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2006 FINANCIAL STATEMENTS AND AUDITORS' REPORT

The Audit Committee recommends the adoption of the recommendation contained in the following report, May 9, 2007, from the Commissioner of Finance:

1. RECOMMENDATION

It is recommended that:

1. The attached 2006 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 $67M and this contributed to the $139M increase in "Investments". This continues a shift from short-term investments to long-term investments that was noted in the 2005 financial statements. Short term investments mature within four months from the end of the fiscal period (December 31), whereas long-term investments mature beyond May 1, 2007.

The "Accounts Receivable" balance has decreased by approximately $25M as grants due from the federal and provincial governments for the Region's rapid transit (VIVA) system totalling $50.8M ($17.4M and $33.4M respectively) were received. As at

December 31, 2006, the total due from federal and provincial governments for rapid transit is $41M ($30M and $11M respectively).

3.1.2 Liabilities

In the Liabilities section "Accounts payable and other liabilities" contains an accrual related to pooling costs in the amount of $16.9M. For the year ended 2006, Regional Council approved a budget of $92.1M for GTA pooling costs and instructed staff to cap the payments at $84.2M. The province provided a final estimate of the 2006 GTA pooling costs for York Region which was $88.3M, or $3.8M lower than originally estimated. The unpaid balance has been accrued and reported as a liability on the Consolidated Statement of Financial Position in accordance with generally accepted accounting principles (GAAP).

Employee benefits obligations increased by $12M 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" decreased by $62M as the loan was replaced with debenture financing. 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. Two capital projects were financed through OSIFA; namely the Peel Feedermain and rapid transit.

"Gross Long-term Liabilities" increased by a net $296M due to new debt issued. Included in the debt issued in 2006 were $125M for water projects, $69M for wastewater projects, $27M for roads, and $75M for transit and rapid transit.

"Deferred Revenue-obligatory Reserve Funds" consists of development charges of $508M and the federal gas tax rebate $8.6M.

3.1.3 Reserves and Reserve Funds

The Capital Reserve increased by approximately $27.5 M. Operating surplus in the amount of $28.8M was transferred to the Capital Reserve which also earned interest of $5.7M. Net transfers of $7M were made to the operating and capital funds out of the Capital Reserve during the year. The balances in the Capital Reserve (sewer) and Capital Reserve (water) decreased due to transfers to fund capital projects. Two reserve accounts were no longer required and, therefore, they were closed during the year. The Children's Centres Capital Repairs reserve was closed to the Facilities Management Capital Reserve and the GTA Crime Abatement Reserve was closed to the operating fund.

In accordance with Regional Council's approved reserve and surplus management strategy, surplus of $ 35.1M was transferred to the Capital Reserve ($28.8M), the Social Housing reserve ($0.3M), the Tax Stabilization Reserve ($3M) and the Insurance Reserve ($3M).

For each of the nine years, 1997 to 2005, 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 2006 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 attachment referred to in this clause was included in the agenda for the June 7, 2007 Committee meeting.)