Financial Statements of

HOUSING YORK INC.

Year ended December 31, 2003

KPMG LLP
Chartered Accountants
Yonge Corporate Centre
4100 Yonge Street Suite 200
Toronto ON M2P 2H3

Telephone (416) 228-7000
Telefax (416) 228-7123
www.kpmg.ca

AUDITORS' REPORT

To the Board of Directors of Housing York Inc.

We have audited the balance sheet of Housing York Inc. as at December 31, 2003 and the statements of revenue and expenditures and retained earnings and cash flows for the year then ended. These financial statements have been prepared to comply with Section 113(2) of the Social Housing Reform Act and guidance in its application issued by the Housing and Residential Services Division of the Regional Municipality of York. The financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with the basis of accounting as disclosed in note 1 to the financial statements.

These financial statements, which have not been, and were not intended to be, prepared in accordance with Canadian generally accepted accounting principles, are solely for the information and use of the Directors of the Corporation and the Regional Municipality of York to comply with Section 113(2) of the Social Housing Reform Act. The financial statements are not intended to be and should not be used by anyone other than the specified users or for any other purpose.

KPMG LLP

Chartered Accountants

Toronto, Canada

March 19, 2004

HOUSING YORK INC.

Balance Sheet

December 31, 2003, with comparative figures for 2002

	2003	2002
Assets		
Current assets:		
Cash	$ 6,767,968	$ 5,610,180
Accounts receivable:		
Rents	83,036	94,025
GST	70,939	47,861
Other	111,065	71,730
Prepaid expenses	119,361	27,884
	7,152,369	5,851,680
Restricted cash and investments:		
Rental deposits	192,642	211,257
Reserve fund deposits and investments	5,838,000	5,593,445
	6,030,642	5,804,702
Income-producing properties (note 2)	86,947,201	88,396,480
	$ 100,130,212	$ 100,052,862
Liabilities and Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,569,593	$ 1,827,606
Deferred revenue	234,429	280,338
Amounts due to Regional Municipality of York, without interest or terms of repayment	2,924,752	1,380,528
Current portion of mortgages payable (note 3)	1,859,513	9,404,841
	6,588,287	12,893,313
Mortgages payable (note 3)	84,786,671	78,991,638
Equity:		
Reserve fund for capital equipment replacement (note 4)	5,838,000	5,593,445
Retained earnings	2,917,254	2,574,466
	8,755,254	8,167,911
	$ 100,130,212	$ 100,052,862

See accompanying notes to financial statements.

On behalf of the Board:

______________________________ Director

______________________________ Director

HOUSING YORK INC.

Statement of Revenue and Expenditures and Retained Earnings

Year ended December 31, 2003, with comparative figures for 2002

	2003 Budget (Unaudited)	2003 Actual	2002 Actual
Revenue:			
Operating subsidies	$ 5,673,345	$ 5,088,809	$ 5,317,280
Rental	9,607,107	9,712,586	9,821,483
Property management fees	20,000	20,000	20,000
Program administration recovery	21,967	21,966	–
Subsidy adjustment, prior year	–	–	(120,293)
Other and interest	–	342,784	198,861
Sundry	253,038	264,390	234,060
	15,575,457	15,450,535	15,471,391
Expenditures:			
Amortization of mortgages	6,924,200	6,865,302	6,919,425
Building material and services	1,100,253	1,223,124	1,384,182
Professional fees	57,000	49,479	62,958
Municipal taxes	1,563,793	1,413,786	1,512,794
Contracted services	2,157,074	2,077,781	2,117,885
Rent	147,000	138,589	195,129
Equipment purchases and rentals	25,500	23,187	(2,262)
Administration	84,750	83,162	(47,165)
Office	24,500	32,328	27,957
Transportation	34,000	28,757	40,180
Utilities	1,733,974	1,675,252	1,625,833
Telephone	25,876	36,267	24,742
Seminars and training	3,000	1,089	11,102
Other operating costs	246,550	236,267	131,846
Capital	1,030,045	805,435	941,186
Landlord subsidies	–	–	75,357
	15,157,515	14,689,805	15,021,149
Excess of revenue over expenditures before the undernoted	417,942	760,730	450,242
Contribution to reserve fund (note 4)	417,942	417,942	398,343
Excess of revenue over expenditures	–	342,788	51,899
Retained earnings, beginning of year	–	2,574,466	2,522,567
Retained earnings, end of year	$ –	$ 2,917,254	$ 2,574,466

See accompanying notes to financial statements.

HOUSING YORK INC.

Statement of Cash Flows

Year ended December 31, 2003, with comparative figures for 2002

	2003	2002
Cash provided by (used in):		
Operations:		
Excess of revenue over expenditures	$ 342,788	$ 51,899
Items not affecting cash:		
Amortization of income-producing properties	1,750,295	1,626,407
Transfer to reserve fund, net	244,555	301,844
	2,337,638	1,980,150
Change in non-cash operating working capital:		
Accounts receivable	(51,424)	114,102
Prepaid expenses	(91,477)	(96,808)
Accounts payable and accrued liabilities	(258,013)	528,742
Deferred revenue	(45,909)	(172,423)
Amounts due to Regional Municipality of York	1,544,224	833,848
	3,435,039	3,187,611
Financing:		
Mortgage repayments	(9,590,414)	(22,894,870)
Mortgage refinancing	7,840,119	21,268,463
Purchase of land	(301,016)	–
Decrease in restricted cash - rental deposits	18,615	17,543
Increase in restricted cash - reserve fund	(244,555)	(301,844)
	(2,277,251)	(1,910,708)
Increase in cash	1,157,788	1,276,903
Cash, beginning of year	5,610,180	4,333,277
Cash, end of year	$ 6,767,968	$ 5,610,180

See accompanying notes to financial statements.

Effective January 1, 2003, the Region of York Housing Corporation ("Provincial Reform Program") and the York Regional Housing Corporation ("Public Housing Program") were amalgamated to form Housing York Inc. (the "Corporation") in accordance with Section 182 of the Ontario Business Corporations Act. The amalgamation has been accounted for using the continuity of interests method. Accordingly, the comparative figures are presented as though the merging corporations were amalgamated since their inception. The Regional Municipality of York is the sole shareholder of the Corporation.

1. Significant accounting policies:

(a) Basis of presentation:

These financial statements have been prepared in accordance with accounting policies that comply with Section 113(2) of the Social Housing Reform Act (the "Act") and guidance in its application issued by the Housing and Residential Services Division of the Regional Municipality of York. The basis of accounting used in these financial statements materially differs from Canadian generally accepted accounting principles because:

(i) Property holdings:

Income-producing properties that were transferred to the Public Housing Program on December 14, 2000 by the Province of Ontario are carried at a nominal value of $1 as the fair value of the properties is not readily available.

Income-producing properties are reported for the Provincial Reform Program and include land, buildings, equipment and other capitalized costs recorded at cost, net of any government grants or contributions.

As described in the Act, costs incurred by the Provincial Reform Program to modernize or improve existing income-producing properties, which have the effect of extending the useful life of the property or increasing its value, are funded from the Capital Repair and Replacement Reserve. The Public Housing Program has no Capital Repair and Replacement Reserve; therefore, these expenses are reflected as operating expenses.

1. Significant accounting policies (continued):

(ii) Amortization:

The Corporation follows the amortization policy for income-producing properties prescribed in the Act. Under this policy, the cost of land, buildings and equipment is amortized over the terms of the mortgages secured to finance such assets and the annual charges for amortization are equal to the annual principal repayments on these mortgages.

(iii) Transfers to/from reserve fund:

Appropriations to/from reserve fund are reported on the statement of revenue and expenditures and retained earnings. Expenditures made from reserve fund are reported within this fund and not on the statement of revenue and expenditures and retained earnings. Interest income earned on investments of the reserve fund is credited directly to the reserve fund and is not reported on the statement of revenue and expenditures and retained earnings.

(b) Operations:

On January 1, 2001, the Regional Municipality of York assumed direct management responsibility for the operations of the Public Housing Program under the terms of a property services agreement under the Social Housing Reform Act, 2000.

1. Significant accounting policies (continued):

(c) Subsidy reconciliation - operating subsidies:

The Corporation is subsidized for certain occupancy costs relating to residences administered by the Corporation under the auspices of the Regional Municipality of York. Any surplus funding received must be repaid in full to the Regional Municipality of York.

(d) Deferred revenue:

Deferred revenue consists of tenant deposits in respect of last-month's rent and subsidy payments applicable to future periods.

The amounts will be recognized as revenue in the appropriate future period or returned depending on the applicable circumstances.

(e) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

2. Income-producing properties:

	2003	2002
Cost:		
Land	$ 25,533,362	$ 25,232,346
Buildings	74,348,430	74,348,430
	99,881,792	99,580,776
Accumulated amortization	(12,934,591)	(11,184,296)
Net book value	$ 86,947,201	$ 88,396,480

3. Mortgages payable:

Project	Particulars	2003	2002
Glenwood Mews	Mortgage payable, bearing interest at 6.45% per annum with blended monthly payments of $45,598, maturing February 1, 2005	$ 6,318,011	$ 6,458,185
Keswick Gardens	Mortgage payable, bearing interest at 6.996% per annum with blended monthly payments of $70,011, maturing January 1, 2025	9,677,192	9,843,680
Springbrook Gardens	Mortgage payable, bearing interest at 5.912% per annum with blended monthly payments of $87,877, maturing January 1, 2024	13,325,873	13,593,588
Mulock Village	Mortgage payable, bearing interest at 5.157% per annum with blended monthly payments of $84,756, maturing March 1, 2007	13,833,959	14,136,757
Heritage East	Mortgage payable, bearing interest at 6.416% per annum with blended monthly payments of $100,829, maturing October 1, 2010	14,776,530	15,041,665
Hadley Grange	Mortgage payable, bearing interest at 5.589% per annum with blended monthly payments of $43,123, maturing February 1, 2008	7,693,800	7,862,909
Brayfield Manor	Mortgage payable, bearing interest at 5.94% per annum with blended monthly payments of $70,757, maturing July 1, 2028	11,040,593	11,235,610
Oxford Village	Mortgage payable, bearing interest at 6.87% per annum with blended monthly payments of $22,188, maturing June 1, 2005	3,263,581	3,307,167
Rosetown	Mortgage payable, bearing interest at 5.34% per annum with blended monthly payments of $46,731, maturing December 1, 2012	6,716,645	6,916,918
		86,646,184	88,396,479
Less current portion		1,859,513	9,404,841
		$ 84,786,671	$ 78,991,638

3. Mortgages payable (continued):

Principal repayments are as follows:

2004	$ 1,859,513
2005	11,146,570
2006	1,863,288
2007	14,428,084
2008	8,390,420
Thereafter	48,958,309
	$ 86,646,184

4. Reserve fund for capital equipment replacement:

	2003	2002
Balance, beginning of year	$ 5,593,445	$ 5,291,601
Transfer from operating	417,942	398,343
Interest earned	170,240	154,201
Capital expenditures for the current year	(343,627)	(250,700)
Net activity for the year	244,555	301,844
Balance, end of year	$ 5,838,000	$ 5,593,445

In accordance with the Social Housing Reform Act, 2000, the use of the reserve fund is limited to the replacement, enhancement or repair of existing capital assets, or the purchase of new capital assets for the Provincial Reform Program. As of November 2003, the capital reserve fund was invested in Social Housing Investment Funds as required by the Social Housing Reform Act, 2000.

The Corporation has a 10-year capital plan, which has been approved through a separate process. The Corporation does not maintain a capital reserve fund account for the Public Housing Program. Funding for capital expenditures is obtained from the Regional Municipality of York, through the subsidy payment process.

5. Related party transactions:

During the year, the Corporation paid the Regional Municipality of York for the contracted services of personnel, rental of office space and other administrative costs. These costs are summarized below:

Contracted services	2003	2002
Provincial Reform Program	$ 1,139,100	$ 1,058,392
Public Housing Program	1,730,687	1,058,392
Total	$ 2,869,787	$ 2,116,784

Responsibility for future benefit obligations of the employees providing these services are obligations of the contractor, being the Regional Municipality of York and as such are not reflected in these financial statements.

During the year, the Corporation received net subsidies as summarized below:

Subsidies	2003	2002
Provincial Reform Program	$ 4,998,084	$ 5,193,967
Provincial Reform Program - eligible subsidy retained and included in other and interest revenue	276,236	–
Public Housing Program	90,725	175,212
Total	$ 5,365,045	$ 5,369,179

6. Fair values of financial instruments:

Cash and restricted cash in respect of rental deposits consist of current account deposits with banks.

Reserve fund deposits and investments include amounts invested in a pooled investment fund that is invested in money market and other fixed income instruments. The adjusted cost base is $5,611,282 and the fair market value is $5,620,660 at December 31, 2003. The balance of the reserve fund deposits are current account deposits with a market value equivalent to cost.

The carrying values of accounts receivable and accounts payable and accrued liabilities approximate their fair values.

The fair value of mortgages payable is not available.

7. Rent supplement program:

Effective February 2002, the Regional Municipality of York assumed administration of the rent supplement program formerly administered by the Public Housing Program. The January 2002 subsidy funding and associated expenses of $75,357 are presented in the statement of revenue and expenditures and retained earnings.

8. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.