

2003 CONSOLIDATED FINANCIAL STATEMENTS, TRUST FUND STATEMENTS AND ANNUAL OPERATING REPORT FOR THE CORPORATION OF THE CITY OF VAUGHAN AND AUDITOR'S REPORTS

Recommendation

The Commissioner of Finance & Corporate Services in consultation with the Director of Finance recommends:

1. That the following report be received; and
2. That the 2003 Consolidated Financial Statements and Trust Fund Statements (Attachment 1) be received and;
3. That the confidential report to Audit Committee for the year ended December 31, 2003 from KPMG (Attachment 2) be received for information; and
4. That the confidential report with respect to the 2003 Management Letter (Attachment 3) be received; and
5. That the Operating Report for the Fourth Quarter of 2003 (Attachment 4) be received.

Purpose

To present Council with the 2003 Consolidated Financial Statements and Trust Funds, the City's Auditors (KPMG) Report for the year ended December 31, 2003, the Management Letter and the Operating Report for the Fourth Quarter of 2003.

Background - Analysis and Options

For the year ending December 31, 2003, attached is the City of Vaughan Consolidated Financial Statements and related notes. These consolidated Financial Statements include the net operations, assets and liabilities of the various Vaughan Hydro corporations, which include the consolidated Current Fund Operations (the Water and Wastewater Operations), Capital Fund Operations, Schedule of Reserves and Reserve Funds, Trust Fund Financial Statements and the Auditors Reports. The Trust Fund statements are not consolidated with the City Financial Statements.

Also attached is the year-end operating variance analysis (Attachment 4) comparing actual operating results to the 2003 annual operating budget. This report is not consolidated and provides the current status of both departmental and corporate expenses and revenues for the year ended December 31, 2003.

Financial Reporting for 2003

Municipalities have been required since 2000 to adopt the applicable local government sections of the accounting and reporting recommendations set out in the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants (CICA). The City's annual audited financial statements and the provincial financial information return (FIR) reflect these reporting requirements.

2003 Financial Overview

The City of Vaughan's 2003 Financial Statements demonstrate continued improvement in many key financial areas. For example, Reserves and Deferred Revenue (Development Charges) continue to increase (not including commitments), permit fees and user fees provide a continuing revenue base for the City, and the City's cash and investment levels continue to be significant as seen in Exhibit 1. This improvement is a result of Council's commitment to sound fiscal policies, including the adoption of fiscally responsible operating and capital budgets, the development charges net deficit reduction plan, the long range financial planning targets, establishment of new reserves and financial policies as required. Only through Council's ongoing support for these financial policies has the City been able to achieve this increased financial flexibility. This approach provides Council more control over increases in the municipal portion of the tax rate, the timing and funding of capital projects now and into the future.

The following will provide a financial overview with respect to:

- The Corporation's Consolidated Balance Sheet as at December 31, 2003. The Consolidated Balance Sheet includes the results of the operations of the City, water and wastewater operations, capital fund, reserves and reserve funds, the Kleinburg Business Improvement Area, and Hydro Vaughan Corporations.
- Also included is the review of the City's 2003 Departmental Operating Variance Report, Attachment 4.

2003 CONSOLIDATED STATEMENT of FINANCIAL POSITION

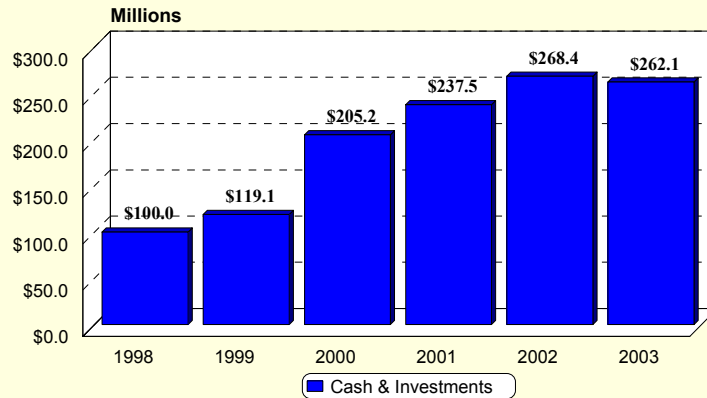
ASSETS

Cash and Investments

The cash balance, including outstanding investments is \$262.1 million (2002 \$268.4m) at the end of 2003. The following graph (Exhibit 1) illustrates the improvement in the City's cash and investments positions over the past number of years.

Exhibit 1

Financial Trend - Cash & Investments



Taxes Receivable

In 2003, taxes receivable totalled \$28.8 million (\$29.8m 2002) a decrease of \$1.0 million from 2002. This decrease is attributable to a number of factors: supplemental billings were lower, increased cash collection as a result of the economy and efficiencies in the tax department which emphasizes collection on arrears in the second year. This approach assists in preventing property tax accounts from going into the tax sale process.

Water and Wastewater Receivable

In 2003, the water and wastewater receivables total \$9.5m (2002 \$8.6m) and increased by \$0.9 million over 2002. The increase is due to growth and a resulting increase in the demand for water and wastewater services.

Accounts Receivable / Other Current Assets

The City's accounts receivable totalling \$12.9m comprise a wide range of monies owing from various levels of government, outside agencies, ratepayers, etc. More specifically, included in this figure are monies owing to the City for GST refunds, miscellaneous receivables, Metro Toronto, Region, Hydro corporations and other governments or agencies. The balance has increased by \$3.9m primarily as a result of an increase in the City's general activity, GST receivable, By-law fines and Hydro corporations (not related to Equity).

Notes Receivable / Investment in Hydro Vaughan Corporations

The four Hydro Vaughan corporations are: Hydro Vaughan Distribution Inc., Hydro Vaughan Holdings Inc. and Hydro Vaughan Energy Corporation and the number company. The consolidation is based on the modified equity basis as required by PSAB. That is the Hydro companies net assets and net income are totalled and shown as an investment on the statement of financial position and net income is presented as a separate item on the statement of financial activity. The investment in Richmond Hill Hydro is included in the Hydro Vaughan Distribution Inc. Financial Statements using the proportionate share method.

The total investment in all four corporations increased to a net of \$221.9 million (\$205.5m 2002) The net change is attributable to earnings of \$12.5m for the Hydro Corporations less a net decrease in the notes payable accumulated interest totalling \$3.9 million.

At December 31, 2003, Hydro Vaughan Corporations are 100% owned by the City of Vaughan. The City's interest in the Hydro Corporations is comprised of share capital of \$123.6m, notes receivable of \$73.6m, accumulated earnings as at December 31, 2003 of \$24.7m.

LIABILITIES

Accounts Payable and Accrued Liabilities

In 2003, the total current liability balance of \$77.7m (\$70.6m, 2002) increased by \$7.1 million over 2002. These liabilities represent accrued and general liabilities owing by the City to suppliers and contractors, outside agencies, other governments, school boards, operating, capital expenditures and other financial obligations.

Employee Future Benefit Liability

These liabilities consist of post employment retirement benefits of \$21.7 million which is based on an actuarial study and represents the retirement benefits that have accrued over the service life of the employees to-date but not yet paid. Post retirement benefits are not fully funded however Council created a new reserve for this purpose in 2002 and this reserve totals \$2.5 million. Other liabilities included under this caption are: Vacation pay \$1.4 million and Sick Leave Benefit Plan \$51,000. Generally these liabilities are employee benefits earned during the course of employment and will be paid out in the future.

Deposits and Deferred Revenue

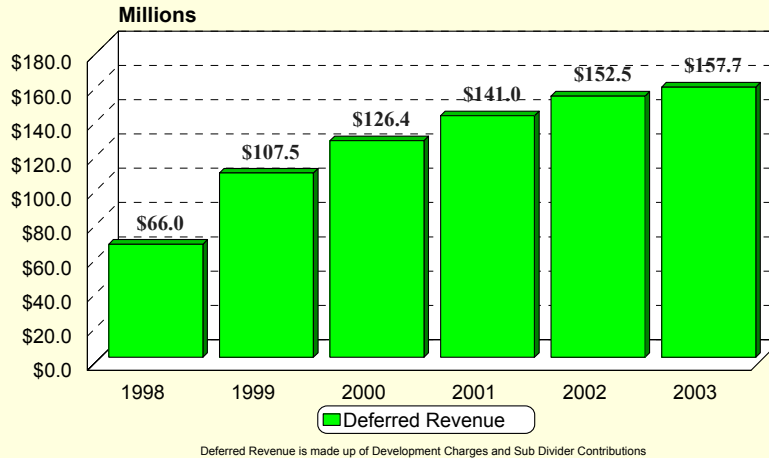
Deposits and deferred revenue of \$7.9m increased over 2002, by \$1.0 million. This amount represents pre-paid funds held by the City for various services to be rendered in the future.

Deferred Revenue

Development Charge and Park funds are now classified according to PSAB as deferred revenue and are shown on the balance sheet as a liability previously they were shown as reserve funds. The trend since 1998 as shown in the graph below (Exhibit 2) has been positive indicating a stronger deferred revenue balance. The Deferred Revenues in 2003 show a increase of \$5.2 million over 2002. This significant increase can be attributed to increased development in the City due to a strong economy. The year-end funds on hand have not been adjusted for outstanding capital budgetary commitments at the end of the year.

Exhibit 2

Financial Trend - Deferred Revenue



Long Term Liabilities (Municipal Debt)

Long-term liabilities represent the outstanding debenture debt of \$0.9m at the end of 2003, and will be recovered in future years from operating revenues. The municipal debt balance decreased by \$0.7m as a result of the retirement of outstanding debt.

MUNICIPAL POSITION

The Municipal Position represents the net financial position of the City and is comprised of future financial obligations, Fund balances (Operating, Capital and Reserves) and includes the equity in the Hydro Corporations. The municipal position in terms of the Balance Sheet is the difference between assets and liabilities. This net figure represents a municipality's ability to meet future financial needs of the community.

Amounts to be Recovered

These obligations are to be recovered in the future and total \$23.3 million.

Municipal Debentures	\$ 0.9 million
Post Employment Benefits	\$22.4 million

These amounts will be recovered from future operating revenues and the City's established reserves.

Fund Balance

The 2004 Operating budget included a carry forward of \$2.5 million from the 2003 operating surplus. The carry forward is lower than anticipated as a result of the HVDI dividend not being declared in 2003. This is a timing difference only and the \$900,000 will be available in 2004 to reduce the tax levy since Hydro Vaughan Distribution Inc. has declared the dividend. In addition, the current fund balance is reduced by accrued interest earned in 2003 but not yet received totalling \$5.6m. Cash basis accounting is required under PSAB for government enterprises.

Capital Fund

The Capital Fund balance represents a net position of those capital projects that are in progress or completed for which funding is pending, partially received or not in place at this point. This balance also includes those projects that have been pre-funded. At the end of 2003 the unfinanced balance totalled \$28.9m (\$16.6m 2002). The majority of the funding for the unfinanced balance will be from debentures.

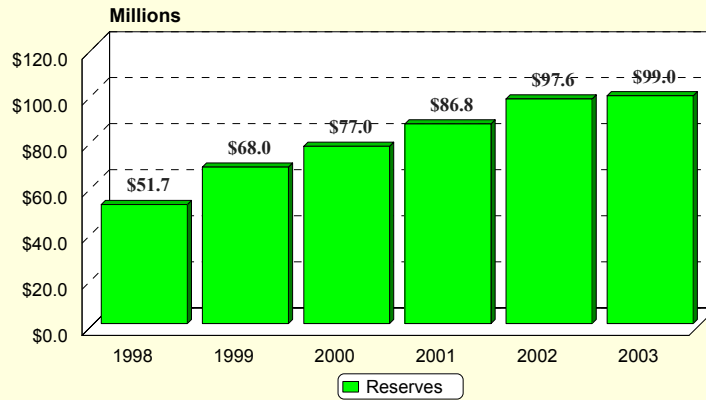
City Reserve and Reserve Funds

Reserve funds are discretionary funds set up by Council and their use is not restricted. Without an adequate level of reserves, the municipality has limited alternatives but to raise the tax rate to fund unforeseen or extraordinary expenses, and when revenues decline. Reserve funds assist in moderating changes in the tax rate and are also established to provide adequate funding for the financial obligations that are known today but will be incurred in the future. In addition, with low levels of reserves, any temporary financing that a municipality requires would be through a financial institution thereby incurring additional interest costs. Therefore the preferable method of financing is self-financing through reserves.

Reserve funds continue to show steady growth as shown in Exhibit 3 below.

Exhibit 3

Financial Trend - Reserve Funds



For 2003 Reserve funds totalled \$99.0 million (2002 \$97.6m) an increase over 2002, of \$1.4 million. The year-end funds on hand have not been adjusted for outstanding budgetary commitments. The net increase of 1.4% or \$1.4m is attributable to the following reserves.

Vehicle Reserve	\$1.0 m
Building Permit Stabilization	\$(0.7m)
Tax Rate Stabilization	\$(1.9m)
Infrastructure – Buildings & Roads	\$2.1 m
Fire Equipment Replacement	\$0.7 m
Public Lands	\$1.4 m
Debenture Reserve	\$2.4 m
Water & Wastewater	\$(1.6m)
Other	<u>\$(2.0m)</u>
Total	<u>\$1.4 m</u>

Target - Discretionary Reserve Funds

The overall increase in reserves was possible as a result of Council's adoption of financial policies, including those that were approved in the Long Range Financial Planning Working Sessions. These policies and others will continue to contribute to the financial well being of the City as shown in 2003 results. However the policies must be reviewed continually to ensure they address all relevant issues each year.

Hydro Vaughan Corporations - Investment

The four (4) new corporations were established, in place of the former Vaughan Hydro Electric Commission (HVDI). The City owns and controls 100% of the newly created companies. The investment in Richmond Hill Hydro Inc. has been included in the balance sheet this year based on the proportionate consolidated method. That is the assets and liabilities of Richmond Hill have been consolidated proportionately into the assets and liabilities of HVDI based on ownership share. The City's interests in Hydro Vaughan Corporations at the end of 2003 amounted to the following:

	2003 (Million)	2002 (Million)
Current Assets	\$ 121.2	\$ 92.5
Capital	201.0	205.0
Regulatory and Other Assets	4.5	14.2
Goodwill	16.3	16.3
Total Assets	343.0	328.0
Current Liabilities	50.8	52.2
Consumer Deposits	13.4	14.1
Debenture Payable	52.5	52.5
Other Liabilities	4.3	3.7
Total Liabilities	121.0	122.5
Net Assets	222.0M	\$ 205.5M

2003 Consolidated Statement of Financial Activities

The Consolidated Statement of Financial Activities includes the City's Operations, Hydro Vaughan Corporations, Water and Wastewater Operations and Kleinburg Business Improvement Area.

Consolidated Financial Activities

The following is a brief review of the consolidated statement of Financial Activity, a more detailed analysis is provided under the Annual Operating Variance report. The overall consolidated revenues total of \$209.7m, which includes the revenues of the Current Fund totalling \$160.4m (including income from Hydro Corporations totalling \$12.5m and Water/Wastewater revenue of \$36.6m), the Capital fund totalling \$33.1m mainly from development charge revenue totalling \$29.4m.

Total expenditures for the Current fund is \$150.3m including water and wastewater, Employee Post Retirement expense and other PSAB entries as required and the Capital fund actual expenditures came in at \$60.3m.

Conclusion

As a direct result of Council policies and Management's efforts, the financial resources of the municipality continue to improve.

Financial stability and strong reserve balances assists in creating the following:

- Financial flexibility for the municipality;
- Increased control over the municipal portion of the tax rate;
- Effective timing of capital projects;
- Generally healthy municipal environment; and
- Positive awareness amongst the private sector, government and the municipal community.

Notwithstanding the financial improvements that have been made, continued investment in the areas of buildings & facilities, roads, parks and other infrastructure must continue, to secure the City of Vaughan's financial future and meet our long term goals. Staff are currently undertaking a long-range financial planning exercise to review the City's financial objectives, targets and policies to achieve Councils' goals.

Attachments

No. 1 – 2003 Consolidated Financial Statements and Trust Fund Statements

No. 2 - Confidential Report to Audit Committee for the year ended December 31, 2003 from KPMG

No. 3 - Confidential Reports with respect to the 2003 Management Letter

No. 4 – 2003 Annual Operating Report

Respectfully submitted,

Clayton D. Harris, CA
Commissioner of Finance and Corporate Services