Financial statements of

Indwell Community Homes

August 31, 2018

Deloitte.

Deloitte LLP
1005 Skyview Drive
Suite 200
Burlington ON L7P 5B1
Canada

Tel: 905-315-6770
Fax: 905-315-6700
www.deloitte.ca

Independent Auditor's Report

To the Directors of
Indwell Community Homes

We have audited the accompanying financial statements of Indwell Community Homes, which comprise the balance sheet as at August 31, 2018, and the statements of revenue and expenses, changes in fund balances and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion

Basis for Qualified Opinion

In common with many charitable organizations, Indwell Community Homes derives revenue in the form of support from donations and fundraising, the completeness of which is not susceptible of satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of Indwell Community Homes and we were not able to determine whether any adjustments might be necessary to revenue, excess of revenue over expenses, assets and fund balances.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Indwell Community Homes as at August 31, 2018, 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.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
January 16, 2019

Indwell Community Homes

Statement of revenue and expenses

Year ended August 31, 2018

	2018			2017		
	Operating fund $	**Capital fund $**	**Total $**	Operating fund $	Capital fund $	Total $
Revenue						
Donations						
Churches	**49,028**	**—**	**49,028**	73,861	—	73,861
Individuals and corporations	**639,240**	**3,345,770**	**3,985,010**	633,314	155,703	789,017
Residents room and board	**294,640**	**—**	**294,640**	462,515	—	462,515
Rent	**2,216,694**	**—**	**2,216,694**	1,872,483	—	1,872,483
Grants						
Municipalities and Ministry of Health and Long-Term Care	**2,180,746**	**262,817**	**2,443,563**	1,893,580	952,508	2,846,088
Federal and provincial	**37,486**	**4,793,406**	**4,830,892**	8,340	4,499,038	4,507,378
Charities and other agencies	**79,897**	**1,000**	**80,897**	173,094	52,506	225,600
Fundraising income	**28,300**	**—**	**28,300**	30,020	—	30,020
Services and fees	**223,005**	**—**	**223,005**	185,739	—	185,739
Other	**102,842**	**—**	**102,842**	11,790	—	11,790
Interest income	**—**	**2,001**	**2,001**	—	—	—
	5,851,878	**8,404,994**	**14,256,872**	5,344,736	5,659,755	11,004,491
Expenses						
Salaries and benefits	**3,146,386**	**—**	**3,146,386**	2,707,501	—	2,707,501
Interest expense	**—**	**1,621,828**	**1,621,828**	—	1,531,172	1,531,172
Amortization	**—**	**1,319,316**	**1,319,316**	—	1,190,007	1,190,007
Loss on disposal	**—**	**360,304**	**360,304**	—	—	—
Building facilities	**935,220**	**—**	**935,220**	938,050	—	938,050
Administration	**314,597**	**7,231**	**321,828**	325,498	11,104	336,602
Programs	**218,612**	**—**	**218,612**	224,400	—	224,400
Property taxes (net of refunds)	**(242,334)**	**—**	**(242,334)**	62,746	—	62,746
	4,372,481	**3,308,679**	**7,681,160**	4,258,195	2,732,283	6,990,478
Excess of revenue over expenses	**1,479,397**	**5,096,315**	**6,575,712**	1,086,541	2,927,472	4,014,013

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

	Notes	2018 Operating fund $	2018 Capital fund $	2018 Total $	2017 Operating fund $	2017 Capital fund $	2017 Total $
Fund balances, beginning of year		**1,247,210**	**22,287,622**	**23,534,832**	563,157	18,957,662	19,520,819
Excess of revenue over expenses		**1,479,397**	**5,096,315**	**6,575,712**	1,086,541	2,927,472	4,014,013
Transfers	5	**(2,054,915)**	**2,054,915**	**—**	(402,488)	402,488	—
Fund balances, end of year		**671,692**	**29,438,852**	**30,110,544**	1,247,210	22,287,622	23,534,832

Indwell Community Homes

Balance sheet

As at August 31, 2018

	Notes	2018 Operating fund $	2018 Capital fund $	2018 Total $	2017 Operating fund $	2017 Capital fund $	2017 Total $
Assets							
Current assets							
Cash		**187,474**	**169**	**187,643**	917,231	169	917,400
Accounts receivable		**644,712**	**405,421**	**1,050,133**	362,905	281,550	644,455
Grants receivable		**100,000**	**376,712**	**476,712**	229,750	3,468,833	3,698,583
Prepaid expenses and deposits		**174,604**	**309,942**	**484,546**	172,483	143,448	315,931
		1,106,790	**1,092,244**	**2,199,034**	1,682,369	3,894,000	5,576,369
Grants receivable - long-term portion		**—**	**7,543,260**	**7,543,260**	—	7,524,480	7,524,480
Capital assets	3	**—**	**69,278,209**	**69,278,209**	—	52,553,409	52,553,409
		1,106,790	**77,913,713**	**79,020,503**	1,682,369	63,971,889	65,654,258
Liabilities							
Current liabilities							
Bank loan	7	**—**	**2,272,610**	**2,272,610**	—	750,000	750,000
Accounts payable and accrued liabilities		**223,797**	**1,772,786**	**1,996,583**	222,052	1,617,406	1,839,458
Construction holdback payable		**—**	**1,131,084**	**1,131,084**	—	519,664	519,664
Government remittances payable		**—**	**—**	**—**	51,500	—	51,500
Residents' deposits		**171,968**	**—**	**171,968**	149,107	—	149,107
Deferred revenue		**39,333**	**—**	**39,333**	12,500	13,917	26,417
Current portion of long-term debt	4	**—**	**4,630,383**	**4,630,383**	—	763,212	763,212
		435,098	**9,806,863**	**10,241,961**	435,159	3,664,199	4,099,358
Long-term debt	4	**—**	**38,667,998**	**38,667,998**	—	38,020,068	38,020,068
		435,098	**48,474,861**	**48,909,959**	435,159	41,684,267	42,119,426
Contingencies and commitments	6						
Fund balances							
Unrestricted operating		**671,692**	**—**	**671,692**	1,247,210	—	1,247,210
Restricted		**—**	**29,438,852**	**29,438,852**	—	22,287,622	22,287,622
		671,692	**29,438,852**	**30,110,544**	1,247,210	22,287,622	23,534,832
		1,106,790	**77,913,713**	**79,020,503**	1,682,369	63,971,889	65,654,258

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

Indwell Community Homes

Statement of cash flows

Year ended August 31, 2018

	Note	2018 $	2017 $
Operating activities			
Excess of revenue over expenses		**6,575,712**	4,014,013
Item not affecting cash			
Amortization		**1,319,316**	1,190,007
Loss on disposal		**360,304**	—
Changes in non-cash operating working capital items	8	**3,400,400**	(2,440,328)
		11,655,732	2,763,692
Investing activities			
Additions to capital assets		**(18,404,420)**	(8,639,031)
Decrease in long-term portion of grants receivable		**(18,780)**	356,880
		(18,423,200)	(8,282,151)
Financing activities			
Increase (decrease) in bank loan		**1,522,610**	(433,820)
Increase in long-term debt		**5,584,680**	7,305,556
Repayment of long-term debt		**(1,069,579)**	(540,449)
		6,037,711	6,331,287
Net change in cash		**(729,757)**	812,828
Cash, beginning of year		**917,400**	104,572
Cash, end of year		**187,643**	917,400

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

1. Description of operations

Indwell Community Homes (the "Organization") is incorporated under the laws of the Province of Ontario as a not-for-profit organization. The Organization is a registered charitable organization and is exempt from income taxes under Section 149(1)(f) of the Income Tax Act.

The organization is a provider of affordable housing with supports for the purpose of poverty relief and health improvement for people with disabilities.

2. Significant accounting policies

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

Revenue recognition

The Organization follows the restricted fund method for accounting for restricted contributions.

Restricted donations and grants related to the operating fund are recognized as revenue in the year in which the related expenses are incurred. Restricted donations and grants relating to capital projects are recognized as revenue of the capital asset fund.

Unrestricted donations and grants are recognized as revenue of the operating fund in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Rent and residents room and board are recognized as revenue in the period the services are provided. Revenues from fundraising activities are recognized in the year in which the event takes place.

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. Key components of the financial statements requiring management to make estimates include the estimated useful life of capital assets, accrued liabilities and deferred revenue. Actual results could differ from these estimates.

Donated services

The Organization's activities include time donated by a substantial number of volunteers. Because of the difficulty of determining their fair value, contributed services are not recognized in the financial statements.

Financial instruments

Financial assets and financial liabilities are initially recognized at fair value when the Organization becomes a party to the contractual provisions of the financial instrument. Subsequently, all financial instruments are measured at amortized cost except for the following instruments:

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

2. Significant accounting policies (continued)

Financial instruments (continued)

b) Investments in listed shares and derivative financial instruments that are not designated in a qualifying hedge relationship 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, unrealized gains and losses on listed shares, and realized gains and losses on sale of short-term investments and bonds are included in investment income in the statement of revenue and expenses.

Transaction costs related to financial instruments measured at fair value subsequent to initial recognition are expensed as incurred. Transaction costs related to the 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 straight-line method. Any premium or discount related to an instrument measured at amortized cost is amortized over the expected life of the item using the straight-line method and recognized in net income as interest income or expense.

With respect to financial assets measured at cost or amortized cost, the Organization recognizes in net income an impairment loss, if any, 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 in net income in the period the reversal occurs.

Capital assets

Capital assets are recorded at their original cost, except for donated assets, which are recorded at fair market value at the date of contribution, less accumulated amortization. Gains or losses on the disposal of capital assets are included in earnings, and the cost and accumulated amortization related to the disposition are removed from the accounts.

Amortization is recorded at rates designed to amortize the assets over their estimated useful lives as follows:

Buildings	2.5% declining balance
Furniture and equipment	20% declining balance
Computer equipment	30% declining balance
Vehicles	30% declining balance

Impairment of long-lived assets

Long-lived assets such as capital assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when the carrying value exceeds the total undiscounted cash flows expected from the use and eventual disposition of the item. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value at the date of impairment.

Operating fund

Revenue and expenses other than those recorded in the Capital fund are recorded in the operating fund.

2. Significant accounting policies (continued)

Capital fund

The purpose of the Capital fund is to record all capital transactions, related debt and the net investment of the Organization in such assets, which are considered to be in the normal course of operations.

3. Capital assets

	Cost	Accumulated amortization	2018 Net book value	2017 Net book value
	$	$	$	$
Land	**10,000,019**	**—**	**10,000,019**	4,442,184
Buildings	**51,064,044**	**5,580,064**	**45,483,980**	40,490,017
Buildings under construction	**13,167,351**	**—**	**13,167,351**	7,165,615
Furniture and equipment	**1,061,589**	**573,135**	**488,454**	414,837
Computer equipment	**265,146**	**145,858**	**119,288**	28,481
Vehicles	**52,004**	**32,887**	**19,117**	12,275
	75,610,153	**6,331,944**	**69,278,209**	52,553,409

4. Long-term debt

	2018	2017
	$	$
Mortgage payable, CRC Community Retirement Savings Plan, 2.95% interest only to August 31, 2017, 2.70% for September 2017, 2.95% from October 1, 2017 to March 31, 2018 and 3.20% from April 1, 2018 to August 31, 2018. Interest only payable monthly, no set maturity date, collateralized by property at 118 & 124 Wentworth Street with a net book value of $2,267,445	**1,000,000**	1,000,000
Mortgage payable, Industrial and Financial Services Inc., 5.25% interest, repayable in monthly instalments of $7,583, matures 2028, collateralized by property at 373 Blossom Park with a net book value of 2,155,089	**–**	898,974
Portion of mortgage payable for Industrial and Financial Services Inc. to be reimbursed by the Province under the Affordable Housing Program	**–**	(424,285)
Mortgage payable, Industrial and Financial Services Inc., 5.11% interest, repayable in monthly instalments of $7,040, matures 2027, collateralized by property at 249 Caroline Street with a net book value of $1,963,967	**1,038,217**	1,069,340
Mortgage payable, Royal Bank of Canada, 3.24% interest, repayable in blended monthly instalments of $1,935, matures April 2019, collateralized by property at 112 Wentworth Street with a net book value of $638,213	**285,305**	296,259
Mortgage payable, CRC Extension Fund Inc., 2.95% interest only to August 31, 2017, 2.70% for September 2017, 2.95% from October 1, 2017 to March 31, 2018 and 3.20% from April 1, 2018 to August 31, 2018. Principal repayments of $100,000 annually (payment holiday granted in 2018), no set maturity date, collateralized by property at 80 Robinson Street with a net book value of $2,781,839	**1,200,000**	1,200,000
Mortgage payable, Hamilton Community Foundation, 3% interest, interest only through November 2016; repayable in monthly installments of $3,082, matures 2020, collateralized by property at 1430 Main Street East with a net book value of $9,247,041	**612,258**	630,600
Mortgage payable, Community Forward Fund, 5% interest, interest only through July 2016; repayable in monthly installments of $3,917, matures 2020, collateralized by property at 1430 Main Street East with a net book value of $9,247,041	**640,406**	654,988
Mortgage payable, private lender, 5% interest, repayable in monthly installments of $5,234, matures 2040, unsecured	**833,919**	854,897
Mortgage payable, First National Financial LP, 3.17% interest, repayable in blended monthly instalments of $18,304, matures 2025, collateralized by property at 18 Vansittart Avenue with a net book value of $13,935,894	**4,029,909**	4,121,082
Mortgage payable, Hamilton Community Foundation, 4.25% interest, interest only through term; repayable in monthly instalments, matures October 2019, collateralized by property at 205 Melvin Street with a net book value of $13,096,993	**1,500,000**	1,500,000

4. Long-term debt (continued)

	2018 $	2017 $
Mortgage payable, Libro Credit Union, 4.2% interest, repayable in blended monthly instalments of $13,423, matures February 2027, collateralized by property at 203 John Street with a net book value of $4,784,938	**2,407,267**	2,466,758
Mortgage payable, Green Leaf Special Loans Limited, prime rate plus 1.55% interest only until March 1, 2019; principal due March 2019, collateralized by property at 425 Lakeshore East with a net book value of $2,734,277	**1,500,000**	—
Mortgage payable, Hamilton Community Foundation, 4% interest, interest only through term, principal due July 2021, collateralized by property at 223-227 East Avenue North and 315 Robert Street with a net book value of $3,004,394	**1,700,000**	—
Private loans payable, unsecured, 0-6.00% interest, majority of loans require no principal payments, interest payable at least annually	**26,551,100**	24,514,667
	43,298,381	38,783,280
Current portion of long-term debt	**4,630,383**	763,212
	38,667,998	38,020,068

The various mortgages are secured by:

- First charge mortgage on each of the properties
- General assignment of rents and/or leases of the property
- General security agreement over all of the Borrower's present and after-acquired personal property in connection with the respective property
- Assignment of insurance proceeds

In addition to the security requirements noted above, the Company must satisfy certain restrictive covenants as to certain minimum financial ratios such as debt service coverage.

During the year, the Company complied with all these requirements.

Private loans payable are either open and callable and due upon 30 or 60 days' notice or locked into multi-year loan terms. Since the vast majority of the open and callable private loans are renewed annually, they are shown as long-term, unless the due date is known.

Principal payments required in each of the next 5 years and thereafter are as follows:

	$
2019	4,630,383
2020	1,537,712
2021	2,028,113
2022	337,280
2023	346,830
Thereafter	34,418,063
Total	43,298,381

5. Interfund transfers

The Organization's management transferred $2,054,915 (2017 - $402,488) to the capital asset fund from the operating fund to assist in funding the capital fund.

6. Contingencies and commitments

a) In 2007 and 2008, the Organization entered into a contribution agreement with the County of Oxford under the Canada-Ontario New Affordable Housing Program. Under this agreement, the Organization has received forgivable loans of $381,900. If all requirements are met, the entire loan will be forgiven at the end of the 25 year term. Under this same agreement, the Organization was also approved for a mortgage reduction grant of $623,100. The Organization will be receiving payments until 2028 to cover the monthly principal and interest payments on approximately 51% of a mortgage which has a balance of $nil at year end (2017 - $898,974). Since these are considered forgivable loans, the total of $1,005,000 received in 2007 and 2008 was reported as grants in the appropriate year. Should the conditions no longer be met, the Organization would be required to repay the forgivable portion. The potential repayable portion at August 31, 2018 is $565,400 (2017 - $605,600).

b) In 2009, the Organization received a forgivable loan of $750,000 under the Residential Rehabilitation Assistance Program. If all requirements are met, the entire loan will be forgiven at the end of 2025. Should the conditions no longer be met, the Organization would be required to repay the forgivable portion. The potential repayable portion at August 31, 2018 is $366,667 (2017 - $416,667).

c) In 2010, the Organization received a forgivable mortgage of $5,290,000 under the Canada-Ontario Affordable Housing Program and $126,140 under the Renewable Energy Initiative (REI) Funding – Direct Delivery Program. An agreement was signed with the City of Hamilton in 2011. Under this agreement, if all the conditions are met, the interest charges will be forgiven on an annual basis and the principal will be forgiven in 2031. Since these mortgage advances of $5,416,140 are considered forgivable, the receipt of the forgivable mortgages was reported as revenue in 2010 and 2011. Should the conditions no longer be met, the Organization would be required to repay the forgivable portion. The potential repayable portion at August 31, 2018 is $5,416,140 (2017 - $5,416,140).

d) In 2013, the Organization received approval for a forgivable mortgage of $5,746,632 under the Canada-Ontario Affordable Housing Program. An agreement was signed with the City of Hamilton in 2013 and the funding has been received in 2014, 2015 and 2016. Under this agreement, if all the conditions are met, the interest charges will be forgiven on an annual basis and the principal will be forgiven in 2053. Since the mortgage of $5,746,632 is considered forgivable, the forgivable mortgage has been reported as revenue in 2013. Should the conditions no longer be met, the Organization would be required to repay the entire forgivable portion. The potential repayable portion at August 31, 2018 is $5,206,632 (2017 - $5,206,632).

e) In 2015, the Organization was approved for a forgivable mortgage of $968,004 under the Canada-Ontario Affordable Housing Program, Ontario Renovates component. An agreement was signed with the City of Hamilton in 2015 and the funding has been received in 2015 and 2016 on a cost reimbursement basis. Under this agreement, if all conditions are met, the interest charges will be forgiven on an annual basis and the principal will be forgiven in 2030. Since the mortgage of $968,004 is considered forgivable, the reimbursed or incurred cost (receivable) portion of the mortgage has been reported as revenue in 2015 and 2016. Should the conditions no longer be met, the Organization would be required to repay the entire forgivable loan.

6. Contingencies and commitments (continued)

f) In 2016, the Organization was approved for a forgivable mortgage of $2,000,000 under the Canada-Ontario Investment in Affordable Housing Program. An agreement was signed with Norfolk County in December 2015 and the funding has been received in 2016 and 2017. Under this agreement, if all the conditions are met, the interest charges will be forgiven on an annual basis and the principal will be forgiven in 2036. Since the mortgage of $2,000,000 is considered forgivable, the forgivable mortgage has been reported as revenue in 2016. Should the conditions no longer be met, the Organization would be required to repay the entire forgivable loan. The potential repayable portion at August 31, 2018 is $2,000,000 (2017 - $2,000,000)

g) In 2017, the Organization was approved for a forgivable mortgage of $1,031,800 under the County of Oxford's Capital Facilities for Affordable Housing funds. An agreement was signed with the County of Oxford and funding started in 2017 and finished in 2018. Under this agreement, if all the conditions are met, the interest charges will be forgiven on an annual basis and the principal will be forgiven in 2041. Since the mortgage of $1,031,800 is considered forgivable, the forgivable mortgage will be reported as revenue as the project milestones are achieved (including $196,042 recognized in 2018 (2017 - $835,758)). Should the conditions no longer be met, the Organization would be required to repay the entire forgivable loan.

h) In 2017, the Organization was approved for a forgivable mortgage of $5,500,000 under the Canada-Ontario Investment in Affordable Housing Program. An agreement was signed with the City of Hamilton and the funding is receivable in 2017, 2018 and 2019. Under this agreement, if all the conditions are met, the interest charges will be forgiven on an annual basis and the principal will be forgiven in 2046. Since the mortgage of $5,500,000 is considered forgivable, the forgivable mortgage will be reported as revenue as the project milestones are achieved (including $2,220,000 recognized in 2018 (2017 - $2,750,000)). Should the conditions no longer be met, the Organization would be required to repay the entire forgivable loan.

i) In 2017, the Organization was approved for a forgivable mortgage of $2,153,270 under the Canada-Ontario Investment in Affordable Housing Program. An agreement was signed with the County of Oxford and the funding is receivable in 2018 and 2019. Under this agreement, if all the conditions are met, the interest charges will be forgiven on an annual basis and the principal will be forgiven in 2042. Since the mortgage of $2,153,270 is considered forgivable, the forgivable mortgage will be reported as revenue as the project milestones are achieved (including $968,971 recognized in 2018). Should the conditions no longer be met, the Organization would be required to repay the entire forgivable loan.

7. Bank loan credit agreement

The Organization's approved line of credit with Libro Credit Union is $2,400,000. As at yearend, $2,272,610 (2017 - $750,000) has been drawn used for interim funding of construction projects. The bank facility bears interest at prime rate plus 2%. The loan is repayable on demand and is interest only monthly during the construction phase.

The bank loan is secured by the following:

- First position mortgage/charge in the minimum amount of $2,500,000 in favour of the lender
- General security agreement representing a first and fixed floating charge over the chattels, fixtures and equipment and on all other assets and undertakings of the borrower
- Assignment of insurance proceeds

7. Bank loan credit agreement

In addition to the security requirements noted above, the Company must satisfy certain restrictive covenants as to certain minimum financial ratios such as debt service coverage.

During the year, the Company complied with all these requirements.

8. Supplemental cash flow information

Changes in non-cash operating working capital items

	2018	2017
	$	$
Accounts receivable	**(405,678)**	97,868
Grants receivable	**3,221,871**	(2,378,448)
Prepaid expenses and deposits	**(168,615)**	92,306
Accounts payable and accrued liabilities	**157,125**	446,998
Construction holdback payable	**611,420**	(773,194)
Government remittances payable	**(51,500)**	51,500
Deferred revenue	**12,916**	(15,750)
Residents' deposits	**22,861**	38,392
	3,400,400	(2,440,328)

9. Financial instruments

Credit risk

Credit risk arises from the potential that the counterparty will fail to perform its obligation. The Organization is exposed to credit risk with respect to accounts receivable.

The Organization provides credit to its residents in the normal course of operations. However, the Organization has a significant number of diverse customers, which reduces the concentration of credit risk.

Interest rate risk

The Organization is exposed to interest rate risk since the interest rates on some of its private loans could change in the year. Management does not expect interest rates to vary significantly in the next year.

Liquidity risk

Liquidity risk arises through having excess financial obligations over available financial assets at any point in time. The Organization’s objective is to have sufficient liquidity to meet its liabilities when due. The Organization monitors its cash balances and cash flows generated from operations to meet its requirements. As at August 31, 2018, the most significant financial liabilities are a bank loan, private loans, construction holdbacks payable, accounts payable and accrued liabilities and residents’ deposits.

10. Subsequent events

a) Subsequent to the year end, the Organization entered into a contribution agreement with the City of Hamilton under the Canada-Ontario Social Infrastructure Fund. The agreement, dated December 31, 2018, provides a forgivable mortgage in the amount of $2,838,030. The funding is expected to be received in 2019 and 2020. Under this agreement, if all the conditions are met, the interest charges will be forgiven on an annual basis and the principal will be forgiven thirty (30) years from the date of occupancy. Since the mortgage of $2,838,030 is considered forgivable, the forgivable mortgage will be reported as revenue as the project milestones are achieved. Should the conditions no longer be met, the Organization would be required to repay the entire forgivable loan.

b) Subsequent to the year end, the Organization entered into contribution agreements with the Regional Municipality of Peel through Canada-Ontario and Regional capital funding streams. The agreements, dated December 31, 2018, provide forgivable mortgages in the amount of $21,538,440. The funding is expected to be received in 2019, 2020 and 2021. Under these agreements, if all the conditions are met, the interest charges will be forgiven on an annual basis and the principal will be forgiven thirty (30) years from the date of occupancy. Since the mortgage of $21,538,440 is considered forgivable, the forgivable mortgage will be reported as revenue as the project milestones are achieved. Should the conditions no longer be met, the Organization would be required to repay the entire forgivable loan.

c) Subsequent to the year end, the Organization closed a mortgage of $4,500,000 from a private family foundation. The full mortgage value was advanced in September 2018. The interest rate is 3.75%, requires monthly interest only payments and has a two year term, maturing in 2020. The loan is collateralized by a property with a net book value of approximately $13,200,000. The Organization used part of the proceeds to repay a mortgage of $1,500,000 from the Hamilton Community Foundation, collateralized by the same property.

d) Subsequent to the year end, the Organization closed the purchase of a property, at the municipal address of 41 Norfolk Street South, Simcoe, Ontario, as well as purchase financing from Venture Norfolk collateralized by the purchased property.

e) Subsequent to the year end, the Organization received formal notice that the Hamilton Niagara Haldimand Brant Local Health Integration Network proposes to enter into a new multi-sector service accountability agreement (MSAA) with the Organization on or before March 31, 2019.

11. Prior year comparatives

Certain of prior year comparative figures have been reclassified to conform with the current year financial statement presentation.