Consolidated financial statements of
Indwell Community Homes

August 31, 2019

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Independent Auditor's Report

Qualified Opinion

We have audited the consolidated financial statements of Indwell Community Homes (the "Organization"), which comprise the consolidated balance sheet as at August 31, 2019, and the consolidated statements of revenue and expenses, changes in fund balances and cash flows for the year then ended, and notes to the consolidated 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 Organization as at August 31, 2019, 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 many not-for-profit organizations, the Organization derives revenue from donations 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 the Organization and we were not able to determine whether any adjustments might be necessary to recorded contributions, the excess of revenue over expenses, and cash flows from operations for the years ended August 31, 2019 and 2018, current assets as at August 31, 2019 and 2018, and net assets as at September 1 and August 31 for both the 2019 and 2018 years. Our audit opinion on the financial statements for the year ended August 31, 2019 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 Organization 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 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 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 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Organization to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our qualified audit opinion.

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
January 23, 2020

Indwell Community Homes
Consolidated statement of revenue and expenses
Year ended August 31, 2019

	Operating fund $	**Capital fund $**	**2019 Total $**	Operating fund $	Capital fund $	2018 Total $
Revenue						
Donations						
Churches	**106,596**	**—**	**106,596**	49,028	—	49,028
Individuals and corporations	**1,043,689**	**2,782,337**	**3,826,026**	639,240	3,345,770	3,985,010
Residents room and board	**262,937**	**—**	**262,937**	294,640	—	294,640
Rent	**2,879,526**	**—**	**2,879,526**	2,216,694	—	2,216,694
Grants						
Municipalities	**1,397,343**	**1,251,539**	**2,648,882**	1,534,941	262,817	1,797,758
Ministry of Health and Long-Term Care	**1,848,443**	**—**	**1,848,443**	645,805	—	645,805
Federal and provincial	**—**	**9,600,265**	**9,600,265**	37,486	4,793,406	4,830,892
Charities and other agencies	**268,300**	**164,385**	**432,685**	79,897	1,000	80,897
Fundraising income	**36,812**	**—**	**36,812**	28,300	—	28,300
Commercial and service fees	**335,298**	**—**	**335,298**	223,005	—	223,005
Other	**16,081**	**—**	**16,081**	102,842	—	102,842
Gain on disposal	**—**	**116,869**	**116,869**	—	—	—
Interest income	**—**	**19,844**	**19,844**	—	2,001	2,001
	8,195,025	**13,935,239**	**22,130,264**	5,851,878	8,404,994	14,256,872
Expenses						
Salaries and benefits	**4,222,276**	**—**	**4,222,276**	3,146,386	—	3,146,386
Interest expense	**—**	**1,876,151**	**1,876,151**	—	1,621,828	1,621,828
Amortization	**—**	**1,903,504**	**1,903,504**	—	1,319,316	1,319,316
Loss on disposal	**—**	**—**	**—**	—	360,304	360,304
Building facilities	**1,197,640**	**—**	**1,197,640**	935,220	—	935,220
Administration	**574,041**	**91,657**	**665,698**	314,597	7,231	321,828
Programs	**309,498**	**—**	**309,498**	218,612	—	218,612
Property taxes (net of refunds)	**44,805**	**—**	**44,805**	(242,334)	—	(242,334)
Rent expense	**418,650**	**—**	**418,650**	—	—	—
	6,766,910	**3,871,312**	**10,638,222**	4,372,481	3,308,679	7,681,160
Excess of revenue over expenses	**1,428,115**	**10,063,927**	**11,492,042**	1,479,397	5,096,315	6,575,712

The accompanying notes are an integral part of this consolidated financial statement.

Indwell Community Homes
Consolidated statement of changes in fund balances
Year ended August 31, 2019

	Notes	**Operating fund $**	**Capital fund $**	**2019 Total $**	Operating fund $	Capital fund $	2018 Total $
Fund balances, beginning of year		**671,692**	**29,438,852**	**30,110,544**	1,247,210	22,287,622	23,534,832
Excess of revenue over expenses		**1,428,115**	**10,063,927**	**11,492,042**	1,479,397	5,096,315	6,575,712
Transfers	5	**(1,663,689)**	**1,663,689**	**—**	(2,054,915)	2,054,915	—
Fund balances, end of year		**436,118**	**41,166,468**	**41,602,586**	671,692	29,438,852	30,110,544

The accompanying notes are an integral part of this consolidated financial statement.

Indwell Community Homes

Consolidated balance sheet

As at August 31, 2019

	Notes	Operating fund $	Capital fund $	2019 Total $	Operating fund $	Capital fund $	2018 Total $
Assets							
Current assets							
Cash		**523,818**	**169**	**523,987**	187,474	169	187,643
Accounts receivable		**414,651**	**145,540**	**560,191**	644,712	405,421	1,050,133
Grants receivable		**88,400**	**3,433,318**	**3,521,718**	100,000	376,712	476,712
Prepaid expenses and deposits		**244,552**	**406,497**	**651,049**	174,604	309,942	484,546
		1,271,421	**3,985,524**	**5,256,945**	1,106,790	1,092,244	2,199,034
Grants receivable - long-term portion		**—**	**7,143,949**	**7,143,949**	—	7,543,260	7,543,260
Capital assets	3	**—**	**80,028,381**	**80,028,381**	—	69,278,209	69,278,209
		1,271,421	**91,157,854**	**92,429,275**	1,106,790	77,913,713	79,020,503
Liabilities							
Current liabilities							
Bank loan	7	**—**	**2,238,407**	**2,238,407**	—	2,272,610	2,272,610
Accounts payable and accrued liabilities		**337,149**	**1,271,562**	**1,608,711**	223,797	1,772,786	1,996,583
Construction holdback payable		**—**	**76,635**	**76,635**	—	1,131,084	1,131,084
Government remittances payable		**3,555**	**—**	**3,555**	—	—	—
Residents' deposits		**230,331**	**—**	**230,331**	171,968	—	171,968
Deferred revenue		**264,268**	**—**	**264,268**	39,333	—	39,333
Current portion of long-term debt	4	**—**	**2,210,282**	**2,210,282**	—	4,630,383	4,630,383
		835,303	**5,796,886**	**6,632,189**	435,098	9,806,863	10,241,961
Long-term debt	4	**—**	**44,194,500**	**44,194,500**	—	38,667,998	38,667,998
		835,303	**49,991,386**	**50,826,689**	435,098	48,474,861	48,909,959
Contingencies and commitments	6						
Fund balances							
Unrestricted operating		**436,118**	**—**	**436,118**	671,692	—	671,692
Restricted		**—**	**41,166,468**	**41,166,468**	—	29,438,852	29,438,852
		436,118	**41,166,468**	**41,602,586**	671,692	29,438,852	30,110,544
		1,271,421	**91,157,854**	**92,429,275**	1,106,790	77,913,713	79,020,503

The accompanying notes are an integral part of this consolidated financial statement.

Indwell Community Homes
Consolidated statement of cash flows
Year ended August 31, 2019

	Note	2019 $	2018 $
Operating activities			
Excess of revenue over expenses		**11,492,042**	6,575,712
Item not affecting cash			
Amortization		**1,903,504**	1,319,316
(Gain) loss on disposal		**(116,869)**	360,304
Changes in non-cash operating working capital items	8	**(3,877,035)**	3,400,400
		9,401,641	11,655,732
Investing activities			
Additions to capital assets		**(12,853,807)**	(18,404,420)
Proceeds on sale of capital assets		**317,000**	—
Decrease (increase) in long-term portion of grants receivable		**399,311**	(18,780)
		(12,137,496)	(18,423,200)
Financing activities			
(Decrease) increase in bank loan		**(34,203)**	1,522,610
Increase in long-term debt		**8,570,000**	5,584,680
Repayment of long-term debt		**(5,463,599)**	(1,069,579)
		3,072,198	6,037,711
Net change in cash		**336,344**	(729,757)
Cash, beginning of year		**187,643**	917,400
Cash, end of year		**523,987**	187,643

The accompanying notes are an integral part of this consolidated 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 consolidated financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations and reflect the following significant accounting policies:

Principles of consolidation

The consolidated financial statements comprise the accounts of the Organization and its wholly owned subsidiary, 2696037 Ontario Inc. (real estate holding company).

The subsidiary is an entity over which the Organization has control and has the right and ability to obtain future economic benefits, and is exposed to the related risks. Control is the continuing power to determine the strategic operating, investing and financing policies of the other entity without the co-operation of others, and may be achieved through voting rights, contractual rights, potential voting rights or a combination thereof. When voting equity is not the dominant factor in determining control, the Organization considers whether it controls the other entity through other means (e.g., contractual rights). In evaluating whether contractual rights are sufficient to give the Organization control, a number of factors are considered, including the following: the purpose and design of the other entity; how decisions are made about the strategic policies of the other entity; the risks to which the other entity was designed to be exposed, the risks it was designed to pass onto the parties involved with it and whether the Organization is exposed to some or all of those risks; and whether the Organization has the continuing ability in a contractual arrangement to direct the strategic policies of the other entity without the co-operation of others.

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.

2. Significant accounting policies (continued)

Use of estimates

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Key components of the consolidated 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 consolidated 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;

(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 consolidated 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 effective interest method. Any premium or discount related to an instrument measured at amortized cost is amortized over the expected life of the item using the effective interest 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 excess of revenue over expenses 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.

2. Significant accounting policies (continued)

Capital assets (continued)

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
Leasehold improvements	10% straight line

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.

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** $	**2019 Net book value** $	2018 Net book value $
Land	**10,323,072**	**—**	**10,323,072**	10,000,019
Buildings	**70,643,825**	**7,208,320**	**63,435,505**	45,483,980
Buildings under construction	**5,119,518**	**—**	**5,119,518**	13,167,351
Furniture and equipment	**1,401,054**	**737,483**	**663,571**	488,454
Computer equipment	**363,488**	**211,147**	**152,341**	119,288
Vehicles	**66,914**	**43,095**	**23,819**	19,117
Leasehold improvements	**345,061**	**34,506**	**310,555**	—
	88,262,932	**8,234,551**	**80,028,381**	69,278,209

4. Long-term debt

	2019	2018
	$	$
Mortgage payable, CRC Community Retirement Savings Plan, 3.20% interest only for September, 2018, 3.70% from October 1, 2018 to December 31, 2018 and 3.85% from January 1, 2019 to August 31, 2019. Interest only payable monthly, no set maturity date, collateralized by property at 118 & 124 Wentworth Street, Hamilton with a net book value of $2,246,821	**1,000,000**	1,000,000
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, Hamilton with a net book value of $1,953,884	**1,005,483**	1,038,217
Mortgage payable, Royal Bank of Canada, 3.24% interest, repayable in blended monthly instalments of $1,935, matures April 2020, collateralized by property at 112 Wentworth Street, Hamilton with a net book value of $627,181	**274,232**	285,305
Mortgage payable, CRC Extension Fund Inc., 3.20% interest only for September, 2018, 3.70% from October 1, 2018 to December 31, 2018 and 3.85% from January 1, 2019 to August 31, 2019. Principal repayments of $100,000 annually, no set maturity date, collateralized by property at 80 Robinson Street, Hamilton with a net book value of $2,836,438	**1,100,000**	1,200,000
Mortgage payable, Hamilton Community Foundation, 3% interest, interest only through July 2016; repayable in monthly installments of $3,082, matures December 2019, collateralized by property at 1430 Main Street East, Hamilton with a net book value of $9,147,540	**593,385**	612,258
Mortgage payable, Community Forward Fund, 5% interest, interest only through July 2016; repayable in monthly installments of $3,917, matures December 2019, collateralized by property at 1430 Main Street East, Hamilton with a net book value of $9,147,540	**625,078**	640,406
Mortgage payable, private lender, 5% interest, repayable in monthly installments of $5,234, matures 2040, unsecured	**811,893**	833,919
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, Woodstock with a net book value of $13,677,337	**3,935,823**	4,029,909
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, Hamilton with a net book value of $15,617,851	**—**	1,500,000
Balance forward	**9,345,894**	11,140,014

4. Long-term debt (continued)

	2019 $	2018 $
Balance carried forward	**9,345,894**	11,140,014
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, Simcoe with net book value of $4,752,321	**2,345,251**	2,407,267
Mortgage payable, Green Leaf Special Loan Limited, prime rate plus 1.55% interest only until March 1, 2019; principal due March 2019, collateralized by property at 425 Lakeshore East, Mississauga with a net book value of $4,012,747	**—**	1,500,000
Mortgage payable, Hamilton Community Foundation, 4% interest property only through term, principal due July 2021, collaterized by property at 223-227 East Avenue North, Hamilton and 315 Robert Street, Hamilton with net book value of $3,386,502	**1,700,000**	1,700,000
Mortgage payable, private family foundation, 3.75% interest only through term, principal due October 2020, collaterized by property at 205 Melvin Street, Hamilton with a net book value of $15,617,851	**4,500,000**	—
Mortgage payable, Libro Credit Union, 4.75% interest, repayable in blended monthly instalments of $7,783, matures August 2024, collaterized by property at 373 Blossom Park, Woodstock with a net book value of $8,889,037	**1,500,000**	—
Mortgage payable, Venture Norfolk, 4.45% interest only through 36 month term with 24 month interest payment deferral, principal due November 2021, collaterized by property at 41 Norfolk Street S Simcoe with a net book value of $1,14 5,859	**1,033,238**	—
Private loans payable, unsecured, 0-5.75% interest, majority loans require no principal payments, interest payable at least annually	**25,980,399**	26,551,100
	46,404,782	43,298,381
Current portion of long-term debt	**2,210,282**	4,630,383
	44,194,500	38,667,998

The various mortgages are secured by:

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

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

As at August 31, 2019, the Organization complied with all these requirements.

4. Long-term debt (continued)

Private loans payable are either open and callable and due upon 30, 60 or 90 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:

	$
2020	2,210,282
2021	6,552,574
2022	1,396,154
2023	373,698
2024 and thereafter	35,872,074
Total	46,404,782

5. Interfund transfers

The Organization's management transferred $1,663,689 (2018 - $2,054,915) to the Capital 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 (2018 - $nil). 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, 2019 is $525,200 (2018 - $565,400).

(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, 2019 is $316,667 (2018 - $366,667).

(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, 2019 is $5,416,140 (2018 - $5,416,140).

6. Contingencies and commitments (continued)

(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, 2019 is $5,206,632 (2018 - $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.

(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, 2019 is $2,000,000 (2018 - $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 has been reported as revenue in 2017 and 2018. 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 $550,000 recognized in 2019 (2018 - $2,220,000). 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, 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 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 $968,914 recognized in 2019 (2018 - $968,971)). Should the conditions no longer be met, the Organization would be required to repay the entire forgivable loan.

6. Contingencies and commitments (continued)

(j) In 2019, the Organization was approved for forgivable mortgages of $5,250,000, comprised of $2,838,030 under the Canada-Ontario Social Infrastructure Fund Program and $2,411,970 under the City of Hamilton Poverty Reduction Implementation Plan Rental Housing Program. Agreements were signed with the City of Hamilton and the funding is receivable 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 in 2051. Since the mortgages of $5,250,000 are considered forgivable, the forgivable mortgages will be reported as revenue as the project milestones are achieved (including $2,625,000 recognized in 2019). Should the conditions no longer be met, the Organization would be required to repay the entire forgivable loan.

(k) In 2019, the Organization was approved for forgivable mortgages of $21,538,440, comprised of $2,184,986 under the Canada-Ontario Investment in Affordable Housing Program, $5,895,890 under the Canada-Ontario Social Infrastructure Fund Program and $13,457,564 from the Regional Municipality of Peel. Agreements were signed with the Regional Municipality of Peel and the funding is receivable 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 in 2051. Since the mortgages of $21,538,440 are considered forgivable, the forgivable mortgages will be reported as revenue as the project milestones are achieved (including $3,045,515 recognized in 2019). Should the conditions no longer be met, the Organization would be required to repay the entire forgivable loan.

(l) In 2019, the Organization was approved for a forgivable mortgage of $2,907,000, under the Canada Mortgage and Housing Corporation's (CMHC) National Housing Co-investment Fund Program. Commitments were signed with CMHC in 2019 with the final loan agreement signed subsequent to the year end and the funding is receivable in 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 2039. Since the mortgage of $2,907,000 is considered forgivable, the entire forgivable mortgage has been reported as revenue as the project milestones were achieved in 2019. An equal portion of the principal amount of the loan shall be forgiven on each anniversary of the date of advance. The potential repayable portion at August 31, 2019 is $2,907,000.

(m) The Organization leases a property under an operating lease to provide affordable housing which expires on April 30, 2029. Future lease payments include the following amounts payable over the next five years:

	$
2020	662,000
2021	437,000
2022	387,000
2023	387,000
2024	387,000

7. Bank loan credit agreement

The Organization's approved line of credit with Libro Credit Union is $2,400,000. As at year end, $2,238,407 (2018 - $2,272,610) 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.

7. Bank loan credit agreement (continued)

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

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

As at August 31, 2019, the Organization complied with all these requirements.

8. Supplemental cash flow information

Changes in non-cash operating working capital items

	2019	2018
	$	$
Accounts receivable	**489,942**	(405,678)
Grants receivable	**(3,045,006)**	3,221,871
Prepaid expenses and deposits	**(166,503)**	(168,615)
Accounts payable and accrued liabilities	**(387,872)**	157,125
Construction holdback payable	**(1,054,449)**	611,420
Government remittances payable	**3,555**	(51,500)
Residents' deposits	**58,363**	22,861
Deferred revenue	**224,935**	12,916
	(3,877,035)	3,400,400

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 through the normal course of the landlord-tenant relationship. 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, as outlined in Note 4, 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, 2019, the most significant financial liabilities are a bank loan, accounts payable and accrued liabilities, construction holdback payable, residents' deposits and long-term debt.

10. Subsequent events

(a) Subsequent to the year end, the Organization entered into a contribution agreement with the City of Hamilton under the Ontario Priorities Housing Initiative Program. The agreement, dated January 14, 2020, provides a forgivable mortgage in the amount of $2,298,575. The funding is expected to be received in 2020 and 2021. 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 twenty-five (25) years from the date of occupancy. Since the mortgage of $2,298,575 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 a capital contribution agreement with the County of Norfolk under the Ontario Priorities Housing Initiative Program and an operating funding agreement with the County of Norfolk. The capital contribution agreement, dated December 18, 2019, provides a forgivable mortgage in the amount of $250,000. The funding is expected to be received in 2021. 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 twenty (20) years from the date of occupancy. Since the mortgage of $250,000 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. The operating funding agreement, dated December 18, 2019, provides annual funding of up to $250,000, starting in 2020, for a twenty (20) year period towards a redevelopment project at 41 Norfolk St S. in Simcoe.

11. Prior year comparatives

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