THE ARCHITECTURAL CONSERVANCY OF ONTARIO INC.

FINANCIAL STATEMENTS

December 31, 2012

Marinucci & Company
Chartered Accountants

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Independent Auditors' Report

To the Provincial Council of
The Architectural Conservancy of Ontario Inc.

We have audited the accompanying financial statements of **The Architectural Conservancy of Ontario Inc.**, which comprise the balance sheet as at December 31, 2012 and the statements of operations and changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, 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.

Auditors' 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 the 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 for a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of The Architectural Conservancy of Ontario Inc. as at December 31, 2012 and the results of its operations, changes in net assets and cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

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Marinucci & Company

Toronto, Ontario
Date of approval

Chartered Accountants
Licensed Public Accountants

THE ARCHITECTURAL CONSERVANCY OF ONTARIO INC.

Balance Sheet as at December 31, 2012

	2012	2011
ASSETS		
Current:		
Cash and short-term investments (Note 3)	**$ 477,699**	$ 510,360
Investments (Notes 3 and 9)	**101,074**	154,373
Restricted cash and short-term investments (Note 4)	**176,749**	176,699
Accounts receivable	**34,306**	74,743
Prepaid expenses and other	**14,917**	17,538
	804,745	933,713
Capital assets, net (Note 5)	**503,019**	520,437
	$ 1,307,764	$ 1,454,150
LIABILITIES		
Current:		
Accounts payable and accrued liabilities	**$ 97,582**	$ 86,919
Restricted deferred revenues	**176,749**	176,699
Deferred revenues	**3,690**	63,398
Current portion of loans payable (Note 6)	**9,403**	9,231
	287,424	336,247
Loans payable (Note 6)	**-**	9,403
Deferred contributions for capital asset purchases (Notes 7 and 10)	**445,763**	461,218
	733,187	806,868
NET ASSETS		
Unrestricted	**574,577**	647,282
	$ 1,307,764	$ 1,454,150

Approved on behalf of the Provincial Council:

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THE ARCHITECTURAL CONSERVANCY OF ONTARIO INC.

Statement of Operations and Changes in Net Assets

For the year ended December 31, 2012

	2012	2011
OPERATING REVENUES		
Donations and memberships	**$ 153,580**	$ 95,300
Fundraising and events	**206,178**	205,456
Government grants (Note 8)	**115,785**	123,785
Rental income	**32,412**	26,394
Investment income (Note 9)	**12,179**	26,103
	520,134	477,038
OPERATING EXPENSES		
Expenses relating to Agency Agreements (Note 11)	**67,767**	45,000
Fundraising	**104,771**	109,985
Wages and honorariums	**71,787**	59,912
Grants and scholarships	**82,446**	56,167
Professional fees	**93,540**	62,321
General and administration	**84,197**	64,149
Advertising and promotion	**17,062**	5,965
Occupancy cost (Note 12)	**54,983**	50,886
Travel and vehicle	**6,790**	3,619
Interest and bank charges (Note 6)	**5,414**	3,023
	588,757	461,027
EXCESS (DEFICIENCY) OF OPERATING REVENUES OVER EXPENSES	**(68,623)**	16,011
LESS: AMORTIZATION, net (Note 10)	**4,082**	4,844
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	**(72,705)**	11,167
UNRESTRICTED NET ASSETS, beginning of year	**647,282**	626,213
UNRESTRICTED NET ASSETS, end of year	**$ 574,577**	$ 647,282

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THE ARCHITECTURAL CONSERVANCY OF ONTARIO INC.

Statement of Cash Flows

For the year ended December 31, 2012

	2012	2011
Cash generated by (used in):		
OPERATING ACTIVITIES		
Excess of revenues over expenses	**$ (72,705)**	$ 3,197
Add (deduct) non-cash items:		
Amortization, net	**4,082**	4,844
Unrealized (increase) decrease in fair value of investments	**(5,166)**	(12,774)
Impact on cash of changes in non-cash working capital items:		
Accounts receivable	**40,437**	(29,231)
Prepaid expenses and other	**2,621**	3,889
Accounts payable and accrued liabilities	**10,663**	(2,446)
Deferred revenues	**(59,708)**	52,668
	(79,776)	28,117
INVESTING ACTIVITIES		
Capital asset expenditures	**(2,119)**	(2,108)
Proceeds from disposition (purchase) of investments, net	**58,465**	16,301
	56,346	14,193
FINANCING ACTIVITIES		
Principal repayments of loans payable	**(9,231)**	(9,063)
INCREASE (DECREASE) IN CASH	**(32,661)**	33,247
CASH AND SHORT TERM INVESTMENTS, beginning of the year	**510,360**	477,113
CASH AND SHORT TERM INVESTMENTS, end of the year	**$ 477,699**	$ 510,360

THE ARCHITECTURAL CONSERVANCY OF ONTARIO INC.

Notes to Financial Statements

December 31, 2012

1. NATURE AND PURPOSE OF THE ORGANIZATION

The Architectural Conservancy of Ontario Inc. ("ACO") was incorporated by Letters Patent under the Corporations Act (Ontario) initially on February 2, 1933 and continued on December 21, 1982. Its mandate is to preserve buildings and structures of architectural merit and places of natural beauty and interest in Ontario. ACO carries out this mandate in a number of ways. It increases public awareness through the publication of its journal, the ACORN, and through activities such as walking tours, open houses and conference partnerships. It also carries out this mandate by, on occasion, acquiring at-risk heritage properties to restore and operate and, more commonly, by assisting communities in efforts to protect their heritage buildings, structures and sites. The activities of ACO are carried out through the head office situated in Toronto and branches situated throughout Southern Ontario.

The ACO is a registered charitable organization under the Income Tax (Canada) and as such, is exempt from income tax.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are the representation of management and have been prepared in accordance with Canadian accounting standards for not-for-profit organization in Part III of the *CPA Canada Handbook* and include the following significant accounting policies.

Basis of presentation

These financial statements represent the results and financial position of the ACO head office and the twenty-five branches that were in operation in 2012 and 2011.

Revenue recognition

ACO follows the deferral method of accounting for contributions, including donations and government grants. Unrestricted contributions are recognized as revenues in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Contributions explicitly and implicitly restricted by the donor are deferred when received and recognized as revenues in the year in which the related activity takes place and expenses are incurred.

Facilities rentals, concerts and other performance-related revenues are recognized when received or receivable upon substantial completion of performance or program, provided that the amount to be received can be reasonably estimated and collection is reasonably assured.

Financial instruments

ACO initially measures its financial assets and financial liabilities at fair value. It subsequently measures all its financial assets, except for investments, and financial liabilities at amortized cost.

The financial assets subsequently measured at amortized cost include cash and short-term investments and accounts receivable. The financial liabilities measured at amortized cost include accounts payable and loans payable.

Investments are subsequently measured at fair value. Investment income includes interest, dividends and unit trust distributions received during the year and changes in fair value of the investments during the year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Capital assets

Capital assets are recorded at cost less accumulated amortization.

Amortization of office equipment is provided on a straight line basis over three years. Amortization of building improvements is provided on a straight line basis over 20 and 40 years. Capital assets acquired during the year are amortized at one-half of the normal rate.

Contributions received for the purchase of capital assets are initially deferred and then amortized on the same basis as the related capital asset costs are amortized.

Donated services

Much of the work of ACO is dependent on the voluntary services of members. Since these services are not normally purchased by ACO and its branches, and because of the difficulty in determining their fair value, such donated services are not recognized in the accounts.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. These estimates are reviewed periodically and adjustments are made to revenues and expenses as appropriate in the period they become known.

3. FINANCIAL INSTRUMENTS

Cash consists of cash on hand and bank deposits residing in accounts at Canadian financial institutions. Cash balances are sufficient to cover accounts payable as they come due. Short-term investments consist of certificates of deposit residing in accounts at Canadian financial institutions.

Investments consist of marketable securities traded on the Toronto Stock Exchange residing in accounts at a Canadian financial institution and investment advisor.

The fair value of ACO's financial instruments approximates their carrying value due to the relatively short term to maturity of those instruments. It is management's opinion that ACO is not exposed to significant currency or credit risk arising from these financial instruments.

See Note 6 for details of loans payable.

4. RESTRICTED CASH AND SHORT-TERM INVESTMENTS

Restricted cash and short-term investments consist of funds segregated from general funds as follows:

	2012	2011
Cambridge – Project Fund	$ **46,000**	$ 46,000
Cambridge – Endowment Fund	**60,000**	60,000
Toronto	**47,034**	47,034
Windsor	**23,715**	23,665
	$ **176,749**	$ 176,699

5. CAPITAL ASSETS

	Cost	Accumulated Amortization	Net Book Value 2012	Net Book Value 2011
Land - Cambridge	$ 22,400	$ -	**$ 22,400**	$ 22,400
Building improvements:				
Cambridge	50,000	(35,000)	**15,000**	17,500
South Bruce-Grey	618,240	(154,287)	**463,953**	479,408
Office equipment:				
Simcoe County	568	(341)	**227**	341
Cobourg	665	(222)	**443**	-
South Bruce-Grey	435	(145)	**290**	435
Toronto	1,060	(354)	**706**	353
	$ 693,368	$ (190,349)	**$ 503,019**	$ 520,437

6. LOANS PAYABLE

Loans payable consist of:	2012	2011
Brockton Heritage Fund	**$ 7,403**	$ 14,634
Other	**2,000**	4,000
	9,403	18,634
Less current portion	**(9,403)**	(9,231)
	$ -	$ 9,403

The Brockton Heritage Fund (Municipality of Brockton) advanced these funds to the ACO South Bruce Grey branch for the purpose of repairs and renovations to the Victoria Jubilee Hall (in Walkerton). The loan was advanced on July 2, 2008, bears interest at 2.4% and is repayable over five years in ten semi-annual payments (plus interest) starting on January 2, 2009. Interest charges on this loan of $304 (2011 - $473) are included in interest and bank charges.

The other loan was advanced to the ACO in March, 2007. This loan does not bear interest and has no repayment schedule. The lender has forgiven certain of the principal balance and ACO has issued donations receipts of $2,000 each for 2007 through 2012, reducing the balance outstanding at December 31, 2012 to $2,000.

7. DEFERRED CONTRIBUTIONS FOR CAPITAL ASSET CONTRIBUTIONS

	2012	2011
Balance, beginning of year	**$ 461,218**	$ 476,673
Amortization to operations during the year (see Note 10)	**(15,455)**	(15,455)
Balance, end of year	**$ 445,763**	$ 461,218

8. GOVERNMENT GRANTS REVENUES

	2012	2011
Provincial		
Ontario Trillium Foundation		
Project grant	**$ 55,000**	$ 55,000
Province of Ontario		
Student employment program	**2,785**	2,785
Operating grant	**43,000**	43,000
Heritage program fund	**-**	9,000
Ontario Arts Council		
South Bruce Grey concert series	**7,000**	6,500
Total provincial grants	**107,785**	116,285
Municipalities		
Brockton	**5,000**	5,000
Clarington	**2,500**	-
Stratford	**500**	2,500
Total municipal grants	**8,000**	7,500
	$ 115,785	$ 123,785

9. INVESTMENT INCOME

Investment income consists of:

	2012	2011
Interest, dividends and unit trust distributions	**$ 7,013**	$ 13,329
Unrealized increase (decrease) in fair value of investments	**5,166**	12,774
	$ 12,179	$ 26,103

10. AMORTIZATION

Amortization, net, consists of the following:	2012	2011
Amortization of capital assets	**$ 19,537**	$ 20,299
Amortization of deferred contributions for capital asset purchases (see Note 7)	**(15,455)**	(15,455)
	$ 4,082	$ 4,844

11. EXPENSES RELATING TO AGENCY AGREEMENTS

ACO entered into Agency Agreements with other organizations in 2012 to fund expenses for activities consistent with ACO's charitable purposes, in the amount of $67,767 (2011 - $45,000).

12. PREMISES LEASES

ACO entered into a premises lease agreement for its head office, effective October 1, 2008 for a 5 year term requiring annual payments of $6,344 for year one (ending September 30, 2009) plus annual increases of approximately 7% resulting in a payment of $8,296 for the fifth year (ending September 30, 2013). Either party may cancel the lease at any time on 6 month written notice, with no penalty.

The Port Hope branch has entered into 20 year leases to 2024 for two properties at $1.00 per year each. The branch is responsible for all operating costs related to these two properties.

Three branches (Cambridge, London and Toronto) have entered into separate premises leases with one year terms requiring total annual payments of approximately $6,000.

13. CAPITAL MANAGEMENT

In managing capital, ACO focuses on liquid resources available for operations. ACO's objective is to have sufficient liquid resources to continue operating despite adverse financial events and to provide it with the flexibility to take advantage of opportunities to advance its purposes. The need for sufficient liquid resources is considered in the preparation of an annual budget and in the monitoring of cash flows and actual operating results compared to budget.

ACO and the branches have financed the cost of capital assets using contributions for capital asset purchases (see Note 7), loans payable (see Note 6) and internally generated surpluses.

As at December 31, 2012, ACO has met its objective of having sufficient liquid resources to meet its current obligations.