
SWANSEA TOWN HALL RESIDENCES

FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

ANDREW T. VAHRMEYER PROFESSIONAL CORPORATION
CHARTERED PROFESSIONAL ACCOUNTANT, CA

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INDEPENDENT AUDITOR'S REPORT

**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, 2016 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, 2016 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 12, 2017

SWANSEA TOWN HALL RESIDENCES

BALANCE SHEET

AS AT SEPTEMBER 30, 2016

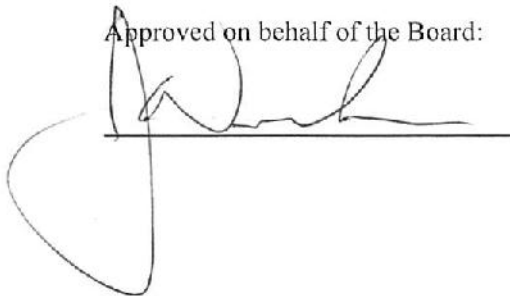
	2016	2015
ASSETS		
Current		
Cash	\$ 381,807	\$ 374,851
Unrestricted investments (Note 2)	103,591	137,240
Accounts receivable (net of allowance 2016 - \$2,115, 2015 - \$1,419)	370	5,090
HST rebate receivable	73,790	37,502
Subsidy receivable	46,010	41,620
Prepaid expenses	42,811	40,276
	648,379	636,579
Restricted cash & investments (Note 3)	736,626	620,253
Tangible capital (Note 4)	4,317,387	4,570,032
	\$ 5,702,392	\$ 5,826,864

LIABILITIES, RESERVE FUNDS AND ACCUMULATED SURPLUS

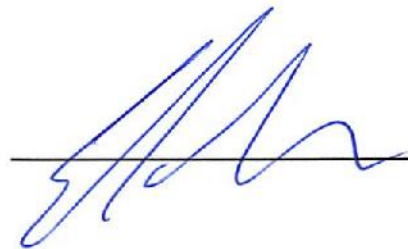
Current		
Accounts payable and accrued liabilities	\$ 49,823	\$ 47,014
Rent deposits	44,883	49,424
Accrued mortgage payment	43,963	43,963
Subsidy payable	18,623	34,457
Current portion of mortgage payable (Note 5)	268,349	252,645
	425,641	427,503
Mortgage payable, net of current portion (Note 5)	4,141,113	4,409,462
	4,566,754	4,836,965
Replacement reserve fund (Note 6)	736,626	620,253
Accumulated surplus	399,012	369,646
	\$ 5,702,392	\$ 5,826,864

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, 2016

	2016 ACTUAL	2016 BUDGET	2015 ACTUAL
		(Note 9)	
Revenues			
Rental:			
Market tenants	\$ 409,472	\$ 411,575	\$ 409,503
RGI tenants	206,517	198,696	201,981
City of Toronto - subsidy	552,120	552,120	499,440
City of Toronto - year end reconciliation	(18,623)	-	(9,087)
Parking	7,200	6,690	6,000
Laundry	8,629	7,440	8,555
Investment income	15,402	2,400	3,476
Other	1,009	190	818
	<u>1,181,726</u>	<u>1,179,111</u>	<u>1,120,686</u>
Expenditures			
Administrative overhead (Schedule 1)	56,481	44,784	58,671
Amortization of tangible capital assets	252,645	252,645	237,861
Bad debts	161	500	148
Insurance	9,979	10,418	9,849
Materials and services (Schedule 2)	159,537	115,466	111,214
Mortgage interest	274,913	274,913	289,698
Municipal taxes	142,924	124,992	132,788
Utilities (Schedule 3)	144,235	203,700	143,092
Contracted wages and benefits	65,836	70,315	68,669
Allocation to replacement reserve fund	45,649	45,649	44,384
	<u>1,152,360</u>	<u>1,143,382</u>	<u>1,096,374</u>
Excess of revenues over expenditures	29,366	<u>\$ 35,729</u>	24,312
Accumulated surplus, beginning of year	<u>369,646</u>		<u>345,334</u>
Accumulated surplus, end of year	<u>\$ 399,012</u>		<u>\$ 369,646</u>

See accompanying notes to financial statements.

SWANSEA TOWN HALL RESIDENCES

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

	2016	2015
Cash provided by (used in)		
Operating activities		
Excess of revenues over expenditures	\$ 29,366	\$ 24,312
Non-cash items		
Amortization of tangible capital assets	252,645	237,861
Allocation to replacement reserve fund	<u>45,649</u>	<u>44,384</u>
	327,660	306,557
Net changes in		
Accounts receivable	4,720	(2,296)
HST rebate receivable	(36,288)	(1,823)
Subsidy receivable	(4,390)	(489)
Prepaid expenses	(2,535)	(4,056)
Accounts payable and accrued liabilities	2,809	4,055
Rent deposits	(4,541)	3,144
Subsidy payable	<u>(15,834)</u>	<u>(14,371)</u>
	<u>271,601</u>	<u>290,721</u>
Financing activities		
Change in mortgage payable	<u>(252,645)</u>	<u>(237,861)</u>
Investing activities		
Expenditures from replacement reserve fund	-	(41,609)
Change in restricted cash & investments	(116,373)	8,648
Change in unrestricted investments	33,649	(4,025)
Investment income on replacement reserve funds	70,724	(4,623)
Prior year City of Toronto reconciliation adjustment	<u>-</u>	<u>(6,800)</u>
	<u>(12,000)</u>	<u>(48,409)</u>
Increase in unrestricted cash	6,956	4,451
Unrestricted cash, beginning of year	<u>374,851</u>	<u>370,400</u>
Unrestricted cash, end of year	<u>\$ 381,807</u>	<u>\$ 374,851</u>

See accompanying notes to financial statements.

SWANSEA TOWN HALL RESIDENCES

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

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.

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 fund 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 fund 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 fund 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, 2016

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 fund 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.

2. UNRESTRICTED INVESTMENTS

Unrestricted investments consist of an allocation of Phillips, Hager & North ("PH&N") investments of \$103,591 (2015 - \$137,240) allocated from restricted cash & investments (Note 3).

SWANSEA TOWN HALL RESIDENCES

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

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, 2016, restricted cash & investments consist of \$840,217 (2015 - \$757,493) invested with the Social Housing Investment Program administered by PH&N, less an allocation of \$103,591 (2015 - \$137,240) to unrestricted investments (Note 2).

PH&N investments include \$176,548 (2015 - \$166,521) invested in Canadian bonds and \$663,669 (2015 - \$590,972) invested in Canadian equities.

4. TANGIBLE CAPITAL ASSETS

	<u>2016</u>	<u>2015</u>
Land and building	\$ 7,472,757	\$ 7,472,757
Accumulated amortization	<u>3,155,370</u>	<u>2,902,725</u>
Net book value	<u>\$ 4,317,387</u>	<u>\$ 4,570,032</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 on 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, 2016

5. MORTGAGE

	<u>2016</u>	<u>2015</u>
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.	\$ 4,409,462	\$ 4,662,107
Less current portion	<u>268,349</u>	<u>252,645</u>
	<u>\$ 4,141,113</u>	<u>\$ 4,409,462</u>

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

2017	\$ 268,349
2018	285,029
2019	302,745
2020	321,563
2021	341,550

SWANSEA TOWN HALL RESIDENCES

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

6. REPLACEMENT RESERVE FUND

	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 620,253	\$ 628,901
Allocation from operations	45,649	44,384
Prior year City of Toronto reconciliation adjustment	-	(6,800)
Capital expenditures	-	(41,609)
Realized investment income	24,364	39,550
Unrealized investment gains - end of year	112,819	66,459
Unrealized investment (gains) / losses - beginning of year	<u>(66,459)</u>	<u>(110,632)</u>
Balance, end of year	<u>\$ 736,626</u>	<u>\$ 620,253</u>

Included in the allocation from operations is \$Nil (2015 - \$Nil) 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.

Replacement reserve fund capital expenditures consist of the following:

	<u>2016</u>	<u>2015</u>
Window replacement	\$ -	\$ 30,788
Intercom replacement	-	7,429
Sidewalk concrete repairs	-	2,776
Appliances	<u>-</u>	<u>616</u>
	<u>\$ -</u>	<u>\$ 41,609</u>

7. MANAGEMENT CONTRACT

The Corporation 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 billed in equal monthly instalments based on an annual rate of \$28,657 plus HST.

SWANSEA TOWN HALL RESIDENCES

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

8. FINANCIAL INSTRUMENTS

The significant financial risks to which the Corporation is exposed are 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.

9. BUDGET FIGURES

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

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.

SWANSEA TOWN HALL RESIDENCES

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

FOR THE YEAR ENDED SEPTEMBER 30, 2016

	2016 ACTUAL	2016 BUDGET	2015 ACTUAL
		(Note 9)	
SCHEDULE 1			
Administrative overhead			
Materials and services	\$ 27,267	\$ 18,460	\$ 32,335
Management fees	<u>29,214</u>	<u>26,324</u>	<u>26,336</u>
	<u>\$ 56,481</u>	<u>\$ 44,784</u>	<u>\$ 58,671</u>
SCHEDULE 2			
Materials and services			
Building and equipment	\$ 26,196	\$ 27,384	\$ 23,645
Elevator	16,090	13,138	12,027
Electrical systems	25,940	5,300	7,513
Grounds	18,708	18,179	18,408
Heating and plumbing	19,412	26,337	24,049
Painting	18,964	5,450	10,486
Waste removal	8,744	9,732	7,720
Security	<u>25,483</u>	<u>9,946</u>	<u>7,366</u>
	<u>\$ 159,537</u>	<u>\$ 115,466</u>	<u>\$ 111,214</u>
SCHEDULE 3			
Utilities			
Hydro	\$ 82,558	\$ 88,212	\$ 72,119
Heating	37,360	93,092	50,202
Water	<u>24,317</u>	<u>22,396</u>	<u>20,771</u>
	<u>\$ 144,235</u>	<u>\$ 203,700</u>	<u>\$ 143,092</u>