

Niverville Heritage PCH Inc.
Financial Statements
March 31, 2020

Independent Auditor's Report

To the Board of Directors of Niverville Heritage PCH Inc.:

Opinion

We have audited the financial statements of Niverville Heritage PCH Inc. (the "Home"), which comprise the statement of financial position as at March 31, 2020, and the statements of operations, changes in net assets (deficit) 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 the Home as at March 31, 2020, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

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 the Home 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.

Other Information

Management is responsible for the other information. The other information comprises the annual report (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained the annual report prior to the date of this auditor's report. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 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 Home'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 the Home or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Home'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 the Home'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 Home'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 Home 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.

Winnipeg, Manitoba

May 20, 2020

MNP LLP

Chartered Professional Accountants

Niverville Heritage PCH Inc.
Statement of Financial Position

As at March 31, 2020

| | 2020 | 2019 |
|---|--------------------|--------------------|
| Assets | | |
| Current | | |
| Cash (Note 4) | 538,283 | 628,871 |
| Restricted cash | - | 87,400 |
| Accounts receivable (Note 5) | 111,666 | 114,300 |
| Prepaid expenses and deposits | 4,381 | 2,160 |
| | 654,330 | 832,731 |
| Advances to related parties (Note 6) | 553,570 | 800,612 |
| Capital assets (Note 7) | 10,107,030 | 10,441,887 |
| | 11,314,930 | 12,075,230 |
| Liabilities | | |
| Current | | |
| Accounts payable and accruals (Note 8) | 769,627 | 690,086 |
| Advances from related party (Note 9) | - | 327,844 |
| Current portion of long-term debt (Note 10) | 246,000 | 278,000 |
| | 1,015,627 | 1,295,930 |
| Long-term debt (Note 10) | 10,881,092 | 11,087,539 |
| Deferred contributions related to capital assets (Note 11) | 880,601 | 950,208 |
| | 12,777,320 | 13,333,677 |
| Subsequent event (Note 16) | | |
| Net Assets (Deficit) | | |
| Unrestricted deficit | (1,462,390) | (1,345,847) |
| Internally restricted for future capital assets | - | 87,400 |
| | (1,462,390) | (1,258,447) |
| | 11,314,930 | 12,075,230 |

Approved on behalf of the Board

Original Document Signed

Director

Original Document Signed

Director

Original Document Signed

Director

Original Document Signed

Director

Original Document Signed

Director

Original Document Signed

Director

Original Document Signed

Director

Original Document Signed

Director

Original Document Signed

Director

The accompanying notes are an integral part of these financial statements

Niverville Heritage PCH Inc.
Statement of Operations
For the year ended March 31, 2020

| | 2020 | 2019 |
|---|------------------|------------------|
| <hr/> | | |
| Revenues | | |
| Southern Health - Sante Sud Inc. | 5,823,648 | 5,834,563 |
| Rental income | 1,504,655 | 1,465,475 |
| Other revenue | 175,118 | 197,335 |
| | <hr/> | <hr/> |
| | 7,503,421 | 7,497,373 |
| <hr/> | | |
| Expenses | | |
| Advertising and promotion | 6,170 | 12,655 |
| Bad debts | 6,904 | 1,360 |
| Bank charges and interest | 7,092 | 5,308 |
| Food services | 799,125 | 801,872 |
| Insurance | 78,005 | 48,064 |
| Interest on long-term debt | 307,554 | 313,146 |
| Medical supplies and equipment | 126,725 | 123,592 |
| Office supplies and services | 67,186 | 84,904 |
| Professional and management fees | 51,519 | 51,108 |
| Property taxes | 55,008 | 55,008 |
| Repairs and maintenance | 220,620 | 216,307 |
| Resident expenses | 170,755 | 163,460 |
| Salaries and benefits | 5,264,896 | 5,247,795 |
| Telephone and internet | 36,079 | 35,595 |
| Utilities | 198,542 | 181,337 |
| | <hr/> | <hr/> |
| | 7,396,180 | 7,341,511 |
| <hr/> | | |
| Excess of revenue over expenses before other items | 107,241 | 155,862 |
| <hr/> | | |
| Other items | | |
| Amortization of deferred contributions related to capital assets <i>(Note 11)</i> | 69,607 | 44,002 |
| Amortization | (380,791) | (592,184) |
| | <hr/> | <hr/> |
| | (311,184) | (548,182) |
| <hr/> | | |
| Deficiency of revenues over expenses | (203,943) | (392,320) |
| <hr/> | | |

Niverville Heritage PCH Inc.
Statement of Changes in Net Assets (Deficit)
For the year ended March 31, 2020

| | <i>Unrestricted</i> | <i>Internally restricted for future capital assets</i> | 2020 | <i>2019</i> |
|--|---------------------|--|--------------------|-------------|
| Net assets (deficit), beginning of year | (1,345,847) | 87,400 | (1,258,447) | (866,127) |
| Deficiency of revenues over expenses | (203,943) | - | (203,943) | (392,320) |
| Transfers (Note 13) | 87,400 | (87,400) | - | - |
| Net assets (deficit), end of year | (1,462,390) | - | (1,462,390) | (1,258,447) |

Niverville Heritage PCH Inc.
Statement of Cash Flows
For the year ended March 31, 2020

| | 2020 | 2019 |
|--|------------------|-------------|
| Cash provided by (used for) the following activities | | |
| Operating | | |
| Deficiency of revenues over expenses | (203,943) | (392,320) |
| Amortization of capital assets | 380,791 | 592,184 |
| Amortization of deferred contributions related to capital assets | (69,607) | (44,002) |
| Bad debts | 6,904 | 1,360 |
| | 114,145 | 157,222 |
| Changes in working capital accounts | | |
| Accounts receivable | (4,270) | (80,178) |
| Prepaid expenses and deposits | (2,221) | 3,765 |
| Accounts payable and accruals | 79,541 | (91,162) |
| | 187,195 | (10,353) |
| Financing | | |
| Advances from related party | - | 3,447 |
| Repayment of advances from related party | (327,844) | - |
| Repayment of long-term debt | (238,447) | (232,854) |
| Repayment of advances to related party | 247,042 | - |
| | (319,249) | (229,407) |
| Investing | | |
| Purchase of capital assets | (45,934) | (51,208) |
| Decrease in restricted cash, net | 87,400 | 85,000 |
| | 41,466 | 33,792 |
| Decrease in cash resources | (90,588) | (205,968) |
| Cash resources, beginning of year | 628,871 | 834,839 |
| Cash resources, end of year | 538,283 | 628,871 |

The accompanying notes are an integral part of these financial statements

1. Incorporation and nature of the organization

Niverville Heritage PCH Inc. (the "Home") is a not-for-profit organization, incorporated under the laws of the Province of Manitoba. The Home is principally involved in providing licensed personal care services to 80 residents, operating under a service purchase agreement with Southern Health - Sante Sud Inc. ("SH-SS").

The Home qualifies as a not-for-profit organization as defined in the Income Tax Act of Canada and, as such, is exempt from income under section 149(1)(l) of the Income Tax Act.

2. Change in accounting policy

Capital Assets Held by Not-for-Profit Organizations

Effective April 1, 2019, the Home adopted the Accounting Standard Board's (AcSB) new accounting standards improvements for not-for-profit organizations related to capital assets under Section 4433 *Tangible Capital Assets Held by Not-for-Profit Organizations*. Applying this new Section results in changes to the determination of impairment and write-downs of capital assets and allows for the recognition of partial impairments of these assets. The Home elected under the transitional provisions to apply the requirements for componentization and recognize partial impairments of capital assets existing at the date of initial application.

Pursuant to the transitional provisions, this change was applied prospectively, and the prior periods have not been restated. The impact of this change in accounting policy for March 31, 2020 was nil.

3. Significant accounting policies

The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations set out in Part III of the CPA Canada Handbook - Accounting, as issued by the Accounting Standards Board in Canada using the following significant accounting policies:

Cash

Cash includes balances with banks and short-term investments with original maturities of three months or less. Cash subject to restrictions that prevent its use for current purposes is included in restricted cash.

Capital assets

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution if fair value can be reasonably determined.

Amortization is provided using the straight-line method at the following rates intended to amortize the cost of assets over their estimated useful lives.

| | Rate |
|-------------------------|-------------|
| Building | 30 years |
| Furniture and equipment | 3-5 years |

Revenue recognition

The Home follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Under the Health Insurance Act and regulations hereto, the Home is funded primarily by SH-SS in accordance with budget arrangements established by the Province of Manitoba. Operating grants are recorded as revenue in the period in which they relate. The financial statements reflect arrangements approved by SH-SS with respect to the year ended March 31, 2020.

Residential rent revenue and other revenue are recognized when the services are provided and collection is reasonably assured.

3. **Significant accounting policies** *(Continued from previous page)*

Deferred contributions related to capital assets

Deferred contributions related to capital assets represent the unamortized portion of contributed capital assets and restricted contributions that were used to purchase the Home's capital assets. Recognition of these amounts as revenue is deferred to periods when the related capital assets are amortized.

Government assistance

Claims for assistance under various government grant programs are recorded as a reduction of the cost of related asset in the period in which eligible expenditures are incurred, with any amortization calculated on the net amount.

Contributed services

A substantial number of volunteers contribute a significant amount of their time each year. Because of the difficulty of determining the fair value, contributed services are not recognized in the financial statements.

Long-lived assets

Long-lived assets consist of capital assets. Long-lived assets held for use are measured and amortized as described in the applicable accounting policies.

When the Home determines that a long-lived asset no longer has any long-term service potential to the Home, the excess of its net carrying amount over any residual value is recognized as an expense in the statement of operations. Write-downs are not reversed.

Measurement uncertainty (use of estimates)

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 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.

Accounts receivable and advances to related parties are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. No allowance was recorded in the current year. Amortization and deferred contributions are based on the estimated useful lives of capital assets.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in deficiency of revenue over expenses in the periods in which they become known.

Financial instruments

The Home recognizes its financial instruments when the Home becomes party to the contractual provisions of the financial instrument. All financial instruments are initially recorded at their fair value, including financial assets and liabilities originated and issued in a related party transaction with management. Financial assets and liabilities originated and issued in all other related party transactions are initially measured at their carrying or exchange amount in accordance with Section 3840 *Related Party Transactions*.

At initial recognition, the Home may irrevocably elect to subsequently measure any financial instrument at fair value. The Home has not made such an election during the year. All financial instruments are subsequently measured at amortized cost.

Transaction costs and financing fees directly attributable to the origination, acquisition, issuance or assumption of financial instruments subsequently measured at fair value are immediately recognized in the excess of revenues over expenses for the current period. Conversely, transaction costs and financing fees are added to the carrying amount for those financial instruments subsequently measured at cost or amortized cost.

3. Significant accounting policies *(Continued from previous page)*

Financial asset impairment:

The Home assesses impairment of all of its financial assets measured at cost or amortized cost. The Home groups assets for impairment testing when available information is not sufficient to permit identification of each individually impaired financial asset in the group; there are numerous assets affected by the same factors; no asset is individually significant, etc. Management considers whether the issuer is having significant financial difficulty; whether there has been a breach in contract, such as a default or delinquency in interest or principal payments; etc. in determining whether objective evidence of impairment exists. When there is an indication of impairment, the Home determines whether it has resulted in a significant adverse change in the expected timing or amount of future cash flows during the year. If so, the Home reduces the carrying amount of any impaired financial assets to the highest of: the present value of cash flows expected to be generated by holding the assets; the amount that could be realized by selling the assets; and the amount expected to be realized by exercising any rights to collateral held against those assets. Any impairment, which is not considered temporary, is included in current year excess of revenues over expenses.

The Home reverses impairment losses on financial assets when there is a decrease in impairment and the decrease can be objectively related to an event occurring after the impairment loss was recognized. The amount of the reversal is recognized in the deficiency of revenues over expenses in the year the reversal occurs.

4. Line of credit

The Home has an operating line of credit authorized up to \$150,000 (2019 - \$150,000) bearing interest at prime plus 1%. The prime rate is 4.15% (2019 - 4.50%). As at March 31, 2020 the line of credit is at \$nil.

5. Accounts receivable

| | 2020 | 2019 |
|-----------------------------------|----------------|-------------|
| Government remittances receivable | 73,947 | 71,445 |
| Other receivables | 37,719 | 42,855 |
| | 111,666 | 114,300 |

6. Advances to related parties

The advances bear no interest, are unsecured, and have no fixed terms of repayment. The organizations are related through common control.

| | 2020 | 2019 |
|--------------------------------------|----------------|-------------|
| Niverville Heritage Holdings Inc. | 553,570 | - |
| Heritage Life Retirement Living Inc. | - | 800,612 |
| | 553,570 | 800,612 |

These transactions were conducted in the normal course of operations and are recorded at their exchange amount which is the amount of consideration established and agreed upon by the related companies.

Niverville Heritage PCH Inc.
Notes to the Financial Statements
For the year ended March 31, 2020

7. Capital assets

| | <i>Cost</i> | <i>Accumulated amortization</i> | <i>2020 Net book value</i> |
|-------------------------|-------------------|-------------------------------------|------------------------------------|
| Land leasehold | 400,000 | - | 400,000 |
| Building | 12,260,086 | 2,647,099 | 9,612,987 |
| Furniture and equipment | 957,296 | 863,253 | 94,043 |
| | 13,617,382 | 3,510,352 | 10,107,030 |
| | | | |
| | <i>Cost</i> | <i>Accumulated amortization</i> | <i>2019 Net book value</i> |
| Land leasehold | 400,000 | - | 400,000 |
| Building | 12,251,783 | 2,238,562 | 10,013,221 |
| Furniture and equipment | 919,665 | 890,999 | 28,666 |
| | 13,571,448 | 3,129,561 | 10,441,887 |

The Home is the registered owner of a land leasehold estate from May 1, 2006. The lease term is for fifty years with the option to renew for an additional fifty years. The Home has the first right of refusal to purchase the land. The basis annual rent is \$1 per year and the Home shall pay all taxes and fees.

8. Accounts payable and accruals

| | <i>2020</i> | <i>2019</i> |
|---|----------------|-------------|
| Trade payables and accruals | 260,086 | 170,906 |
| Government remittances | 52,200 | 50,026 |
| Salaries payable | 170,944 | 142,444 |
| Vacation payable | 286,397 | 281,217 |
| Payable to Southern Health - Sante Sud Inc. | - | 45,493 |
| | 769,627 | 690,086 |

9. Advances from related party

| | <i>2020</i> | <i>2019</i> |
|-----------------------------------|-------------|-------------|
| Niverville Heritage Holdings Inc. | - | 327,844 |

The advance payable bears no interest, is unsecured and has no fixed terms of repayment. The organizations are related by virtue of common control.

These transactions were conducted in the normal course of operations and are recorded at their exchange amount which is the amount of consideration established and agreed upon by the related companies.

Niverville Heritage PCH Inc.
Notes to the Financial Statements
For the year ended March 31, 2020

10. Long-term debt

| | 2020 | 2019 |
|--|-------------------|------------|
| Mortgage payable bearing fixed interest at 2.74% (2019 - 2.74%) at March 31, 2020, repayable in monthly payments of \$45,500, including interest, with an amortization period ending January 2047, secured by a demand promissory note in the amount of \$12,800,000 and a first charge on property. | 11,127,092 | 11,365,539 |
| Less: current portion | 246,000 | 278,000 |
| | 10,881,092 | 11,087,539 |

Future estimated principal payments in the next five years are estimated as follows:

| | |
|------|---------|
| 2021 | 246,000 |
| 2022 | 253,000 |
| 2023 | 260,000 |
| 2024 | 267,000 |
| 2025 | 275,000 |

11. Deferred contributions related to capital assets

Deferred capital contributions consist of the unamortized amount of contributions received for the purchase of capital assets. Recognition of these amounts as revenue is deferred to periods when the related capital assets are amortized. Changes in deferred capital contributions are as follows:

| | 2020 | 2019 |
|---|-----------------|----------|
| Balance, beginning of year | 950,208 | 994,210 |
| Less: amounts recognized as revenue during the year | (69,607) | (44,002) |
| Balance, end of year | 880,601 | 950,208 |

12. Related party transactions

The following expenses were paid to Niverville Heritage Holdings Inc., a related party as described in Note 6 and 9.

| | 2020 | 2019 |
|----------------------------------|------------------|-----------|
| Food services | 783,354 | 775,046 |
| Office supplies and services | 29,776 | 28,628 |
| Professional and management fees | 31,708 | 31,235 |
| Repairs and maintenance | 128,907 | 114,566 |
| Salaries and benefits | 228,105 | 239,523 |
| Telephone and internet | 29,952 | 29,635 |
| Utilities | 141,298 | 135,898 |
| | 1,373,100 | 1,354,531 |

These expenses were conducted in the normal course of operations and measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

13. Transfers

During the year the Chief Officer of Finance approved transfers of \$87,400 (2019 - \$85,000), that had previously been approved by the Board of Directors, from internally restricted for future capital assets as follows:

\$87,400 (2019 - \$85,000) transferred to unrestricted to fund current operations.

14. Financial instruments

The Home, as part of its operations, carries a number of financial instruments. It is management's opinion that the Home is not exposed to significant interest, currency, credit, liquidity or other price risks arising from these financial instruments except as otherwise disclosed.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk.

The Home is exposed to interest rate cash flow risk with respect to its line of credit and long-term debt which are subject to a floating interest rate based on bank prime rate plus 1% and fixed interest rate at 2.74%, respectively.

Credit concentration

As at March 31, 2020, one organization accounted for 74% (2019 - one organization accounted for 79%) of revenues from operations and two organizations accounted for 65% (2019 - one organization accounted for 74%) of the accounts receivable. The Home believes that there is no unusual exposure associated with the collection of these receivables. The Home performs regular credit assessments of its customers and provides allowances for potentially uncollectible accounts receivable.

15. Economic dependence

A significant portion of the Home's operating funds are provided by Southern Health - Sante Sud Inc. and its ability to continue viable operations is dependent upon maintaining this funding.

16. Subsequent event

Subsequent to year-end, there was a global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Home as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus.