

## 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 – Newmarket-Tay Power Distribution Ltd. and Envi Networks Ltd.

A selection of financial indicators are explained below:

2020 Financial Highlights	2020	2019
<b>Financial position</b>	<b>\$632,694,296</b>	<b>\$592,242,503</b>
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. The balance is increasing year over year. The Town's continued focus on increasing assets while lowering liabilities will keep this indicator on a positive trend.		
<b>Capital reserves as % of accumulated amortization</b>	<b>13.3%</b>	<b>10.3%</b>
<b>Capital reserve contribution as % of amortization</b>	<b>88.1%</b>	<b>96.4%</b>

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.

Breakdown of capital reserves as % of accumulated amortization was as follows:

Tax-supported	-9.1%
Utility (W/WW) rate supported	45.0%

Breakdown of the capital reserve contribution as % of amortization was as follows:

Tax-supported	57.9%
Utility (W/WW) rate supported	227.8%

2020 Financial Highlights	2020	2019	BMA Study 2019 Results
---------------------------	------	------	------------------------------

<b>Receivables as % of total taxes levied (includes Region and School Board)</b>	<b>7.4%</b>	<b>3.0%</b>	<b>5.5%</b>
--	-------------	-------------	-------------

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. Based on the 2019 financial indicator review of 19 municipalities in the Greater Toronto Area from the BMA study, the average was 5.5%. In 2019, the Town's collection rate on taxes was at 97% as compared to the average 94.5%. The pandemic had an impact on the Town's taxes receivables in 2020.

<b>Asset consumption ratio</b>	<b>38.3%</b>	<b>38.2%</b>	<b>42.4%</b>
--------------------------------	--------------	--------------	--------------

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 96 municipalities in the BMA study, the average was 42.4% in 2019 which is considered to be moderately new.

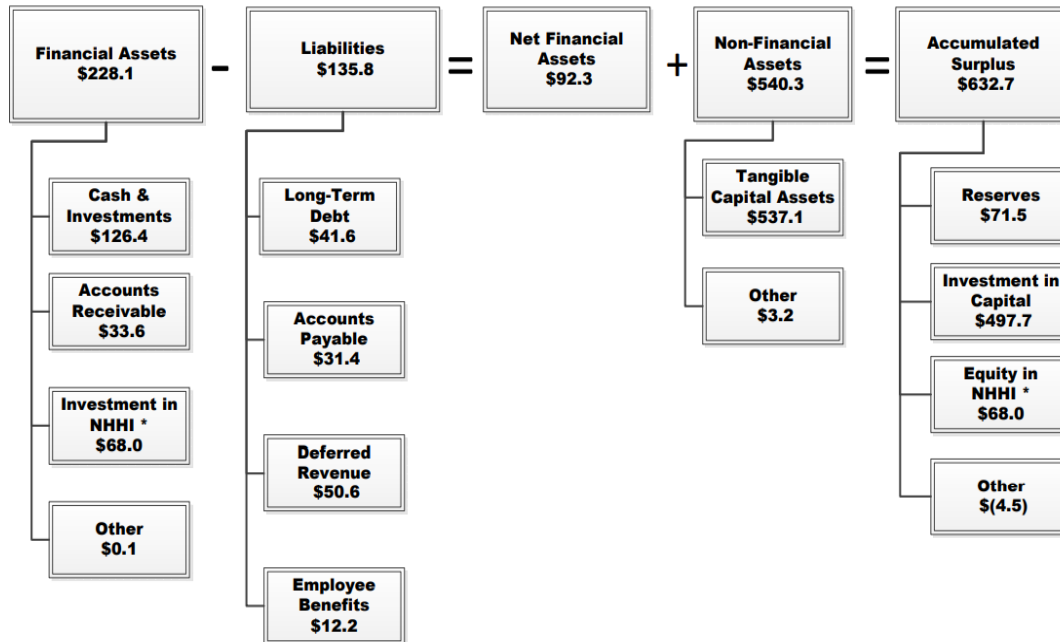
<b>Debt service costs as a % of own source revenues</b>	<b>4.4%</b>	<b>10.8%</b>
---	-------------	--------------

This ratio indicates the extent to which the Town's own source revenues are committed to debt charges.

The Ministry of Municipal Affairs and Housing considers a ratio between 5% and 10% to be a moderate risk and a ratio below 5% to be low risk. 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

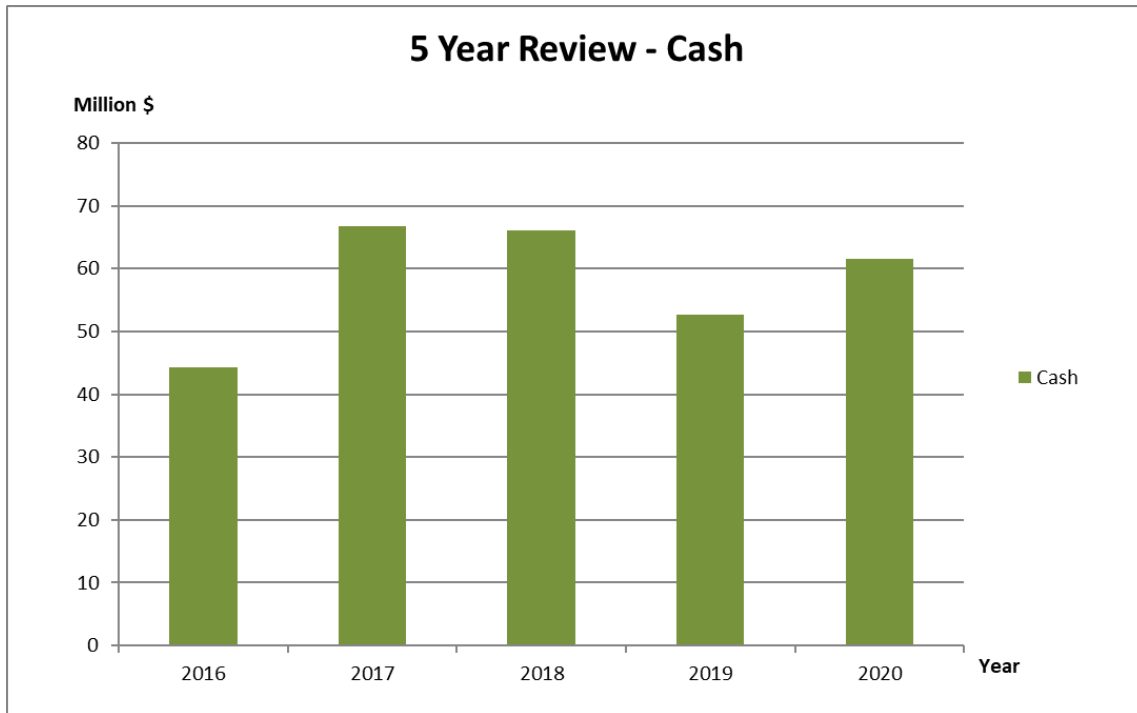
The Consolidated Statement of Financial Position highlights key financial figures. The chart below presents the information reported in the Consolidated Statement of Financial Position (in millions).



\*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 increased by \$8.9 million from \$52.6 million (2019) to \$61.5 million (2020), while temporary investments increased by \$1.8 million from \$63.0 million (2019) to \$64.8 million (2020).



The cash position increased by \$8.9 million from 2019 mostly due to higher development charge collections net of expenses and lower capital expenditures due to the pandemic.

### ***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 \$92.3 million (2019 - \$70.8 million), an increase of \$21.5 million. This balance is calculated as total financial assets less liabilities that 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:

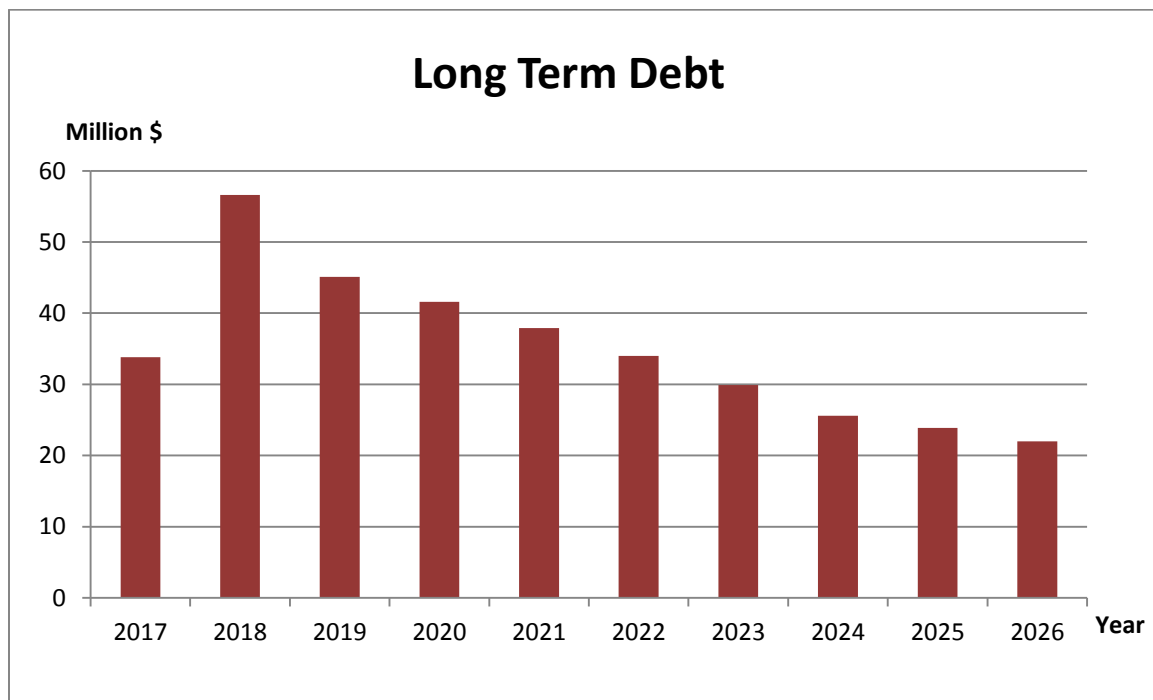
- development charges;
- building permit revenue;
- Federal gas tax and other grants;
- parkland cash in-lieu;
- engineering administration revenues.

In 2020, the Town collected \$14.1 million and allocated \$5.8 million to capital projects.

## Long-term debt

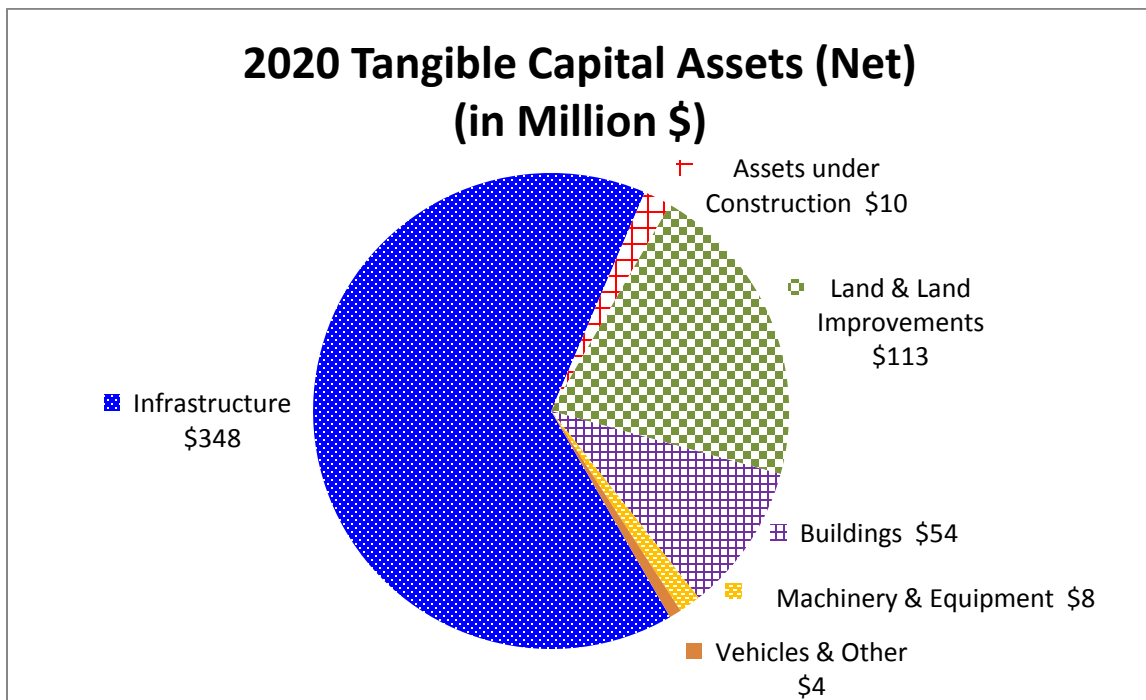
A significant component of the financial liabilities is the Town's long-term debt. A new debt policy was adopted in May 2018 that established the criteria for loans. Generally, debt financing is only available for capital expenditures included in the Asset Management Plan when other sources of financing 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 2020, the Town's actual debt servicing was 4.4% (2019 – 10.8%). 2019 was higher due to the repayment of the Operations Centre debenture. At an annual interest rate of 5% with a term of 20 years, the Town could borrow another \$120 million and still remain within its 10% debt servicing (borrowing) limit. Debt represents 8.0% of the net book value of Town's tangible capital assets (2019 – 9.0%).



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 Mulock 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 based on anticipated capital delivery.

The 2020 approved capital budget totaled \$37.8 million. \$31.2 million was budgeted for tangible capital assets (TCA) and \$6.6 million for major repair and maintenance expenses and items below the threshold for TCA. \$14.2 million (37.6%) of TCA were added in 2020. The timing and delivery of capital spending was directly impacted by the pandemic.

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 the financial requirements to replace the Town's assets and how the Town's annual contributions to these reserve funds compare. Since 2013, additional capital levies ranging from 0.74% to 1% were added every year except in 2017. A capital levy of 1% was included in 2020.

The Town has an approved asset management plan and strategy. Staff continues to refine and update the plan, and it is anticipated to be on track to meet provincial regulations.

The Town's tangible capital assets (net of amortization expense) increased by \$18.7 million in 2020 compared to an increase of \$3.9 million in 2019.

## Accumulated surplus (deficit)

The Town's accumulated surplus for fiscal 2020 is \$632.7 million (2019 - \$592.2 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

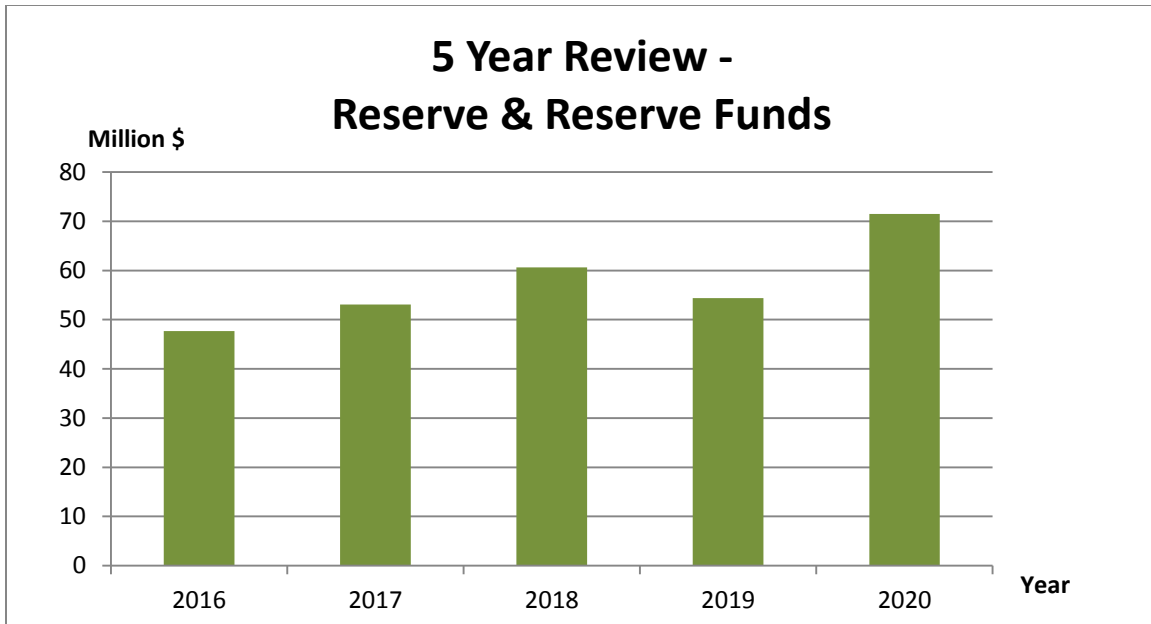
The Accumulated Surplus is comprised of the following:

	2020	2019
<b>Reserves set aside for specific purposes by Council</b>		
Reserves for operating purposes	\$ 10,612,811	\$ 8,247,696
Reserves for capital purposes	3,607,567	3,559,717
Newmarket Public Library	974,027	606,104
Water & Wastewater Rate Stabilization	5,400,466	1,754,643
<b>Total Reserves</b>	<b>20,594,871</b>	<b>14,168,160</b>
<b>Reserve funds set aside for specific purposes by Council</b>		
Asset replacement funds	31,720,559	22,319,524
Reserve funds for operating purposes	5,468,176	5,910,476
Reserve funds for capital purposes	9,096,868	7,150,036
Self-insured long-term disability	4,628,173	4,834,221
<b>Total Reserve Funds</b>	<b>50,913,776</b>	<b>40,214,257</b>
<b>Total Reserves and Reserve Funds</b>	<b>71,508,647</b>	<b>54,382,417</b>
Invested in tangible capital assets	537,113,344	518,383,541
Less: amount financed by long-term debt	(41,561,103)	(45,081,715)
Equity in Newmarket Hydro Holdings Inc. (Note 10)	67,998,430	67,910,617
Employee future benefits to be recovered	(4,541,937)	(5,206,897)
Operating	486,339	-
Capital Fund Balance	1,690,576	1,854,540
<b>Accumulated Surplus</b>	<b>\$ 632,694,296</b>	<b>\$ 592,242,503</b>

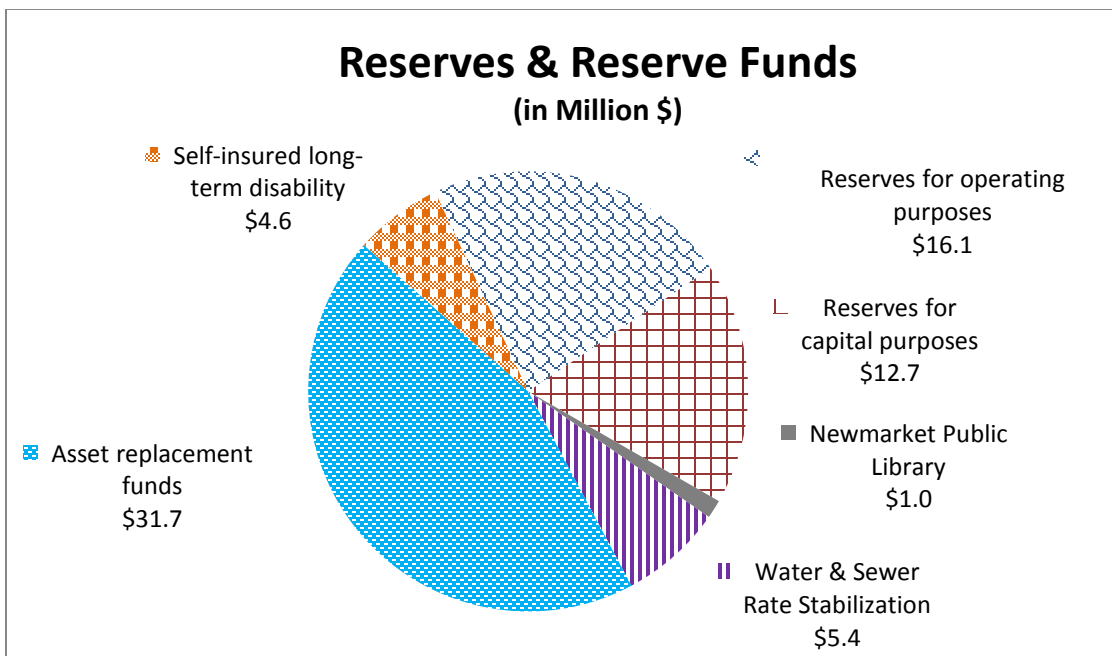
It is the Town's practice to record year-end transfers in the current year to balance rate-supported operating budgets such as water, wastewater, stormwater, as well as the building department.

## 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 2020 was \$71.5 million, an increase of \$17.1 million from the beginning of the year. The major factor for the increase was the delay in delivering capital projects as a result of the pandemic which reduced reserve and reserve fund expenditures. Contributions to asset replacement net of expenditures was \$9.4 million, the remaining increase is made of operating and general capital reserve contributions net of expenditures.



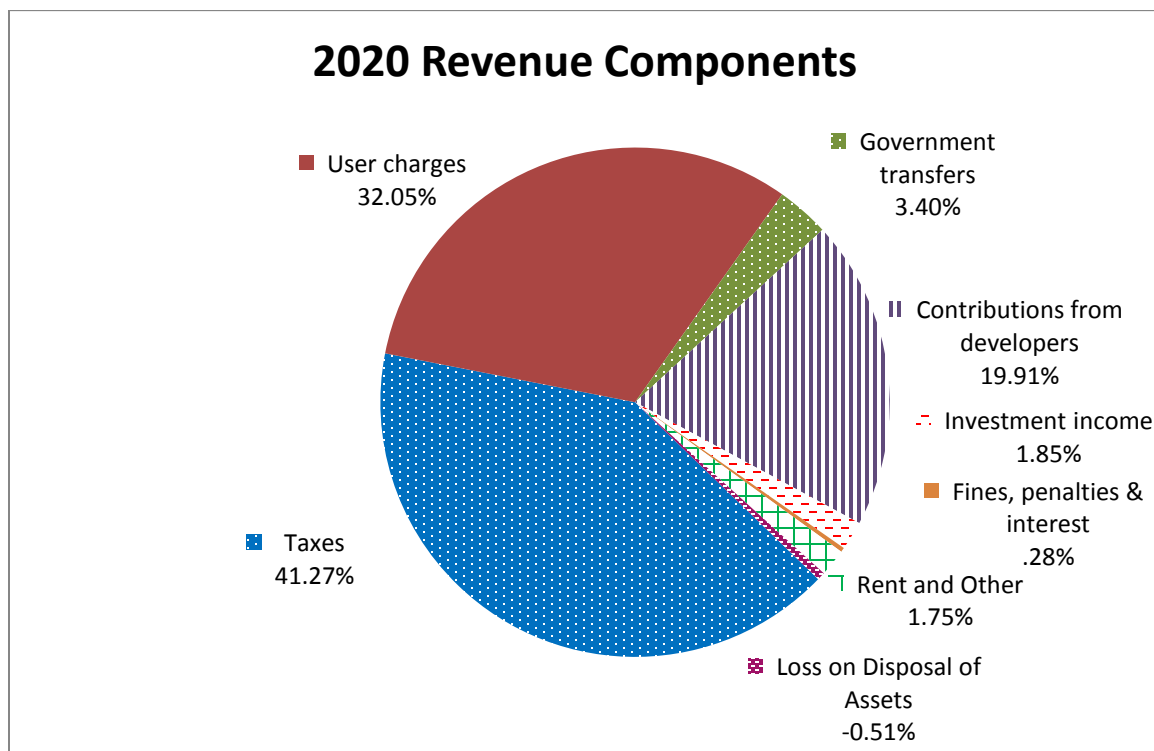


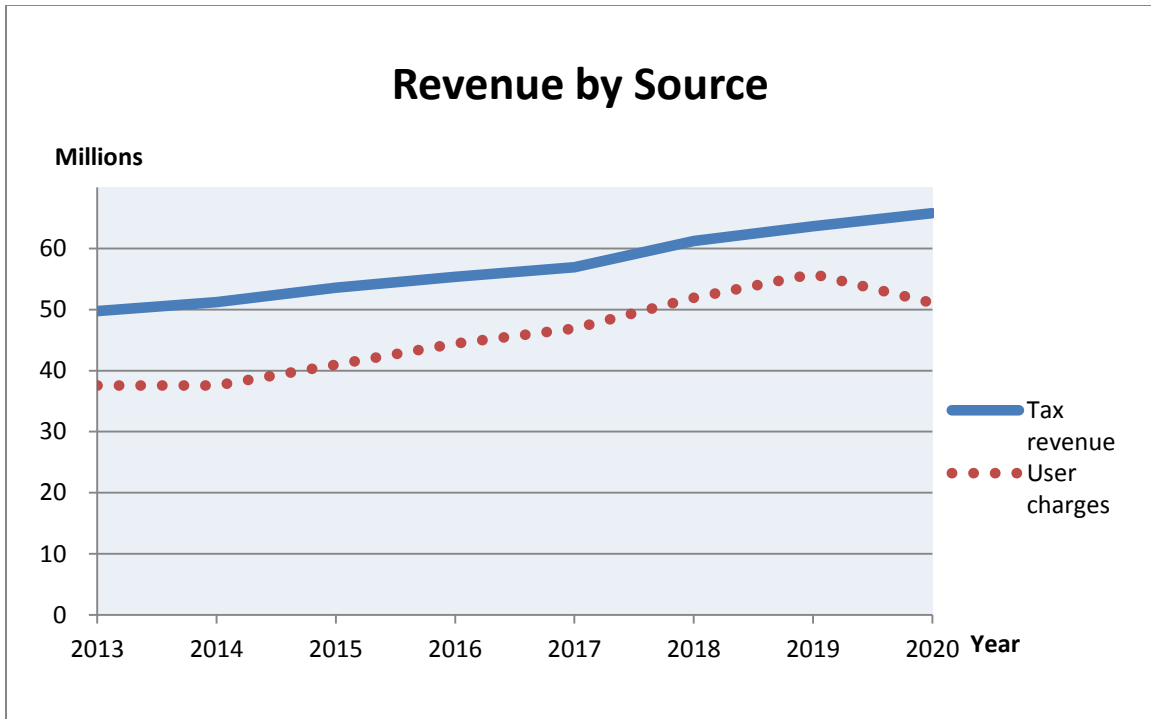
## Consolidated statement of operations and surplus

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 2020 include:

- Property taxes increased by \$2.5 million. Year over year the percentage of revenue from property taxes has remained over 40% 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 2020 were \$300,459, which was down from the 2019 level of \$686,000. The reduction in supplementary revenue was a result of the pandemic. The 2020 supplementary budget was \$596,547.

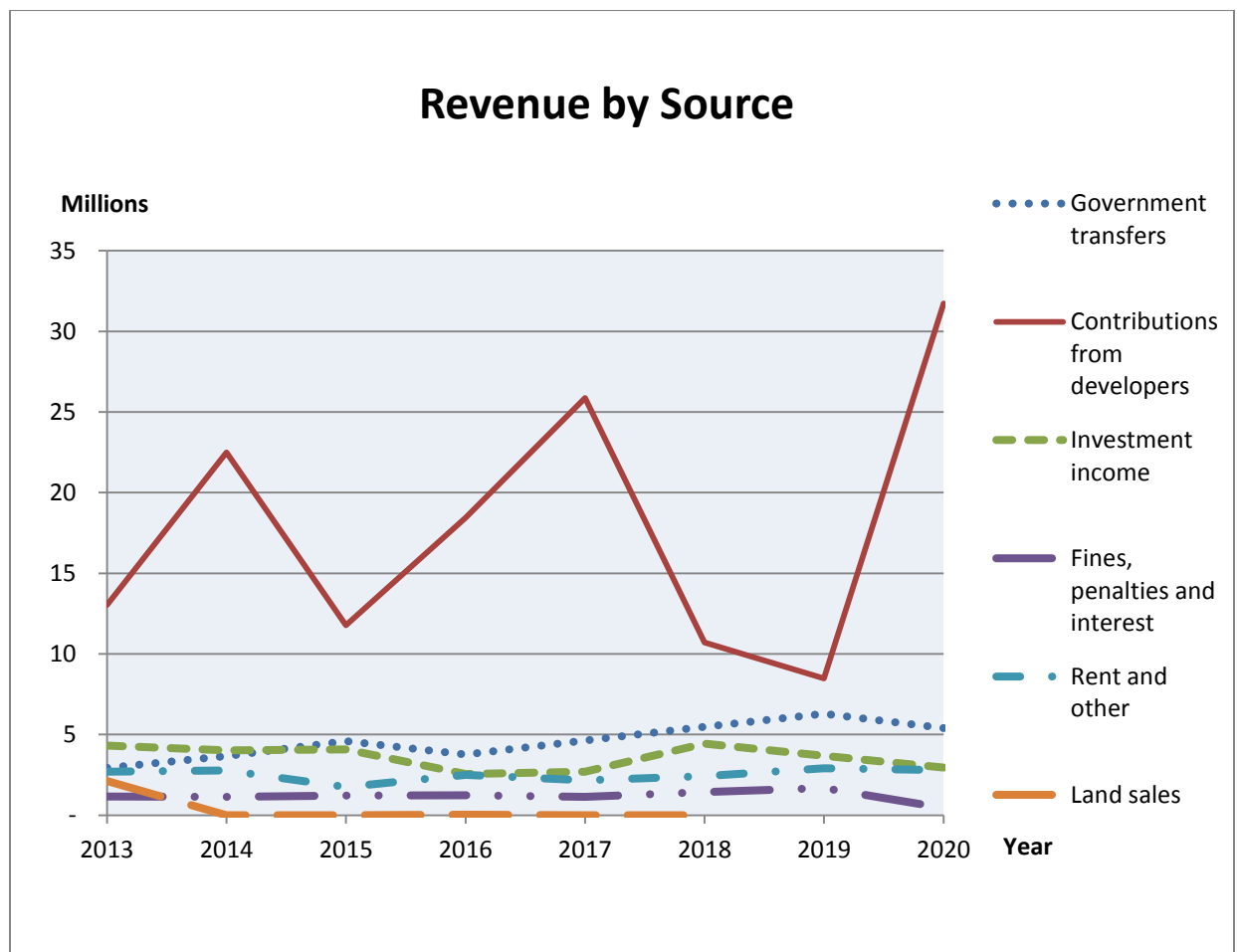
Write offs and provisions, which reduce tax revenues, were significantly lower than in 2019. The Government of Ontario paused all appeals as part of the emergency measures introduced in March 2020. The emergency measures were subsequently lifted in September 2020.

The Town approved a total of \$225,507 charity rebates in 2020. This was slightly less than 2019 at \$235,876. There were 41 applications processed in 2020 versus 39 in 2019. The proactive assessment management plan, started in 2014 and continues with a shifted focus to undervalued or missing assessments along with open appeals.

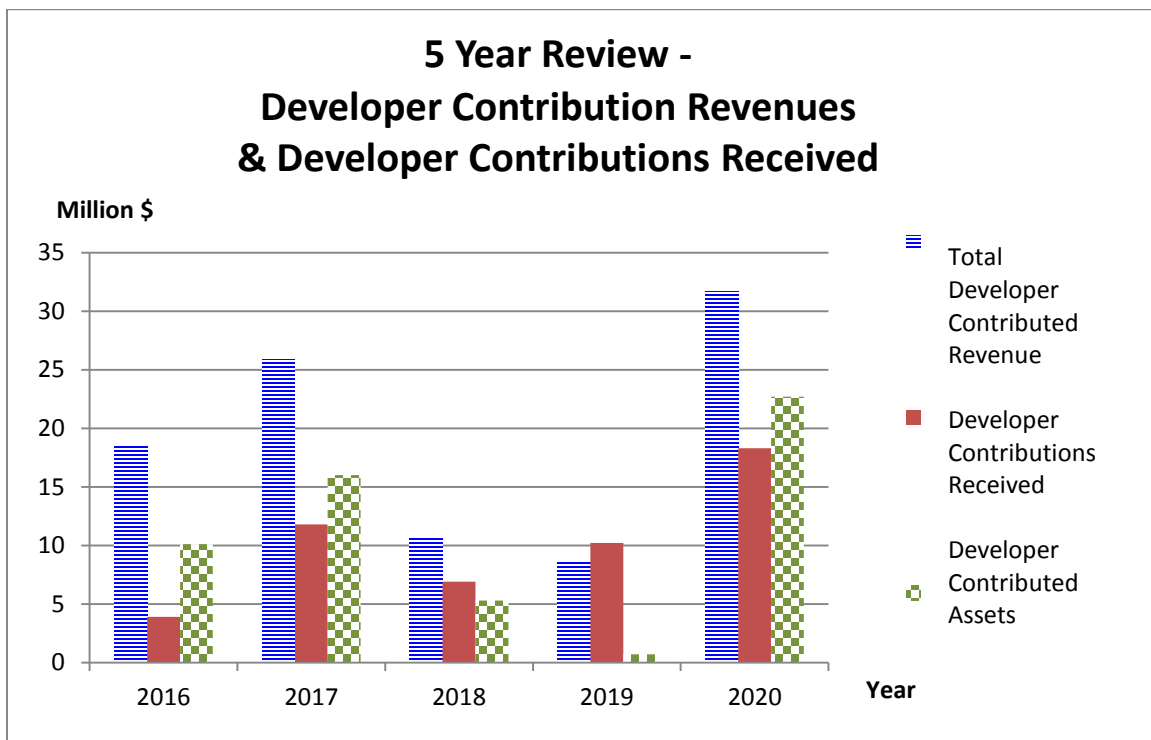
- User charges include water, wastewater, and stormwater revenues, recreation program revenues, license fees, and building permit fees. The majority of user charges are water and wastewater revenues where the average resident's bill increased by 4.9% or \$60 from 2019 for the first four months of 2020. The Town introduced a Financial Relief program as a result of the pandemic. This program authorized the water & wastewater rates to revert back to the 2019 rates effective May 2020.

Building permit revenues were 16% higher than in 2019, but it was 36% less than the budget resulted in a \$1.3 million draw from the Building Permit Reserve Fund. Up until Jan 1, 2020, there had been no price increase to the fees since 2016 when the fee structure was modified, based on a review done by BMA Consulting.

A few new fees and charges for recreation and culture programs and services were introduced in 2020, while majority of the fees remained at the 2019 levels. Recreation and culture was directly affected by the pandemic with facility closures and many programs temporarily cancelled.



- Government transfers were lower than 2019 by \$0.9 million. In 2020, the Town received the Safe Restart grant from the Federal government of \$1.8 million. In 2019, the Town received a “top up” gas tax payment of \$2.5 million which was the main difference in the year over year change. Most grant funding is only received after costs have been incurred.
- Contributions from developers were \$23.2 million higher than in 2019, mostly due to the significantly higher level of contributed assets (\$22.7 million vs. \$0.7 million in 2019). Tangible capital assets contributed to the Town included 102 streetlights and many road segments and associated infrastructure and sidewalks constructed between 2007 and 2018. 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 lower than budget in 2020 (actual - \$0.2 million; budget - \$0.8 million). The prime rate dropped from 3.95% after Q1 and remained at 2.45% for the rest of the year. The interest rates on our operating account also fell to 0.95%, from 2.45%.

Our investments include a number of non-traditional investments (loan to a user group, installation of solar panels, and energy retrofit project). The Town is transitioning towards a multi-year capital budget which will improve cash forecasting and long-term investing.

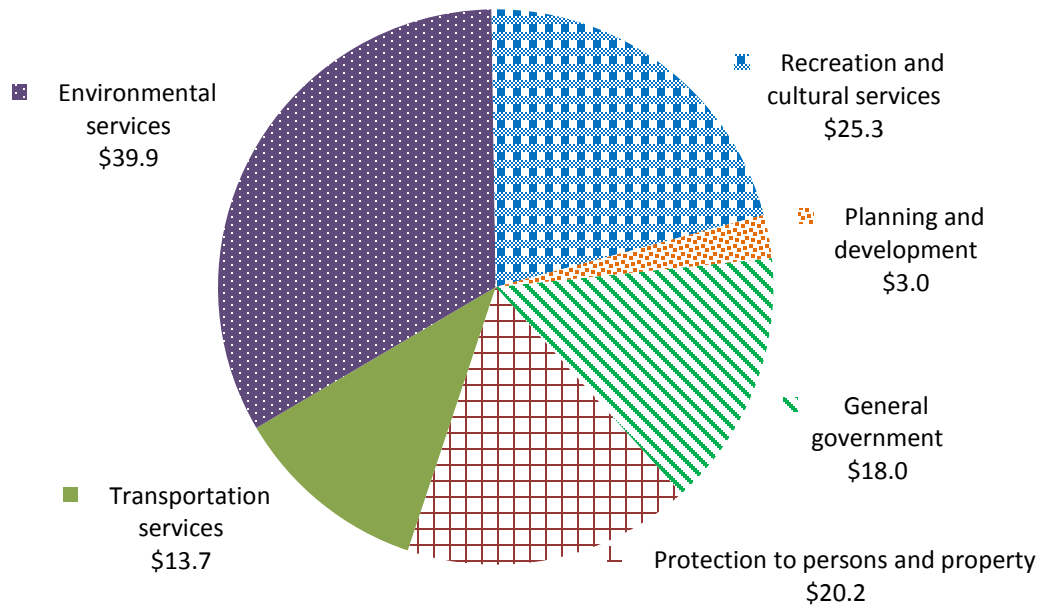
It has been the Town's practice to recognize the dividend from Newmarket-Tay Power before it is paid or even declared. This accrual was acceptable, as there was a board-approved dividend policy and a consistent practice of receiving this payment the following year. Due to the pandemic, the 2019 dividend, which would normally be paid in December 2020, was not guaranteed. Therefore, the dividend of \$1,336,000 was not accrued in 2019 which was subsequently received in 2020. The same practice was applied in 2020; therefore the 2020 dividend was not accrued. The Town will continue to address dividends as declared on a cash basis.

- Rent and Other was below budget. Included in this section were capital recovery amounts from Aurora for their portion of the shared fire services which included the construction of Station 4-5. Capital project delivery timelines were greatly impacted by the pandemic.
- Gains (losses) on the disposal of tangible capital assets are not budgeted. When roads, trails or walkways are reconstructed, any remaining unamortized cost represents a loss as there are no corresponding 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.

## 2020 Expenses by Function



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

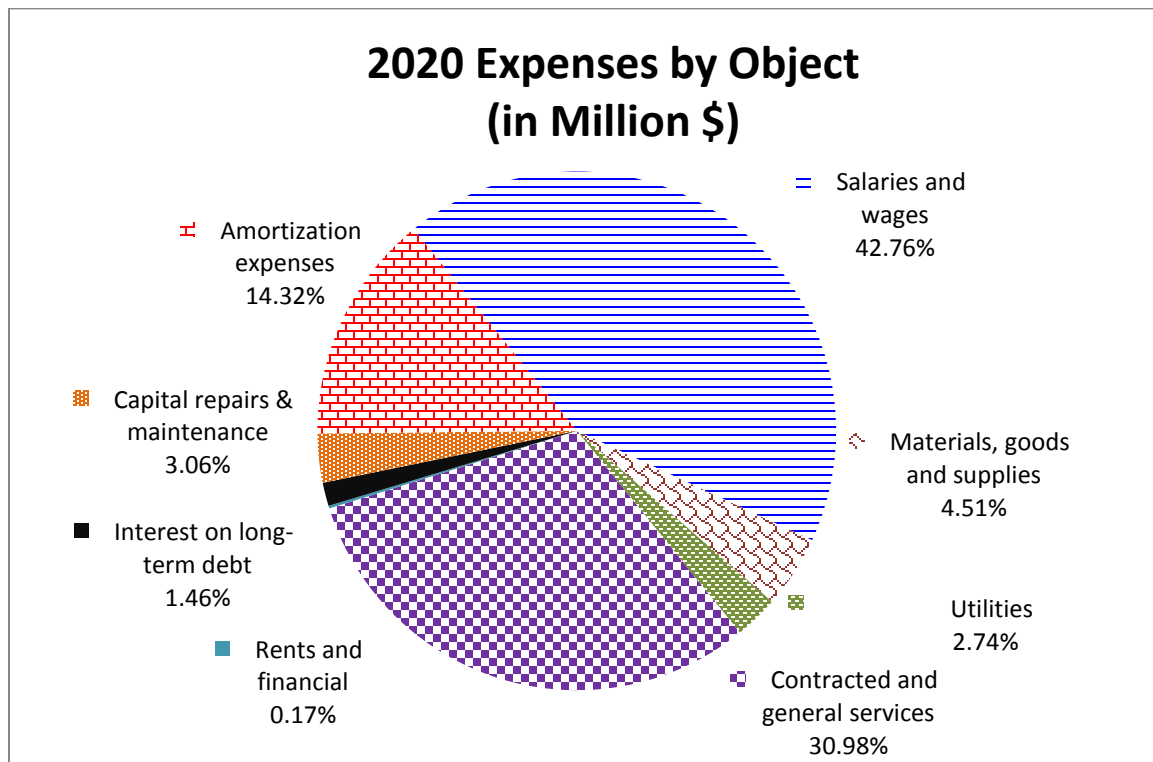
### **Recreational and cultural services:**

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 2020 were \$120.1 million, a decrease of \$14.0 million over 2019. Reduced spending in 2020 was a result of delays and restrictions due to the pandemic.
- Salaries, wages and benefits are the most significant component of the Town's costs which decreased by \$2.4 million over 2019. The economic increase in 2020 was 1.74%. Casual wages were significantly lower in Recreation due to the cancellation of most recreation and culture programs; this included the cancelation of all camps such as March, summer and winter breaks.
- Materials, goods and supplies (including minor capital, water meters and materials for main replacement, equipment rental, and repairs and maintenance) decreased by \$2.0 million over 2019.

- Contracted and general services were lower by \$2.0 million over 2019. Charges from the Region for water and wastewater are the biggest component of this expense category; however the charges for the year were marginally lower than 2019. This was due to the fact that the Region waived its 2020 planned increase due to the pandemic offset by an increase in water purchases due to higher consumption. Community Programs, Facilities, Parks and Trails made up the largest reduction year over year.
- 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 significantly lower than 2019 levels.
- Amortization (or depreciation) increased by 3.1% over 2019.

### ***Annual (current year) surplus***

The annual (current year) surplus for the year was \$40.4 million.

<b>ANNUAL SURPLUS RECONCILIATION</b>	
<b>Surplus based on operating fund</b>	<b>\$ 486,339</b>
<b>Add:</b> Principal payment on long-term debt	3,520,612
Contributed tangible capital assets	22,678,699
Acquisition of tangible capital assets	14,265,592
Income from Newmarket Hydro Holdings Inc. (net)	87,813
Financing from future revenue (employee benefits)	664,960
Reserves and reserve fund	17,126,230
<b>Less:</b> Capital fund balance	(163,964)
Amortization expenses	(17,396,439)
Book value of disposals	(818,049)
<b>Surplus Per Consolidated Statement of Operations</b>	<b>\$ 40,451,793</b>



## Employee Future Benefits

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. The projected benefit liability of \$7,323,665 was determined by the last actuarial valuation carried out as at December 31, 2019 using a discount rate of 2.8%.

	2020	2019
Accrued obligation benefits	\$ 7,131,664	\$ 6,790,658
Unamortized actuarial gains (losses)	\$ 192,001	\$ 215,594
<b>Employee future benefits liability</b>	<b>\$ 7,323,665</b>	<b>\$ 7,006,252</b>

The impact of a change in actuarial assumptions would have the following impact on the obligation:

	Reasonable Possible Change %	Accumulated Benefit Obligation	Difference \$	Difference %
<b>Discount Rate</b>	1	(700,607)	(65,946)	-0.9%
<b>Discount Rate</b>	-1	975,366	83,300	1.1%
<b>Cost Trends</b>	1	603,854	52,454	0.7%
<b>Cost Trends</b>	-1	(518,715)	(43,246)	-0.6%