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2007 FINANCIAL STATEMENTS AND AUDITORS' REPORT

The Audit Committee recommends that:

1. **The presentation from Ken Hill, Director of Financial Services regarding the 2007 Financial Statements be received;**

2. **The communication from Stephen J. Gauthier, Director, Government Finance Officers Association, dated January 11, 2008, regarding '2006 Annual Report Qualifies For Canadian Award for Financial Reporting' be received; and**

3. **the recommendation contained in the following report, April 28, 2008, from the Commissioner of Finance be adopted.**

1. RECOMMENDATIONS

It is recommended that:

1. The attached 2007 Financial Statements and Auditors' Report, along with schedules and explanatory notes, be received.

2. PURPOSE

In accordance with section 286 of the *Municipal Act*, this report is provided to the Audit Committee for information. The Financial Statements have also been forwarded directly to Regional Council for their meeting of June 19, 2008 in order for all members of council to have access to the report well in advance of the Council Meeting.

3. ANALYSIS AND OPTIONS

The annual audit, performed by KPMG LLP, is conducted in accordance with generally accepted auditing standards. The Auditors' Report, which forms an integral part of the financial statements, is issued by KPMG without reservation and reflects their unqualified opinion that the financial statements present fairly, in all material respects, the financial position of the Region in accordance with generally accepted accounting principles.

SIGNIFICANT CHANGES IN YEAR END BALANCES

Assets

“Cash and cash equivalents” has increased by approximately $92M while “Investments” has increased by $92.6M. The increases are due to an increase in reserve fund balances and obligatory reserve funds (e.g. Development Charges) as well as a decrease in accounts receivable.

The “Accounts Receivable” balance has decreased by approximately $42M.
This is due to improved collection efforts and the completion of the 9th line Trunk Sewer Extension to Stouffville where the accrued water/waste water capital receivable amounts decreased from $41.0M in 2006 to $16.0M in 2007, representing a $25.0M decrease.

Grants from the federal and provincial governments for the Region’s rapid transit (VIVA) system totalling $40.1M ($30.0M and $10.1M respectively) were received in 2007. As at December 31, 2007, the total due from federal and provincial governments for rapid transit is $14M ($2.0M and $12.0M respectively). This represents a reduction in accounts receivable of $26.0M over 2006.

Liabilities

In the Liabilities section employee benefits obligations increased by $9M due to increases in actuarial valuations. Employee benefit obligations include extended health and dental coverage for early retirees, vested sick leave benefits, long-term disability claims, vacations payable and Workers’ Compensation obligations.

“OSIFA loans” increased by $4M because of additional borrowings. Under the terms of the Ontario Strategic Infrastructure Financing Authority (OSIFA) agreement, monies advanced under this loan are to be converted to debentures when projects financed by these loans are substantially completed. OSIFA loans were advanced to the Region for rapid transit and the Peel Feedermain project.

“Gross long-term liabilities” increased by a net $95M due to new debt issued. Included in the debt issued in 2007 were $126M for wastewater projects, $32M for roads, $9M for water projects, and $7M for transit and rapid transit.

“Deferred revenue-obligatory reserve funds” consists of development charges of $532M and the federal gas tax rebate $9.9M.

Reserves and Reserve Funds

The Capital Reserve Fund increased by approximately $44.7M. Operating surplus in the amount of $16.4M was transferred to the Capital Reserve which also earned interest of

$6.7M. Net transfers of $21.6M were made to the Capital Reserve during the year. The balance in the Capital Reserve – water and sewer decreased due to transfers to finance capital projects.

In accordance with Regional Council's approved reserve and surplus management strategy, surplus of $18.2M was transferred to the Capital Reserve Fund ($16.4M), the Social Housing Reserve ($0.5M), the Social Assistance Reserve ($0.4M), the Non-profit Housing Reserve ($0.7M) and the Working Capital Reserve ($0.2M).

Tangible Capital Assets

A new note (Note 15) has been added to the 2007 financial statements as required under Public Sector Guideline 7 (PSG-7) of the Public Sector Accounting Board (PSAB) handbook of the Canadian Institute of Chartered Accountants (CICA) with respect to the disclosure of tangible capital assets of local governments. PSG-7 provides transitional guidance on presenting information related to tangible capital assets by way of a note to the financial statements until PSAB Section 3150 – Tangible Capital Assets comes into effect on January 1, 2009. These provisions require local governments to capitalize assets at historical cost and amortize these assets over their estimated useful life.

During 2007 York Region continued to work towards compliance with the new requirements. With the assistance of staff in the operating departments the Region has produced a listing of roads, bridges, culverts, land, buildings and water & waste water assets as at December 31, 2006. A complete listing of all regional tangible capital assets, including vehicles, is currently being developed and is expected to be completed by December 31, 2008.

The methodology used to determine the value of these assets was reviewed by the Region's auditors, KPMG, and their comment is that we are "…more than moving in the right direction".

4. FINANCIAL IMPLICATIONS

These financial statements are prepared in accordance with generally accepted accounting principles and reflect the sound financial management of the Region. Transfers were made to various reserves, in accordance with Regional Council's approved reserve and surplus management strategy.

5. LOCAL MUNICIPAL IMPACT

There is no impact on local municipalities associated with this report.

6. CONCLUSION

The 2007 financial statements are presented in accordance with the *Municipal Act*. The financial activities of Housing York Inc. and York Region Rapid Transit Corporation are consolidated with the financial activities of the Region. The format is consistent with the reporting requirements of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants which will qualify the statements for consideration for the CANFR award presented by the Government Finance Officers Association.

For more information on this report, please contact Jim Kelly, Manager, Corporate Accounting Services, Ext. 1683.

The Senior Management Group has reviewed this report.

(The attachment referred to in this clause was included with the Agenda for the June 18, 2008 Audit Committee meeting and the 2007 Financial Statement and Auditors' Report were confirmed at the June 19, 2008 meeting of Regional Council – See Minute No. 88.)