

**Castle Arms Non-Profit
Apartment Corporation
Financial Statements
For the year ended December 31, 2020**

Castle Arms Non-Profit Apartment Corporation
Financial Statements
For the year ended December 31, 2020

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Independent Auditor's Report

To the Board of Directors of Castle Arms Non-Profit Apartment Corporation

Opinion

We have audited the financial statements of Castle Arms Non-Profit Apartment Corporation, which comprise the statement of financial position as at December 31, 2020, 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, the accompanying financial statements present fairly, in all material respects, the financial position of Castle Arms Non-Profit Apartment Corporation as at December 31, 2020, and results of operations and cash flows for the year then ended in accordance with financial reporting provisions established by the District of Nipissing Social Services Administration Board (DNSSAB) as described in Note 1.

Basis for Opinion

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 Castle Arms Non-Profit Apartment Corporation 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 opinion.

Basis of Accounting and Restriction on 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 Castle Arms Non-Profit Apartment Corporation to comply with the reporting requirements of the DNSSAB. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Directors of Castle Arms Non-Profit Apartment Corporation and the DNSSAB and should not be used by parties other than the Board of Directors of Castle Arms Non-Profit Apartment Corporation and the DNSSAB.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with financial reporting provisions established by the District of Nipissing Social Services Administration Board (DNSSAB) 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.

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

Those charged with governance are responsible for overseeing Castle Arms Non-Profit Apartment Corporation's financial reporting process.

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 Castle Arms Non-Profit Apartment Corporation'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 Castle Arms Non-Profit Apartment Corporation'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 Castle Arms Non-Profit Apartment Corporation 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

North Bay, Ontario
April 22, 2021

Castle Arms Non-Profit Apartment Corporation

Statement of Financial Position

December 31 2020 2019

Assets

Unrestricted Assets

Cash and cash equivalents	\$ 717,185	\$ 712,876
Accounts receivable (Note 2)	46,382	46,644
Prepaid expenses	33,926	6,590
	797,493	766,110

Restricted Assets

Capital reserve fund assets (Note 10)	1,473,229	1,236,645
Surplus capital funds (Note 9)	7,658	7,658
	1,480,887	1,244,303

Capital assets (Notes 3 and 6)

11,657,571	12,496,564
\$13,935,951	\$ 14,506,977

Liabilities, Reserve Funds and Net Assets

Current

Accounts payable and accrued liabilities (Note 4)	\$ 149,010	\$ 163,924
Current portion of long-term debt (Note 6)	5,931,664	711,218
	6,080,674	875,142

Long-term debt (Note 6)

Deferred capital contributions (Note 5)	3,173,544	9,105,207
	2,525,003	2,650,806
	11,779,221	12,631,155

Reserve Funds (Note 10)

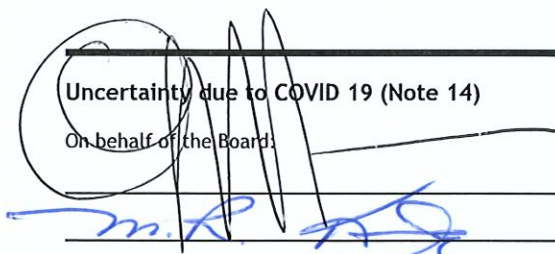
Capital Reserve Fund - Castle Arms I, II & III	1,099,341	905,259
Capital Reserve Fund - Castle Arms IV	343,201	306,682
Capital Reserve Fund - Castle Arms Mattawa	30,687	24,704
	1,473,229	1,236,645

Unrestricted Net Assets

683,501	639,177
\$13,935,951	\$ 14,506,977

Uncertainty due to COVID 19 (Note 14)

On behalf of the Board:

 Director

 Director

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

Castle Arms Non-Profit Apartment Corporation

Statement of Operations and Changes in Net Assets

For the year ended December 31	2020 Budget	2020 Actual	2019 Actual
Revenues (Note 12)	\$ 2,988,373	\$ 3,201,164	\$ 3,037,630
Expenses			
Interest on long-term debt	460,961	460,960	493,291
Municipal taxes	350,775	382,428	353,493
Utilities	413,987	370,218	377,611
Labour and related expenses	309,010	346,262	330,915
Materials and services	346,755	306,677	342,725
Administrative overhead (Note 8)	153,871	150,921	153,830
Insurance	46,590	37,237	29,574
Amortization	711,222	838,996	806,665
	2,793,171	2,893,699	2,888,104
Excess of revenues over expenses before other items	195,202	307,465	149,526
Transfer to capital reserve (Note 10)	(195,202)	(263,141)	(189,520)
Excess of revenues over expenses (excess of expenses over revenues) for the year	-	44,324	(39,994)
Unrestricted net assets, beginning of year	-	639,177	679,171
Transfer of prior year settlement to reserve		(50,887)	(39,915)
Prior year settlement adjustments (Note 13)	-	50,887	39,915
Unrestricted net assets, end of year	\$ -	\$ 683,501	\$ 639,177

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

Castle Arms Non-Profit Apartment Corporation
Statement of Capital Reserve Funds

For the year ended December 31 **2020** **2019**

Capital Reserve Fund - Castle Arms I, II & III (Note 10)

Balance, beginning of year	\$ 905,259	\$ 768,323
Investment and other income	<u>64,875</u>	<u>50,115</u>
	970,134	818,438
Surplus transfer (Note 13)	50,887	39,915
Transfer from operations	220,676	149,201
Expenses	<u>(142,356)</u>	<u>(102,295)</u>
Balance, end of year	<u>\$ 1,099,341</u>	<u>\$ 905,259</u>

Capital Reserve Fund - Castle Arms IV (Note 10)

Balance, beginning of year	\$ 306,682	\$ 271,773
Investment income	<u>167</u>	<u>310</u>
	306,849	272,083
Transfer from operations	36,465	34,729
Expenses	<u>(113)</u>	<u>(130)</u>
Balance, end of year	<u>\$ 343,201</u>	<u>\$ 306,682</u>

Capital Reserve Fund - Castle Arms Mattawa (Note 10)

Balance, beginning of year	\$ 24,704	\$ 19,124
Investment income	<u>56</u>	<u>103</u>
	24,760	19,227
Transfer from operations	6,000	5,590
Expenses	<u>(73)</u>	<u>(113)</u>
Balance, end of year	<u>\$ 30,687</u>	<u>\$ 24,704</u>

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

Castle Arms Non-Profit Apartment Corporation

Statement of Cash Flows

For the year ended December 31	2020	2019
Cash provided by (used in)		
Operating activities		
Excess of (expenses over revenues) revenues over expenses for the year	\$ 44,324	\$ (39,994)
Items not involving cash		
Amortization	838,996	806,665
Deferred capital contributions	(125,803)	(125,803)
	757,517	640,868
Changes in non-cash working capital balances		
Accounts receivable	262	(31,237)
Prepaid expenses	(27,336)	(6,590)
Accounts payable and accrued liabilities	(14,917)	4,761
	715,526	607,802
Financing activities		
Repayment of long-term debt	(711,217)	(678,888)
Transfer of surplus funds to reserve	(50,887)	(39,915)
Subsidy adjustments (Note 13)	50,887	39,915
	(711,217)	(678,888)
Increase (decrease) in cash and cash equivalents during the year	4,309	(71,086)
Cash and cash equivalents, beginning of year	712,876	783,962
Cash and cash equivalents, end of year	\$ 717,185	\$ 712,876

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

Castle Arms Non-Profit Apartment Corporation Notes to Financial Statements

December 31, 2020

1. Summary of Significant Accounting Policies

Nature of Corporation	The Corporation was incorporated under the laws of Ontario as a non-profit corporation without share capital on August 8, 1986. The primary purpose of the organization is to provide housing to senior citizens on a rent geared to income basis. The Corporation owns and operates four apartment buildings in North Bay and one in Mattawa, totaling 241 individual units.
Income Taxes	No provision is made for income taxes in these financial statements as the organization is a non-profit organization and is exempt from income tax.
Basis of Accounting	These financial statements have been prepared by the organization in accordance with significant accounting principles set out below to comply with the District of Nipissing Social Services Administration Board (DNSSAB). The basis of accounting used in these financial statements materially differ from Canadian accounting standards for not-for-profit organizations as described in the following:
a. Capital Assets	Capital assets financed from mortgage advances secured by Government funding agreements, or funded by Government contributions are recorded in an amount equal to aggregate of the mortgage advance and the initial capital contribution. Thereafter, amortization of the capital assets is equal to the annual principal reduction of the mortgages and a reduction in the capital contributions. All other approved capital assets are expensed in the applicable capital reserve fund.
b. Capital Reserve Fund	The Capital Reserve Fund is funded by approved transfers from operations. Capital expenses are charged to the respective fund when incurred. Investment income on fund assets is recorded as income in the respective fund. 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.

Castle Arms Non-Profit Apartment Corporation Notes to Financial Statements

December 31, 2020

1. Summary of Significant Accounting Policies (continued)

Revenue Recognition Rent revenue is recorded when earned each month in accordance with the accrual basis of accounting.

Subsidy revenue is recognized in the period to which the related expenditures were incurred. Any subsidy adjustments from prior years, if any, are recorded in the year in which they become known to the Corporation.

Other revenue is recorded when received.

**Deferred Capital
Contributions**

Deferred capital contributions represent restricted contributions relating directly to the capital assets. These contributions are amortized to revenue at rates corresponding to the full payment terms of the mortgages related to the specific capital assets. Amortization has therefore been recorded on a basis of a useful life of 30 years.

Financial Instruments Financial instruments are recorded at fair value when acquired or issued. The Corporation's financial assets consist of cash and cash equivalents, short term investments and accounts receivable. In subsequent periods they 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.

Use of Estimates The preparation of the financial statements in conformity with Canadian accounting standards for not-for-profit organizations required management to make estimates and assumptions that affect 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 periods. Estimates are used when determining year-end accruals. Actual results could differ from those estimates.

Castle Arms Non-Profit Apartment Corporation Notes to Financial Statements

December 31, 2020

2. Accounts Receivable

	2020	2019
HST receivable	\$ 43,271	\$ 45,990
Other receivables	3,111	654
	<u>\$ 46,382</u>	<u>\$ 46,644</u>

3. Capital Assets

	2020		2019	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 23,597	\$ -	\$ 23,597	\$ -
Castle Arms I	3,986,478	3,372,902	3,986,478	3,161,962
Castle Arms II	5,544,758	3,702,815	5,544,758	3,435,923
Castle Arms III	3,310,003	1,957,068	3,310,003	1,815,057
Castle Arms IV	7,728,150	1,400,547	7,728,150	1,224,654
Mattawa	1,936,993	439,076	1,936,993	395,819
	<u>\$22,529,979</u>	<u>\$10,872,408</u>	<u>\$ 22,529,979</u>	<u>\$ 10,033,415</u>
Net book value		<u>\$11,657,571</u>		<u>\$ 12,496,564</u>

4. Accounts Payable and Accrued Liabilities

	2020	2019
Accounts payable and accrued liabilities	<u>\$ 149,010</u>	<u>\$ 163,921</u>

Included in the above are government remittances payable of \$924 (2019 - \$Nil).

Castle Arms Non-Profit Apartment Corporation Notes to Financial Statements

December 31, 2020

5. Deferred Capital Contributions

Deferred capital contributions represent government funding received for the building of the Castle Arms IV and Mattawa locations, and are being recognized over the life of the mortgage:

	<u>2020</u>	<u>2019</u>
Balance, beginning of year	\$ 2,650,806	\$ 2,776,609
Less: amortization recorded during the year	<u>(125,803)</u>	<u>(125,803)</u>
Balance, end of the year	<u>\$ 2,525,003</u>	<u>\$ 2,650,806</u>

Castle Arms Non-Profit Apartment Corporation Notes to Financial Statements

December 31, 2020

6. Long-term Debt

	<u>2020</u>	<u>2019</u>
Castle Arms I mortgage bearing interest at 2.61%, repayable in blended monthly payments of \$19,186, until maturity in October 2023.	\$ 628,238	\$ 839,178
Castle Arms II mortgage bearing interest at 5.83%, repayable in blended monthly payments of \$31,772, until maturity in May 2024.	1,841,943	2,108,835
Castle Arms III mortgage bearing interest at 5.83%, repayable in blended monthly payments of \$18,694, until maturity in May 2024.	1,352,935	1,494,946
Castle Arms Mattawa mortgage bearing interest at 4.639%, repayable in blended monthly payments of \$4,030, until maturity in June 2021.	792,789	804,430
Castle Arms Mattawa mortgage bearing interest at 4.639%, repayable in blended monthly payments of \$1,107, until maturity in June 2021.	176,133	181,193
Castle Arms IV mortgage bearing interest at 4.639%, repayable in blended monthly payments of \$17,821, until maturity in June 2021.	3,505,599	3,557,090
Castle Arms IV mortgage bearing interest at 4.639%, repayable in blended monthly payments of \$5,072, until maturity in June 2021.	<u>807,571</u>	<u>830,753</u>
	9,105,208	9,816,425
Less: amounts due within one year included in current liabilities	<u>5,931,664</u>	<u>711,218</u>
	<u>\$ 3,173,544</u>	<u>\$ 9,105,207</u>

Castle Arms Non-Profit Apartment Corporation Notes to Financial Statements

December 31, 2020

6. Long-term Debt (continued)

The long-term liabilities are secured in part by a first charge on the capital assets of the corporation.

Principal repayments for the next four years assuming similar renewal terms are as follows:

2021	\$ 5,931,664
2022	680,875
2023	675,432
2024	1,111,485
2025	705,752
	\$ 9,105,208

7. Government Grants

During the year, the Corporation received \$942,755 (2019 - \$829,058) in financial assistance to assist the organization in providing housing to seniors on a rent geared to income basis. The agreements are administered by the local government through the District of Nipissing Social Services Administration Board (DNSSAB).

8. Management Contract / Related Party Transactions

The organization utilizes the administrative services of East Nipissing District Home for the Aged ("Cassellholme") and certain employees, Cassellholme is related through common control. The organization pays management fees to Cassellholme and certain Cassellholme employees for the provision of administrative services. Included in administrative overhead are management fees totaling \$118,440 (2019 - \$107,800).

9. Surplus Capital Funds

In a previous year, the Ministry of Municipal Affairs and Housing requested that the organization forward to the Province of Ontario Savings office the surplus capital funds relating to Castle Arms III. Consequentially, \$7,658 was transferred and will be held on behalf of the organization to be applied against the principal amount of the related mortgage on renewal on May 1, 2024.

Castle Arms Non-Profit Apartment Corporation

Notes to Financial Statements

December 31, 2020

10. Capital Reserve Fund

Under the terms of the agreement with the Ministry of Municipal Affairs and Housing, capital reserve funds are to be maintained and amounts approved by the Ministry of Municipal Affairs and Housing are to be deposited into this fund annually. For the year ended December 31, 2020, \$263,141 (2019 - \$189,520) was deposited into the funds from operations. The funds along with accumulated interest must be held in separate bank accounts and/or invested in accounts or instruments insured by Canada Deposit Insurance Corporation or as may otherwise be approved by the Ministry of Municipal Affairs and Housing. The funds are available to finance approved capital asset replacements. Withdrawals are credited to interest first and then principal. At December 31, 2020 the assets of the capital reserve funds consisted of the following:

	2020	2019
Cash in bank	\$ 762,047	\$ 559,557
Investments (i)	711,182	677,088
	<u>\$ 1,473,229</u>	<u>\$ 1,236,645</u>

(i) Investments are held in short-term bond fund units.

Castle Arms Non-Profit Apartment Corporation Notes to Financial Statements

December 31, 2020

11. Financial Instruments

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 exposed to credit risk resulting from the possibility that a customer or counterparty to a financial instrument defaults on their financial obligations; if there is a concentration of transactions carried out with the same counterparty; or of financial obligations which have similar economic conditions. The Corporation's financial instruments that are exposed to concentrations of credit risk relate primarily to cash and accounts receivable. The Corporation's cash and cash equivalents are all held at a major financial institution. The Corporation maintains cash and cash equivalents in excess of federally insured limits and is therefore exposed to credit risk from this concentration of cash and cash equivalents.

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 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 accounts payable and mortgages payable.

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 exposed to interest rate risk on its fixed interest rate financial instruments. Fixed-interest instruments subject the corporation to a fair value risk.

The corporation mitigates interest rate risk on investments by diversifying the durations of the fixed-income investments that are held at a given time.

There has been no change in the risk assessment of the Corporation from the previous year.

Castle Arms Non-Profit Apartment Corporation Notes to Financial Statements

December 31, 2020

12. Revenues

	2020	2019
Market rent revenue	\$ 1,217,648	\$ 1,200,803
Geared to income rent revenue	795,994	797,164
Government subsidies (Note 7)	942,755	829,058
Amortization of deferred capital contributions	125,803	125,803
Other revenue	118,964	84,802
	<u>\$ 3,201,164</u>	<u>\$ 3,037,630</u>

13. Government Subsidy Adjustments

Prior year settlement

	2020	2019
December 31, 2018 DNSSAB settlement receivable	\$ -	\$ 39,915
December 31, 2019 DNSSAB settlement receivable	50,887	-
	<u>\$ 50,887</u>	<u>\$ 39,915</u>

Each year, the corporation completes year end settlement forms to estimate the amount that is receivable or payable to the District of Nipissing Social Services Administration Board at year end. These amounts are recorded as an adjustment to the statement of operations in the year that the amounts become determinable. Subsequent settlements of prior year ends that vary from the estimated settlement are recorded as adjustments to unrestricted net assets in the year the settlement occurs.

14. Uncertainty due to COVID-19

During the year end, the impact of COVID-19 in Canada and on the global economy increased significantly. As the impacts of COVID-19 continue, there could be further impact on the corporation, its tenants, employees, suppliers and other third party funders which could impact the timing and amounts realized on the corporation's assets and future ability to deliver services. At this time, the full potential impact of COVID-19 on the corporation is not known.

The corporation experienced an increase in labour and related costs due to requirement for increased housekeeping expenses under COVID 19 protocol.

