

Consolidated Financial Statements

Town of Aurora

December 31, 2002

Auditors' Report

To the Members of Council, Inhabitants,
And Ratepayers of the **Corporation of
The Town of Aurora**

We have audited the consolidated statement of financial position of the **Corporation of the Town of Aurora** as at December 31, 2002 and the consolidated statements of financial activities and changes in financial position for the year then ended. These consolidated financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Town as at December 31, 2002 and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted auditing standards.

The financial statements as at December 31, 2001 and for the year then ended were audited by another auditor who expressed an opinion without reservation on these statements in a report dated April 26, 2002 [except as to Note 3 which is as of August 22, 2002].

Grant Thornton LLP

Markham, Canada
April 16, 2003

Grant Thornton LLP
Chartered Accountants

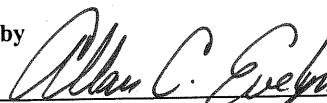
Town of Aurora

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31

	2002 \$	2001 \$
ASSETS		
Financial assets		
Cash and short-term investments [note 2]	20,022,895	22,008,615
Taxes receivable	3,909,483	4,593,030
User charges receivable	1,516,746	1,669,692
Accounts receivable	1,277,698	898,648
Investment in Borealis Hydro Electric Holdings Inc. [note 3]	26,464,677	26,528,590
Total financial assets	53,191,499	55,698,575
LIABILITIES		
Liabilities		
Accounts payable and accrued liabilities	4,598,416	7,111,569
Deposits and deferred revenue	3,733,134	3,473,075
Mortgage payable [note 4]	--	2,614,400
Obligatory reserve funds [note 5]	5,037,099	4,663,995
Total liabilities	13,368,649	17,863,039
Net financial assets	39,822,850	37,835,536
MUNICIPAL POSITION		
Fund balances [note 6]	13,358,173	13,921,346
Equity in Borealis Hydro Electric Holdings Inc. [note 3]	26,464,677	26,528,590
Total fund balances	39,822,850	40,449,936
Mortgage to be recovered [note 4]	--	(2,614,400)
Total municipal position	39,822,850	37,835,536

Approved by



 DIRECTOR OF FINANCE/TREASURER

See accompanying notes

Town of Aurora

**CONSOLIDATED STATEMENT OF
FINANCIAL ACTIVITIES**

Year ended December 31

	Budget 2002 \$	Actual 2002 \$	Actual 2001 \$
REVENUES			
Net taxation charges <i>[note 8]</i>	14,567,581	14,805,610	13,499,291
User charges	11,048,045	12,391,115	10,360,226
Charges to developers	1,691,502	3,355,911	2,259,621
Investment income	1,950,828	1,786,889	1,761,871
Penalties on taxes	625,000	548,050	601,344
Other	425,674	1,046,907	762,667
Total revenues	30,308,630	33,934,482	29,245,020
EXPENDITURES			
Current			
General government	3,562,848	3,622,976	3,173,007
Protection to persons and property	4,341,644	4,324,205	3,524,315
Transportation services	1,860,855	2,493,071	2,161,244
Environmental services	7,477,777	7,238,421	6,719,434
Leisure and cultural services	6,758,823	6,669,155	6,109,400
Planning and development	671,395	656,429	585,700
	24,673,342	25,004,257	22,273,100
Capital			
General government	195,000	288,984	261,884
Protection to persons and property	30,000	34,336	38,933
Transportation services	2,407,288	1,941,036	3,425,112
Environmental services	1,485,000	2,489,359	4,217,423
Leisure and cultural services	1,368,000	2,033,738	7,361,367
Planning and development	150,000	91,545	19,677
	5,635,288	6,878,998	15,324,396
Total expenditures <i>[note 9]</i>	30,308,630	31,883,255	37,597,496
Net revenues (expenditures)	—	2,051,227	(8,352,476)
Change in equity in Borealis Hydro Electric Holdings Inc. <i>[note 3]</i>	—	(63,913)	597,173
Net change in municipal position	—	1,987,314	(7,755,303)
FINANCING			
Principal repayment on debt	—	(2,614,400)	(653,600)
Net (decrease) increase in amounts to be recovered	—	(2,614,400)	(653,600)
Net change in fund balances	—	(627,086)	(8,408,903)
Fund balances, beginning of year	40,449,936	40,449,936	48,858,839
Fund balances, end of year	40,449,936	39,822,850	40,449,936

See accompanying notes

Town of Aurora**STATEMENT OF CHANGES IN FINANCIAL POSITION**

Year ended December 31

	2002	2001
	\$	\$
OPERATING ACTIVITIES		
Net revenues (expenditures)	1,987,314	(7,755,303)
Increase (decrease) in equity in Borealis Hydro Electric Holdings Inc.	63,913	(597,173)
	<u>2,051,227</u>	<u>(8,352,476)</u>
Changes in non-cash working capital balances related to operations		
Decrease (increase) in taxes receivable	683,547	(39,029)
Increase in user charges receivable	152,946	(512,468)
Decrease (increase) in accounts receivable	(379,050)	(354,760)
Increase in accounts payable and accrued liabilities	(2,513,153)	1,148,888
Increase (decrease) in hydro development charges	---	(1,581,216)
Increase (decrease) in deposits and deferred revenues	260,059	(409,802)
Decrease in obligatory reserve funds	373,104	(317,871)
Cash (used in) provided by operating activities	<u>628,680</u>	<u>(10,418,734)</u>
INVESTING ACTIVITIES		
Reduction in equity in Borealis Hydro Electric Holdings Inc.	---	2,944,475
Cash provided by investing activities	<u>---</u>	<u>2,944,475</u>
FINANCING ACTIVITIES		
Mortgage repayments	(2,614,400)	(653,600)
Cash (used in) provided by financing activities	<u>(2,614,400)</u>	<u>(653,600)</u>
Net increase (decrease) in cash during the year	<u>(1,985,720)</u>	<u>(8,127,859)</u>
Cash and short-term investments, beginning of year	22,008,615	30,136,474
Cash and short-term investments, end of year	<u>20,022,895</u>	<u>22,008,615</u>

See accompanying notes

Town of Aurora

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002

The Town of Aurora [the "Town"] is a municipality in the Province of Ontario. The Town conducts its operations guided by the provisions of provincial statutes such as the Municipal Act, Municipal Affairs Act and related legislation.

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Town are the representation of management and have been prepared in accordance with Canadian generally accepted accounting principles for local governments as recommended by the Public Sector Accounting Board ["PSAB"] of The Canadian Institute of Chartered Accountants.

Significant accounting policies adopted by the Town are as follows:

Basis of consolidation

The consolidated financial statements reflect the assets, liabilities, revenues, expenditures and fund balances of the Town, and except for government business enterprises which are accounted for by the modified equity basis of accounting, comprise all of the organizations that are accountable for the administration of their financial affairs and resources to the Town and are owned or controlled by the Town.

The Aurora Public Library Board is fully consolidated in these consolidated financial statements. All inter-organizational and inter-fund transactions and balances are eliminated.

The taxation, other revenues, expenditures, assets and liabilities with respect to the Boards of Education within the Regional Municipality of York are not reflected in the Town's consolidated financial statements.

The Ontario Home Renewal Program Trust Fund [the "OHRP Trust Fund"] and related operations administered by the Town are not consolidated, [note 11].

Investment in Borealis Hydro Electric Holdings Inc.

The Town's investment in Borealis Hydro Electric Holdings Inc. is accounted for on a modified equity basis, consistent with the generally accepted accounting principles as recommended by PSAB for government business enterprises. Under the modified equity basis, the business enterprise's accounting principles are not adjusted to conform to those of the Town and inter-organizational transactions and balances are not eliminated. The Town recognizes its equity interest in the annual income or loss of Borealis Hydro Electric Holdings Inc. in its consolidated statement of financial activities with a corresponding increase or decrease in its investment asset account. Any dividends that the Town may receive from Borealis Hydro Electric Holdings Inc. will be reflected as reductions in the investment asset account.

Town of Aurora

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002

Basis of accounting

Revenues and expenditures are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenues as they become available and measurable; expenditures are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.

Inventories

Expenditures on materials and supplies are reported as an expenditure on the consolidated statement of financial activities in the year of acquisition.

Capital assets

The historical cost and accumulated amortization of capital assets are not recorded for Town purposes. Capital assets acquired are reported as an expenditure on the consolidated statement of financial activities in the year of acquisition.

Pensions agreements

The Town makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), a multi-employer public sector pension fund, based on the principles of a defined benefit plan, which specifies the amount of the retirement benefit to be received by the employees on the basis of predefined retirement age, length of eligible service and rates of remuneration over a fixed period of time.

In June 1998, OMERS announced a member contribution holiday as part of a multi-phase surplus management initiative. For the period commencing August 1998 through December 31, 2002, the Town was not required to make contributions to the plan on behalf of its staff.

Employee future benefits

Employee future benefits include health and basic dental coverage that the Town of Aurora pays on behalf of its current and retired employees. The Town records these future benefits as they are earned during the employee's tenure of service. The Town also estimates future benefits relating to accumulated sick credits and overtime as they are earned.

The Town of Aurora is currently reviewing the recording and reporting criteria of its employee future benefit obligations in relation to the currently released guidance from PSAB. The Town expects to fully implement this standard when it prepares its 2003 financial statements.

Town of Aurora

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002

Deferred revenue

Deferred revenues represent user charges and fees which have been collected but for which the related services have yet to be performed. These accounts will be recognized as revenues in the fiscal year the services are performed.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the period. Actual results could differ from these estimates.

Budget Figures

The approved operating and capital budgets for 2002 are reflected on the Consolidated Statement of Financial Activities. The budgets established for the capital fund operations are on a project-oriented basis, the costs of which may be carried out over one or more years and, therefore, may not be comparable with the current year actuals.

2. INVESTMENTS

Investments, which are recorded at a cost of \$6,453,862 (2001 - \$4,000,000), have a market value approximating cost. These investments consist of interest-bearing certificates and are included within the consolidated statement of financial position as part of cash and short-term investments.

Town of Aurora

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002

3. INVESTMENT IN BOREALIS HYDRO ELECTRIC HOLDINGS INC.

The following represents condensed financial information for Borealis Hydro Electric Holdings Inc. which has been accounted for on a modified equity basis consistent with the generally accepted accounting principles as recommended by PSAB for government business enterprises.

The Town of Aurora's investment in Borealis Hydro Electric Holdings Inc. at December 31, 2002 is reported as follows:

	2002 \$	2001 \$
Share Capital		
Borealis Hydro Electric Holdings Inc. - 1,000 common shares	12,385,600	25,121,600
Retained earnings	1,343,077	1,406,990
Long-term Debt – Unsecured Promissory Note	12,736,000	—
Total investment	26,464,677	26,528,590

Details of the continuity of the investment are as follows:

	2002 \$	2001 \$
Balance, beginning of year	26,528,590	28,875,892
Share reduction (distribution of excess working capital in Hydro, recognized as a reduction of the Town's investment in the consolidated statement of financial position)	—	(2,944,475)
Net income (loss) for the year	(63,913)	597,173
Balance, end of year	26,464,677	26,528,590

Borealis Hydro Electric Holdings Inc. issued in April 2002 an unsecured promissory note in the amount of \$12,736,000, effective November 1, 2000, to the Town. The note bears interest at a simple annual rate equal to the rate of interest that Borealis is, from time to time, permitted by the OEB to recover in its rates [currently 7.25% per annum]. Interest is due and payable on the last day of each of March, June, September and December, commencing December 31, 2001.

Recognition of the promissory note has been reflected as an adjustment to the Town's investment in Borealis of \$12,736,000 in the 2002 financial statements.

Town of Aurora

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002

The following table provides condensed financial information in respect of Borealis Hydro Electric Holdings Inc.:

	2002 \$	2001 \$
Financial Position		
Assets		
Current	9,240,813	9,930,459
Capital	20,425,503	21,166,897
Other	2,204,206	61,831
	31,870,522	31,159,187
Liabilities		
Current	4,460,315	4,163,573
Other	945,530	467,024
Long term debt to Town of Aurora	12,736,000	—
	18,141,845	4,630,597
Net assets	13,728,677	26,528,590
Results of Operations		
Revenues	37,059,353	31,964,612
Operating expenses	35,929,066	31,355,794
Income before interest and amounts in lieu of income taxes	1,130,287	608,818
Interest and amounts in lieu of income taxes	1,194,200	11,645
Net income (loss)	(63,913)	597,173

Related party transactions

	2002 \$	2001 \$
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Related party transactions between the Town of Aurora and Borealis Hydro Electric Holdings Inc.

(wholly owned subsidiary of the Town) included the following :

Interest paid on Promissory note	\$ 1,154,200	—
Rent – 215 Industrial Parkway South	96,396	96,396

Town of Aurora

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002

4. MORTGAGE PAYABLE

Long-term debt (Mortgage Payable) consists of the following:

	2002	2001
	\$	\$
Mortgage payable with interest at prime plus 1%. Principal payments are due in 5 equal payments of \$653,600 starting in June 2001 and maturing in June 2005	—	2,614,400
Mortgage Payable, end of year	—	2,614,400

Interest paid during the year on Mortgage Payable totaled \$ 0 [2001 - \$82,116].

The referenced mortgage obligation (maturing in June 2005) was fully repaid in January 2002 in accordance with the early repayment provisions of the vendor held mortgage agreement.

5. OBLIGATORY RESERVE FUNDS

Obligatory reserve funds consist of the following:

	2002	2001
	\$	\$
Development charges <i>[note 7]</i>	1,941,213	(129,218)
Park purposes <i>[note 7]</i>	1,276,552	761,234
Development charges transferred to capital but unexpended at the end of the year	1,819,334	4,031,979
	5,037,099	4,663,995

6. MUNICIPAL FUND BALANCES

The net change in fund balances consists of the following:

	2002	Net increase	2001
	\$	(decrease)	\$
General fund - for general reduction of taxation and user charges	502,809	51,109	451,700
Capital fund	(361,984)	878,163	(1,240,147)
Reserves and reserve funds <i>[note 7]</i>	13,217,348	(1,492,445)	14,709,793
Equity in Borealis Hydro Electric Holdings Inc. <i>[note 3]</i>	26,464,677	(63,913)	26,528,590
Total fund balances	39,822,850	(627,086)	40,449,936

Town of Aurora

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002

7. RESERVES AND RESERVE FUNDS

Reserves and reserve funds are comprised of the following:

	2002 \$	2001 \$
Reserves set aside by Council for		
Acquisition of capital assets	3,301,235	2,168,561
Working capital	480,000	480,000
Contingencies	2,439,655	2,559,986
Engineering	1,534,658	697,268
Other management	272,476	237,978
Total reserves	8,028,024	6,143,793
Reserve funds set aside for specific purposes by legislation, regulation or agreement		
Park purposes	1,276,552	761,234
Development charges for		
Corporate/Administration	(558,282)	(506,505)
Fire	828,507	704,329
Leisure services	2,171,514	1,198,122
Library	415,859	500,944
Transit	60,957	31,944
Public works	792,903	729,238
Transportation	472,969	(378,800)
Water	(1,033,444)	(1,079,666)
Sewer	(1,209,770)	(1,328,824)
Reserve funds set aside by Council for specific purposes capital projects	5,189,324	8,566,000
Total reserve funds before the following	8,407,089	9,198,016
Less amounts reallocated to obligatory reserve funds [note 5]	3,217,765	632,016
Total reserve funds	5,189,324	8,566,000
Total reserves and reserve funds	13,217,348	14,709,793

Town of Aurora

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002

8. NET TAXATION CHARGES

Total taxation consists of the following:

	2002	2001
	\$	\$
Total taxes levied by the Town	59,092,257	56,764,773
Less		
Taxes levied on behalf of the Boards of Education	21,526,643	21,200,066
Taxes levied on behalf of the Region of York	22,760,004	22,065,416
Net taxation charges	14,805,610	13,499,291

9. CLASSIFICATION OF EXPENDITURES BY OBJECT

Expenditures by object consist of the following:

	2002	2001
	\$	\$
Salaries, wages and benefits	10,102,808	11,102,956
Contracted services	12,263,397	8,688,831
Materials and supplies	2,531,024	2,364,102
Capital and other	6,986,026	15,441,607
	31,883,255	37,597,496

10. PENSION AGREEMENTS

The Town makes contributions to the Ontario Municipal Employees Retirement System ["OMERS"], which is a multi-employer plan, on behalf of all full-time members of its staff. OMERS is a defined benefit plan which specifies the amount of the retirement benefits to be received by the employees based on the length of service and rates of pay.

In June 1998, OMERS announced a contribution holiday as part of a multi-phase surplus management initiative. For the period commencing August 1998 and ending December 31, 2002, the Town was not required to make contributions to the plan on behalf of its staff. Under typical funding arrangements, the Town's contributions are expensed in the period due.

Contributions resumed on January 1, 2003 at rates of 2.1% and 2.6% depending on the level of earnings. Effective January 1, 2004, full contribution rates will resume depending on the level of earnings.

Town of Aurora

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002

11. ONTARIO HOME RENEWAL PROGRAM TRUST FUND

The OHRP Trust Fund, administered by the Town, amounting to \$54 [2001 - \$712] has not been included in the consolidated statement of financial position nor has its operations been included in the consolidated statement of financial activities or consolidated statement of changes in financial position.

The program has been discontinued by the Ministry of Municipal Affairs and Housing, and the funds not in use were returned to the Ministry of Municipal Affairs and Housing during 1994. Any additional loan receipts received in the future will be forwarded to the appropriate ministry at the Province of Ontario.

12. PUBLIC SECTOR SALARY DISCLOSURE

The Public Sector Salary Disclosure Act, 1996 requires the municipality to disclose the names, positions, salaries and benefits of employees who were paid a salary of \$100,000 or more during the calendar year.

As required under the Act, applicable salaries and benefits paid to employees during 2002 are as follows:

<u>Employee</u>	<u>Position</u>	<u>Salary</u>	<u>Benefits</u>
Allison, Lawrence	Chief Administrative Officer	\$ 122,747	\$ 7,742
Panizza, Robert	Director of Corporate Services	102,581	224
Evelyn, Allan	Director of Finance / Treasurer	100,032	1,128

13. CONTINGENCIES

The Town is subject to various legal claims arising in the normal course of its operations. The ultimate outcome of these claims cannot be determined at this time, however, the Town's management believe that the ultimate disposition of these matters will not have a material adverse effect on its financial position.

14. CENTRAL YORK FIRE SERVICES

Effective January 1, 2002, the Town of Aurora entered into a Joint Venture Agreement with the Town of Newmarket with respect to the provision of Fire and Emergency services. Under the Agreement, the Town of Newmarket assumed responsibility for the combined Central York Fire Services. The cost of these services is shared between the two municipalities on the basis of a pre-defined cost sharing formula.