

**Knox Oakville Non-Profit
Homes For Seniors Inc.
Financial Statements
For the year ended November 30, 2016**

Knox Oakville Non-Profit Homes for Seniors Inc.
Financial Statements
For the year ended November 30, 2016

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Independent Auditor's Report

To the Board of Directors of
Knox Oakville Non-Profit Homes for Seniors Inc.

We have audited the accompanying financial statements of Knox Oakville Non-Profit Homes for Seniors Inc. (the "Corporation"), which comprise the statement of financial position as at November 30, 2016, 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. The financial statements have been prepared by management based on the financial reporting provisions of the mortgage agreement between Knox Oakville Non-Profit Homes for Seniors Inc. and Canada Mortgage and Housing Corporation (CMHC), as described in Note 1.

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 mortgage agreement between Knox Oakville Non-Profit Homes for Seniors Inc. and CMHC, as described in Note 1, 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 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 Corporation'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 Corporation'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 Knox Oakville Non-Profit Homes for Seniors Inc. as at November 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 mortgage agreement between Knox Oakville Non-Profit Homes for Seniors Inc. and CMHC.

Basis of Accounting and Restriction on Use

Without modifying our opinion, we draw attention to Note 1 on the financial statements, which describes the basis of accounting. The financial statements are prepared to assist Knox Oakville Non-Profit Homes for Seniors Inc. to comply with the reporting provisions of the mortgage agreement referred to above. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Directors of Knox Oakville Non-Profit Homes for Seniors Inc. and CMHC and should not be used by parties other than the Directors of Knox Oakville Non-Profit Homes for Seniors Inc. or CMHC.

BDO CANADA LLP

Chartered Professional Accountants, Licensed Public Accountants
Burlington, Ontario
March 12, 2017

**Knox Oakville Non-Profit Homes for Seniors Inc.
Statement of Financial Position**

November 30	2016	2015
Assets		
Current		
Cash	\$ 84,417	\$ 44,582
Accounts receivable (Note 2)	19,029	35,584
Prepaid expenses	11,779	11,738
	115,225	91,904
Replacement reserve investments (Note 3)	801,000	677,171
Capital assets (Note 4)	1,063,823	1,260,045
	\$ 1,980,048	\$ 2,029,120

Liabilities and Net Assets

Current		
Accounts payable (Note 5)	\$ 88,492	\$ 66,142
Tenant deposits	41,363	40,392
Current portion of mortgage payable (Note 6)	226,333	1,296,736
	356,188	1,403,270
Mortgage payable (Note 6)	874,181	-
	1,230,369	1,403,270
Net assets		
Replacement reserve fund (Note 7)	801,000	677,171
Deficiency (Note 8)	(51,321)	(51,321)
	\$ 1,980,048	\$ 2,029,120

On behalf of the Board:

C. Shold

Clayton Shold
Director, Chairman and President

Tom Richards

Tom Richards
Director and Treasurer

Knox Oakville Non-Profit Homes for Seniors Inc. Statement of Operations and Changes in Net Assets

For the year ended November 30	2016	2015
Revenue		
Rental		
Income tested	\$ 314,563	\$ 339,972
Non-income tested	454,922	367,064
	769,485	707,036
Government subsidies and assistance:		
Canada Mortgage and Housing Corporation Subsidy	45,882	74,703
Region of Halton Subsidy	117,519	114,115
Miscellaneous (laundry, parking, etc.)	23,038	21,680
Revenue from operations	955,924	917,534
Transfer from replacement reserve (Note 7)	-	1,572,875
Total revenue	955,924	2,490,409
Expenditure		
Administration	88,055	79,640
Allocation for replacement reserve	75,000	55,000
Amortization	196,222	201,395
Gas	11,480	17,234
Hydro	97,876	90,237
Insurance	16,705	16,474
Interest paid on tenant deposits	776	540
Janitorial services	88,491	85,937
Maintenance and repairs	131,555	115,829
Mortgage interest	44,239	66,341
Professional fees	28,938	20,870
Property maintenance	19,603	17,639
Property taxes	129,366	127,785
Replacement reserve expenditure	-	1,572,875
Water	27,340	22,276
	955,646	2,490,072
Excess of revenue over expenditure for the year	278	337
Payable to Region of Halton	(278)	(337)
Deficit, beginning of year	(51,321)	(51,321)
Deficit, end of year	\$ (51,321)	\$ (51,321)

The accompanying notes are an integral part of these financial statements.

Knox Oakville Non-Profit Homes for Seniors Inc. Statement of Cash Flows

For the year ended November 30	2016	2015
Cash flows from operating activities		
Adjustments to reconcile excess of revenue over expenditure for the year to net cash provided by operating activities		
Amortization	\$ 196,222	\$ 201,395
Changes in non-cash working capital balances		
Accounts receivable	16,555	(2,150)
Prepaid expenses	(41)	887
Accounts payable	22,350	(5,197)
Tenant deposits	971	3,502
	<u>236,057</u>	<u>198,437</u>
Cash flows from financing activity		
Repayment of mortgage	<u>(196,222)</u>	<u>(201,396)</u>
Changes in cash during the year	39,835	(2,959)
Cash, beginning of year	<u>44,582</u>	<u>47,541</u>
Cash, end of year	\$ 84,417	\$ 44,582

The accompanying notes are an integral part of these financial statements.

Knox Oakville Non-Profit Homes for Seniors Inc.

Notes to Financial Statements

November 30, 2016

1. Significant Accounting Policies

Nature of Operations

Knox Oakville Non-Profit Homes for Seniors Inc. (the "Corporation") is a not-for-profit Corporation, without share capital, under the laws of Ontario and, as such, is exempt from income tax. The Corporation owns and operates Knox Heritage Place, a seniors' residence.

Basis of Accounting

These financial statements have been prepared in accordance with the significant accounting policies set out below as required by Canada Mortgage and Housing Corporation (CMHC), under Section 95 of the National Housing Act:

- (i) capital assets purchased from the replacement reserve are charged against the Replacement Reserve account, rather than being capitalized on the balance sheet and amortized over their estimated useful lives;
- (ii) interfund transfers to/from the Replacement Reserve Fund are shown on the Statement of Operations rather than being presented in the Statement of Changes in Net Assets; and
- (iii) annual amortization of capital assets is equal to the principal repaid during the year on the related mortgage.

Except as noted above, the Corporation's accounting policies are in accordance with Canadian accounting standards for not-for-profit organizations (ASNPO), which is one of the financial reporting frameworks in Canadian generally accepted accounting principles.

Financial Instruments

Financial instruments are recorded at fair value when acquired or issued. In subsequent periods, mutual funds and portfolio shares traded in an active market are reported at fair value. In addition, all bonds and debentures have been designated to be in the fair value category. Unrealized gains and losses on Replacement Reserve Fund Investments are reported in the Replacement Reserve Fund.

All other financial instruments are subsequently reported at cost or amortized cost less impairment, if applicable. Financial assets are tested for impairment when changes in circumstances indicate the asset could be impaired. Transaction costs on the acquisition, sale or issue of financial instruments are expensed for those items measured at fair value at each statement of financial position date and charged to the financial instrument for those measured at amortized cost.

Replacement Reserve Fund

Pursuant to the agreement with the Canadian Mortgage and Housing Corporation, an annual sum of \$55,000 must be credited to the replacement reserve fund. This fund and the accumulated interest and investment income must be invested only in accounts or instruments insured by the Canada Deposit Insurance Corporation or invested in any other way that may receive CMHC approval from time to time. Any funds used from the account must be approved by CMHC.

Knox Oakville Non-Profit Homes for Seniors Inc.

Notes to Financial Statements

November 30, 2016

1. Significant Accounting Policies (Continued)

Subsidy from Canada Mortgage and Housing Corporation

The Corporation receives a subsidy under a program administered by CMHC. CMHC provides mortgage interest assistance to reduce the market interest rate charged on the mortgage to the Corporation to correspond with specific requirements of Section 95 of the National Housing Act.

Capital Assets

Capital assets are stated at cost less accumulated amortization. In accordance with the CMHC policy, the annual amortization of buildings and equipment is equal to the principal repaid during the year on the related mortgage.

Revenue Recognition

Rental revenue includes rents earned from tenants under lease agreements and is recognized in accordance with the tenant lease agreements.

Rent subsidies approved but not received at the end of an accounting period are accrued. Where a portion of rent subsidies relate to a future period, it is deferred and recognized in that subsequent period.

Investment income is recognized when earned.

Tenant Deposits

Tenant deposits represent the last month's rental payments received from tenants. Interest is paid on the deposits annually at the effective rate of return on investment.

Foreign Currency Translation

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expenditure is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year end date, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date.

Use of Estimates

The preparation of financial statements 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 revenue and expenditures during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

Knox Oakville Non-Profit Homes for Seniors Inc. Notes to Financial Statements

November 30, 2016

2. Accounts Receivable

	2016	2015
Due from Canada Mortgage and Housing Corporation	\$ 461	\$ 6,225
Due from Region of Halton	8,916	4,126
HST receivable	8,568	23,015
Rent	1,084	2,218
	\$ 19,029	\$ 35,584

3. Replacement Reserve Investments

	2016		2015	
	Fair Value	Cost	Fair Value	Cost
Cash	\$ 77,169	\$ 76,882	\$ 7,798	\$ 7,798
High interest savings account	50,007	50,007	46,156	46,156
Bonds and debentures	233,557	236,017	189,702	184,584
Portfolio shares	440,267	429,257	433,515	633,788
	\$ 801,000	\$ 792,163	\$ 677,171	\$ 872,326

The replacement reserve investments are to be used for capital expenditures and major repairs.

The bonds and debentures earn interest at rates ranging from 2.1% to 3.95% per annum with maturity dates from September 8, 2018 to March 30, 2027.

4. Capital Assets

	2016		2015	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 333,614	\$ -	\$ 333,614	\$ -
Building	3,514,099	2,787,720	3,514,099	2,592,559
Furniture and equipment	18,968	15,138	18,968	14,077
	\$ 3,866,681	\$ 2,802,858	\$ 3,866,681	\$ 2,606,636
Net book value		\$ 1,063,823		\$ 1,260,045

Knox Oakville Non-Profit Homes for Seniors Inc. Notes to Financial Statements

November 30, 2016

5. Accounts Payable

	2016	2015
Mortgage interest	\$ 2,036	\$ 5,158
Provincial subsidy	278	337
Trade accounts	86,178	60,647
	\$ 88,492	\$ 66,142

Included in trade accounts are government remittances payable of \$3,375 (2015 - \$3,201).

6. Mortgage Payable

	2016	2015
Mortgage loan, repayable \$20,706 monthly including interest at 2.23%, secured by a mortgage on the property, an assignment of rents and the guarantee of the Canada Mortgage and Housing Corporation, due and renewable on July 1, 2021	\$ 1,100,514	\$ 1,296,736
Less: current portion	226,333	1,296,736
	\$ 874,181	\$ -

Principal repayments in the next five years are as follows:

2017	\$	226,333
2018		231,408
2019		236,597
2020		241,903
2021		164,273
	\$	1,100,514

During the year, the mortgage loan was renewed and monthly payments are \$20,706 (2015 - \$22,387) including interest at 2.23% (2015 - 4.821%).

Knox Oakville Non-Profit Homes for Seniors Inc. Notes to Financial Statements

November 30, 2016

7. Replacement Reserve Fund

Pursuant to the provisions of certain agreements with the Canada Mortgage and Housing Corporation and the National Housing Act, the Corporation is required to maintain funds in reserves, which may only be used to replace appliances and building equipment, including roofs, as required in the future. These reserves are to be funded as described below and a cash deposit for each project has been segregated to be used solely for this purpose. Interest earned on funds specifically segregated is credited to the reserve account and not recorded as operating revenue.

	2016	2015
Balance, beginning of year	\$ 677,171	\$ 2,349,062
Plus:		
Allocation for the year (Note 1)	75,000	55,000
Investment income (loss)	(149,582)	92,472
Less:		
Transfer to operations	-	(1,572,875)
Investment management fees	(5,581)	(17,846)
Change in unrealized gains (losses) on financial assets	203,992	(228,642)
Balance, end of year	\$ 801,000	\$ 677,171

8. Deficiency

The deficiency of \$51,321 was created in the 2007 fiscal year when the Corporation elected to change its accounting policy for amortization to reflect the accounting principles as recommended by Canada Mortgage Housing Corporation.

Due to the restatement of the financial statements prior to the 2007 fiscal year, additional amortization was recorded that was not funded and a deficit for the prior years resulted.

9. Federal Assistance Payments

The Corporation has received Federal assistance through the Regional Municipality of Halton pursuant to Section 95 of the National Housing Act to reduce operating costs and rentals to enable the project to provide housing to low income individuals. This assistance is available over the amortization period of the mortgage payable, to a maximum of 35 years.

10. Provincial Rent Subsidies

The Regional Municipality of Halton provides subsidies to cover operating deficits based on specific Provincial Housing Act Programs.

Knox Oakville Non-Profit Homes for Seniors Inc. Notes to Financial Statements

November 30, 2016

11. Financial Instrument Risks

The Corporation may be exposed to a variety of financial risks including credit and other price risk. These risks have not changed from the previous year.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation is subject to interest rate risk on its mortgage payable and bonds and debentures.

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Corporation is subject to credit risk through trade receivables.

Liquidity Risk

Liquidity risk is the risk that the Corporation encounters difficulty in meeting its obligations associated with financial liabilities. Liquidity risk includes the risk that, as a result of operational liquidity requirements, the Corporation will not have sufficient funds to settle a transaction on the due date; will be forced to sell financial assets at a value, which is less than what they are worth; or may be unable to settle or recover a financial asset. Liquidity risk arises from accounts payable and mortgage payable.

Market Risk

The Corporation is exposed to fluctuations in bond and equity markets on its replacement reserve fund investments.

Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Approximately 16% of total investments are in USD (approximately 32% of cash and 26% of portfolio shares). As at year end, the investment balance is shown in CAD, having been converted from USD. Fair value of instruments in USD is \$100,520.