

THE CORPORATION OF THE TOWN OF NEWMARKET

Notes to the Consolidated Financial Statements

December 31, 2009

The Town of Newmarket is a municipality in the Province of Ontario, Canada. It conducts its operations guided by the provisions of provincial statutes such as the Municipal Act, Municipal Affairs Act and related legislation.

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Corporation of the Town of Newmarket (the "Town") are the representation of management prepared in accordance with generally accepted accounting principles for local governments as recommended by the Public Sector Accounting Board ("PSAB") of the Canadian Institute of Chartered Accountants.

Effective January 1, 2009, the Town changed its accounting and financial reporting to conform to the revised guidelines in the Public Sector Accounting Handbook on financial reporting presentation (Section PS 1200) and tangible capital accounting (Section PS 3150). Current year data is presented on the new basis. Prior year data has been restated on the same basis wherever possible, to be comparable with the current year data. The most significant change is the reporting on tangible capital assets for the first time.

The focus of the new financial statements is on the financial position of the Town and changes thereto. The Consolidated Statement of Financial Position reports financial assets and liabilities. Financial assets are available to provide resources to discharge existing liabilities or finance future operations. Municipal position represents the financial position of the Town and is the difference between financial assets and liabilities. This information explains the Town's overall future revenue requirements and its ability to finance activities and meet its obligations.

Significant accounting policies adopted by the Town are as follows:

(a) (i) *Reporting entity*

These consolidated financial statements reflect the financial assets, liabilities, operating revenues and expenditures, Reserves, Reserve Funds, and changes in investment in tangible capital assets of the Town. The reporting entity is comprised of all organizations, local boards and committees accountable for the administration of their financial affairs and resources, to the Town, and which are owned or controlled by the Town. The Newmarket Public Library and the Main Street District Business Improvement Area are accordingly consolidated in these financial statements. All material inter-entity transactions and balances are eliminated on consolidation.

(ii) *Investment in Newmarket Hydro Holdings Inc.*

The Town's investment in Newmarket Hydro Holdings Inc. is accounted for on a modified equity basis, consistent with generally accepted accounting principles as recommended by PSAB for government business enterprises. Under the modified equity basis of accounting, the business enterprise's accounting principles are not adjusted to conform with those of the municipality and inter-organizational transactions and balances are not eliminated. The Town recognizes its equity interest in the annual income or loss of Newmarket Hydro Holdings Inc. in its statement of financial operations with a corresponding increase or decrease in its investment asset account. Any dividends that the Town may receive from Newmarket Hydro Holdings Inc. will be reflected as reductions in the investment asset account.

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1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(iii) *Accounting for Region of York and school board transactions*

The operations of the school boards and the Region of York are not reflected in the Town's financial statements except to record any resulting receivable or payable balance with the Town at year-end.

(iv) *Trust funds*

Trust funds and their related operations administered by the municipality are not consolidated, but are reported separately in the "Trust Fund Statement of Continuity" and "The Trust Fund Balance Sheet".

(b) *Basis of accounting*

(i) *Accrual accounting*

Sources of financing and expenditures are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenues as they are earned and measurable; expenditures are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.

(ii) *Non-financial assets*

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year, and are not intended for sale in the ordinary course of operations. The change in non-financial assets during the year, together with the excess of revenues over expenses, provides the Change in Net Financial Assets for the year.

(a) Tangible Capital Assets

Tangible capital assets are recorded at cost, which includes all amounts that are directly attributable to acquisition, construction, development or betterment of an asset. The cost, less residual value, of the tangible capital assets are amortized on a straight-line basis over their estimated useful lives as follows:

	<u>Useful Life - Years</u>
Land improvements	20 - 25
Buildings and building components	20 - 40
Vehicles	4 - 20
Machinery and equipment	3 - 20
Library collection	7
Linear assets	
- Road base	40
- Road paved surface	25
- Sewer	50
- Watermain	50
- Sidewalks	25
- Trails and walkways	25
- Bridges and structures	25 - 75

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1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets are amortized in the month following the purchase or in-service date. One half of the annual amortization is charged in the year of acquisition for pooled assets. Assets under construction are not amortized until the asset is available for productive use, at which time they are capitalized.

The Town has a capitalization threshold of \$40,000 for all categories except vehicles, machinery and equipment and computer hardware and software in which case the threshold is \$20,000. Individual assets of lesser value are expensed, unless they are pooled because, collectively, they have significant value. Examples of pools are computer systems, library collection, and streetlights. The Town's threshold for pooled assets is \$40,000. The Library pools all of their assets and their capitalization threshold is \$10,000.

(b) Contribution of tangible capital assets

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt, and that fair value is also recorded as revenue.

(c) Interest capitalization

Interest is capitalized whenever external debt is issued to finance the construction of tangible capital assets.

(d) Leases

Leases are classified as capital or operating leases. Leases which transfer substantially all of the benefits and risks incidental to ownership of property are accounted for as capital leases. All other leases are accounted for as operating leases and the related lease payments are charged to expenses as incurred.

(e) Inventories

Inventories held for consumption are recorded at the lower of cost and net recoverable value.

(iii) *Surplus Land*

The carrying value of the surplus land is based on purchase and development costs and does not reflect any gain that may arise if the land sells for more than the carrying value.

(iv) *Accounting for property capping provisions resulting from the Ontario Fair Assessment System*

The net decrease/increase in property taxes as a result of the application of capping provisions does not affect the Consolidated Statement of Operations as the full amount of the property taxes were levied. However, the capping adjustment is reported on the Consolidated Statement of Financial Position as an asset/liability to be received from/paid to the Region. More detailed information is disclosed in Note 4.

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1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) *Deferred revenue*

Deferred revenues represent user charges and fees which have been collected but for which the related services have yet to be performed. These amounts will be recognized as revenues in the fiscal year the services are performed. The Town receives development charges under the authority of provincial legislation and Town by-laws. These funds, by their nature, are restricted in their use and, until applied to specific capital works, are recorded as deferred revenue. Amounts applied to qualifying capital projects are recorded as revenue in the fiscal period they are expended. See Note 13 for more details.

(vi) *Employee future benefits*

The present value of the cost of providing employees with future benefit programs is expensed as employees earn these entitlements through service. The cost of the benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of retirement ages of employees and expected health care and dental costs. Vacation entitlements are accrued for as entitlements are earned.

(vii) *Reserves and reserve funds*

Certain amounts, as approved by the Town Council, are set aside in reserves and reserve funds for future operating and capital purposes. Transfer to/from reserves and reserve funds are an adjustment to the respective fund when approved.

(viii) *Subdivision infrastructure*

Subdivision streets, lighting, sidewalks, drainage and other infrastructure are required to be provided by subdivision developers. Upon completion they are turned over to the municipality. The Municipality is not involved in the construction and does not budget for either the contributions from the developer or the capital expenditure.

(ix) *Investment income*

Investment income earned is reported as revenue in the period earned. Investment income earned on development charges (obligatory reserve funds) is added to the fund balance and forms part of the deferred revenue balance.

(x) *Government transfers*

Government transfers include entitlements, transfers under shared cost agreements, and grants. Revenue is recognized for unconditional entitlements and grants in the period received or receivable. Revenue is recognized for conditional entitlements and grants in the period the associated expenditure is incurred. Revenue is recognized for transfers under shared cost agreements in the period the costs are incurred.

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1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(xi) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from these estimates.

(xii) Budget figures

Budget figures have been reclassified for the purposes of these financial statements to comply with PSAB reporting requirements. The approved operating budget and capital budgets are reflected on the Consolidated Statement of Operations and are unaudited. The budgets established for capital investment in tangible capital assets are on a project-oriented basis, the costs of which may be carried out over one or more years and, therefore, may not be comparable with current year's actual expenditure amounts. As well, the Town does not budget activity within Reserves and Reserve Funds, with the exception being those transactions, which affect either operations or capital investments.

(xiii) Comparative figures

Certain comparative figures have been reclassified to conform with the current year financial statement presentation.

2. BUDGET RECONCILIATION

The authority of Council is required before moneys can be spent by the Municipality. Approvals are given in the form of an annually approved budget. The budget approved by Council differs from the budget in the Consolidated Statement of Operations. The difference is due to several factors. A supplementary Capital budget was approved subsequent to the initial budget approval. The budget has also be adjusted to account for material changes due to PSAB reporting requirements.

	(Unaudited)	
	Revenue	Expenses
Council approved budget:		
Operating fund	\$ 75,899,449	\$ 62,248,379
Reserves and Reserve funds	8,650,532	-
	<u>84,549,981</u>	<u>62,248,379</u>
Capital Budget	6,641,424	30,170,135
Supplementary Capital Budget	13,912,120	18,534,106
Capital Budget carried over from previous years	2,307,175	21,394,197
	<u>22,860,719</u>	<u>70,098,438</u>
TOTAL COUNCIL APPROVED BUDGET	<u>107,410,700</u>	<u>132,346,817</u>
Less: Tangible Capital Assets Capitalized	-	(57,429,765)
Plus: Budgeted amortization expense	-	13,748,368
	<u>-</u>	<u>13,748,368</u>
Adjusted Budget per Consolidated Statement of Operations	<u>\$ 107,410,700</u>	<u>\$ 88,665,420</u>

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3. OPERATIONS OF SCHOOL BOARDS AND THE REGION OF YORK

Further to Note 1(a)(iii), taxation and revenues of the school boards and the Region of York are comprised of the following:

	<u>School Boards</u>	<u>Region</u>
Property taxes and taxation from other governments	\$ 41,169,747	\$ 48,907,186

4. THE CONTINUED PROTECTION FOR PROPERTY TAXPAYERS ACT

Effective 1998, the provincial government implemented the Ontario Fair Assessment System and redefined the services which are funded from the property tax base. As a result of this, certain taxpayers have experienced significant changes in their property taxes. Provincial legislation empowered municipalities with tools to lessen the immediate impact of these assessment related property tax changes. These programs are administered by the Region of York for all constituent area municipalities. Within the Region of York a residential phase-in program was not adopted. For multi-residential, commercial and industrial property owners, the Province of Ontario instituted a mandatory capping program through the provisions of Bill 140, the Continued Protection for Property Taxpayers Act (2001), which limited reform-related tax increases to 5% per year from 2001 to 2004.

Effective from the 2005 taxation year, municipalities can implement the greater of an increase to the annual capped taxes of up to 10%, or an annual increase for capped properties of up to 5% of CVA taxes. Multi-residential, commercial, and industrial property owners experiencing decreases are also capped at appropriate levels to fund the phasing-in of increases. The limit remains in place until capped and clawed-back properties are within \$250 of their current value assessment ("CVA"). Municipal levy increases are applied in addition to the limit.

5. PHASE-IN OF ELIGIBLE ASSESSMENT INCREASES

The Government of Ontario made a number of changes to the property assessment system, which took effect for the 2009 property tax year, including the phase-in of eligible assessment increases.

To provide an additional level of property tax stability and predictability, market increases in assessed value between the January 1, 2005 and January 1, 2008 valuation dates are phased in over four years (2009-2012). The phase-in program does not apply to decreases in assessed value. The full benefit of any decrease is applied immediately.

6. CASH

Cash is segregated as follows:

	<u>2009</u>	<u>2008</u>
Restricted - obligatory reserve funds (refer to Note 13)	\$ 10,806,338	\$ 12,317,865
Designated - reserve funds	18,602,003	21,206,105
Unrestricted and undesignated	21,423,408	12,072,911
	<u>\$ 50,831,749</u>	<u>\$ 45,596,881</u>

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7. RECEIVABLES

(a) *Taxes receivable*

	<u>2009</u>	<u>2008</u>
Current year	\$ 4,099,237	\$ 3,971,019
Arrears previous years	3,185,358	1,785,829
	<u>7,284,595</u>	<u>5,756,848</u>
Less allowance	201,631	201,631
	<u>\$ 7,082,964</u>	<u>\$ 5,555,217</u>

The allowance of \$201,631 has been established to cover the Town's share of potential adjustments resulting from assessment appeals related to implementation of the Ontario Fair Tax Assessment System on January 1, 1998.

(b) *Accounts receivable*

	<u>2009</u>	<u>2008</u>
Government entities	\$ 1,870,489	\$ 1,701,088
Newmarket Hydro Holdings Inc.	2,968,750	1,087,500
Trade receivables, user fees and other receivables	910,046	1,362,056
	<u>5,749,285</u>	<u>4,150,644</u>
Less allowance	98,263	98,577
	<u>\$ 5,651,022</u>	<u>\$ 4,052,067</u>

(c) *Loans receivable*

The interest free loans are awarded through the Community Improvement Plan's Financial Incentive Program to upgrade and restore properties within the Community Improvement Plan area. The loans are guaranteed by liens against the properties. The maximum repayment period is 10 years.

8. INVENTORY

Inventory for resale includes water meters sold to developers and transit passes and tickets. Inventory included in non-financial assets includes salt and sand used in winter control of area roads.

9. SURPLUS LAND

On September 13, 2004 Council passed Resolution R13-2004 designating 9.8 acres of the Rawluk property, on the east side of the Harry Walker Parkway, as land for resale. It was anticipated that a sale would be completed in 2005. However, this did not materialize. The Town originally purchased the 23-acre property to facilitate the south extension of Harry Walker Parkway. Surplus lands not required for this extension or other municipal purposes are to be sold and the proceeds used to fund future capital projects. The carrying value of the Rawluk property is \$1,139,773.

In settlement of a claim against the Town the exchange and conveyance of a property on Silken Laumann Drive took place on May 20, 2009. The carrying value of the property is the \$175,000 paid to the Plaintiff less \$40,000 paid to the Town which represents the difference between the appraised value and the purchase price.

The Town owns 2 other small parcels of land, the majority of which is road allowance, with a carrying value of \$33,598.

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10. INVESTMENT IN NEWMARKET HYDRO HOLDINGS INC.

Newmarket Hydro Holdings Inc. established by municipal council in October 2000, is wholly owned by the Corporation of the Town of Newmarket and provides regulated and unregulated electric utility services.

Effective May 1, 2007 Newmarket Hydro Ltd. merged with Tay Hydro Electric Distribution Company Inc. Newmarket Hydro Holdings Inc. owns 93% of the outstanding common shares of the combined entity and consequently its financial statements have been consolidated with those of its subsidiary.

Newmarket Hydro Ltd. has issued an unsecured promissory note in the amount of \$22,000,000 effective October 1, 2001, to the Town of Newmarket. The note bears interest at a simple annual rate equal to the rate of interest that Newmarket Hydro Ltd. is, from time to time, permitted by the Ontario Energy Board (OEB) to recover in its rates (currently 6.25% per annum). Interest is due on the last day of each fiscal year and on terms and at such time as may be further determined by the Director of Finance/Town Treasurer in consultation with senior corporate officers of the Corporation. Determination of, and changes to, maturity and repayment terms require 13 months notice. The promissory note has been subordinated to a letter of credit of \$2,765,940. The letter of credit with a major chartered bank is a prudential requirement to be an Independent Market Operator and includes restrictive clauses with respect to debt repayment.

The Town's investment in the corporation at December 31, is as follows:

	<u>2009</u>	<u>2008</u>
Share capital		
Newmarket Hydro Holdings Inc. - 201 Common Shares	\$ 29,609,342	\$ 29,609,342
Promissory note	22,000,000	22,000,000
Retained earnings, end of the year		
Newmarket Hydro Holdings Inc.	7,251,354	1,244,692
Total investment	\$ 58,860,696	\$ 52,854,034

The following summarizes the Municipality's related party transactions with Newmarket Hydro Holdings Inc. All transactions are in the normal course of operations, and are recorded at the exchange value based on normal commercial rates, or as agreed to by the parties.

	<u>2009</u>	<u>2008</u>
Revenues:		
Investment income	\$ 1,375,000	\$ 1,375,000
Rent, property tax and other	373,148	374,908
Dividends received	1,470,000	1,470,000
Dividends accrued	1,087,500	1,087,500
Accounts receivable	339,637	360,739
Accounts payable	457	-

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10. INVESTMENT IN NEWMARKET HYDRO HOLDINGS INC. (continued)

The following tables provide condensed supplementary financial information for Newmarket Hydro Holdings Inc.

	<u>2009</u>	<u>2008</u>
Financial position		
Current assets	\$ 25,276,830	\$ 28,531,475
Capital assets	55,193,941	48,890,152
Total assets	80,470,771	77,421,627
Current liabilities	10,385,385	12,141,725
Other liabilities	5,778,171	7,536,017
Dividends accrued	1,087,500	1,087,500
Long-term debt	23,742,821	23,742,821
Total liabilities	40,993,877	44,508,063
Non-controlling interest	2,703,610	2,146,942
Results of operations		
Revenues	69,340,930	68,759,205
Operating expenses	(65,603,039)	(64,050,247)
Financing expenses	(1,490,026)	(1,634,374)
Other income (expenses)	2,914,257	1,216,670
Non-controlling interest	(234,668)	(183,653)
Income tax	(1,728,792)	(1,607,996)
Net earnings	3,198,662	2,499,605
Retained earnings, beginning of year	2,332,192	1,302,587
Adoption of accounting policy	4,278,000	
Net income	3,198,662	2,499,605
Dividends paid	(1,470,000)	(1,470,000)
Retained earnings, end of the year	8,338,854	2,332,192
Dividends accrued	1,087,500	1,087,500
Adjusted retained earnings, end of year	7,251,354	1,244,692
Change in adjusted retained earnings	\$ 6,006,662	\$ 1,029,605

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	<u>2009</u>	<u>2008</u>
Government entities	\$ 6,763,976	\$ 6,789,390
Payroll liabilities	2,283,743	1,290,548
Trade payables and other accrued liabilities	11,758,084	7,430,467
Total	\$ 20,805,803	\$ 15,510,405

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12. EMPLOYEE FUTURE BENEFITS PAYABLE

The Town provides certain employee benefits that will require funding in future periods. Under the post-retirement benefit plan, employees may be entitled to a cash payment after they leave the Town's employment. An actuarial estimate of future liabilities for employee future benefits has been completed and forms the basis for the estimated liability reported in these financial statements.

	<u>2009</u>	<u>2008</u>
Employee future benefits	\$ 3,416,600	\$ 3,128,279
Vacation pay	189,306	336,817
	<u>3,605,906</u>	<u>\$ 3,465,096</u>

Employee Future Benefits are health and dental benefits that are provided to early retirees, future retirees, and employees currently on a long-term disability. The Town recognizes these post-retirement costs as they are earned during the employee's tenure of service. A benefit liability of \$3,145,300 was determined by the last actuarial valuation carried out as at December 31, 2009, using a discount rate of 5.50%.

Total benefit payments to retirees during the year was \$94,479 (2008 - \$64,513). The plan is substantially unfunded and requires no contributions from employees. The retirement benefit liability at December 31 includes the following components:

	<u>2009</u>	<u>2008</u>
Accrued benefits obligation	\$ 3,145,300	\$ 3,688,397
Unamortized actuarial gain/(loss)	271,300	(560,118)
Employee future benefits payable	<u>\$ 3,416,600</u>	<u>\$ 3,128,279</u>
Employee future benefits, beginning of the year	\$ 3,128,279	\$ 2,506,455
Annual amortization of actuarial loss	17,900	56,012
Current period service cost	179,900	461,283
Interest cost	185,000	169,042
Benefits paid for the period	(94,479)	(64,513)
Employee future benefits, end of the year	<u>\$ 3,416,600</u>	<u>\$ 3,128,279</u>

Actuarial valuations for accounting purposes are performed every three years using the projected benefit method prorated on services. The most recent actuarial report was prepared at December 31, 2009. The unamortized actuarial gain relates to an actuarial gain of \$457,000 (\$418,900 as at December 31, 2008) which is being amortized over the estimated remaining service life of the active employees, less an unamortized actuarial loss of \$147,600. The unamortized actuarial loss relates to an actuarial loss of \$672,142 as at December 31, 2006 adjusted for prior service costs. The average remaining service period of the active employees covered by the benefit plan is twelve years.

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12. EMPLOYEE FUTURE BENEFITS PAYABLE (continued)

The assumptions used in the December 31, 2009 actuarial valuation were:

(a) *Interest (discount) rate*

The present value of the future benefits as at December 31, 2009 was determined using a discount rate of 5.50%.

(c) *Health costs*

Health cost premiums were assumed to increase at a 9.0% rate for 2010 and decrease thereafter to 5.0% over the next 8 years.

(d) *Dental costs*

Dental cost premiums were assumed to increase at a 4.0% rate.

13. DEFERRED REVENUE

The Town of Newmarket passed their first Development Charge By-Law on September 13, 2004 pursuant to the Development Charges Act, 1997. Development Charge bylaws have a maximum life of 5 years and as such a new bylaw was passed in 2009. Development Charges are levies against new development, and are a primary source of funding growth-related capital facilities and infrastructure.

Development charges are imposed on all lands, buildings or structures that are developed for residential or non-residential uses. These charges are payable upon issuance of a building permit, unless they are for town-wide engineering services, in which case they are payable upon registration of a subdivision agreement. Development charges are not recognized as revenue until the identified capital costs for growth are incurred.

A requirement of PSAB is that obligatory reserve funds be reported as deferred revenue. This requirement is in place as provincial legislation restricts how these funds may be used and under certain circumstances how these funds may be refunded. The balances in the obligatory reserve funds of the Town are summarized below:

	<u>2009</u>	<u>2008</u>
Obligatory Reserve Funds		
Parklands	\$ 1,606,128	\$ 1,661,923
Development charges	8,989,260	8,365,062
Investing in Ontario Grant from Province	210,950	2,290,880
	<u>10,806,338</u>	<u>12,317,865</u>
Deferred revenue - general	3,643,049	4,305,504
	<u>\$ 14,449,387</u>	<u>\$ 16,623,369</u>

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14. LONG-TERM DEBT

(a) The balance of long-term debt reported on the Consolidated Statement of Financial Position is made up of the following:

			<u>2009</u>	<u>2008</u>
Long-term debt incurred by the Town			\$ 53,318,391	\$ 42,655,383
<u>Purpose</u>	<u>Rates</u>	<u>Dates</u>	<u>2009</u>	<u>2008</u>
Water and sewermain project	variable	2014	569,000	667,000
Land for recreation facilities	5.724%	2024	10,382,893	10,810,765
Youth Centre	5.724%	2024	2,405,792	2,504,933
Downtown renewal	5.724%	2024	763,100	794,547
Recreation facility	5.246%	2024	10,048,251	10,480,038
Parklands	5.246%	2024	2,136,091	2,227,881
Traffic flow improvements	5.246%	2024	1,230,911	1,283,805
Downtown revitalization	5.246%	2024	334,942	349,334
Recreation facility	4.756%	2026	13,047,411	13,537,080
Consolidated Operations Centre	5.000%	2019	12,400,000	-
			\$ 53,318,391	\$ 42,655,383

(b) Principal repayments for each of the next five years are due as follows:

2010	2,239,027
2011	2,348,394
2012	2,463,068
2013	2,584,327
2014	2,712,461
2015 and thereafter	40,971,114
	\$ 53,318,391

(c) Interest expense on long-term debt amounted to \$2,187,641 (2008 - \$2,277,919).

15. AMOUNTS TO BE RECOVERED FROM FUTURE REVENUES

These are liabilities that have not been funded from current period revenues.

	<u>2009</u>	<u>2008</u>
Employee future benefits	\$ 3,605,906	\$ 3,465,096
Less amounts recovered	(825,000)	(825,000)
	2,780,906	2,640,096
Long - term debt and accrued interest	\$ 54,792,323	\$ 43,364,411
Less amounts recovered	(1,473,932)	(709,027)
	\$ 53,318,391	\$ 42,655,384
	\$ 56,099,297	\$ 45,295,480

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16. COMMITMENTS AND CONTINGENCIES

Commitment

On September 30, 1987, the Town entered into an agreement to lease space for its former municipal offices for a period of 25 years at an annual rental rate of \$187,500 (plus G.S.T.). The municipal offices have since been relocated to new facilities and the former office space has been sub-leased to recover all operating costs.

Contingencies

The Town has been named as a defendant in certain legal actions in which damages have been sought. The outcome of these actions is not determinable as at the date of reporting and accordingly, no provision has been made in these financial statements for any liability which may arise.

A claim has been initiated against the Town by a party whose lands were expropriated. The recommended statutory compensation has been paid in connection with two of the three affected lots. Approximately \$5,000 remains to be paid in connection with the third affected parcel. However, the affected landowner still has a potential claim for additional damages over and above the statutory compensation. It is too early in the litigation to determine the likelihood of success or estimate the extent of any future payments of the potential claim.

A claim was initiated against the Town for the return of \$175,000 paid to the Town for the purchase of a property on Silken Laumann Drive. This matter has been settled by way of a reconveyance of the property to the Town in exchange for payment of the original purchase price. Notice of a second claim, totalling \$375,000, in connection with the same property has also been made. The parties in the second claim have not yet exchanged documents or conducted any discovery. It is too early in the litigation to determine the likelihood of success of the claims.

17. LEASE AGREEMENTS

The Town has entered into lease agreements for vehicles, office equipment and safety equipment. The aggregate minimum payments under these leases over the next three years are as follows:

2010	\$	110,392
2011		28,952
2012		1,142
	\$	<u>140,486</u>

18. PENSION AGREEMENTS

The Town makes contributions to the Ontario Municipal Employees Retirement System ("OMERS") which is a multi-employer plan, on behalf of all permanent, full-time members of its staff. The Plan is a defined benefit plan that specifies the amount of the retirement benefit to be received by the employees based upon the length of service and rates of pay.

Contributions in 2009 ranged from 6.3% to 12.8% depending on the proposed retirement age and level of earnings. The 2009 operating expense for OMERS was \$2,182,967 (2008- \$2,098,520).

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19. ACCUMULATED SURPLUS

The Accumulated Surplus is comprised of the following:

	2009	2008
Reserves set aside for specific purposes by Council		
Cash flow reserves	\$ 1,026,458	\$ 1,001,458
Reserves for operating purposes	1,315,416	1,073,616
Reserves for capital purposes	471,100	103,176
Central York Fire Services	101,643	157,364
Newmarket Public Library	473,367	192,995
Building Code Act Fees	2,521,328	1,370,590
Water & Sewer Rate Stabilization	1,496,449	1,448,371
Total Reserves	\$ 7,405,761	\$ 5,347,570
Reserve funds set aside for specific purposes by Council		
Asset replacement funds	\$ 9,818,814	\$ 12,608,251
Reserve funds for operating purposes	2,907,627	3,038,360
Reserve funds for capital purposes	1,345,629	1,699,091
Self-insured long-term disability	4,529,932	3,860,403
Total Reserve Funds	\$ 18,602,002	\$ 21,206,105
Total Reserves and Reserve Funds	\$ 26,007,764	\$ 26,553,675
Invested in tangible capital assets	418,631,796	409,294,723
Less: amount financed by long-term debt	(53,318,391)	(42,655,383)
Land declared surplus	1,308,371	1,172,871
Operating surplus	15,493	1,073
Funds available for future capital expenditures	5,739,810	835,491
Fund to be provided from future revenues	(1,686,721)	(2,132,640)
Equity in Newmarket Hydro Holdings Inc. (Note 10)	58,860,696	52,854,034
Employee Future Benefits (Note 15)	(2,780,906)	(2,640,097)
Accumulated Surplus	\$ 452,777,912	\$ 443,283,747

20. CENTRAL YORK FIRE SERVICES

Effective January 1, 2002, the Town of Newmarket entered into a Joint Venture Agreement with the Town of Aurora with respect to the provision of Fire and Emergency services. Under the Agreement, the Town of Newmarket assumed responsibility for the combined Central York Fire Services. The cost of these services is shared between the two municipalities based on a cost sharing formula.

	2009	2008
Net expenditures before allocation	\$ 16,078,944	\$ 15,509,806
Less: Aurora's allocation (2009 -39.3 % ; 2008 - 39.6%)	(6,323,357)	(6,129,465)
Newmarket's net allocation	\$ 9,755,587	\$ 9,380,341

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Notes to the Consolidated Financial Statements

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21. INSURANCE COVERAGE

The Municipality is self insured for insurance claims up to \$10,000 for any individual claim and for any number of claims arising out of a single occurrence.

Claim costs during the year amounted to \$81,706 (2008 - \$80,809).

The Corporation of the Town of Newmarket is a member of the Ontario Municipal Insurance Exchange which became a licensed group for liability insurance coverage on February 3, 1989. Contributions have been made to the fund for claims in excess of \$10,000 and under \$50,000,000. These contributions have been reported as expenditures on the "Consolidated Statement of Operations". The contribution for the year was \$622,554 (2008 - \$584,897).

The Ontario Municipal Insurance Exchange carried out a detailed review of all outstanding claims during the year. The Town's share of the resulting supplementary assessment to its members for the period 1996 to 2008 of \$681,138 was expensed in 2009. The accrual for supplementary assessment for the period 2006 to 2008 of \$30,640 was also expensed in 2009.

22. TRUST FUND

The Trust fund administered by the Town amounting to \$309,006 (2008 - \$306,887) is presented in a separate financial statement of trust balances and operations. As such balances are held in trust by the Town for the benefit of others, they are not included in the Town's consolidated statement of financial position or financial activities.

23. TANGIBLE CAPITAL ASSETS

Schedule 1 provides information on the tangible capital assets of the Town by major asset category, as well as for accumulated amortization of the assets controlled.

a) Tangible capital assets recognized at nominal value

Certain assets have been assigned a nominal value because of the difficulty of determining a valuation. The most significant such asset is the land under the Town's roads which has been assigned a nominal value of one dollar per kilometer of road length. The 2009 road network had 209 kilometers (2008 - 209).

b) Capitalization of interest

Interest of \$94,052 was capitalized in 2009 (2008 - \$nil).

c) Construction in Process

The financial statements and accompanying schedules include \$17,871,047 of tangible assets that have not been amortized.

d) Contributed Tangible Capital Assets

Contributed tangible capital assets have been recognized at fair market value at the date of contribution. The value of contributed assets received during the year is \$819,564 (2008 - \$8,775,807), which includes contribution from developers in the amount of \$615,800 (2008 - \$8,053,807), and land from the province in the amount of \$165,854 (2008 - \$nil) and land from the third parties in the amount of \$37,910 (2008 - \$722,000). Contributed assets from developers during the year consist of streetlighting, playground equipment and landscaping. 2008 contributed assets from developers consisted of streetlighting and linear assets of subdivisions assumed by the Town in that year.

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24. SEGMENTED INFORMATION

Certain allocation methodologies are employed in the preparation of segmented financial information. Government grants, user charges, transfers from other funds, and other revenues are allocated to the specific program or service they relate to. Expense allocations are both internal and external. There is an external allocation to the Town of Aurora for its share of the costs of running Central York Fire Services (see Note 21). Activity based costing is used to allocate internal support costs to departments. These costs include the net expenditures for departments, such as human resources, information systems, finance and others, commonly referred to as overhead. Measures of activity, or drivers, are used to apportion the support costs.

The accounting policies used in these segments are consistent with those followed in the preparation of the consolidated financial statements as disclosed in Note 1.

Schedule 2 Service Bundles

The Town's services and programs are grouped and reported based on a customer driven service bundle in Schedule 2. Revenues are reported by source, while expenditures are reported by object. The Town determines an individual tax rate for each service to attain full cost recovery. Tax revenues are allocated according to the tax billing. Net revenues before financing include capital expenditures, reserves, reserve funds and transfers. The accounting policies used in these segments are consistent with those followed in the preparation of the consolidated financial statements as disclosed in Note 1.

Fire & Emergency Services

Central York Fire Services provides fire services to the residents of Newmarket and Aurora. They are responsible to provide fire suppression service, fire prevention programs, training and education related to prevention, detection or extinguishment of fires. The cost of these services is shared between the two municipalities based on a cost sharing formula described in Note 21.

Water, Wastewater & Solid Waste

The Town provides drinking water to its citizens and collects wastewater. The solid waste and recycling program includes curbside collection of recyclables, organics, yard waste and garbage.

Bylaw & Licensing Services

The Town issues a variety of licenses including marriage, taxicab and animal licenses. It ensures an acceptable quality of building construction and maintenance of properties through enforcement of construction codes, building standards and by-law for the protection of occupants. It facilitates economic development by providing services for the approval of all land development plans, the application and enforcement of zoning by-laws and the processing of building permit applications.

Roads, Bridges & Sidewalks

The Public Works and Environmental Services department is responsible for the cleanliness, safety and maintenance of the Town's paved roads, bridges and sidewalks.

Planning & Development Services

The Town creates plans for Newmarket's future. It manages urban development for business interests, environmental concerns, heritage matters, local neighbourhoods and the downtown through Town planning, community development, parks and riverbank planning.

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24. SEGMENTED INFORMATION (continued)

Community Programs & Events

The Town provides public services that contribute to neighbourhood development and sustainability through the provision of recreation and leisure services such as fitness and aquatic programs. It also hosts community special events throughout the year.

Facilities, Parks & Trails

The Town maintains numerous recreation facilities, as well as indoor community space for booking and community use. It also maintains parks and playgrounds, open spaces, and a vast trail system.

Corporate Support & Governance

The Town Council, the Office of the CAO, Legal and other support staff and services are included here.

Public Library Services

The provision of library services contributes towards the information needs of the Town's citizens. The library also provides programs to local residents.

Main Street District BIA

The Main Street District BIA promotes the Main Street area as a business, shopping and entertainment area. This department has been separately disclosed from other Planning & Development Services, due to its requirement to have audited financial statements.