ATTACHMENT 1

Financial Statements of

HOUSING YORK INC.

Year ended December 31, 2005

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, 2005 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, 2005 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 17, 2006

HOUSING YORK INC.

Balance Sheet

December 31, 2005, with comparative figures for 2004

	2005	2004
Assets		
Current assets:		
Cash	$ 2,078,755	$ 4,888,039
Accounts receivable:		
Rents	167,306	151,617
GST	136,322	124,149
Other	113,485	367,148
Prepaid expenses	137,296	108,387
	2,633,164	5,639,340
Restricted cash and investments:		
Rental deposits	200,626	195,222
Reserve fund deposits	170,673	15,766
Reserve fund investments (note 5)	5,546,509	5,762,941
Operating fund (note 5)	3,066,287	–
	8,984,095	5,973,929
Income-producing properties (note 2)	83,090,178	84,786,671
	$ 94,707,437	$ 96,399,940
Liabilities and Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,884,646	$ 1,134,793
Deferred revenue	297,130	281,071
Amounts due to Regional Municipality of York, without interest or terms of repayment	909,103	1,342,709
Current portion of mortgages payable (note 3)	2,143,624	11,146,570
	5,234,503	13,905,143
Mortgages payable (note 3)	80,631,554	73,640,101
Equity:		
Reserve fund for capital equipment replacement (note 4)	5,750,449	5,785,922
Retained earnings	3,090,931	3,068,774
	8,841,380	8,854,696
	$ 94,707,437	$ 96,399,940

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, 2005, with comparative figures for 2004

	2005 Budget (Unaudited)	2005 Actual	2004 Actual
Revenue:			
Operating subsidies (note 5)	$ 6,521,189	$ 6,365,650	$ 5,894,371
Rental	10,013,755	10,338,690	10,055,312
Property management fees	–	25,054	20,600
Program administration recovery	–	–	10,125
Subsidy adjustment, prior year	–	(67,809)	(34,165)
Other and interest	–	103,089	185,686
Sundry	246,061	294,028	264,515
	16,781,005	17,058,702	16,396,444
Expenditures:			
Amortization of mortgages	6,809,098	6,830,977	6,853,186
Lease payments	253,135	253,135	253,135
Building material and services	1,444,684	1,819,536	1,558,426
Professional fees	51,030	51,133	29,341
Municipal taxes	1,607,693	1,662,303	1,517,235
Contracted services (note 6)	2,704,861	2,640,404	2,511,311
Rent	137,500	157,858	134,927
Equipment purchases and rentals	24,418	20,236	18,802
Administration	30,420	42,760	35,403
Office	20,000	9,761	17,217
Transportation	31,283	41,556	33,139
Utilities	1,855,461	1,726,932	1,633,149
Telephone	30,435	31,727	29,549
Seminars and training	1,500	1,256	1,111
Other operating costs	256,883	250,547	248,201
Capital	1,066,600	1,020,255	933,823
	16,325,001	16,560,376	15,807,955
Excess of revenue over expenditures before the undernoted	456,004	498,326	588,489
Contribution to reserve fund (note 4)	456,004	476,169	436,969
Excess of revenue over expenditures	$ –	22,157	151,520
Retained earnings, beginning of year		3,068,774	2,917,254
Retained earnings, end of year		$ 3,090,931	$ 3,068,774

See accompanying notes to financial statements.

HOUSING YORK INC.

Statement of Cash Flows

Year ended December 31, 2005 with comparative figures for 2004

	2005	2004
Cash provided by (used in):		
Operations:		
Excess of revenue over expenditures	$ 22,157	$ 151,520
Items not affecting cash:		
Amortization of income-producing properties	2,011,493	1,859,513
Transfer to reserve fund - net	(35,473)	(52,078)
	1,998,177	1,958,955
Changes in non-cash operating working capital:		
Accounts receivable	225,801	(76,857)
Prepaid expenses	(28,909)	10,974
Accounts payable and accrued liabilities	749,853	(434,800)
Deferred revenue	16,059	46,642
Amounts due to Regional Municipality of York	(433,606)	(1,582,043)
	2,527,375	(77,129)
Financing:		
Mortgage repayments	(11,347,765)	(1,859,513)
Mortgage refinancing	9,336,272	–
Purchase of land	(315,000)	–
Decrease in restricted cash - rental deposits	(5,404)	(2,580)
Increase in restricted cash - reserve fund	61,525	59,293
Increase in operating fund investments	(3,066,287)	–
	(5,336,659)	(1,802,800)
Increase (decrease) in cash	(2,809,284)	(1,879,929)
Cash, beginning of year	4,888,039	6,767,968
Cash, end of year	$ 2,078,755	$ 4,888,039

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. In 2005, this program included one property. 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.

(iv) Investments:

During 2005 the Corporation adopted an Investments 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 Provincial Reform 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 Provincial Reform program, a number of values are not finalized for inclusion on the Corporation's balance sheet. The Corporation is working with the Service Manager to ratify final estimates for the value of building, mortgage, subsidy settlements and accumulated surplus/deficit for full disclosure in 2006. Overall the transfer of this property is expected to be neutral to the Corporation and not have a material impact on its financial position. It should be noted that all revenue and expense activity attributable to this site since its acquisition, along with contributions to/from its capital reserve, is included in the Corporation's consolidated statements, however separate Annual Information Returns and supplementary schedules will be provided to the Service Management as directed by The Regional Municipality of York.

On November 1, 2005 the Corporation began providing property management services to another Provincial Reform property known as Trinity Square in the City of Markham. An operating agreement with the Board of Directors of Holy Trinity Non Profit Residences – York and the Regional Municipality of York provides for the Corporation to recover property management fees for approximately four months until February 28, 2006 at which time the Corporation will assume legal ownership. The Property management fees due to the Corporation for November and December 2005 are included in the Statement of Revenue and Expenditures. Additionally, the revenue and expense activity generated on behalf of the housing provider have been net to the balance sheet so that the operating results of this property do not impact the Corporation's overall financial performance. A net payable in favour of Holy Trinity Non Profit Residences-York in the amount of $122,730 is included in the Corporation's accrued liabilities. It is expected that completion of the legal transfer will facilitate a reconciliation of accounts between parties and ultimately this liability will be cancelled.

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 Region 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:

	2005	2004
Cost:		
Land	$ 25,547,345	$ 25,232,345
Buildings	74,348,430	74,348,430
	99,895,775	99,580,775
Less accumulated amortization	16,805,597	14,794,104
Net book value	$ 83,090,178	$ 84,786,671

3. Mortgages payable:

Project	Particulars	2005	2004
Glenwood Mews	Mortgage payable, bearing interest at 4.54% per annum with blended monthly payments of $39,167, maturing February 1, 2015	$ 5,979,054	$ 6,168,779
Keswick Gardens	Mortgage payable, bearing interest at 6.996% per annum with blended monthly payments of $70,011, maturing January 1, 2025	9,307,818	9,498,852
Springbrook Gardens	Mortgage payable, bearing interest at 5.912% per annum with blended monthly payments of $87,877, maturing January 1, 2024	12,741,295	13,042,096
Mulock Village	Mortgage payable, bearing interest at 5.157% per annum with blended monthly payments of $84,756, maturing March 1, 2007	13,180,088	13,515,345
Heritage East	Mortgage payable, bearing interest at 6.416% per annum with blended monthly payments of $100,829, maturing October 1, 2010	14,193,284	14,494,113
Hadley Grange	Mortgage payable, bearing interest at 4.44% per annum with blended monthly payments of $43,123, maturing February 1, 2008	7,320,004	7,511,003
Brayfield Manor	Mortgage payable, bearing interest at 5.94% per annum with blended monthly payments of $70,757, maturing July 1, 2028	10,614,580	10,833,819
Oxford Village	Mortgage payable, bearing interest at 4.39% per annum with blended monthly payments of $17,571, maturing June 1, 2015	3,156,023	3,217,019
Rosetown	Mortgage payable, bearing interest at 5.34% per annum with blended monthly payments of $46,731, maturing December 1, 2012	6,283,032	6,505,645
		82,775,178	84,786,671
Less current portion		2,143,624	11,146,570
		$ 80,631,554	$ 73,640,101

3. Mortgages payable (continued):

Principal repayments are as follows:

2007	$ 14,721,177
2008	8,696,733
2009	1,890,899
2010	14,370,958
2011	1,682,254
Thereafter	39,269,533
	$ 80,631,554

4. Reserve fund for capital equipment replacement:

	2005	2004
Balance, beginning of year	$ 5,785,922	$ 5,838,000
Transfer from operating	476,169	436,969
Transfer in following acquisition	74,039	–
Interest earned	162,193	158,181
Capital expenditures for the current year	(747,874)	(647,228)
Net activity for the year	(35,473)	(52,078)
Balance, end of year	$ 5,750,449	$ 5,785,922

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 ten-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. Investments:

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. The Corporation has participated in this mandatory program since its inception and on December 31, 2005 reports the following values:

	Value	Total (%)
Security Description:		
Social Housing Canadian Money Market Fund	$ 2,484,751	45.1
Social Housing Short Term Bond Fund	3,061,758	54.9
Total Capital Repair and Replacement Reserve Investment	$ 5,546,509	100.0

During the year the Corporation made its first investment of surplus operating funds. Surplus operating funds would include restricted funds such as last months rent reserve, retained earnings from prior years 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 three years. The purposes of these investments are intended to maximize the return that would otherwise be made earning bank interest. The Corporation purchased the following investment instruments in December 2005.

	Par value	Maturity date	Yield to Maturity
Security Description:			
Government of Canada Treasury Bill	$ 1,000,000	June 15, 2006	3.520%
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)	$ 66,287		
Total operating fund investments	$ 3,066,287		

6. Related party transactions:

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

	2005	2004
Subsidies:		
Provincial Reform Program	$ 5,735,371	$ 5,601,877
Public Housing Program	630,279	292,494
	$ 6,365,650	$ 5,894,371

The Regional Municipality of York provided contracted services of personnel, rental of office space, other administrative costs. The cost of these services, aggregating $2,640,404 (2004 - $2,511,311), was charged to contracted services expenditures.

7. 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 are comparable to their fair value.

Reserve fund 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 $5,546,509 and the fair market value is $5,506,372 at December 31, 2005. 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 market value of the investment of surplus operating funds is $3,066,287 which reflects per value net of unamortized discounts and premiums. Discounts and premiums are amortized over the remaining term of the investments.

The fair value of mortgages payable is not available.