ATTACHMENT 1

Financial Statements of

HOUSING YORK INC.

Year ended December 31, 2007

KPMG

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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, 2007 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, 2007 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, Licensed Public Accountants

Toronto, Canada

March 14, 2008

HOUSING YORK INC.

Balance Sheet

December 31, 2007, with comparative figures for 2006

	2007	2006
Assets		
Current assets:		
Cash	$ 2,209,354	$ 1,437,159
Accounts receivable:		
Rents	215,920	186,704
GST	233,986	116,544
Other	383,979	205,887
Prepaid expenses	167,126	158,486
	3,210,365	2,104,780
Restricted cash and investments:		
Rental deposits	251,245	297,439
Reserve fund deposits	675,810	100,620
Energy Management Reserve	165,534	428,084
Emergency Power Plan Reserve	789,358	834,177
Insurance Reserve	181,386	151,930
Reserve fund investments (note 2, 7)	4,763,092	6,078,292
Operating fund investments (note 2, 7)	3,585,571	3,052,398
	10,411,996	10,942,940
Income-producing properties (note 4)	93,599,313	96,355,893
	$ 107,221,674	$ 109,403,613
Liabilities and Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 2,239,689	$ 1,769,891
Deferred revenue	428,356	444,807
Amounts due to Regional Municipality of York, without interest or terms of repayment	2,890,584	1,824,762
Current portion of mortgages payable (note 5)	10,756,619	15,193,052
	16,315,248	19,232,512
Mortgages payable (note 5)	82,527,694	80,847,841
Equity: (note 6)		
Reserve fund for capital equipment replacement	5,443,552	6,227,986
Reserve Fund for Energy Management Project	165,534	428,084
Reserve Fund for Emergency Power Plan Project	789,358	834,177
Reserve Fund for Insurance Deductibles	181,386	151,930
Retained earnings	1,798,902	1,681,083
	8,378,732	9,323,260
	$ 107,221,674	$ 109,403,613

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, 2007, with comparative figures for 2006

	2007 Budget (Unaudited)	2007 Actual	2006 Actual
Revenue:			
Operating subsidies (note 8)	$ 8,235,543	$ 7,565,153	$ 6,961,627
Rental	11,917,819	12,257,214	11,352,241
Property management fees	–	–	12,943
Provincial reform surplus	122,587	140,819	200,652
Non rental revenue	309,931	525,065	425,357
Recognition of utility savings	–	23,000	–
	20,585,880	20,511,251	18,952,820
Expenses:			
Administration and maintenance	5,442,996	5,963,156	5,395,631
Insurance	169,598	164,461	157,262
Bad debts	73,757	78,796	72,813
Utilities	2,628,489	1,998,262	1,825,216
Mortgage/lease payments (note 5)	8,389,101	8,332,874	7,949,732
Property taxes	1,980,130	1,901,250	1,793,790
Capital	1,149,500	1,207,952	1,024,248
	19,833,571	19,646,751	18,218,692
Excess of revenue over expenditures before the undernoted	752,309	864,500	734,128
Contribution to reserve fund (note 6)	579,722	673,681	533,476
Excess of revenue over expenditures	$ 172,587	190,819	200,652
Retained earnings, beginning of year		1,681,083	3,090,931
Allocations to Internally - Restricted Reserve Funds: (note 6)			
Energy Management Reserve	–	(23,000)	(500,000)
Emergency Power Plan Reserve	–	–	(910,500)
Insurance Reserve	(50,000)	(50,000)	(200,000)
Retained earnings, end of year		$ 1,798,902	$ 1,681,083

See accompanying notes to financial statements.

HOUSING YORK INC.

Statement of Cash Flows

Year ended December 31, 2007 with comparative figures for 2006

	2007	2006
Cash provided by (used in):		
Operations:		
Excess of revenue over expenditures	$ 190,819	$ 200,652
Items not affecting cash:		
Amortization of income-producing properties	2,756,580	(13,265,715)
Transfer to (from) reserve funds – net:		
Capital equipment replacement	(784,434)	477,537
Energy Management Reserve	(262,550)	(71,916)
Emergency Power Plan Reserve	(44,819)	(76,323)
Insurance Reserve	29,456	(48,070)
Internal allocations (to) from:		
Energy Management Reserve	(23,000)	–
Insurance Reserve	(50,000)	–
	1,812,052	(12,783,835)
Changes in non-cash operating working capital:		
Accounts receivable	(324,750)	(92,023)
Prepaid expenses	(8,640)	(21,190)
Accounts payable and accrued liabilities	469,798	(114,755)
Deferred revenue	(16,451)	147,677
Amounts due to Regional Municipality of York	1,065,822	915,659
	2,997,831	(11,948,467)
Financing:		
Mortgage repayments	(15,490,657)	13,265,715
Mortgage refinancing	12,734,077	–
Decrease in restricted cash – rent deposits	46,194	–
Increase in restricted cash – reserve fund deposits	(575,190)	(96,813)
Decrease (Increase) in restricted cash - reserve fund investments	1,315,200	(461,729)
Decrease (Increase) in restricted cash - Energy Management Reserve fund	262,550	(428,084)
Decrease (Increase) in restricted cash - Emergency Power Plan Reserve fund	44,819	(834,177)
Increase in restricted cash - Insurance Reserve fund	(29,456)	(151,930)
Decrease (Increase) in operating fund investments	(533,173)	13,889
	(2,225,636)	11,306,871
Increase (decrease) in cash	772,195	(641,596)
Cash, beginning of year	1,437,159	2,078,755
Cash, end of year	$ 2,209,354	$ 1,437,159

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 (the “Region”) 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 Regional Housing Program which the Corporation manages on behalf of the shareholder through a long-term lease agreement. A second property was added to this program in October 2006. The land, building and equipment for these sites 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 Regional 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 Regional Housing Program according to prescribed debenture schedules held by the Region.

(iii) Transfers to/from Capital Repair and Replacement 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) Other reserve funds:

In 2006 the Corporation established reserve funds from retained earnings for expenditures approved by the Board of Directors. These funds are specifically restricted for energy management, emergency power plan and insurance deductible expenditures.

(c) Investments:

Effective January 1, 2007, reserve fund and operating fund investments are classified as Held-for-Trading and are stated at fair value. Transaction costs that are directly attributable to the acquisition of investments are not considered significant and are expensed when paid.

1. Significant accounting policies (continued):

During 2005 the Corporation adopted an Investment Strategy Policy which includes the management of mandatory investment of the Capital Repair and Replacement Reserve as well as the investment of surplus operating funds. The policy prescribes to a conservative investment approach that carries a low to moderate risk tolerance similar to investment strategies adopted by the Regional Municipality of York.

(d) 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*.

As of December 31, 2007 the portfolio consists of 30 multi-residential buildings and an emergency shelter site. While the Corporation owns the shelter site daily operations are provided by Transitional and Supportive Housing Services – York Region through an operating agreement.

(e) 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. The Regional Housing Program is not eligible to receive operating subsidy.

(f) 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.

(g) Use of estimates:

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

2. Change in accounting policy:

Effective January 1, 2007, the Corporation adopted The Canadian Institute of Chartered Accountants' Handbook Section 3855, Financial Instrument – Recognition and Measurement. The Corporation has designated all of its investments as Held-for-Trading, and carries them at fair value. The adoption of these recommendations did not have a material impact on the financial statements.

3. Future accounting change:

The following summarizes a future accounting change that will be relevant to the Corporation's financial statements subsequent to December 31, 2007.

Financial instruments – disclosure:

The CICA has issued two new accounting standards on financial instruments that revise and enhance the current disclosure requirements but do not change the existing presentation requirements for financial instruments. These new standards will be effective for the Corporation commencing January 1, 2008. The new disclosures will provide additional information on the nature and extent of risks arising from financial instruments to which the Corporation is exposed and how it manages those risks.

4. Income-producing properties:

	2007	2006
Cost:		
Land	$ 25,547,345	$ 25,547,345
Buildings	90,114,038	90,114,038
	115,661,383	115,661,383
Less accumulated amortization	22,062,070	19,305,490
Net book value	$ 93,599,313	$ 96,355,893

5. Property financing:

(a) Mortgages payable applicable to buildings in the Provincial Reform Program:

Project	Particulars	2007	2006
Glenwood Mews	Mortgage payable, bearing interest at 4.54% per annum with blended monthly payments of $39,167, maturing February 1, 2015	$ 5,559,036	$ 5,773,758
Keswick Gardens	Mortgage payable, bearing interest at 6.996% per annum with blended monthly payments of $70,011, maturing January 1, 2025	8,883,985	9,103,185
Springbrook Gardens	Mortgage payable, bearing interest at 5.912% per annum with blended monthly payments of $87,877, maturing January 1, 2024	12,084,471	12,422,447
Mulock Village	Mortgage payable, bearing interest at 4.547% per annum with blended monthly payments of $80,593, maturing March 1, 2017	12,436,473	12,827,319
Heritage East	Mortgage payable, bearing interest at 6.416% per annum with blended monthly payments of $100,829, maturing October 1, 2010	13,531,516	13,872,845
Hadley Grange	Mortgage payable, bearing interest at 4.438% per annum with blended monthly payments of $43,123, maturing February 1, 2008	6,911,909	7,120,434
Brayfield Manor	Mortgage payable, bearing interest at 5.94% per annum with blended monthly payments of $70,757, maturing July 1, 2028	10,135,657	10,382,125
Oxford Village	Mortgage payable, bearing interest at 4.39% per annum with blended monthly payments of $17,571, maturing June 1, 2015	3,002,613	3,080,983
Rose Town	Mortgage payable, bearing interest at 5.34% per annum with blended monthly payments of $46,731, maturing December 1, 2012	5,801,190	6,048,458
Woodbridge Lane	Mortgage payable, bearing interest at 4.742% per annum with blended monthly payments of $11,214, maturing April 1, 2015	1,855,529	1,901,780
Trinty Square	Mortgage payable, bearing interest at 4.509% per annum with blended monthly payments of $77,391, maturing March 1, 2015	11,880,458	12,257,379
Transitional and Supportive House	Mortgage payable, bearing interest at 4.553% per annum with blended monthly payments of $8,674, maturing September 1, 2008	1,201,476	1,250,180
Total Mortgages Payable		93,284,313	96,040,893
Less current portion		10,756,619	15,193,052
Long-term portion		$ 82,527,694	$ 80,847,841

5. Property financing (continued):

Principal repayments are as follows:

2008	$ 10,756,619
2009	2,789,132
2010	15,310,861
2011	2,665,760
2012	2,808,574
Thereafter	58,953,367
	$ 93,284,313

(b) The Regional Municipality of York finances new housing developments through debentures. Revenue generated from tenant rents at the new buildings is used to make lease payments to the Region to cover the scheduled debenture payments of the Region.

Property	Particulars	2007	2006
Armitage Gardens	Debenture payable, 20 year amortization with blended annual payment of $253,135	$ 253,135	$ 253,135
Blue Willow Terrace	Debenture payable, 30 year amortization with blended annual payment of $238,761	238,761	59,690
		$ 491,896	$ 312,825

6. Reserve funds:

In addition to the capital reserve fund that has always been maintained by the Corporation, the Board of Directors approved the establishment of three new reserve funds during 2006. The internal reserves were originally funded from Retained Earnings and are restricted for specific use relating to energy management, emergency power or insurance as discussed below.

(a) Capital Repair and Replacement:

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 Regional Housing Program are restricted for major repairs and replacements within this program.

The transfers into the capital reserve during 2006 that relate to acquisition reflect the reserves that flowed to the Corporation following the purchase of Trinity Square and Transitional and Supportive Housing.

The Corporation has a ten-year capital plan, which has been approved through a separate process. Funding for capital expenditures is obtained through the Regional Municipality of York, through the subsidy payment process.

	2007	2006
Balance, beginning of year	$ 6,227,986	$ 5,750,449
Transfer in from operating	673,681	533,476
Transfer in following acquisition	–	1,133,639
Interest earned	280,145	248,120
Capital expenditures for current year	(1,738,260)	(1,437,698)
Net activity for the year	(784,434)	477,537
Balance, end of year	$ 5,443,552	$ 6,227,986

6. Reserve funds (continued):

(b) Energy Management Project:

In 2005 the Corporation's Board of Directors approved the use of up to $500,000 from Retained Earnings to pilot energy management initiatives at two buildings, Elmwood Gardens in the Town of Whitchurch-Stouffville, and Founders Place in the Town of Newmarket. The scope of this project allows the Corporation to seek out external funding sources where available.

During 2007 the investment in the pilot buildings reaped a partial year return of $23,000 in utility savings which has been redirected back into the energy management reserve.

	2007	2006
Balance, beginning of year	$ 428,084	$ 500,000
Recognition of utility savings	23,000	–
Incentive funds received	188,638	9,700
Energy management expenditures for the current year	(474,188)	(81,616)
Net activity for the year	(262,550)	(71,916)
Balance, end of year	$ 165,534	$ 428,084

(c) Emergency Power Plan:

Following the examination of the Corporation's emergency power capabilities in a long term power outage the Board of Directors approved the use of $910,500 from Retained Earnings to fund emergency power upgrades in several apartment buildings. The multi-year plan address operational and safety issues which are scheduled to be completed by 2010.

	2007	2006
Contribution from retained earnings	$ 834,177	$ 910,500
Emergency power plan expenditures for the current year	(44,819)	(76,323)
Net activity for the year	(44,819)	(76,323)
Balance, end of year	$ 789,358	$ 834,177

6. Reserve funds (continued):

(d) Insurance Reserve:

The Corporation maintains property insurance on all buildings through the Social Housing Services Corporation. This is a pooled insurance program available for housing providers in Ontario.

Relative to its size the Corporation enjoys a reasonable risk profile and claims history. However the unpredictable nature of insurance claims has the potential to create unforeseen impacts on operating expenses on a year over year basis as frequency and severity of incidents cannot be forecast.

As an alternative to using operating funds on an as-required basis for insurance related costs, the Board of Directors approved the establishment of a reserve fund to facilitate a more predictable draw on operating expenses. The initial contribution to the reserve from Retained Earnings is $200,000 in 2006 and an annual contribution of $50,000 per year from surplus operating funds is expected every year thereafter. The reserve balance is monitored yearly for adequacy against claims costs.

Insurance costs related to deductibles on claims and small settlements will be paid from the insurance reserve fund. The combination of the insurance policy and the insurance reserve provides financial protection from catastrophic loss.

	2007	2006
Balance, beginning of year	$ 151,930	$ 200,000
Contribution to reserve	50,000	–
Insurance claims paid during the year	(20,544)	(48,070)
Net activity for the year	29,456	(48,070)
Balance, end of year	$ 181,386	$ 151,930

7. Investments:

(a) Capital Repair and Replacement Fund:

Under the requirements of the *Social Housing Reform Act, 2000*, housing providers are required to invest their Capital Repair and Replacement Reserve fund in an investment pool designed for housing providers. The Corporation has participated in this mandatory program since its inception and from time to time adjusts its investment mix to reflect its risk profile and to improve its overall returns.

In addition to the pooled investment fund the Corporation holds a Province of Ontario bond as a result of the purchase of Trinity Square in 2006. This instrument will be held until maturity and then transferred into the social housing investment pool. On December 31, 2007 the following investment values are reported:

	Value	Total (%)
Security Description:		
Social Housing Canadian Money Market Fund	$ 153,908	3.2
Social Housing Canadian Short Term Bond Fund	3,110,163	65.3
Social Housing Canadian Bond Fund	668,771	14.0
Social Housing Canadian Equity Fund	704,332	14.8
Province of Ontario Bond	125,918	2.7
Total Capital Repair and Replacement Reserve Investment	$ 4,763,092	100.0

7. Investments (continued):

(b) Surplus Operating Funds:

Surplus operating funds are invested to improve upon the return that would otherwise be made earning bank interest. Surplus operating funds would include restricted funds from Retained Earnings and short term cash flow excesses not needed to support operations. Investments of this nature typically fall into a short term investment horizon of three months to four years. The Corporation holds the following investment instruments as of December 31, 2007:

	Par value	Maturity date	Yield to Maturity
Security Description:			
TD Bankers Acceptance	$ 1,054,000	June 3, 2008	4.750%
Province of Ontario Bond	500,000	November 19, 2008	4.658%
Bank of Nova Scotia Bond	1,000,000	December 1, 2008	4.160%
Province of British Columbia Bond	1,000,000	June 1, 2009	4.009%
Unamortized premiums (discounts)	$ 31,571		
Total surplus operating investments	$ 3,585,571		

8. Related party transactions:

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

	2007	2006
Subsidies:		
Provincial Reform Program	$ 6,240,236	$ 6,245,555
Public Housing Program	1,209,679	672,185
Transitional and Supportive Housing	115,238	43,887
	$ 7,565,153	$ 6,961,627

The Regional Municipality of York provided contracted services of personnel, rental of office space, and other administrative costs. The cost of these services, aggregating $3,623,393 (2006 - $2,863,246), was charged to contracted services expenditures.

9. Fair values of financial instruments:

The carrying amount of cash and restricted cash in respect of rental deposits consist of bank account deposits and is comparable to their fair value.

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

The Corporation holds investments in all four pooled funds available to social housing providers for capital repair and replacement reserves. The fair value for the pooled investment is $4,637,174 at December 31, 2007. A further investment of $125,918 is held in provincial bonds. The balance of the capital reserve is held in current bank account deposits with a market value equivalent to cost.

The fair market value of the investment of surplus operating funds is $3,585,571 which reflects par value net of unamortized discounts and premiums. Discounts or premiums are amortized over the remaining term of the investments

10. Comparative figures:

Certain 2006 comparative figures shown on the Statement of Revenue and Expenditure and Retained Earnings have been reclassified to conform to the funding model in the Provincial Reform program.