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2005 FINANCIAL STATEMENTS AND AUDITORS' REPORT

The Audit Committee recommends:

1. **receipt of the presentation from Ken Hill, Director of Financial Services and Deputy Treasurer, on the 2005 Financial Statements;**
2. **receipt of the presentation from Kevin M. Travers, Associate Partner, KPMG LLP, Auditors, on the Audit Findings Report for the year ended December 31, 2005; and**
3. **the adoption of the recommendation contained in the following report, May 9, 2006, from the Commissioner of Finance:**

1. RECOMMENDATION

It is recommended that:

1. The attached 2005 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 and forwarding to Regional Council.

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.

3.1 Significant Changes in Year-End Balances

There are significant changes in some of the year over year balances on the Consolidated Statement of Financial Position that merit explanation.

3.1.1 Assets

"Cash and cash equivalents" has decreased by approximately $484M which is offset by a corresponding increase in "Investments". This is due to a switch of investments from short-term to long-term during the year. Short-term investments mature within four months from the end of the fiscal period (December 31st), whereas long-term investments mature beyond May 1, 2006.

The "Accounts receivable" balance has increased by approximately $55M. Of this increase, $52M is attributable to grants due from the federal and provincial governments for the Region's rapid transit (VIVA) system. As at December 31, 2005, the total due from the federal and provincial governments for rapid transit is $81M, ($38.5M and $42.6M, respectively). In March 2006, the federal government remitted $15M to the Region. No funds have yet been received from the provincial government.

3.1.2 Liabilities

In the Liabilities section "OSIFA loans" increased by $50.9M. This item is in relation to two financing agreements with the Ontario Strategic Infrastructure Financing Authority (OSIFA) for loan commitments to finance capital projects, namely the Peel Feedermain and rapid transit.

"Gross long-term liabilities" increased by a net of $202M due to new debt issued. Included in the debt issued in 2005 was $92M for water projects, $69M for wastewater projects, $60M for roads and $10M for transit and rapid transit. In addition, $28M was issued on behalf of the area municipalities.

"Deferred revenue-obligatory reserve funds" consists of development charges ($508M) and the federal gas tax rebate ($7.1M). "Accounts payable and other liabilities" contain an accrual related to pooling costs in the amount of $5.66M. For the year 2005, Regional Council approved a budget of $86.7M for GTA pooling costs and instructed staff to cap payments at $81.6M. The province provided a final estimate of the 2005 GTA pooling costs for York Region which was $87.28M, or $0.59M higher than originally estimated. This resulted in an actual shortfall of $5.66M for the 2005 fiscal year. The unpaid balance has been accrued and is reported as a liability on the Consolidated Statement of Financial Position in accordance with generally accepted accounting principles (GAAP).

3.1.3 Reserves and Reserve Funds

The Capital Reserve increased by approximately $40M. Operating surplus in the amount of $47.4M was transferred to the Capital Reserve which also earned interest of $3.6M. During the year transfers in the amount of $11M and $1M were made to the operating and capital funds respectively out of the Capital Reserve. The balances in the Capital Reserve (water), Capital Reserve (sewer) and Solid Waste Management Reserve decreased due to transfers to fund capital projects.

A new reserve for computer software acquisition was established in 2005 to set aside funds over a four year period to finance the upgrade of the Microsoft Office Suite in 2008. The establishment of the reserve was approved by Regional Council in March 2005. The balance in the reserve at year-end is $400K.

In accordance with Regional Council's approved reserve and surplus management strategy, surplus of $51.5M was transferred to the Capital Reserve ($47.4M), the Social Housing Reserve ($2.3M), the Tax Stabilization Reserve Fund ($1M) and the Working Capital Reserve ($800K).

For each of the eight years, 1997 to 2004, the Region has received the Canadian Award for Financial Reporting (CANFR) award for its financial statements from the Government Finance Association (GFOA). The award is presented to municipalities whose financial statements are prepared in accordance with the requirements of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. These financial statements reflect our continued adherence to PSAB standards.
These consolidated financial statements include the activities of the Housing York Inc. and York Region Rapid Transit Corporation (Rapidco).

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 2005 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.

The Senior Management Group has reviewed this report.

(The attachments referred to in this clause were included in the agenda for the June 8, 2006 Committee meeting.)