

K-W OKTOBERFEST INC. >

combined financial statements

>YEAR ENDED NOVEMBER 30, 2023

K-W OKTOBERFEST INC. >

combined financial statements

>YEAR ENDED NOVEMBER 30, 2023

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Chartered Professional Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Members of K-W Oktoberfest Inc.:

Qualified Opinion

We have audited the combined financial statements of K-W Oktoberfest Inc., the "Organization", which comprise the combined statement of financial position as at November 30, 2023, and the combined statements of operations, changes in net assets and cash flows for the year then ended, and notes to the combined financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying combined financial statements present fairly, in all material respects, the combined financial position of the Organization as at November 30, 2023, and the results of its combined as revenue and its combined 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 many not-for-profit organizations, K-W Oktoberfest Inc. derives revenue from events, sponsorships and non-monetary contributions, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of K-W Oktoberfest Inc.. Therefore, we were unable to determine whether any adjustments might have been found necessary with respect to revenues, excess of revenues over expenses, and cash flows for the years ended November 30, 2023 and November 30, 2022 and current assets and net assets as at November 30, 2023 and November 30, 2022. Our conclusion on the combined financial statements as at and for the year ended November 30, 2023 was modified accordingly because of the possible effects of this limitation in scope.

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 combined 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 Matters

The combined financial statements of K-W Oktoberfest Inc. for the year ended November 30, 2022 were audited by another firm of Chartered Professional Accountants who expressed a qualified opinion on those financial statements on March 22, 2023 for reasons described in the Basis for Qualified Opinion section.

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

Management is responsible for the preparation and fair presentation of these combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the combined financial statements, management is responsible for assessing the Organization'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 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.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined 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 combined 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 combined 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 combined 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 combined financial statements, including the disclosures, and whether the combined 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.

Elmira, Ontario
March 12, 2024

MAC LLP.
LICENSED PUBLIC ACCOUNTANTS
CHARTERED PROFESSIONAL ACCOUNTANT

K-W OKTOBERFEST INC. >

combined statement of financial position

>NOVEMBER 30, 2023

	2023	2022
assets		
current		
Cash	\$ 181,803	\$ 117,716
Other investments (Note 3)	726,497	783,962
Accounts receivable (Note 4)	257,372	324,924
Government remittances recoverable	12,440	49,538
Inventory (Note 5)	28,988	20,570
Prepaid expenses	<u>40,955</u>	<u>40,849</u>
	1,248,055	1,337,559
non-current		
Capital assets (Note 6)	664,732	296,203
Intangible assets (Note 7)	<u>48,733</u>	<u>84,390</u>
	<u>\$ 1,961,520</u>	<u>\$ 1,718,152</u>
liabilities		
current		
Accounts payable and accrued liabilities	\$ 216,435	\$ 167,435
Current portion of deferred contributions - capital	<u>145,594</u>	<u>106,871</u>
	362,029	274,306
non-current		
Long term debt (Note 9)	40,000	40,000
Deferred contributions - capital (Note 10)	<u>480,599</u>	<u>181,566</u>
	<u>882,628</u>	<u>495,872</u>
commitments (Note 11)		
net assets		
Unrestricted	988,573	1,130,125
Internally restricted capital assets	<u>90,319</u>	<u>92,155</u>
	<u>1,078,892</u>	<u>1,222,280</u>
	<u>\$ 1,961,520</u>	<u>\$ 1,718,152</u>

Approved on behalf of the board:

Director

Director

K-W OKTOBERFEST INC. >

combined statement of changes in net assets

>YEAR ENDED NOVEMBER 30, 2023

	unrestricted	internally restricted capital assets	2023 total	2022 total
balance, beginning of year	\$ 1,130,125	\$ 92,155	\$ 1,222,280	\$ 1,402,574
Deficiency of revenue over expenses for year	(136,467)	(6,921)	(143,388)	(180,294)
Investment in capital assets	(470,818)	470,818	-	-
Deferred contributions for capital assets	<u>465,733</u>	<u>(465,733)</u>	<u>-</u>	<u>-</u>
balance, end of year	<u>\$ 988,573</u>	<u>\$ 90,319</u>	<u>\$ 1,078,892</u>	<u>\$ 1,222,280</u>

K-W OKTOBERFEST INC. >

combined statement of operations

>YEAR ENDED NOVEMBER 30, 2023

	2023	2022
revenue		
Ticket sales	\$ 97,297	\$ 71,909
Concession sales	82,799	36,904
Merchandise	79,240	65,151
Sponsorship	541,725	335,000
Grants	506,032	881,341
Service fees, fundraising and other levies	<u>146,143</u>	<u>58,830</u>
	<u>1,453,236</u>	<u>1,449,135</u>
expenses		
Amortization	136,853	96,594
Cost of merchandise, concession and ticket sales	70,366	26,208
Event production	590,755	682,069
Facility, general and administrative	250,255	266,298
Marketing and promotion	76,997	151,213
Wages and benefits	<u>471,398</u>	<u>473,829</u>
	<u>1,596,624</u>	<u>1,696,211</u>
deficiency of revenue over expenses before other income	<u>(143,388)</u>	<u>(247,076)</u>
other income		
Canada emergency rent subsidy	-	6,394
Tourism and hospitality recovery program	<u>-</u>	<u>60,388</u>
	<u>-</u>	<u>66,782</u>
deficiency of revenue over expenses for year	<u>\$ (143,388)</u>	<u>\$ (180,294)</u>

K-W OKTOBERFEST INC. >

combined statement of cash flows

>YEAR ENDED NOVEMBER 30, 2023

	2023	2022
operating activities		
Deficiency of revenue over expenses for year	\$ (143,388)	\$ (180,294)
Adjustments for:		
Amortization	136,853	96,594
Amortization of deferred contributions - capital	(132,977)	(68,899)
Amortization of deferred contributions - operations	<u>-</u>	<u>(46,800)</u>
	(139,512)	(199,399)
Changes in non-cash working capital:		
Accounts receivable	67,552	(123,314)
Inventory	(8,418)	6,961
Prepaid expenses	(106)	(25,861)
Accounts payable and accrued liabilities	49,002	115,655
Government remittances receivable	37,098	(42,737)
Deferred contributions - capital	<u>470,733</u>	<u>184,763</u>
	<u>476,349</u>	<u>(83,932)</u>
investing activities		
Purchase of capital assets	(469,727)	(201,167)
Net increase in other investments	<u>57,465</u>	<u>96,040</u>
	<u>(412,262)</u>	<u>(105,127)</u>
Increase in cash	64,087	(189,059)
Cash balance, beginning of year	<u>117,716</u>	<u>306,775</u>
cash balance, end of year	<u>\$ 181,803</u>	<u>\$ 117,716</u>

notes to financial statements

>NOVEMBER 30, 2023

1. nature of organization

K-W Oktoberfest Inc. is incorporated without share capital under the laws of the Province of Ontario. The principal activity is the operation of a Bavarian festival in Kitchener-Waterloo and surrounding municipalities.

KWO Productions Inc. was incorporated without share capital under the Canada Not-for-profit Corporations act on August 2, 2018 and is engaged in supporting activities for K-W Oktoberfest Inc.

2. significant accounting policies

Basis of Accounting - These financial statements have been prepared in accordance with Canadian accounting standards for Not-for-Profit organizations.

Basis of Combination - These financial statements include the combined results of K-W Oktoberfest Inc. and KWO Productions Inc. All intercompany transactions and balances are eliminated on combination.

Revenue Recognition - The organization follows the deferral method of accounting for revenue. Restricted revenues is recognized as revenue in the year which the related expenses are incurred. Unrestricted revenue is recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Merchandise and concession sales are recognized at the point of delivery of the product. Ticket revenues is recognised when the event occurs.

Restricted capital contributions are deferred and recognized as revenue over the useful life of the related capital asset.

Financial Instruments

Initial measurement - The Organization initially measures its financial assets and liabilities originated or exchanged in arm's length transactions at fair value.

The cost of a financial instrument in a related party transaction depends on whether the instrument has repayment terms. If it does, the cost is determined using its rediscounted cash flows, excluding interest and dividend payments, less any impairment losses previously recognized by the transferor. Otherwise, the cost is determined using the consideration transferred or received by the Organization in the transaction.

Subsequent measurement - The Organization subsequently measures all its financial assets and financial liabilities originated or exchanged in arm's length transactions at amortized cost. Financial assets and financial liabilities originated in related party transactions are subsequently measured at cost. Any reduction for impairment is recognized in net income, in the period incurred.

Financial assets measured at amortized cost include cash, accounts receivable, other investments and government remittances receivable.

The Organization has not designated any financial asset or liability to be measured at fair value.

notes to financial statements

>NOVEMBER 30, 2023

Impairment - Financial assets measured at cost are tested for impairment when there are indicators of impairment. The amount of the write-down is recognized in net income. The previously recognized impairment loss may be reversed to the extent of the improvement, directly or by adjusting the allowance account, provided it is not greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in net income.

Transaction costs - The Organization recognizes its transaction costs in net income in the period incurred. However, financial instruments that will not be subsequently measured at fair value are adjusted by the transaction costs that are directly attributable to their origination, issuance or assumption.

Inventory - Inventory is valued at the lower of cost and net realizable value. The method of determining cost is on the first-in first-out basis. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Capital assets - Capital assets are recorded at historical cost. Amortization is provided in the accounts using the following methods and annual rates:

Asset	Method	Rate
Glockenspiel	Straight line	10 years
Heritage Carillon	Straight line	10 years
Furniture and equipment	Reducing balance	20-30%
Computer hardware	Reducing balance	30%
Parade floats	Straight line	10 years
Signs	Reducing balance	20%
Trailers	Reducing balance	10%
Warehouse	Straight line	25 years

Capital assets acquired during the year are amortized at one half the above annual rates.

Intangible Assets - Purchased intangible assets are recorded at cost and are amortized over their estimated useful life unless the asset is determined to have an indefinite life in which case the asset is assessed for fair value when there are events or circumstances that indicate the carrying value exceeds fair value. When the carrying value of an unamortized intangible asset exceeds fair value, an impairment loss is recognized. When events or circumstances indicate the carrying amount of an amortized intangible asset exceeds the undiscounted future cash flows associated with the asset, an impairment loss is recognized to the extent the carrying value exceeds fair value which becomes the new cost amortized.

Contributed Materials and Services - The Organization is dependent upon many hours of service contributed by volunteers. Because of the difficulty in determining their fair value, contributed services are not recognized in these financial statements.

The Organization receives contribution of materials, the fair value of which may or may not be reasonably determinable. Contributed materials are recognized as donations when fair values can be determined. No contributed materials were recognized as donation revenue during the year.

notes to financial statements

>NOVEMBER 30, 2023

Disclosure and Use of Estimates - The preparation of financial statements in accordance with Canadian accounting standards for Not-for-Profit enterprises requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the year. These estimates are reviewed periodically, and as adjustments become necessary, they are reported in earnings in the period in which they become known.

Estimates are used when accounting for certain items such as revenues, allowance for doubtful accounts, useful lives capital assets, asset impairments and inventory reserves.

3. other investments

Other investments consist of guaranteed investment certificates, with interest rates ranging from 5.10% to 5.75% and maturing between June and November 2024.

4. accounts receivable

Accounts receivable is comprised of the following:

	2023	2022
Unsecured:		
Trade accounts receivable	\$ 210,762	\$ 188,447
Grants receivable	55,000	145,477
Allowance for doubtful accounts	<u>(8,390)</u>	<u>(9,000)</u>
	<u>\$ 257,372</u>	<u>\$ 324,924</u>

5. inventory

Inventory is comprised of the following:

	2023	2022
Product for resale	<u>\$ 28,988</u>	<u>\$ 20,570</u>

Inventory expensed during the year was \$70,366 (2022 - \$26,208).

notes to financial statements

>NOVEMBER 30, 2023

6. capital assets

	cost	accumulated amortization	net 2023	net 2022
Glockenspiel	\$ 286,618	\$ 256,211	\$ 30,407	\$ 59,069
Heritage Carillon	110,743	55,370	55,373	66,447
Furniture and equipment	376,121	294,240	81,881	82,848
Computer hardware	269,839	257,470	12,369	18,007
Parade floats	541,429	127,968	413,461	28,759
Signs	85,152	46,552	38,600	25,656
Trailers	52,951	20,310	32,641	15,417
Warehouse	<u>224,587</u>	<u>224,587</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,947,440</u>	<u>\$ 1,282,708</u>	<u>\$ 664,732</u>	<u>\$ 296,203</u>

7. intangible assets

	cost	accumulated amortization	net 2023	net 2022
Trademark	\$ 7,500	\$ 4,000	\$ 3,500	\$ 4,000
Website	<u>120,468</u>	<u>75,235</u>	<u>45,233</u>	<u>80,390</u>
	<u>\$ 127,968</u>	<u>\$ 79,235</u>	<u>\$ 48,733</u>	<u>\$ 84,390</u>

8. bank indebtedness

The organization has a business credit card facility with a limit of \$85,000 for operations. At year-end, the organization has unused credit capacity of approximately \$78,276 on this facility. The Organization also has a letter of credit issued in favour of a vendor in the amount of \$29,000, of which \$Nil was outstanding at year-end.

Both facilities are secured by a security agreement granting a first security interest in all present and after acquired personal property, to be registered in the jurisdiction of Ontario for \$119,000, which is secured by a guaranteed investment certificate.

notes to financial statements

>NOVEMBER 30, 2023

9. long term debt

	2023	2022
Canada Emergency Business Assistance loan, interest free until January 2024, interest at 5% thereafter, \$20,000 eligible for forgiveness if remainder is repaid by January 2024, due December 2026.	\$ 60,000	\$ 60,000
Less forgivable portion	<u>20,000</u>	<u>20,000</u>
	<u>\$ 40,000</u>	<u>\$ 40,000</u>

10. deferred capital contributions

	2023	2022
Balance beginning of year	\$ 288,437	\$ 172,573
Received during the year	470,733	184,763
Recognized as revenue	<u>(132,977)</u>	<u>(68,899)</u>
Total deferred capital contributions	626,193	288,437
Less: current portion	<u>(145,594)</u>	<u>(106,871)</u>
	<u>\$ 480,599</u>	<u>\$ 181,566</u>

11. commitments

The Organization is obligated under leasing contracts for a photocopier. The leases expire in 2027 and the future minimum lease payments are as follows:

2024	\$ 3,363
2025	3,363
2026	3,363
2027	<u>3,083</u>
	<u>\$ 13,172</u>

12. comparative figures

Certain of the comparative figures have been restated to conform to the presentation adopted for the current year.

notes to financial statements

>NOVEMBER 30, 2023

13. financial instruments

Risk Management - The significant risks to which the Organization is exposed are credit risk, liquidity risk and interest rate risk. There has been no change to the risk exposures from the prior year.

Credit Risk - The Organization is exposed to credit risk in the event of non-performance by counterparties in connection with its cash, accounts receivable and other investments. Accounts receivable relates to corporate sponsors and is mitigated through execution of written agreements and relevant credit checks on sponsors and customers. Cash and other investments are primarily comprised of instruments issued by large financial institutions in which management believes the risk of loss to be limited.

Interest Rate Risk - The Organization's interest-bearing assets and liabilities include other investments and long-term debt.

Liquidity Risk - Liquidity risk is the risk that the Organization will not be able to meet its obligations associated with financial liabilities. Cash flow from operations provides a substantial portion of the Organization's cash requirements. Additional cash requirements are met with the use of the available operating line of credit and bank borrowings under long term credit arrangements. The available operating line of credit provides flexibility in the short term to meet operational needs and bridge long term financing. The Organization's borrowing arrangements are concentrated with a single Canadian financial institution.