

2021 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. owns 93% of the outstanding common shares of Newmarket-Tay Power Distribution Ltd.

A selection of financial indicators are explained below:

2021 Financial Highlights	2021	2020
Financial position	\$677,504,272	\$632,694,296
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.		
Capital reserves as % of accumulated amortization	15.7%	13.3%
Breakdown of capital reserves as % of accumulated amortization was as follows:		
Tax-supported	-7.4%	-9.1%
Utility (W/WW) rate supported	49.2%	45.0%
Capital reserve contribution as % of amortization	85.0%	88.1%
Breakdown of the capital reserve contribution as % of amortization was as follows:		
Tax-supported	51.4%	57.9%
Utility (W/WW) rate supported	234.6%	227.8%

These 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.

2021 Financial Highlights	2021	2020	BMA Study 2020 Results
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Receivables as % of total taxes levied (includes Region and School Board)	4.5%	7.4%	6.5%
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Uncollected property taxes as a percentage of total taxes charged is a good indication on 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% as a negative factor. Based on the 2020 financial indicator review of 23 municipalities in the Greater Toronto Hamilton Area from the BMA study, the average was 6.5%. The Town's collection rate on taxes was improved in 2021 at 95.5% as the pandemic had an impact on the Town's taxes receivables in 2020.

Asset consumption ratio	38.6%	38.3%	42.1%
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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 96 municipalities in the BMA study, the average was 42.1% in 2020.

The Ministry of Municipal Affairs and Housing considers a ratio of 25% or under to be relatively new; 26%-50% to be moderately new; 51%-75% to be moderately old and over 75% to be old.

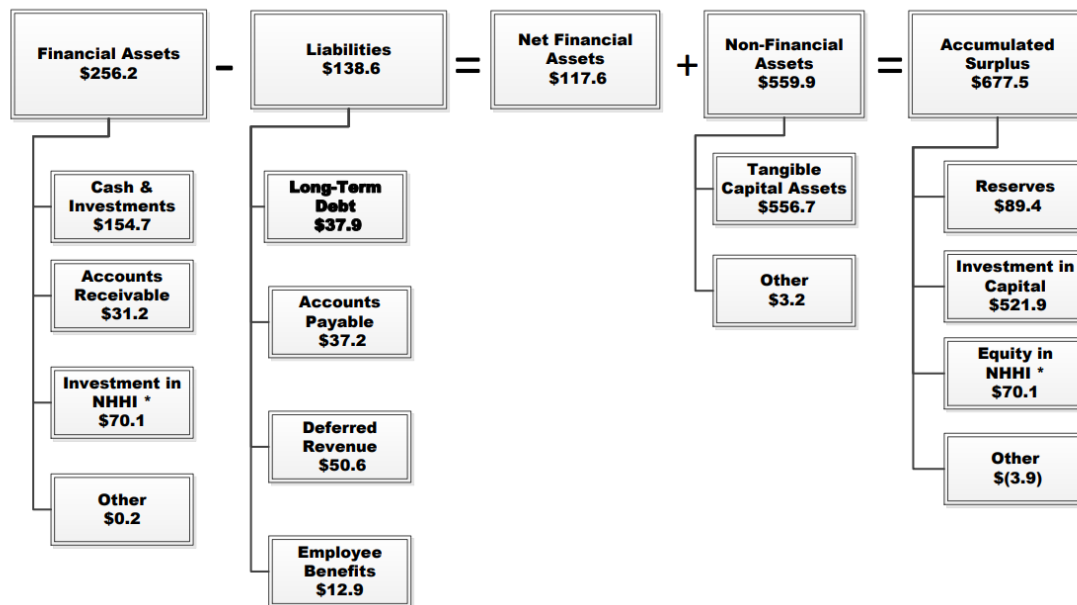
Debt service costs as a % of own source revenues	4.2%	4.4%
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This ratio indicates the extent to which the Town's own source revenues are committed to debt charges.

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

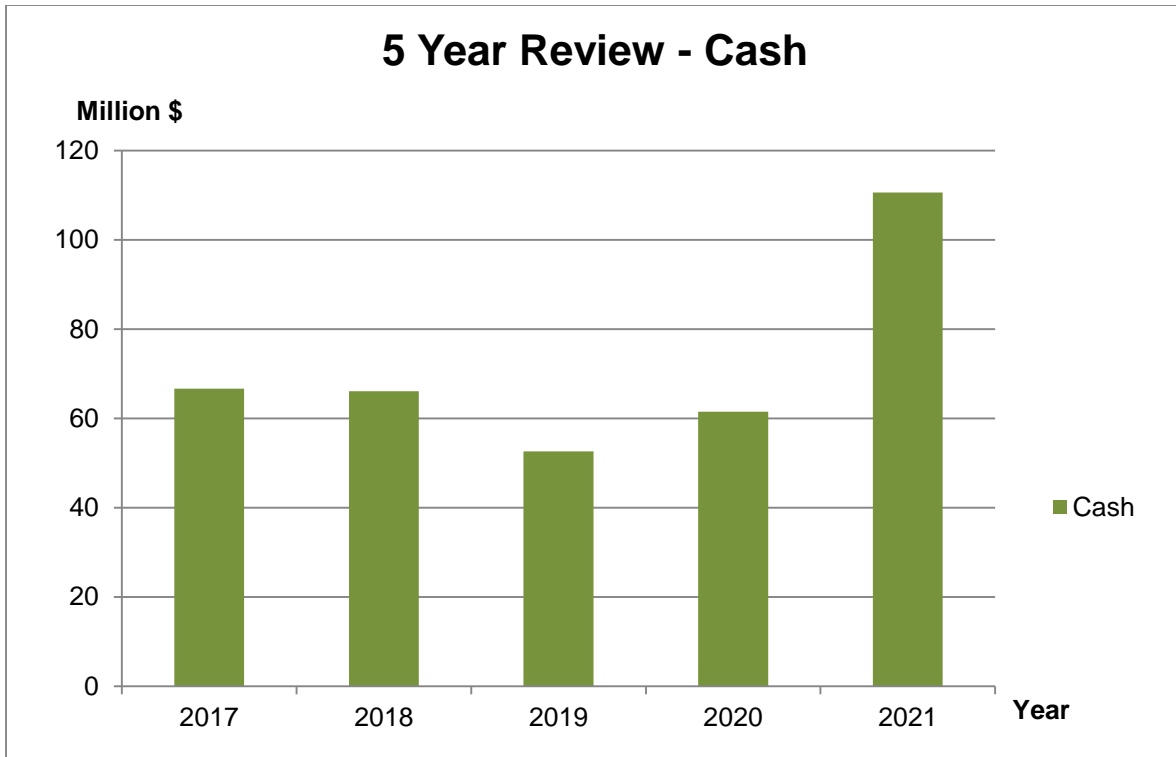
The Consolidated Statement of Financial Position highlights key financial figures. The chart below presents the information reported in the Consolidated Statement of Financial Position (in millions).



*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 \$49.1 million from \$61.5 million (2020) to \$110.6 million (2021), while temporary investments decreased by \$20.8 million from \$64.8 million (2020) to \$44.0 million (2021). Reinvestments have been temporarily put on hold pending finalization of the Reserve and Reserve Fund Review. The Reserve and Reserve Fund Review along with the Asset Management Plan will identify future cash flow requirements for both short term and long term which will then guide the investment strategy.



The cash position increased by \$49.1 million from 2020 mostly due to an Investment maturity of \$21M, and increased collections from Taxation, and User Charges. Matured investments during 2021 were not reinvested; pending an investment strategy upon completion of the Reserve and Reserve Fund review.

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 \$117.6 million (2020 - \$92.3 million), an increase of \$25.3 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:

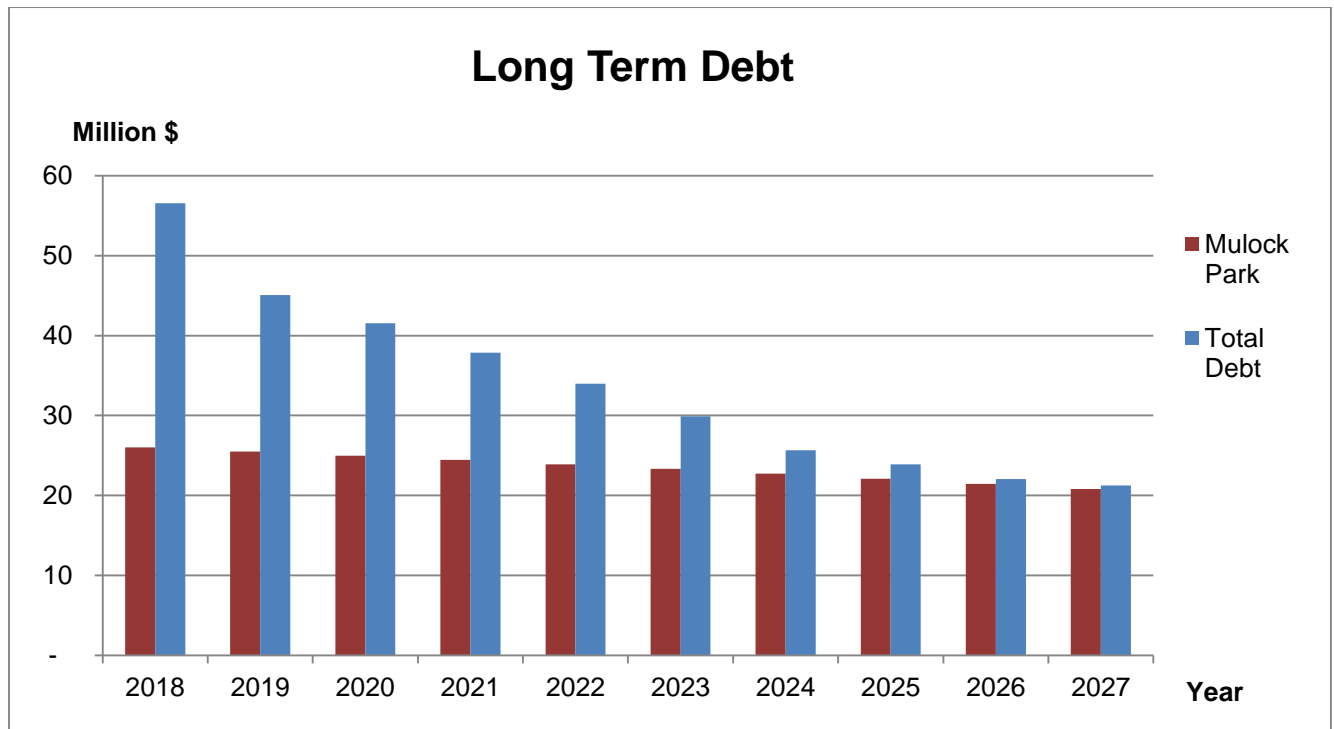
- development charges;
- building permit revenue;
- Federal gas tax and other grants;
- parkland cash in-lieu;
- Engineering administration revenues.

In 2021, the Town collected \$7.5 million and allocated \$11.1 million to capital projects.

Long-term debt

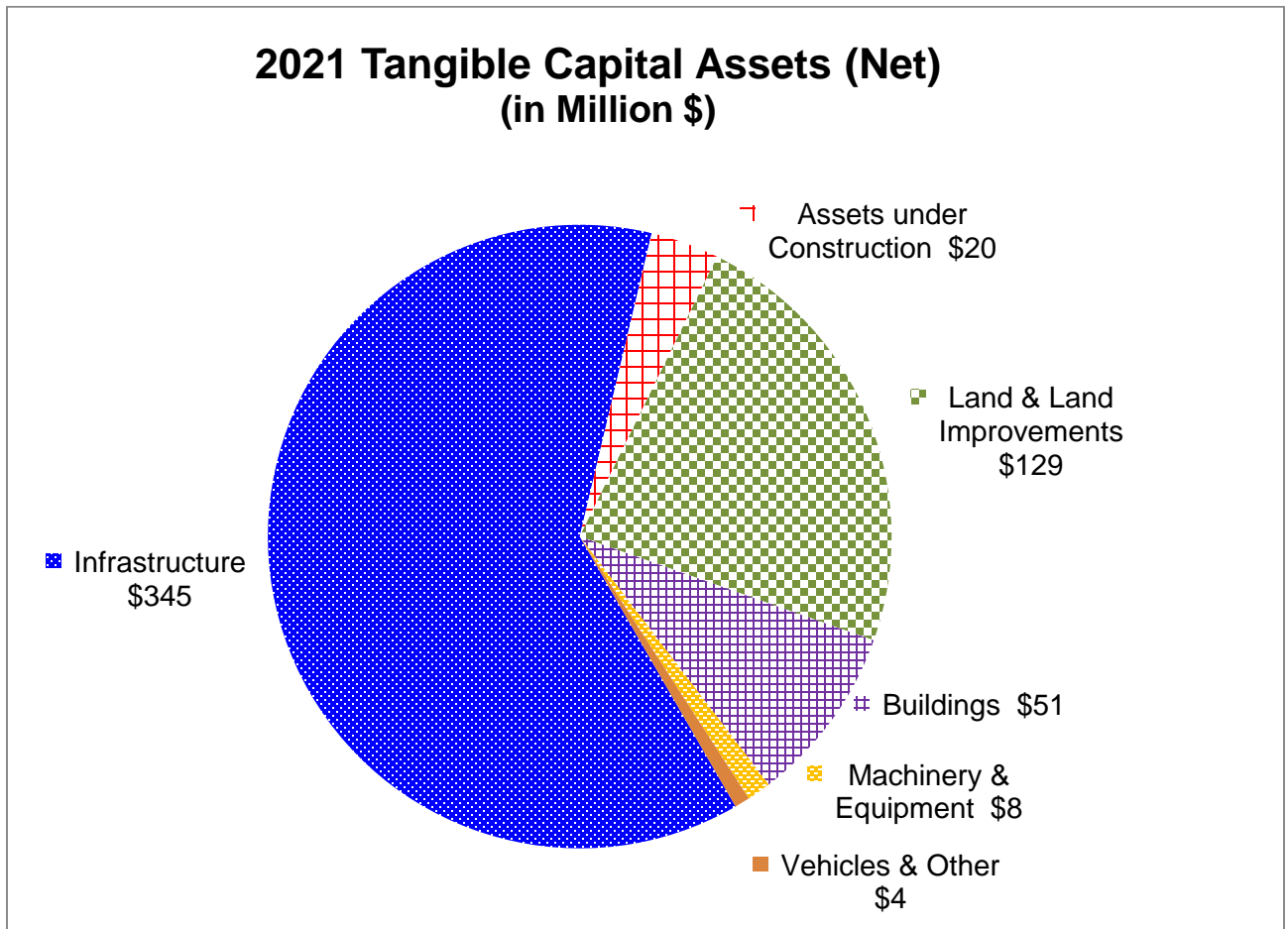
A significant component of the financial liabilities is the Town's long-term debt. In accordance with the Town's debt policy, debt financing is only available for capital expenditures included in the Asset Management Plan when other sources of financing are not available. The policy outlines a servicing 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 2021, the Town's actual debt servicing was 4.2% (2020 – 4.4%). At an annual interest rate of 5% with a term of 20 years, the Town could borrow another \$116 million and still remain within its 10% debt servicing (borrowing) limit. Debt represents 6.8% of the net book value of Town's tangible capital assets (2020 – 7.7%).



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 Park property which will be the only remaining debenture starting in 2032. In 2019, the debenture for the Operations Centre was paid off.

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 2021 approved capital budget totaled \$41.6 million. \$37.9 million was budgeted for tangible capital assets (TCA) and \$3.7 million for major repair and maintenance expenses and items below the threshold for TCA. \$16.1 million (38.7%) of TCA were added in 2021. 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 2021.

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 \$19.6 million in 2021 compared to an increase of \$18.7 million in 2020. In 2021, contributed tangible capital assets included \$14.3 million donation of land from a developer.

Accumulated surplus (deficit)

The Town's accumulated surplus for fiscal 2021 is \$677.5 million (2020 - \$632.7 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.

ACCUMULATED SURPLUS

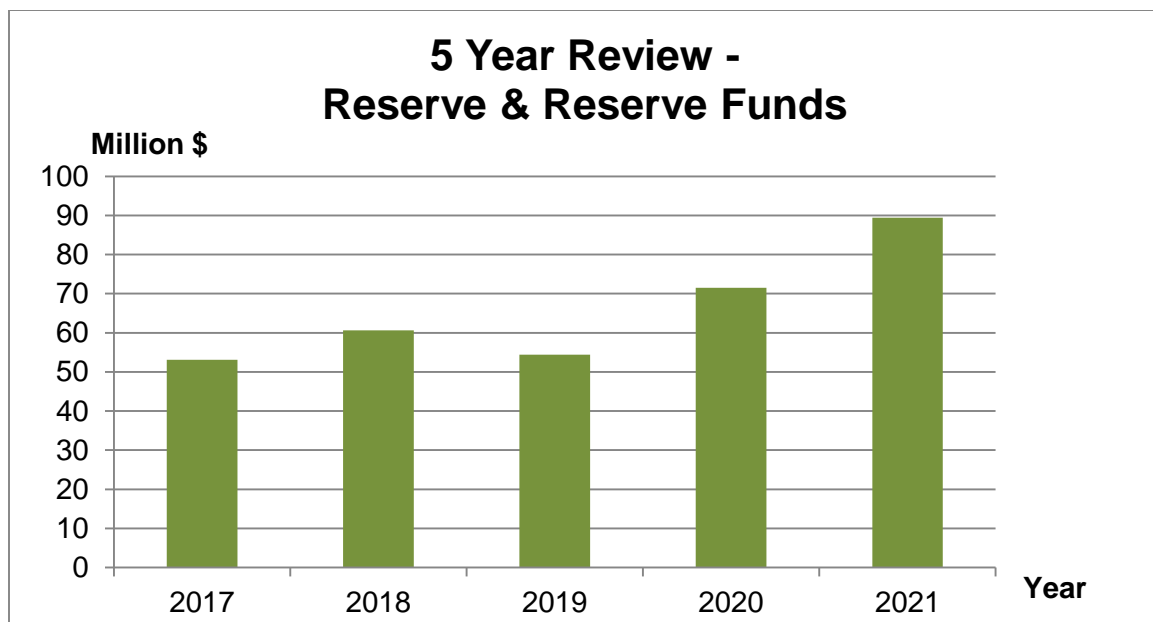
The Accumulated Surplus is comprised of the following:

	2021	2020
Reserves set aside for specific purposes by Council		
Reserves for operating purposes	\$ 16,974,083	\$ 10,612,811
Reserves for capital purposes	3,779,626	3,607,567
Newmarket Public Library	998,844	974,027
Water & Wastewater Rate Stabilization	6,260,960	5,400,466
Total Reserves	28,013,513	20,594,871
Reserve funds set aside for specific purposes by Council		
Asset replacement funds	41,902,811	31,720,559
Reserve funds for operating purposes	5,947,329	5,468,176
Reserve funds for capital purposes	9,293,754	9,096,868
Self-insured long-term disability	4,273,158	4,628,173
Total Reserve Funds	61,417,052	50,913,776
Total Reserves and Reserve Funds	89,430,565	71,508,647
Invested in tangible capital assets	556,722,668	537,113,344
Less: amount financed by long-term debt	(37,864,872)	(41,561,103)
Equity in Newmarket Hydro Holdings Inc. (Note 10)	70,136,815	67,998,430
Employee future benefits to be recovered	(3,963,528)	(4,541,937)
Operating Surplus	1,504,813	486,339
Capital Fund Balance	1,537,811	1,690,576
Accumulated Surplus	\$ 677,504,272	\$ 632,694,296

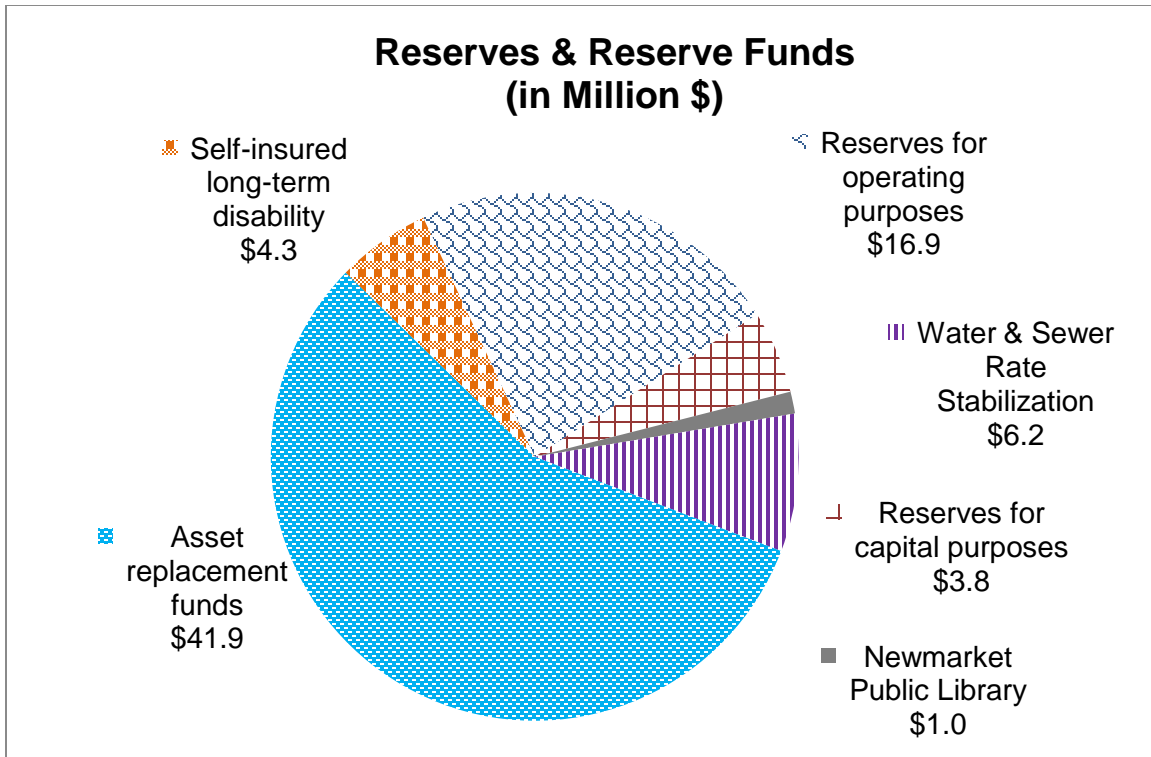
It is the Town's practice to record year-end transfers in the current year to balance rate-supported operating budgets such as water, wastewater, stormwater, as well as the building department.

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 2021 was \$89.4 million, an increase of \$17.9 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 requirements. Contributions to asset replacement net of expenditures was \$10.2 million, the remaining increase was made of operating and general capital reserve contributions net of expenditures.



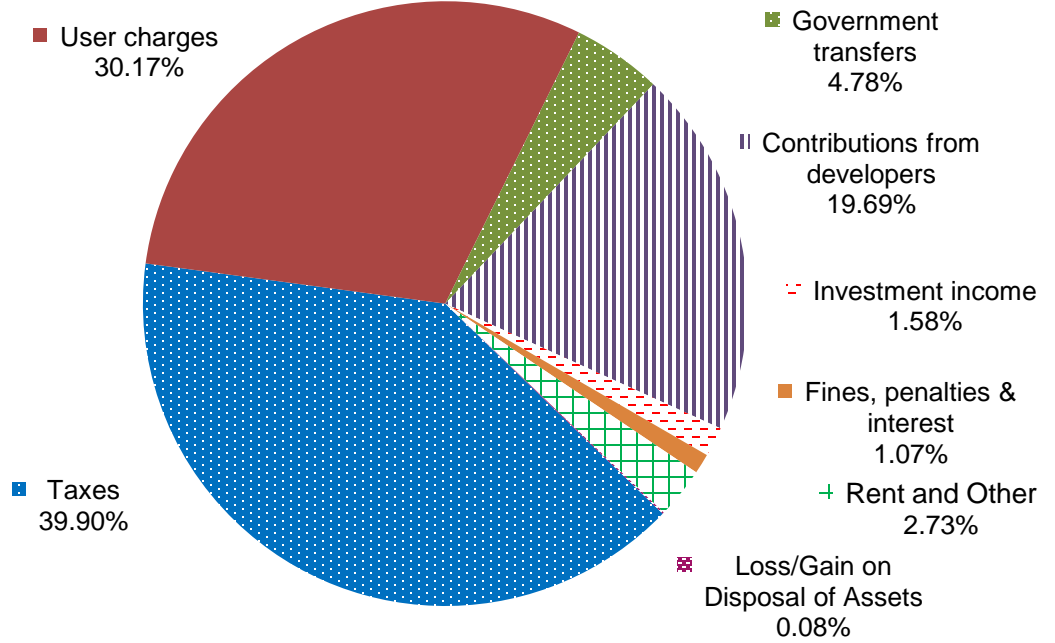
Consolidated statement of operations and surplus

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.

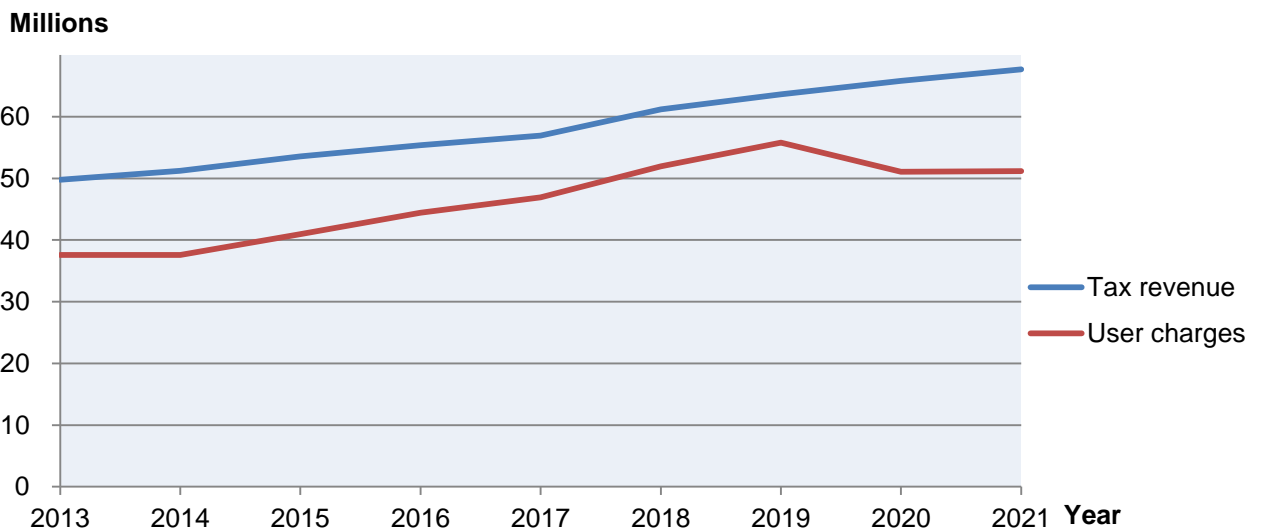
Revenues

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.

2021 Revenue Components



Revenue by Source



Revenue highlights for 2021 include:

- Property taxes increased by \$1.9 million. Year over year the percentage of revenue from property taxes has remained approximately 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 2021 were \$366,339, which was up from the 2020 level of \$300,459. The increase in supplementary revenue was a result of the easing of restrictions as it pertained to the pandemic. The 2021 supplementary budget was \$496,036.

Write offs, which reduce tax revenues, were significantly higher than in 2020. 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. As a result, many of the appeals on hold resumed and was subsequently resolved in 2021.

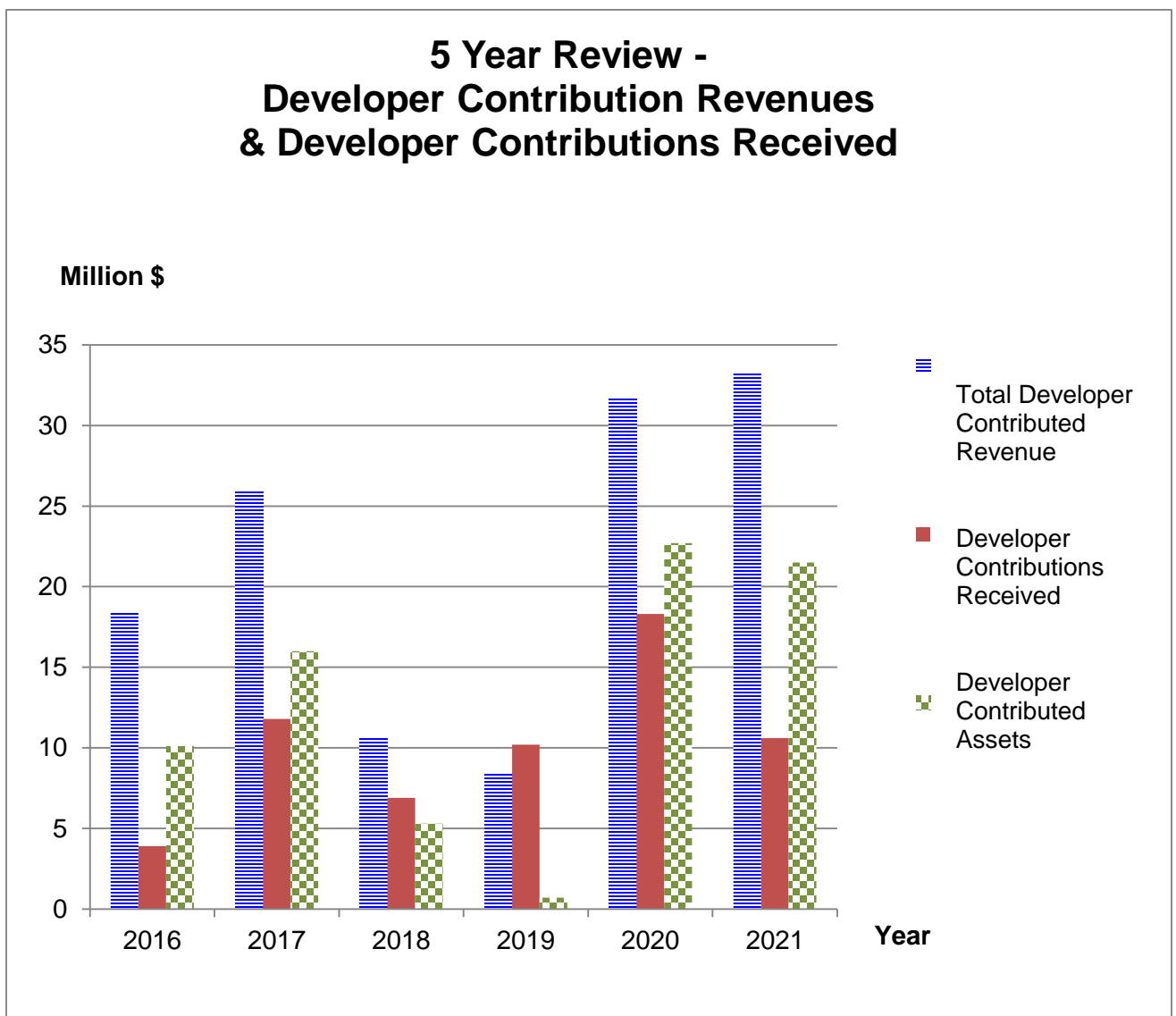
The Town approved a total of \$220,257 charity rebates in 2021. This was slightly less than 2020 at \$225,507. There were 40 applications processed in 2021 versus 41 in 2020. The proactive assessment management plan, started in 2014 and continues with a shifted focus to undervalued or missing assessments 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. Due to the pandemic, the water and wastewater rates were maintained at the 2019 rates in 2020. The 2021 rates were increased by 4.0% for residential customers.

Building revenues were 2.7% lower than in 2020, and it was 22.1% less than the budget. Expenditures were 8.3% lower than in 2020, and it was 40.7% less than the budget. Overall, it resulted in a \$0.3 million draw from the Building Reserve Fund. The last fee increase was on Jan 1, 2020.

Recreation and culture were directly affected by the pandemic with facility closures and many programs temporarily cancelled. In 2021, user charges represented approximately 30% of total revenues as compared to pre-pandemic years around 38% of total revenues.

- Government transfers were higher than 2020 by \$2.7 million. This was mainly due to a \$1.4 million increase in Provincial grant funding provided for Covid-19 Recovery/Safe Restart, \$0.3 million increased grant allocation for Ontario Community Infrastructure Fund (OCIF), and increased spending of \$0.6 million of Federal Gas Tax funding. Additionally, Provincial funding of \$0.2 million for Digital Transformation was received in 2021.
- Contributions from developers were \$1.6 million higher than in 2020, mostly due to higher capital financing from development charges. Major projects included Fire Station 4-5 Construction and SkatePark Construction.



- Interest earned in the Operating Fund was significantly lower than budget in 2021 (actual - \$0.3 million; budget - \$0.8 million) with interest rate at 0.95%.

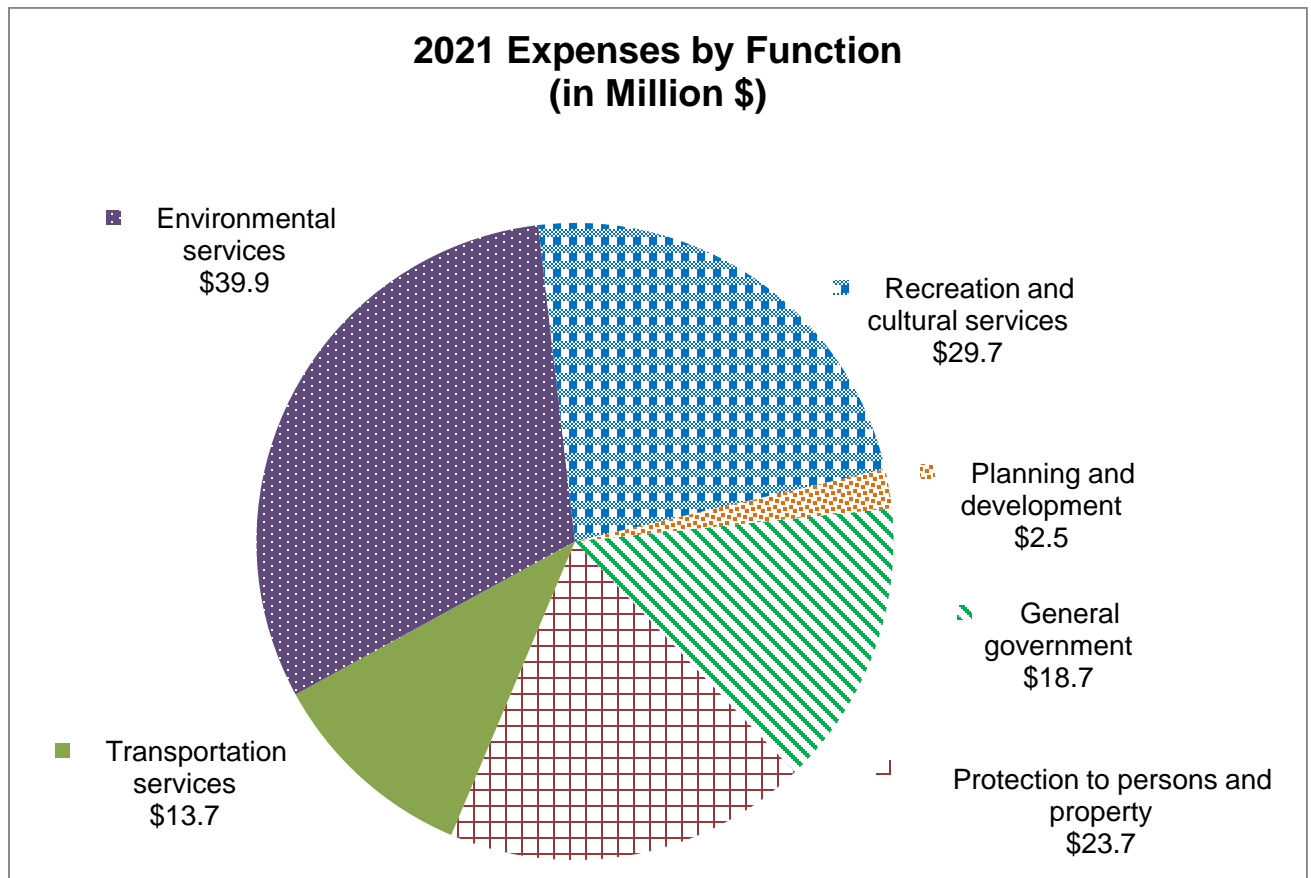
Our investments include a number of non-traditional investments (loan to a user group, installation of solar panels, and energy retrofit project).

Started in 2019, the Town had been recognizing the dividend from Newmarket-Tay Power on a cash basis. Dividends in the amount of \$1.4 million were received and recognized in 2021.

- Rent and Other revenues included capital recovery amounts from Town of Aurora for their portion of the shared fire services. Other revenues included reimbursements close to \$1.0 million to cover costs associated with hosting vaccination centres throughout the year.
- 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.



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

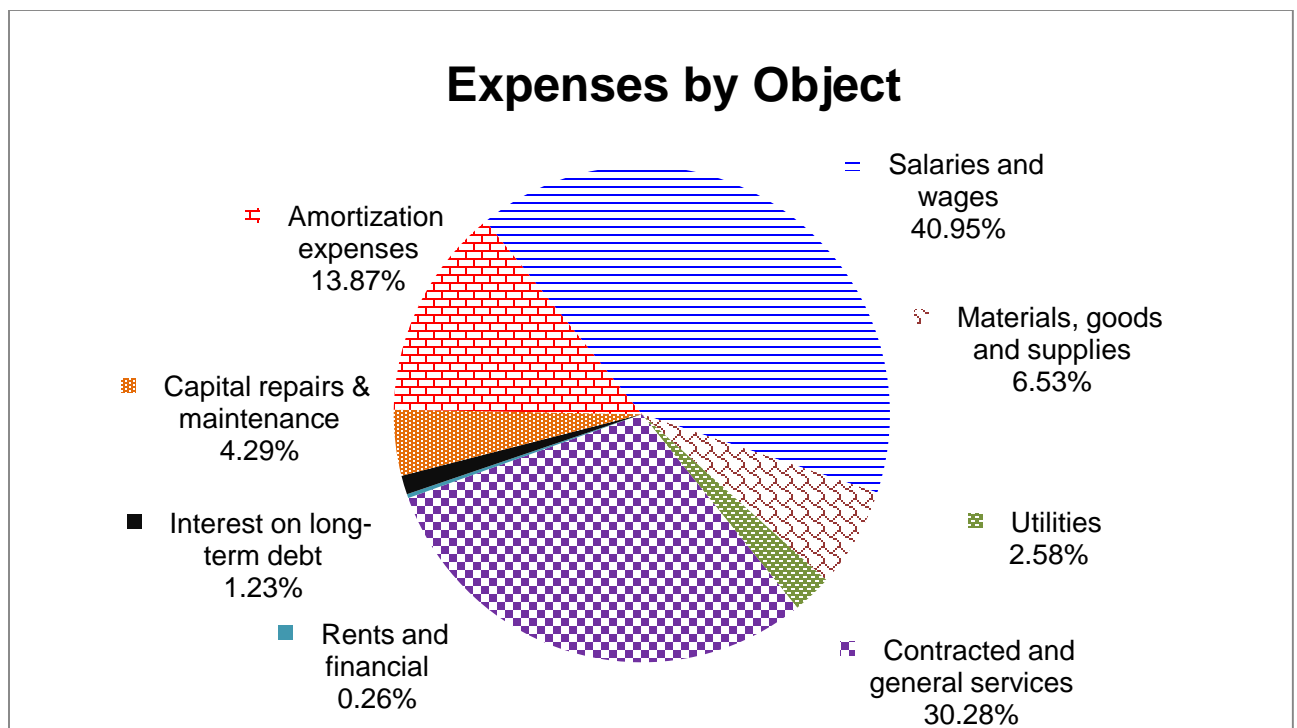
Recreational and cultural services:

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 2021 were \$128.2 million, an increase of \$8.1 million over 2020. Expenses were lower than budget by \$8.8 million as facilities were closed during some parts of the year due to the pandemic.
- Salaries, wages and benefits are the most significant component of the Town's costs which increased by \$1.2 million over 2020. The increase was due to in-year economic increase.
- Materials, goods and supplies (including minor capital, water meters and materials for main replacement, equipment rental, and repairs and

maintenance) increased by \$3.0 million over 2020 mostly due to service delivery response expenses that was offset by Provincial Covid-19/Safe Restart grant funding.

- Contracted and general services were higher by \$1.6 million over 2020. Roads, Bridges, and Sidewalks, and Corporate Governance made up the largest increase year over year. The largest increases are for Environmental monitoring, consulting costs for Legal and Asset Management, and an increase in insurance costs.
- Capital repairs and maintenance were higher by \$1.8 million over 2020. The costs include 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.
- Amortization (or depreciation) increased by 3.3% over 2020.

Annual (current year) surplus

The annual (current year) surplus for the year was \$44.8 million.

ANNUAL SURPLUS RECONCILIATION	
Surplus based on operating fund	\$ 1,018,475
Add: Principal payment on long-term debt	3,696,231
Contributed tangible capital assets	21,484,956
Acquisition of tangible capital assets	16,100,690
Income from Newmarket Hydro Holdings Inc. (net)	2,138,385
Financing from future revenue (employee benefits)	578,409
Reserves and reserve fund	17,921,918
Less: Capital fund balance	(152,766)
Amortization expenses	(17,964,265)
Book value of disposals	(12,057)
Surplus Per Consolidated Statement of Operations	\$ 44,809,976