ATTACHMENT 1

Financial Statements of

HOUSING YORK INC.

Year ended December 31, 2006

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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, 2006 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, 2006 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 16, 2007

HOUSING YORK INC.

Balance Sheet

December 31, 2006, with comparative figures for 2005

		2006		2005
Assets				
Current assets:				
Cash	$	1,437,159	$	2,078,755
Accounts receivable:				
Rents		186,704		167,306
GST		116,544		136,322
Other		205,887		113,485
Prepaid expenses		158,486		137,296
		2,104,780		2,633,164
Restricted cash and investments:				
Rental deposits		297,439		200,626
Reserve fund deposits		100,620		170,673
Energy Management Reserve		428,084		–
Emergency Power Plan Reserve		834,177		–
Insurance Reserve		151,930		–
Reserve fund investments (note 5)		6,078,292		5,546,509
Operating fund investments (note 5)		3,052,398		3,066,287
		10,942,940		8,984,095
Income-producing properties (note 2)		96,355,893		83,090,178
	$	109,403,613	$	94,707,437
Liabilities and Equity				
Current liabilities:				
Accounts payable and accrued liabilities	$	1,769,891	$	1,884,646
Deferred revenue		444,807		297,130
Amounts due to Regional Municipality of York, without interest or terms of repayment		1,824,762		909,103
Current portion of mortgages payable (note 3)		15,193,052		2,143,624
		19,232,512		5,234,503
Mortgages payable (note 3)		80,847,841		80,631,554
Equity: (note 4)				
Reserve fund for capital equipment replacement		6,227,986		5,750,449
Reserve Fund for Energy Management Project		428,084		–
Reserve Fund for Emergency Power Plan Project		834,177		–
Reserve Fund for Insurance Deductibles		151,930		–
Retained earnings		1,681,083		3,090,931
		9,323,260		8,841,380
	$	109,403,613	$	94,707,437

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, 2006, with comparative figures for 2005

	2006 Budget (Unaudited)	2006 Actual	2005 Actual
Revenue:			
Operating subsidies (note 6)	$ 7,894,200	$ 6,961,627	$ 6,365,650
Rental	11,105,500	11,347,377	10,338,690
Property management fees	30,000	12,943	25,054
Program administration recovery	–	–	–
Subsidy adjustment, prior year	–	–	(67,809)
Other	–	200,652	103,089
Sundry	265,013	425,357	294,028
	19,294,713	18,947,956	17,058,702
Expenditures:			
Amortization of mortgages (note 3)	7,638,333	7,636,907	6,830,977
Lease payments (note 3)	312,722	312,825	253,135
Building material and services	1,681,740	2,058,487	1,819,536
Professional fees	48,033	41,810	51,133
Municipal taxes	1,907,173	1,793,790	1,662,303
Contracted services (note 6)	3,113,196	2,863,246	2,640,404
Rent	159,839	160,350	157,858
Equipment purchases and rentals	33,527	22,780	20,236
Administration	39,440	54,835	42,760
Office	17,000	20,196	9,761
Transportation	34,040	54,612	41,556
Utilities	2,233,698	1,825,216	1,726,932
Telephone	30,523	36,473	31,727
Seminars and training	1,500	–	1,256
Other operating costs	274,176	308,053	250,547
Capital	1,158,500	1,024,248	1,020,255
	18,683,440	18,213,828	16,560,376
Excess of revenue over expenditures before the undernoted	611,273	734,128	498,326
Contribution to reserve fund (note 4)	536,947	533,476	476,169
Excess of revenue over expenditures	$ 74,326	200,652	22,157
Retained earnings, beginning of year		3,090,931	3,068,774
Allocations to Internally – Restricted Reserve Funds: (note 4)			
Energy Management Reserve		(500,000)	–
Emergency Power Plan Reserve		(910,500)	–
Insurance Reserve		(200,000)	–
Retained earnings, end of year		$ 1,681,083	$ 3,090,931

See accompanying notes to financial statements.

HOUSING YORK INC.

Statement of Cash Flows

Year ended December 31, 2006 with comparative figures for 2005

	2006	2005
Cash provided by (used in):		
Operations:		
Excess of revenue over expenditures	$ 200,652	$ 22,157
Items not affecting cash:		
Amortization of income-producing properties	(13,265,715)	2,011,493
Transfer to reserve funds – net:		
Transfer to capital equipment replacement	477,537	(35,473)
Transfer from Energy Management Reserve	(71,916)	–
Transfer from Emergency Power Plan Reserve	(76,323)	–
Transfer from Insurance Reserve	(48,070)	–
	(12,783,835)	1,998,177
Changes in non-cash operating working capital:		
Accounts receivable	(92,023)	225,801
Prepaid expenses	(21,190)	(28,909)
Accounts payable and accrued liabilities	(114,755)	749,853
Deferred revenue	147,677	16,059
Amounts due to Regional Municipality of York	915,659	(433,606)
	(11,948,467)	2,527,375
Financing:		
Mortgage repayments	13,265,715	(11,347,765)
Mortgage refinancing	–	9,336,272
Purchase of land	–	(315,000)
Increase in restricted cash - rental deposits	(96,813)	(5,404)
Increase in restricted cash - reserve fund	(461,729)	61,525
Increase in restricted cash - Energy Management Reserve fund	(428,084)	–
Increase in restricted cash - Emergency Power Plan Reserve fund	(834,177)	–
Increase in restricted cash - Insurance Reserve fund	(151,930)	–
Increase in operating fund investments	13,889	(3,066,287)
	11,306,871	(5,336,659)
Decrease in cash	(641,596)	(2,809,284)
Cash, beginning of year	2,078,755	4,888,039
Cash, end of year	$ 1,437,159	$ 2,078,755

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 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.

(iv) 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.

(v) Investments:

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.

1. Significant accounting policies (continued):

(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*.

In May 2005 the Corporation acquired an additional building known as Woodbridge Lane in the City of Vaughan. Previously this building was part of a housing cooperative under the direction of the Ministry of Municipal Affairs and Housing. Due to the complexity of the financial transfer into the Corporation's Provincial Reform program, a number of values were not finalized for inclusion on the Corporation's balance sheet for the year ending December 31, 2005 however these amounts were subsequently settled and are fully recognized in fiscal year 2006.

During 2006 the Corporation acquired two additional properties. Trinity Square in the City of Markham is owned and operated by the Corporation as a Provincial Reform property effective March 1, 2006. For the first two months of the year the Corporation provided property management services pending the completion of the purchase/sale agreement. The second acquisition is an emergency shelter site in the Town of East Gwillimbury which the Corporation owns however daily operations are provided by Transitional and Supportive Housing Services – York Region through an operating agreement.

The balance sheet values for these locations are disclosed in 2006 based on information available at the time of purchase. These may be subject to revision in subsequent years when the final statement of adjustments is received. It should be noted that all revenue and expense activity attributable to these sites following acquisition, along with contributions to/from the respective capital reserves, is included in the Corporation's consolidated statements. Separate Annual Information Returns and supplementary schedules will be provided to the Service Manager as directed by The Regional Municipality of York.

In September 2006 the Corporation began operating Blue Willow Terrace, a new 60 unit building in the City of Vaughan. This building is attached to the Regional Housing Program which the Corporation manages on behalf of the shareholder through a long term lease agreement. The land, building and equipment are not set up on the Corporation's book of accounts however the property is financially self sustaining and any operating surplus generated during the year is directed to the capital reserve fund for spending in future years.

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

(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:

	2006	2005
Cost:		
Land	$ 25,547,345	$ 25,547,345
Buildings	90,114,038	74,348,430
	115,661,383	99,895,775
Less accumulated amortization	19,305,490	16,805,597
Net book value	$ 96,355,893	$ 83,090,178

3. Property financing:

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

Project	Particulars		2006		2005
Glenwood Mews	Mortgage payable, bearing interest at 4.54% per annum with blended monthly payments of $39,167, maturing February 1, 2015	$	5,773,758	$	5,979,054
Keswick Gardens	Mortgage payable, bearing interest at 6.996% per annum with blended monthly payments of $70,011, maturing January 1, 2025		9,103,185		9,307,818
Springbrook Gardens	Mortgage payable, bearing interest at 5.912% per annum with blended monthly payments of $87,877, maturing January 1, 2024		12,422,447		12,741,295
Mulock Village	Mortgage payable, bearing interest at 5.157% per annum with blended monthly payments of $84,756, maturing March 1, 2007		12,827,319		13,180,088
Heritage East	Mortgage payable, bearing interest at 6.416% per annum with blended monthly payments of $100,829, maturing October 1, 2010		13,872,845		14,193,284
Hadley Grange	Mortgage payable, bearing interest at 4.438% per annum with blended monthly payments of $43,123, maturing February 1, 2008		7,120,434		7,320,004
Brayfield Manor	Mortgage payable, bearing interest at 5.94% per annum with blended monthly payments of $70,757, maturing July 1, 2028		10,382,125		10,614,580
Oxford Village	Mortgage payable, bearing interest at 4.39% per annum with blended monthly payments of $17,571, maturing June 1, 2015		3,080,983		3,156,023
Rose Town	Mortgage payable, bearing interest at 5.34% per annum with blended monthly payments of $46,731, maturing December 1, 2012		6,048,458		6,283,032
Woodbridge Lane	Mortgage payable, bearing interest at 4.742% per annum with blended monthly payments of $11,214, maturing April 1, 2015		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		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		1,250,180		–
Total Mortgages Payable			96,040,893		82,775,178
Less current portion			15,193,052		2,143,624
Long-term portion		$	80,847,841	$	80,631,554

3. Property financing (continued):

Principal repayments are as follows:

2008	$ 10,341,173
2009	2,354,580
2010	14,856,326
2011	2,190,322
2012	2,311,272
Thereafter	48,794,168
	$ 80,847,841

(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 York Region to cover the scheduled debenture payments.

Property	Particulars	2006	2005
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	59,690	–
		$ 312,825	$ 253,135

4. 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 new reserves are funded from Retained Earnings and total $1,610,500. Each reserve is 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.

	2006	2005
Balance, beginning of year	$ 5,750,449	$ 5,785,922
Transfer in from operating	533,476	476,169
Transfer in following acquisition	1,133,639	74,039
Interest earned	248,120	162,193
Capital expenditures for current year	(1,437,698)	(747,874)
Net activity for the year	477,537	(35,473)
Balance, end of year	$ 6,227,986	$ 5,750,449

4. Reserve funds (continued):

(b) Energy Management Project:

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. Future savings resulting from the energy management initiative will be returned to retained earnings or reinvested in other buildings as appropriate.

	2006	2005
Contribution from retained earnings	$ 500,000	$ –
Incentive funds received	9,700	–
Energy management expenditures for the current year	(81,616)	–
Net activity for the year	(71,916)	–
Balance, end of year	$ 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. The year 2005 was used as a planning period to develop specifications and to complete nominal upgrades that were funded within the existing annual capital budget.

	2006	2005
Contribution from retained earnings	$ 910,500	$ –
Emergency power plan expenditures for the current year	(76,323)	–
Net activity for the year	(76,323)	–
Balance, end of year	$ 834,177	$ –

4. 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. An annual contribution of $50,000 per year from surplus operating funds is expected every year thereafter.

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.

	2006	2005
Contribution from retained earnings	$ 200,000	$ –
Insurance deductible for the current year	(48,070)	–
Net activity for the year	(48,070)	–
Balance, end of year	$ 151,930	$ –

5. 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.

During 2006 the Corporation made long term investments in the Social Housing Canadian Equity Fund for the first time. The Corporation also acquired a Province of Ontario bond as a result of the purchase of Trinity Square. This instrument will be held until maturity and then transferred into the social housing investment pool. On December 31, 2006 the following investment values are reported:

	Value	Total (%)
Security Description:		
Social Housing Canadian Money Market Fund	$ 1,450,951	23.9
Social Housing Short Term Bond Fund	2,991,323	49.2
Social Housing Canadian Bond Fund	642,961	10.6
Social Housing Canadian Equity Fund	646,422	10.6
Province of Ontario Bond	346,635	5.7
Total Capital Repair and Replacement Reserve Investment	$ 6,078,292	100.0

5. 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, 2006:

	Par value	Maturity date	Yield to Maturity
Security Description:			
TD Bankers Acceptance	$ 1,000,000	March 19, 2007	4.280%
Canada Housing Trust Bond	1,000,000	March 15, 2007	3.869%
Province of British Columbia Bond	1,000,000	June 1, 2009	4.009%
Unamortized premiums (discounts)	$ 52,398		
Total surplus operating investments	$ 3,052,398		

6. Related party transactions:

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

	2006	2005
Subsidies:		
Provincial Reform Program	$ 6,245,555	$ 5,735,371
Public Housing Program	672,185	630,279
Transitional and Supportive Housing	43,887	–
	$ 6,961,627	$ 6,365,650

The Regional Municipality of York provided contracted services of personnel, rental of office space, and other administrative costs. The cost of these services, aggregating $2,863,246 (2005 - $2,640,404), was charged to contracted services expenditures.

7. 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 adjusted cost base for the pooled investment is $5,731,656 and the fair market value is $5,793,490 at December 31, 2006. A further investment of $346,635 is held in provincial bonds which will be held until maturity. 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 $3,052,398 which reflects par value net of unamortized discounts and premiums. Discounts or premiums are amortized over the remaining term of the investments

The fair value of mortgages payable is not available.