Financial statements of
Cathedral Hill Foundation

December 31, 2022

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Independent Auditor's Report

To the Directors of
Cathedral Hill Foundation

Qualified Opinion

We have audited the financial statements of Cathedral Hill Foundation (the "Foundation"), which comprise the statement of financial position as at December 31, 2022, and the statements of revenue and expenses, 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 (collectively referred to as the "financial statements").

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 Foundation as at December 31, 2022, 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 Qualified Opinion

In common with other not-for-profit organizations, the Foundation receives significant contributions in the form of capital assets, the completeness, valuation and cut-off of which is not susceptible to satisfactory audit verification. Accordingly, our verification of contributed capital assets and the related deferred capital contributions was limited to the amounts recorded in the records of the Foundation and we were not able to determine whether any adjustments might be necessary to capital assets and deferred capital contributions as at December 31, 2022 and 2021, and amortization of capital assets and deferred contributions for the years ended December 31, 2022 and 2021. Our audit opinion on the financial statements for the year ended December 31, 2021 was modified accordingly because of the possible effects of this scope limitation.

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). 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 Foundation 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 audit opinion.

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

Those charged with governance are responsible for overseeing the Foundation'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 GAAS 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 GAAS, 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 Foundation'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 Foundation'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 Foundation 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.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
June 28, 2023

Cathedral Hill Foundation
Statement of financial position
As at December 31, 2022

	Notes	2022 $	2021 $
Assets			
Current assets			
Cash		**1,619,449**	409,046
Direct leasing costs	3	**586,538**	568,897
Investment in the CTF	4	**2,767,658**	3,287,782
Capital assets	5	**2,175,247**	2,259,283
		7,148,892	6,525,008
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**425,629**	181,000
Due to Windmill Green Fund LLP III	7	**24,511**	24,511
Due to the Incorporated Synod of the Diocese of Ottawa	8	**646,800**	492,007
Due to the Christ Church Cathedral		**250,000**	—
		1,346,940	697,518
Deferred capital contributions	6	**814,287**	841,774
Deferred leasing revenue	9	**4,113,460**	4,179,922
		6,274,687	5,719,214
Contingent liabilities	10		
Net assets			
Christ Church Cathedral (CCC)		**237,103**	260,398
Incorporated Synod of the Diocese of Ottawa (Synod)		**637,102**	545,396
		874,205	805,794
		7,148,892	6,525,008

The accompanying notes are an integral part of the financial stateme -

On behalf of the Board

Chair, Director

VICE CHAIR, Director

Cathedral Hill Foundation
Statement of revenue and expenses
Year ended December 31, 2022

	Notes	2022 $	2021 $
Revenue			
Parking revenue	9	**1,440,000**	115,000
Interest and investment income		**115,402**	87,855
Amortization of deferred capital contributions		**27,487**	27,487
Leasing revenue	9	**21,462**	21,462
		1,604,351	251,804
Expenses			
Property taxes	10	**244,627**	137,584
Outdoor parking	9	**30,000**	25,000
Amortization of capital assets		**84,036**	84,040
Legal fees		**18,419**	26,026
Insurance		**15,742**	11,594
Audit fees		**4,000**	4,000
Amortization of direct leasing costs		**2,283**	2,283
Miscellaneous expenses		**1,709**	—
		400,816	290,527
Excess (deficiency) of revenue over expenses before change in fair value and distributions		**1,203,535**	(38,723)
Change in fair value of investments		**(520,124)**	249,108
Excess of revenue over expenses before distributions		**683,411**	210,385
Distribution to CCC		**(365,000)**	(110,000)
Distribution to Synod		**(250,000)**	—
Excess of revenue over expenses		**68,411**	100,385

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

Cathedral Hill Foundation

Statement of changes in net assets

Year ended December 31, 2022

	Notes	CCC $	Synod $	2022 $
Balance, beginning of year		**260,398**	**545,396**	**805,794**
Deficiency (excess) of revenue over expenses before distributions		**341,705**	**341,706**	**683,411**
Distributions		**(365,000)**	**(250,000)**	**(615,000)**
Balance, end of year		**237,103**	**637,102**	**874,205**

	Notes	CCC $	Synod $	2021 $
Balance, beginning of year		**265,205**	**440,204**	**705,409**
Excess of revenue over expenses before distributions	13	**105,193**	**105,192**	**210,385**
Distributions	13	**(110,000)**	**—**	**(110,000)**
Balance, end of year		**260,398**	**545,396**	**805,794**

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

Cathedral Hill Foundation

Statement of cash flows

Year ended December 31, 2022

	Notes	2022	2021
		$	$
Operating activities			
Deficiency (excess) of revenue over expenses		**68,411**	100,385
Items not affecting cash			
Amortization of capital assets		**84,036**	84,040
Amortization of direct leasing costs	3	**2,283**	2,283
Amortization of deferred capital contributions		**(27,487)**	(27,487)
Recognition of deferred leasing revenue		**(45,000)**	
Change in fair value of investments	4	**520,124**	(249,108)
		602,367	(89,887)
Changes in non-cash operating working capital items			
Deferred leasing revenue	9	**(21,462)**	(21,462)
Due to the Incorporated Synod of the Diocese of of Ottawa	8	**154,793**	206,148
Due to Christ Church Cathedral	8	**250,000**	
Prepaid expenses			
Accounts payable and accrued liabilities		**244,629**	141,584
		1,230,327	236,383
Investing activity			
Increase in direct leasing costs	3	**(19,924)**	(33,528)
Net cash inflow		**1,210,403**	202,855
Cash, beginning of year		**409,046**	206,191
Cash, end of year		**1,619,449**	409,046

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

1. Nature, tax status and purpose of the foundation

Cathedral Hill Foundation (the "Foundation") is incorporated under the *Canada Not-for-Profit Corporations Act*. For taxation purposes it is a public foundation and is registered as a charity. As such, the Foundation is exempt from income tax under Section 149.1(f) of the *Income Tax Act*. The Foundation commenced operations in 2011.

The Foundation is a joint arrangement between Christ Church Cathedral ("CCC") and The Incorporated Synod of the Diocese of Ottawa ("Synod").

The Foundation's purpose is to receive by gift, bequest, devise, transfer or otherwise, property of every nature and description, including land, to hold, administer and invest it and to apply or distribute all or part of the principal and income derived from the property, from time to time, equally to the CCC and the Synod.

2. Significant accounting policies

The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit-organizations and include the following significant accounting policies:

Revenue recognition

The Foundation 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. Interest earned on contributions is recognized as unrestricted income.

Contributions received in the form of capital assets that will be amortized are deferred and recognized as revenue on the same basis as the amortization expense related to the contributed capital assets. Contributions received in the form of capital assets that will not be amortized are recognized as a direct increase in the fund balance.

Capitalized direct leasing costs

Initial direct leasing costs related to long-term operating leases are capitalized and amortized as an expense on a straight-line basis over the term of the lease plus one renewal period. Amortization commences once the lease agreement is finalized, and revenue is being recognized in accordance with the terms of the agreement.

Contributed materials and services

Contributed materials and services are recorded as revenue and expense, when the fair value can be reasonably estimated and when the materials and services are used in the normal course of the Foundation's operations and would otherwise have been purchased. Services contributed by volunteers are not recorded as their fair values cannot be reasonably determined.

Capital assets

Capital assets that are purchased are carried at cost, less any write-downs for impairment. Contributions received in the form of capital assets are recorded at fair value if the asset would normally have been acquired, otherwise it is recorded at a value of nil.

Property assets, including significant masonry repairs, are amortized on a straight-line basis over forty years. Renovations and kitchen appliances are amortized on a straight-line basis over ten years. Land is not amortized due to its indefinite useful life.

2. Significant accounting policies (continued)

Capital assets (continued)

Capital assets under construction or development are carried at cost, less any write-downs for impairment. Amortization of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Financial instruments

Financial instruments consist of cash, investments, loans and accounts receivable, and accounts payable and accrued liabilities.

Initial measurement

Financial assets and financial liabilities originated or exchanged in arm's length transactions are initially recognized at fair value when the Foundation becomes a party to the contractual provisions of the financial instrument. Financial assets and financial liabilities originated or exchanged in related party transactions, except for those that involve parties whose sole relationship with the Foundation is in the capacity of management, are initially recognized at cost.

The cost of a financial instrument in a related party transaction depends on whether the instrument has repayment terms. The cost of financial instruments with repayment terms is determined using its undiscounted cash flows, excluding interest and dividend payments, less any impairment losses previously recognized by the transferor. The cost of financial instruments without repayment terms is determined using the consideration transferred or received by the Foundation in the transaction.

Subsequent measurement

All financial instruments are subsequently measured at amortized cost except for the following:

(a) Investments in unlisted shares, which are measured at cost less any reduction for impairment;

(b) Investments in listed shares and derivative financial instruments that are not designated in a qualifying hedging relationship, which are measured at fair value at the balance sheet date. The fair value of listed shares is based on the latest closing price, and the fair value quote received from the bank counterparty is used as a proxy for the fair value of derivative financial instruments.

Interest earned on short-term investments and bonds, dividends received on unlisted shares, unrealized gains and losses on listed shares, and realized gains and losses on sales of short-term investments and bonds are included in Other income in the statement of earnings.

Transaction costs

Transaction costs related to financial instruments subsequently measured at fair value are expensed as incurred. Transaction costs related to other financial instruments are added to the carrying value of the asset or netted against the carrying value of the liability and are then recognized over the expected life of the instrument using the effective interest method.

2. Significant accounting policies (continued)

Financial instruments (continued)

Impairment

With respect to financial assets measured at cost or amortized cost, the Foundation recognizes an impairment loss, if any, in net earnings when there are indicators of impairment, and it determines that a significant adverse change has occurred during the period in the expected timing or amount of future cash flows. When the extent of impairment of a previously written-down asset decreases and the decrease can be related to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to net earnings in the period the reversal occurs.

Related party transactions

Related party transactions in the normal course of business are measured at the exchange amount.

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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Management estimates include amortization of indirect leasing costs, useful life of capital assets, contributed capital assets, the amount of certain accrued liabilities, and deferred capital contributions. Actual results could differ from these estimates.

3. Direct leasing costs

The ground lease agreement with Windmill Green Fund LLP III is operating in nature, and as such initial direct costs associated with the operating lease have been capitalized as an asset and are being amortized to expense over 199 years. Amortization commenced on September 1, 2015. As at December 31, 2022, the unamortized balance was $437,872 ($440,155 in 2021) During the year, $2,283 ($2,283 in 2021) was amortized.

In 2017, a lease with a second party was entered into, legal costs totaling $148,666 ($128,742 in 2021) related to that lease have been capitalized of which $19,924 was capitalized in 2022 ($33,528 in 2021).

4. Investment in the Consolidated Trust Fund (CTF)

The Foundation's investments consist of units held in the CTF. Changes in the investment balance during the year were as follows:

	2022	2021
	$	$
Balance, beginning of year	**3,287,782**	3,038,674
Investment income	**106,760**	87,855
Change in fair value	**(520,124)**	249,108
Less: withdrawals	**(106,760)**	(87,855)
Total investment	**2,767,658**	3,287,782

4. Investment in the Consolidated Trust Fund (CTF) (continued)

Investment risk

Investment in financial instruments renders the Foundation subject to investment risks. These include the risks arising from changes in interest rates, in rates of exchange for foreign currency, and in equity markets both domestic and foreign. They also include the risks arising from the failure of a counterparty to a financial instrument to discharge an obligation when it is due.

The CTF has adopted investment policies, standards and procedures to control the amount of risk to which it is exposed. The investment practices of the CTF are designed to avoid undue risk of loss and impairment of assets and to provide a reasonable expectation of fair return given the nature of the investments. The maximum investment risk to the Foundation is represented by the market value of the investments.

(a) *Concentration risk*

Concentration risk exists when a significant proportion of the portfolio is invested in securities with similar characteristics or subject to similar economic, political or other conditions. The relative proportions of the types of investments in the portfolio are as follows:

	% of fair value	
	2022	2021
	$	$
Cash	**5**	2
Fixed income		
Canadian - mutual funds	**19**	19
International – mutual funds	**16**	15
	35	34
Equities		
Canadian	**21**	20
U.S.	**9**	10
International	**30**	34
	60	64
	100	100

(b) *Foreign currency risk*

Foreign currency exposure arises from the CTF's holdings of non-Canadian denominated investments, which as noted above represented 55% (59% in 2021) of the total portfolio. The Foundation does not enter into financial hedges for managing foreign currency risks.

(c) *Interest rate risk*

Interest rate risk occurs when CTF is exposed to interest rate risk arising from fluctuations in interest rates depending on prevailing rates at renewal. To manage interest rate exposure, CTF invests not only in fixed income securities but also in equities.

5. Capital assets

	Cost	Accumulated amortization 2022	2022 Net book value	2021 Net book value
	$	$	$	$
Land	**315,632**	**—**	**315,632**	315,632
Cathedral Hall	**1,036,097**	**208,941**	**827,156**	853,058
Roper House renovations	**161,045**	**161,045**	**—**	16,103
Masonry repairs to Cathedral	**140,265**	**35,066**	**105,199**	108,705
Forecourt lighting	**29,206**	**14,603**	**14,603**	17,523
Kitchen appliances	**80,000**	**64,000**	**16,000**	24,000
Parking spaces (25)	**948,317**	**179,627**	**768,690**	792,397
Archives	**155,900**	**27,933**	**127,967**	131,865
	2,866,462	**691,215**	**2,175,247**	2,259,283

6. Deferred capital contributions

Changes in the deferred contributions balance during the year are as follows:

	2022	2021
	$	$
Balance, beginning of year	**841,774**	869,261
Amount recognized as revenue	**(27,487)**	(27,487)
Balance, end of year	**814,287**	841,774

7. Due to Windmill Green Fund LLP III

On January 22, 2011, the Foundation entered into a 99-year ground lease ("lease") with a development company, Windmill Green Fund LLP III ("Windmill") with an option to extend the lease for a further 100 years. Windmill constructed residential and commercial properties ("development") on land owned by the Synod and CCC.

As part of the lease agreement, Windmill renovated some of the Synod and CCC properties; rebuilt the Cathedral Hall; provided 25 parking spaces in the new condominium development and provided space for the Diocesan Archives. As at December 31, 2022 and 2021, the balance owing to Windmill is $24,511.

These amounts are to be repaid by the Foundation on, or before, the tenth anniversary of the expiry of the construction period. The expiry of the construction period for purposes of the contract is August 31, 2015. There shall be no interest or other fee payable by the Foundation with respect to repayments made to Windmill on or before the fifth (5th) anniversary of the expiry of the construction period, but if the Foundation elects to delay, in whole or in part, the repayment to a date beyond the fifth (5th) anniversary of the expiry of the construction period, interest shall accrue on unpaid amounts at an annual rate of interest equal to the average rate of return on the Consolidated Trust Fund for the previous twelve (12) month period.

8. Related party transactions

The Foundation is jointly controlled by the Synod and CCC, as both parties have the right to appoint an equal number of directors to the Board of Directors. In addition to related party transactions noted elsewhere in these financial statements, the liability owing to the Synod has no fixed terms of repayment and is without interest.

9. Deferred leasing revenue

Phase 1

The lump sum amount negotiated for the land lease, as referred to in Notes 3 and 7, was $4,270,848. This amount has been deferred in its entirety and is being recognized into revenue on a straight-line basis, starting August 31, 2015, over 199 years. During the year, $21,462 ($21,462 in 2021) was recognized into revenue, thereby reducing the deferred leasing revenue balance to $4,113,460 ($4,134,922 in 2021) as at December 31, 2022.

Phase 2

As at December 31, 2022, the Phase 2 deferred leasing revenue balance was $nil ($45,000 in 2021) as the amount related to parking garage revenue, was fully recognized during the year.

Under the terms of the lease there is a $1.5 million pre-payment for loss of parking garage revenue, of which $1,410,00 was recognized as parking revenue in 2022 ($90,000 in 2021), including $45,000 that had been previously deferred. This revenue is shared equally between CCC and the Synod.

In addition, the lease also provides for $30,000 for lost outdoor parking revenue throughout the construction period, which is to be paid to the CCC. During the year the Foundation recognized $30,000 of parking revenue and an equal amount as outdoor parking expenses, which were paid to CCC ($25,000 in 2021).

10. Contingent liabilities

The Foundation has been assessed municipal property taxes in arrears for approximately $916,788 (including penalty fees and interest costs) stemming back to 2012. In 2019, the Foundation accrued a liability for the taxes in the amount of $39,416. In the current year, the Foundation has accrued an additional liability for the taxes of $244,627 ($137,584 in 2021), thus bringing the total accrued liability to $421,627 ($177,000 in 2021). The Foundation is continuing negotiations with the City of Ottawa to reverse the associated interest and penalties charges of $495,161. The Foundation has also filed a Notice of Application with the Superior Court for the 25 parking spots that CHF owns to have them exempt. Consequently, the Foundation has not accrued any interest and penalties.

11. Fair value and risks

Fair value of financial instruments

The Foundation's financial instruments consist of cash, investment in the CTF, accounts payable and accrued liabilities, due to Windmill Green Fund LLP III and due to the Incorporated Synod of the diocese of Ottawa. The fair value of these instruments approximates their carrying value due to their short-term nature.

Fair value of land

The fair market value of the land transferred to the Foundation was estimated to be $7,000,000 at the date of transfer. The fair value estimate was calculated using two methodologies by an independent commercial real estate broker, namely a comparable sales method and a rule of thumb estimate based on the general land cost as a function of an overall development budget.

The former measure of value used figures from comparable sales within a geographic area in order to gauge the possible price of a future land sale transaction, adjusted for certain parameters. The second method utilized general rules of thumb in the industry of the inputs necessary to develop multi-unit residential properties (land as an input to the total development Foundation).

11. Fair value and risks (continued)

Credit, liquidity and market risks

It is management's opinion that the Foundation is not exposed to significant credit, liquidity and market risk on its financial instruments.

12. Capital management

Capital consists of net assets. The Foundation's objective when managing capital is to safeguard its ability to continue as a going concern so it can continue its mission. The Foundation is not exposed to any external restrictions on its capital.

13. Comparative figures

Certain comparative figures have been reclassified during the year to conform with the current year's presentation. In particular, an expense of $90,000 that was classified as a parking expense in 2021, was reclassified as a distribution to the Christ Church Cathedral, which resulted in $45,000 in net assets being reclassified from Christ Church Cathedral to the Synod.