
SWANSEA TOWN HALL RESIDENCES

FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

DRAFT

INDEPENDENT AUDITOR'S REPORT

**To the Members of
Swansea Town Hall Residences and the City of Toronto**

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We have audited the accompanying financial statements of Swansea Town Hall Residences, which comprise the balance sheet as at September 30, 2012 and the statements of revenues, expenditures and surplus, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management of Swansea Town Hall Residences based on the financial reporting provisions of the Housing Services Act (HSA).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements in accordance with the financial reporting provisions of the HSA, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Swansea Town Hall Residences as at September 30, 2012, and the results of its operations and its cash flows for the year then ended in accordance with the financial reporting provisions of the HSA.

Basis of Accounting and Restriction on Distribution and Use

Without modifying our opinion, we draw attention to Note 2 to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist Swansea Town Hall Residences to comply with the financial reporting provisions of the HSA. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for use of the Directors of Swansea Town Hall Residences and the City of Toronto and should not be distributed to or used by parties other than Swansea Town Hall Residences and the City of Toronto.

DRAFT

Andrew T. Vahrmeyer, Professional Corporation
Authorized to practice public accounting by the ICAO

Richmond Hill, Ontario
January 10, 2013

SWANSEA TOWN HALL RESIDENCES

BALANCE SHEET

AS AT SEPTEMBER 30, 2012

	2012	2011
ASSETS		
CURRENT		
Cash	\$ 492,396	\$ 459,927
Accounts receivable	2,787	3,777
HST rebate receivable	31,888	44,293
Government subsidy receivable	42,296	-
SHRRP funding receivable (per Schedule)	18,303	-
Prepaid expenses	<u>29,626</u>	<u>30,033</u>
	617,296	538,030
RESTRICTED CASH & INVESTMENTS (Note 3)	678,994	580,955
CAPITAL (Note 4)	<u>5,242,670</u>	<u>5,441,168</u>
	\$ 6,538,960	\$ 6,560,153

LIABILITIES, RESERVE FUNDS AND SURPLUS

CURRENT		
Accounts payable and accrued charges	\$ 74,417	\$ 81,551
Rent deposits	45,132	41,092
Accrued mortgage payment	43,963	43,963
Government subsidy payable	80,041	40,422
Current portion of mortgage payable (Note 5)	<u>210,836</u>	<u>198,498</u>
	454,389	405,526
MORTGAGE (Note 5)	5,123,909	5,334,745
REPLACEMENT RESERVE FUND (Note 6)	678,994	580,955
SURPLUS	<u>281,668</u>	<u>238,927</u>
	\$ 6,538,960	\$ 6,560,153

See accompanying notes to financial statements.

Approved on behalf of the Board:

Director

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Director

SWANSEA TOWN HALL RESIDENCES

STATEMENT OF REVENUES, EXPENDITURES AND SURPLUS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

(Note 8)

	2012 ACTUAL	2012 BUDGET	2011 ACTUAL
REVENUES			
Rental:			DRAFT
Market tenants	\$ 378,096	\$ 389,259	\$ 384,378
RGI tenants	183,602	177,804	172,748
City of Toronto - subsidy	507,556	507,556	480,178
City of Toronto - year end reconciliation	(39,619)	-	(40,422)
Parking	5,250	4,800	4,295
Laundry	8,892	8,640	6,248
Interest	4,927	2,400	4,398
Other	813	240	27,201
SHRRP funding (per Schedule)	<u>27,820</u>	<u>-</u>	<u>171,115</u>
	<u>1,077,337</u>	<u>1,090,699</u>	<u>1,210,139</u>
EXPENDITURES			
Administrative overhead (Schedule 1)	48,522	44,083	48,528
Amortization of capital costs	198,498	198,498	186,882
Bad debts	-	500	126
Insurance	9,680	9,846	9,106
Materials and services (Schedule 2)	111,058	90,421	89,937
Mortgage interest	329,061	329,061	340,676
Municipal taxes	98,830	105,437	99,776
Utilities (Schedule 3)	97,566	184,161	110,120
Wages and benefits	64,828	56,858	61,379
SHRRP funded expenditures (per Schedule)	27,820	-	171,115
Allocation to replacement reserve	<u>48,733</u>	<u>41,933</u>	<u>47,939</u>
	<u>1,034,596</u>	<u>1,060,798</u>	<u>1,165,584</u>
REVENUE IN EXCESS OF EXPENDITURES FOR THE YEAR	42,741	\$ <u>29,901</u>	44,555
SURPLUS, BEGINNING OF YEAR	<u>238,927</u>		<u>194,372</u>
SURPLUS, END OF YEAR	\$ 281,668		\$ 238,927

See accompanying notes to financial statements.

SWANSEA TOWN HALL RESIDENCES

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

	2012	2011
CASH PROVIDED (USED)		
OPERATING ACTIVITIES		
Excess of revenues over expenditures	\$ 42,741	\$ 44,555
Allocation to restricted reserve fund	48,733	47,939
Non-cash items		
Amortization	<u>198,498</u>	<u>186,882</u>
	289,972	279,376
Net changes in		
Accounts receivable	990	(672)
HST and GST rebate receivable	12,404	(15,804)
Subsidy and SHRRP receivable	(60,599)	49,499
Prepaid expenses	407	308
Accounts payable	(7,133)	4,175
Rent deposits	4,040	(249)
Subsidy payable	<u>39,619</u>	<u>(7,656)</u>
	<u>279,700</u>	<u>308,977</u>
FINANCING ACTIVITIES		
Mortgage payable	<u>(198,498)</u>	<u>(186,882)</u>
INVESTING ACTIVITIES		
Expenditures from replacement reserve	-	(2,171)
Change in restricted cash & investments	(98,039)	(22,123)
Investment income on replacement reserve funds	<u>49,306</u>	<u>(16,395)</u>
	<u>(48,733)</u>	<u>(40,689)</u>
INCREASE (DECREASE) IN UNRESTRICTED CASH	32,469	81,406
UNRESTRICTED CASH, BEGINNING OF YEAR	<u>459,927</u>	<u>378,521</u>
UNRESTRICTED CASH, END OF YEAR	<u>\$ 492,396</u>	<u>\$ 459,927</u>

See accompanying notes to financial statements.

SWANSEA TOWN HALL RESIDENCES

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

1. NATURE OF ORGANIZATION

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The organization is incorporated under Letters Patent for the purpose of providing housing accommodation primarily to senior citizens of low or modest income. The Corporation owns and operates a 68 unit apartment complex in Toronto, Ontario. The Corporation is a non-profit organization and exempt from income tax under section 149 of the Income Tax Act.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

These financial statements have been prepared in accordance with the significant accounting policies set out below to comply with the financial reporting framework prescribed by the Housing Services Act (HSA) and the City of Toronto. Some of these accounting policies such as the amortization of capital assets and the charge to operations for the annual reserve fund contribution do not comply with Canadian generally accepted accounting principles.

Investments

Investments classified as held for trading are recorded at market value. Investment income includes interest, dividends, gains and losses.

Capital Assets

Capital assets are comprised of land and building shelter costs and equipment as they existed at the interest adjustment date per the Certified Audited Statement of Final Capital Costs. Subsequent purchases of capital assets including those funded through SHRRP (Social Housing Renovation and Retrofit Program) are expensed in the year acquired. Amortization of capital assets is equal to the amount of mortgage principal repaid in the year. A replacement reserve fund is maintained to provide for significant future asset replacements.

Reserve Funds

The replacement reserve is funded by an annual charge against earnings as opposed to an appropriation of surplus. All investment income earned on the restricted cash and investments (see note 3) has been set aside as reserved funds.

Revenue recognition

Housing charges are recorded at the beginning of each month, when they are due. Government subsidies from the City of Toronto are recorded using the deferral method of accounting for contributions. All other income is reported as it is earned.

SWANSEA TOWN HALL RESIDENCES

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

2. SIGNIFICANT ACCOUNTING POLICIES - continued

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Use of Estimates

The preparation of financial statements requires management to make assumptions about future events that effect 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 revenues and expenses during the reporting period. Actual results could differ from these estimates.

3. RESTRICTED CASH & INVESTMENTS

The corporation has established a replacement reserve fund for capital expenditures. This replacement reserve fund is to be segregated from cash balances available for current use and interest earned from its investment is returned to the replacement reserve fund. As at September 30, 2012, the reserve fund investments included an allocation from operating funds of \$87,251 and \$591,743 (adjusted cost base - \$626,407) was invested with the Social Housing Investment Program in their bond (\$152,875) and equity (\$438,868) funds as administered by Phillips, Hager and North.

4. CAPITAL ASSETS

	2012	2011
Land and building	\$ 7,472,757	\$ 7,472,757
	7,472,757	7,472,757
Accumulated amortization	<u>2,230,087</u>	<u>2,031,589</u>
Net book value	\$ <u>5,242,670</u>	\$ <u>5,441,168</u>

In November 1991, the Corporation entered into a lease with the City of Toronto to lease for a forty-nine year period, the land which the residences are located. The cost of the land lease is included in the cost of the land and building.

SWANSEA TOWN HALL RESIDENCES

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

5. MORTGAGE

	2012	2011
First mortgage - secured by the land and building, a general assignment of rents and chattel security over equipment; payable in blended monthly payments of \$43,963 with interest at 6.122%, due June 1, 2028.	\$ 5,334,745	\$ 5,533,243
Less current portion	210,836	198,498
	<u>\$ 5,123,909</u>	<u>\$ 5,334,745</u>

The principal to be paid over the next five fiscal years respectively commencing with the fiscal year ended September 30, 2013 is \$210,836, \$223,941, \$237,861, \$252,645 and \$268,349.

6. REPLACEMENT RESERVE FUND

	2012	2011
Balance, beginning of year	\$ 580,955	\$ 551,582
Allocation from operations	48,733	47,939
Capital expenditures	-	(2,171)
Investment income	27,927	10,752
Unrealized investment gains / (losses) - end of year	(34,664)	(56,043)
Unrealized investment (gains) / losses - beginning of year	56,043	28,896
Balance, end of year	<u>\$ 678,994</u>	<u>\$ 580,955</u>

Included in the allocation from operations is \$6,800 (2011 - \$6,800) an amount up to \$100 per unit that the Corporation is allowed to keep as a result of the change in the surplus sharing formula as per the City of Toronto guideline 2007-5 dated July, 2007.

7. MANAGEMENT CONTRACT

The organization has entered into a management contract with DMS Property Management Ltd. for a period of three years commencing July 1, 2011. This contract may be cancelled by the organization by providing 90 days written notice. The management fees are based on an annual rate of \$24,500 for the first year, and \$25,600 each for the next two years, plus HST.

SWANSEA TOWN HALL RESIDENCES

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

8. BUDGET FIGURES

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The comparative budgeted information used in the Statement of Revenues, Expenditures and Surplus is unaudited.

9. ECONOMIC DEPENDENCE

The continued, sustained operation of Swansea Town Hall Residences is dependent on significant government subsidies. Without this level of support the continued existence of the corporation is unlikely.

10. FINANCIAL INSTRUMENTS

The Corporation classifies its financial instruments into one of the following categories based on the purpose for which the asset was acquired. The Corporation's accounting policy for each category is as follows:

Assets or liabilities held-for-trading - Financial instruments classified as assets or liabilities held-for-trading are reported at fair value at each balance sheet date, and any change in fair value is recognized in the statement of revenues or the capital reserve fund, as appropriate, in the period during which the change occurs. Cash, restricted cash and investments have been classified as held for trading.

Receivables and other financial instruments - Financial instruments classified as receivables and other financial instruments are carried at amortized cost using the effective interest method. Interest income or expense is included in the statement of revenues and expenditures over the expected life of the instrument. Accounts and other receivables have been classified as receivables. Accounts payable, accrued mortgage payment, rent deposits, subsidy payable and mortgage payable have been classified as other financial instruments.

Investments in securities with an active market are valued at quoted market prices.

It is the opinion of the Board that the Corporation is not exposed to significant interest, currency or credit risks and that the carrying values of these financial instruments approximate their fair values unless otherwise noted.

SWANSEA TOWN HALL RESIDENCES

SCHEDULE TO STATEMENT OF REVENUES, EXPENDITURES AND SURPLUS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

(Note 8)

	2012 ACTUAL	2012 BUDGET	2011 ACTUAL
SCHEDULE 1			
ADMINISTRATIVE OVERHEAD			
Materials and services	\$ 22,992	\$ 19,754	\$ 26,674
Management fees	<u>25,530</u>	<u>24,329</u>	<u>21,854</u>
	\$ 48,522	\$ 44,083	\$ 48,528

SCHEDULE 2

MATERIALS AND SERVICES

Building and equipment	\$ 36,079	\$ 24,667	\$ 38,047
Elevator	9,901	12,141	9,463
Electrical systems	3,728	4,250	1,431
Grounds	15,754	11,826	12,139
Heating and plumbing	17,550	14,464	9,779
Painting	12,632	3,900	5,349
Waste removal	9,309	12,365	6,671
Security	<u>6,105</u>	<u>6,808</u>	<u>7,058</u>
	\$ 111,058	\$ 90,421	\$ 89,937

SCHEDULE 3

UTILITIES

Hydro	\$ 43,727	\$ 88,092	\$ 59,730
Heating	36,092	72,450	37,037
Water	<u>17,747</u>	<u>23,619</u>	<u>13,353</u>
	\$ 97,566	\$ 184,161	\$ 110,120