

Knox Heritage Place Inc.
Financial Statements
For the year ended December 31, 2023

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For the year ended December 31, 2023

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Independent Auditor's Report

To the Board of Directors of
Knox Heritage Place Inc.

Opinion

We have audited the financial statements of Knox Heritage Place Inc. (the "Organization"), which comprise the statement of financial position as at December 31, 2023, and the statements of operations and changes in net assets, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at December 31, 2023, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Qualified Opinion

The Organization's promissory note to an unrelated third-party was recorded at cost at initial recognition. Canadian accounting standards for not-for-profit organizations requires third-party loans to initially be recognized at fair value and subsequently at amortized cost. As described in Note 7 to the financial statements, the promissory note bears interest at 3.5% per annum which was not the prevailing market rate for similar instruments at the time the note was issued. Had the promissory note been initially recorded at fair value, and subsequently at amortized cost, the promissory note payable would have decreased, and net assets (deficiency) would have increased by \$249,522 (2022 - \$278,515) as at December 31, 2023 and revenue would have increased by \$Nil (2022 - \$300,188), interest expense would have increased by \$28,993 (2022 - \$21,673) and excess (deficiency) of revenue over expenses would have increased by \$28,993 (2022 - \$278,515) for the year ended December 31, 2023. Our audit opinion on the financial statements for the year ended December 31, 2022 was modified because of the effects of this departure from Canadian accounting standards for not-for-profit organizations.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Organization in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, 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.

In preparing the financial statements, management is responsible for assessing the Organization's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organization's financial reporting process.



Independent Auditor's Report (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

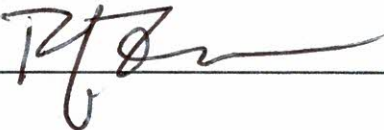
BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants
Oakville, Ontario
March 18, 2024

Knox Heritage Place Inc. Statement of Financial Position

December 31	2023	2022
Assets		
Current		
Cash	\$ 12,077	\$ 29,315
Short-term investments (Note 2)	709,633	544,727
Accounts receivable (Note 3)	39,893	25,751
Prepaid expenses	41,249	73,607
	802,852	673,400
Long-term investments (Note 2)	818,423	967,290
Capital assets (Note 4)	7,394,408	7,480,718
	\$ 9,015,683	\$ 9,121,408
Liabilities and Net Assets (Deficiency)		
Current		
Accounts payable (Note 5)	\$ 69,970	\$ 65,486
Tenant deposits	41,553	43,980
Current portion of mortgage payable (Note 6)	100,732	96,404
Deferred revenue	-	5,319
	212,255	211,189
Mortgage payable (Note 6)	5,313,096	5,408,217
Promissory note payable (Note 7)	3,500,000	3,500,000
	9,025,351	9,119,406
Net assets (deficiency)		
Unrestricted	(9,668)	2,002
	\$ 9,015,683	\$ 9,121,408

On behalf of the Board:



Richard Fortier
Director, Chair and President



Ian Molyneaux
Director and Treasurer

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

Knox Heritage Place Inc. Statement of Operations and Changes in Net Assets

For the year ended December 31	2023	2022
<i>(Comparatives for 2022 contain 9 months of operations)</i>		
Revenue		
Rental		
Income tested	\$ 299,442	\$ 224,471
Non-income tested	545,434	396,185
	844,876	620,656
Government subsidies and assistance:		
Regional Municipality of Halton subsidy (Note 8)	247,959	178,474
The Minister of Employment and Social Development	511	19,681
Investment gain (loss)	74,966	(10,736)
Miscellaneous (laundry, parking, etc.)	30,849	22,447
	1,199,161	830,522
Expenditures		
Administration	23,375	23,693
Amortization	111,751	57,420
Gas	40,628	22,322
Hydro	75,337	51,014
Insurance	49,772	35,826
Interest paid on tenant deposits	966	1,048
Maintenance and repairs	75,182	72,667
Mortgage interest	267,973	164,672
Professional fees	52,997	36,810
Promissory note interest	122,500	91,875
Property taxes	141,684	102,505
Salaries and benefits	225,470	152,033
Water	23,196	16,635
	1,210,831	828,520
Excess (deficiency) of revenue over expenditures for the year	(11,670)	2,002
Net assets, beginning of year	2,002	-
Net assets (deficiency), end of year	\$ (9,668)	\$ 2,002

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

Knox Heritage Place Inc. Statement of Cash Flows

For the year ended December 31	2023	2022
<i>(Comparatives for 2022 contain 9 months of operations)</i>		
Cash flows from operating activities		
Excess (deficiency) of revenue over expenditures for the year	\$ (11,670)	\$ 2,002
Adjustments to reconcile excess (deficiency) of revenue over expenditures for the year to net cash provided by operating activities		
Amortization	106,140	54,147
Amortization of deferred financing costs	5,611	3,273
Unrealized loss (gain) on investments	(14,175)	17,983
Changes in non-cash working capital balances		
Accounts receivable	(14,142)	(21,333)
Prepaid expenses	32,358	(32,725)
Accounts payable	4,484	65,486
Tenant deposits	(2,427)	43,980
Deferred revenue	(5,319)	5,319
	100,860	138,132
Cash flows from investing activities		
Cash paid on acquisitions (Note 11)	-	(3,645,300)
Purchase of capital assets	(19,830)	(434,865)
Purchase of investments	(1,104,406)	(1,530,000)
Proceeds on sale and redemption of investments	1,102,542	-
	(21,694)	(5,610,165)
Cash flows from financing activities		
Proceeds from mortgage payable	-	5,724,000
Repayment of mortgage	(96,404)	(54,311)
Payment of deferred financing costs	-	(168,341)
	(96,404)	5,501,348
Increase (decrease) in cash during the year	(17,238)	29,315
Cash, beginning of year	29,315	-
Cash, end of year	\$ 12,077	\$ 29,315
Non-cash transactions		
Proceeds from promissory note payable	\$ -	\$ 3,500,000

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

Knox Heritage Place Inc.

Notes to Financial Statements

December 31, 2023

1. Significant Accounting Policies

Nature of Operations

Knox Heritage Place Inc. (the "Organization") is a not-for-profit Organization, without share capital, under the laws of Ontario and, as such, is exempt from income tax. The Organization owns and operates Knox Heritage Place, a seniors' residence. The Organization was incorporated on November 12, 2020 and commenced operations on April 1, 2022 upon the purchase of assets as described in Note 11. The prior year financial results as presented are for nine months of operations from April 1, 2022 to December 31, 2022.

Basis of Accounting

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations ("ASNPO").

Revenue Recognition

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

Government subsidies and grants are recognized as revenue in the year in which the related expenses are incurred. Government subsidies approved but not received at the end of an accounting period are accrued. Where a portion of subsidies relate to a future period, they are deferred and recognized in that subsequent period.

Investment income and miscellaneous revenue is recognized when earned.

Short-term Investments

Short-term investments are purchased with an intent to be withdrawn in one year or less.

Capital Assets

Capital assets are recorded at cost less accumulated amortization. Amortization, based on the estimated useful life of the asset, is calculated as follows:

Building	- 4% declining balance basis
Equipment and furnishings	- 20% declining balance basis

Deferred Financing Costs

Deferred financing costs are capitalized and amortized over the term of the new financing arrangement, net of the associated mortgage payable.

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.

Financial Instruments

Financial instruments are recorded at fair value when acquired or issued. In subsequent periods, Canadian equities and preference shares traded in an active market are reported at fair value. Guaranteed investment certificates approximate their fair value due to the short term nature of the investments. All other financial instruments are 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 remeasured at fair value at each statement of financial position date and charged to the financial instrument for those measured at amortized cost.

Knox Heritage Place Inc. Notes to Financial Statements

December 31, 2023

1. Significant Accounting Policies (Continued)

Use of Estimates

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

2. Investments

	2023	2022
Short-term investments		
High interest savings account	\$ 709,633	\$ -
GIC - 3.1%, 30 day cashable, due October 26, 2023	-	544,727
	\$ 709,633	\$ 544,727
Long-term investments		
Preference shares	\$ 591,763	\$ 749,471
Canadian equities	226,660	217,819
	\$ 818,423	\$ 967,290

3. Accounts Receivable

	2023	2022
HST receivable	\$ 38,751	\$ 24,611
Miscellaneous	1,142	1,140
	\$ 39,893	\$ 25,751

4. Capital Assets

	2023		2022	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 5,000,000	\$ -	\$ 5,000,000	\$ -
Building	2,507,757	147,831	2,491,744	49,835
Equipment and furnishings	46,938	12,456	43,121	4,312
	\$ 7,554,695	\$ 160,287	\$ 7,534,865	\$ 54,147
Net book value	\$ 7,394,408		\$ 7,480,718	

Knox Heritage Place Inc. Notes to Financial Statements

December 31, 2023

5. Accounts Payable

	2023	2022
Trade accounts payable	\$ 21,597	\$ 33,396
Accrued liabilities	49,164	30,539
Due (from) to Halton Region	(791)	1,551
	\$ 69,970	\$ 65,486

Included in trade accounts payable are government remittances payable of \$6,434 (2022 - \$7,717).

6. Mortgage Payable

	2023	2022
Mortgage payable - Amortized over 30 years with interest at 4.40%, repayable in blended monthly payments of \$28,662, secured by the associated property, a first general assignment of rents and leases from the Property, postponement of promissory note payable to Knox Presbyterian Church, Oakville (Note 7), and assignment of Halton rent subsidy agreement (Note 8). The initial 10 year term is due May 1, 2032.	\$ 5,573,285	\$ 5,669,689
Less: current portion	(100,732)	(96,404)
Less: financing costs	(159,457)	(165,068)
	\$ 5,313,096	\$ 5,408,217

Principal repayments for the next 5 years and thereafter are as follows:

2024	\$	100,732
2025		105,255
2026		109,981
2027		114,419
2028		120,078
Thereafter		5,022,820
	\$	5,573,285

7. Promissory Note Payable

The promissory note payable is due to Knox Presbyterian Church, Oakville, bears interest at 3.5% per annum payable quarterly, is due within fifteen days following written demand made only after March 31, 2032 and is open to prepayment, in whole or in part, at any time without notice, bonus or penalty.

Knox Heritage Place Inc. Notes to Financial Statements

December 31, 2023

8. Regional Municipality of Halton Subsidy

During the year, the Regional Municipality of Halton ("Halton") subsidized 41 of the 80 apartments at Knox Heritage Place on a rent-geared-to-income basis.

9. Commitments

The Organization has entered in a ground maintenance contract, which expires in November 2024 for \$27,922.

10. Financial Instrument Risks

The Organization may be exposed to a variety of financial risks.

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 Organization is subject to credit risk through its accounts receivable. The exposure to this risk is judged to be minimal as the receivables are mainly due from federal agencies and municipal government. This risk has not changed from the prior year.

Liquidity Risk

Liquidity risk is the risk that the Organization encounters difficulty in meeting its obligations associated with financial liabilities. Liquidity risk includes the risk that, as a result of operational liquidity requirements, the Organization 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 the Organization's accounts payable and accrued liabilities, tenant deposits, mortgage payable, promissory note payable and commitments. This risk has not changed from the prior year.

Market Risk

The Organization is subject to market risk with respect to its investments. It is the risk that the fair value or future cash flows from a financial instrument will fluctuate because of general economic and other market factors affecting market prices. The values of these investments will fluctuate as a result of changes in market prices or other factors affecting the value of the investments. This risk has not changed from the prior year.

Knox Heritage Place Inc.
Notes to Financial Statements

December 31, 2023

11. Purchase of Assets

In the prior year, pursuant to a purchase agreement dated March 31, 2022, Knox Heritage Place Inc. acquired the non-cash net assets of Knox Oakville Non-Profit Homes for Seniors Inc. from Knox Presbyterian Church, Oakville, an unrelated party, for total consideration of \$7,145,300. Included in the statement of operations and changes in net assets is \$8,243 of transaction expenses related to the acquisition. The acquisition was accounted for as a business combination by applying the acquisition method as summarized below and the results of operations are recorded from the effective date of purchase. The acquisition was completed in order to acquire the operations of Knox Heritage Place - a retirement home for seniors in Oakville, Ontario.

Purchase price allocation

Accounts receivable	\$ 4,418
Prepaid expenses	40,882
Land	5,000,000
Building	<u>2,100,000</u>

Total consideration paid **\$ 7,145,300**

Consideration represented by:

Cash consideration paid	\$ 3,645,300
Promissory note payable	<u>3,500,000</u>
	\$ 7,145,300