

MENNOHOMES INC.

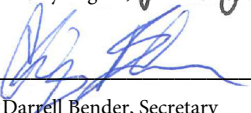
FINANCIAL STATEMENTS

AUGUST 31, 2020

Approved on behalf of the Board of Directors: November 25, 2020



Nancy Regehr, Chair



Darrell Bender, Secretary



INDEPENDENT AUDITOR'S REPORT To the Directors of MennoHomes Inc.

Qualified Opinion

I have audited the financial statements of MennoHomes Inc., which comprise the statement of financial position as at August 31, 2020, and the statement of operations and change in net assets, and the statement of cash flows, for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, except for the possible effects of the matter described in the Basis of Qualified Opinion paragraph, the accompanying financial statements present fairly, in all material respects, the financial position of MennoHomes Inc. as at August 31, 2020 and its results of operations, changes in net assets, and cash flows, for the year then ended, in accordance with Canadian Accounting Standards for Not-for-profit Organizations.

Basis of Qualified Opinion

In common with many charitable organizations, MennoHomes Inc. derives a portion of its revenues from the general public in the form of donations and fundraising, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, my verification of revenues from these sources was limited to accounting for the amounts recorded in the records of MennoHomes Inc.. Therefore, I was not able to determine whether any adjustments might be necessary to revenues, excess (deficit) of revenues over expenses, and cash flows for the years ended August 31, 2020 and 2019, current assets as at August 31, 2020 and 2019, and net assets as at September 1, 2019 and August 31, 2020 and 2019. My audit opinion on the financial statements for the year ended August 31, 2019 was also modified because of the possible effects of the same limitation in scope.

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated 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

My 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 my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I 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 I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my 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.

I 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 I identify during my audit.

E.M. Simon CPA

November 17, 2020
Kitchener, ON

E.M. Simon CPA Professional Corporation

Authorized to practise public accounting by the Chartered Professional Accountants of Ontario

1183 King Street East, suite #3, Kitchener, ON N2G 2N3

simon@simoncorp.ca Ph. (519) 744-1650 Fax (519) 576-0888

MENNOHOMES INC.**STATEMENT OF FINANCIAL POSITION****AS AT AUGUST 31, 2020**

(With comparative figures as at August 31, 2019)

(The accompanying notes are an integral part of these financial statements)

	2020				2019			
	<u>General Fund</u>	<u>Replacement Reserve Fund</u>	<u>New Projects Fund</u>	<u>Total</u>	<u>General Fund</u>	<u>Replacement Reserve Fund</u>	<u>New Projects Fund</u>	<u>Total</u>
ASSETS								
CURRENT								
Cash	402,542	179,608	1,420,533	2,002,683	285,280	178,221	395,618	859,119
Investments - Reserve Funds (note 2)	0	127,181	0	127,181	0	124,277	0	124,277
HST, rents and other receivables	12,836	1,768	0	14,604	9,929	1,464	365	11,758
Prepaid expenses	34,515	0	0	34,515	32,838	0	0	32,838
	449,893	308,557	1,420,533	2,178,983	328,047	303,962	395,983	1,027,992
CAPITAL ASSETS (note 3)	12,044,564	0	2,272,298	14,316,862	12,463,354	0	522,734	12,986,088
	\$12,494,457	\$308,557	\$3,692,831	\$16,495,845	\$12,791,401	\$303,962	\$918,717	\$14,014,080
LIABILITIES								
CURRENT								
Accounts, payable and accrued	42,290	2,280	0	44,570	41,451	1,091	0	42,542
Government remittances payable	2,856	0	0	2,856	3,100	0	0	3,100
Deferred income (note 5)	32,636	0	0	32,636	1,874	0	0	1,874
Current portion of long-term debt (note 4)	3,764,058	0	380,000	4,144,058	3,819,795	0	0	3,819,795
	3,841,840	2,280	380,000	4,224,120	3,866,220	1,091	0	3,867,311
LONG-TERM DEBT (note 4)	4,999,297	0	1,718,114	6,717,411	5,172,011	0	80,000	5,252,011
TOTAL LIABILITIES	8,841,137	2,280	2,098,114	10,941,531	9,038,231	1,091	80,000	9,119,322
NET ASSETS								
Externally restricted reserves	0	31,803	0	31,803	0	42,766	0	42,766
Internally restricted reserves	0	274,474	0	274,474	0	260,105	0	260,105
Externally restricted donations and financing	0	0	1,420,533	1,420,533	0	0	395,983	395,983
Unrestricted	372,111	0	0	372,111	281,622	0	0	281,622
Investment in capital assets	3,281,209	0	174,184	3,455,393	3,471,548	0	442,734	3,914,282
	3,653,320	306,277	1,594,717	5,554,314	3,753,170	302,871	838,717	4,894,758
	\$12,494,457	\$308,557	\$3,692,831	\$16,495,845	\$12,791,401	\$303,962	\$918,717	\$14,014,080

MENNOHOMES INC.**STATEMENT OF OPERATIONS AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED AUGUST 31, 2020**

(With comparative figures for the year ended August 31, 2019)

(The accompanying notes are an integral part of these financial statements)

	2020				2019			
	<u>General Fund</u>	<u>Replacement Reserve Fund</u>	<u>New Projects Fund</u>	<u>Total</u>	<u>General Fund</u>	<u>Replacement Reserve Fund</u>	<u>New Projects Fund</u>	<u>Total</u>
REVENUES:								
Donations and fundraising	12,950	0	754,589	767,539	104,160	0	292,711	396,871
Rental income	969,210	0	0	969,210	951,864	0	0	951,864
Government grants	103,480	0	0	103,480	103,480	0	0	103,480
Investment and other income	12,586	4,242	3,730	20,558	13,120	4,139	0	17,259
	<u>1,098,226</u>	<u>4,242</u>	<u>758,319</u>	<u>1,860,787</u>	<u>1,172,624</u>	<u>4,139</u>	<u>292,711</u>	<u>1,469,474</u>
EXPENSES:								
Mortgage interest	187,761	0	0	187,761	169,839	0	0	169,839
Amortization of capital assets	418,789	0	0	418,789	438,514	0	0	438,514
Repairs and maintenance	114,658	80,236	0	194,894	110,910	46,576	0	157,486
Utilities	56,324	0	0	56,324	60,109	0	0	60,109
Insurance	41,239	0	0	41,239	36,808	0	0	36,808
Trillium benefit allowance	46,162	0	0	46,162	50,742	0	0	50,742
Office and administration	48,351	357	2,319	51,027	50,333	120	336	50,789
Salaries and benefits	124,095	0	0	124,095	136,262	0	0	136,262
Management and superintendent	80,940	0	0	80,940	77,921	0	0	77,921
	<u>1,118,319</u>	<u>80,593</u>	<u>2,319</u>	<u>1,201,231</u>	<u>1,131,438</u>	<u>46,696</u>	<u>336</u>	<u>1,178,470</u>
EXCESS (DEFICIT) FOR THE YEAR	(20,093)	(76,351)	756,000	659,556	41,186	(42,557)	292,375	291,004
NET ASSETS - opening	3,753,169	302,872	838,717	4,894,758	4,092,324	267,422	244,008	4,603,754
Interfund transfers								
Budget transfers	(79,756)	79,756	0	0	(78,007)	78,007	0	0
Construction transfers:								
- Bridgeport at Lancaster (note 6)	0	0	0	0	(302,334)	0	302,334	0
NET ASSETS - closing	<u>\$3,653,320</u>	<u>\$306,277</u>	<u>\$1,594,717</u>	<u>\$5,554,314</u>	<u>\$3,753,169</u>	<u>\$302,872</u>	<u>\$838,717</u>	<u>\$4,894,758</u>

MENNOHOMES INC.**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2020**

(With comparative figures for the year ended August 31, 2019)

(The accompanying notes are an integral part of these financial statements)

	2020				2019			
	<u>General Fund</u>	<u>Replacement Reserve Fund</u>	<u>New Projects Fund</u>	<u>Total</u>	<u>General Fund</u>	<u>Replacement Reserve Fund</u>	<u>New Projects Fund</u>	<u>Total</u>
SOURCES (USES) OF CASH:								
OPERATING ACTIVITIES:								
Excess (deficit) for the year	(20,093)	(76,351)	756,000	659,556	41,186	(42,557)	292,375	291,004
Items not affecting cash:								
Amortization of capital assets	418,789	0	0	418,789	438,514	0	0	438,514
Change in non-cash current assets and liabilities:								
Investments - Reserve Funds	0	(2,904)	0	(2,904)	0	(2,616)	0	(2,616)
HST, rents and other receivables	(2,907)	(304)	365	(2,846)	12,730	(389)	(328)	12,013
Prepaid expenses	(1,677)	0	0	(1,677)	(3,976)	0	0	(3,976)
Accounts, payable and accrued	839	1,190	0	2,029	(17,339)	(12,790)	0	(30,129)
Government remittances payable	(244)	0	0	(244)	125	0	0	125
Deferred income (note 5)	30,762	0	0	30,762	0	0	0	0
	425,469	(78,369)	756,365	1,103,465	471,240	(58,352)	292,047	704,935
INVESTING ACTIVITIES:								
Investment in capital assets	0	0	(1,749,564)	(1,749,564)	(9,292)	0	(522,734)	(532,026)
FINANCING ACTIVITIES:								
Interfund transfers	(79,756)	79,756	0	0	(380,341)	78,007	302,334	0
Long-term debt acquired	40,000	0	2,068,114	2,108,114	492,027	0	0	492,027
Long-term debt repaid	(268,451)	0	(50,000)	(318,451)	(261,317)	0	(20,000)	(281,317)
	(308,207)	79,756	2,018,114	1,789,663	(149,631)	78,007	282,334	210,710
CHANGE IN FUNDS	117,262	1,387	1,024,915	1,143,564	312,317	19,655	51,647	383,619
CASH ON HAND - opening	285,280	178,221	395,618	859,119	(27,037)	158,566	343,971	475,500
CASH ON HAND - closing	\$402,542	\$179,608	\$1,420,533	\$2,002,683	\$285,280	\$178,221	\$395,618	\$859,119

MENNOHOMES INC.

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2020

PURPOSE OF THE ORGANIZATION

MennoHomes Inc. was established to construct or purchase, and maintain, affordable housing for persons of low income, and seniors and disabled persons of low or modest income. MennoHomes Inc. was incorporated under the Ontario Business Corporations Act, is a charity registered with Canada Revenue Agency under the Income Tax Act, and as such, is exempt from income tax. MennoHomes Inc. operates several affordable housing projects within Waterloo Region.

1. SIGNIFICANT ACCOUNT POLICIES

Basis of presentation

These financial statements have been prepared using Canadian Accounting Standards for Not-for-profit Organizations.

Fund Accounting

Accounts are maintained in accordance with the principles of fund accounting, wherein resources for various purposes are classified in accordance with activities or objectives as specified by the Board, management or donors. The **General Fund** reflects the assets, liabilities, revenues and expenses for all construction projects which are completed and are currently being rented. MennoHomes maintains assets within the **Replacement Reserve Fund** pursuant to agreements with the Ministry of Municipal Affairs and Housing related to funding for their Village, Rockway and Memorial Ave. properties, which require MennoHomes Inc. to set aside 2% of annual rents in a capital maintenance reserve, which can then be drawn on to fund significant repairs or replace significant assets (see Externally Restricted Net Assets). The Board has chosen to restrict additional funds for capital maintenance beyond those required by contractual agreements, which are also maintained in this fund (see Internally Restricted Net Assets). The **New Projects Fund** (formerly the Capital Projects Fund) is reflective of construction projects in process. Once construction projects are complete and available for rent, all assets and liabilities are transferred from the New Projects Fund to the General Fund.

Revenue Recognition

MennoHomes Inc. uses the Restricted Fund method of accounting for revenues, whereby donor-restricted donations are reflected as income in the fund for which they are designated. Unrestricted donations are reflected as revenue in the General Fund. All revenues are recorded when received or receivable, provided amounts are reasonably estimable and collection is reasonably assured. To the extent the restricted revenues are unspent, they are reflected as restricted net assets in the respective restricted fund, or deferred income in the General Fund, on the statement of financial position.

MennoHomes Inc. receives many hours of service from many volunteers. The monetary value of these contributed services is not reflected in these statements because determination of a fair value cannot be reasonably established.

Capital Assets

Capital assets are reflected at cost. Building costs include direct construction costs, including interest, plus related management salaries during construction and some fundraising costs (note 7). Cost is amortized at the following annual rates:

Buildings	- 4% on the declining balance
Appliances, equipment, leasehold improvements	- 20% on the declining balance

Financial instruments

A financial instrument is a contract that creates a financial asset for one entity and a financial liability or equity instrument of another. Financial assets and liabilities are initially measured at fair value, except for non-arm's length transactions, if any. The organization subsequently measures all its financial assets and financial liabilities at amortized cost, except for investments in equity instruments with quoted fair values in an active market, if any, which are measured at fair value. Changes in fair value are recognized in net income. Financial assets measured at cost are tested for impairment when there are indicators of impairment. The amount of any write-down is recognized on the statement of operations and changes in net assets. Any previously recognized impairment losses may be reversed and reflected as income to the extent of improvement. 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.

MENNOHOMES INC.

NOTES TO THE FINANCIAL STATEMENTS AUGUST 31, 2020

1. SIGNIFICANT ACCOUNT POLICIES (continued)

Cash

For purposes of these financial statements, cash is defined as funds held in bank accounts and short-term investments which mature within 30 days.

2. FINANCIAL INSTRUMENTS

	<u>2020</u>	<u>2019</u>
Investments - reflected at amortized cost (see note 6 - credit facility):		
Guaranteed investment certificate - 2.1% due April 2019	0	24,963
Guaranteed investment certificate - 2.2% due April 2020	0	24,999
Guaranteed investment certificate - 2.25% due April 2021	25,563	24,658
Guaranteed investment certificate - 2% due April 2022	25,153	24,768
Guaranteed investment certificate - 2.25% due April 2023	25,314	24,889
Guaranteed investment certificate - 3.05% due April 2024	25,638	0
Guaranteed investment certificate - 1.95% due April 2021	25,513	0
	127,181	124,277
Other financial assets reflected at amortized cost - cash and receivables (excluding HST)	2,004,617	859,292
Total financial assets	\$2,131,798	\$983,569

As in the prior year, management believes the organization faces some interest rate risk with respect to its investments and mortgages payable, in that, changes in interest rates could have a significant impact on related future income or expenses. As in the prior year, management believes it does not face any significant credit, currency, liquidity or market risk with respect to any of its remaining financial instruments.

3. CAPITAL ASSETS

	<u>2020</u>		<u>2019</u>	
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Kitchener - The Village				
Land	212,851	0	212,851	212,851
Building	1,451,738	692,101	759,637	791,289
Appliances	30,158	29,309	849	1,061
	1,694,747	721,410	973,337	1,005,201
Kitchener - Rockway Gardens				
Land	555,321	0	555,321	555,321
Building	5,286,109	2,204,855	3,081,254	3,209,640
Appliances and equipment	87,326	81,933	5,393	6,741
	5,928,756	2,286,788	3,641,968	3,771,702
Wellesley				
Land	511,565	0	511,565	511,565
Building	1,033,207	306,841	726,366	756,632
Appliances	15,495	13,211	2,284	2,855
	1,560,267	320,052	1,240,215	1,271,052
Elmira				
Land	962,773	0	962,773	962,773
Building	6,099,803	942,163	5,157,640	5,372,543
Appliances	85,237	47,462	37,775	47,218
	7,147,813	989,625	6,158,188	6,382,534
Office equipment and leasehold improvements	39,734	8,878	30,856	32,865
Total - General Fund	16,371,317	4,326,753	12,044,564	12,463,354
New projects				
Bridgeport & Lancaster project (note 6)	2,272,298	0	2,272,298	522,734
	\$18,643,615	\$4,326,753	\$14,316,862	\$12,986,088

MENNOHOMES INC.

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2020

4. LONG-TERM DEBT

	<u>2020</u>	<u>2019</u>
<u>New Projects</u>		
Private loan, interest free, principal due July 2021, unsecured	30,000	80,000
Due to Bridgeport at Lancaster (see note 6) - Region of Waterloo funding (1)	1,718,114	0
Private loans - principal and 4% interest due June 2021, unsecured	350,000	0
	<u>2,098,114</u>	<u>80,000</u>
<u>Kitchener - The Village</u>		
Abundance Canada (2)	531,395	577,582
Ministry of Municipal Affairs and Housing (3)	229,000	229,000
Regional Municipality of Waterloo (4)	150,000	150,000
	<u>910,395</u>	<u>956,582</u>
<u>Kitchener - Rockway Gardens</u>		
Abundance Canada (5)	1,624,280	1,722,774
Abundance Canada (6)	627,515	695,172
Ministry of Municipal Affairs and Housing (7)	840,000	840,000
	<u>3,091,795</u>	<u>3,257,946</u>
<u>Wellesley</u>		
Abundance, Canada - Pond View, Wellesley (8)	85,109	89,089
Ministry of Municipal Affairs and Housing - Pond View, Wellesley (9)	480,000	480,000
Regional Municipality of Waterloo - David Street, Wellesley (10)	240,000	240,000
Abundance, Canada - David Street, Wellesley (11)	33,623	34,738
	<u>838,732</u>	<u>843,827</u>
<u>Elmira</u>		
Abundance, Canada - 9, 11A and 11B Ratz Street, Elmira (12)	67,269	70,192
Abundance, Canada - 7 Memorial Ave., Elmira	0	1,245,358
Kindred Credit Union - 7 Memorial Ave. Elmira (13)	1,214,056	0
Kindred Credit Union - Stillwater Street, Elmira (14)	137,258	144,051
Regional Municipality of Waterloo - Centre St. and Stillwater Streets, Elmira (15)	400,000	400,000
Regional Municipality of Waterloo - 9, 11A & 11B Ratz Street, Elmira (16)	360,000	360,000
Regional Municipality of Waterloo - 7 Memorial Ave., Elmira (17)	1,703,850	1,703,850
Private loan, interest free, principal due at \$10,000 annually, unsecured	0	10,000
	<u>3,882,433</u>	<u>3,933,451</u>
<u>General Fund - Operating Financing</u>		
Canada Emergency Business Account Loan (18)	40,000	0
Total General Fund	8,763,355	8,991,806
Total New Projects Fund	2,098,114	80,000
Total long-term debt	<u>10,861,469</u>	<u>9,071,806</u>
Current portion		
Loans with terms maturing in the forthcoming year	3,883,045	3,539,214
Projected principal payments - loans with terms maturing beyond the forthcoming year	261,013	280,581
	<u>4,144,058</u>	<u>3,819,795</u>
Long-term portion	<u>\$6,717,411</u>	<u>\$5,252,011</u>

MENNOHOMES INC.

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2020

4. LONG-TERM DEBT (continued)

Projected repayment of long-term debt:	<u>fiscal year</u>	
	2021	4,144,058
	2022	115,031
	2023	79,214
	2024	83,631
	thereafter	<u>6,439,535</u>
		<u>\$10,861,469</u>

Terms and Conditions:

New Projects

- (1) Construction funds advanced to date (of a total of \$3,818,032 to be advanced) held in trust to be advanced to Bridgeport & Lancaster as needed for construction, secured by a second mortgage on the Bridgeport & Lancaster property, a performance bond of 50% of the project budget and builders risk insurance. MennoHomes Inc. will assume responsibility for this loan, upon registration of the related condo corporation after completion of the project. Interest and principal payments will be forgiven in 2045, provided MennoHomes Inc. complies with the terms of an agreement with the Region which defines the nature of the affordable housing to be provided. If the terms are not met, interest, calculated monthly at bank prime plus 2%, plus principal may be demanded by the Region.

Kitchener - The Village

- (2) The first mortgage payable bears interest at 4.25%, requires monthly principal and interest payments of \$5,787, matures in November 2020 and is secured by a first charge on the real estate known as "The Village".
- (3) Interest payments will be forgiven annually and principal in 2024, provided MennoHomes Inc. complies with the terms of an agreement with the Ministry which defines the nature of the affordable housing to be provided. Principal and interest, calculated at the higher of the current prime rate for a five-year commercial mortgage plus 2% and the interest rate of the first mortgage plus 2%, may be demanded by the Ministry, if the terms of the agreement with the Ministry are not met. The loan is secured by a second mortgage in the amount of \$379,000, a general security agreement, assignment of rents and insurance.
- (4) Interest and principal payments will be forgiven in 2024, provided MennoHomes Inc. complies with the terms of an agreement with the Region which defines the nature of the affordable housing to be provided. If the terms of the agreement are not met, interest, calculated monthly at bank prime plus 2%, plus principal may be demanded by the Region. The loan is secured by a second mortgage in the amount of \$379,000, a general security agreement, assignment of rents and insurance.

Kitchener - Rockway Gardens

- (5) The first mortgage bears interest at 4.25%, requires monthly principal and interest payments of \$14,048, matures in December 2020 and is secured by a first charge on the real estate known as "Rockway Gardens".
- (6) The second mortgage payable bears interest at 5.5%, requires monthly principal and interest payments of \$8,623, matures in December 2027 and is secured by a second charge on the real estate known as "Rockway Gardens". The Ministry of Municipal Affairs and Housing has agreed to fund the required mortgage payments to maturity provided MennoHomes Inc. continues to operate the project under the terms of the Ministry's 'Affordable Housing Program'.
- (7) Interest payments will be forgiven annually, and principal repayment will be forgiven in 2026, provided MennoHomes Inc. complies with the terms of an agreement with the Ministry which defines the nature of the affordable housing to be provided. Principal and interest, calculated at the higher of the current prime rate for a five-year commercial mortgage plus 2% and the interest rate of the first mortgage plus 2%, may be demanded by the Ministry, if the terms of the agreement with the Ministry are not met. The loan is secured by a mortgage on the real estate, an assignment of rents and a general security agreement.

MENNOHOMES INC.

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2020

4. LONG-TERM DEBT (continued)

Wellesley

- (8) The first mortgage payable bears interest at 3.9%, requires monthly principal and interest payments of \$637, is secured by a first charge on the real estate and matures in August 2021.
- (9) Interest will be forgiven annually and principal repayment forgiven in 2030, provided MennoHomes Inc. complies with the terms of an agreement with the Ministry which defines the nature of the affordable housing to be provided. Principal and interest, calculated at the higher of the current prime rate for a five-year commercial mortgage plus 2% and the interest rate of the first mortgage plus 2%, may be demanded by the Ministry, if the terms of the agreement with the Ministry are not met. The loan is secured by a first mortgage on the real estate and an assignment of rents.
- (10) Interest and principal payments will be forgiven in 2038, provided MennoHomes Inc. complies with the terms of an agreement with the Region which defines the nature of the affordable housing to be provided. If the terms are not met, interest, calculated monthly at bank prime plus 2%, plus principal may be demanded by the Region. The loan is secured by a first mortgage on the property, a general security agreement, assignment of rents and insurance.
- (11) The first mortgage payable bears interest at 4.25%, requires monthly principal and interest payments of \$212, is secured by a first charge on the real estate and matures in November 2020.

Elmira

- (12) Mortgage payable which bears interest at 3.9%, requires monthly principal and interest payments of \$474, matures July 2021, secured by real estate.
- (13) Mortgage payable which bears interest at 3.75%, requires monthly principal and interest payments of \$6,518, mature February 2021, secured by a first collateral mortgage on 7 Memorial Ave., Elmira, ON. (see credit facility below)
- (14) Mortgage payable bearing interest at 2.79%, requires monthly principal and interest payments of \$892, matures in June 2021 and is secured by a first charge on 27 Stillwater St. (see credit facility)
- (15) Interest and principal payments will be forgiven in 2037, provided MennoHomes Inc. complies with the terms of an agreement with the Region which defines the nature of the affordable housing to be provided. If the terms of the agreement are not met, interest, calculated monthly at bank prime plus 2%, plus principal may be demanded by the Region. The loan is secured by a first mortgage on properties at 2 and 4 Centre Street and a second mortgage on properties at 27 and 38 Stillwater Street in the amount of \$100,000 each, a general security agreement, assignment of rents and insurance.
- (16) Interest and principal payments will be forgiven in 2038, provided MennoHomes Inc. complies with the terms of an agreement with the Region which defines the nature of the affordable housing to be provided. If the terms of the agreement are not met, interest, calculated monthly at bank prime plus 2%, plus principal may be demanded by the Region. The loan is secured by a first mortgage on properties totaling \$360,000, a general security agreement, assignment of rents and insurance.
- (17) Construction advances to date of a total of \$3,818,032 to be advanced. Interest and principal payments will be forgiven in 2042, provided MennoHomes Inc. complies with the terms of an agreement with the Region which defines the nature of the affordable housing to be provided. If the terms are not met, interest, calculated monthly at bank prime plus 2%, plus principal may be demanded by the Region. The loan is secured by a second charge on the property totaling \$3,818,032, a performance bond from the general contractor, assignment of rents and insurance.
- (18) Interest free, unsecured, due December 31, 2022, \$10,000 forgiven upon repayment of \$30,000 before December 31, 2022.

MENNOHOMES INC.

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2020

5. DEFERRED INCOME

	<u>2020</u>			<u>2019</u>
	<u>Special Needs</u>	<u>KW Community Foundation</u>	<u>Total</u>	<u>Total</u>
Funding designated for Special Needs:				
Opening balance	1,874	0	1,874	3,374
Designated funds received	0	31,562	31,562	0
Designated funds disbursed	(800)	0	(800)	(1,500)
Closing balance	\$1,074	\$31,562	\$32,636	\$1,874

6. COMMITMENTS, CONTINGENCIES, CONTRACTUAL OBLIGATIONS

Credit Facilities - MennoHomes Inc. has an agreement with Kindred Credit Union with the following facilities:

- An operating line of credit to a maximum of \$28,000 which bears interest at prime + 1% and is secured by a collateral mortgage on 27 Stillwater St., Elmira.
- Letters of credit in favour of the City of Kitchener totaling \$548,925
- A \$5,000,000 construction term loan which bears interest at prime payable annually, balance due two years from Date of Advance
- A \$2,250,000 construction term loan which bears interest at prime payable annually, balance due two years from Date of Advance
- The credit facility is secured by an all first collateral mortgage on 27 Stillwater Street, Elmira, ON, a \$5,000,000 first collateral mortgage on the Bridgeport at Lancaster development property, investments totaling \$103,581 and a \$4,100,000 first collateral mortgage on 7 Memorial Ave., Elmira, ON.

Region of Waterloo financing - MennoHomes Inc. has entered in loan agreements with the Region of Waterloo which require MennoHomes Inc. to repay the loans plus accrued interest should MennoHomes Inc. default with respect to the terms of an agreement regarding the provision of affordable housing. The amount of the accrued interest is not accrued in these financial statements as the Board fully intends to comply with the agreement, however, should the terms be in default the total related contingent liability would be as follows:

Total interest due should default on all agreements occur: \$803,572

Lease obligation - MennoHomes Inc. has a lease obligation with respect to its office requiring a monthly base rent payment of \$646 plus a pro rata share of common costs of approximately \$430 monthly, which expires in August 2021.

Capital Assets - New Projects - Bridgeport at Lancaster - MennoHomes Inc. has entered into a Members Agreement with a local church. MennoHomes Inc. and the church established a not-for-profit corporation, the purpose of which is to redevelop the church's current property into a new church facility and a non-profit residential facility. It will exclusively service persons of low income and senior citizens and disabled persons of low or modest income. All resulting properties will be owned by the Members through a condominium corporation. The church will be contributing its real estate to the not-for-profit corporation, MennoHomes Inc. will be securing funding for the redevelopment, which is budgeted at approximately fourteen million dollars. The balance reflected under New Projects in Capital Assets on the statement of financial position represents funds advanced to the non-profit corporation to date.

7. ALLOCATION OF COSTS TO NEW PROJECTS

MennoHomes Inc. incurs certain administrative and fundraising costs related to new projects. These costs are capitalized along with direct costs incurred related to the new project. Administrative and fundraising costs capitalized to new projects in the current year are as follows:

	<u>2020</u>	<u>2019</u>
Staff salaries and benefits	32,156	21,263
Fundraising costs	5,205	2,416
	<u>\$37,361</u>	<u>\$23,679</u>

MENNOHOMES INC.

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2020

8. SUBSEQUENT EVENTS

As of the date of issuance of these financial statements the Covid-19 pandemic continued to impact most organizations world-wide, including MennoHomes. It's future impact on MennoHomes is uncertain. Management is actively monitoring local and global events and reacting to the best of their abilities, to maintain the organizations financial health and well being.