

MENNOHOMES INC.

FINANCIAL STATEMENTS

AUGUST 31, 2015



INDEPENDENT AUDITORS' REPORT
To the Directors of MennoHomes Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of MennoHomes Inc., which comprise the statement of financial position as at August 31, 2015, the statement of operations and change in net assets, and the statement of 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.

Auditors' 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

Basis of Qualified Opinion

In common with many not-for-profit 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, our verification of revenues from these sources was limited to accounting for the amounts recorded in the records of the organization and we were not able to determine whether any adjustments might be necessary to revenues, net income and net assets.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis of Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of MennoHomes Inc. as at August 31, 2015, and its results of operations, change in net assets and cash flows, for the year then ended, in accordance with Canadian Accounting Standards for Not-for-profit Organizations.

Chartered Professional Accountants
Licensed Public Accountants
November 18, 2015
Kitchener, ON

***Cardy Winters & Simon* LLP**
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MENNOHOMES INC.

STATEMENT OF FINANCIAL POSITION

AS AT AUGUST 31, 2015

(With comparative figures as at August 31, 2014)

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

ASSETS	2015			2014		
	<u>General</u> <u>Fund</u>	<u>Capital</u> <u>Projects</u> <u>Fund</u>	<u>Total</u>	<u>General</u> <u>Fund</u>	<u>Capital</u> <u>Projects</u> <u>Fund</u>	<u>Total</u>
CURRENT						
Cash	135,166	205,628	340,794	141,358	122,824	264,182
Cash - Reserve Funds	192,828	0	192,828	163,204	0	163,204
HST and rents receivable	19,636	763	20,399	19,463	8,509	27,972
Prepaid expenses	30,580	0	30,580	34,676	0	34,676
	<u>378,210</u>	<u>206,391</u>	<u>584,601</u>	<u>358,701</u>	<u>131,333</u>	<u>490,034</u>
CAPITAL ASSETS (note 2)	8,558,759	810,920	9,369,679	8,849,794	578,402	9,428,196
	<u>\$8,936,969</u>	<u>\$1,017,311</u>	<u>\$9,954,280</u>	<u>\$9,208,495</u>	<u>\$709,735</u>	<u>\$9,918,230</u>
LIABILITIES						
CURRENT						
Bank overdraft (note 6)	0	0	0	17,399	0	17,399
Accounts, payable and accrued	20,370	0	20,370	25,734	14,488	40,222
Government remittances payable	2,399	0	2,399	1,339	0	1,339
Deferred income (note 5)	3,374	0	3,374	3,373	0	3,373
Current portion of long-term debt	3,214,287	0	3,214,287	3,209,424	0	3,209,424
	<u>3,240,430</u>	<u>0</u>	<u>3,240,430</u>	<u>3,257,269</u>	<u>14,488</u>	<u>3,271,757</u>
LONG-TERM DEBT (note 3)	7,010,616	389,567	7,400,183	7,166,708	377,000	7,543,708
Current portion of long-term debt	(3,214,287)	0	(3,214,287)	(3,209,424)	0	(3,209,424)
	<u>3,796,329</u>	<u>389,567</u>	<u>4,185,896</u>	<u>3,957,284</u>	<u>377,000</u>	<u>4,334,284</u>
NET ASSETS						
Externally Restricted Reserve Funds (note 6)	100,830	0	100,830	89,333	0	89,333
Internally Restricted Reserve Funds (note 6)	91,998	0	91,998	73,871	0	73,871
Externally Restricted Donations (note 6)	0	206,391	206,391	0	116,845	116,845
Unrestricted	159,239	0	159,239	147,652	0	147,652
Investment in capital assets	1,548,143	421,353	1,969,496	1,683,086	201,402	1,884,488
	<u>1,900,210</u>	<u>627,744</u>	<u>2,527,954</u>	<u>1,993,942</u>	<u>318,247</u>	<u>2,312,189</u>
	<u>\$8,936,969</u>	<u>\$1,017,311</u>	<u>\$9,954,280</u>	<u>\$9,208,495</u>	<u>\$709,735</u>	<u>\$9,918,230</u>

MENNOHOMES INC.

STATEMENT OF OPERATIONS AND CHANGE IN NET ASSETS FOR THE YEAR ENDED AUGUST 31, 2015

(With comparative figures for the year ended August 31, 2014)

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

	2015			2014		
	<u>General</u> <u>Fund</u>	<u>Capital</u> <u>Projects</u> <u>Fund</u>	<u>Total</u>	<u>General</u> <u>Fund</u>	<u>Capital</u> <u>Projects</u> <u>Fund</u>	<u>Total</u>
REVENUES:						
Donations and fundraising	0	311,054	311,054	0	272,381	272,381
Rental income	677,393	0	677,393	671,919	0	671,919
Government grants	103,480	0	103,480	115,400	0	115,400
Investment and other income	25,949	0	25,949	33,754	0	33,754
	<u>806,822</u>	<u>311,054</u>	<u>1,117,876</u>	<u>821,073</u>	<u>272,381</u>	<u>1,093,454</u>
EXPENSES:						
Mortgage interest	160,785	0	160,785	171,423	0	171,423
Amortization of capital assets	294,526	0	294,526	297,213	0	297,213
Repairs and maintenance	92,968	0	92,968	107,627	0	107,627
Utilities	38,473	0	38,473	33,144	0	33,144
Insurance	36,724	0	36,724	34,370	0	34,370
Property taxes	105,791	0	105,791	107,920	0	107,920
Office and administration	43,716	1,127	44,843	37,387	920	38,307
Community Service Worker	3,013	0	3,013	6,158	0	6,158
Salaries and benefits	75,705	0	75,705	62,227	0	62,227
Management and superintendent	49,283	0	49,283	55,578	0	55,578
	<u>900,984</u>	<u>1,127</u>	<u>902,111</u>	<u>913,047</u>	<u>920</u>	<u>913,967</u>
NET INCOME (LOSS) FOR THE YEAR	(94,162)	309,927	215,765	(91,974)	271,461	179,487
NET ASSETS - opening	1,993,942	318,247	2,312,189	1,695,652	437,050	2,132,702
Interfund transfers						
Capital projects completed - Wellesley	0	0	0	390,264	(390,264)	0
Operating expenses	430	(430)	0	0	0	0
NET ASSETS - closing	<u>\$1,900,210</u>	<u>\$627,744</u>	<u>\$2,527,954</u>	<u>\$1,993,942</u>	<u>\$318,247</u>	<u>\$2,312,189</u>

MENNOHOMES INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2015

(With comparative figures for the year ended August 31, 2014)

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

SOURCES (USES) OF CASH:	2015			2014		
	<u>General</u> <u>Fund</u>	<u>Capital</u> <u>Projects</u> <u>Fund</u>	<u>Total</u>	<u>General</u> <u>Fund</u>	<u>Capital</u> <u>Projects</u> <u>Fund</u>	<u>Total</u>
OPERATING ACTIVITIES:						
Net income (loss) for the year	(94,162)	309,927	215,765	(91,974)	271,461	179,487
Items not affecting cash:						
Amortization of capital assets	294,526	0	294,526	297,213	0	297,213
Change in non-cash current assets and liabilities:						
HST and rents receivable	(173)	7,746	7,573	(5,915)	(8,257)	(14,172)
Prepaid expenses	4,096	0	4,096	(7,769)	0	(7,769)
Accounts, payable and accrued	(5,364)	(14,488)	(19,852)	(19,024)	(25,886)	(44,910)
Government remittances payable	1,060	0	1,060	1,339	0	1,339
Deferred income (note 5)	1	0	1	320	0	320
	<u>199,984</u>	<u>303,185</u>	<u>503,169</u>	<u>174,190</u>	<u>237,318</u>	<u>411,508</u>
INVESTING ACTIVITIES:						
Investment in capital assets	(3,491)	(232,518)	(236,009)	(764,512)	22,940	(741,572)
FINANCING ACTIVITIES:						
Interfund transfers	430	(430)	0	390,264	(390,264)	0
Long-term debt acquired	40,000	0	40,000	357,000	269,000	626,000
Long-term debt repaid	(196,092)	12,567	(183,525)	(188,440)	0	(188,440)
	<u>(155,662)</u>	<u>12,137</u>	<u>(143,525)</u>	<u>558,824</u>	<u>(121,264)</u>	<u>437,560</u>
CHANGE IN FUNDS	40,831	82,804	123,635	(31,498)	138,994	107,496
CASH ON HAND - opening	287,163	122,824	409,987	318,661	(16,170)	302,491
CASH ON HAND - closing	\$327,994	\$205,628	\$533,622	\$287,163	\$122,824	\$409,987
REPRESENTED BY:						
Cash	135,166	205,628	340,794	141,358	122,824	264,182
Cash - Reserve Funds	192,828	0	192,828	163,204	0	163,204
Bank overdraft (note 6)	0	0	0	(17,399)	0	(17,399)
	<u>\$327,994</u>	<u>\$205,628</u>	<u>\$533,622</u>	<u>\$287,163</u>	<u>\$122,824</u>	<u>\$409,987</u>

MENNOHOMES INC.

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2015

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 - Stirling Ave. (Stirling), The Village, Rockway Gardens (Rockway), Wellesley and Elmira.

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. 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 Capital Projects Fund to the General Fund.

Revenue Recognition

MennoHomes Inc. uses the Restricted Fund method of accounting, whereby receipts designated for a specific purpose are reflected as income in the fund for which they are designated. Unrestricted revenues are reflected in the General Fund. All revenues are recorded when received or receivable, provided collection is reasonably assured, and to the extent the funds are unspent, reflected as restricted net assets 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 and amortized at the following annual rates:

Buildings	- 4% on the declining balance
Appliances and equipment	- 20% on the declining balance

Management allocates a portion of the Executive Director's salary to the cost of Capital Projects based on best estimates of time spent on the projects. In the current year, this allocation amounted to \$23,958.

Use of Estimates

The preparation of financial statements in accordance with Canadian Accounting Standards for Not-for-profit Organizations requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they become known. Actual results could differ from those estimates.

MENNOHOMES INC.

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2015

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. As in the prior year, management believes the organization faces some interest rate risk with respect to its mortgages payable, in that, changes in interest rates can impact the market value of the mortgages payable. 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.

2. CAPITAL ASSETS

	<u>Cost</u>	<u>2015 Accumulated Amortization</u>	<u>Net Book Value</u>	<u>2014 Net Book Value</u>
General Fund				
The Village				
Land	212,851	0	212,851	212,851
Building	1,451,738	520,094	931,644	970,463
Appliances	30,158	27,567	2,591	3,238
	<u>1,694,747</u>	<u>547,661</u>	<u>1,147,086</u>	<u>1,186,552</u>
Rockway				
Land	555,321	0	555,321	555,321
Building	5,286,109	1,507,157	3,778,952	3,936,408
Appliances and equipment	81,721	66,810	14,911	18,639
	<u>5,923,151</u>	<u>1,573,967</u>	<u>4,349,184</u>	<u>4,510,368</u>
Stirling Avenue				
Land	30,000	0	30,000	30,000
Building	109,929	38,183	71,746	74,735
Appliances	3,292	2,883	409	511
	<u>143,221</u>	<u>41,066</u>	<u>102,155</u>	<u>105,246</u>
Wellesley				
Land	511,565	0	511,565	511,565
Building	1,033,207	142,367	890,840	925,189
Appliances	15,495	8,525	6,970	8,712
	<u>1,560,267</u>	<u>150,892</u>	<u>1,409,375</u>	<u>1,445,466</u>
Elmira				
Land	357,825	0	357,825	357,825
Building	1,360,658	178,744	1,181,914	1,230,313
Appliances	16,047	8,690	7,357	9,196
	<u>1,734,530</u>	<u>187,434</u>	<u>1,547,096</u>	<u>1,597,334</u>
Office Equipment	10,155	6,292	3,863	4,828
Total - General Fund	11,066,071	2,507,312	8,558,759	8,849,794
Capital Projects				
Land	452,930	0	452,930	430,133
Building	357,990	0	357,990	148,269
Total - Capital Projects Fund	810,920	0	810,920	578,402
	\$11,876,991	\$2,507,312	\$9,369,679	\$9,428,196

MENNOHOMES INC.

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2015

3. LONG-TERM DEBT

	<u>2015</u>	<u>2014</u>
<u>Capital Projects</u>		
Blaze Properties - Memorial Drive / Church St., Elmira	389,567	377,000
As described in the Commitments, Contingencies, Contractual Obligations note to the financial statements, MennoHomes Inc. has a Co-Tenancy Agreement with Woolwich Community Services related to the purchase and development of land and buildings. The balance noted represents MennoHomes Inc.'s share of a \$650,000 mortgage payable, for which both parties are jointly and severally liable. The mortgage, which matures in January 2017, was interest free for 2014, and now requires annual payments of interest only at 5% until maturity. The mortgage is secured by a first charge on the real estate noted.		
	<hr/> 389,567	<hr/> 377,000

The Village

Mennonite Foundation of Canada	755,702	795,721
The first mortgage payable bears interest at 3.1%, requires monthly principal and interest payments of \$5,465, matures in November 2015 and is secured by a first charge on the real estate known as "The Village".		
Ministry of Municipal Affairs and Housing	229,000	229,000
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.		
Regional Municipality of Waterloo	150,000	150,000
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.		
	<hr/> 1,134,702	<hr/> 1,174,721

Rockway Gardens

Mennonite Foundation of Canada	2,110,947	2,202,760
The first mortgage bears interest at 3.1%, requires monthly principal and interest payments of \$13,082, matures in December 2015 and is secured by a first charge on the real estate known as "Rockway Gardens".		

MENNOHOMES INC.

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2015

3. LONG-TERM DEBT (continued)

Rockway Gardens (continued)

2015

2014

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'.

932,017

983,690

Ministry of Municipal Affairs and Housing

840,000

840,000

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.

3,882,964

4,026,450

Stirling

Mennonite Savings and Credit Union

The first mortgage payable bears interest 3.5%, requires monthly principal and interest payments of \$129, matures in July 2016 and is secured by a first charge on the real estate.

18,102

18,922

Wellesley

Mennonite Foundation of Canada - Pond View, Wellesley

104,994

108,197

The first mortgage payable bears interest at 3.15%, requires monthly principal and interest payments of \$588, is secured by a first charge on the real estate and matures in August 2017.

Ministry of Municipal Affairs and Housing - Pond View, Wellesley

480,000

480,000

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.

Regional Municipality of Waterloo - David Street, Wellesley

240,000

240,000

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 the property, a general security agreement, assignment of rents and insurance.

Mennonite Foundation of Canada - David Street, Wellesley

39,254

0

The first mortgage payable bears interest at 3.25%, requires monthly principal and interest payments of \$194, is secured by a first charge on the real estate and matures in November 2016.

864,248

828,197

MENNOHOMES INC.**NOTES TO THE FINANCIAL STATEMENTS****AUGUST 31, 2015****3. LONG-TERM DEBT (continued)**

<u>Elmira</u>	<u>2015</u>	<u>2014</u>
Mennonite Foundation of Canada - 9, 11A and 11B Ratz Street, Elmira Mortgage payable which bears interest at 3.7%, requires monthly principal and interest payments of \$464, matures July 2018, secured by real estate.	81,363	83,823
Mennonite Savings and Credit Union - Stillwater Street, Elmira Mortgage payable bearing interest at 4.15%, requires monthly principal and interest payments of \$1,035, matures in June 2016 and is secured by a first charge on 27 Stillwater St.	169,237	174,595
Interest free private loan due July 2016, unsecured	100,000	100,000
Regional Municipality of Waterloo - Centre St. and Stillwater Streets, Elmira 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.	400,000	400,000
Regional Municipality of Waterloo - 9, 11A & 11B Ratz Street, Elmira 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 totalling \$360,000, a general security agreement, assignment of rents and insurance.	360,000	360,000
	<u>1,110,600</u>	<u>1,118,418</u>
Total Capital Projects Fund	389,567	377,000
Total General Fund	7,010,616	7,166,708
Total long-term debt	7,400,183	7,543,708
Current portion	3,214,287	3,209,424
Long-term portion	<u>\$4,185,896</u>	<u>\$4,334,284</u>

Projected repayment of long-term debt:	<u>fiscal year</u>	
	2016	3,214,287
	2017	197,833
	2018	522,629
	2019	59,900
	thereafter	<u>3,405,534</u>
		<u>\$7,400,183</u>

4. FINANCIAL INSTRUMENTS

	<u>2015</u>	<u>2014</u>
Financial assets reflected at amortized cost - cash and receivables	\$548,226	\$445,694

There are no financial assets which have been adjusted for changes in fair value subsequent to purchase, nor any financial assets measured at amortized cost less a reduction for impairment.

MENNOHOMES INC.

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2015

5. DEFERRED INCOME

	<u>2015</u>	<u>2014</u>
Funding designated for Special Needs:		
Opening balance	3,373	3,053
Designated funds received	0	0
Designated funds disbursed (recovered)	(1)	(320)
Closing balance	<u>\$3,374</u>	<u>\$3,373</u>

6. COMMITMENTS, CONTINGENCIES, CONTRACTUAL OBLIGATIONS

Bank overdraft

MennoHomes Inc. has access to an operating line of credit to a maximum of \$120,000 which bears interest at prime + 1.5% and is secured by a collateral mortgage on real estate.

Region of Waterloo funding

MennoHomes Inc. has entered in loan agreements with the Region of Waterloo which requires 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: \$136,025

Restricted Net Assets

In addition to donations for Capital Projects which are unspent, MennoHomes Inc. has agreements with the Ministry of Municipal Affairs and Housing related to funding for their Village and Rockway projects, which require MennoHomes Inc. to set aside 2% of annual rents in a capital maintenance reserve. These funds are reflected as Externally Restricted Reserve Funds on the Statement of Financial Position. The Board has chosen to put additional funds in excess of the amounts required by the Ministry of Municipal Affairs and Housing in a capital maintenance reserve also. These amounts are reflected as Internally Restricted Reserve Funds on the Statement of Financial Position.

Co-Tenancy - Memorial Ave., Elmira, ON

MennoHomes Inc. and Woolwich Community Services have entered into a Co-Tenancy Agreement for the purpose of purchasing land and constructing a building on Memorial Ave. in Elmira, ON. The land was purchased in January 2014. The property is currently being developed through a vacant land condominium. MennoHomes Inc. has a 58% interest in the land, and is responsible for 100% of Phase One and Phase Two Environmental Assessments as well as the Record of Site Condition, and 67% of the cost of hydro installation. Both parties will retain separate legal title to their respective buildings constructed on the property.

Lease obligation

MennoHomes Inc. has a lease obligation with respect to its office, which requires a monthly base rent payment of \$399, plus a pro rata share of common costs, which expires in October 2018.

7. SUBSEQUENT EVENTS

Subsequent to the yearend date, MennoHomes Inc. received approval from the Region of Waterloo for \$1,703,850 in funding to support construction of 15 of a planned 25 units at their Memorial Ave. project in Elmira (pending approval by Regional Council and signing of an agreement with the Region).