
SWANSEA TOWN HALL RESIDENCES

FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

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, 2018 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, 2018 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. Vahrmeier, Professional Corporation

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

Richmond Hill, Ontario
January 10, 2019

SWANSEA TOWN HALL RESIDENCES

BALANCE SHEET

AS AT SEPTEMBER 30, 2018

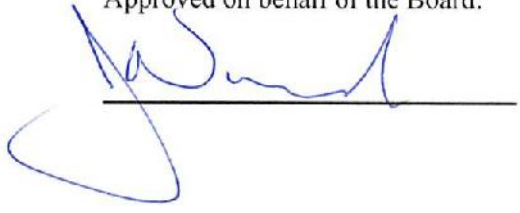
	2018	2017
ASSETS		
Current		
Cash	\$ 597,431	\$ 549,367
Unrestricted investments (Note 2)	95,171	72,023
Accounts receivable (net of allowance 2018 - \$181, 2017 - \$1,821)	2,425	1,178
HST rebate receivable	35,380	32,830
Subsidy receivable	44,550	46,070
Prepaid expenses	<u>44,269</u>	<u>41,596</u>
	819,226	743,064
Restricted cash and investments (Note 3)	887,915	844,505
Tangible capital (Note 4)	<u>3,764,009</u>	<u>4,049,038</u>
	\$ 5,471,150	\$ 5,636,607

LIABILITIES, RESERVE FUND AND ACCUMULATED SURPLUS

Current		
Accounts payable and accrued liabilities	\$ 92,702	\$ 48,754
Rent deposits	47,301	49,134
Accrued mortgage payment	43,963	43,963
Subsidy payable	50,901	63,988
Current portion of mortgage payable (Note 5)	<u>302,745</u>	<u>285,029</u>
	537,612	490,868
Mortgage payable, net of current portion (Note 5)	<u>3,553,340</u>	<u>3,856,084</u>
	4,090,952	4,346,952
Replacement reserve fund (Note 6)	887,915	844,505
Accumulated surplus	<u>492,283</u>	<u>445,150</u>
	\$ 5,471,150	\$ 5,636,607

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, 2018

	2018 ACTUAL	2018 BUDGET	2017 ACTUAL
	(Note 9)		
Revenues			
Rental:			
Market tenants	\$ 426,556	\$ 416,420	\$ 409,357
RGI tenants	225,801	215,292	216,190
City of Toronto - subsidy	534,600	534,600	552,840
City of Toronto - year end reconciliation	(50,901)	-	(45,365)
Parking	7,140	6,690	7,200
Laundry	7,204	7,440	8,609
Investment income	14,565	2,400	11,927
Other	1,339	210	135
	<u>1,166,304</u>	<u>1,183,052</u>	<u>1,160,893</u>
Expenditures			
Administrative overhead (Schedule 1)	60,159	57,143	68,838
Amortization of tangible capital assets	285,029	285,029	268,349
Bad debts	422	500	329
Insurance	9,811	10,595	10,038
Materials and services (Schedule 2)	136,348	145,270	109,205
Mortgage interest	242,530	242,530	259,210
Municipal taxes	137,708	145,052	141,513
Utilities (Schedule 3)	123,831	160,775	137,241
Contracted superintendent services	76,384	65,776	67,149
Allocation to replacement reserve fund	46,949	46,949	52,883
	<u>1,119,171</u>	<u>1,159,619</u>	<u>1,114,755</u>
Excess of revenues over expenditures	47,133	\$ <u>23,433</u>	46,138
Accumulated surplus, beginning of year	<u>445,150</u>		<u>399,012</u>
Accumulated surplus, end of year	\$ 492,283		\$ 445,150

See accompanying notes to financial statements.

SWANSEA TOWN HALL RESIDENCES

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED SEPTEMBER 30, 2018

	2018	2017
Cash provided by (used in)		
Operating activities		
Excess of revenues over expenditures	\$ 47,133	\$ 46,138
Non-cash items		
Amortization of tangible capital assets	285,029	268,349
Allocation to replacement reserve fund	46,949	52,883
	<u>379,111</u>	<u>367,370</u>
Net changes in		
Accounts receivable	(1,247)	(808)
HST rebate receivable	(2,549)	40,960
Subsidy receivable	1,520	(60)
Prepaid expenses	(2,674)	1,215
Accounts payable and accrued liabilities	43,949	(1,069)
Rent deposits	(1,833)	4,251
Subsidy payable	<u>(13,087)</u>	<u>45,365</u>
	<u>403,190</u>	<u>457,224</u>
Financing activities		
Repayment of mortgage payable	<u>(285,029)</u>	<u>(268,349)</u>
Investing activities		
Expenditures from replacement reserve fund	(64,297)	(13,615)
Change in restricted cash and investments	(43,410)	(107,879)
Change in unrestricted investments	(23,148)	31,568
Investment income on replacement reserve funds	<u>60,758</u>	<u>68,611</u>
	<u>(70,097)</u>	<u>(21,315)</u>
Increase in unrestricted cash	48,064	167,560
Unrestricted cash, beginning of year	<u>549,367</u>	<u>381,807</u>
Unrestricted cash, end of year	\$ 597,431	\$ 549,367

See accompanying notes to financial statements.

SWANSEA TOWN HALL RESIDENCES

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

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 (Note 3) of the replacement reserve fund is credited directly to the reserve fund 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, 2018

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 fund.

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 \$95,171 (2017 - \$72,023) from restricted cash and investments (Note 3).

SWANSEA TOWN HALL RESIDENCES

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

3. RESTRICTED CASH AND INVESTMENTS

The Corporation has established a replacement reserve fund for the purpose of covering future major repairs and capital asset replacement. Cash and 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, 2018, restricted cash and investments consist of \$983,086 (2017 - \$916,528) invested with the Social Housing Investment Program administered by PH&N, less an allocation of \$95,171 (2017 - \$72,023) to unrestricted investments (Note 2).

PH&N investments include \$171,534 (2017 - \$170,151) invested in Canadian bonds and \$811,552 (2017 - \$746,377) invested in Canadian equities.

4. TANGIBLE CAPITAL ASSETS

	2018	2017
Land and building	\$ 7,472,757	\$ 7,472,757
Accumulated amortization	<u>3,708,748</u>	<u>3,423,719</u>
Net book value	<u>\$ 3,764,009</u>	<u>\$ 4,049,038</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, 2018

5. MORTGAGE

	2018	2017
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.	\$ 3,856,085	\$ 4,141,113
Less current portion	<u>302,745</u>	<u>285,029</u>
	<u>\$ 3,553,340</u>	<u>\$ 3,856,084</u>

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

2019	\$ 302,745
2020	321,563
2021	341,550
2022	362,780
2023	385,329

SWANSEA TOWN HALL RESIDENCES

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

6. REPLACEMENT RESERVE FUND

	2018	2017
Balance, beginning of year	\$ 844,505	\$ 736,626
Allocation from operations	46,949	52,883
Expenditures	(64,297)	(13,615)
Realized investment income	16,753	11,735
Unrealized investment gains / (losses) - end of year	213,700	169,695
Unrealized investment (gains) / losses - beginning of year	<u>(169,695)</u>	<u>(112,819)</u>
Balance, end of year	<u>\$ 887,915</u>	<u>\$ 844,505</u>

Included in the allocation from operations is \$Nil (2017 - \$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.

Replacement reserve fund expenditures consist of the following:

	2018	2017
Unit repair and retrofit	\$ 48,862	\$ 4,771
Make up air unit	12,196	-
Building condition assessment	3,239	-
Elevator	<u>-</u>	<u>8,844</u>
	<u>\$ 64,297</u>	<u>\$ 13,615</u>

7. MANAGEMENT CONTRACT

The Corporation has entered into a management contract with DMS Property Management Ltd. for a period of three years commencing November 1, 2015. The management fees are billed in equal monthly instalments based on an annual rate of \$28,657 plus HST.

Subsequent to year end, the Corporation entered into a management contract with Community First Developments Inc. for a period of three years and one month commencing November 1, 2018. The management fees are billed in equal monthly instalments based on an annual rate of \$33,612 plus HST. The contract may be terminated by either party upon 60 days written notice or 30 days written notice with cause.

SWANSEA TOWN HALL RESIDENCES

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

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. A portion of the Corporation's investments are denominated in Canadian dollars but invested in mutual funds of foreign equities and the Corporation is thus exposed to foreign currency 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 budget figures included in the statement of revenues, expenditures and accumulated surplus are unaudited.

SWANSEA TOWN HALL RESIDENCES

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

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.

11. COMMITMENT

The Corporation had committed to replacement of the make up air unit which was completed subsequent to year end. The total cost of the project is \$170,250 plus HST, of which \$11,860 plus HST was completed prior to September 30, 2018. Upon completion, the remaining project costs were funded through and charged to the replacement reserve fund.

SWANSEA TOWN HALL RESIDENCES

SCHEDULES TO STATEMENT OF REVENUES, EXPENDITURES AND ACCUMULATED SURPLUS

FOR THE YEAR ENDED SEPTEMBER 30, 2018

	2018 ACTUAL	2018 BUDGET	2017 ACTUAL
(Note 9)			
SCHEDULE 1			
Administrative overhead			
Materials and services	\$ 30,691	\$ 26,260	\$ 39,370
Management fees	<u>29,468</u>	<u>30,883</u>	<u>29,468</u>
	<u>\$ 60,159</u>	<u>\$ 57,143</u>	<u>\$ 68,838</u>
SCHEDULE 2			
Materials and services			
Building and equipment	\$ 43,577	\$ 59,026	\$ 23,737
Elevator	13,302	14,278	13,395
Electrical systems	10,044	6,800	9,601
Grounds	16,135	20,979	15,169
Heating and plumbing	25,459	22,699	19,825
Painting	2,478	2,550	9,613
Waste removal	16,073	9,521	11,945
Security	<u>9,280</u>	<u>9,417</u>	<u>5,920</u>
	<u>\$ 136,348</u>	<u>\$ 145,270</u>	<u>\$ 109,205</u>
SCHEDULE 3			
Utilities			
Hydro	\$ 62,828	\$ 80,894	\$ 76,782
Gas	36,286	51,303	36,540
Water	<u>24,717</u>	<u>28,578</u>	<u>23,919</u>
	<u>\$ 123,831</u>	<u>\$ 160,775</u>	<u>\$ 137,241</u>