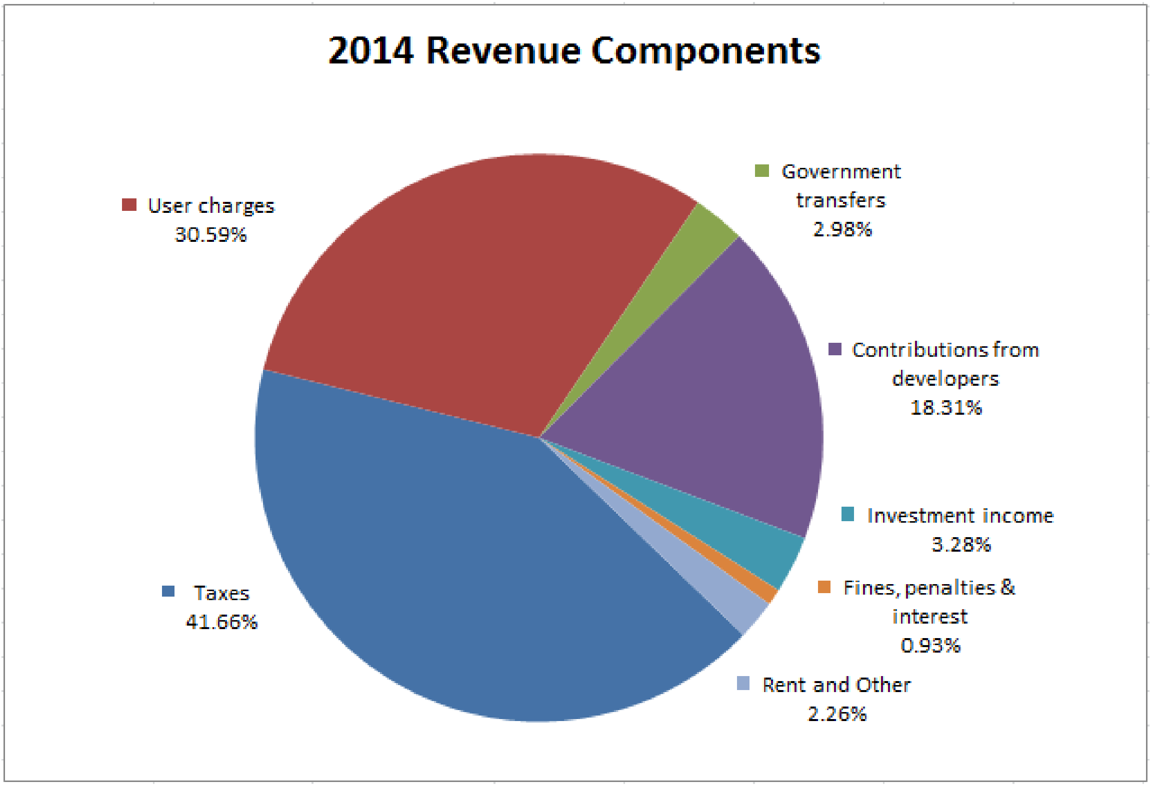
Some highlights of the Town's 2014 expenses include:

- Salaries, wages and benefits are the most significant component of the Town's costs and have increased by $2.96 million over 2013. The economic increase in 2014 was 2.0% and the rate for OMERS remained unchanged from 2013's level. The increase to salaries and benefits for Central York Fire Services was 2.35% in 2014 and all payouts for prior years were previously accrued. The Workplace Safety and Insurance Board (WSIB) have an experience rating program that surcharges employers that perform worse than other participants in the rate group. An unanticipated NEER summary for 2014 in the amount of $598,000 was received and accrued to WSIB expense.

- Materials, goods and supplies were 10.3% higher than 2013 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 10.4% from 2013 levels. Both cost and volume increases were factors. Charges from the Region for water and wastewater are the biggest component of this expense category. Rate increases of 10% were partially offset by a 0.99% decrease in consumption volumes. The Town adopted its first 6 year water and wastewater financial plan in 2012. Higher insurance premiums, as well as an $877,000 supplementary insurance assessment from OMEX for prior years (2002 to 2012) were also included here. $437,000 in costs for the Ontario Municipal Board (OMB) hearing associated with the Glenway development were incurred, but $540,000 was transferred to reserves in 2013 to offset the anticipated costs.
- Rents and financial expenses were 29% lower due mainly to the absence of the Tannery lease in 2014 which we had for the first part of 2013.
- 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 $475,000 or 7.2% lower than 2013 levels.
- Amortization (aka depreciation) has increased by 1.4% over 2013 due to additions of new tangible capital assets. As part of the implementation of our asset management plan, we will be reviewing our estimates for the expected useful life of our assets. It may be that for some asset classes we are amortizing them quicker than we normally replace them, therefore, some changes may be required to bring the two closer together.

Revenues

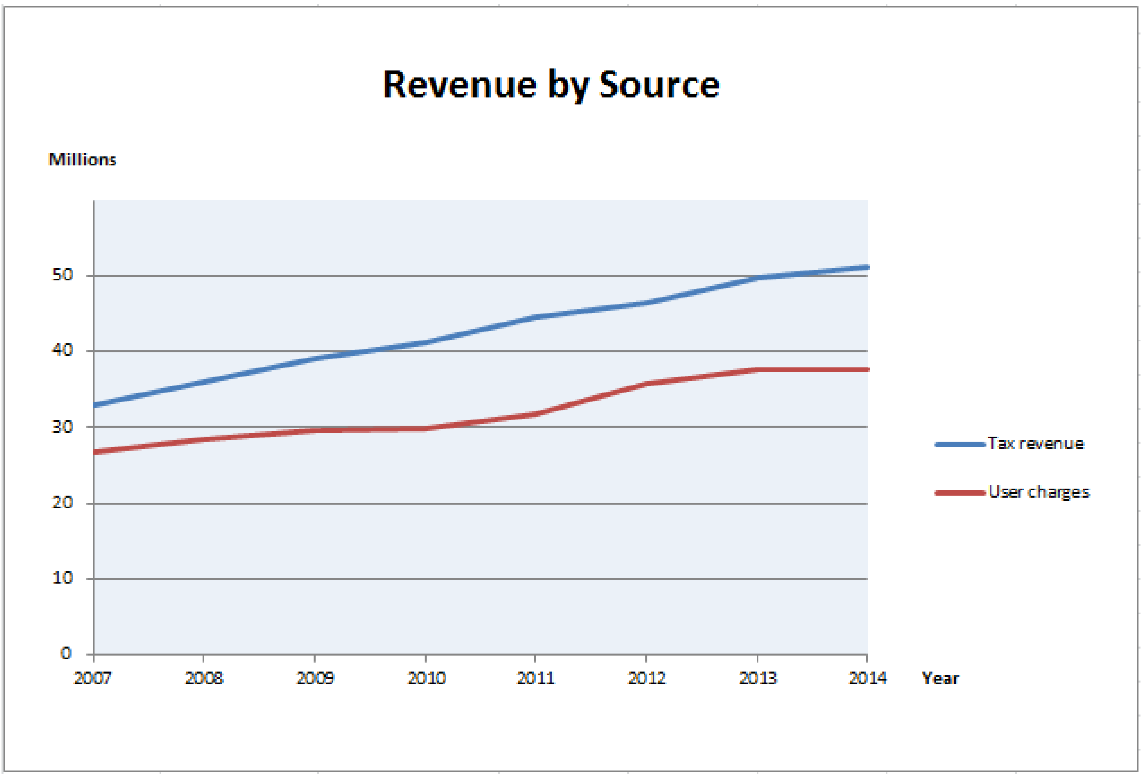
The Town pays for the services it delivers through a variety of revenue streams including property taxes, user charges, government transfers, contributions from developers, investment income; fines, penalties and interest; rent, land sales, and the sale of goods.



Revenue highlights for 2014 include:

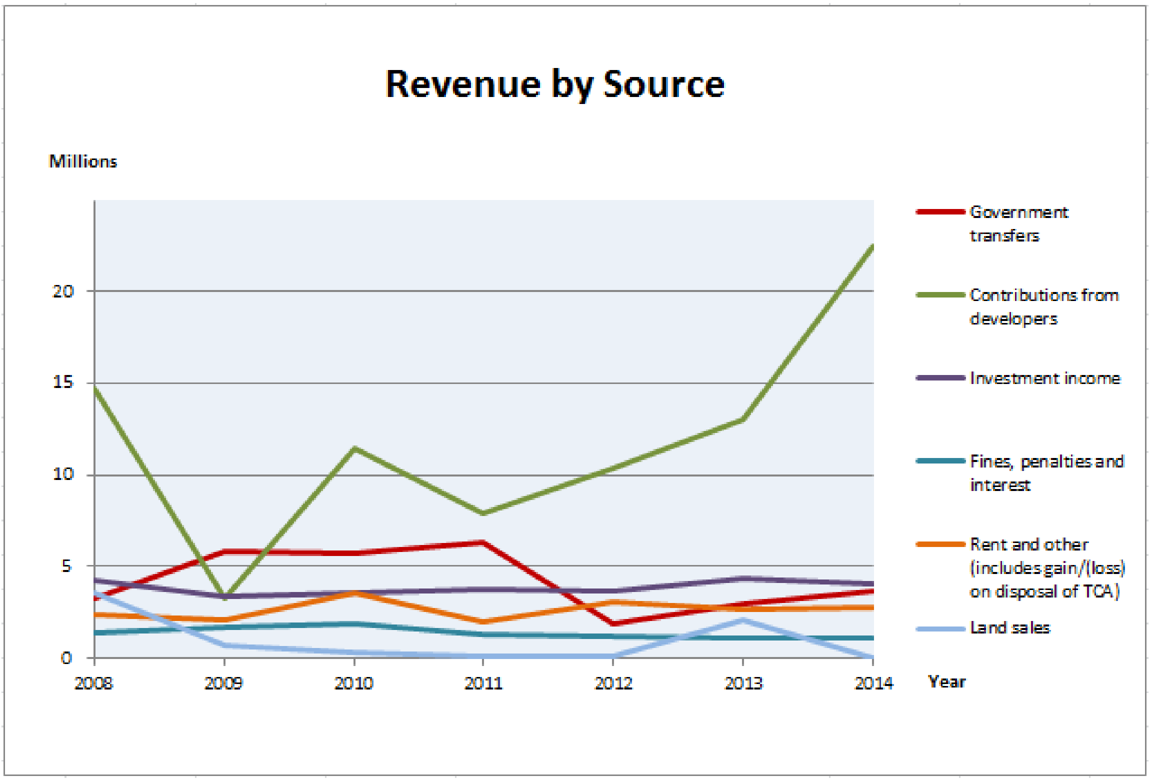
- Property taxes as a percentage of the Town's revenue have decreased by 2.1% due to abnormally high tax write-offs. Because supplementary taxes are difficult to predict and sustain, a conservative amount of $391,000 was budgeted in 2014. Actual collections in 2014 were $752,000 and over the previous four years have ranged from a high of $1.2 million in 2013 to a low of $402,000 in 2012. Write offs, which reduce tax revenues, were significantly higher than budget and the prior year and this trend is expected to continue in 2015. Of significance was one Assessment Review Board (ARB) appeal that was settled for the last 6 years (2009 to 2014) and resulted in approximately $4 million of assessment lost each year. Charity rebates were at the same level as 2014. Vacancy rebates, at $554,000, were higher than 2013's level of $469,000 and have prompted the decision to employ a more diligent verification process in 2015. A proactive assessment management plan has been started and will be fully implemented with a full staff compliment.

- 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 8.4% from 2013, due to a combination of an increase in consumption fees of 4% for water and 6% for wastewater and an increase of $2 to the basic monthly charge for each. Building permit revenues were 49% lower than in 2013, while they were 50% 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 is being undertaken. Fees and charges for recreation and culture programs and services were increased by an average of 3% over 2013.



- Government transfers were 63% below budget, but higher than 2013 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. There have been delays on the Old Town Hall Restoration project which will receive $1.4 million from each of the Provincial and Federal governments. Road projects financed from the Federal Gas Tax were also lower than budget by $2.8 million. 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 $9.5 million higher than in 2013 and $17 million over budget. Tangible capital assets equaling $18.3 million were constructed between 2002 and 2009 and contributed to the Town in 2014. The contributed assets included many road segments and the associated infrastructure. The assumption of subdivisions is not budgeted for, as the amounts and timing are difficult to predict (see the green line on the chart below). Capital fund developer contributions are mostly development charges (DC's) and are driven by financing requirements for capital projects. $1 million in DC funding for capital projects has been carried forward for use in 2014. Contributions by developers to reserve funds were 41% over the budgeted level. The voluntary trails levy brought in $628,000 compared to a budget of $600,000 and $202,000 in 2013. The budgets are fiscally prudent in these areas due to the unpredictability of results.



- Lower interest was earned on the Operating Fund which came in $171,000 below budget. Reserve Fund balances were higher than expected due to lower capital spending and earned an additional $372,000 to offset the Operating Fund deficiency. In 2013 we implemented our investment strategy. In our first (part) year, our return on investment was $88,171. 2014 had a favorable return on investment of $575,918, which was $221,951 above our benchmark return. Our investments included two non-redeemable GIC's totalling $25 million, as well as a number of non-traditional investments – loan for the deferral of development charges and planning fees, 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 in 2015 by creating multi-year budgets/forecasts and/or a more aggressive short-term investing strategy.

- Rent and Other came in 35% higher than the budget due to a number of unbudgeted amounts. Magna made 2 payments of $500,000, twice the annual budget, in 2014 for naming rights. The payment for 2015, the final year of the contract, was transferred to reserves and will be recognized as income in 2015. Unbudgeted amounts totalling $330,000 were received from York Region and Sun Life as our benefit premiums and amounts on deposit were reconciled. These amounts were also transferred to reserves. Partially offsetting these unbudgeted income amounts was $662,000 from future parking revenue for Property Acquisition along Holland River which has not been realized since first budgeted in 2011 and has been carried forward.
- There were no budgeted land sales in 2014 and the 2013 amount relates to the finalization of the sale of the Rawluk property.
- 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 2014, net losses were recognized due to road and the underlying infrastructure reconstruction.