

2002 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 2002 Consolidated Financial Statements and Trust Fund Statements (Attachment 1) be received and;
3. That the report to Audit Committee for the year ended December 31, 2002 from KPMG (Attachment 2) be received for information; and
4. That the confidential report with respect to the 2002 Management Letter (Attachment 3) be received; and
5. That the Operating Report for the Fourth Quarter of 2002 (Attachment 4) be received.

Purpose

To present Council with the 2002 Consolidated Financial Statements and Trust Funds, the City's Auditors (KPMG) Report for the year ended December 31, 2002, the Management Letter and the Operating Report for the Fourth Quarter of 2002.

Background - Analysis and Options

For the year ending December 31, 2002, 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 2002 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, 2002.

Financial Reporting for 2002

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) now reflect these reporting requirements.

The accounting treatment and changes have been made to the Financial Statements and FIR, where applicable, to conform to PSAB reporting requirements. Listed below is a brief summary of this year's PSAB changes.

Disclosure of Post Employment Benefits

The Public Sector Accounting Board of the Canadian Institute of Chartered Accountants has established new standards for the recognition, measurement and disclosure of the cost of employee future benefits excluding pensions. The City's 2002 Financial Statements now include this PSAB Standard. Previously these costs were accounted for on a cash basis however under the PSAB recommendation an accrual basis is required. This standard recognizes the current and future liability in the period in which the employee renders service. These obligations are recorded as a benefit liability on the statement of financial position (balance sheet) and the annual benefit expense is recorded on the statement of Financial Activities. The annual expense is offset by a transfer on the Statement of Financial Activities resulting a neutral impact in terms of the year-end fund balance.

2002 Financial Overview

The City of Vaughan's 2002 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 improve 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 and the long range financial planning targets, establishing new reserves and policies. 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, 2002. 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 2002 Departmental Operating Variance Report, Attachment 4.

2002 CONSOLIDATED STATEMENT of FINANCIAL POSITION

ASSETS

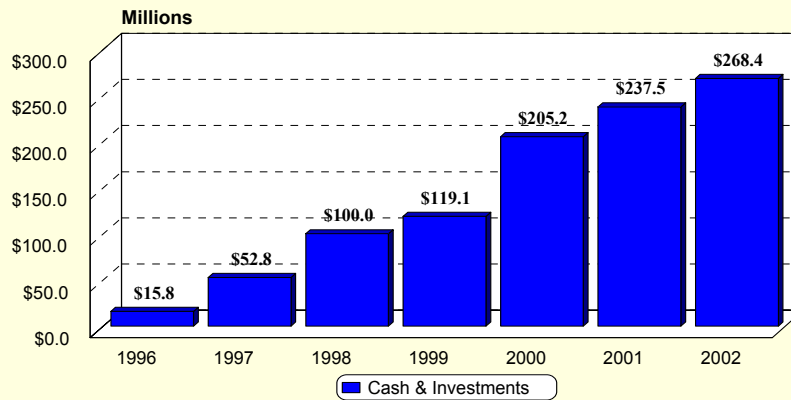
Cash and Investments

The cash balance, including outstanding investments is \$268.4 million (2001 \$237.5m) at the end of 2002. This significant increase in the City's cash position is attributable to a strong economy resulting in strong development and operational revenues.

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 2002, taxes receivable totalled \$29.8 million, a decrease of \$7.9 million from 2001. This decrease is attributable to a number of factors: supplemental billings were lower and bills were issued earlier this year, 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 2002, the water and wastewater receivables total \$8.6m and increased by \$1.3 million over 2001. 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 \$9.0m 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 \$1.6m 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 decreased to a net of \$205.5 million (\$211.6m 2001) The net change is attributable to earnings of \$10.5m for the Hydro Corporations less a net decrease in the notes payable of \$16.3 million as a result of a partial payment plus accumulated interest and a Hydro Vaughan Distribution Inc. dividend payment of \$0.4m.

At December 31, 2002, 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 \$69.7m, accumulated earnings as at December 31, 2002 of \$12.2m.

LIABILITIES

Accounts Payable and Accrued Liabilities

In 2002, the total current liability balance of \$70.6m increased by \$2.5 million over 2001. 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 \$21.0 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 2001 and this reserve now totals \$2.6 million. Other liabilities included under this caption are: Vacation pay \$1.0 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

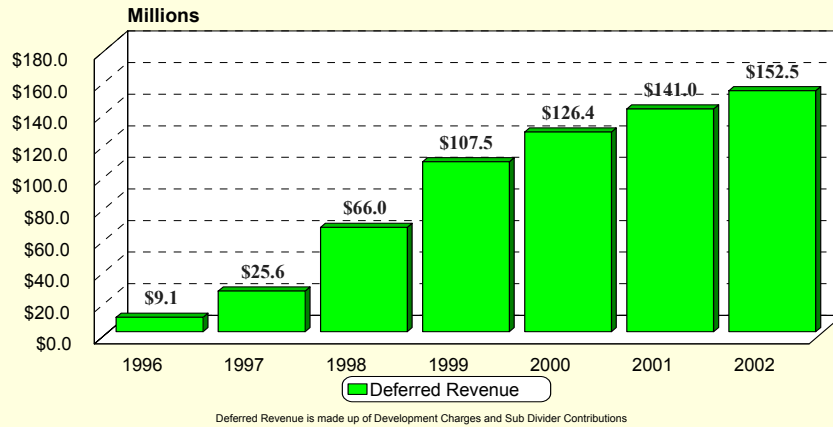
Deposits and deferred revenue of \$6.9m decreased over 2001, by \$0.7 million. This amount represents pre-paid funds held by the City for various services to be rendered in the future.

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 1996 as shown in the graph below (Exhibit 2) has been positive indicating a stronger deferred revenue balance. The Deferred Revenues in 2002 show a dramatic increase of \$11.5 million over 2001. This significant increase can be attributed to increased development in the City due to a strong economy. The balance of \$152.5 million is due to a combination of increased DC revenues, and a direct result of Council's adoption of the development charges net deficit reduction plan. 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 at the end of 2002, and will be recovered in future years from operating revenues. The municipal debt balance decreased by \$660,000 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 also 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 \$21.6 million.

Municipal Debentures	\$ 1.6 million
Post Employment Benefits	\$20.0 million

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

Included in the 2003-operating budget was \$2.5 million from the 2002 operating surplus and this amount will be carried forward to reduce the 2003 tax levy, less-accrued interest earned in 2002 but not yet received from Hydro Vaughan Corporations of \$1.7m.

Capital Fund

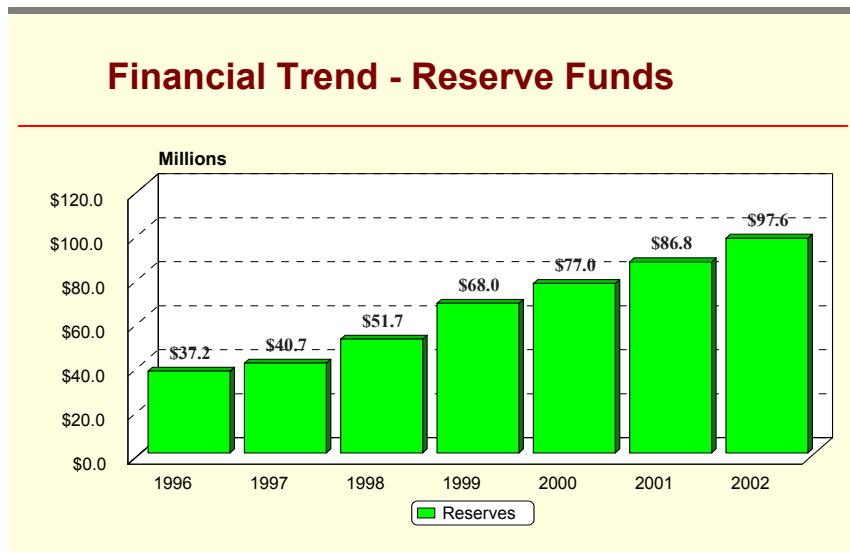
The Capital Fund balance represents a net funding position of those capital projects that are in progress or completed for which funding is pending, partial or not in place and this balance also includes those projects that have been pre-funded. At the end of 2002 the unfinanced balance totalled \$16.6m (\$16.8m 2001). The majority of the funding for the unfinanced balance will be from debentures.

City 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



For 2002 Reserve funds totalled \$97.6 million, an increase over 2001, of \$10.8 million. The year-end funds on hand have not been adjusted for outstanding budgetary commitments. This year Council approved a new Winter Control reserve adding \$2.4 million to reserves. The increase of 12% is attributable to the following reserves.

General Working Capital	\$0.4 m
Building Permit Stabilization	\$1.7 m
Keele Valley Landfill	\$0.4 m
Infrastructure – Buildings & Roads	\$1.9 m
Fire Equipment Replacement	\$0.4 m
Winter Control	\$2.4 m
Debenture Reserve	\$3.1 m
Other	<u>\$0.5 m</u>
Total	<u>\$10.8 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 2002 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 2002 amounted to the following:

Current Assets	\$	92.8 M
Capital		205.0 M
Regulatory and Other Assets		12.3 M
Goodwill		16.3 M
Total Assets		326.4 M
Current Liabilities		52.6 M
Consumer Deposits		14.2 M
Debenture Payable		52.5 M
Other Liabilities		1.6 M
Total Liabilities		120.9 M
Net Assets	\$	205.5 M

2002 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 \$206.5m, which includes the revenues of the Current Fund totalling \$170.1m (including income from Hydro Corporations totalling \$10.5m and Water/Wastewater revenue of \$34.0m), the Capital fund totalling \$33.9m mainly from development charge revenue, Reserve Revenues totalling \$2.4m.

Total expenditures for the Current fund is \$139.1m including water and wastewater, Employee Post Retirement expense and other PSAB entries as required and the Capital fund actual expenditures came in at \$61.9m.

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 2002 Consolidated Financial Statements and Trust Fund Statements
- No. 2 Report to Audit Committee for the year ended December 31, 2002 from KPMG - Confidential
- No. 3 Confidential Reports with respect to the 2002 Management Letter
- No. 4 2002 Annual Operating Report

Respectfully submitted,

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

*Attachments 1, 2, and 3
Members of Council only
under separate cover*



2002 ANNUAL OPERATING REPORT

2002 Annual Operating Variance Report

The December fourth quarter variance analysis attached compares actual operating results to the annual operating budget. This report provides the status of both departmental and corporate expenses and revenues for the year relative to the 2002 annual operating budget. This report includes all necessary year-end entries and accruals which recognizes contracts, materials, salaries, wages and services that were received but not yet paid by the end of the year.

2002 Annual Operating Results - Highlights

At the end of this year the current surplus carry forward is \$2.5m as a result of the 2003 Operating Budget leaving a balance of \$137,000, which will be transferred to reserves as per City Policy. This result is made up of revenues exceeding budget by \$2.7m and expenses that are very slightly under budget by \$0.1m. This net difference represents a 0.1% variance from the annual budgeted expenditures.

Following are the highlights of both departmental and corporate revenues and expenditures.

Revenue

The two largest revenue components are taxation at \$62.8 million or 51% of the total and Fees/Service charges at \$31.4 million or 25% of the total and the balance coming in at \$29.3 million, 24% of the total. Below are highlights of each revenue category.

Taxation and Supplemental Taxes

Taxation revenue of \$62.8m represents the residential, commercial, industrial and other properties final and interim property tax billings based on assessment totalling \$22.4 billion.

Supplemental taxes represent those taxes billed annually for newly constructed properties that were not placed on the roll at the beginning of the year and omitted properties. The four billings (City portion) totalled \$2.5m and are slightly over budget of \$2.4m or \$0.1m.

Grant-in-Lieu

The Grant-in-Lieu are for various property tax billings for Provincial, Federal, Hydro, Railway lands and Regional properties and right of ways. Grant-in-lieu billings totalling \$3.6m were under slightly by \$61,000.

Reserves & Corporate Revenue

Reserve contributions totalling \$5.4m are under budget as a result of the Tax Rate stabilization reserves not being drawn down as a result of sufficient 2002 actual operating funds.

Corporate revenue came in at \$14.1m and exceeds the annual budget by \$2.5m. The primary reason for this increase is interest income \$5.1m or \$2.0m over budget. The additional interest income earned was derived from Capital projects temporarily financed from City funds. Fines and penalty charges of \$3.6m exceed budget slightly by \$122,000 or 3%. Provincial offences at \$759,000 were over budget by \$280,000 due to the increased issuance of summons.

Fees and Service Charges

Fees and service charges total \$31.4m at the end of the year \$1.7m or 6% over the annual budget of \$29.6m. Clerks department – Licensing with revenues of \$854,000 exceeded budget by \$131,000; Legal department – By-law with revenues of \$1.5m exceeded budget by \$423,000, both are the result of increased enforcement activity. Corporate Communications revenue of

\$53,000 came in under budget as a result of an anticipated event that did not occur in 2002 and as a result revenues were down.

Recreation department revenues came in at \$10.3m or \$738,000 over budget mostly in the permit rental, program and fitness areas. Community planning revenues are under budget coming at \$815,000 or \$467,000 under due to fewer than expected applications as a result of fewer plans of sub-division. Recycling revenues came in at \$733,000 up over budget by \$194,000 due to the volume of material recycled.

Building Standards permit revenue came in at \$12.4m, \$1.4m over the annual budget of \$11.0m. This is the result of the continued growth in residential, commercial, and industrial development in the City. The City's development reflects a continuing strong Provincial and GTA economy. The building permit revenue excess over the annual budget of \$1.4m will be placed in the reserve set up to assist in stabilizing the tax rate in future years when building permits start to decline. Plumbing permits came in at \$1.1m over budget by \$439,000 and service charges came in at \$414,000 over by \$107,000, better than expected results for both revenues the result of increased activity in the housing market.

Expenditures

Overall total expenditures came in at \$120.9m or 0.6% slightly over budget with actual departmental expenditures at \$104.0m for the year, down by \$2.0m or 1.8% when compared to the annual budget of \$106.0m. The reasons for this favourable variance are two fold generally Departments are below budget at the end of the year in salary and benefit area as a result of a delay in hiring staff throughout the year. The balance of the non-salary expenditures consists of a multitude of contracts for road and building maintenance, winter control, other contracts, leases, supplies and corporate services.

Departmental and Corporate expenditure highlights are as follows:

City Manager

As a result of a decrease in joint services revenue when this position vacated the role as President for Hydro Vaughan Distribution Inc. and an overage in Professional fees, the City Manager came in at \$428,000, \$41,000 over budget.

Legal Services

Legal services department came in at \$2.6m and is under budget by \$415,000 mainly as a result of staff vacancies during the year.

City Clerk

The City Clerk's department came in at \$3.0m and was over budget by \$210,000. This overage is the result of the unexpected requirement to purchase office furniture and equipment for Council during the year and severance payout related to Council staff.

Budgeting & Financial Planning

The Budget department came in at \$500,600 and is under budget by \$233,000, due to staffing vacancies during the year. These positions have subsequently been filled during 2003.

Recreation

Recreation expenditures came in at \$11.7m compared to a budget of \$10.8m, an unfavourable variance of \$969,000. See additional report prepared by Recreation department that will address the variance.

Buildings and Facilities

Expenditures came in at \$10.4m, \$321,000 under budget. This favourable balance is primarily in the operational area of buildings and facility maintenance.

Economic & Technology Development

The Economic & Technology department expenditures came in at \$1.5m and was under budget by \$133,000. Savings are due to favourable expenditure variances in a number of areas including City promotion, Centre for Business Development and Vaughan Business Development.

Information Technology Services

The Information Technology department came in at \$1.9m under budget by \$276,000 mainly in the telephone system area due to less than expected costs related to telephone communication lines and staff vacancies during the year.

Public Works – Operations

Public Works came in at \$22.1m and was under budget by \$306,000. Road Maintenance Activities are under budget by \$146,000 and Winter control came in at \$4.0m leaving a surplus of \$2.5m of which \$2.4m was transferred to the new Winter Control reserve. Winter Control was significantly under budget in 2002 as a result of a very mild winter. Waste Management is slightly favourable with a variance of \$114,000 or 1.1%.

Corporate, Reserve and Contingency Expenses

Corporate expenditures totalling \$3.7m was over budget by \$0.7m due mainly to property tax adjustments. This year property tax adjustments came in at \$1.5m, \$420,000 over. This is the result of significant increase in the number of Assessment Review Board appeals, Frozen Roll adjustment appeals and vacancy rebates. A number of these various appeals have also been for multiple years.

Professional fees came in at \$216,000 and under budget by \$83,000 due to fewer Ontario Municipal Board hearings. The City conducted a by-election in 2002 and therefore incurred costs of \$133,000, which has been offset by a contribution from the election reserve. Contingency expenditure is under budget for this year and includes contributions to the insurance reserve and compensation costs.

Capital from Revenue

Actual 2002 funding from the operating budget for capital projects totalled \$9.0m compared to a budget of \$7.2m. This increased contribution of \$1.7m was required for additional capital funding for various projects as approved by Council.

Surplus

Based on the annual operating budget for the year 2001, the excess of revenue over expenses is \$137,000. This represents a 0.1% variance from the operating budget expenditures of \$120m. This amount will be transferred to reserves as per Council policy.