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**SWANSEA TOWN HALL RESIDENCES**

**FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2015**

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## INDEPENDENT AUDITOR'S REPORT

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### **To the Directors of Swansea Town Hall Residences and the City of Toronto**

We have audited the accompanying financial statements of Swansea Town Hall Residences, which comprise the balance sheet as at September 30, 2015 and the statements of revenues, expenditures and accumulated 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 and fair presentation 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 judgment, 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 and fair presentation 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 policies 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, 2015 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 1 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.



Andrew T. Vahrmeyer, Professional Corporation

Authorized to practice public accounting by the  
Chartered Professional Accountants of Ontario

Richmond Hill, Ontario  
January 14, 2016

# SWANSEA TOWN HALL RESIDENCES

## BALANCE SHEET

AS AT SEPTEMBER 30, 2015

	2015	2014
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 374,851	\$ 370,400
Unrestricted investments (Note 2)	137,240	133,215
Accounts receivable (net of allowance 2015 - \$1,419, 2014 - \$1,270)	5,090	2,794
HST rebate receivable	37,502	35,680
Subsidy receivable	41,620	41,131
Prepaid expenses	<u>40,276</u>	<u>36,220</u>
	636,579	619,440
<b>Restricted cash &amp; investments (Note 3)</b>	620,253	628,901
<b>Tangible capital (Note 4)</b>	<u>4,570,032</u>	<u>4,807,893</u>
	\$ 5,826,864	\$ 6,056,234

## LIABILITIES, RESERVE FUNDS AND ACCUMULATED SURPLUS

<b>Current</b>		
Accounts payable and accrued liabilities	\$ 47,014	\$ 42,960
Rent deposits	49,424	46,280
Accrued mortgage payment	43,963	43,963
Subsidy payable	34,457	48,828
Current portion of mortgage payable (Note 5)	<u>252,645</u>	<u>237,861</u>
	427,503	419,892
<b>Mortgage (Note 5)</b>	<u>4,409,462</u>	<u>4,662,107</u>
	4,836,965	5,081,999
<b>Replacement reserve fund (Note 6)</b>	620,253	628,901
<b>Accumulated surplus</b>	<u>369,646</u>	<u>345,334</u>
	\$ 5,826,864	\$ 6,056,234

See accompanying notes to financial statements.

Approved on behalf of the Board:

\_\_\_\_\_ Director

\_\_\_\_\_ Director

## SWANSEA TOWN HALL RESIDENCES

### STATEMENT OF REVENUES, EXPENDITURES AND ACCUMULATED SURPLUS

FOR THE YEAR ENDED SEPTEMBER 30, 2015

	2015 ACTUAL	2015 BUDGET	2014 ACTUAL
		(Note 9)	
<b>Revenues</b>			
Rental:			
Market tenants	\$ 409,503	\$ 395,235	\$ 396,642
RGI tenants	201,981	197,880	198,183
City of Toronto - subsidy	499,440	499,440	493,572
City of Toronto - year end reconciliation	(9,087)	-	(18,570)
Parking	6,000	5,875	5,980
Laundry	8,555	9,120	8,578
Interest	3,476	2,400	3,799
Other	<u>818</u>	<u>290</u>	<u>300</u>
	<u>1,120,686</u>	<u>1,110,240</u>	<u>1,088,484</u>
<b>Expenditures</b>			
Administrative overhead (Schedule 1)	58,671	50,734	49,807
Amortization of capital costs	237,861	237,861	223,941
Bad debts	148	500	596
Insurance	9,849	10,120	9,817
Materials and services (Schedule 2)	111,214	99,500	107,401
Mortgage interest	289,698	289,698	303,618
Municipal taxes	132,788	111,270	120,887
Utilities (Schedule 3)	143,092	175,853	121,102
Contracted wages and benefits	68,669	70,324	64,540
Allocation to replacement reserve	<u>44,384</u>	<u>44,384</u>	<u>50,968</u>
	<u>1,096,374</u>	<u>1,090,244</u>	<u>1,052,677</u>
<b>Excess of revenues over expenditures</b>	24,312	<u>\$ 19,996</u>	35,807
<b>Accumulated surplus, beginning of year</b>	<u>345,334</u>		<u>309,527</u>
<b>Accumulated surplus, end of year</b>	<u>\$ 369,646</u>		<u>\$ 345,334</u>

See accompanying notes to financial statements.

# SWANSEA TOWN HALL RESIDENCES

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED SEPTEMBER 30, 2015

	<u>2015</u>	<u>2014</u>
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Excess of revenues over expenditures	\$ 24,312	\$ 35,807
Non-cash items		
Amortization	237,861	223,941
Allocation to replacement reserve fund	<u>44,384</u>	<u>50,968</u>
	306,557	310,716
Net changes in		
Accounts receivable	(2,296)	(2,377)
HST rebate receivable	(1,823)	21,627
Subsidy receivable	(489)	719
Prepaid expenses	(4,056)	(2,675)
Accounts payable and accrued liabilities	4,055	(13,980)
Rent deposits	3,144	149
Subsidy payable	<u>(14,371)</u>	<u>18,570</u>
	<u>290,721</u>	<u>332,749</u>
<b>Financing activities</b>		
Mortgage payable	<u>(237,861)</u>	<u>(223,941)</u>
<b>Investing activities</b>		
Expenditures from replacement reserve	(41,609)	(55,162)
Change in restricted cash & investments	8,648	17,759
Change in unrestricted investments	(4,025)	(133,215)
Investment income on replacement reserve funds	(4,623)	115,456
Prior year City of Toronto reconciliation adjustment	<u>(6,800)</u>	<u>-</u>
	<u>(48,409)</u>	<u>(55,162)</u>
<b>Increase in unrestricted cash</b>	4,451	53,646
<b>Unrestricted cash, beginning of year</b>	<u>370,400</u>	<u>316,754</u>
<b>Unrestricted cash, end of year</b>	<u>\$ 374,851</u>	<u>\$ 370,400</u>

See accompanying notes to financial statements.

# SWANSEA TOWN HALL RESIDENCES

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

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### NATURE OF ORGANIZATION

Swansea Town Hall Residences (the "Corporation") 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.

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## 1. 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 guidelines provided by the City of Toronto (the "City"). This framework, used in these financial statements, is in accordance with Canadian Accounting Standards for Not-For-Profit Organizations, subject to the following material exceptions:

- (i) Amortization of tangible capital assets includes amortization of land and is equal to the principal repaid on the related mortgage, rather than over the useful lives of the related assets. In determining mortgage principal repaid, an accrual is made for the amount of mortgage principal to be repaid on the first day following the Corporation's year end;
- (ii) The replacement reserve is funded by annual charge against earnings, as opposed to an appropriation of surplus, based on amounts approved by the City of Toronto;
- (iii) Capital expenditures, unless otherwise funded, are expensed in the year of acquisition to the replacement reserve or to the statement of revenues, expenditures and accumulated surplus rather than capitalized and amortized over their estimated useful lives; and
- (iv) Investment income earned on the restricted cash and investments (see note 3) of the replacement reserve fund is credited directly to the reserve rather than operations.

### Reserve funds

The Corporation is required to maintain a replacement reserve fund for the purpose of funding major asset repairs and replacement. This replacement reserve is funded by an annual charge against earnings.

Cash and investments of the replacement reserve fund are externally restricted and can only be used for major asset repairs and replacement.

### Tangible capital assets

Tangible capital assets are comprised of land and building shelter costs as reported on the Certified Audited Statement of Final Capital Costs. Subsequent purchases of tangible capital assets, unless otherwise funded, are expensed or charged to the replacement reserve fund in the year acquired.

# SWANSEA TOWN HALL RESIDENCES

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

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### 1. SIGNIFICANT ACCOUNTING POLICIES - continued

#### 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. Grants and other amounts received to cover the cost of specific capital assets are deferred and recognized as revenue over the same amortization period as the related capital asset.

Laundry revenue is recognized when collected which occurs on a monthly basis.

Parking revenue is recognized on an accrual basis corresponding with the period during which the right to use the space is provided.

Investment and all other income is recorded on an accrual basis as it is earned.

#### Financial instruments

The Corporation initially measures all of its financial assets and liabilities at fair value. Subsequently, all financial assets and financial liabilities are measured at amortized cost, except for investments in equity instruments that are quoted in an active market, which are measured at fair value. Changes in fair value are recognized on the statement of revenues, expenditures and accumulated surplus in the period incurred, except for changes to replacement reserve investments, which are recognized directly to the reserve.

#### 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. Key components of the financial statements requiring management to make estimates include the provision for doubtful accounts in respect of receivables. Actual results could differ from these estimates.

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### 2. UNRESTRICTED INVESTMENTS

Unrestricted investments consist of an allocation of Phillips, Hager & North ("PH&N") investments of \$137,240 (2014 - \$133,215) due from restricted cash & investments (Note 3).

# SWANSEA TOWN HALL RESIDENCES

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

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### 3. RESTRICTED CASH & INVESTMENTS

The Corporation has established a replacement reserve fund for the purpose of covering future major repairs and capital asset replacement. Cash & investments held in this replacement reserve fund are to be segregated from cash balances available for current use and income earned from their investment is returned to the replacement reserve fund.

As at September 30, 2015, restricted cash & investments consist of \$757,493 (2014 - \$762,116) invested with the Social Housing Investment Program administered by PH&N, less an allocation of \$137,240 (2014 - \$133,215) to unrestricted investments (Note 2).

PH&N investments include \$166,521 (2014 - \$158,956) invested in Canadian bonds and \$590,972 (2014 - \$603,160) invested in Canadian equities.

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### 4. TANGIBLE CAPITAL ASSETS

	<u>2015</u>	<u>2014</u>
Land and building	\$ <u>7,472,757</u>	\$ <u>7,472,757</u>
	7,472,757	7,472,757
Accumulated amortization	<u>2,902,725</u>	<u>2,664,864</u>
Net book value	<u>\$ 4,570,032</u>	<u>\$ 4,807,893</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, 2015

### 5. MORTGAGE

	2015	2014
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.	\$ 4,662,107	\$ 4,899,968
Less current portion	<u>252,645</u>	<u>237,861</u>
	<u>\$ 4,409,462</u>	<u>\$ 4,662,107</u>

The principal to be paid over the next five fiscal years is as follows:

2016	\$	252,645
2017		268,349
2018		285,029
2019		302,745
2020		321,563

### 6. REPLACEMENT RESERVE FUND

	2015	2014
Balance, beginning of year	\$ 628,901	\$ 517,639
Allocation from operations	44,384	50,968
Prior year City of Toronto reconciliation adjustment	(6,800)	-
Capital expenditures	(41,609)	(55,162)
Investment income	39,550	10,990
Unrealized investment gains - end of year	66,459	110,632
Unrealized investment (gains) / losses - beginning of year	<u>(110,632)</u>	<u>(6,166)</u>
Balance, end of year	<u>\$ 620,253</u>	<u>\$ 628,901</u>

Included in the allocation from operations is \$Nil (2014 - \$6,800) of the City of Toronto's 50% share of operational surplus that the Corporation is allowed to keep, to a maximum of \$100 per unit, as a result of the modification to the surplus sharing formula included in the City of Toronto guideline 2013-3 dated August 2013. For the year ended September 30, 2014, the surplus sharing was denied by the City of Toronto as a result of the breach of the HSA (Note 11).

# SWANSEA TOWN HALL RESIDENCES

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

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### 7. MANAGEMENT CONTRACT

The organization has entered into a management contract with DMS Property Management Ltd. for a period of three years commencing October 1, 2015. The management fees are based on an annual rate of \$28,657 plus HST.

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### 8. FINANCIAL INSTRUMENTS

The significant financial risks to which the Corporation is exposed are credit risk, market risk, and liquidity risk.

#### **Credit risk**

Credit risk is the risk of financial loss should a counter-party in a transaction fail to meet its obligations. The Corporation has exposure to credit risk to the extent that some tenants may fall into rent arrears. To manage this risk, tenant arrears are reviewed on a monthly basis. Further, tenant deposits are taken, in order to reduce credit exposure.

#### **Market risk - consisting of price and interest rate risk**

Market risk is the risk of potential financial loss caused by fluctuations in the fair value of future cash flow of financial instruments due to changes in market conditions. The Corporation has exposure to price and interest rate risk in that investments in debt and equity instruments may fluctuate based on changes in market prices (caused by other than interest rates) and interest rate fluctuations. The Corporation does not engage in any hedging or derivative transactions to manage market risk.

As the City subsidy funding fully contributes towards the cost of mortgage payments, the Corporation is not exposed to interest rate risk on its mortgage.

#### **Liquidity risk**

Liquidity risk is the risk that the Corporation encounters difficulty in meeting its financial obligations as they come due. The Corporation maintains a sufficient level of working capital in order to ensure it always has cash available to meet these obligations. The Corporation's most significant short term liabilities include accounts payable and accrued liabilities, rent deposits, the accrued mortgage payment, and subsidy payable. As the City subsidy funding fully contributes towards the cost of mortgage payments, the Corporation is not exposed to liquidity risk on the current portion of its mortgage.

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### 9. BUDGET FIGURES

The comparative budgeted information used in the statement of revenues, expenditures and accumulated surplus is unaudited.

# SWANSEA TOWN HALL RESIDENCES

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

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### 10. 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.

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### 11. CONTINGENT LIABILITY

The Corporation has been notified by the City of Toronto that the Corporation is in breach of its statutory obligations under the Housing Services Act, due to not meeting its minimum RGI targeting plan. The City directed the Corporation to undertake various remedial steps with failure to do so resulting in a Notice of Triggering Event under the HSA. In the event of this notice, the City may take various actions including the suspension of subsidies. Given the uncertainty of potential actions to be taken by the City, no estimate of contingent loss can be made.

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### 12. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform with the current year's presentation.

# SWANSEA TOWN HALL RESIDENCES

## SCHEDULES TO STATEMENT OF REVENUES, EXPENDITURES AND ACCUMULATED SURPLUS

FOR THE YEAR ENDED SEPTEMBER 30, 2015

	2015 ACTUAL	2015 BUDGET	2014 ACTUAL
			(Note 9)
<b>SCHEDULE 1</b>			
<b>Administrative overhead</b>			
Materials and services	\$ 32,335	\$ 24,410	\$ 23,474
Management fees	<u>26,336</u>	<u>26,324</u>	<u>26,333</u>
	\$ 58,671	\$ 50,734	\$ 49,807
<b>SCHEDULE 2</b>			
<b>Materials and services</b>			
Building and equipment	\$ 23,645	\$ 28,619	\$ 18,084
Elevator	12,027	14,244	12,206
Electrical systems	7,513	3,550	4,480
Grounds	18,408	12,329	16,099
Heating and plumbing	24,049	15,234	30,969
Painting	10,486	3,300	4,508
Waste removal	7,720	12,365	7,537
Security	<u>7,366</u>	<u>9,859</u>	<u>13,518</u>
	\$ 111,214	\$ 99,500	\$ 107,401
<b>SCHEDULE 3</b>			
<b>Utilities</b>			
Hydro	\$ 72,119	\$ 86,478	\$ 57,583
Heating	50,202	61,567	43,296
Water	<u>20,771</u>	<u>27,808</u>	<u>20,223</u>
	\$ 143,092	\$ 175,853	\$ 121,102