ATTACHMENT 1

Financial Statements of

HOUSING YORK INC.

Year ended December 31, 2004

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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, 2004 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 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, 2004 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 18, 2005

HOUSING YORK INC.

Balance Sheet

December 31, 2004, with comparative figures for 2003

	2004	2003
Assets		
Current assets:		
Cash	$ 4,888,039	$ 6,767,968
Accounts receivable:		
Rents	151,617	83,036
GST	124,149	70,939
Other	367,148	111,065
Prepaid expenses	108,387	119,361
	5,639,340	7,152,369
Restricted cash and investments:		
Rental deposits	195,222	192,642
Reserve fund deposits and investments	5,778,707	5,838,000
	5,973,929	6,030,642
Income-producing properties (note 2)	84,786,671	86,947,201
	$ 96,399,940	$ 100,130,212
Liabilities and Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,134,793	$ 1,569,593
Deferred revenue	281,071	234,429
Amounts due to Regional Municipality of York, without interest or terms of repayment	1,342,709	2,924,752
Current portion of mortgages payable (note 3)	11,146,570	1,859,513
	13,905,143	6,588,287
Mortgages payable (note 3)	73,640,101	84,786,671
Equity:		
Reserve fund for capital equipment replacement (note 4)	5,785,922	5,838,000
Retained earnings	3,068,774	2,917,254
	8,854,696	8,755,254
	$ 96,399,940	$ 100,130,212

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, 2004, with comparative figures for 2003

	2004 Budget (Unaudited)	2004 Actual	2003 Actual
Revenue:			
Operating subsidies (note 5)	$ 6,054,716	$ 5,894,371	$ 5,088,809
Rental	10,089,623	10,055,312	9,712,586
Property management fees	5,150	20,600	20,000
Program administration recovery	19,023	10,125	21,966
Subsidy adjustment, prior year	–	(34,165)	–
Other and interest	–	185,686	342,784
Sundry	229,366	264,515	264,390
	16,397,878	16,396,444	15,450,535
Expenditures:			
Amortization of mortgages	6,862,432	6,853,186	6,865,302
Lease payments	253,135	253,135	–
Building material and services	1,289,241	1,558,426	1,223,124
Professional fees	54,700	29,341	49,479
Municipal taxes	1,507,933	1,517,235	1,413,786
Contracted services (note 5)	2,442,592	2,511,311	2,077,781
Rent	136,479	134,927	138,589
Equipment purchases and rentals	36,530	18,802	23,187
Administration	28,722	35,403	83,162
Office	25,500	17,217	32,328
Transportation	47,418	33,139	28,757
Utilities	1,907,330	1,633,149	1,675,252
Telephone	29,543	29,549	36,267
Seminars and training	6,150	1,111	1,089
Other operating costs	255,129	248,201	236,267
Capital	1,072,784	933,823	805,435
	15,955,618	15,807,955	14,689,805
Excess of revenue over expenditures before the undernoted	442,260	588,489	760,730
Contribution to reserve fund (note 4)	442,260	436,969	417,942
Excess of revenue over expenditures	$ –	151,520	342,788
Retained earnings, beginning of year		2,917,254	2,574,466
Retained earnings, end of year		$ 3,068,774	$ 2,917,254

See accompanying notes to financial statements.

HOUSING YORK INC.

Statement of Cash Flows

Year ended December 31, 2004, with comparative figures for 2003

		2004		2003
Cash provided by (used in):				
Operations:				
Excess of revenue over expenditures	$	151,520	$	342,788
Items not affecting cash:				
Amortization of income-producing properties		1,859,513		1,750,295
Transfer to reserve fund, net		(52,078)		244,555
		1,958,955		2,337,638
Change in non-cash operating working capital:				
Accounts receivable		(76,857)		(51,424)
Prepaid expenses		10,974		(91,477)
Accounts payable and accrued liabilities		(434,800)		(258,013)
Deferred revenue		46,642		(45,909)
Amounts due to Regional Municipality of York		(1,582,043)		1,544,224
		(77,129)		3,435,039
Financing:				
Mortgage repayments		(1,859,513)		(9,590,414)
Mortgage refinancing		–		7,840,119
Purchase of land		–		(301,016)
Decrease (increase) in restricted cash - rental deposits		(2,580)		18,615
Decrease (increase) in restricted cash - reserve fund		59,293		(244,555)
		(1,802,800)		(2,277,251)
Increase (decrease) in cash		(1,879,929)		1,157,788
Cash, beginning of year		6,767,968		5,610,180
Cash, end of year	$	4,888,039	$	6,767,968

See accompanying notes to financial statements.

Housing York Inc. (the "Corporation") was incorporated in accordance with Section 182 of the Ontario Business Corporations Act on January 1, 2003. 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 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.

During 2004, the Regional Municipality of York implemented the Region Housing Program which the Corporation manages on behalf of the shareholder through a long-term lease agreement. The land, building and equipment are not reflected on the Corporation's book of accounts.

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. The Region Housing Program is self-sustaining and funds its own Capital Repair and Replacement Reserve through surplus operating funds.

1. Significant accounting policies (continued):

(ii) Amortization:

The Corporation follows the amortization policy for Provincial Reform Program 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.

The Corporation remits lease payments to the Regional Municipality of York for the Region Housing Program according to prescribed debenture schedules held by the Region.

(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 Provincial Reform Program and Public Housing Program residences administered by the Corporation. Any surplus funding received must be repaid in full to the Regional Municipality of York. There is no subsidy funding for the Region Housing Program.

(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:

	2004	2003
Cost:		
Land	$ 25,232,345	$ 25,533,362
Buildings	74,348,430	74,348,430
	99,580,775	99,881,792
Less accumulated amortization	14,794,104	12,934,591
Net book value	$ 84,786,671	$ 86,947,201

3. Mortgages payable:

Project	Particulars	2004	2003
Glenwood Mews	Mortgage payable, bearing interest at 6.45% per annum with blended monthly payments of $45,598, maturing February 1, 2015	$ 6,168,779	$ 6,318,011
Keswick Gardens	Mortgage payable, bearing interest at 6.996% per annum with blended monthly payments of $70,011, maturing January 1, 2025	9,498,852	9,677,192
Springbrook Gardens	Mortgage payable, bearing interest at 5.912% per annum with blended monthly payments of $87,877, maturing January 1, 2024	13,042,096	13,325,873
Mulock Village	Mortgage payable, bearing interest at 5.157% per annum with blended monthly payments of $84,756, maturing March 1, 2007	13,515,345	13,833,959
Heritage East	Mortgage payable, bearing interest at 6.416% per annum with blended monthly payments of $100,829, maturing October 1, 2010	14,494,113	14,776,530
Hadley Grange	Mortgage payable, bearing interest at 4.44% per annum with blended monthly payments of $43,123, maturing February 1, 2008	7,511,003	7,693,800
Brayfield Manor	Mortgage payable, bearing interest at 5.94% per annum with blended monthly payments of $70,757, maturing July 1, 2028	10,833,819	11,040,593
Oxford Village	Mortgage payable, bearing interest at 6.87% per annum with blended monthly payments of $22,188, maturing June 1, 2005	3,217,019	3,263,581
Rosetown	Mortgage payable, bearing interest at 5.34% per annum with blended monthly payments of $46,731, maturing December 1, 2012	6,505,645	6,716,645
		84,786,671	86,646,184
Less current portion		11,146,570	1,859,513
		$ 73,640,101	$ 84,786,671

3. Mortgages payable (continued):

Principal repayments are as follows:

2005	$ 11,146,570
2006	1,863,288
2007	14,428,084
2008	8,390,420
2009	1,570,441
Thereafter	47,387,868
	$ 84,786,671

4. Reserve fund for capital equipment replacement:

	2004	2003
Balance, beginning of year	$ 5,838,000	$ 5,593,445
Transfer from operating	436,969	417,942
Interest earned	158,181	170,240
Capital expenditures for the current year	(647,228)	(343,627)
Net activity for the year	(52,078)	244,555
Balance, end of year	$ 5,785,922	$ 5,838,000

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. The Corporation does not maintain a capital reserve fund account for the Public Housing Program. Operating surpluses transferred to the capital reserve fund account for the Region Housing Program are restricted for major repairs and replacements within this program

The Corporation has a 10-year capital plan, which has been approved through a separate process. 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 received net subsidies as summarized below:

	2004	2003
Subsidies:		
Provincial Reform Program	$ 5,601,877	$ 4,998,084
Public Housing Program	292,494	90,725
	$ 5,894,371	$ 5,088,809

The Regional Municipality of York provided contracted services of personnel, rental of office space, other administrative costs and lease payments in the Region Housing Program. The cost of these services, aggregating $2,511,311 (2003 - $2,077,781), was charged to contracted services expenditures.

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.

6. Fair values of financial instruments:

The carrying amounts of cash and restricted cash in respect of rental deposits consist of current account deposits with banks and is comparable to their fair value.

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 $5,762,941 and the fair market value is $5,780,671 at December 31, 2004. The balance of the reserve fund deposits are current account deposits with a market value equivalent to cost.

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

The fair value of mortgages payable is not available.