

2023 Financial Statement Discussion and Analysis

The Town of Newmarket's consolidated financial statements have been prepared in accordance with the 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 NT Holdings Inc. (formerly Envi Networks Ltd.). Newmarket Hydro Holdings Inc. also has an Investment in Ecobility Inc.

A selection of financial indicators are explained below:

2023 Financial Highlights	2023	2022
Financial position	\$743,034,243	\$715,829,608
<p>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.</p>		
Capital reserves as % of accumulated amortization	23.4%	23.5%
Capital reserve contribution as % of amortization	64.7%	207.8%

These two ratios show the level of reserve funding for future capital purposes compared to the total depreciation to date and the current amortization rate. The more the Town funds capital reserves as compared to the annual amortization expense, the more the infrastructure gap narrows.

For Capital reserve contribution as % of amortization, the promissory note repayment from Newmarket-Tay Power of \$22 million was made in 2022 which was directed to the reserves as an Asset Replacement Fund (ARF) contribution.

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

Tax-supported	1.76%
Utility (W/WW) rate supported	53.39%

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

Tax-supported	35.63%
Utility (W/WW) rate supported	189.64%

2023 Financial Highlights	2023	2022	BMA Study 2023 Results
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Receivables as % of total taxes levied (includes Region and School Board)	6.3%	4.8%	6.4%
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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% as a negative factor. Based on the 2023 financial indicator review of 29 municipalities in the Greater Toronto Hamilton Area (GTHA) from the BMA study, the average was 6.4%.

Asset consumption ratio	39.4%	39.1%	43.5%
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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 101 municipalities in the BMA study, the average was 43.5% in 2023.

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

3.5%

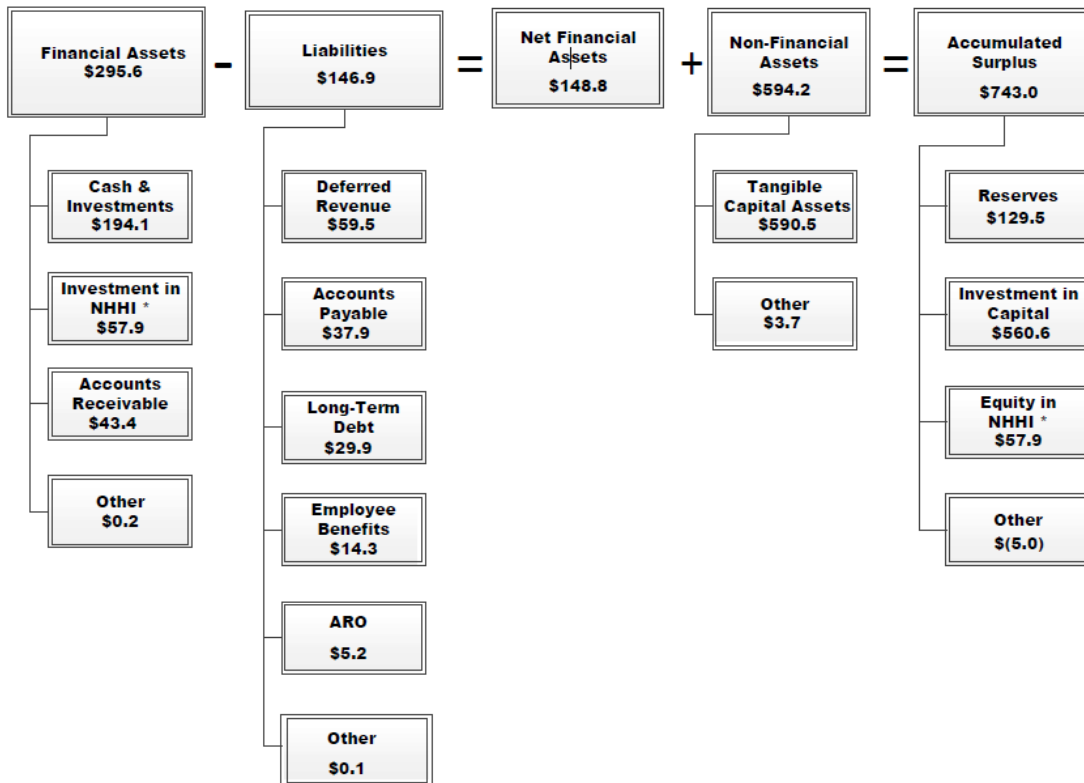
3.8%

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.

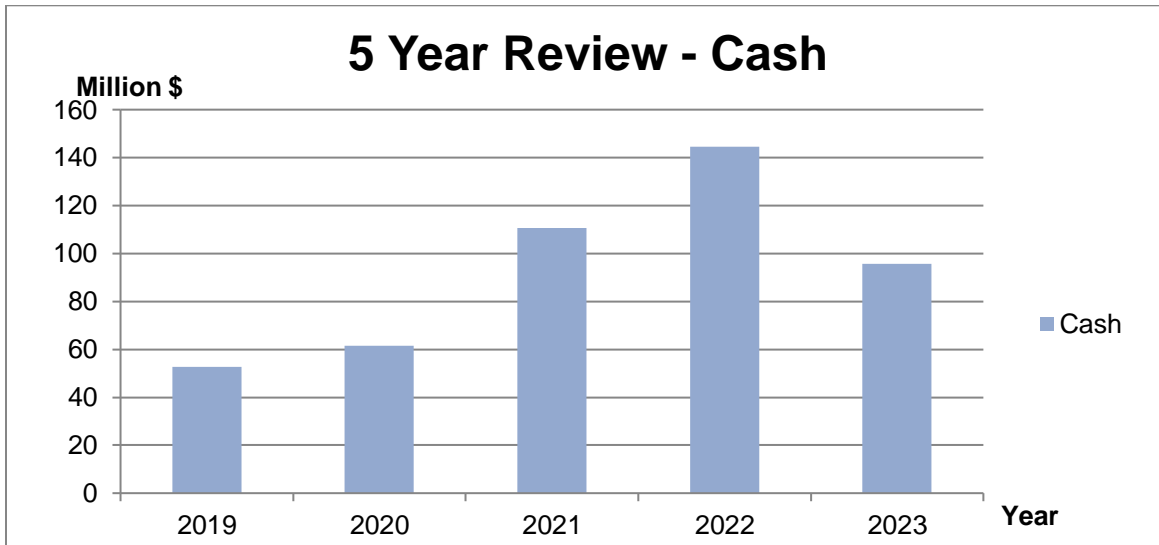
The Consolidated statement of financial position:
Overview

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).



Cash Resources

The Town's cash position is closely managed and remains adequate, combined with short-term and long-term investments to meet ongoing cash requirements. Management considers all highly liquid investments with a maturity of three months or less to be cash equivalents. The year-end cash position decreased by \$48.7 million from \$144.6 million (2022) to \$95.8 million (2023), while investments increased by \$37.1 million from \$61.2 million (2022) to \$98.3 million (2023).



The cash position decreased by \$48.8 million was mainly due to increased investments, contracted and general services costs, and lower developer contributions. Investments increased by \$37.1 million due to investments in Principal-Protected Participation Notes (PPNs) of \$18 million and GICs of \$17 million.

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 \$148.8 million (2022 - \$141.1 million), an increase of \$7.7 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;

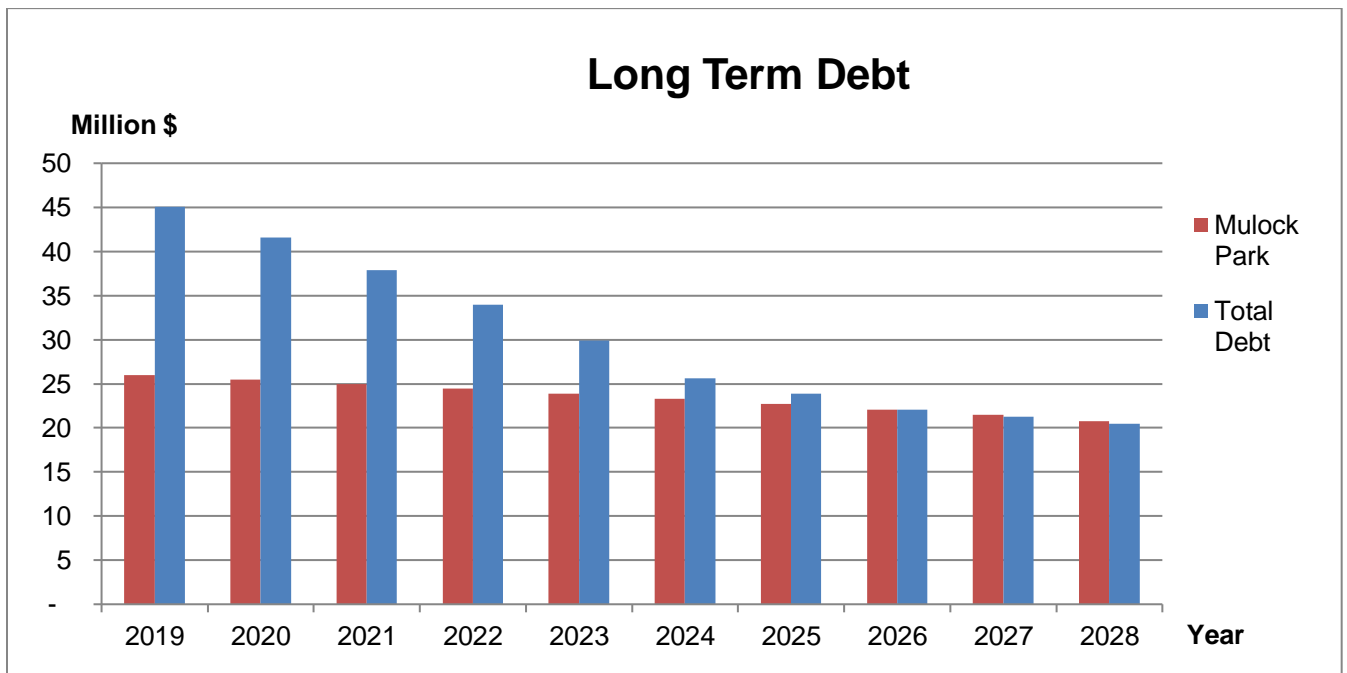
- Building Canada Fund and other grants;
- Parkland cash-in-lieu;
- engineering administration revenues.

In 2023, the Town collected \$6.9 million for development charges, parkland contributions, and engineering administration fees and allocated \$7.2 million to capital projects.

Long-term debt

A significant component of the financial liabilities is the Town’s long-term debt. The town’s debt policy establishes 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 policy outlines a servicing limit (principal 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 2023, the Town’s actual debt servicing was 3.6% (2022 – 3.8%). At an annual interest rate of 5% with a term of 20 years, the Town could borrow another \$154 million and remain within its 10% debt servicing (borrowing) limit. Debt represents 5.3% of the net book value of the Town’s tangible capital assets (2022 – 6.2%).

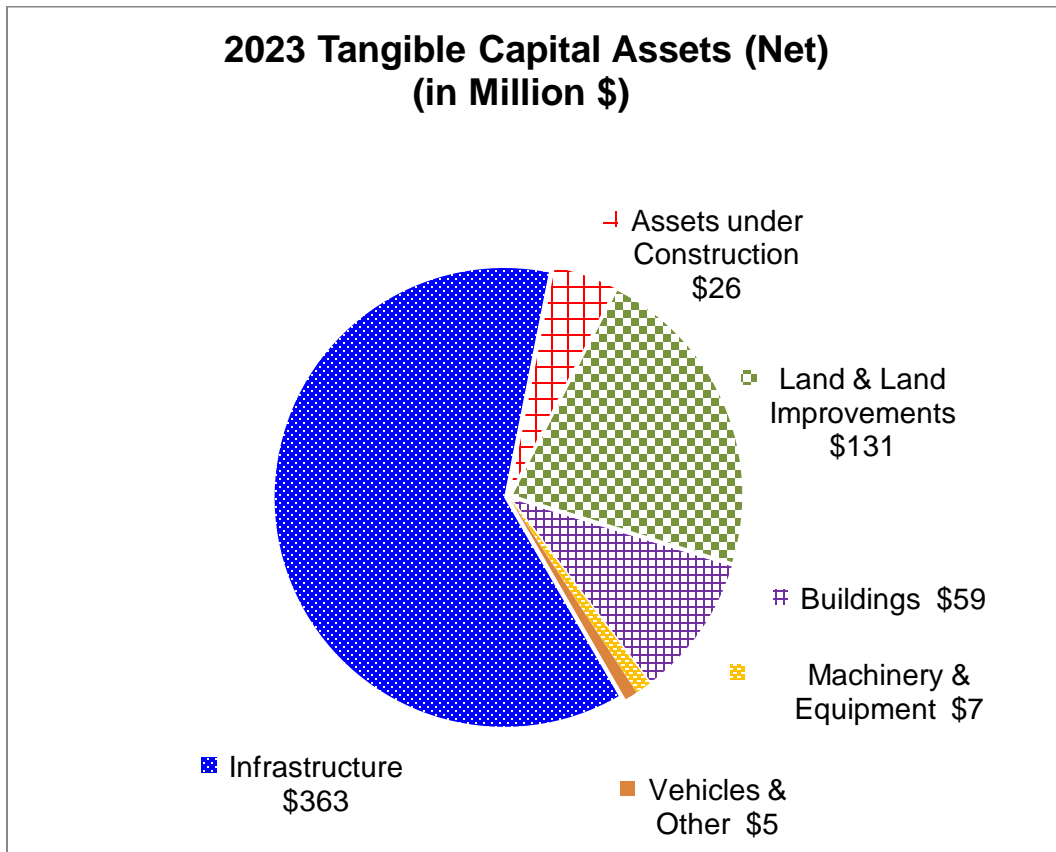


The Town’s long-term debt position reflects the pattern of investment in major infrastructure projects. As per the chart above, Mulock Park represents 78% of the Town’s long-term debt in 2023.

Asset Retirement Obligation (ARO)

PS 3280 Asset Retirement Obligation was adopted in 2023. Asset retirement obligation related to the removal and post-removal care of asbestos in buildings, the disposal of fuel storage tanks, and decommissioning of R22 refrigerant was estimated at \$5.2 million as a liability.

Non-financial assets



The 2023 approved capital budget totaled \$63.1 million. \$58.2 million was budgeted for tangible capital assets (TCA), \$4.9 million for major repairs and maintenance expenses, and other items below the threshold for TCA. The 2023 capital program and spending authority were revised to \$37.2 million during the year, and \$27.7 million (74%) of TCA was added. In 2023, the total capital spending was \$31.9 million, an increase of 3% compared to 2022 (\$30.9 million).

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 0.7% to 1% were added every year except in 2017. A capital levy of 1.0% was included in 2023.

The higher contribution aligns with the Asset Management Plan (AMP) and recommendations from the Fiscal Strategy. Staff continues to refine and update the plan. It is anticipated to be on track to meet provincial regulations.

The Town's tangible capital assets (net of amortization expense) increased by \$19.3 million in 2023 compared to an increase of \$14.6 million in 2022. The asset additions included roads/underground replacements, trail lighting, and facility replacements.

Accumulated surplus (deficit)

The Town's accumulated surplus for the 2023 fiscal year was at \$743.0 million (2022 - \$715.8 million). The accumulated surplus reflects the resources that have been built up over time at the Town of Newmarket. The balance includes items such as tangible capital assets, equity in Newmarket Hydro Holdings Inc., and various reserves and reserve funds.

22. ACCUMULATED SURPLUS

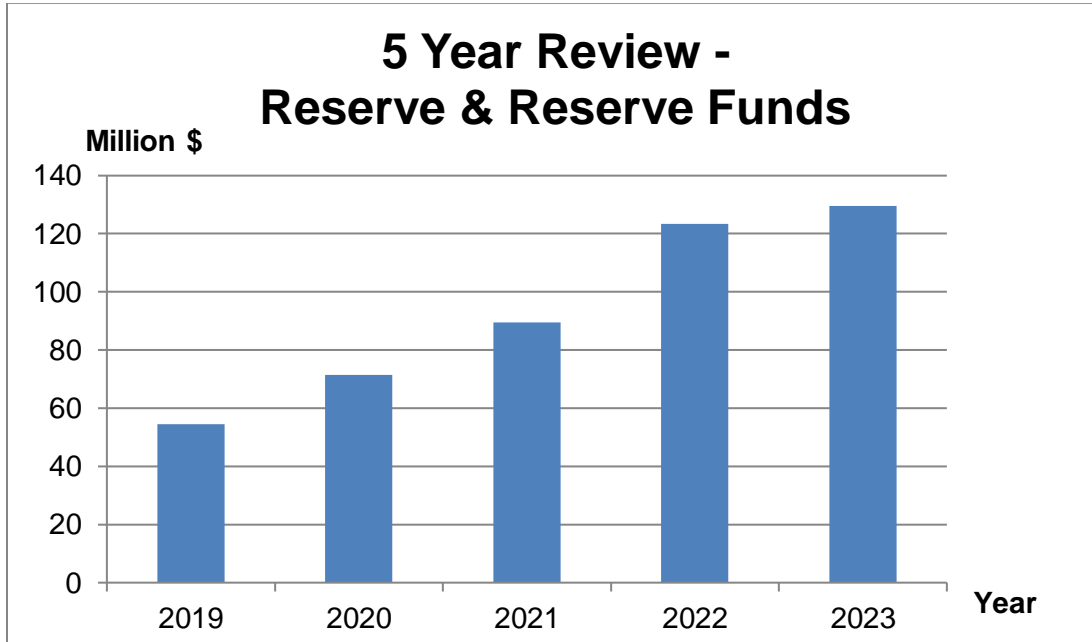
The Accumulated Surplus is comprised of the following:

	<u>2023</u>	<u>2022</u>
Reserves set aside for specific purposes by Council		
Reserves for operating purposes	19,549,696	19,078,323
Reserves for capital purposes	4,108,925	4,256,853
Newmarket Public Library	1,271,395	1,089,025
Water & Wastewater Rate Stabilization	9,860,153	7,359,941
Total Reserves	34,790,169	31,784,142
Reserve funds set aside for specific purposes by Council		
Asset replacement funds	72,148,842	69,025,408
Reserve funds for operating purposes	6,360,935	5,995,138
Reserve funds for capital purposes	13,644,191	12,973,993
Self-insured long-term disability	2,526,574	3,601,194
Total Reserve Funds	94,680,542	91,595,733
Total Reserves and Reserve Funds	129,470,711	123,379,875
Invested in tangible capital assets	590,529,170	571,409,095
Less: amount financed by long-term debt	(29,909,074)	(33,984,039)
Equity in Newmarket Hydro Holdings Inc. (Note 10)	57,948,486	56,902,217
Employee future benefits to be recovered	(4,290,807)	(4,104,385)
Operating Surplus	3,188,982	829,647
Capital Fund Balance	(3,903,225)	1,397,198
Accumulated Surplus	\$ 743,034,243	\$ 715,829,608

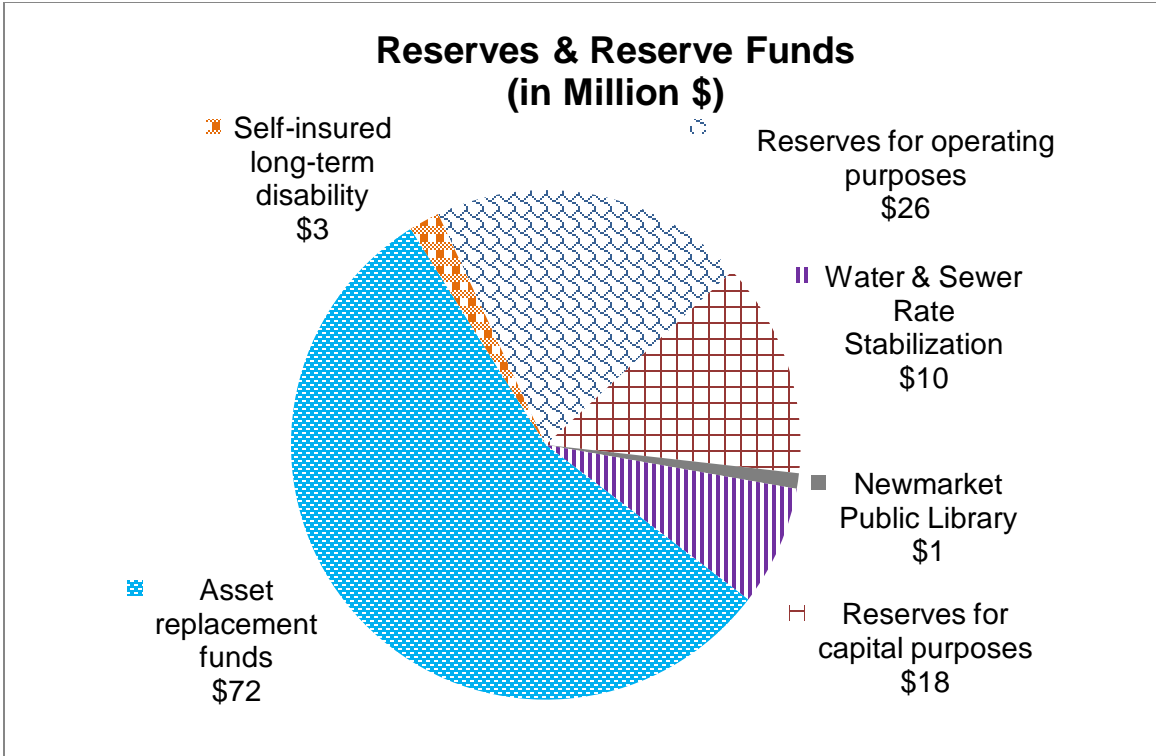
It is the Town's practice to record year-end transfers in the current year to balance the rate-supported operating budgets such as water, wastewater, stormwater, and the building services department.

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, commonly referred to as Rate Stabilization.



The total of the Town's reserves and reserve funds at the end of 2023 was \$129.5 million, an increase of \$6.1 million from the beginning of the year. The major factors for the increase were the asset replacement fund by \$3.1 million, and the remaining increase was made of capital and operating reserves of \$3.0 million.

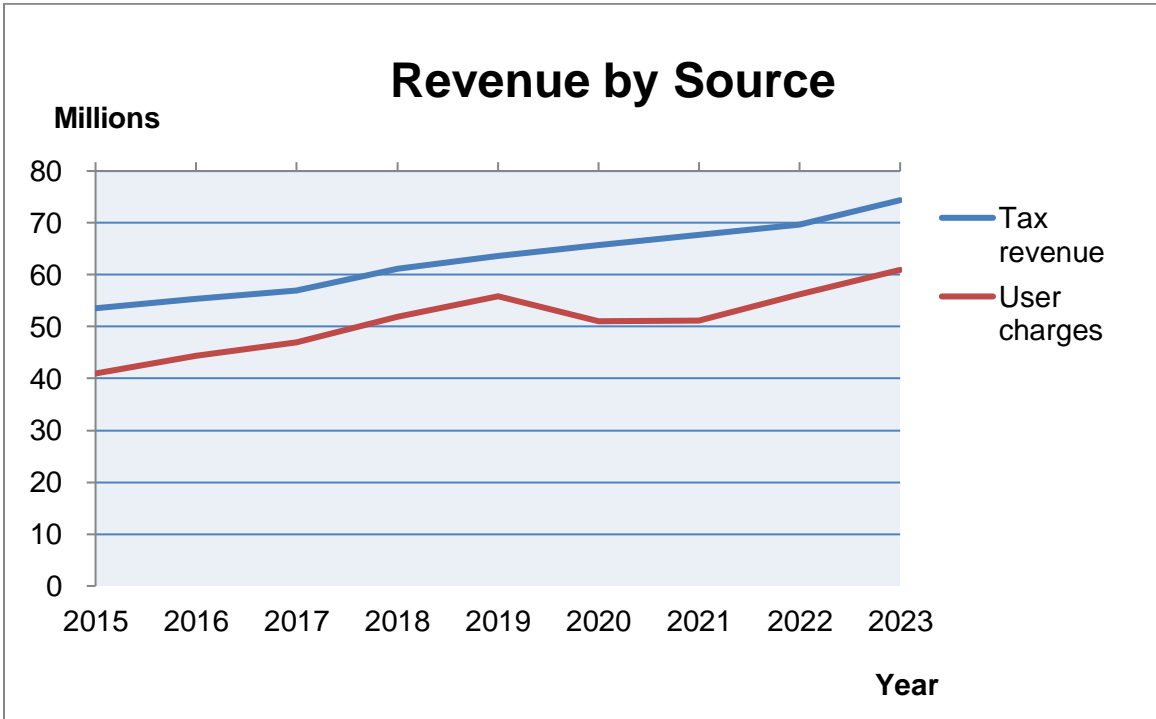
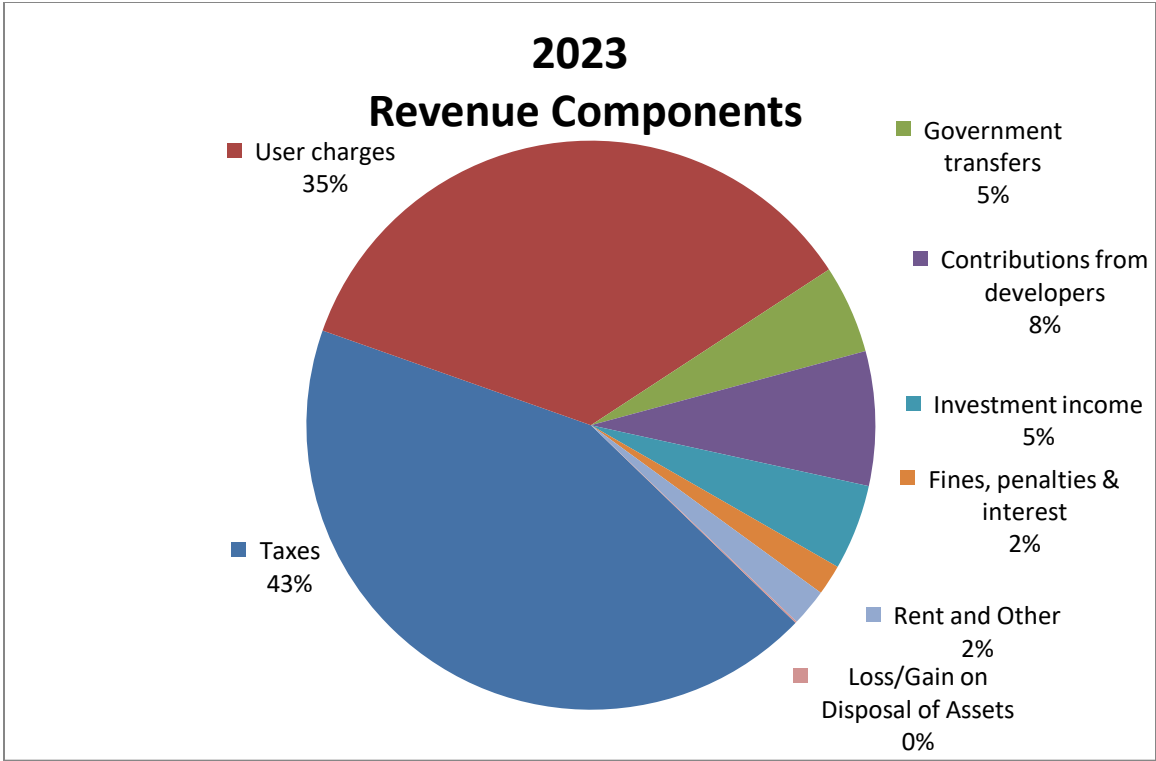


Consolidated statement of operations and surplus

The consolidated statement of operations reports the revenues 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, penalty and interest, rent, land sales, and sale of goods.



Revenue highlights for 2023 included:

- Property taxes increased by \$4.7 million. Year over year, the percentage of revenue from property taxes remained over 40% of total revenues. Reducing our dependence on property taxes is one of the Town’s financial goals.

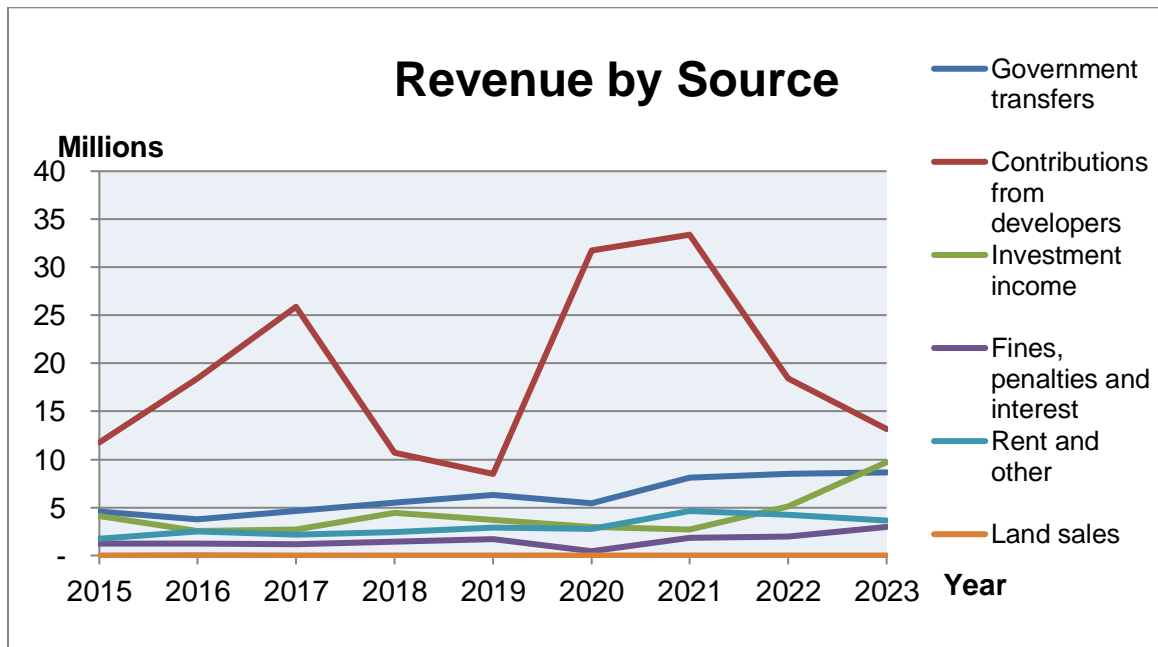
Supplementary taxes are difficult to predict and sustain. Actual billings in 2023 were \$0.6 million, which was higher by \$0.3 million when compared to 2022. The 2023 supplementary budget was \$0.5 million.

Write-offs which reduce tax revenues, were slightly higher compared to 2022 by \$0.04 million.

The Town approved a total of \$0.2 million in charity rebates in 2023 based on 26 applicants, which was a similar level as 2022.

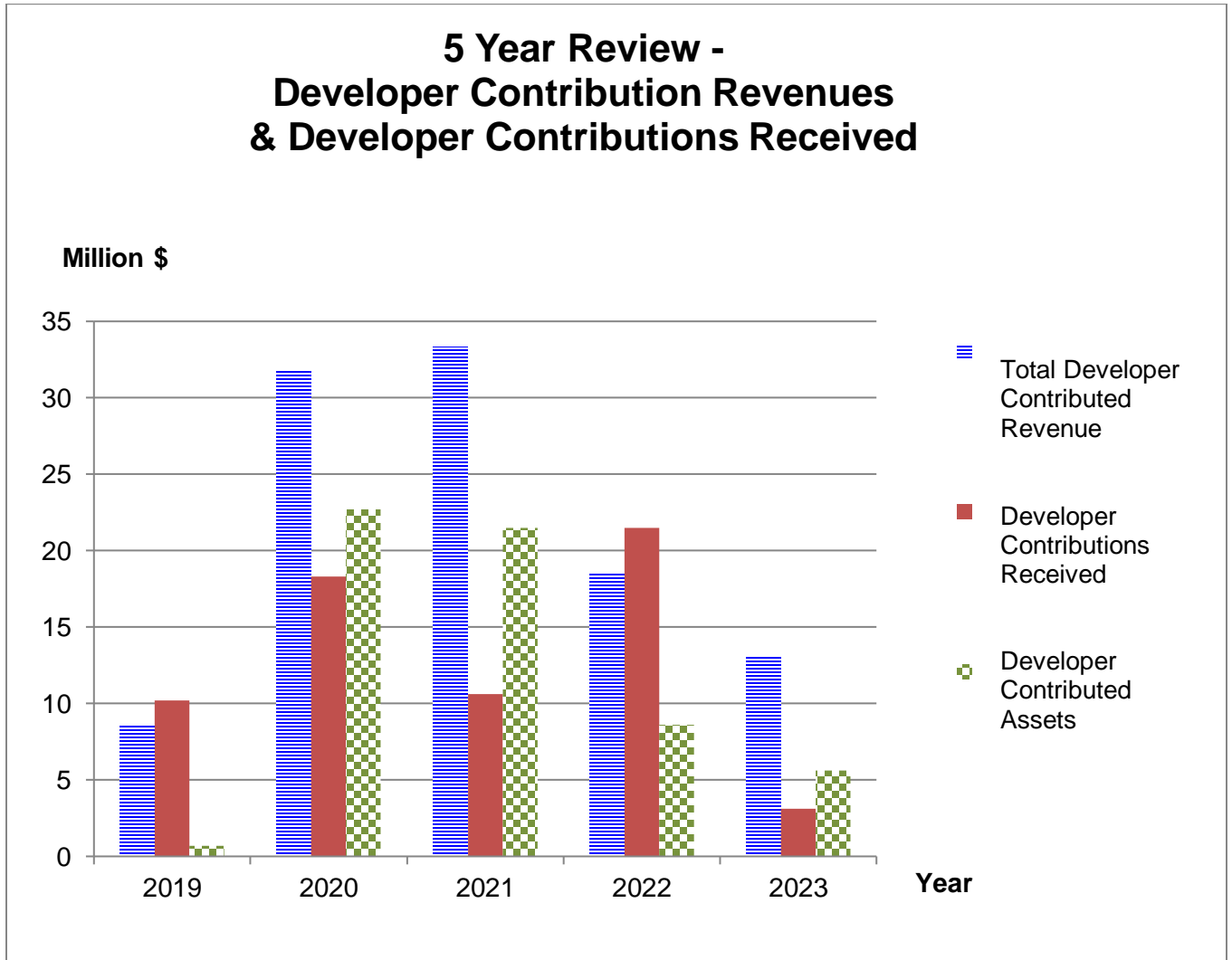
- User charges included water, wastewater, and stormwater revenues, recreation program revenues, license fees, and building permit fees. All fees and charges increased on average by 2.5% in 2023.

In 2023, Water and Wastewater rates were increased by 3.8% for residential customers in accordance with the Six-Year Financial Plans. Stormwater rates increased by 9% in accordance with the 10-Year Financial Plan.



- Government transfers were higher than in 2022 by \$0.2 million.

- Contributions from developers were \$5.3 million lower than in 2022, as there was a one-time land donation of \$14.3 million in 2022. 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.



- Investment Income was \$3.3 million higher than in 2022. This was mainly due to higher bank interest, increased from 5.0% at the beginning of the year to 5.7% as of December 31, 2023.

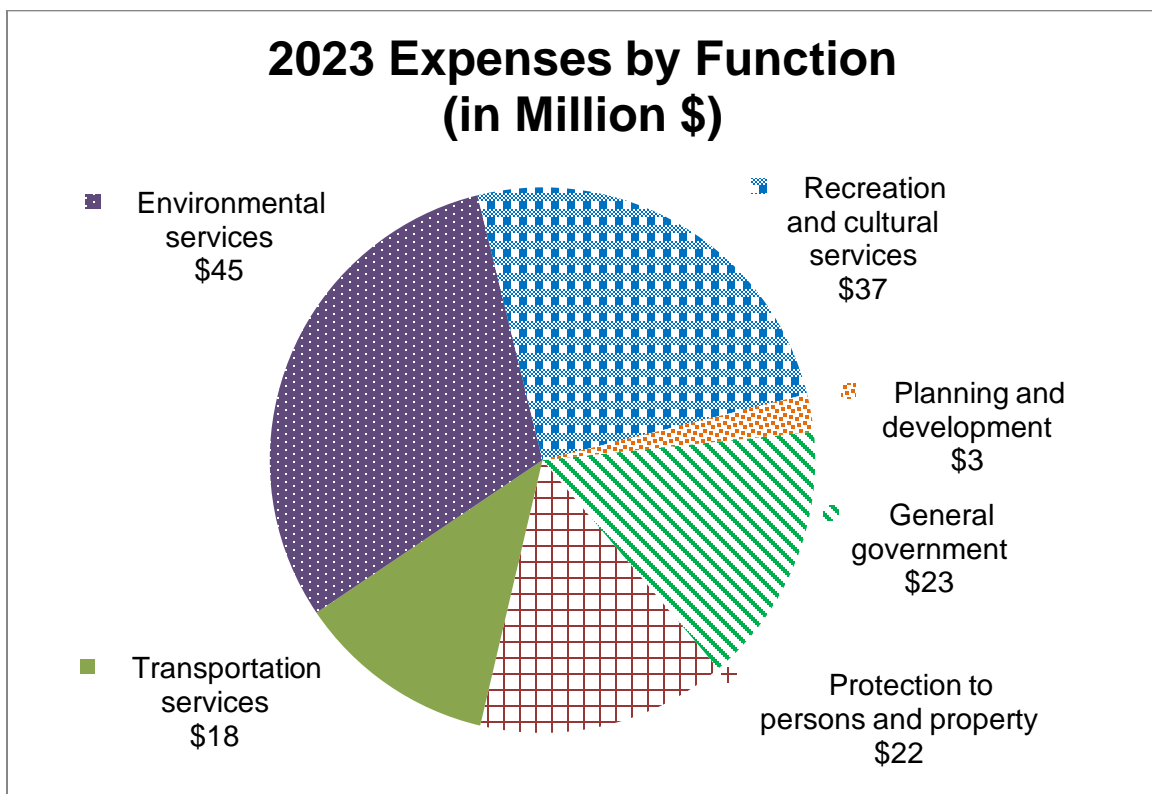
The Town’s investments included several non-traditional investments (loan to a user group, installation of solar panels, and energy retrofit project).

The Town recorded the dividend from Newmarket-Tay Power as a transfer to the Asset Replacement Reserve Funds. Dividends of \$1.3 million were received and recognized in 2023.

- Fine, Penalties, and Interest increased from 2022 by 50% mainly due to tax penalty and interest collections.
- Rent and Other included capital recovery amounts from The Town of Aurora for their portion of the shared fire services.
- 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. A gain on disposal of a land sale for \$2.0 million was recognized in 2022.

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

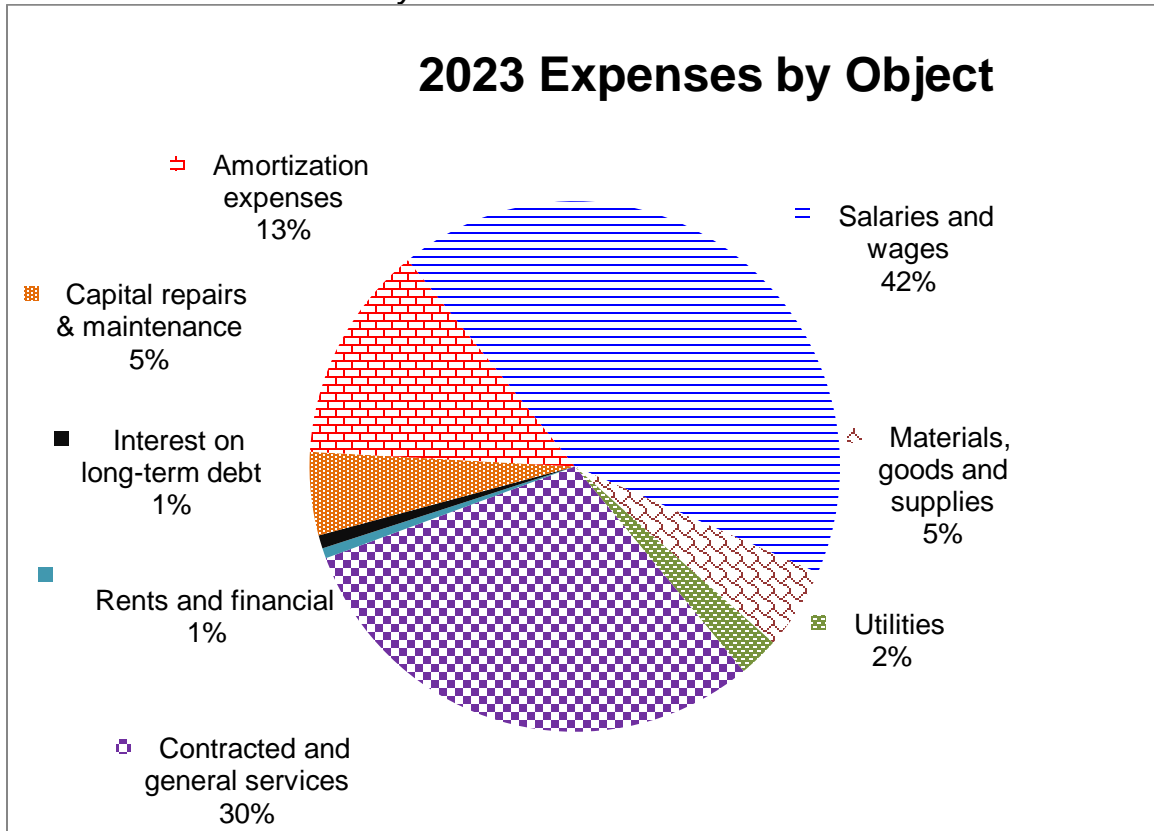
Recreational and cultural services:

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 40-41) shows a breakdown of these costs by service bundle.



- Total expenses in 2023 were \$148.2 million, an increase of \$9.6 million over 2022. Expenses were right on target with the budget.

- Salaries, wages, and benefits represent 42% of total expenses.
- Materials, goods, and supplies (including minor capital, water meters, and materials for main replacement, equipment rental, and repairs and maintenance) increased by \$0.2 million over 2023 mainly due playground equipment replacement, park spot improvements, HVAC, and various equipment repairs.
- Contracted and general services were \$3.8 million higher compared to 2022. The areas with the highest year-over-year change were due to charges for Water & Wastewater, Community Programs & Events, Facilities, Parks & Trails, and Corporate Governance.

Water & Wastewater are charges paid to the Region of York for both the water supply and the collection and treatment of wastewater – a 3.3% increase was approved by the York Region Council from April 1, 2023, to March 31, 2028.

Additionally, increased costs for contracted services for Community Programs most notably for special events and summer programs (camps) as pandemic restrictions were still in place in 2022.

Facilities, Parks & Trails contracted cost increased for tree and plant removals, and Corporate Governance increased costs for computer software.

- Capital repairs and maintenance were lower by \$1.8 million over 2023. The costs included capital expenses that did not meet the definition of a tangible capital asset (TCA) and annual maintenance programs. Some examples included park spot improvements, playground equipment replacement, playground resurfacing, sidewalk spot repairs, and trail rehabilitation.
- Amortization (or depreciation) increased by 7.9% over 2023 which was mainly due to the inclusion of the Asset Retirement Obligation.

Annual (current year) surplus

The annual (current year) surplus for the year was \$26.3 million.

ANNUAL SURPLUS RECONCILIATION	
Surplus based on operating fund	\$ 2,359,334
Add: Principal payment on long-term debt	4,074,965
Contributed tangible capital assets	5,638,022
Acquisition of tangible capital assets	28,453,973
Reserves and reserve fund	6,090,837
Asset Retirement Obligations	4,984,227
Increase in Investment in Newmarket Hydro Holdings Inc. (net)	1,046,269
Less: Capital fund balance	(5,300,423)
Financing from future revenue (employee benefits)	(186,422)
Amortization expenses	(19,867,723)
Book value of disposals	(88,424)
Accumulated remeasurement gains	(914,666)
Surplus Per Consolidated Statement of Operations	\$ 26,289,969

The Consolidated Statement of Remeasurement Gains and Losses:

In 2023, the remeasurement gains and losses during the period were reported in the Statement of Remeasurement Gains and Losses. The approach to measurement was taken on a prospective basis. The total net gain was \$0.9 million, which included unrealized gain on fair value of investments of \$1.0 million, partially offset by the other comprehensive loss from Newmarket Hydro Holdings Inc. of \$0.1 million.