



INFORMATION REPORT

Corporate Services Commission, Financial Services

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CORPORATE SERVICES INFORMATION REPORT – FINANCIAL SERVICES 2016-33

TO: Mayor Tony Van Bynen and Members of Council

SUBJECT: 2016 Budget Reconciliation and Projected Financial Statements

ORIGIN: Manager, Finance and Accounting

In accordance with the Procedure By-law, any Member of Council may make a request to the Town Clerk that this Information Report be placed on an upcoming Committee of the Whole agenda for discussion.

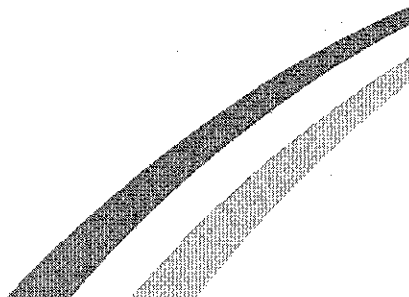
COMMENTS

The purpose of this report is to provide Council with the 2016 projected financial statements, as well as a reconciliation of the Council-approved 2016 budget as it will be reported in the 2016 financial statements.

Background

Starting with the 2009 year-end, accounting standards and reporting requirements have changed, most significantly with the introduction of tangible capital asset accounting. The new accounting standards do not require budgets to be prepared on the same basis. The Town of Newmarket, like most municipalities, continues to prepare budgets on the traditional cash basis. A key outcome of the annual budget is a tax rate which Council is asked to approve. This tax rate is based, for the most part, on a “cash basis” of accounting and therefore, does not include all of the Public Sector Accounting Board (PSAB) requirements around accrual accounting and accounting for “non-financial assets and liabilities.”

The Province of Ontario introduced Ontario Regulation 284/09 (O. Reg. 284/09) that allowed a municipality to exclude from their estimated expenses costs related to amortization expense, post-employment benefit expense and solid waste landfill closure and post-closure expense. However, the regulation does require that the municipality report on the impact of these excluded costs.



The Town's 2016 Budget and associated levy excluded the following:

1. The budget did not include expenses for the amortization of its tangible capital assets in the amount of \$16.4 million, as amortization is a non-cash expense. The budget does, however, include \$16.0 million in contributions to the asset replacement funds.
2. Based on an actuarial review as at the end of 2015, the 2015 - 2017 average annual expense for post-retirement benefits was estimated to be \$402,000. This amount was used as an estimate for 2016 post-retirement benefits and was not included in the budget.
3. No solid waste landfill closure and post-closure costs have been included, as the Town does not have responsibility for landfill sites.

In preparing the budget for 2016, the Town included an amount of \$65.5 million in capital expenditures. Of this amount, \$61.1 million has been identified as being tangible capital assets. For cash flow purposes, it is assumed that only 1/3rd of this amount will be spent in 2016. This is consistent with the trend of previous years.

The attachment illustrates what the 2016 budget would look like in the Town's consolidated financial statements in the Public Sector Accounting Board (PSAB) 3150 format.

Post-Employment Benefits

Employee Future Benefits are health and dental benefits that are provided to early retirees, future retirees, and employees currently on long-term disability. An actuarial valuation was carried out as at December 31, 2015. It was determined that at the end of 2015, the liability for employee future benefits was \$4.9 million, of which \$1.4 million (28.6%) has been funded. Although there is no legislative requirement to fund this liability, and it may be handled on a "pay-as-you-go" basis, the Town continues to be fiscally prudent. The liability is expected to grow to \$5.2 million in 2016 (27.3% funded).

Amortization Expenses

Amortization, also commonly referred to as depreciation, theoretically represents the annual use of the Town's assets. Although amortization expenses should not be used to determine the impairment of an asset, it is a good tool to predict the future annual financial commitment required for asset rehabilitation. The amounts and calculations for amortization expenses are in accordance with our Tangible Capital Asset (TCA) policy. Amortization expense is budgeted at \$16.4 million in 2016, based on the acquisition of \$20.1 million of tangible capital assets.

BUSINESS PLAN AND STRATEGIC PLAN LINKAGES

There is no relationship to the strategic plan as this is a compliance report under the *Municipal Act, 2001*.

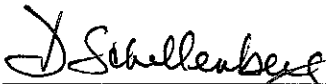
BUDGET IMPACT

This report is for information purposes only and, as such, will have no direct impact on taxes, fees and charges or the use of reserves. There is no impact on the future tangible capital asset funding requirements of the municipality as a result of the exclusion of any of the estimated expenses.

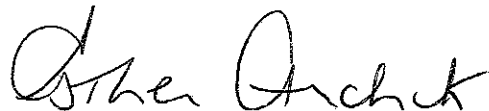
The original 2016 budget approved by Council included a deficit for the year of \$24.4 million (due to the draw on reserves and reserve funds to fund the capital program). With the inclusion of the PSAB reporting requirements, the budget would result in a surplus of \$19.8 million.

CONTACT

For more information on this report, contact: Dawn Schellenberg at 905-953-5300, ext. 2104 or via e-mail at dschellenberg@newmarket.ca.



Dawn Schellenberg, CPA, CA
Manager, Finance and Accounting



Esther Armchuk B.A. (Hons.), LL.B., DPA
Commissioner, Corporate Services

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Attachments:

- a) Projected Financial Statements (4 pgs.)
- b) Budget Reconciliation (1 pg.)

THE CORPORATION OF THE TOWN OF NEWMARKET
Consolidated Statement of Projected Financial Position

December 31, 2016

	2015	2016
	Actual	Projection
FINANCIAL ASSETS		
Cash	\$ 83,424,445	\$ 47,843,972
Temporary Investments	5,000,000	10,000,000
Taxes receivable	4,846,050	5,010,331
Unbilled User Charges	4,413,796	4,722,762
Accounts receivable	6,359,972	6,487,171
Inventory for resale	92,074	93,915
Surplus Land	155,285	155,285
Loans receivable	6,640,294	6,651,209
Long-term investments	-	40,000,000
Investment in Newmarket Hydro Holdings Inc.	66,317,053	67,717,053
	<u>177,248,969</u>	<u>188,681,698</u>
LIABILITIES		
Accounts payable and accrued liabilities	32,435,640	33,084,353
Interest payable on debt	862,092	862,093
Employee future benefits payable	4,958,165	5,205,555
Long-term disability benefits payable	4,719,337	4,606,605
Deferred revenue	33,078,366	29,244,497
Long-term debt	39,753,155	36,816,528
	<u>115,806,755</u>	<u>109,819,631</u>
NET FINANCIAL ASSETS	<u>61,442,214</u>	<u>78,862,067</u>
NON FINANCIAL ASSETS		
Inventory	400,124	408,126
Prepaid expenses	1,997,821	2,037,777
Tangible Capital Assets	465,439,466	469,196,761
	<u>467,837,411</u>	<u>471,642,664</u>
TOTAL NET ASSETS	<u>529,279,625</u>	<u>550,504,731</u>
ACCUMULATED SURPLUS	<u>\$ 529,279,625</u>	<u>\$ 550,504,731</u>

THE CORPORATION OF THE TOWN OF NEWMARKET

Consolidated Statement of Projected Operations and Accumulated Surplus

December 31, 2016

	2015		2016
	Budget	Actual	Budget
REVENUES			
Taxation and user charges			
Residential and farm taxation	\$ 44,728,073	\$ 44,190,993	\$ 46,642,701
Commercial, industrial and business taxation	8,754,302	8,685,966	8,950,583
Taxation from other governments	681,000	668,984	713,939
User charges	40,780,509	40,968,437	40,443,022
	94,943,884	94,514,380	96,750,245
Government Transfers			
Government of Canada	568,240	622,215	-
Federal Gas Tax Revenue	4,382,513	2,102,286	4,493,872
Province of Ontario	966,331	1,862,089	1,166,791
Region of York	-	-	-
	5,917,084	4,586,590	5,660,663
Other			
Contribution from developers	11,945,194	11,772,593	18,941,982
Investment income	3,750,425	4,087,687	3,731,570
Fine, penalties and interest	1,327,300	1,224,456	1,251,760
Rent and other	4,707,593	1,804,079	7,006,731
Land sales	-	12,720	-
Gain on disposal of tangible capital assets	-	(67,014)	-
	21,730,512	18,834,521	30,932,043
TOTAL REVENUES	122,591,480	117,935,491	133,342,951
EXPENSES			
General government	15,202,899	14,532,293	15,003,601
Protection to persons and property	15,941,205	15,988,842	16,981,645
Transportation services	12,460,272	12,699,761	13,212,009
Environmental services	33,569,663	32,554,496	33,138,509
Recreation and cultural services	30,570,085	28,797,876	31,658,607
Planning and development	3,154,970	2,626,902	3,523,474
	110,899,094	107,200,170	113,517,845
Net equity in earnings of Newmarket Hydro Holdings Inc.			
	1,200,000	1,671,129	1,400,000
ANNUAL SURPLUS	12,892,386	12,406,450	21,225,106
ACCUMULATED SURPLUS, BEGINNING OF YEAR	516,873,175	516,873,175	529,279,625
ACCUMULATED SURPLUS, END OF YEAR	\$ 529,765,561	\$ 529,279,625	\$ 550,504,731

THE CORPORATION OF THE TOWN OF NEWMARKET
Consolidated Statement of Projected Change in Net Financial Assets
December 31, 2016

	2015		2016
	Budget	Actual	Budget
Annual surplus	\$ 12,892,386	\$ 12,406,450	\$ 21,225,106
Acquisition of tangible capital assets	(17,641,644)	(19,680,658)	(20,151,652)
Contributed tangible capital assets	-	(4,532,696)	-
Amortization of tangible capital assets	16,382,567	16,432,222	16,394,357
Proceeds from sale of tangible capital assets	-	514,755	-
Loss (gain) on disposal of tangible capital assets	-	67,014	-
	(1,259,077)	(7,199,363)	(3,757,295)
Changes due to inventory	(6,038)	(98,232)	(8,002)
Changes due to prepaid expenses	(17,358)	(328,462)	(39,956)
	(23,396)	(426,694)	(47,958)
CHANGE IN NET FINANCIAL ASSETS	11,609,913	4,780,393	17,419,853
NET FINANCIAL ASSETS, BEGINNING OF YEAR	56,661,821	56,661,821	61,442,214
NET FINANCIAL ASSETS, END OF YEAR	\$ 68,271,734	\$ 61,442,214	\$ 78,862,067

THE CORPORATION OF THE TOWN OF NEWMARKET

Consolidated Statement of Projected Cash Flows

December 31, 2016

	2015		2016
	Budget	Actual	Budget
CASH PROVIDED BY (USED IN):			
OPERATING ACTIVITIES			
Cash received from			
Taxation	\$ 53,962,966	\$ 54,448,881	\$ 56,142,942
User charges	40,396,219	42,501,756	40,134,056
Government transfers	3,892,459	5,214,343	3,595,098
Contributions from developers	7,344,754	16,857,668	10,610,070
Investment income	3,750,425	5,001,708	3,731,570
Fine, penalties and interest	1,327,300	1,252,071	1,251,760
Rent and other	4,707,593	1,722,119	7,006,731
Aurora's share of Central York Fire Services	9,281,379	8,933,489	9,619,835
	124,663,095	135,932,036	132,092,062
Cash paid for			
Salaries, wages and employee benefits	53,705,527	52,792,202	53,848,046
Materials, goods, and supplies	5,930,181	5,690,574	5,804,385
Utilities	4,353,287	4,587,919	4,725,556
Contracted and general services	27,469,940	27,316,952	27,863,291
Capital repairs and maintenance	7,127,772	1,455,737	4,472,891
Interest on long-term debt	2,237,171	2,237,170	2,115,861
Rents and financial	825,244	1,200,945	841,749
	101,649,122	95,281,499	99,671,779
Net change in cash from operating activities	23,013,973	40,650,537	32,420,283
CAPITAL ACTIVITIES			
Land sales	-	12,720	-
Proceeds on disposal of tangible capital assets	-	514,755	-
Cash paid for acquisition of tangible capital assets	(17,641,644)	(19,680,658)	(20,151,652)
Net change in cash from capital activities	(17,641,644)	(19,153,183)	(20,151,652)
INVESTMENT ACTIVITIES			
Temporary investments			(5,000,000)
Long-term investments			(40,000,000)
Net increase in investment			(45,000,000)
FINANCING ACTIVITIES			
Loans receivable	-	(6,491,307)	-
Principal repayment on long-term debt	(2,738,587)	(2,727,794)	(2,849,103)
Net change in cash from financing activities	(2,738,587)	(9,219,101)	(2,849,103)
NET CHANGE IN CASH	2,633,742	12,278,253	(35,580,472)
CASH, BEGINNING OF YEAR	71,146,192	71,146,192	83,424,445
CASH, END OF YEAR	\$ 73,779,934	\$ 83,424,445	\$ 47,843,972

2016 Operating Budget Budget Reconciliation

The budget approved by Council differs from the budget in the Consolidated Statements. The differences are mainly due to PSAB 3150 reporting requirements.

		Revenues		Expenses
Council approved budget for 2016:				
Operating fund - January 18, 2016		\$ 114,399,361		\$ 114,399,361
Less: Principal payment on long-term debt		\$ -		\$ (2,936,629)
Less: Transfers to / from other funds		\$ (8,233,643)		\$ (19,186,521)
Capital - New - January 18, 2016		\$ 26,737,774		\$ 26,737,774
Plus: Capital - Carryovers		\$ 38,773,050		\$ 38,773,050
Less: Transfers from other funds		\$ (39,724,437)		\$ -
Reserves and Reserve funds - June 16 , 2016		\$ 20,127,370		\$ 47,461,243
Less: Transfers to / from other funds		\$ (18,736,524)		\$ (47,461,243)
TOTAL COUNCIL APPROVED BUDGET	(1)	\$ 133,342,951		\$ 157,787,035
Less: Tangible Capital Assets Capitalized	(2)	-		(61,065,612)
Plus: Budgeted amortization expense	(3)	-		16,394,357
Plus: Post-employment benefit expenses	(4)	-		402,065
Adjusted Budget per Consolidated Statement of Operations		\$ 133,342,951		\$ 113,517,845

(1) Council approves balanced budgets with the exception of Reserves and Reserve Funds. The difference between Revenue and Expenses is the net transfer to or from other funds.

(2) This figure represents the total expenditures in the Capital Budget for Tangible Capital Assets. Disposals are not considered to be material and are therefore excluded.

(3) This figure is the estimated amortization for the current year's budgeted Tangible Capital Asset additions and adding it to the previous year's actual amortization expense.

(4) This is estimated based on the 2015 actuarial valuation.