



Town of Newmarket How to attend an Electronic Advisory Committee or Board Meeting

As all Town facilities remain closed to the public, members of the public can attend an electronic Advisory Committee or Board Meeting by joining through ZOOM.

These instructions are for the public and not Committee or Board Members. **The public will join in “listen only” mode (as an “Attendee”).**

Meeting: **Audit Committee**
Date: Tuesday, July 14, 2020 at 2:00 PM
Location: Electronic VIA ZOOM Meeting

How to Join the Meeting by laptop, tablet, iPad, phone or computer:

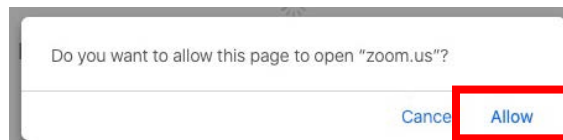
1

Click the link to the ZOOM Meeting below:

<https://townofnewmarket.zoom.us/j/94928373239?pwd=RW13b1E2eGF5Vnp4T2NpMzRFV290Zz09>

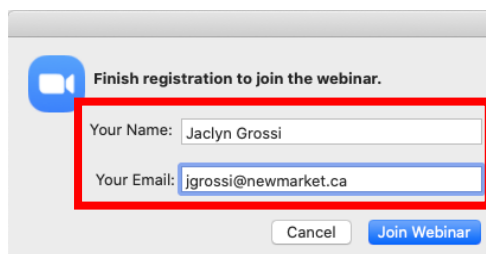
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The link will open in your browser and the following pop-up will appear, click “Allow”



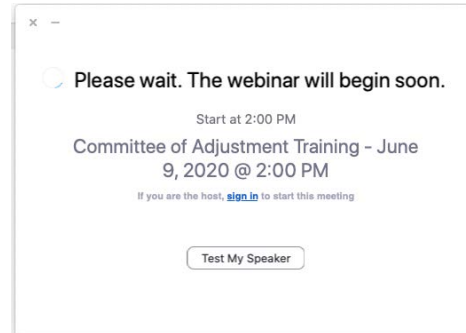
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Type your First and Last name into the “Your Name” field and type your email into the “Your Email” field. Then click “Join Webinar”.



4

The following pop-up window will appear, and you will join the meeting when it begins.



Reminder – you will only be able to listen and view the meeting, your camera and audio will not be on.

5

When the meeting begins you will be able to see the Committee or Board Members and Staff who are attending the meeting.

How to Join the Meeting by telephone:

1

Dial one of the numbers below:

647-374-4685 or
647-558-0588

2

Follow the telephone prompts and input the following information:

Meeting ID: 949 2837 3239 followed by #

There is no Participant ID, just press #

Password: 115583 followed by #

You will be placed in a “waiting room” until the meeting begins

3

Once the meeting begins, the telephone operator will advise that you have joined as an attendee and that you will be muted throughout the meeting.

Technical Tips

- ✓ **You will be attending the meeting in “listen only mode” (i.e., without your video or audio on)**
- ✓ If you cannot connect, check your internet connection by going to another website (such as www.newmarket.ca) - If the internet is not working on other sites, you may need to reboot your device or modem



If your screen freezes, try to refresh or you may need to disconnect from the meeting and then reconnect using the link above

- ✓ If you get disconnected, rejoin the meeting using the link above



Town of Newmarket

Agenda

Audit Committee

Date: Tuesday, July 14, 2020
Time: 2:00 PM
Location: Electronic VIA ZOOM
See How to Login Guide

Pages

1.	Additions and Corrections to the Agenda	
2.	Conflict of Interest Declarations	
3.	Deputations	
4.	Approval of Minutes	
4.1	Audit Committee Meeting Minutes of January 27, 2020	1
5.	Items	
5.1	Review of 2019 Financial Statements	
	Note: Mike Mayes, Town Treasurer will be in attendance to address the Committee on this matter.	
5.2	Report to the Audit Committee by the External Auditor	5
5.3	Town of Newmarket Consolidated Financial Statements	
5.3.1	Town of Newmarket Consolidated Financial Statements Report	43
5.3.2	Town of Newmarket Main Street District Business Improvement Area Financial Statements	75
5.3.3	Financial Statement Discussion and Analysis (FSD&A)	85
5.4	Oral Observations from Management and the Auditors regarding the Effects of COVID-19 on the Town of Newmarket's Internal Controls Over Financial Reporting	

6. New Business

7. Closed Session (if required)

Personal matters about identifiable individuals in accordance with Section 239 (2) (b) of the Municipal Act, 2001.

8. Adjournment



Town of Newmarket

Minutes

Audit Committee

Date: Monday, January 27, 2020

Time: 2:00 PM

Location: Mulock Room
Municipal Offices
395 Mulock Drive
Newmarket, ON L3Y 4X7

Members Present: Michael Tambosso, Chair
Deputy Mayor & Regional Councillor Vegh, Vice-Chair
Councillor Bisanz
Councillor Morrison
Rebecca Mathewson
Tom Mungham

Staff Present: J. Sharma, Chief Administrative Officer
E. Armchuk, Commissioner of Corporate Services
M. Mayes, Director of Financial Services/Treasurer
D. Schellenberg, Manager of Finance & Accounting
M. Wigmore, Director, Information Technology
L. Peppiatt, Deputy CEO, Newmarket Public Library
A. Walkom, Legislative Coordinator
J. Grossi, Legislative Coordinator

Guests: Pina Colavecchia, Deloitte Canada (by telephone)
Antonio Bianchi, Acting Director of Audit Services, York Region
Travis Waite, Senior Internal Auditor, York Region

The meeting was called to order at 2:00 PM.
Michael Tambosso in the Chair.

1. Additions and Corrections to the Agenda

None.

2. Declarations of Pecuniary Interest

None.

3. Approval of Minutes

3.1 Audit Committee Meeting Minutes of October 7, 2019

Moved by: Tom Mungham

Seconded by: Councillor Morrison

1. That the Audit Committee Meeting Minutes of October 7, 2019 be approved.

Carried

4. Items

4.1 Presentation by Internal Auditor: Overview of Internal Audit Process and 2020 Workplan

Antonio Bianchi, Acting Director of Audit Services, York Region provided the Audit Committee with a presentation regarding an Overview of the Internal Audit Process and 2020 Workplan. He outlined the identified risk factors including susceptibility of fraud, and sensitivity of personal information, and advised that the 2020 workplan would focus on high risk areas. These areas include water and wastewater, engineering services, IT, and customer care.

The Members of the Audit Committee discussed their role in relation to the Internal Auditor, setting objectives and recommendations for the 2020 workplan, and the relationship between internal and external audits. They queried the auditors regarding the 2019 workplan, and asked for an update on various projects.

4.2 Management Letter Follow-Up

Pina Colavecchia of Deloitte Canada provided an update on the Management Letter presented to the Audit Committee previously and provided comment on some the items listed within. Staff advised that most of the items had been fully addressed.

The Members of the Audit Committee queried the Auditor and Staff regarding the responses to the management letter from IT Services related to password authentication policy settings, and the history of the identified items.

The Director of IT Services advised the Committee of new internal processes to segregate duties related to JD Edwards software, as recommended by the Auditors.

4.3 Items Deferred by the Previous Term of the Audit Committee

4.3.1 Report to the Audit Committee by the External Auditor

Pina Colavecchia of Deloitte Canada reported back to the Audit Committee regarding extra time spent on the audit, as requested by the Members at the June 18, 2019 Audit Committee Meeting. She summarized the management additional time and efforts incurred, the additional sampling audit approach, and audit adjustments related to capital grants. She further advised that a total of 84 additional hours were recorded and \$15,000 was spent to cover the additional hours.

The Members of the Audit Committee queried Deloitte Canada on their satisfaction of the audit, capital grants, and funds from other levels of government.

4.3.2 Audit Committee Mandate

The Members of the Audit Committee discussed the Audit Committee Mandate which was revised as part of the Committee Structure Review approved by Council at the May 6, 2019 Council Meeting. They discussed the role of the Committee in the selection of the external auditor, and queried Staff regarding the potential for management influence on the selection process.

The Chief Administrative Officer provided an overview of the external auditor selection process, as a collaboration among the Northern Six municipalities of York Region. He explained that the Town of Newmarket had participated in the process, but had not selected the same firm as the other municipalities. Committee Members discussed including a possible role in the selection process in a future review of the Committee's mandate.

5. New Business

None.

6. Closed Session

The Chair advised there was no requirement for a Closed Session.

7. Adjournment

The meeting adjourned at 3:16 PM.

Michael Tambosso, Chair

Date



The Corporation of the Town of Newmarket
Report to the Audit Committee on the results of the
December 31, 2019 financial statement audits

To be presented to the Audit Committee on July 14, 2020



Deloitte LLP
 400 Applewood Crescent
 Suite 500
 Vaughan ON L4K 0C3
 Canada

July 7, 2020

Private and confidential

To the Members of the
 Audit Committee of
 The Corporation of the Town of Newmarket
 395 Mulock Dr
 Newmarket ON L3Y 4X7

Tel: 416-601-6150
 Fax: 416-601-6151
www.deloitte.ca

Report on December 31, 2019 audited annual financial statements

Dear Audit Committee Members,

We are pleased to submit this report on the results of our audit of the consolidated financial statements of the Corporation of the Town of Newmarket (the "Town") for the year ended December 31, 2019. This report summarizes the scope of our audits, our findings and reviews certain other matters that we believe to be of interest to you.

We expect to issue our Independent Auditor's Reports on the financial statements of the Town, the Town of Newmarket Library Board (the "Library"), and the Town of Newmarket Main Street District BIA (the "Main Street District BIA"), upon approval of the financial statements. Our audits were conducted in accordance with the Audit service plan presented to the Audit Committee on October 7, 2019.

This report is intended solely for the information and use of the Audit Committee, management, and others within the Town and is not intended to, and should not be, used by anyone other than these specified parties. Accordingly, we disclaim any responsibility to any other party who may rely on it.

We would like to express our appreciation for the cooperation we received from management and the employees of the Town and the related entities with whom we worked to discharge our responsibilities. We look forward to discussing this report summarizing the outcome of our audit with you, and, to answering any questions which you may have.

Yours truly,

Deloitte LLP

Chartered Professional Accountants
 Licensed Public Accountants

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Our audits explained

This report summarizes the main findings arising from our audits.

Audit scope and terms of engagement

We have been engaged to perform the audits of the Town's, Library's and Main Street District BIA's Financial Statements as at, and for the year ended, December 31, 2019 (the "Financial Statements") prepared in accordance with Canadian Public Sector Accounting Standards ("PSAS"). Our audits were conducted in accordance with Canadian Generally Accepted Auditing Standards ("Canadian GAAS").

The terms and conditions of our engagement are described in the master services agreement for professional services that is dated November 14, 2017 and the subsequent confirmation of changes letter dated September 7, 2018.

Significant audit risks

Through our risk assessment process, we have identified the significant audit risks. These areas of risk of material misstatement and our related audit responses are described in the 'Areas of significant audit risk' section of this report.



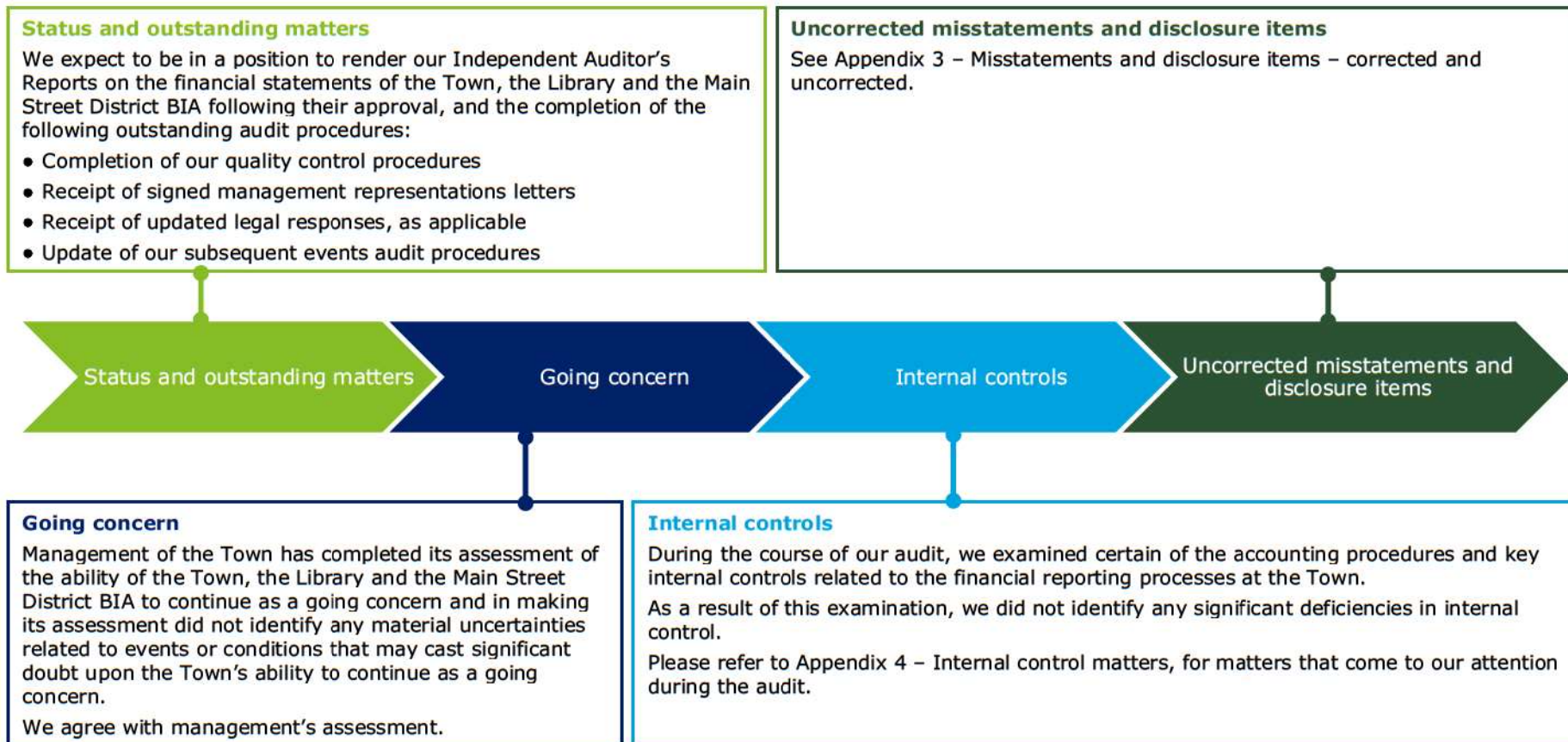
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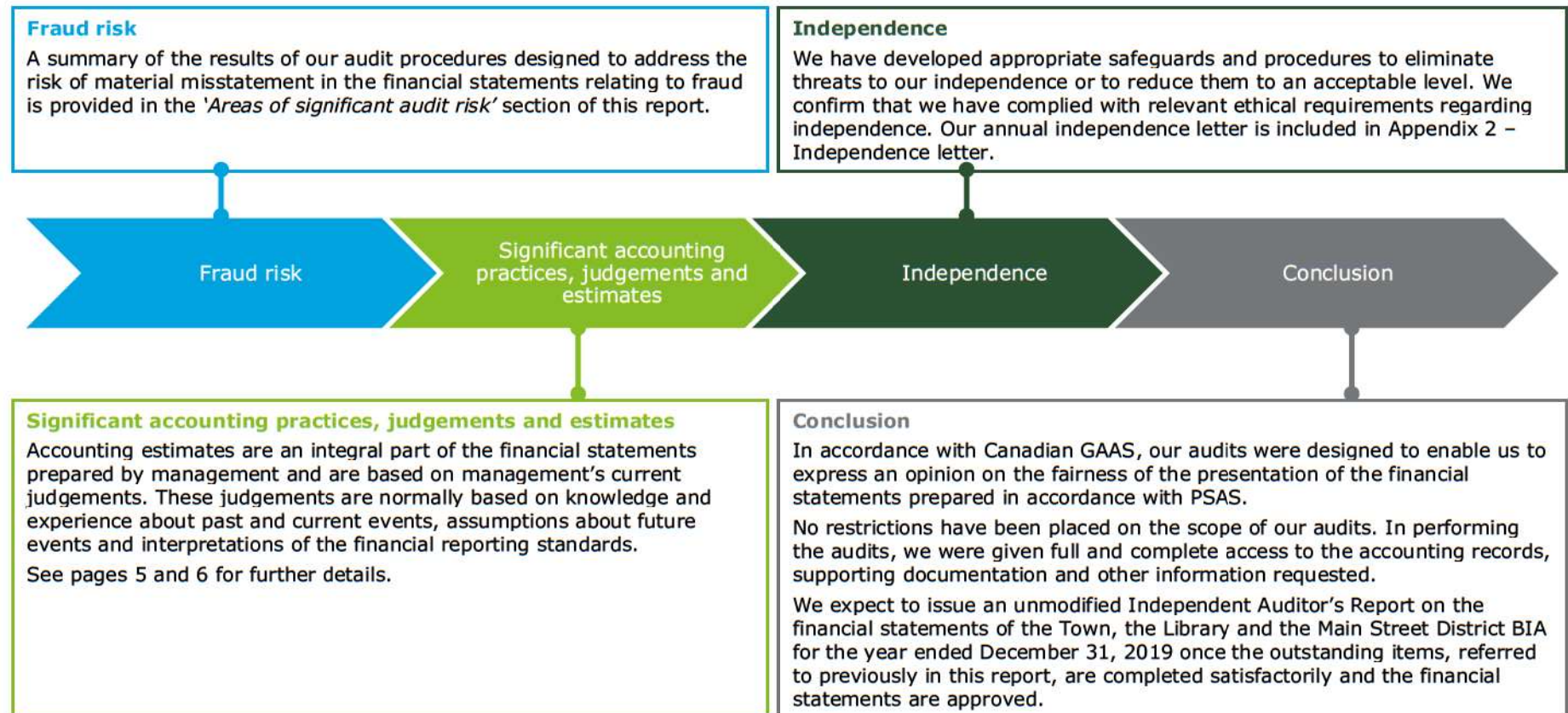
We are responsible for providing reasonable assurance that the financial statements as a whole are free from material misstatement.

Our materiality levels are a matter of professional judgement and were assessed as follows:

- Consolidated Financial Statements for the Town – \$2,500,000; clearly trivial amount of \$125,000
- Town of Newmarket Public Library Board – \$68,000; clearly trivial amount of \$3,4000
- Main street District BIA – \$900; clearly trivial amount of \$45

We agreed to inform you of any uncorrected misstatements detected during the audit which were greater than a clearly trivial amount of 5% of materiality and any misstatements that are, in our judgement, qualitatively material. In accordance with Canadian GAAS, we asked that any misstatements be corrected. See Appendix 3 – Misstatements and disclosure items – corrected and uncorrected.





Areas of significant audit risk

Revenue recognition

Audit risk

Canadian GAAS include the presumption of a fraud risk involving improper revenue recognition. (Revenue/deferred revenue)

Our audit response

- Certain revenue streams are presumed areas of significant audit risk. We tested the design and implementation of controls in significant revenue streams and performed substantive analytic procedures and/or detailed testing of revenues, and
- Substantive testing to determine if restricted contributions (i.e., development charges), and government transfers/grants were recognized appropriately. (Revenue vs. deferred revenue).

Audit results

See Appendix 3 –Misstatements and disclosure items – corrected and uncorrected.

We obtained sufficient audit evidence in this area and are satisfied with the results of audit procedures performed.

Management override of controls

Audit risk

Under Canadian Auditing Standards, it is the responsibility of the management, with the oversight of those charged with governance, to place a strong emphasis on fraud prevention and detection.

Oversight by those charged with governance includes considering the potential for override of controls or other inappropriate influence over the financial reporting process.

Management override of controls is present in all entities. It is a risk of material misstatement resulting from fraud and therefore is considered as a significant risk.

Our audit response

- Engaged in periodic fraud discussions with certain members of senior management and others
- Considered the potential for bias in judgements and estimates, including performing retrospective analysis of significant accounting estimates
- Evaluated the business rationale for any significant unusual transactions
- Evaluated the Town's fraud risk assessment and consider entity-level internal controls and internal controls over the closing and reporting process
- Tested journal entries that exhibit characteristics of possible management override of controls, identified using manual techniques.

Audit results

Our testing did not identify any evidence of management override of controls.

Significant accounting policies, judgements and estimates

The accounting policies of the Town, the Library, and the Main Street District BIA are set out in the notes of their respective financial statements.

In the course of our audits of the financial statements, we considered the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability and understandability of the information included in the financial statements.

Significant accounting policies

There were no significant changes in previously adopted accounting practices or their application at the Town, the Library and the Main Street District BIA.

In our judgement, the significant accounting practices and policies, selected and applied by management are, in all material respects, acceptable under PSAS for the Town, the Library and the Main Street District BIA and are appropriate to the particular circumstances of the Town, the Library and the Main Street District BIA.

Management judgement and accounting estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgements. These judgements are normally based on knowledge and experience about past and current events, assumptions about future events and interpretations of the financial reporting standards.

During the year ended December 31, 2019, management advised us that there were no significant changes in accounting estimates or in judgements relating to the application of the accounting policies.

In our judgement, the significant accounting estimates made by management (with assistance from the Town's actuary as applicable) appear, in all material respects, to be free of possible management bias and of material misstatement. The disclosure in the consolidated financial statements with respect to estimation uncertainty (Note 1(b)(x)) is in accordance with PSAS and is appropriate to the particular circumstances of the Town.

Significant accounting estimates include:

	Reference to Town's consolidated financial statements	2019 \$	2018 \$
Employee future benefits liability	Note 12	7,457,790	6,128,206
Long-term disability benefits liability	Note 13	4,502,355	4,461,290
Allowance for doubtful accounts – taxes receivable	Note 6(a)	915,743	1,115,743
Allowance for doubtful accounts – accounts receivable	Note 6(b)	92,072	170,780

Other reportable matters

The following summarizes the status and findings of key aspects of our audits. In the appendices to this report, we have provided additional information related to certain matters we committed to report as part of the audit service plan.

	Comment
Changes to the audit service plan	<p>The audits were conducted in accordance with our Audit service plan, which was presented to the Audit Committee on October 7, 2019; except for the extended audit testing as a result of the various misstatements.</p> <p>Our audit testing on the Main Street District BIA noted material errors in both fiscal 2018 and 2019 balances. As such, our audit sampling was extended and additional audit procedures were performed to quantify and isolate the misstatements. See Appendix 3 – Misstatements and disclosure items – corrected and uncorrected for a listing of misstatements that were corrected relating to the Main Street District BIA including a restatement of the 2018 corresponding figures.</p> <p>In addition, as a result of the various misstatements detected in the audit testing done on a sample basis, our audit sampling was extended for both the Town and Library. See Appendix 3 – Misstatements and disclosure items – corrected and uncorrected.</p>
Significant difficulties encountered in performing the audit	<p>We did not encounter any significant difficulties while performing the audits.</p> <p>There were no significant delays in receiving information from management required for the audits nor was there an unnecessarily brief timetable in which to complete the audits.</p> <p>Due to COVID-19 social distancing measures, the year-end audit evidence was provided electronically as the audit team performed the financial statement audits remotely.</p>
Related party transactions	Related party transactions or balances have been disclosed in Note 29 to the Town's financial statements.
Disagreements with management	During the course of our audits, we did not have any disagreements with management about matters that individually or in the aggregate could be significant to the financial statements.
Consultation with other accountants	Management has informed us that the Town, the Library and the Main Street District BIA have not consulted with other accountants about auditing or accounting matters.

	Comment
Group audit	<p>We use the work of Baker Tilly KDN LLP, the external auditor of Newmarket Hydro Holdings Inc. (NHHI) with respect to the accounting for the Town's investment in NHHI.</p> <p>We received the component auditor reporting requested from Baker Tilly KDN LLP. The component auditor reporting indicated that during 2019, NHHI made an investment in Ecobility Inc. This investment is accounted for by NHHI using the equity method of accounting, as disclosed in Note 10 to the Town's financial statements.</p> <p>The report to the Board of Directors of Newmarket Hydro Holdings Inc. dated May 20, 2020 reported a Significant Matter discussed with NHHI Management relating to NHHI's proportionate share of Ecobility's income that was based on their unaudited internal financial statements.</p>
Legal and regulatory compliance	<p>Management is responsible for ensuring that the Town's operations are conducted in accordance with the laws and regulations applicable to the Town. The responsibility for preventing and detecting non-compliance rests with management. The auditor is not and cannot be held responsible for preventing non-compliance with laws and regulations</p> <p>Our limited procedures did not identify any areas of material non-compliance with laws and regulations by the Town, the Library and the Main Street District BIA.</p>
Subsequent event	<p>Note 28 to the Town's financial statements provides subsequent events disclosure related to the following:</p> <p><i>COVID -19 Pandemic</i></p> <p><i>Subsequent to the year-end, on March 11 2020, the World Health Organization characterized the outbreak of a strain of the novel coronavirus ("COVID-19") as a pandemic which has resulted in a series of public health and emergency measures that have been put in place to combat the spread of the virus. The duration and impact of COVID-19 is unknown at this time and it is not possible to reliably estimate the impact that the length and severity of these developments will have on the financial results and condition of the Town in future periods</i></p> <p>At the date of finalizing this report, other than the matter noted above, we are not aware of any significant subsequent events that would require adjustment or disclosure in the December 31, 2019 financial statements.</p>

Appendix 1 – Communication requirements

The table below summarizes our communication requirements under Canadian GAAS.

Required communication	Comments
Audit service plan	
1. Our responsibilities under Canadian GAAS, including forming and expressing an opinion on the financial statements	Master Services Agreement for Professional Services dated November 14, 2017 and subsequent confirmation of changes letter dated September 7, 2018
2. An overview of the overall audit strategy, addressing: <ul style="list-style-type: none"> a. Timing of the audits b. Significant risks, including fraud risks c. Planned responsibilities of other independent public accounting firms or others that perform audit procedures in the audits 	Audit service plan presented on October 7, 2019 We received all of the reporting requested from the independent auditor of Newmarket Hydro Holdings Inc.
3. Significant transactions outside of the normal course of business, including related party transactions	Related party transactions have been properly disclosed in Note 29 to the Town's financial statements
Enquiries of those charged with governance	
4. How those charged with governance exercise oversight over management's process for identifying and responding to the risk of fraud and the internal control that management has established to mitigate these risks	Discussed when presenting the audit plan on September 12, 2018
5. Any known suspected or alleged fraud affecting the Town	No fraudulent events communicated
6. Whether the Town is in compliance with laws and regulations	Refer to the <i>Other reportable matters</i> section of this report
Year-end communication	
7. Fraud or possible fraud identified through the audit process	We are not aware of any fraudulent events
8. Significant accounting policies, practices, unusual transactions, and our related conclusions	Refer to 'Significant accounting practices, judgements and estimates' section of this report

Required communication	Comments
Year-end communication	
9. Alternative treatments for accounting policies and practices that have been discussed with management during the current audit period	None
10. Matters related to going concern	None
11. Management judgements and accounting estimates	Refer to <i>Significant accounting practices, judgements and estimates</i> section of this report
12. Significant difficulties, if any, encountered during the audits	Refer to the <i>Other reportable matters</i> section of this report
13. Material written communications between management and us, including management representation letters	Management representation letter in draft is included in Appendix 5
14. Other matters that are significant to the oversight of the financial reporting process	None
15. Modifications to our Independent Auditor's Reports	None
16. Our views of significant accounting or auditing matters for which management consulted with other accountants and about which we have concerns	We are not aware of any such consultations
17. Significant matters discussed with management	None
18. Matters involving non-compliance with laws and regulations that come to our attention	None noted
19. Significant deficiencies in internal control, if any, identified by us in the conduct of the audits of the financial statements	No significant deficiencies noted Refer to Appendix 4 – Internal control matters
20. Uncorrected misstatements and disclosure items	Refer to Appendix 3 – Misstatements and disclosure items
21. Any significant matters arising during the audit in connection with the Town's related parties	Refer to the <i>Other Reportable Matters</i> section of this report - related party transactions Refer to Appendix 4 – Internal control matters

Appendix 2 – Independence letter

July 7, 2020

Private and confidential

To the Members of the Audit Committee of
The Town of Newmarket
395 Mulock Dr
Newmarket ON L3Y 4X7

Dear Audit Committee members:

We have been engaged to audit the consolidated financial statements of the Corporation of the Town of Newmarket (the "Town") for the year ended December 31, 2019.

You have requested that we communicate in writing with you regarding our compliance with relevant ethical requirements regarding independence as well as all relationships and other matters between the Town, our Firm and network firms that, in our professional judgement, may reasonably be thought to bear on our independence. You have also requested us to communicate the related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.

In determining which relationships to report, we have considered relevant rules and related interpretations prescribed by the appropriate provincial regulator/ordre and applicable legislation, covering such matters as:

- a) Holding a financial interest, either directly or indirectly, in a client.
- b) Holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client.
- c) Personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client.
- d) Economic dependence on a client.
- e) Provision of services in addition to the audit engagement.

We confirm to you that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence.

We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since June 11, 2019, the date of our last letter.

In addition to audit services we have also provided HST advisory and HST recovery services during the period from June 11, 2019 to July 7, 2020. These services were commenced prior to our appointment as external auditors, have been discussed with the Audit Committee and are permissible non-audit services.

We are not aware of any relationships between the Deloitte Entities and the Town and its affiliates, or persons in financial reporting oversight roles at the Town and its affiliates, that, in our professional judgement, may reasonably be thought to bear on independence, that have occurred from June 11, 2019 to July 7, 2020.

The Town of Newmarket
July 7, 2020
Page 2

We hereby confirm that we are independent with respect to the Town in accordance with the Rules of Professional Conduct of the Chartered Professional Accountants of Ontario as of July 7, 2020.

This letter is intended solely for the information and use of the Audit Committee, Town Council, management, and others within the Town and is not intended to be should not be used for any other purposes.

We look forward to discussing with you the matters addressed in this letter at your upcoming Audit Committee meeting on July 14, 2020.

Yours truly,

A handwritten signature in cursive script that reads "Deloitte LLP".

Chartered Professional Accountants
Licensed Public Accountants

Appendix 3 – Misstatements and disclosure items – corrected and uncorrected

Corrected misstatements – Town

1. To correct for the variance in the foreign exchange current cash balance between the spot rate per Bank of Canada and the exchange rate used by Town as at December 31, 2019.

a. Dr. Foreign exchange loss	\$148,665
b. Cr. Cash	\$148,665

2. To correct for the over accrual of approximately \$500,000 related to certain post retirement benefits (calculated once in the actuary report and separately by another party). However, the over accrual of \$500,000 was corrected to the General Government cost centre, rather than the cost centre where approximately \$500,000 of expenses are recognized.

a. Dr. Accrued liabilities	\$500,000
b. Cr. Expenses	\$500,000

3. To reclassify approximately \$8.4M between reserve balances in fiscal 2019.

a. Dr. Water and Wastewater Reserve	\$8,356,530
b. Cr. Parks and Other ARF	\$8,356,530

Corrected misstatements – Library

4. To correct for the overstatement of the partnership liability related to Cinemania.

a. Dr. Due to Partnerships Liability	\$6,393
b. Cr. Due from Town of Newmarket	\$6,393

5. To correct for the understatement of the vacation accrual.

a. Dr. Expenses	\$9,631
b. Cr. Accounts payable and accrued liabilities	\$9,631

6. To correct the timing of the recognition of expenditures and associated revenue recognition for fire door installation that was not performed until fiscal 2020 and therefore should not have been recognized in 2019.
- | | | |
|--|----------|----------|
| a. Dr. Municipal contributions towards tangible capital assets - revenue | \$18,360 | |
| b. Dr. Accounts payable and accrued liabilities | \$18,360 | |
| c. Cr. Due from Town of Newmarket | | \$18,360 |
| d. Cr. Building and property maintenance - expense | | \$18,360 |

Corrected misstatement – BIA

7. To correct for expenses related to BIA events that occurred during 2019 and services received by the BIA during fiscal 2019. These transactions were not captured in the fiscal 2019 year end close.
- | | | |
|-----------------------------------|---------|---------|
| a. Dr. Expenses | \$4,278 | |
| b. Cr. Due from Town of Newmarket | | \$4,278 |

Corrected misstatement – detected in the current year relating to the prior year and corrected through a restatement of 2018 comparative balances in the 2019 financial statements – BIA

8. To restate the 2018 comparative figures for fiscal 2018 revenues and expenses recognized during fiscal 2019. The following correction has been made to the 2018 comparative amounts to correct this error.
- | | | |
|-------------------------------------|---------|---------|
| a. Dr. Promotion and events expense | \$1,614 | |
| b. Cr. Events revenue | | \$358 |
| c. Cr. Due from Town of Newmarket | | \$1,256 |

Uncorrected misstatements – Town

9. A WIP addition was incorrectly capitalized in 2018 when it related to non-capital expenditures that occurred in 2017. The amount capitalized in 2018 was written off in 2019, overstating expenditures in 2019 and understating TCA. The prior year impact is noted in item 11 below.
- | | | |
|----------------------------|-----------|-----------|
| a. Dr. Accumulated Surplus | \$162,816 | |
| b. CR. Expense | | \$162,816 |
10. Interest earned on investments and reinvested was not incorporated into the book value of the investment resulting in errors to the interest receivable, investment income and investment balance for F2019.
- | | | |
|----------------------------|-----------|-----------|
| a. Dr. Investment | \$226,560 | |
| b. Dr. Investment Income | \$28,013 | |
| c. CR. Interest Receivable | | \$254,573 |

Uncorrected misstatements - detected in the current year relating to the prior year - Town

11. A WIP addition was incorrectly capitalized during 2018 as it related to non-capital expenditures that occurred during 2017. The amount capitalized in 2018 was also for the incorrect balance, and only \$107,042 of the \$162,816 should have been recognized. The current year impact is noted in item 9 above.

a. Dr. Expense	\$107,042
b. Dr. Accrued Liabilities	\$55,774
c. CR. TCA - WIP	\$162,816

12. Upon performing lookback testing on the Retro Pay Accrual for the fire fighters, Deloitte noted that there was an over accrual in the 2018 accrual booked that was reversed in year in accounts payable and expenditures. The 2018 accrual was based on the best information that the Town had at the time, however after the settlement was reached in 2019 it was determined that the accrual was more conservative than required.

a. Dr. Accrued Liabilities	\$439,473
b. Cr. Expenditures	\$439,473

13. Interest earned on investments and reinvested was not incorporated into the book value of the investment resulting in errors to the interest receivable, investment income and investment balance for F2018.

a. Dr. Investment	\$90,093
b. Dr. Investment Income	\$244,377
c. CR. Interest Receivable	\$334,410

Uncorrected misstatements - Library

None identified

Uncorrected misstatements - BIA

None identified

Disclosure misstatements – Town of Newmarket

Footnote number	Footnote title	Description of omitted or unclear disclosure	Authoritative literature reference
Note 5	Temporary Investments	Interest earned on investments where the interest is reinvested has not been incorporated into the book value of the investment balance in Note 5.	The book value disclosed in Note 5 differs from the statements provided by the financial institution by the amounts indicated above in misstatement # 10 and misstatement #13.
Note 10	Investment in Newmarket Hydro Holdings Inc.	The Town's consolidated financial statement note disclosure omits the disclosure of the contractual obligations and commitments of Newmarket Hydro Holdings Inc.	PS 3070.60 Government consolidated financial statements should disclose, in notes or schedules, condensed supplementary financial information relative to government business enterprises. Such financial information should be provided on: (d) contractual obligations and contingencies

Disclosure misstatements – Library*None identified***Disclosure misstatements – BIA***None identified*

Appendix 4 – Internal control matters

July 7, 2020

Private and confidential

To the Members of the Audit Committee of
The Corporation of the Town of Newmarket
395 Mulock Dr
Newmarket ON L3Y 4X7

Dear Audit Committee Members:

We have recently completed our examination of the consolidated financial statements of the Corporation of the Town of Newmarket (the "Town") for the year ended December 31, 2019.

In addition to our Independent Auditor's Report on the consolidated financial statements, we would like to provide the attached management letter for your consideration.

As part of our audit examination, we are required to obtain an understanding of the Town and its environment, including internal controls, sufficient to identify and assess the risk of material misstatements in the financial statements, and sufficient to design and perform further audit procedures. The scope of our review of internal controls is not sufficient to express an opinion as to the effectiveness or efficiency of the Town's internal controls; however, we do undertake to report any matters that come to our attention during the audit. We have reviewed our comments with management and their responses to our recommendations are included in the attached letter.

The letter is intended solely for the information and use of management, the Audit Committee and the Town Council and is not intended for and should not be used by anyone other than the specified parties. Accordingly, we disclaim any responsibility to any other party who may rely on it.

Yours very truly,

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants

Management letter

The Corporation of the Town of Newmarket

December 31, 2019

1. Timeliness of Cash Deposits - Library

Observation

During our audit testing of the Library's cash balances, we noted a cash deposit relating to amounts collected from December 9 to 15, 2019 did not clear the bank until January 2, 2020.

Recommendation

We recommend that cash be deposited in the bank on a timely manner to ensure balances are recorded in the correct period and minimize risks associated with misappropriation of assets.

Management Response

Management agrees that cash should be deposited on a timely basis. Such is normally the case and this incident appears to be an anomaly (the amount was \$1,064.11). Staff will work with the Library to implement a pre-close checklist. This would be an opportunity to ensure that all transactions are current and review cut-off procedures.

2. Recognition of transactions in the appropriate fiscal year - BIA

Observation

During our audit testing of the revenues and expenses of the Main Street BIA for the year ended December 31, 2019; performed on a sample basis, we noted several instances of 2018 transactions inappropriately recognized as fiscal 2019 transactions. The amounts are material with respect to the BIA's stand-alone financial statements. Accordingly, the 2018 comparative figures in the BIA's 2019 draft financial statements have been restated.

In addition, our audit testing of expense cut-off between 2019 and 2020, performed on a sample basis, further detected a number of invoices recorded as fiscal 2020 expenses that relate to fiscal 2019. Accordingly, material corrected misstatements have been recognized in the BIA's 2019 draft financial statements.

We understand from the Town's finance team, who provides financial reporting services to the BIA, that certain invoices and support for revenue receipts are not provided by the BIA to the Town in a timely manner.

Recommendation

We recommend that the Town finance team work more closely with the BIA to review financial transactions and ensure appropriate recognition in the correct financial reporting period. We recommend that financial reporting for the BIA be performed on a timely basis throughout the fiscal year and that issues be addressed on a more timely basis. Finally, we recommend that the Town implement a more thorough process to review and assess subsequent events to the date of the Independent Auditor's Report.

Management Response

Management agrees with the recommendations. We have been working with the new Chair to strengthen internal controls. Formal written procedures are being developed. In addition, we will be setting up quarterly meetings to review results and discuss issues.

3. Recognition of revenue related to grants (includes certain carry forward items from 2018)

Observation

During our testing of capital grants during the fiscal 2018 audit, we noted a number of misstatements related to revenue recognition of capital grants impacting both fiscal 2017 and fiscal 2018. We are pleased to report that no misstatements related to capital grant revenue recognition were detected during the fiscal 2019 audit.

However, during our audit testing of grants in the current year, we noted an instance of a grant with associated milestones where revenue was fully recognized before a specific milestone was reached in accordance with the funding agreement. The amount is below our clearly trivial threshold.

Recommendation

We recommend that the Town continue to increase its review and scrutiny over the grant agreements provided by funders to ensure that revenue recognition is consistent with grant stipulations and milestones.

Management Response

Management will continue to review and scrutinize grant agreements and transactions. The position of grant coordinator has been created and works closely with Finance.

4. Recognition of Tangible Capital Assets (TCA) (includes certain carry forward items from 2018)

Observation

During our testing of TCA, including transfers from work-in-progress (WIP), we noted an instance where a capital project that was recorded as an addition to WIP during fiscal 2018 appears to have been capitalized in the incorrect fiscal year. The amounts capitalized were related to work performed on the Town's behalf during fiscal 2017. We understand that the delay in the recognition is due to the fact that another Town department did not inform Finance of the status of the capital project until August 2018, when a summary of outstanding payments for work performed was provided to that department by the contractor.

During our fiscal 2019 audit testing, we noted that this same capital project was further reviewed by the Town on receipt of detailed invoicing and it was determined by the Town that the nature of the work performed in 2017 was not capital in nature. As such, this capital project was derecognized and expensed during fiscal 2019.

Recommendation

We recommend that communication be sent out to all Town departments involved in capital projects to communicate up front the type of work being performed on their capital projects to ensure that the Finance department has the information to accurately recognize the components of the capital project, ensure it is recorded in the appropriate period and to ensure it is appropriately classified as either a capital cost or an expenditure in the correct fiscal year.

Management Response

Management agrees with the recommendations. Two initiatives started in 2020 will address this.

Monthly capital expenditure meetings are now being held. These meetings include all of the stakeholders and review the projected delivery of the capital program. This platform will ensure that there is proper communication. Also, starting with the 2020 budget, capital carryovers have been eliminated. Work-in-process now must be reviewed in detail for inclusion in the following year's approved expenditures.

5. Transfers from capital work-in-progress (WIP) to expenses

Observation

During our audit testing on a sample basis of transfers from capital WIP to operating expenses, we noted that the Town does not have a formal policy in place to address the review, authorization and approval related to the expensing of amounts from capital WIP to expense.

Recommendation

We recommend that Town management formalize a policy and related accounting procedures to address the consistent and timely assessment of capital projects recorded in capital WIP, the impairment indicators to be considered to request the expensing of a capital project component; and finally the level of authorization and approval required for the expensing of amounts from capital WIP to expense.

Management Response

Management agrees with his recommendation. A formal budget policy, which would include this item, is on the work plan for later this year.

6. Review and Approval of Journal Entries

Observation

During the audit testing of journal entries including in the same a journal entry related to reserves, we noted that Council approved a \$4.2M transfer from Water/Waste Water ARF Reserves to the Parks and Other ARF Reserves in August 2019. The journal entry to record this transfer was recorded backwards. Accordingly, a material corrected misstatement has been recognized in the Town's 2019 draft financial statements to correct the journal entry.

Recommendation

We recommend that a detailed review be performed on journal entries, particularly those of a material amount.

Management Response:

Management agrees that the journal entry was booked in error and has agreed to reverse it. The error would have been caught and corrected earlier but operations have been disrupted by the pandemic.

7. Liability balances (carry forward from 2017 and 2018)

Observation

During our testing of accounts payable and accrued liabilities, we identified a *letter of credit* general ledger account with a balance of approximately \$350,000 described as representing liabilities to developers for various projects. This account appears to be comprised of long-standing balances with the most recent from 2009 and some transactions dating as far back as 1987. From our discussions with Town management, we understand that it is unlikely developers will submit a request to obtain these funds as many of the related projects likely had deficiencies. Therefore, we understand that it is the Town's view that developers would not be eligible to receive refunds. The lack of timely tracking and reconciliation of the underlying items included in this general ledger account could result in an overstatement of the Town's liabilities if they are no longer payable to developers.

Recommendation

We recommend that the Town implement formal and regular reviews of long-standing balances to determine whether the Town still has a liability or whether certain balances should be recognized in revenue. In future, this analysis should be performed on a regular basis and performed on a timely manner. Furthermore, the Town should implement a process of how to recognize these balances into revenue, when it is determined they no longer have an obligation to settle the liability.

Management Response

Management agrees with the recommendation. The challenge has been resources and priorities. Some work has started on this in 2020 and will be continued.

Matters related to information technology

8. Change Management – Segregation of Duties

Observation

Deloitte noted all users have access to both development and production environments regardless of their job responsibilities. Actions by users with no functional or fiscal responsibility raises the risk of invalid changes in system and adversely affect the financial reports. Developers' access to code change in production can render the system unstable and may cause data integrity issues and impact usability

Recommendation

We recommend that the conflicting functions be segregated and developer access be removed from production instances.

Management Response

Management agrees with the recommendation. As a result of recommendations from an IT Organizational Review and Technical Assessment, the department has undergone significant changes to staffing. There is currently only one individual who performs both administrative support and development on the JD Edwards/Oracle platform. Until the IT team can complete the recommended IT structure, fill vacancies and fully train new individuals, the team are unable to segregate duties appropriately.

9. Privilege Access review

Observation

Deloitte noted that four Accounting/Finance users have administrative level access to Oracle database which grants them access beyond their job responsibilities.

There is a risk that the level of security is inappropriate as Accounting/Finance users having administrative access within the database. These Accounting/Finance users have authority to make changes in database given their nature of privilege access leading to unauthorized changes.

If access privileges are not established effectively, data integrity, confidentiality, and availability may be compromised through intentional or unintentional errors.

Recommendation

Administrative access to Database should be restricted to IT users only to ensure that access changes are limited to authorized individuals only.

Management Response

Management indicated that the four Accounting/Finance users were granted temporary access to Oracle database for testing purpose. It is agreed that these four Accounting/Finance users should not have access to Database in the normal course of operations. Management has confirmed that the access for these four Accounting/Finance users has been removed from Oracle Database.

Appendix 5 – Draft management representation letter

[CLIENT LETTERHEAD]

July 27, 2020

Private and confidential

Deloitte LLP
400 Applewood Cres
Suite 500
Vaughan ON L4K 0C3

Dear Ms. Colavecchia:

**Subject: Consolidated financial statements of the Corporation of the Town of Newmarket
for the year ended December 31, 2019**

This representation letter is provided in connection with the audit by Deloitte LLP ("Deloitte" or "you") of the consolidated financial statements of the Corporation of the Town of Newmarket (the "Town" or "we" or "us") as at, and for the year ended December 31, 2019, and a summary of significant accounting policies and other explanatory information (the "Financial Statements") for the purpose of expressing an opinion as to whether the Financial Statements present fairly, in all material respects, the financial position, results of operations, changes in net financial assets and cash flows of the Town in accordance with Canadian Public Sector Accounting Standards ("PSAS").

Certain representations in this letter are described as being limited to matters that are material. Items are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial statements

1. We have fulfilled our responsibilities as set out in the terms of the Master Services Agreement for Professional Services between the Town and Deloitte dated November 14, 2017 and the confirmation of changes dated September 7, 2018 for the preparation of the Financial Statements in accordance with PSAS. In particular, the Financial Statements are fairly presented, in all material respects, and present the financial position of the Town as at December 31, 2019 and the results of its operations, changes in net financial assets and cash flows for the year then ended in accordance with PSAS.
2. Significant assumptions used in making estimates, including those measured at fair value, are reasonable.

In preparing the Financial Statements in accordance with PSAS, management makes judgments and assumptions about the future and uses estimates. The completeness and appropriateness of the disclosures related to estimates are in accordance with PSAS. The Town has appropriately disclosed in the Financial Statements the nature of measurement uncertainties that are material, including all estimates where it is reasonably possible that the estimate will change in the near term and the effect of the change could be material to the Financial Statements.

The measurement methods, including the related assumptions and models, used in determining the estimates, including fair value, were appropriate, reasonable and consistently applied in accordance with PSAS and appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the entity. No events have occurred subsequent to December 31, 2019 that require adjustment to the estimates and disclosures included in the Financial Statements.

There are no changes in management's method of determining significant estimates in the current year.

3. We have determined that the Financial Statements are complete as of the date of this letter as this is the date when there are no changes to the Financial Statements (including disclosures) planned or expected. The Financial Statements have been approved in accordance with our process to finalize financial statements.
4. We have completed our review of events after December 31, 2019 and up to the date of this letter. All events subsequent to the date of the Financial Statements and for which PSAS requires adjustment or disclosure have been adjusted or disclosed. Accounting estimates and disclosures included in the Financial Statements that are impacted by subsequent events have been appropriately adjusted.
5. The Financial Statements are free of material errors and omissions.

We believe that the effects of any uncorrected Financial Statement misstatements pertaining to the current period presented, are immaterial, both individually and in the aggregate, to the Financial Statements taken as a whole. A list of the uncorrected misstatements aggregated by you is attached in Appendix A.

As a result of our evaluation process, we identified certain disclosures that, although required by PSAS, have been omitted from our Financial Statements. Those omitted disclosures that are more than inconsequential are attached as Appendix B. We believe the effects of the omitted disclosures are quantitatively and qualitatively immaterial, both individually and in the aggregate, to the Financial Statements as a whole.

Internal Controls

6. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
7. We have disclosed to you all known deficiencies in the design or operation of internal control over financial reporting identified as part of our evaluation, including separately disclosing to you all such deficiencies that we believe to be significant deficiencies in internal control over financial reporting.

Information provided

8. We have provided you with:
 - a. Access to all information of which we are aware that is relevant to the preparation of the Financial Statements, such as records, documentation and other matters.
 - b. All relevant information as well as additional information that you have requested from us for the purpose of the audit; and,
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
9. We have disclosed to you the results of our assessment of the risk that the Financial Statements may be materially misstated as a result of fraud.

10. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
 - a. Management;
 - b. Employees who have significant roles in internal control; or
 - c. Others where the fraud could have a material effect on the Financial Statements.
11. We have disclosed to you all information in relation to allegations of actual, suspected or alleged fraud, or illegal or suspected illegal acts affecting the Town.
12. There have been no communications with regulatory agencies concerning actual or potential noncompliance with or deficiencies in financial reporting practices. There are also no known or possible instances of non-compliance with the requirements of regulatory or governmental authorities.
13. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware, including guarantees, non-monetary transactions and transactions for no consideration.

Independence matters

For purposes of the following paragraphs, "Deloitte" shall mean Deloitte LLP and Deloitte Touche Tohmatsu Limited, including related member firms and affiliates.

14. Prior to the Town having any substantive employment conversations with a former or current Deloitte engagement team member, the Town has held discussions with Deloitte and obtained approval.
15. We have ensured that all services performed by Deloitte with respect to this engagement have been pre-approved by those charged with governance in accordance with its established approval policies and procedures.

Other matters

Except where otherwise stated below, immaterial matters less than \$125,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the Financial Statements.

16. Except as listed in Appendix A, all transactions have been properly recorded in the accounting records and are reflected in the Financial Statements.
17. The Town has identified all related parties in accordance with Section PS 2200, *Related Party Disclosures* ("PS 2200"). Management has made the appropriate disclosures with respect to its related party transactions in accordance with PS 2200. This assessment is based on all relevant factors, including those listed in paragraph 16 of PS 2200.
18. There are no instances of identified or suspected noncompliance with laws and regulations.
19. We have disclosed to you all known, actual or possible litigation and claims, whether or not they have been discussed with our lawyers, whose effects should be considered when preparing the Financial Statements. As appropriate, these items have been disclosed and accounted for in the Financial Statements in accordance with PSAS.
20. All events subsequent to the date of the Financial Statements and for which PSAS requires adjustment or disclosure have been adjusted or disclosed. Accounting estimates and disclosures included in the Financial Statements that are impacted by subsequent events have been appropriately adjusted.

21. We have disclosed to you all liabilities, provisions, contingent liabilities and contingent assets, including those associated with guarantees, whether written or oral, and they are appropriately reflected in the Financial Statements.
22. We have disclosed to you, and the Town has complied with all aspects of contractual agreements that could have a material effect on the Financial Statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
23. The Town has satisfactory title to and control over all assets, and there are no liens or encumbrances on such assets. We have disclosed to you and in the Financial Statements all assets that have been pledged as collateral.

Communications with taxation and regulatory agencies

24. We have disclosed to you all communications from:
 - a. Taxation authorities concerning assessments or reassessments that could have a material effect on the Financial Statements; and
 - b. Regulatory agencies concerning noncompliance with or potential deficiencies in, financial reporting requirements.

Deficiencies in internal control

25. We have communicated to you all deficiencies in internal control of which we are aware. We have disclosed to you any change in the Town's internal control over financial reporting that occurred during the current year that has materially affected, or is reasonably likely to materially affect, the Town's internal control over financial reporting.

Work of management's experts

26. We agree with the work of management's experts in evaluating the valuation of post-employment benefits liability and long-term disability benefits liability and have adequately considered the capabilities of the experts in determining amounts and disclosures used in the Financial Statements and underlying accounting records. We did not give any, nor cause any, instructions to be given to management's experts with respect to values or amounts derived in an attempt to bias their work, and we are not aware of any matters that have impacted the independence or objectivity of the experts.

Liabilities and contingencies

27. We have disclosed to you all liabilities, provisions, contingent liabilities and contingent assets, including those associated with guarantees, whether written or oral, and they are appropriately reflected in the Financial Statements.

Loans and receivables

28. The Town is responsible for determining and maintaining the adequacy of the allowance for doubtful notes, loans, and accounts receivable, as well as estimates used to determine such amounts. Management believes the allowances are adequate to absorb currently estimated bad debts in the account balances.

Employee future benefits

29. Employee future benefit costs, assets, and obligations have been properly recorded and adequately disclosed in the Financial Statements including those arising under defined benefit plans as well as termination arrangements. We believe that the actuarial assumptions and methods used to measure defined benefit plan assets, liabilities and costs for financial accounting purposes are appropriate in the circumstances.

Government transfers

30. We have disclosed to you all correspondence relating to government transfers that the Town has had with the funding body.
31. We have assessed the eligibility criteria and determined that the Town is an eligible recipient for the government transfers received.
32. We have assessed the stipulations attached with the funding and have recognized the revenue in accordance with meeting the stipulations required.
33. All government transfers that have been recorded as deferred revenue give rise to an obligation that meets the definition of a liability. Those liabilities have been properly recorded and presented in the Financial Statements.

Tax Revenues

34. We have appropriately recorded tax assets and revenues when they meet the definition of an asset in accordance with Section PS 1000, Financial Statement Concepts, when they are authorized and when the taxable event occurs. These amounts have been appropriately measured in accordance with PS 3510, Tax Revenue, and have not been grossed up for any amount of tax concessions.

Tangible capital assets

35. Tangible capital assets have been recorded properly and consistently according to the standards in Section PS 3150, Tangible Capital Assets.
36. Contributed tangible capital assets have been appropriately recorded at fair value, unless fair value is not reasonably determinable, and in such case, have been recorded at an appropriate nominal value. All contributed tangible capital assets have been appropriately disclosed.
37. We have assessed the useful lives of tangible capital assets and have determined all tangible capital assets contribute to the Town's ability to provide goods and services and therefore do not require a write down.

Environmental liabilities/contingencies

38. We have considered the effect of environmental matters on the Town and have disclosed to you all liabilities, provisions or contingencies arising from environmental matters. All liabilities, provisions, contingencies and commitments arising from environmental matters, and the effect of environmental matters on the carrying values of the relevant assets are recognized, measured and disclosed, as appropriate, in the Financial Statements.

Government Business Enterprises and Government Partnerships

39. The Town has appropriately classified its investments in Newmarket Hydro Holdings Inc. as a Government Business Partnership.

With regard to the Town's investment in Newmarket Hydro Holdings Inc. we have disclosed to you any events that have occurred and facts that have been discovered with respect to such investment that would affect the investment's value as reported in the financial statements.

Liabilities for contaminated sites

39. We have evaluated all of our tangible capital assets that we have direct responsibility for or accept responsibility for, and have not identified any sites in which contamination exceeds an environmental standard.

Yours truly,

The Corporation of the Town of Newmarket

Mr. Mike Mayes
Director of Financial Services and Treasurer

Mr. Jag Sharma
Chief Administrative Officer

Appendix A
Town of Newmarket
Summary of corrected and uncorrected financial statement misstatements
Year ended December 31, 2019

Corrected misstatements – Town

1. To correct for the variance in the foreign exchange current cash balance between the spot rate per Bank of Canada and the exchange rate used by Town as at December 31, 2019.
 - a. Dr. Foreign exchange loss \$148,665
 - b. Cr. Cash \$148,665
2. To correct for the over accrual of approximately \$500,000 related to certain post retirement benefits (calculated once in the actuary report and separately by another party). However, the over accrual of \$500,000 was corrected to the General Government cost centre, rather than the cost centre where approximately \$500,000 of expenses are recognized.
 - a. Dr. Accrued liabilities \$500,000
 - b. Cr. Expenses \$500,000
3. To reclassify approximately \$8.4M between reserve balances in fiscal 2019.
 - a. Dr. Water and Wastewater Reserve \$8,356,530
 - b. Cr. Parks and Other ARF \$8,356,530

Corrected misstatements – Library

4. To correct for the overstatement of the partnership liability related to Cinemania.
 - a. Dr. Due to Partnerships Liability \$6,393
 - b. Cr. Due from Town of Newmarket \$6,393
5. To correct for the understatement of the vacation accrual.
 - a. Dr. Expenses \$9,631
 - b. Cr. Accounts payable and accrued liabilities \$9,631
6. To correct the timing of the recognition of expenditures and associated revenue recognition for fire door installation that was not performed until fiscal 2020 and therefore should not have been recognized in 2019.
 - a. Dr. Municipal contributions towards tangible capital assets - revenue \$18,360
 - b. Dr. Accounts payable and accrued liabilities \$18,360
 - c. Cr. Due from Town of Newmarket \$18,360
 - d. Cr. Building and property maintenance - expense \$18,360

Corrected misstatement – BIA

7. To correct for expenses related to BIA events that occurred during 2019 and services received by the BIA during fiscal 2019. These transactions were not captured in the fiscal 2019 year end close.
 - a. Dr. Expenses \$4,278
 - b. Cr. Due from Town of Newmarket \$4,278

Appendix A
Town of Newmarket
Summary of corrected and uncorrected financial statement misstatements
Year ended December 31, 2019

Corrected misstatement – detected in the current year relating to the prior year and corrected through a restatement of 2018 comparative balances in the 2019 financial statements - BIA

8. To restate the 2018 comparative figures for fiscal 2018 revenues and expenses recognized during fiscal 2019. The following correction has been made to the 2018 comparative amounts to correct this error.
- | | | |
|-------------------------------------|---------|---------|
| a. Dr. Promotion and events expense | \$1,614 | |
| b. Cr. Events revenue | | \$358 |
| c. Cr. Due from Town of Newmarket | | \$1,256 |

Uncorrected misstatements - Town

9. A WIP addition was incorrectly capitalized in 2018 when it related to non-capital expenditures that occurred in 2017. The amount capitalized in 2018 was written off in 2019, overstating expenditures in 2019 and understating TCA. The prior year impact is noted in item 11 below.
- | | | |
|----------------------------|-----------|-----------|
| a. Dr. Accumulated Surplus | \$162,816 | |
| b. CR. Expense | | \$162,816 |
10. Interest earned on investments and reinvested was not incorporated into the book value of the investment resulting in errors to the interest receivable, investment income and investment balance for F2019.
- | | | |
|----------------------------|-----------|-----------|
| a. Dr. Investment | \$226,560 | |
| b. Dr. Investment Income | \$28,013 | |
| c. CR. Interest Receivable | | \$254,573 |

Uncorrected misstatements - detected in the current year relating to the prior year - Town

11. A WIP addition was incorrectly capitalized during 2018 as it related to non-capital expenditures that occurred during 2017. The amount capitalized in 2018 was also for the incorrect balance, and only \$107,042 of the \$162,816 should have been recognized. The current year impact is noted in item 9 above.
- | | | |
|----------------------------|-----------|-----------|
| a. Dr. Expense | \$107,042 | |
| b. Dr. Accrued Liabilities | \$55,774 | |
| c. CR. TCA - WIP | | \$162,816 |
12. Upon performing lookback testing on the Retro Pay Accrual for the fire fighters, Deloitte noted that there was an over accrual in the 2018 accrual booked that was reversed in year in accounts payable and expenditures. The 2018 accrual was based on the best information that the Town had at the time, however after the settlement was reached in 2019 it was determined that the accrual was more conservative than required.
- | | | |
|----------------------------|-----------|-----------|
| a. Dr. Accrued Liabilities | \$439,473 | |
| b. Cr. Expenditures | | \$439,473 |
13. Interest earned on investments and reinvested was not incorporated into the book value of the investment resulting in errors to the interest receivable, investment income and investment balance for F2018.
- | | | |
|----------------------------|-----------|-----------|
| a. Dr. Investment | \$90,093 | |
| b. Dr. Investment Income | \$244,377 | |
| c. CR. Interest Receivable | | \$334,410 |

Appendix A
Town of Newmarket
Summary of corrected and uncorrected financial statement misstatements
Year ended December 31, 2019

Uncorrected misstatements - Library

None identified

Uncorrected misstatements - BIA

None identified

DRAFT

Appendix B
Town of Newmarket
Summary of disclosure items passed
Year ended December 31, 2019

<i>Footnote number</i>	<i>Footnote title</i>	<i>Description of omitted or unclear disclosure</i>	<i>Authoritative literature reference</i>
Note 5	Temporary Investments	Interest earned on investments where the interest is reinvested has not been incorporated into the book value of the investment balance in Note 5.	The book value disclosed in Note 5 differs from the statements provided by the financial institution by the amounts indicated above in misstatement # 10 and misstatement #13.
Note 10	Investment in Newmarket Hydro Holdings Inc.	The Town's consolidated financial statement note disclosure omits the disclosure of the contractual obligations and commitments of Newmarket Hydro Holdings Inc.	PS 3070.60 Government consolidated financial statements should disclose, in notes or schedules, condensed supplementary financial information relative to government business enterprises. Such financial information should be provided on: (d) contractual obligations and contingencies

Disclosure misstatements – Library

None identified

Disclosure misstatements – BIA

None identified



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Consolidated financial statements of

**The Corporation of the
Town of Newmarket**

December 31, 2019

The Corporation of the Town of Newmarket

December 31, 2019

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Independent Auditor's Report

To the Members of Council of
The Corporation of the Town of Newmarket

Opinion

We have audited the consolidated financial statements of The Corporation of the Town of Newmarket (the "Town"), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statements of operations and accumulated surplus, change in net financial assets and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Town as at December 31, 2019, and the results of its operations, changes in net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Town in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Town's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Town or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Town's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Town's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Town to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Town to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Chartered Professional Accountants
Licensed Public Accountants
July 27, 2020

THE CORPORATION OF THE TOWN OF NEWMARKET**Consolidated Statement of Financial Position****December 31, 2019**

	<u>2019</u>	<u>2018</u>
FINANCIAL ASSETS		
Cash and cash equivalents (Note 4)	\$ 52,586,372	\$ 66,063,864
Temporary investments (Note 5)	62,968,260	54,082,164
Taxes receivable (Note 6) (a)	5,324,399	4,181,146
Unbilled user charges	6,827,688	6,030,968
Accounts receivable (Note 6) (b)	7,399,855	7,166,547
Inventory for resale (Note 8)	43,450	56,952
Surplus land (Note 9)	155,285	155,285
Loans receivable (Note 6) (c)	120,097	147,474
Investment in Newmarket Hydro Holdings Inc. (Note 10)	67,910,617	68,452,251
	203,336,023	206,336,651
LIABILITIES		
Accounts payable and accrued liabilities (Note 11)	31,795,118	28,843,766
Interest payable on long-term debt	710,869	921,522
Employee future benefits liability (Note 12)	7,457,790	6,128,206
Long-term disability benefits liability (Note 13)	4,502,355	4,461,290
Deferred revenue (Note 14)	43,008,294	42,319,541
Long-term debt (Note 15)	45,081,715	56,562,744
	132,556,141	139,237,069
NET FINANCIAL ASSETS	70,779,882	67,099,582
NON-FINANCIAL ASSETS		
Inventory (Note 8)	756,772	551,589
Prepaid expenses and other (Note 7)	2,322,308	3,170,927
Tangible capital assets (Note 25)	518,383,541	514,435,905
	521,462,621	518,158,421
ACCUMULATED SURPLUS (Note 21)	\$ 592,242,503	\$ 585,258,003

Contingencies and lease agreements (Notes 17 and 18)

THE CORPORATION OF THE TOWN OF NEWMARKET

Consolidated Statement of Operations and Accumulated Surplus

Year ended December 31, 2019

	2019		2018
	<u>Budget</u>	<u>Actual</u>	<u>Actual</u>
	(Note 2)		
REVENUES			
Taxation and user charges			
Residential and farm taxation	\$ 52,268,182	\$ 52,243,991	\$ 50,561,618
Commercial, industrial and business taxation	10,451,591	10,536,717	9,803,052
Taxation from other governments	722,525	842,041	828,720
User charges	54,416,594	55,803,009	51,942,646
	117,858,892	119,425,758	113,136,036
Government Transfers (Note 22)			
Government of Canada	1,205,174	1,106,248	763,617
Federal Gas Tax (Note 14)	2,672,958	2,602,483	2,183,005
Province of Ontario	1,410,901	2,581,618	2,532,967
	5,289,033	6,290,349	5,479,589
Other			
Contribution from developers	8,411,181	8,489,238	10,714,091
Investment income	3,646,407	3,685,633	4,437,998
Fine, penalties and interest	1,725,754	1,681,254	1,431,044
Rent and other	2,905,566	2,909,993	2,421,197
(Loss) on disposal of tangible capital assets	-	(222,999)	(91,883)
	16,688,908	16,543,119	18,912,447
TOTAL REVENUES	\$ 139,836,833	\$ 142,259,226	\$ 137,528,072

THE CORPORATION OF THE TOWN OF NEWMARKET

Consolidated Statement of Operations and Accumulated Surplus

Year ended December 31, 2019

	2019		2018
	<u>Budget</u> (Note 2)	<u>Actual</u>	<u>Actual</u>
EXPENSES (Note 26)			
General government	\$ 17,329,213	\$ 17,888,430	\$ 16,945,788
Protection to persons and property	20,180,677	19,334,894	17,911,072
Transportation services	14,136,787	16,728,171	14,853,467
Environmental services	40,785,527	40,501,514	38,825,431
Recreation and cultural services	34,372,753	36,081,394	34,091,822
Planning and development	4,304,260	3,655,469	3,496,009
	131,109,217	134,189,872	126,123,589
(Loss)/Income From Newmarket Hydro Holdings Inc. (Note 10)	2,336,000	(541,634)	926,084
Investment Income Adjustment (Note 10)	-	-	(87,412)
(Loss)/Gain on foreign exchange	-	(543,220)	522,214
ANNUAL SURPLUS	11,063,616	6,984,500	12,765,369
ACCUMULATED SURPLUS, BEGINNING OF YEAR	585,258,003	585,258,003	572,492,634
ACCUMULATED SURPLUS, END OF YEAR	\$ 596,321,619	\$ 592,242,503	\$ 585,258,003

THE CORPORATION OF THE TOWN OF NEWMARKET
Consolidated Statement of Change in Net Financial Assets
Year ended December 31, 2019

	2019		2018
	Budget	Actual	Actual
	(Note 2)		
Annual surplus	\$ 11,063,616	\$ 6,984,500	\$ 12,765,369
Acquisition of tangible capital assets	(22,417,091)	(20,493,072)	(39,029,587)
Contributed tangible capital assets	-	(678,434)	(5,270,605)
Amortization of tangible capital assets	16,744,354	16,857,430	16,266,866
Proceeds from sale of tangible capital assets	-	143,441	216,412
Loss on disposal of tangible capital assets	-	222,999	91,883
	(5,672,737)	(3,947,636)	(27,725,031)
Changes due to inventory	(11,032)	(205,183)	(207,003)
Changes due to prepaid expenses and other	640,000	848,619	(619,689)
	628,968	643,436	(826,692)
CHANGE IN NET FINANCIAL ASSETS	6,019,847	3,680,300	(15,786,354)
NET FINANCIAL ASSETS, BEGINNING OF YEAR	67,099,582	67,099,582	82,885,936
NET FINANCIAL ASSETS, END OF YEAR	73,119,429	70,779,882	67,099,582

THE CORPORATION OF THE TOWN OF NEWMARKET

Consolidated Statement of Cash Flows

Year ended December 31, 2019

	2019		2018
	<u>Budget</u>	<u>Actual</u>	<u>Actual</u>
	(Note 2)		
CASH PROVIDED BY (USED IN):			
OPERATING ACTIVITIES			
Cash received from			
Taxation	\$ 63,318,954	61,073,205	\$ 61,796,258
User charges	53,934,117	54,557,980	\$ 51,347,960
Government transfers	4,495,678	5,751,621	\$ 6,549,977
Contributions from developers	4,517,810	10,221,897	\$ 6,853,953
Investment income	5,469,540	4,427,550	\$ 5,049,009
Fine, penalties and interest	1,725,754	1,700,052	\$ 1,489,466
Rent and other	1,569,566	2,913,570	\$ 2,434,311
Aurora's share of Central York Fire Services	11,182,125	10,729,902	\$ 10,190,853
	146,213,544	151,375,777	\$ 145,711,787
Cash paid for			
Salaries, wages and employee benefits	61,514,565	63,257,214	\$ 60,605,483
Materials, goods, and supplies	5,649,450	10,170,920	\$ 5,888,053
Utilities	4,339,226	4,869,690	\$ 4,254,143
Contracted and general services	42,764,337	38,010,421	\$ 37,642,822
Capital repairs and maintenance	11,139,376	4,631,409	\$ 9,303,959
Interest on long-term debt	2,304,739	2,304,739	\$ 1,853,449
Rents and financial	290,671	278,683	\$ 284,972
	128,002,364	123,523,076	\$ 119,832,881
Net change in cash from operating activities	18,211,180	27,852,701	\$ 25,878,906
CAPITAL ACTIVITIES			
Proceeds on disposal of tangible capital assets	-	143,441	\$ 216,412
Acquisition of tangible capital assets	(22,417,091)	(20,493,072)	\$ (39,029,590)
Net change in cash from capital activities	(22,417,091)	(20,349,631)	\$ (38,813,178)
INVESTMENT ACTIVITIES			
(Loss)/Gain on Foreign Exchange	-	(543,220)	\$ 522,214
Temporary investments	13,082,164	(8,886,096)	\$ (11,082,164)
Net change in cash from investment activities	13,082,164	(9,429,316)	\$ (10,559,950)

The accompanying notes are an integral part of these consolidated financial statements.

THE CORPORATION OF THE TOWN OF NEWMARKET

Consolidated Statement of Cash Flows

Year ended December 31, 2019

	2019		2018
	<u>Budget</u>	<u>Actual</u>	<u>Actual</u>
FINANCING ACTIVITIES			
Proceeds from issuance of long-term debt	-	-	\$ 26,000,000
Principal repayment on long-term debt	(3,796,046)	(11,551,246)	\$ (3,111,517)
Net change in cash from financing activities	(3,796,046)	(11,551,246)	\$ 22,888,483
NET CHANGE IN CASH	5,080,207	(13,477,492)	\$ (605,739)
CASH, BEGINNING OF YEAR	66,063,864	66,063,864	\$ 66,669,603
CASH, END OF YEAR	\$ 71,144,071	52,586,372	\$ 66,063,864
Supplementary information:			
Interest paid		2,304,739	\$ 1,853,448
Interest received		1,815,802	\$ 2,028,096

Notes to the Consolidated Financial Statements
December 31, 2019

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

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 expenses 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-organizational transactions and balances have been 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 Canadian Public Sector Accounting Standards for investments in 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 consolidated statement of operations and accumulated surplus 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.

(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.

(b) Basis of accounting

(i) Accrual basis of accounting

Revenues and expenses are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenues as they are earned and measurable; expenses are recognized in the period goods and services are acquired and a liability is incurred or transfers are due.

Notes to the Consolidated Financial Statements
December 31, 2019

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of accounting (continued)

(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 - 40
Buildings and building components	20 - 40
Vehicles	4 - 20
Machinery and equipment, including pooled assets	3 - 20
Library collection	7
Linear assets	
- Road base	40
- Road paved surface	20
- Sewer	80
- Watermain	80
- Sidewalks	25
- Trails and walkways	25
- Bridges and structures	25 - 75

Tangible capital 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 tangible capital 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 tangible capital 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. Inventories held for resale are recorded at the lower of cost and net realizable value.

Notes to the Consolidated Financial Statements
December 31, 2019

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of accounting (continued)

(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) Liability for contaminated sites

A contaminated site is a site at which substances occur in concentration that exceed the maximum acceptable amounts under an environmental standard. Sites that are currently in productive use are only considered a contaminated site if an unexpected event results in contamination. A liability for remediation of contaminated sites is recognized when the Town is directly responsible or accepts responsibility; it is expected that future economic benefits will be given up; and a reasonable estimate of the amount can be made. The liability includes all costs directly attributable to remediation activities including post-remediation operations, maintenance and monitoring. The liability is recorded net of any expected recoveries.

(v) Deferred revenue

Deferred revenues includes user charges, government transfers, development charges and other 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 14 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) Long-Term Disability Benefits

The present value of the cost of providing employees with future long-term disability income benefits is expensed as employees earn these entitlements. The cost of the benefits earned by employees is actuarially determined using the projected benefit method for currently disabled employees. Actuarial gains and losses arising in a year are amortized into future years' expenses over the average expected period during which benefits will be paid.

(viii) Pension Plan

The Town is an employer member of the Ontario Municipal Employees Retirement System (OMERS), which is a multi-employer, defined benefit pension plan. The Board of Trustees, representing plan members and employers, is responsible for overseeing the management of the pension plan, including investment of assets and administration of the benefits. The Town has adopted defined contribution plan accounting principles for this Plan because insufficient information is available to apply defined benefit plan accounting principles. The Town records as pension expense the amounts paid to OMERS during the year.

Notes to the Consolidated Financial Statements
December 31, 2019

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(ix) Revenue Recognition

(a) Taxes and user charges

Taxes are recorded at estimated amounts when they meet the definition of an asset, have been authorized and the taxable event occurs. For property taxes, the taxable event is the period for which the tax is levied. Taxes receivable are recognized net of an allowance for anticipated uncollectable amounts.

Charges for wastewater and water usage are recorded as user fees. Connection fee revenues are recognized when the connection has been established.

Sales of service and other revenue is recognized on an accrual basis.

(b) Investment income

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

(c) Government transfers

Government transfers include entitlements, transfers under shared cost agreements, and grants. Revenue is recognized when the transfer is authorized and any eligibility criteria are met, except to the extent that transfer stipulations give rise to an obligation that meets the definition of a liability. Transfers are recognized as deferred revenue when transfer stipulations give rise to a liability. Transfer revenue is recognized in the statement of operations as the stipulation liabilities are settled.

(x) Use of estimates

The preparation of financial statements in conformity with Canadian Public Sector Accounting Standards 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 expenses during the year. The principal estimates used in the preparation of these financial statements include the useful life and valuation of tangible capital assets, allowance for doubtful receivables, certain accrued liabilities, employee future benefits liability and long-term disability benefits liability. Actual results could differ from these estimates.

(xi) 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 Accumulated Surplus. 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 amounts.

Notes to the Consolidated Financial Statements
December 31, 2019

2. BUDGET RECONCILIATION

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

	Revenue	Expenses
Council approved budget for 2019:		
Operating fund - March 4, 2019	\$ 130,272,108	\$ 130,272,108
Less: Principal payment on long-term debt	-	(3,854,085)
Less: Transfers to / from other funds	(1,587,687)	(16,138,930)
Capital budget - March 4, 2019	27,692,765	27,692,765
Plus: Budgets from previous years assigned to 2019	34,795,799	34,795,799
Less: New capital budgets assigned to future years	(12,078,000)	(12,078,000)
Less: Transfers to / from other funds	(16,450,558)	-
Plus: Forecasted budget revisions - December 16, 2019	(24,000,000)	(24,000,000)
Reserves and reserve funds -	18,374,337	17,745,246
Less: Transfers to / from other funds	(15,845,931)	(17,745,246)
TOTAL COUNCIL APPROVED BUDGET	141,172,833	136,689,657
Less: Tangible Capital Assets Capitalized	-	(22,417,091)
Plus: Budgeted amortization expense	-	16,744,354
Plus: Post-employment benefit expenses	-	92,297
Plus: Investment income from Newmarket Hydro Holdings Inc.	1,000,000	-
Adjusted Budget per Consolidated Statement of Operations and Accumulated Surplus	<u>\$ 142,172,833</u>	<u>\$ 131,109,217</u>

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:

	School Boards	Region
Property taxes and taxation from other governments	\$ 50,254,416	\$ 66,139,687

4. CASH AND CASH EQUIVALENTS

Cash is comprised of cash on hand and cash held in financial institutions. Management considers all highly liquid investments with original maturity of three months or less to be cash equivalents. The \$20,000,000 non-redeemable guaranteed investment certificate, with an annual interest rate of 2.5%, matured January 8, 2019.

Cash is segregated as follows:

	2019	2018
Restricted - obligatory reserve funds (refer to Note 14)	\$ 41,201,994	\$ 41,315,122
Designated - reserve funds (refer to Note 21)	40,214,257	46,382,449
Less: temporary investments (Note 5)	(62,968,260)	(54,082,164)
	18,447,991	33,615,407
Unrestricted and undesignated	\$ 34,138,381	32,448,457
	<u>\$ 52,586,372</u>	<u>\$ 66,063,864</u>

Notes to the Consolidated Financial Statements
December 31, 2019

5. TEMPORARY INVESTMENTS

Temporary investments are recorded at the lower of cost and market value.

	2019	2018
Cash held in investment accounts	\$ 216,343	850,501
Maturity within 1-2 years	\$ 40,024,592	25,231,663
Maturity within 2-3 years	\$ 7,139,102	16,000,000
Maturity within 3-4 years	\$ 9,466,981	6,000,000
Maturity within 4-5 years	\$ 6,121,242	6,000,000
	\$ 62,968,260	\$ 54,082,164

6. RECEIVABLES

(a) Taxes receivable

	2019	2018
Current year	\$ 4,067,972	\$ 3,703,991
Arrears previous years	2,172,170	1,592,899
	6,240,142	5,296,889
Less allowance	915,743	1,115,743
	\$ 5,324,399	\$ 4,181,146

(b) Accounts receivable

	2019	2018
Government entities	\$ 3,965,439	\$ 1,835,372
Newmarket Hydro Holdings Inc.	379,087	1,336,608
Trade receivables, user fees and other receivables	3,147,401	4,165,347
	7,491,927	7,337,327
Less allowance	92,072	170,780
	\$ 7,399,855	\$ 7,166,547

(c) Loans receivable

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.

7. PREPAID EXPENSES AND OTHER

Prepaid expenses include prepaid insurance premiums, software licenses and support and other items totalling \$481,164 (2018 - \$1,251,358). Other expenses represent the Town's payment of \$1,311,775 (2018 - \$1,405,556) for the shared use of an artificial turf field with York Region Board of Education for 10 years starting in April 2018 less annual amortization of \$117,130 (2018 - 93,781).

8. INVENTORY FOR RESALE

Inventory for resale includes water meters to be sold to developers. Inventory included in non-financial assets is comprised of salt and sand used in winter control of area roads, as well as consumable items and parts used by staff.

9. SURPLUS LAND

The Town owns three parcels of land that are declared surplus. One is for access to a storm water management pond with a carrying value of \$121,687, the other two small parcels of land is road allowance, with a cumulative carrying value of \$33,598.

Notes to the Consolidated Financial Statements
December 31, 2019

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 services.

Effective May 1, 2007 Newmarket Hydro Ltd. merged with Tay Hydro Electric Distribution Company Inc. to form Newmarket-Tay Power Distribution Ltd. Newmarket Hydro Holdings Inc. owns 93% of the outstanding common shares of Newmarket-Tay Power Distribution Ltd.

The financial statements of Newmarket Hydro Holdings Inc. (the "Corporation") have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRS).

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 5.48% 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>2019</u>	<u>2018</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.	16,301,275	16,842,909
Total investment	\$ 67,910,617	\$ 68,452,251

The following summarizes the Town'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>2019</u>	<u>2018</u>
Revenues:		
Investment income	\$ 1,205,600	\$ 1,205,600
Rent, property tax and other	420,379	440,874
Expenses:		
Energy purchases	2,881,949	2,707,348
Services - street light capital & maintenance	7,070	21,066
Dividends received during the year	1,336,000	1,336,000
Dividends accrued as at December 31	-	1,336,000
Accounts payable	345,993	310,709

Notes to the Consolidated Financial Statements
December 31, 2019

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

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

	2019	2018
Financial position		
Current assets	\$ 38,379,186	\$ 31,990,420
Capital assets, future income taxes and other	130,742,459	123,929,797
Regulatory deferral account debit balances	3,914,379	10,985,630
Total assets	173,036,024	166,905,847
Current liabilities	29,377,939	22,787,915
Long term liabilities	92,989,611	89,335,591
Total liabilities	122,367,550	112,123,506
Non-controlling interest	3,193,391	3,381,444
Shareholder equity		
Share capital	29,609,342	29,609,342
Retained earnings	16,350,083	18,148,244
Accumulated other comprehensive (loss)/income	(48,808)	30,665
	45,910,617	47,788,251
Regulatory deferral account credit balances	1,564,466	3,612,646
Total liabilities and equity	\$ 173,036,024	\$ 166,905,847
Results of operations		
Revenues	\$ 124,102,620	\$ 101,841,069
Operating expenses	(118,681,326)	(104,516,118)
Financing expenses	(2,322,523)	(1,325,354)
Other income	2,634,862	2,225,644
Non-controlling interest	81,071	(56,282)
Income tax	105,304	(4,029,364)
Net movement on regulatory accounts	(6,382,169)	6,786,489
Net (loss)/income	(462,161)	926,084
Comprehensive loss	(79,473)	-
Net (loss)/income and Comprehensive loss	(541,634)	926,084
Retained earnings, beginning of year	18,178,909	18,588,825
Net (loss)/income	(541,634)	926,084
Dividends paid	(1,336,000)	(1,336,000)
Retained earnings, end of the year	\$ 16,301,275	\$ 18,178,909
In Town's books		
Retained earnings, as at December 31	\$ 16,301,275	\$ 18,178,909
Less: Dividends accrued as at December 31	-	(1,336,000)
Adjusted retained earnings, end of year	16,301,275	16,842,909

Notes to the Consolidated Financial Statements
December 31, 2019

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	<u>2019</u>	<u>2018</u>
Government entities	\$ 11,962,032	\$ 13,000,471
Payroll liabilities	2,290,076	2,715,401
Trade payables and other accrued liabilities	17,543,010	13,127,894
	<u>\$ 31,795,118</u>	<u>\$ 28,843,766</u>

Accounts payable and accrued liabilities to government entities includes water and wastewater charges, development charges, and capital expenditures.

12. EMPLOYEE FUTURE BENEFITS LIABILITY

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 liabilities for employee future benefits has been completed and forms the basis for the estimated liability reported in these consolidated financial statements.

	<u>2019</u>	<u>2018</u>
Employee future benefits liability	\$ 7,006,252	\$ 5,682,723
Vacation pay	451,538	445,483
	<u>\$ 7,457,790</u>	<u>\$ 6,128,206</u>

Employee Future Benefits are comprised of health and dental benefits that are provided to 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 \$7,006,252 was determined by the last actuarial valuation carried out as at December 31, 2019, using a discount rate of 2.8%.

Total benefit payments to retirees during the year were \$258,252 (2018 - \$90,052). The plan is substantially unfunded and requires no contributions from employees. The benefit liability at December 31 includes the following components:

	<u>2019</u>	<u>2018</u>
Accrued benefits obligation	\$ 6,790,658	\$ 5,862,082
Unamortized actuarial gains (losses)	215,594	(179,359)
Employee future benefits liability	<u>\$ 7,006,252</u>	<u>\$ 5,682,723</u>
Employee future benefits liability, beginning of the year	\$ 5,682,723	\$ 5,247,859
Annual amortization of actuarial losses	2,938	30,282
Current period service cost	1,387,001	297,859
Interest cost	191,842	196,775
Benefits paid	(258,252)	(90,052)
Employee future benefits liability, end of the year	<u>\$ 7,006,252</u>	<u>\$ 5,682,723</u>

Notes to the Consolidated Financial Statements
December 31, 2019

12. EMPLOYEE FUTURE BENEFITS LIABILITY (continued)

Actuarial valuations for accounting purposes are performed every three years using the projected benefit method prorated on services. The most recent valuation was prepared as at December 31, 2019. The unamortized actuarial losses are being amortized over the estimated remaining service life of the active employees. The average remaining service period of the active employees covered by the benefit plan is 14.7 years

Effective October 30, 2019 eligible Central York Services employees who retire on or after January 2018 on an unreduced OMERS pension and with a minimum of 15 years of service will be provided with a non-cumulative HCSA from age 65 to 75. The combined maximum is \$2,500 per year for employee and spouse. This benefit enhancement resulted in an increase in the accrued benefits obligation as at December 31, 2019 of \$1,047,282.

The assumptions used in the December 31, 2019 actuarial valuation were:

(a) Interest (discount) rate

The present value as at December 31, 2019 of the future benefits was determined using a discount rate of 2.80% (2018 - 3.25%).

(b) Health costs

Health cost premiums were assumed to increase at a 4.00% (2018 - 4.88%) rate to 2024 and increase linearly to 4.75% in 2029.

(c) Dental costs

Dental cost premiums were assumed to increase at a 4.88 (2018 - 4.0%) rate until 2024 and decrease linearly to 4.81% in 2029.

13. LONG-TERM DISABILITY BENEFITS PAYABLE

The Town provides disabled employees who meet the requirements for Long Term Disability (LTD) monthly disability income, life insurance, health, and dental benefits. An actuarial valuation for currently disabled employees was completed as at December 31, 2019.

	2019	2018
Accrued benefits obligation	\$ 4,091,744	\$ 2,680,088
Unamortized actuarial gains	410,611	1,781,202
Long-term disability benefits payable	\$ 4,502,355	\$ 4,461,290
Long-term disability benefits payable, beginning of year	\$ 4,461,290	\$ 4,302,741
Annual amortization of actuarial gains	(366,668)	(218,132)
Current period service cost	812,956	595,923
Interest cost	92,230	87,740
Benefits paid	(497,453)	(306,982)
Long-term disability benefits payable	\$ 4,502,355	\$ 4,461,290

Actuarial valuations for accounting purposes are normally performed every two years using the projected benefit method. The most recent actuarial report was prepared at December 31, 2019. The unamortized actuarial gain will be amortized into future years' expenses over 5 years, the average expected period during which benefits will be paid.

The assumptions used in the December 31, 2019 actuarial valuation were:

(a) Interest (discount) rate

The present value of the future benefits as at December 31, 2019 was determined using a discount rate of 3.0% (2018 - 3.25%).

(b) Health and dental costs

Health and dental cost premiums are assumed to increase by 5.0% per annum.

Health trend rates are assumed to increase by 6.5% starting in 2021. Dental cost premiums are assumed to increase by 4.0% per year starting in 2021.

Notes to the Consolidated Financial Statements
December 31, 2019

14. DEFERRED REVENUE

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 by the developer on the issuance 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. Parkland contributions are restricted to parks or recreation purposes. The Gas Tax grant is restricted to infrastructure and require annual reporting. The following funds have statutory restrictions and as such are classified as deferred contributions:

	Beginning Balance 2019	Inflows	Outflows	Ending Balance 2019
Parkland	\$ 1,858,795	\$ 225,365	\$ 250,000	\$ 1,834,160
Development Charges	28,849,385	4,444,646	5,199,336	28,094,695
Building Permit Fees	5,728,041	16,897	1,586,053	4,158,885
Engineering Administration	1,057,223	309,763	861,587	505,399
Gas Tax	3,821,678	5,389,660	2,602,483	6,608,855
Sub-total Obligatory Reserve Funds	41,315,122	10,386,331	10,499,459	41,201,994
Other	1,004,419	6,686,048	5,884,167	1,806,300
Total	\$ 42,319,541	\$ 17,072,379	\$ 16,383,626	\$ 43,008,294

15. LONG-TERM DEBT

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

			2019	2018
Long-term debt incurred by the Town			\$ 45,081,715	\$ 56,562,744
Purpose	Rates	Maturity Date	2019	2018
Mulock Farm	3.490%	2048	25,498,038	26,000,000
Land for recreation facilities	5.724%	2024	4,469,874	5,222,213
Youth Centre	5.724%	2024	1,035,703	1,210,025
Downtown renewal	5.724%	2024	328,518	383,811
Recreation facility	5.246%	2024	4,243,900	4,968,607
Parklands	5.246%	2024	902,182	1,056,243
Traffic flow improvements	5.246%	2024	519,878	608,654
Downtown revitalization	5.246%	2024	141,463	165,620
Recreation facility	4.756%	2026	6,648,199	7,431,695
Consolidated Operations Centre	5.000%	2019	-	8,127,392
Federation of Canadian Municipalities loan for Operations Centre	2.000%	2031	1,293,960	1,388,484
			\$ 45,081,715	\$ 56,562,744

Notes to the Consolidated Financial Statements
December 31, 2019

15. LONG-TERM DEBT (Continued)

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

2020	3,520,612
2021	3,696,231
2022	3,880,833
2023	4,074,965
2024	4,279,095
2025 and thereafter	25,629,979
	\$ 45,081,715

(c) Interest expense on long-term debt amounted to \$2,094,086 (2018 - \$2,156,855).

16. INSURANCE COVERAGE

The Town 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 incurred during the year amounted to \$54,719 (2018 - \$146,557).

Insurance premiums of \$1,015,031 (2018 - \$1,004,897) were expensed during the year on the "Consolidated Statement of Operations and Accumulated Surplus".

17. CONTINGENCIES

The Town has been named as a defendant in certain legal actions. 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.

18. 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:

2020	\$ 167,630
2021	148,817
2022	148,086
	\$ 464,533

19. CONTRACTUAL OBLIGATIONS

During the year the Town performed work on several major projects relating to the construction, repair and replacement of certain facilities and infrastructure. The total purchase commitment from such contracts amounted to approximately \$53,560,000 of which expenses of approximately \$16,900,000 were outstanding as at December 31, 2019.

The Town also entered into various multiple-year contracts for the delivery of services with respect to waste collection, snow plowing, infrastructure and facility maintenance. The total purchase commitment from such contracts amounted to approximately \$64,100,000, of which expenses of approximately \$19,500,000 were outstanding as at December 31, 2019.

Notes to the Consolidated Financial Statements
December 31, 2019

20. PENSION AGREEMENTS

OMERS provides pension services to over 500,000 active and retired members from approximately 1,000 participating employers. Each year an independent actuary determines the funding status of OMERS Primary Pension Plan (the "Plan") by comparing the actuarial value of invested assets to the estimated present value of all pension benefits that members have earned to date. The most recent actuarial valuation of the Plan was conducted as at December 31, 2019. The results of this valuation disclosed total actuarial liabilities of \$107.7 million in respect of benefits accrued for service with actuarial assets at that date of \$104.3 million indicating an actuarial deficit of \$3.4 million. Because OMERS is a multi-employer plan, any pension plan surpluses or deficits are a joint responsibility of Ontario municipal organizations and their employees. As a result, the Town does not recognize any share of the OMERS pension surplus or deficit.

Contributions in 2019 ranged from 9% to 15.8% depending on the proposed retirement age and level of earnings. Contributions made by the Town to OMERS on account of current service for the year were \$4,813,590 (2018- \$4,664,435).

21. ACCUMULATED SURPLUS

The Accumulated Surplus is comprised of the following:

	2019	2018
Reserves set aside for specific purposes by Council		
Reserves for operating purposes	\$ 8,247,696	\$ 9,023,031
Reserves for capital purposes	3,559,717	892,560
Newmarket Public Library	606,104	788,832
Water & Wastewater Rate Stabilization	1,754,643	3,559,211
Total Reserves	14,168,160	14,263,634
Reserve funds set aside for specific purposes by Council		
Asset replacement funds	22,319,524	31,053,913
Reserve funds for operating purposes	5,910,476	4,623,167
Reserve funds for capital purposes	7,150,036	6,124,927
Self-insured long-term disability	4,834,221	4,580,442
Total Reserve Funds	40,214,257	46,382,449
Total Reserves and Reserve Funds	54,382,417	60,646,083
Invested in tangible capital assets	518,383,541	514,435,905
Less: amount financed by long-term debt	(45,081,715)	(56,562,744)
Equity in Newmarket Hydro Holdings Inc. (Note 10)	67,910,617	68,452,251
Employee future benefits to be recovered	(5,206,897)	(4,244,080)
Operating	-	528,623
Capital Fund Balance	1,854,540	2,001,965
Accumulated Surplus	\$ 592,242,503	\$ 585,258,003

22. GOVERNMENT TRANSFERS

Government transfers include monetary transfers based on cost-sharing agreements between the three levels of government. Some funds are transferred when the Town provides evidence that the qualifying expenditures have been incurred. The Town also receives government transfers once certain criteria have been met or with the stipulation that the funds are used for specific programs or expenses (grants with stipulations). Any transfers received where the transfer stipulations have not been met by year-end are recorded as deferred revenue (see note 14). Grants are also received to support specific program areas such as the Library, Museum, or the Seniors Centre. The following kinds of transfers were included in revenue:

	2019	2018
Grants with stipulations	\$ 2,602,483	\$ 2,183,005
Other grants	3,687,866	3,296,584
	\$ 6,290,349	\$ 5,479,589

Notes to the Consolidated Financial Statements
December 31, 2019

23. 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.

	2019	2018
Net expenses before allocation	\$ 26,754,923	\$ 25,069,755
Less: Aurora's allocation (2019 - 40.1%; 2018 - 40.65%)	(10,729,932)	(10,190,856)
Newmarket's net allocation	\$ 16,024,991	\$ 14,878,900

24. MUSEUM

On March 15, 2019, \$270,426 of cash in the Museum bank account was transferred to the Town reserve fund bank account and the Museum bank account was closed. A reserve fund with a balance of \$270,426 was created.

25. 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.

Tangible capital assets are segmented by asset class according to the Financial Information Return. General Capital Assets exclude the Infrastructure Asset class and include Parks, Recreation Facilities, and Fire. Infrastructure assets are composed of linear assets and their associated specific components, generally constructed or arranged in a continuous and connected network. They include Roads, including bridges, and Environmental Infrastructure (water delivery systems, waste water treatment, storm drainage systems).

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. No roads were assumed in 2019, therefore the road network remained the same with 243 kilometers.

b) Capitalization of interest

No interest was capitalized in 2019 (2018 - \$nil).

c) Construction in Progress

The financial statements and accompanying schedules include \$15,420,528 (2018 - \$6,233,623) 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. These assets are mainly in the subdivisions assumed during the year. No road networks assumed in 2019.

	2019	2018
Linear Assets	\$ -	\$ 5,085,314
Storm Water Management Pond	155,733	80,600
Streetlights	522,701	104,691
	\$ 678,434	\$ 5,270,605

Notes to the Consolidated Financial Statements
December 31, 2019

26. SEGMENTED INFORMATION

Certain allocation methodologies are employed by the Town 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 23). Activity based costing is used to allocate internal support costs to departments. These costs include the net expenses 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 expenses 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 expenses, 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 23.

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.

By-law & 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.

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.

Notes to the Consolidated Financial Statements
December 31, 2019

26. SEGMENTED INFORMATION (Continued)

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.

27. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year financial statement presentation. The reclassifications relate to regroupings within various categories of tangible capital assets.

28. SUBSEQUENT EVENT

Subsequent to year-end, on March 11, 2020, the World Health Organization characterized the outbreak of a strain of the novel corona virus ("COVID -19") as a pandemic which has resulted in a series of public health and emergency measures that have been put in place to combat the spread of the virus. The duration and impact of COVID -19 is unknown at this time and it is not possible to reliably estimate the impact that the length and severity of these developments will have on the financial results and condition of the Town of Newmarket in future periods.

29. RELATED PARTIES

A consulting company has provided services to the Town of Newmarket during 2019 in the amount of \$1,532,306 (\$1,067,995 in 2018). A member of the company's management is the spouse of a director for the Town. The transactions have been on market terms and appropriate internal controls are in place.

Note 10, Investment in Newmarket Hydro Holdings Inc. discloses related party transactions with the Town's business enterprises. In addition, there were other related party transactions amounting to less than \$100,000 in total, each of which are not of a significant amount and are done on market terms.

The Corporation of the Town of Newmarket
Tangible Capital Assets - Summary By Asset Category
December 31, 2019

Schedule 1

	Cost					Accumulated Amortization				2019	
	2019 Opening Balance	Additions and Betterments	Disposals/ Transfers	Write Downs	2019 Closing Balance	2019 Opening Balance	2019 Amortization Expense	Accumulated Amortization on Disposals	2019 Ending Balance	Net Book Value	
General Capital Assets											
Land	\$ 99,598,888	\$ 6	\$ -	\$ -	\$ 99,598,894	\$ -	\$ -	\$ -	\$ -	\$	99,598,894
Land improvements	14,535,428	250,442	-	-	14,785,870	2,959,911	470,512	-	3,430,423		11,355,447
Buildings and building components	97,718,129	1,968,298	-	-	99,686,427	40,570,984	2,740,512	-	43,311,496		56,374,931
Machinery and Equipment	17,493,894	1,110,388	410,143	-	18,194,139	9,548,922	1,539,899	404,683	10,684,138		7,510,001
Vehicles	6,661,324	1,357,078	539,586	-	7,478,816	3,473,810	512,156	539,583	3,446,383		4,032,433
Library Collection	1,658,121	196,476	233,714	-	1,620,883	964,521	202,103	233,714	932,910		687,973
	\$ 237,665,784	\$ 4,882,688	\$ 1,183,443	\$ -	\$ 241,365,029	\$ 57,518,148	\$ 5,465,182	\$ 1,177,980	\$ 61,805,350	\$	179,559,679
Infrastructure Assets											
Land	\$ 18,492,537	\$ -	\$ -	\$ -	\$ 18,492,537	\$ -	\$ -	\$ -	\$ -	\$	18,492,537
Land improvements	24,881,202	155,733	-	-	25,036,935	18,976,309	617,939	-	19,594,248		5,442,687
Buildings and building components	24,846,461	414,900	-	-	25,261,361	6,236,255	795,641	-	7,031,896		18,229,465
Machinery and Equipment	2,215,852	333,883	-	-	2,549,735	1,337,213	136,777	-	1,473,990		1,075,745
Vehicles	2,677,286	328,733	298,405	-	2,707,614	1,506,292	321,440	298,405	1,529,327		1,178,287
Linear Assets	503,423,767	5,571,993	1,352,464	-	507,643,296	220,426,390	9,520,451	1,288,158	228,658,683		278,984,613
	\$ 576,537,105	\$ 6,805,242	\$ 1,650,869	\$ -	\$ 581,691,478	\$ 248,482,459	\$ 11,392,248	\$ 1,586,563	\$ 258,288,144	\$	323,403,334
Construction in Progress											
	\$ 6,233,623	\$ 13,551,850	\$ 4,364,945	\$ -	\$ 15,420,528	\$ -	\$ -	\$ -	\$ -	\$	15,420,528
Total Tangible Capital Assets	\$ 820,436,512	\$ 25,239,780	\$ 7,199,257	\$ -	\$ 838,477,035	\$ 306,000,607	\$ 16,857,430	\$ 2,764,543	\$ 320,093,494	\$	518,383,541

The Corporation of the Town of Newmarket
Tangible Capital Assets - Summary By Asset Category
December 31, 2018

Schedule 1

	Cost					Accumulated Amortization				2018	
	2018 Opening Balance	Additions and Betterments	Disposals/ Transfers	Write Downs	2018 Closing Balance	2018 Opening Balance	2018 Amortization Expense	Accumulated Amortization on Disposals	2018 Ending Balance	Net Book Value	
General Capital Assets											
Land	\$ 74,738,474	\$ 24,860,414	\$ -	\$ -	\$ 99,598,888	\$ -	\$ -	\$ -	\$ -	\$	\$ 99,598,888
Land improvements	12,336,473	2,198,955	-	-	14,535,428	2,534,567	425,344	-	2,959,911	\$	11,575,517
Buildings and building components	97,256,841	750,037	288,749	-	97,718,129	38,151,602	2,574,585	155,203	40,570,984	\$	57,147,145
Machinery and Equipment	16,093,397	1,824,028	423,531	-	17,493,894	8,667,579	1,431,557	550,214	9,548,922	\$	7,944,972
Vehicles	6,565,043	96,281	-	-	6,661,324	3,053,661	420,149	-	3,473,810	\$	3,187,514
Library Collection	1,693,070	186,529	221,478	-	1,658,121	979,143	206,856	221,478	964,521	\$	693,600
	\$ 208,683,298	\$ 29,916,244	\$ 933,758	\$ -	\$ 237,665,784	\$ 53,386,552	\$ 5,058,491	\$ 926,895	\$ 57,518,148	\$	\$ 180,147,636
Infrastructure Assets											
Land	\$ 18,492,537	\$ -	\$ -	\$ -	\$ 18,492,537	\$ -	\$ -	\$ -	\$ -	\$	\$ 18,492,537
Land improvements	24,544,411	336,791	-	-	24,881,202	18,384,962	591,347	-	18,976,309		5,904,893
Buildings and building components	24,846,461	-	-	-	24,846,461	5,442,342	793,913	-	6,236,255		18,610,206
Machinery and Equipment	2,056,699	310,554	151,401	-	2,215,852	1,211,162	126,051	-	1,337,213		878,639
Vehicles	2,294,230	769,916	386,860	-	2,677,286	1,593,888	299,264	386,860	1,506,292		1,170,994
Linear Assets	492,095,371	12,169,281	840,885	-	503,423,767	211,719,444	9,397,800	690,854	220,426,390		282,997,377
	\$ 564,329,709	\$ 13,586,542	\$ 1,379,146	\$ -	\$ 576,537,105	\$ 238,351,798	\$ 11,208,375	\$ 1,077,714	\$ 248,482,459	\$	\$ 328,054,646
Construction in Progress	\$ 5,436,217	\$ 5,030,449	\$ 4,233,043	\$ -	\$ 6,233,623	\$ -	\$ -	\$ -	\$ -	\$	\$ 6,233,623
Total Tangible Capital Assets	\$ 778,449,224	\$ 48,533,235	\$ 6,545,947	\$ -	\$ 820,436,512	\$ 291,738,350	\$ 16,266,866	\$ 2,004,609	\$ 306,000,607	\$	\$ 514,435,905

The Corporation of the Town of Newmarket
Segment Disclosures - Service Bundle
Year ended December 31, 2019

Schedule 2

	Fire & Emergency Services		Water, Wastewater & Solid Waste		Bylaw & Licensing Services		Roads, Bridges & Sidewalks	
	2019	2018	2019	2018	2019	2018	2019	2018
EXPENSES								
Salaries and wages	\$ 21,887,315	\$ 21,331,556	\$ 2,984,615	\$ 2,884,088	\$ 1,483,143	\$ 1,255,348	\$ 2,666,574	\$ 2,326,188
Materials, goods and supplies	1,061,909	906,911	2,693,217	775,403	84,394	76,927	1,284,288	1,116,804
Utilities	170,685	152,995	25,385	24,500	-	-	1,055,088	1,009,234
Contracted and general services	753,604	814,985	31,044,455	29,472,163	519,589	438,437	925,555	749,375
Rents and financial	30,600	30,000	78,561	73,116	8,567	11,884	2,325	2,087
Interest on long-term debt	-	-	198,780	560,926	-	-	-	-
Capital repairs and maintenance	901,581	336,116	1,365,745	1,993,877	-	-	2,082,039	1,418,028
Amortization expenses	507,714	432,908	3,085,920	3,009,329	25,843	20,990	7,516,169	7,407,171
Allocations	(8,356,926)	(7,981,592)	1,586,858	3,183,971	720,080	718,964	3,258,806	1,397,299
Total expenses	16,956,482	16,023,879	43,063,536	41,977,373	2,841,616	2,522,550	18,790,844	15,426,186
REVENUES								
Taxation	17,304,734	16,898,382	3,542,595	3,386,064	1,820,284	1,656,338	10,056,751	10,742,920
User charges	331,878	317,084	42,001,281	40,094,636	514,910	375,274	131,011	120,904
External non-tax revenues	34,111	170,337	5,506,081	6,379,595	601,930	565,206	6,244,478	5,078,663
(Loss)/Gain on sale of tangible capital assets	17,601	-	(88,220)	(85,409)	-	-	(175,667)	92,726
Total revenues	17,688,324	17,385,803	50,961,737	49,774,886	2,937,124	2,596,818	16,256,573	16,035,213
Net surplus of Gov't. Business Enterprise	-	-	-	-	-	-	-	-
Annual Surplus (Deficit)	\$ 731,842	\$ 1,361,924	\$ 7,898,201	\$ 7,797,513	\$ 95,508	\$ 74,268	\$ (2,534,271)	\$ 609,027

Note: Allocations are based on estimates of the support services provided to other departments.

The Corporation of the Town of Newmarket
Segment Disclosures - Service Bundle
Year ended December 31, 2019

Schedule 2

	Planning & Development Services		Community Programs & Events		Facilities, Parks & Trails		Corporate Support & Governance	
	2019	2018	2019	2018	2019	2018	2019	2018
EXPENSES								
Salaries and wages	\$ 4,594,089	\$ 4,598,247	\$ 6,735,505	\$ 6,715,338	\$ 8,370,343	\$ 8,012,138	\$ 12,596,321	\$ 11,497,479
Materials, good and supplies	243,610	289,242	160,883	173,137	3,363,876	1,825,999	466,418	445,324
Utilities	-	-	3,053	2,531	2,332,566	2,098,951	630,436	662,893
Contracted and general services	303,704	484,859	1,545,602	1,431,638	1,711,903	1,337,412	3,560,916	3,917,327
Rents and financial	-	2,860	53,259	43,689	51,559	48,047	53,006	52,909
Interest on long-term debt	-	-	-	-	-	-	1,895,306	1,595,929
Capital repairs and maintenance	553,049	327,359	-	-	2,011,189	3,078,869	271,602	548,923
Amortization expenses	-	-	72,497	62,434	4,353,606	4,254,065	875,045	766,316
Allocations	2,650,422	2,476,613	2,178,767	1,718,833	2,985,245	3,535,191	(16,333,254)	(15,769,313)
Total expenditures	8,344,874	8,179,180	10,749,566	10,147,600	25,180,287	24,190,672	4,015,796	3,717,787
REVENUES								
Taxation	4,126,615	3,987,602	4,599,434	5,047,374	18,287,800	15,636,888	-	-
User charges	3,236,410	3,155,485	5,376,311	4,820,550	2,478,134	2,447,465	1,663,975	535,010
External non-tax revenues	1,873,953	1,303,880	934,197	798,238	1,101,715	2,673,214	6,441,438	7,235,869
(Loss)/Gain on sale of tangible capital assets	-	-	-	-	23,287	(99,202)	-	-
Total revenues	9,236,978	8,446,967	10,909,942	10,666,162	21,890,936	20,658,365	8,105,413	7,770,879
Net surplus of Gov't. Business Enterprise	-	-	-	-	-	-	(541,634)	838,672
Annual Surplus (Deficit)	\$ 892,104	\$ 267,787	\$ 160,376	\$ 518,562	\$ (3,289,351)	\$ (3,532,307)	\$ 3,547,983	\$ 4,891,764

Note: Allocations are based on estimates of the support services provided to other departments.

The Corporation of the Town of Newmarket
Segment Disclosures - Service Bundle
Year ended December 31, 2019

Schedule 2

	Public Library Services		Main Street District BIA		Consolidated	
	2019	2018	2019	2018	2019	2018
EXPENSES						
Salaries and wages	\$ 2,587,639	\$ 2,407,333	\$ -	\$ -	\$ 63,905,544	\$ 61,027,715
Materials, good and supplies	302,607	327,626	18,975	32,422	9,680,177	5,969,795
Utilities	95,916	96,630	-	-	4,313,129	4,047,734
Contracted and general services	102,914	110,055	1,712	4,866	40,469,954	38,761,117
Rents and financial	2,057	2,023	-	-	279,934	266,615
Interest on long-term debt	-	-	-	-	2,094,086	2,156,855
Capital repairs and maintenance	134,315	114,570	-	-	7,319,520	7,817,742
Amortization expenses	420,636	313,656	-	-	16,857,430	16,266,869
Allocations	580,100	529,181	-	-	(10,729,902)	(10,190,853)
Total expenditures	4,226,184	3,901,074	20,687	37,288	134,189,872	126,123,589
REVENUES						
Taxation	3,854,536	3,807,822	30,000	30,000	63,622,749	61,193,390
User charges	69,099	76,238	-	-	55,803,009	51,942,646
External non-tax revenues	310,386	273,940	8,178	4,979	23,056,467	24,483,921
(Loss)/Gain on sale of tangible capital assets	-	-	-	-	(222,999)	(91,885)
Total revenues	4,234,021	4,158,000	38,178	34,979	142,259,226	137,528,072
(Loss)/Income From Newmarket Hydro Holdings Inc.	-	-	-	-	(541,634)	838,672
(Loss)/Gain on foreign exchange					(543,220)	522,214
Annual Surplus (Deficit)	\$ 7,837	\$ 256,926	\$ 17,491	\$ (2,309)	\$ 6,984,500	\$ 12,765,369

Note: Allocations are based on estimates of the support services provided to other departments.

Financial statements of
Town of Newmarket
Main Street District BIA

December 31, 2019

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Statement of cash flows	5
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Independent Auditor's Report

To the Members of Council of
The Corporation of the Town of Newmarket

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Town of Newmarket Main Street District BIA (the "BIA"), which comprise the statement of financial position as at December 31, 2019, and the statements of operations and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the BIA as at December 31, 2019, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the BIA in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the BIA's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the BIA or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the BIA's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the BIA's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the BIA's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the BIA to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

THE CORPORATION OF THE TOWN OF NEWMARKET
Main Street District BIA
Statement of Operations
Year ended December 31, 2019

	2019		2018
	Budget	Actual	(Restated- Note 4)
REVENUES			
Taxation	\$ 30,000	\$ 30,000	\$ 30,000
Events	-	8,178	6,208
Total revenues	30,000	38,178	36,208
EXPENSES			
Promotion and events	9,000	19,568	34,908
Advertising	21,000	1,119	4,866
Total expenses	30,000	20,687	39,774
ANNUAL SURPLUS (DEFICIT)	-	17,491	(3,566)
FUND BALANCE, BEGINNING OF YEAR,	20,914	20,914	24,480
FUND BALANCE, END OF YEAR	\$ 20,914	\$ 38,405	\$ 20,914

The accompanying notes are an integral part of these financial statements.

THE CORPORATION OF THE TOWN OF NEWMARKET
Main Street District BIA
Statement of Financial Position
Year ended December 31, 2019

	<u>2019</u>	<u>2018</u>
		(Restated- Note 4)
ASSET		
Due from the Town of Newmarket	\$ 38,405	\$ 20,914
FUND BALANCE AND NET FINANCIAL ASSETS	\$ 38,405	\$ 20,914

The accompanying notes are an integral part of these financial statements.

THE CORPORATION OF THE TOWN OF NEWMARKET
Main Street District BIA
Statement of Cash Flows
Year ended December 31, 2019

	<u>2019</u>	<u>2018</u> (Restated- Note 4)
Cash received from		
Taxation	\$ 30,000	\$ 30,000
Events	8,178	6,208
Transfers (to) from the Town of Newmarket	(17,491)	3,566
	<u>20,687</u>	<u>39,774</u>
Cash paid for		
Promotion and events	19,568	34,908
Advertising	1,119	4,866
	<u>20,687</u>	<u>39,774</u>
Net Change in Cash	-	-
Cash, Beginning of Year	-	-
Cash, End of Year	\$ -	\$ -

The accompanying notes are an integral part of these financial statements.

THE CORPORATION OF THE TOWN OF NEWMARKET

Main Street District BIA

Notes to the Financial Statements

December 31, 2019

1. NATURE OF OPERATIONS

On January 22, 2007 Council, under the authority of section 204 of the Municipal Act, enacted a bylaw to designate the Main Street Business Improvement Area ("BIA"). The primary objective of the BIA is to promote the area as a business, shopping and entertainment area.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Newmarket Main Street District BIA are the representation of management prepared in accordance with accounting standards, as recommended by the Public Sector Accounting Board ("PSAB") of the Chartered Professional Accountants of Canada ("CPA Canada") and reflect the following policies:

Revenues and expenses are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenues as they become available and measurable. Expenses are recognized as they are incurred and measurable as a result of the receipt of goods or services and the creation of a legal obligation to pay.

Taxation revenue is recognized in the calendar year it is raised from ratepayers by the Town.

3. USE OF ESTIMATES

The preparation of financial statements in conforming with Canadian Public Sector Accounting Standards requires management to make estimates and assumptions that affect the reported amounts in the financial statements. Due to the inherent uncertainty in making estimates, actual results could differ from those estimates.

4. PRIOR PERIOD ADJUSTMENT

Management has restated the December 31, 2018 corresponding figures to reflect the identification of expenses related to fiscal year ended December 31, 2018 that were not previously recognized. The 2018 corresponding figures have been restated and the impact is an increase in promotion and events expenses on the statement of operations, and a decrease in Due from the Town of Newmarket on the statement of financial position. This resulted in a cumulative decrease in fund balances of \$1,256 on the statement of financial position and statement of operations. This also resulted in a decrease in cash received from, and cash paid to on the statement of cash flows of \$1,614, respectively. The adjustments for the restatement are summarized below:

Statement of Financial Position

Decrease in Due from the Town of Newmarket, December 31, 2018	(1,256)
Decrease in Fund Balance and Net Financial Assets, December 31, 2018	<u>(1,256)</u>

Statement of Operations

Increase in Events revenue	358
Increase in Promotion and events expense	1,614
Decrease in Annual deficit	(1,256)
Decrease in Fund balance	<u>(1,256)</u>

THE CORPORATION OF THE TOWN OF NEWMARKET**Main Street District BIA****Notes to the Financial Statements**December 31, 2019

5. SUBSEQUENT EVENT

Subsequent to the year-end, on March 11 2020, the World Health Organization characterized the outbreak of a strain of the novel coronavirus ("COVID-19") as a pandemic which has resulted in a series of public health and emergency measures that have been put in place to combat the spread of the virus. The duration and impact of COVID-19 is unknown at this time and it is not possible to reliably estimate the impact that the length and severity of these developments will have on the financial results and condition of the BIA in future periods.

Draft

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. Newmarket Hydro Holdings Inc. has two subsidiaries – NT Power and Envi.

A selection of financial indicators are explained below:

2019 Financial Highlights	2019	2018
Financial position	\$592,242,503	\$585,258,003
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	10.32%	12.44%
Capital reserve contribution/amortization	96.4%	103.1%

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	221.5%
The breakdown of capital reserves/accumulated amortization was as follows:	
Tax-supported	-10.3%
Utility (W/WW) rate supported	38.0%

2019 Financial Highlights	2019	2018	2019 BMA Study
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Receivables as % of total taxes levied (includes Region and School Board)	3.0%	2.4%	5.5%
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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 indicator review of 21 municipalities in the Greater Toronto Area from the 2019 BMA study, the average was 5.5%. Newmarket's results were the second lowest of those polled in the GTA, with only Burlington posting better results.

Asset consumption ratio	38.2%	37.3%	41.9%
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The asset consumption ratio shows the value of the tangible capital assets that have been consumed. Total accumulated amortization is calculated as a percentage of the gross cost of depreciable assets. This ratio highlights the aged condition of the Town's physical assets and potential asset replacement needs. A higher ratio may indicate significant replacement needs. Out of 102 municipalities in the 2019 BMA study, the average was 41.8% which is considered to be moderately new.

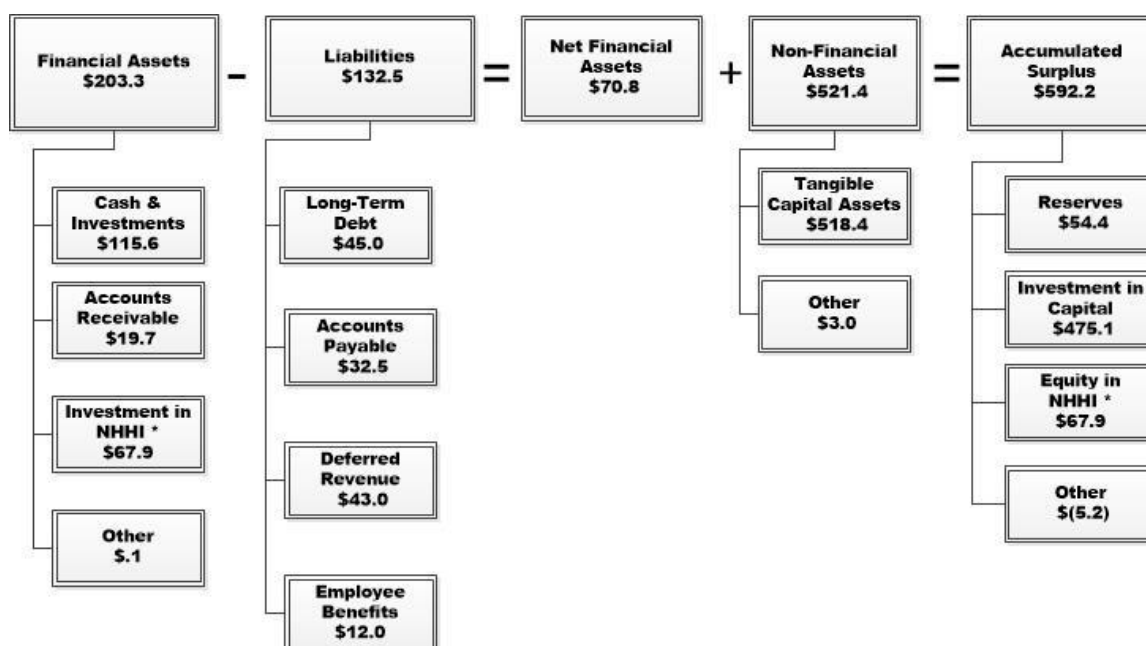
Debt service costs as a % of own source revenues	10.8%	4.3%
excluding Ops Centre repayment	4.5%	

This ratio indicates the extent to which the Town's own source revenues are committed to debt charges. In 2019 the Town paid off the Ops Centre debenture, with a principal payment of \$8.1 Million. This resulted in a one-time increase to the ratio. Council authorized the repayment which will result in lower payments of approximately \$750,000 or 14% for the next 10 years.

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. Credit rating agencies consider that principal and interest should be below 10% of own source revenue. This is the same calculation as that used for the Annual Repayment Limit.

The Consolidated statement of financial position: Overview

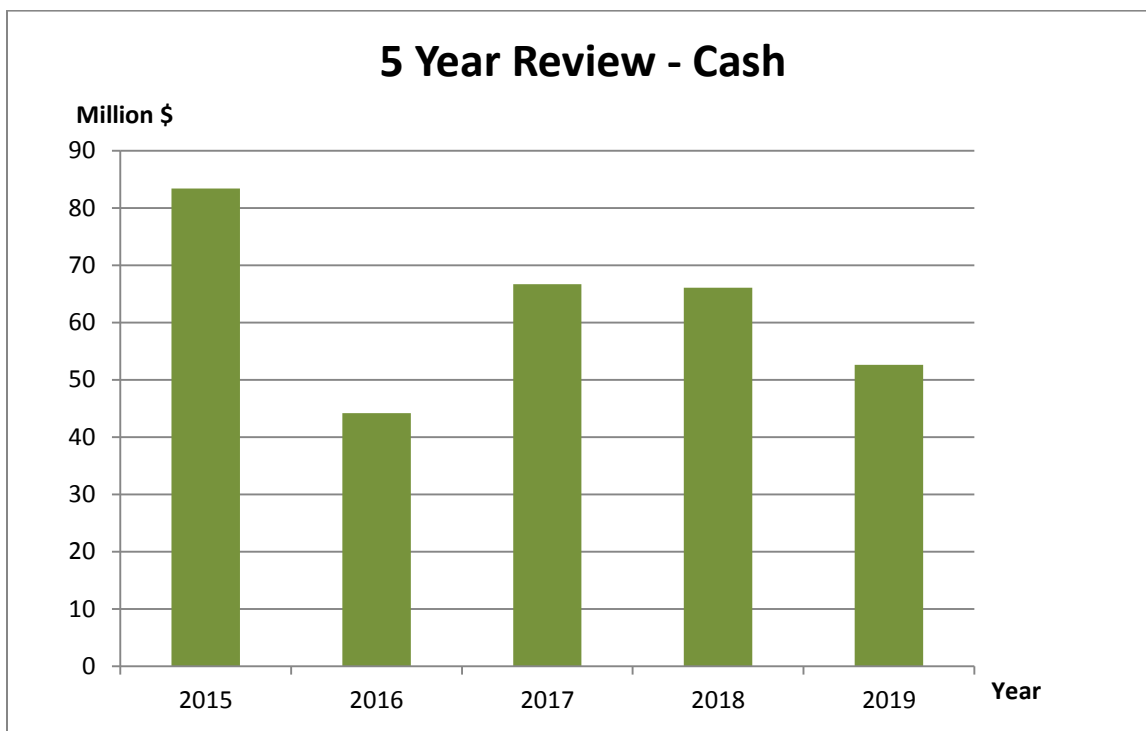
The Consolidated Statement of Financial Position highlights key financial figures. The chart below presents the information reported in the Consolidated Statement of Financial Position (in millions).



*Newmarket Hydro Holdings Inc.

Cash resources

The Town's cash position is closely managed and remains adequate, combined 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 decreased from \$66.1 million in 2018 to \$52.6 Million in 2019, while temporary investments increased by \$9 Million.



Cash inflows from growth and development increased in 2019, while cash flow from government transfers and investment income decreased. Outflows for capital works returned to a more regular level after the purchase of the Mullock Farm property in 2018. Principal payments on long-term debt of \$11.5 million were made, \$8.1 million of which was to pay off the Operations Centre debenture. This resulted in an overall decrease of \$13.5 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 \$71million (2018 - \$67 million), an increase of \$4 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;
- building permit revenue;
- Federal gas tax and other grants;

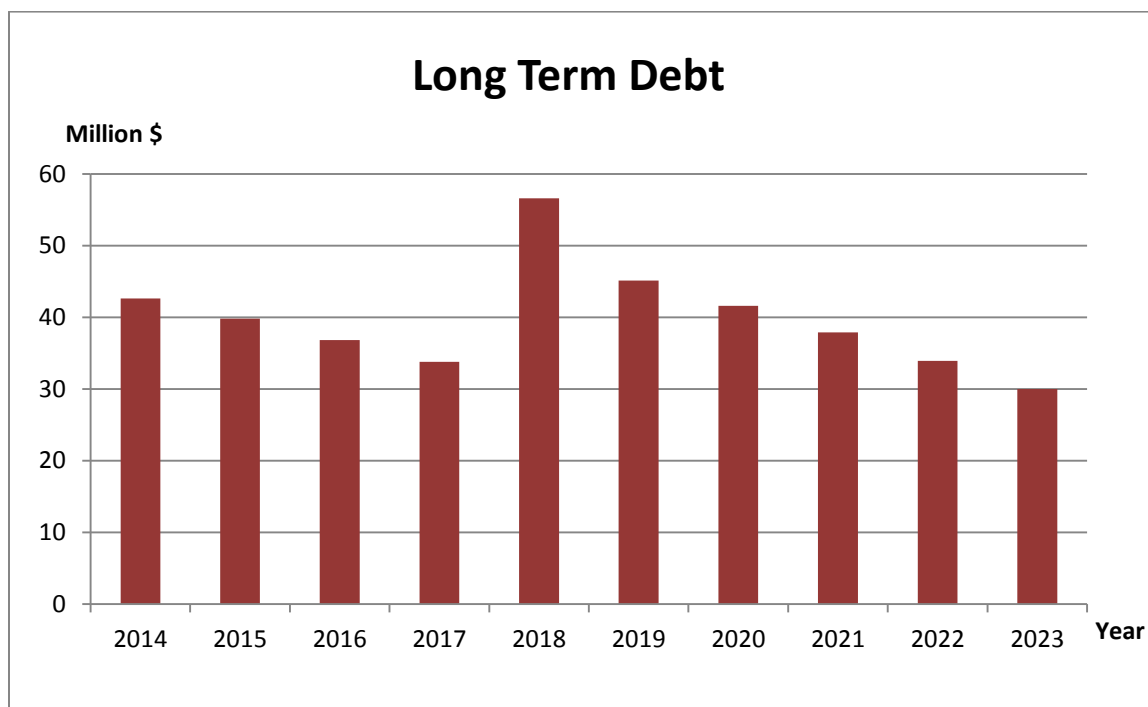
- parkland cash in-lieu;
- engineering administration revenues.

In 2019, the Town collected \$3.9 million and allocated \$6.1 million to capital projects.

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 established 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.

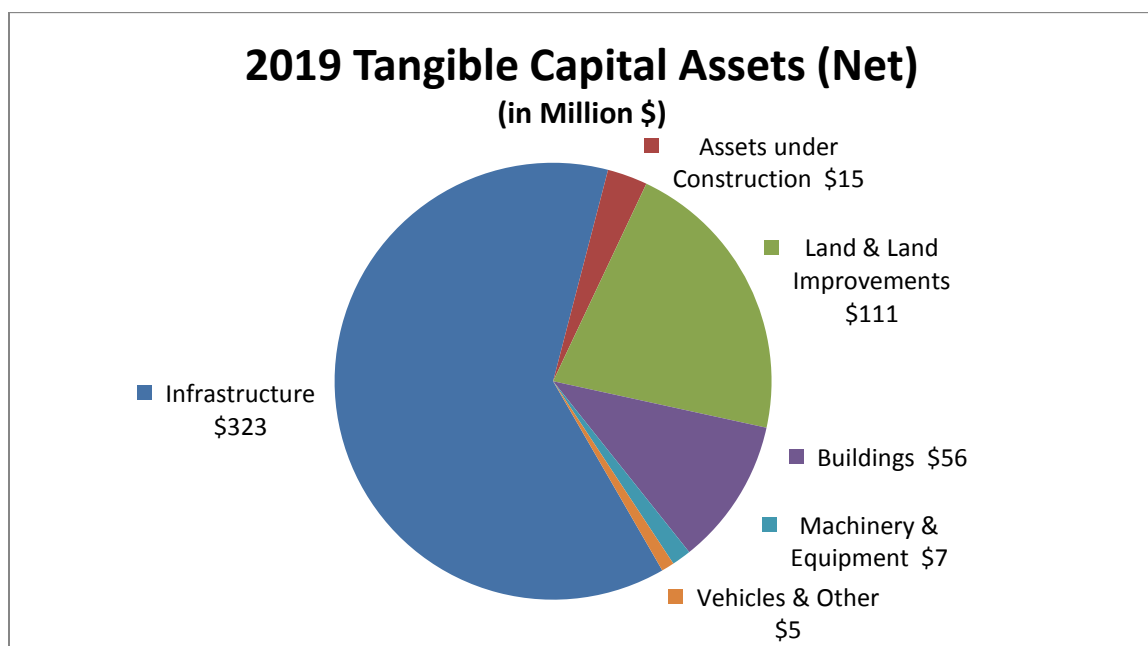
In 2019, the Town's actual debt servicing was 10.8% (2018 – 4.3%), due to the repayment of the Ops Centre debenture. Excluding this payment (\$8.1 Million principal), the Town's debt servicing as a percentage of own source revenues would have been 4.5% - well within policy limits. At an annual interest rate of 5% with a term of 20 years, the Town could borrow another \$115 million and still remain within its 10% debt servicing (borrowing) limit. Debt represents 9.0% of the net book value of Town's tangible capital assets (2018 – 11.0%).



The Town's long-term debt position reflects the pattern of investment in major infrastructure projects. In 2018, a 30 year \$26 million debenture was issued by

Infrastructure Ontario through York Region for the purchase of the Mullock Farm property. In 2019, the debenture for the Operations Centre was paid off which accounts for \$8.1 million of the repayments in the year.

Non-financial assets



A transition to a multi-year capital budget began in 2019. Previously approved but unspent capital budgets were assigned to a more appropriate timeline. The 2019 capital budget was revisited to estimate current and future spending. Forecasts were developed from the draft DC background study and 2014 and 2017 asset management plans. The consolidation of this information culminated in a capital plan.

The 2019 approved capital budget totaled \$26.4 million, after an allocated reduction of \$24 million. \$22.4 million of this amount was budgeted for tangible capital assets (TCA), with the remainder, \$4 million, being major repair and maintenance expenses and items below the threshold for TCA. New in 2019, after the detailed review described above, 100% of the TCA amount of \$22.4 million was projected to be completed in 2019 and carryovers were eliminated. \$20.5 million (91.5%) of TCA were added in 2019.

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. Since 2013, additional capital levies of between 0.74% and 1% were added every year except in 2017 when contributions to the asset replacement funds were maintained at 2016 levels. An additional capital levy of 1% was added in 2019.

We have an approved asset management plan and strategy and work continues and is on track to meet provincial regulations.

The Town's tangible capital assets (net of amortization expense) increased by \$3.9 million in 2019 compared to an increase of \$27.7 million in 2018.

Accumulated surplus (deficit)

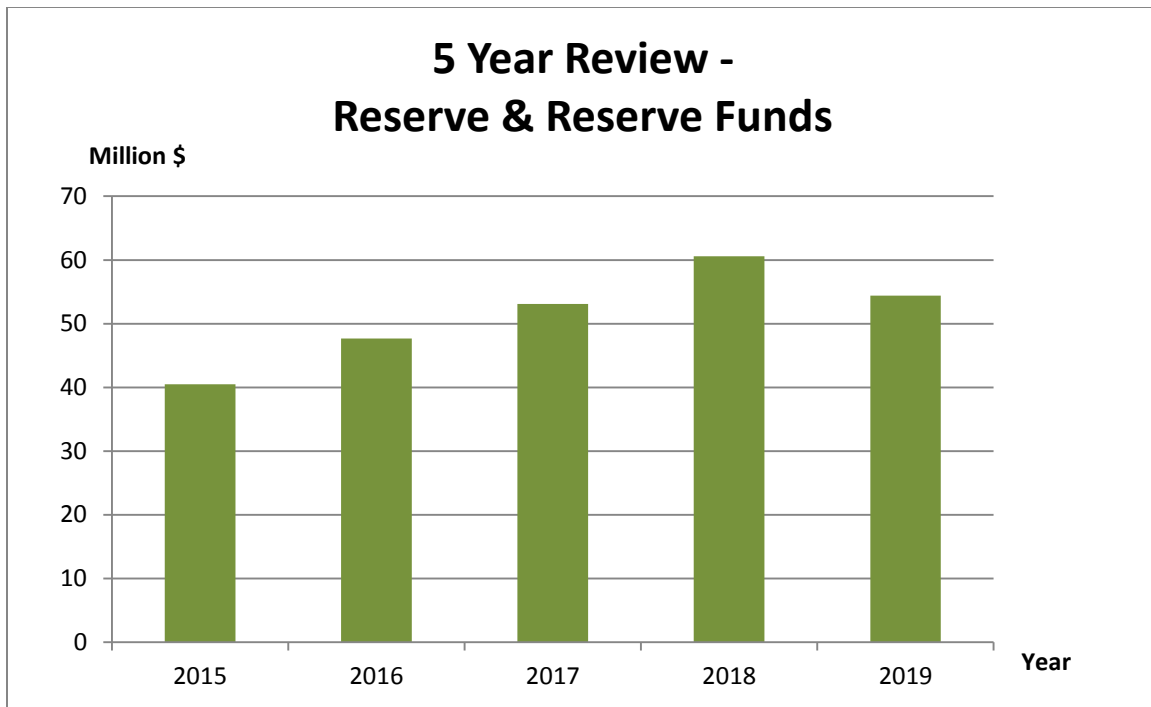
The Town's accumulated surplus for fiscal 2019 is \$592.2 million (2018 - \$585.3 million). The accumulated surplus reflects the resources that have been built up over time at the Town of Newmarket and the balance includes items such as tangible capital assets, equity in Newmarket Hydro Holdings Inc., and various reserves and reserve funds.

21. ACCUMULATED SURPLUS					
The Accumulated Surplus is comprised of the following:					
				2019	2018
Reserves set aside for specific purposes by Council					
Reserves for operating purposes				\$ 8,247,696	\$ 9,023,031
Reserves for capital purposes				3,559,717	892,560
Newmarket Public Library				606,104	788,832
Water & Wastewater Rate Stabilization				1,754,643	3,559,211
Total Reserves				14,168,160	14,263,634
Reserve funds set aside for specific purposes by Council					
Asset replacement funds				22,319,524	31,053,913
Reserve funds for operating purposes				5,910,476	4,623,167
Reserve funds for capital purposes				7,150,036	6,124,927
Self-insured long-term disability				4,834,221	4,580,442
Total Reserve Funds				40,214,257	46,382,449
Total Reserves and Reserve Funds				54,382,417	60,646,083
Invested in tangible capital assets				518,383,541	514,435,905
Less: amount financed by long-term debt				(45,081,715)	(56,562,744)
Equity in Newmarket Hydro Holdings Inc. (Note 10)				67,910,617	68,452,251
Employee future benefits to be recovered				(5,206,897)	(4,244,080)
Operating				-	528,623
Capital Fund Balance				1,854,540	2,001,965
Accumulated Surplus				\$ 592,242,503	\$ 585,258,003

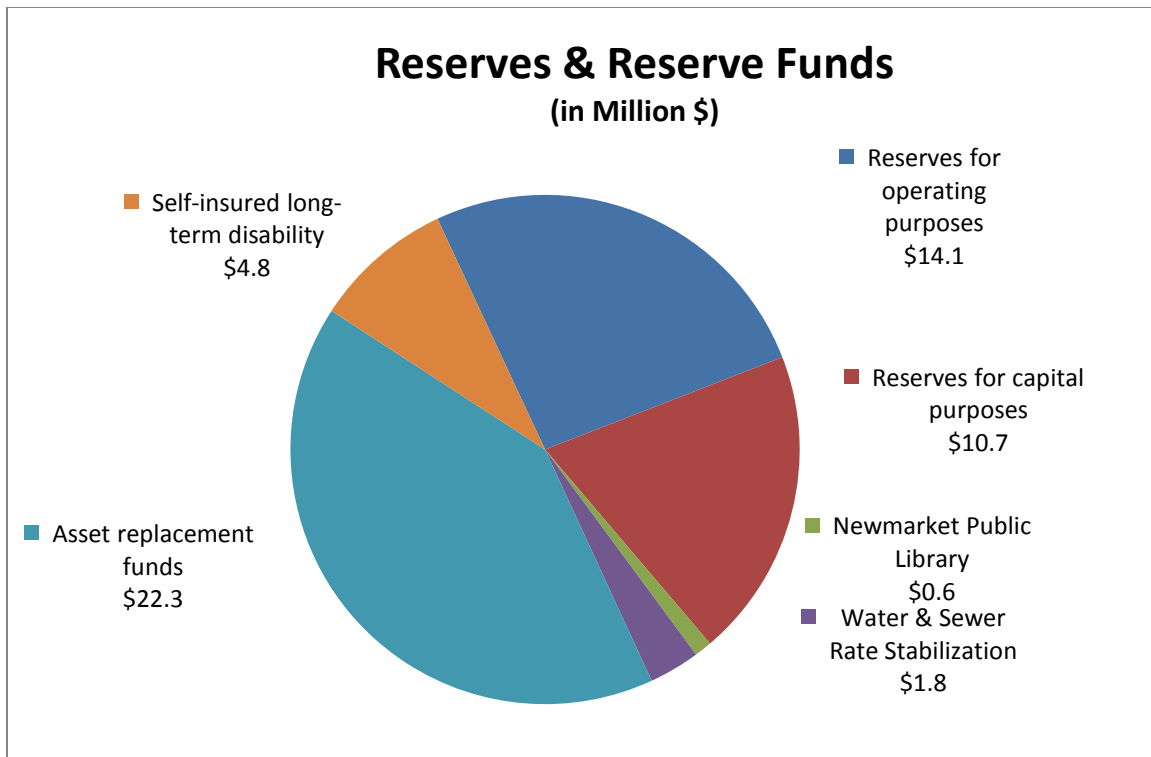
It is the Town's practice to record year-end transfers in the current year to balance rate based funds such as water, wastewater, stormwater, as well as the building department. The operating surplus, \$538,153, was transferred to the rate stabilization reserve to stabilize future years' tax levy increases.

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. They also help to minimize potential fluctuations in the tax and utility rates, which is commonly referred to as Rate Stabilization.



The total of the Town's reserves and reserve funds at the end of 2019 was \$54.4 million, a decrease of \$6.3 million from the beginning of the year. The biggest factor for the decrease was the transfer of \$7.8 million to water and wastewater to fund the final payout of the Operations Centre debenture.

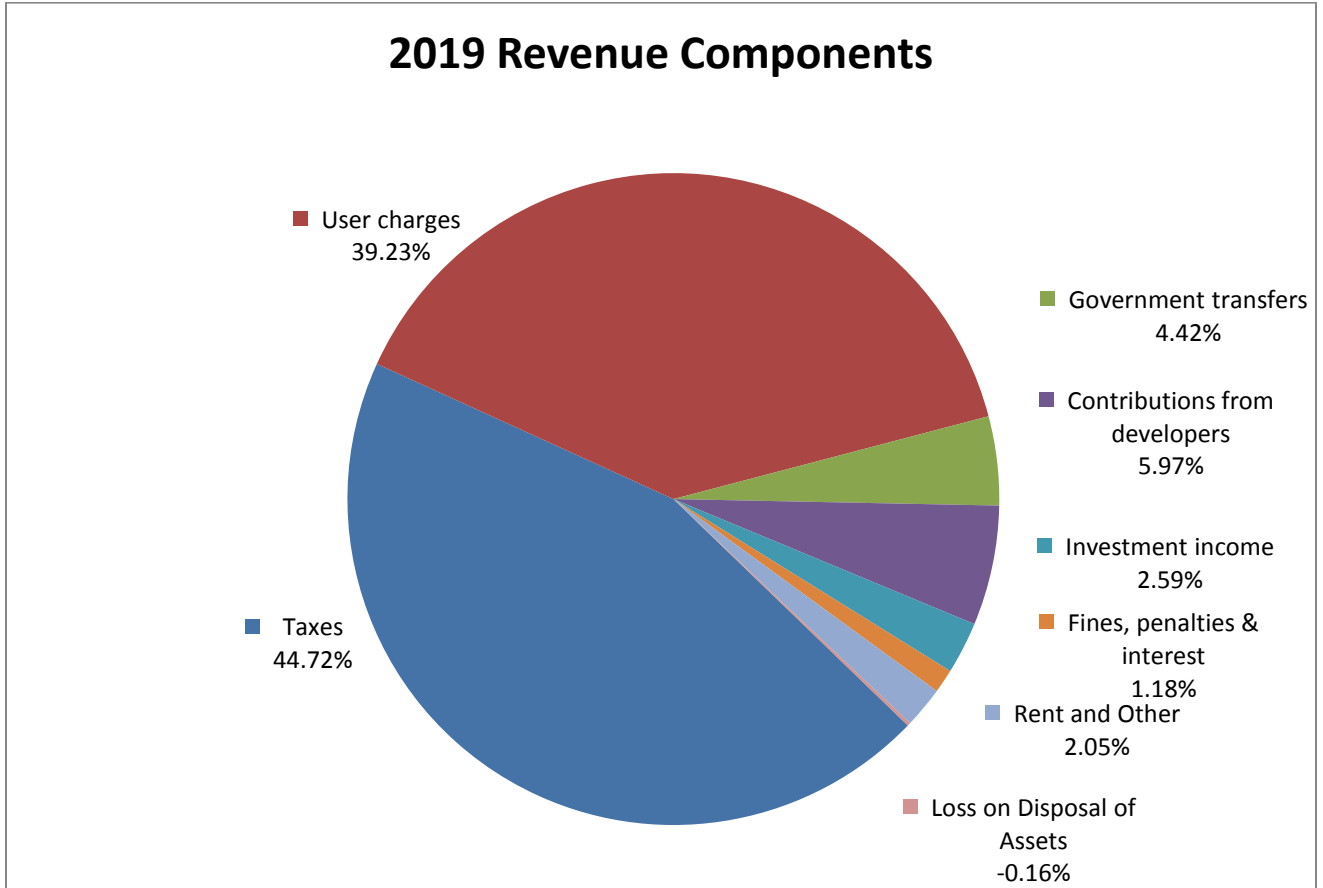


Consolidated statement of operations and surplus

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 2019 include:

- Property taxes increased by \$2.4 million. Year over year the percentage of revenue from property taxes has remained just over 44% of total revenues. Reducing our dependence on property taxes is one of the Town's financial goals.

Supplementary taxes are difficult to predict and sustain. Actual billings in 2019 were \$686,000 which was down from the 2018 level of \$902,000, while somewhat higher than the budget of \$650,000.

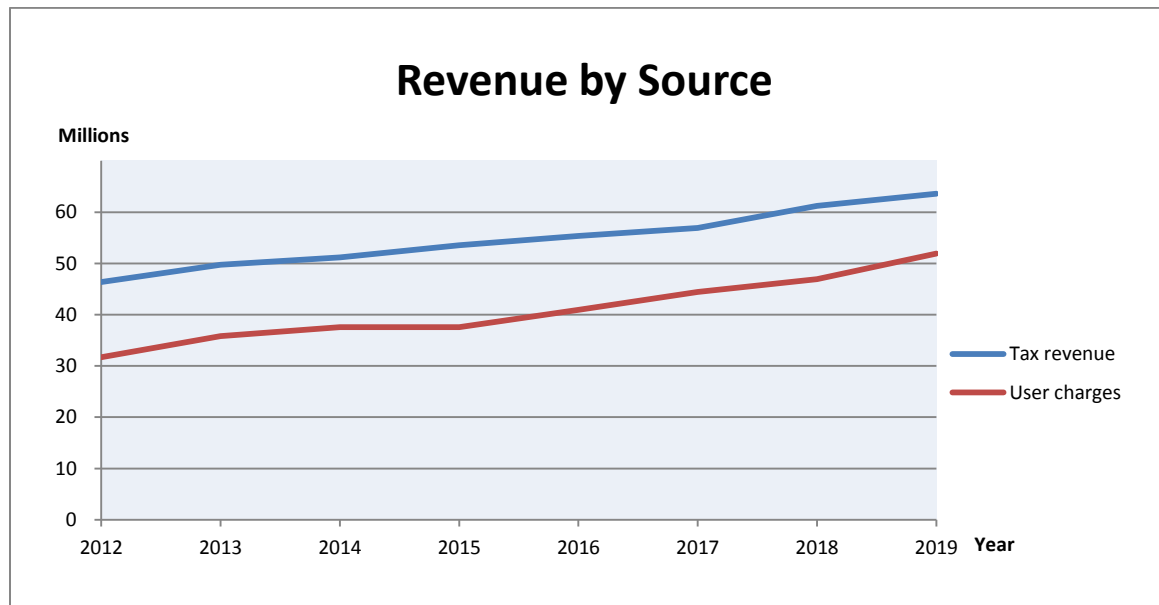
Write offs and provisions, which reduce tax revenues, were significantly higher than in 2018. The Assessment Review Board introduced a totally new process in 2017 to move appeals along faster. While this caused a delay in the start of appeals, many were settled in 2019. There were some large settlements, as well as many multi-year adjustments.

Charity rebates have remained at relatively the same amount over the last 4 years (an average of \$243,000). 39 applications were processed in 2019 versus 42 applications processed in 2018. Vacancy rebates were eliminated in 2017 which meant 2018 was the final year to process and record rebates (2018 - \$492,000). 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 5.1% or \$59 from 2018. Average increases for commercial and industrial properties ranged from 7.9% to 10.2%, depending on meter size.

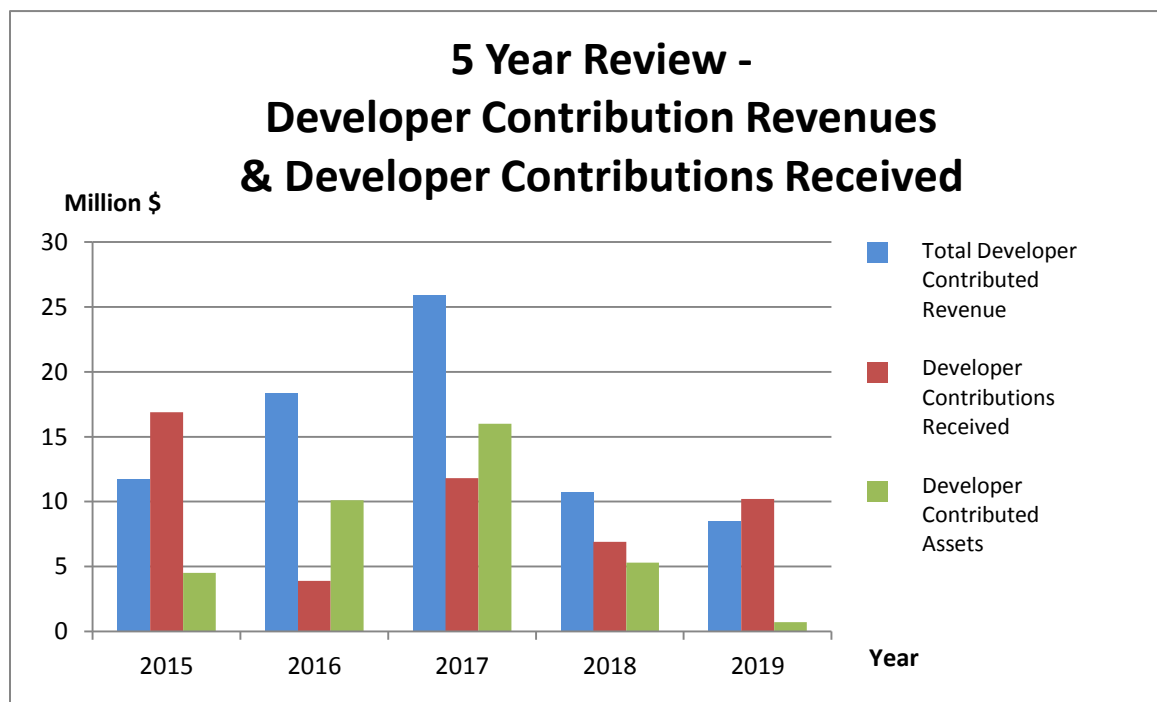
Building permit revenues were 15% lower than in 2018 and 44% less than the budgeted amount. \$1.4 million from the Building Permit Reserve Fund was drawn upon. There has been no price increase to the fees for many years. A review of the fee structure was undertaken in 2015 by BMA Consulting which resulted in a modified fee structure in 2016.

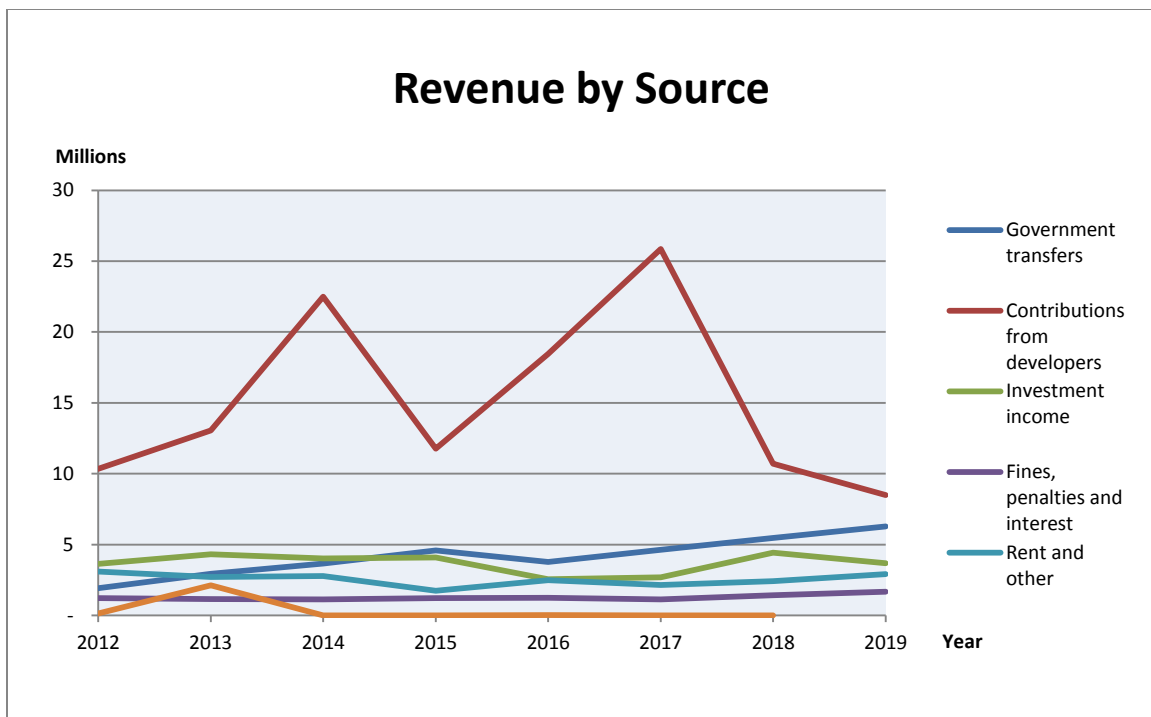
Some fees and charges for recreation and culture programs and services were increased in 2019, others were decreased, and many remained at 2018 levels after an extensive review of registration history, program life cycle, marketplace and demographic considerations, and linkages with the Recreation Playbook.



- Government transfers were 19% higher than the budgeted level and 15% above 2018 levels. This includes a “top up” gas tax payment of \$2.5 million. Most grant funding is only received after costs have been incurred.
- Contributions from developers were \$2.2 million lower than in 2018, mostly due to the significantly lower level of contributed assets (\$0.7 million vs. \$5.3 million in 2018). Tangible capital assets contributed to the Town included 125 streetlights and a storm water management pond. The assumption of subdivisions is not budgeted for, as the amounts and timing are very difficult to predict (see the red line on Revenue by Source chart below). Capital fund developer contributions are mostly development charges (DC's) and are driven by financing requirements for capital projects.

Contributions received represent the cash inflows from developers. Revenues from developers are tied to agreements, capital projects or operating expenditures, such as a debenture, as a funding source.





- Interest earned in the Operating Fund was significantly over budget in 2019 (actual - \$1.1 million; budget - \$0.8 million). The prime rate remained at 3.95% for the entire year. Short-term rates were close to or below the interest rate earned on our bank balances throughout the majority of the year which did not provide an incentive to the Town to invest.

In the Reserve Fund, the 5 tranches of \$6 million invested in 2018 using a ladder approach proved to be a good investment. Interest rates ranging from 2.85% for 1 year to 3.55% for a 5 year GIC generated \$975,000 in investment income in 2019. We also continued to invest in some secondary market GIC's. 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 one of our investment brokers often with better yields than regular GIC's.

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 Town is transitioning towards a multi-year capital budget which will improve cash forecasting and long-term investing both of which have been problematic in the past.

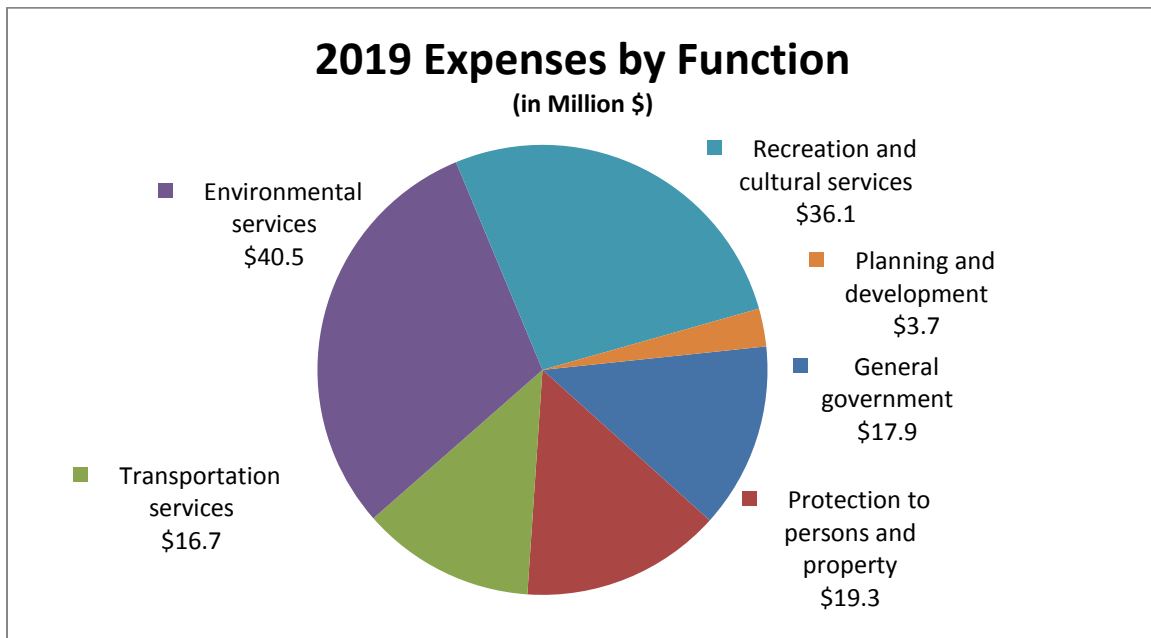
It has been the Town's practice to recognize the dividend from Newmarket-Tay Power before it is paid or even declared. This accrual was acceptable, as there was a board-approved dividend policy and a consistent practice of receiving this payment the following year. Due to the pandemic, the 2019 dividend, which would normally be paid in December 2020, was not guaranteed. Therefore,

the dividend, \$1,336,000, was not accrued in 2019 and henceforth, all dividends will be accounted for only when they are declared.

- Rent and Other continued were in line with the budget. Pursuant to the analysis of capital projects, Station 4-5 capital budgets and funding, with a portion coming from Aurora, were moved to 2020 and 2021 to tie to anticipated construction and completion. Previously, these amounts were carried forward and resulted in budget variances due to timing.
- 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

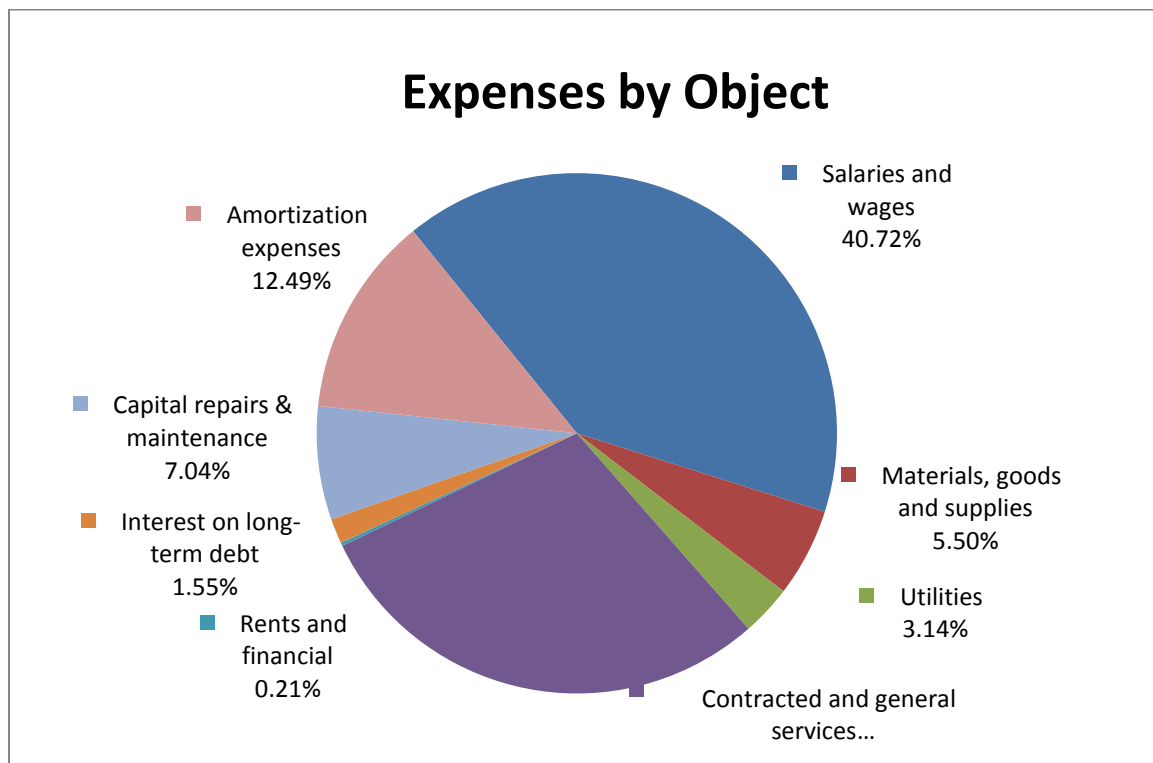
Recreational and cultural services:

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



Total expenses in 2019 were \$134.2 million, an increase of \$8.1 million over 2018.

- Salaries, wages and benefits are the most significant component of the Town's costs and have increased by \$2.9 million over 2018. The economic increase in 2019 was 1.85%. A new collective agreement, with an end date of 2023, was finalized in October 2019 for Central York Fire Services. Any retroactive pay was paid before year-end. A change to the benefits resulted in an increase to the accrued benefit obligation of \$1 million.

Casual wages, used to offset some vacancies, were over budget in all commissions. Significantly, higher casual wages in Recreation were also used to bolster some higher program revenues.

- Materials, goods and supplies increased by 33%. Minor capital, water meters and materials for main replacement, equipment rental, and repairs and maintenance are included here. Significant water and wastewater emergency repairs were undertaken during the year. Higher facility related building, electrical, and HVAC repairs and maintenance were also incurred.
- Contracted and general services have increased by 3% from 2018 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.
- 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 23% higher than 2018 levels.
- Amortization (or depreciation) has increased by 3.6% over 2018.

Annual (current year) surplus

The annual (current year) surplus for the year was \$7 million.

ANNUAL SURPLUS RECONCILIATION	
Surplus based on operating fund *	-
Add: Principal payment on long-term debt	\$11,481,029
Contributed tangible capital assets	678,434
Acquisition of tangible capital assets	20,490,762
Less: Amortization expense	(16,857,430)
Reserves and reserve funds	(6,791,033)
Financing from future revenues (employee benefits)	(962,818)
Loss from Newmarket Hydro Holdings Inc. (net)	(541,634)
Book value of disposals	(364,130)
Capital Fund Balance	(147,424)
BIA – Prior Period Adjustment	(1,256)
Surplus Per Consolidated Statement of Operations	\$ 6,984,500

*As noted previously, the surplus based on the operating fund of \$538,153 was transferred to the rate stabilization reserve fund during the year.