NATIVE CHILD AND FAMILY SERVICES OF TORONTO

FINANCIAL STATEMENTS
MARCH 31, 2020

INDEX

SEGAL
Adding to your success

SEGAL LLP
Chartered Professional Accountants
4101 Yonge Street
Suite 502, P.O. Box 202
Toronto, ON M2P 1N6

416 391 4499 | 800 206 7307

segalllp.com

INDEPENDENT AUDITOR'S REPORT

To the Members of
Native Child and Family Services of Toronto

Opinion

We have audited the accompanying financial statements of Native Child and Family Services of Toronto (the "Organization"), which comprise the statement of financial position as at March 31, 2020 and the statement of operations, statement of unexpended and reserve funds, statement of changes in fund balances and statement of cash flows for the year then ended, and notes to the financial statements including a summary of significant accounting policies.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Organization as at March 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with Canadian Accounting Standards for Not-for-Profit Organizations ("ASNPO").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section on 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 opinion.

Other Matter

The financial statements of Native Child and Family Services of Toronto for the year ended March 31, 2019 were audited by another auditor who expressed an unqualified opinion on those financial statements in their report dated June 26, 2019.

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 ASNPO, 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.

SEGAL

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 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 generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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.

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.

Segal LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
June 25, 2020

NATIVE CHILD AND FAMILY SERVICES OF TORONTO

STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2020

	2020	2019
ASSETS		
Current		
Cash	$ 5,610,864	$ 1,999,493
Accounts receivable, note 3	2,793,343	2,596,065
Prepaid expenses and other assets	423,728	595,830
Investments, note 4	-	4,000,000
	8,827,935	9,191,388
Long term		
Property and equipment, note 5	29,215,121	22,415,811
Investments, note 4	-	1,500,000
	29,215,121	23,915,811
	$ 38,043,056	$ 33,107,199
LIABILITIES		
Current		
Current portion of bank debt, note 6	$ 6,115,146	$ 6,052,583
Accounts payable and accrued liabilities, notes 7 and 11	6,658,374	6,476,553
Deferred revenue	2,442,101	5,169,969
	15,215,621	17,699,105
Long term		
Long term portion of bank debt, note 6	3,615,016	2,826,417
Deferred capital contributions, note 8	19,973,412	13,358,928
	23,588,428	16,185,345
	38,804,049	33,884,450
Commitments, note 10		
Contingencies, note 11		
NET ASSETS		
Unexpended deficit	(760,993)	(777,251)
	$ 38,043,056	$ 33,107,199

Approved on behalf of the Board:

L. Mae Maracle __________ Director

Barbara __________ Director

See accompanying notes to the financial statements

NATIVE CHILD AND FAMILY SERVICES OF TORONTO

STATEMENT OF UNEXPENDED AND RESERVE FUNDS
FOR THE YEAR ENDED MARCH 31, 2020

	2020	2019
Unexpended funds (deficit)		
Unexpended deficit, beginning of the year	$ (777,251)	$ (1,916,844)
Excess of revenue over expenses for the year	16,258	389,480
Add: transfer from reserve fund	-	750,113
Unexpended deficit, end of year	$ (760,993)	$ (777,251)
Reserve fund		
Infrastructure and capacity reserve, beginning of year	$ -	$ 750,113
Less: Transfer to unexpended funds	-	(750,113)
Infrastructure and capacity reserve, end of year	$ -	$ -

See accompanying notes to the financial statements

NATIVE CHILD AND FAMILY SERVICES OF TORONTO

STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED MARCH 31, 2020

2020

	Invested in Property and Equipment	Operating Fund (Deficit)	Unexpended Funds (Deficit)	Reserve Fund	Net Assets
Balance, beginning of year	$ (474,857)	$ (302,394)	$ (777,251)	$ -	$ (777,251)
(Deficiency) excess of revenue over expenses	(456,820)	473,078	16,258	-	16,258
Invested in property and equipment	443,224	(443,224)	-	-	-
Balance, end of year	$ (488,453)	$ (272,540)	$ (760,993)	$ -	$ (760,993)

2019

	Invested in Property and Equipment	Operating Fund (Deficit)	Unexpended Fund (Deficit)	Reserve Fund	Net Assets
Balance, beginning of year	$ 712,520	$ (2,629,364)	$ (1,916,844)	$ 750,113	$ (1,166,731)
(Deficiency) excess of revenue over expenses	(470,269)	859,749	389,480	-	389,480
Transfers	-	750,113	750,113	(750,113)	-
Invested in property and equipment	(717,108)	717,108	-	-	-
Balance, end of year	$ (474,857)	$ (302,394)	$ (777,251)	$ -	$ (777,251)

See accompanying notes to the financial statements

NATIVE CHILD AND FAMILY SERVICES OF TORONTO

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 2020

	2020	2019
Revenue		
Contribution revenue, Schedule 1	$ 38,704,878	$ 33,889,733
Other income	1,923,944	1,111,872
Amortization of deferred capital contributions, note 8	640,025	576,759
	41,268,847	35,578,364
Expenses		
Salaries and benefits	22,456,470	18,374,800
Client personal needs	10,833,185	10,410,930
Programs	1,974,406	1,668,638
Office, administration and general, note 12	1,609,264	721,158
Rent and utilities, note 12	1,229,921	1,263,290
Professional services	943,902	835,113
Travel	561,801	381,920
Training	289,173	261,170
Insurance	257,622	224,837
Amortization of property and equipment	1,096,845	1,047,028
	41,252,589	35,188,884
Excess of revenue over expenses for the year	$ 16,258	$ 389,480

See accompanying notes to the financial statements

NATIVE CHILD AND FAMILY SERVICES OF TORONTO

SCHEDULE 1 - CONTRIBUTION REVENUE
FOR THE YEAR ENDED MARCH 31, 2020

	2020	2019
Ministry of Children, Community and Social Services	$ 23,706,915	$ 23,477,380
City of Toronto	5,770,615	4,487,335
Indigenous Services Canada	3,648,127	772,851
Indigenous Healing and Wellness Strategy	1,714,471	1,345,349
Health Canada	1,476,509	1,651,723
Children's Special Allowance	745,627	665,697
United Way of Greater Toronto	643,794	572,231
Aboriginal Labour Force Development Circle	360,017	337,046
Toronto Central LHIN	219,544	179,906
East Metro Youth Services	124,200	101,901
Miziwe Biik	102,397	59,588
Children's Aid Foundation	65,092	76,114
Service Canada	57,860	94,335
Ministry of the Attorney General	47,582	47,582
Kinark Child and Family Services	14,134	11,511
Metis Nations of Ontario	7,994	9,184
	$ 38,704,878	$ 33,889,733

See accompanying notes to the financial statements

NATIVE CHILD AND FAMILY SERVICES OF TORONTO

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2020

	2020	2019
Cash flows from operating activities		
Excess of revenue over expenses for the year	$ 16,258	$ 389,480
Adjustment for:		
Amortization of property and equipment	1,096,845	1,047,028
Amortization of deferred capital contributions	(640,025)	(576,759)
	473,078	859,749
Changes in non-cash working capital balances:		
Increase in accounts receivable	(197,278)	(594,833)
Decrease (increase) in prepaid expenses and other assets	172,102	(317,269)
Increase in accounts payable and accrued liabilities	181,821	1,895,150
(Decrease) increase in deferred revenue	(2,727,868)	4,539,270
Cash flows provided from (used in) operating activities	(2,098,145)	6,382,067
Cash flows from investing activities		
Purchase of property and equipment	(7,896,155)	(1,283,109)
Proceeds from disposal of investments	5,500,000	-
Purchase of investments	-	(5,500,000)
Cash flows used in investing activities	(2,396,155)	(6,783,109)
Cash flows from financing activities		
Deferred capital contributions	7,254,509	2,185,251
Increase in bank debt	1,496,000	-
Bank debt repayment	(644,838)	(479,000)
Cash flows provided from financing activities	8,105,671	1,706,251
Net increase in cash	3,611,371	1,305,209
Cash, beginning of year	1,999,493	694,284
Cash, end of year	$ 5,610,864	$ 1,999,493

Supplementary disclosure of cash flow information

	2020	2019
Interest paid	$ 335,984	$ 228,733

See accompanying notes to the financial statements

1. DESCRIPTION OF THE ORGANIZATION

Native Child and Family Services of Toronto (the "Organization") is a not-for-profit corporation without share capital incorporated under the laws of the Province of Ontario. The Organization has Children's Aid Status and its charitable number is 131621765.

The Organization was founded to provide for a life of quality, well-being, caring and healing for children and families in the Toronto Native community. It does this by creating a services model that is culture based, respecting the values of Native people, the extended family, and the right to self-determination.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The financial statements of the Organization have been prepared in accordance with Canadian accounting standards for not-for-profit organizations. The more accounting policies are as follows:

Fund description

The Unexpended Fund accounts for the Organization's program delivery and administrative activities, and investments in property and equipment. This fund reports unrestricted resources and restricted operating grants.

The Reserve Fund reports only restricted resources that are to be used to fund future infrastructure and capacity needs of the Organization.

Revenue recognition

The Organization follows the deferral method of accounting for contributions which include donations and government grants.

Restricted contributions related to general operations are recognized as revenue of the Unexpended Fund in the year in which the related expenses are incurred. Contributions received for which related expenses have not been incurred are classified as deferred revenue.

Unrestricted contributions are recognized as revenue of the Unexpended Fund in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

The amortization of deferred capital contributions is recorded as revenue in the Statement of Operations in an amount equal to amortization recorded on the property and equipment funded.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued...)

Property and equipment and deferred capital contributions

Property and equipment are recorded at cost. Amortization is provided on a basis designed to amortize the property and equipment over their estimated useful lives. The annual amortization rates are as follows:

Buildings	-	5% declining balance
Computer equipment	-	30% declining balance
Furniture and equipment	-	20% declining balance
Vehicles	-	30% declining balance

Grants received and receivable for the purpose of funding property and equipment acquisitions are recorded as deferred capital contributions in the year that the related property and equipment are acquired.

Impairment of long-lived assets

The carrying value of long-lived assets subject to amortization including property and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the assets will not continue to be used in the delivery of the Organization's charitable programs. An impairment loss is measured at the amount by which the carrying amount of the asset exceeds its fair value.

Donated materials and services

Donations of materials and services, including volunteer services, not normally paid for by the Organization are not recorded in the accounts, as it would be difficult to determine their fair value.

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 period. Actual results could differ from these estimates.

Significant estimates made by management include: allowance for doubtful accounts, the amortization and impairment of property and equipment and deferred capital contributions, accounts payable and accrued liabilities and deferred revenue.

Cash

Cash consists of bank deposits held with financial institutions. Bank overdraft, as it occurs, consists of cheques written on bank accounts in excess of available funds.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued...)

Investments

Investments consist of Guaranteed Investment Certificates ("GICs") held with a Canadian bank.

Employee future benefits

The Organization has a defined contribution plan to provide pension benefits. The plan is accounted for in accordance with section 3462, *Employee Future Benefits*. The Organization accrues its obligations under the plan as service is rendered to earn the pension benefits. Past and current service costs are included in the statement of operations in the year in which they are incurred.

Financial Instruments

The Organization initially measures its financial assets and liabilities at fair value. The Organization subsequently measures all its financial assets and financial liabilities at amortized cost, except for investments in equity instruments that are quoted in an active market, which are measured at fair value. Changes in fair value are recognized in operations.

3. ACCOUNTS RECEIVABLE

	2020	2019
Funding receivable	$ 2,220,797	$ 1,852,765
Government remittances recoverable	572,546	743,300
	$ 2,793,343	$ 2,596,065

4. INVESTMENTS

	2020	2019
Guaranteed investment certificates	$ -	$ 5,500,000
Less: guaranteed investment certificates - restricted	-	(1,500,000)
Investments	$ -	$ 4,000,000

During the year, the investments in the Guaranteed Investment Certificates ("GICs") which were held at the Royal Bank of Canada ("RBC"), fully matured on March 2020. The GICs earned interest at various rates between 1.88% and 2.33% during the term.

5. PROPERTY AND EQUIPMENT

	Cost	Accumulated Amortization	2020 Net Book Value
Buildings	$ 40,906,013	$ 12,037,688	$ 28,868,325
Computer equipment	1,723,337	1,538,636	184,701
Furniture and equipment	1,463,845	1,305,932	157,913
Vehicles	258,027	253,845	4,182
	$ 44,351,222	$ 15,136,101	$ 29,215,121

	Cost	Accumulated Amortization	2019 Net Book Value
Buildings	$ 32,982,766	$ 11,058,617	$ 21,924,149
Computer equipment	1,771,656	1,459,478	312,178
Furniture and equipment	1,442,618	1,269,108	173,510
Vehicles	258,027	252,053	5,974
	$ 36,455,067	$ 14,039,256	$ 22,415,811

Included in buildings are costs of $8,358,796 (2019 - $4,393,783) and included in computer equipment are costs of $Nil (2019 - $48,319) not subject to amortization as the assets are not yet in use. The cost to complete the buildings not in use is $1,790,177 (2019 - $3,584,980), the balance of which will be funded from various funding sources.

6. BANK DEBT

	2020	2019
Bankers' acceptance loan (a)	$ 5,433,456	$ 5,929,000
Fixed rate term loan (b)	2,827,591	2,950,000
Fixed rate term loan (c)	923,115	-
Non-revolving demand loan (d)	546,000	-
	9,730,162	8,879,000
Less: Current portion	(6,115,146)	(6,052,583)
Long term portion	$ 3,615,016	$ 2,826,417

(a) On April 30, 2009, the Organization entered into a swap agreement with RBC, which expires on October 31, 2027. Under the terms of the swap agreement $8,971,000 of the original $9,971,000 loan, floating rate bankers' acceptance loan ("BA loan") was swapped for a fixed rate loan bearing interest at 3.58% per annum plus an acceptance fee of 0.4% per annum. Under the terms of the agreement, total monthly payments will fluctuate from month to month and will be in the range of approximately $56,000 to $61,000.

Interest of $190,580 (2019 - $198,514) was paid during the year on the BA loan.

(b) The RBC fixed rate term loan is repayable in blended monthly payments of $17,950, bearing interest at 4.05% per annum. The term loan is due December 20, 2023 and is amortized over 5 years.

Interest expense during the year on this term loan was $116,681 (2019 - $29,788).

(c) The RBC fixed rate term loan is repayable in blended monthly payments of $5,733, bearing interest at 3.95% per annum. The term loan is due May 7, 2024 and is amortized over 5 years.

Interest expense during the year on this term loan was $30,881 (2019 - $Nil).

(d) The Bank of Montreal ("BMO") non-revolving demand loan is due on demand and is interest only for the next 12 months beginning on March 19, 2020. The interest rate on this loan is BMO prime plus 1% per annum. The BMO prime rate at year end was 2.95%.

Interest expense during the year on the non-revolving demand loan was $709 (2019 - $Nil).

6. **BANK DEBT** (Continued...)

Future minimum principal, interest and acceptance fee payments for the loans over the next five years are as follows:

2021	$ 1,198,074
2022	675,256
2023	700,048
2025	3,116,995
2026	1,377,788
Thereafter	2,662,000
	$ 9,730,161

The Organization has provided security to RBC for its indebtedness, including a general security interest over all property, a collateral mortgage of $11,750,000 on the College Street and Galloway Street properties, a collateral mortgage of $1,716,000 on the Dowling Avenue property, a collateral mortgage of $1,000,000 on the 185 Carlton Street property and a title insurance policy in favour of RBC on the College Street property.

The Organization has provided security to BMO for its indebtedness, including a second ranking general security interest over all present and after-acquired movable property, machinery and equipment and accounts receivable receipts, a second ranking collateral mortgage of $546,000 on the 182 Dowling Avenue property and a fire and extended coverage in favour of BMO on this property.

The Organization has available an operating line of credit with the RBC up to a maximum amount of $1,500,000. The operating line of credit bears interest at RBC prime minus 0.10%, with interest payable monthly. It is secured by a General Security Agreement with a first ranking security interest in all personal property of the Organization. As at March 31, 2020, the balance of the operating line was $Nil (2019 - $Nil).

The Organization also has the option to issue Letters of Credit under the terms of the line of credit agreement. At year end, there were no Letters of Credit issued (2019 - $11,166 issued to the City of Toronto).

7. **ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	2020	2019
Accounts payable and accrued liabilities	$ 6,587,307	$ 6,393,042
Government remittances	71,067	83,511
	$ 6,658,374	$ 6,476,553

8. DEFERRED CAPITAL CONTRIBUTIONS

	2020	2019
Opening balance	$ 13,358,928	$ 11,750,436
Current year funding grants	7,254,509	2,185,251
Amortization	(640,025)	(576,759)
	$ 19,973,412	$ 13,358,928

9. CITY OF TORONTO FUNDING

The City of Toronto funding includes wage subsidy payments for the Provincial Wage Enhancement of $36,146 (2019 - $56,344). There were no amounts deferred from prior years or to future years.

10. COMMITMENTS

The Organization leases its premises and equipment under operating leases that expire on various dates to July 2026. Future annual payments (excluding taxes, insurance and maintenance costs) under the leases are as follows:

2021	$ 227,866
2022	214,411
2023	202,964
2024	162,382
2025	93,322
Thereafter	17,356
Total	$ 918,301

11. CONTINGENCIES

(a) Funding

Certain funders have provided capital funding for the purchase of buildings and have requirements that collateral mortgages be registered against the properties. These collateral mortgages have no effect on the operations of the organization as long as the buildings are used for their intended purpose.

In many cases the funding agent has the right to review the accounting records to ensure compliance with the terms and conditions for their programs. As at March 31, 2020, $421,523 (2019 - $445,476) has been accrued in accounts payable and accrued liabilities to reimburse certain funding agencies where a program surplus exists.

11. CONTINGENCIES (Continued...)

(b) Service Contract / CFSA Approval with the Ministry of Children, Community and Social Services

The Organization has a Service Contract / CFSA Approval with the Ministry of Children, Community and Social Services. A reconciliation report summarizes by service all revenues and expenditures and identifies any resulting surplus or deficit that relates to the Service Contact/CFSA Approval. A review of these reports shows these services to be in a surplus position of $266,396 as at March 31, 2020 (2019 - surplus of $139,497), which is included in accounts payable and accrued liabilities. As of March 31, 2020, $175,595 (2019 - $62,121) of this surplus will be allocated to the Ministry's Balanced Budget Fund that is available for use in subsequent years. The difference of $90,801 (2019 - $77,376) will be repayable to the Ministry.

(c) Legal Proceeding

The Organization has been named as a defendant in a third party claim by The Hospital for Sick Children with respect to the Organization's reliance on testing done by Motherisk Drug Testing Laboratory. As of the date of the audit report, the outcome of this matter is unknown and it is unknown whether the Organization will be required to pay any amount in regards to this claim.

12. ALLOCATION OF EXPENSES

The Organization receives funding from various government agencies based on specific program needs and budgets and allocates expenses to the various programs. In certain circumstances, the Organization provides allocations from current year general program funding to ensure programs do not generate a deficit. In addition, management makes estimates to allocate certain administrative expenses according to the activity to which they benefit. Office, administration and general expenses totaling $1,397,642 (2019 - $1,142,477) and occupancy expenses totaling $476,472 (2019 - $280,709) have been allocated by management in the year.

13. ECONOMIC DEPENDENCE

The Organization is dependent on the Ministry of Children, Community and Social Services (the "Ministry"), the City of Toronto, Indigenous Services Canada and other sources to fund its operations. Funding for child welfare operations is provided each fiscal year based on an annual funding allocation for the year as determined by the funders using their respective funding formulas. The Organization seeks to obtain funding equal to its projected costs to meet its responsibility to provide a service model that is culture based and respects the values of Native people, but has been unsuccessful in achieving this since the Ministry introduced its new funding formula in 2013.

The Organization is in the midst of discussions with the Ministry to obtain additional funding for any prior non-funded deficit amounts and for future years.

14. CUSTODIAL ASSETS AND ONTARIO CHILD BENEFIT EQUIVALENT FUND ("OCBE")

An amount of $351,094 (2019 - $344,455) is held on deposit at a financial institution representing amounts held in Registered Education Savings Plans ("RESPs") for children in the care of the Organization. The amounts are funded by Children's Special Allowance received from the Federal government. The Organization administers these funds in trust for the children and does not include these funds in these financial statements.

15. INCOME TAXES

The Organization is registered as a charitable organization under the Income Tax Act and, as such, is exempt from income taxes. Accordingly, no provision has been made in these financial statements for income taxes. To maintain its status as a charitable organization, the Organization must comply with certain requirements of the Income Tax Act.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Organization's financial instruments consist of cash, investments, accounts receivable, accounts payable and accrued liabilities and bank debt. All financial instruments noted are initially recognized at fair value and subsequently measured at amortized cost. Transaction costs and financial fees associated with financial instruments carried at amortized cost are recorded as adjustments to the initial fair value recognized and amortized over the life of the financial instrument or shorter, dependent upon the expected period of cash flow.

When there is an indication of impairment and such an impairment is determined to have occurred, the carrying amount of financial assets, measured at amortized cost is reduced to the greater of the discounted future cash flows expected or the proceeds that could be realized from the sale of the financial asset. Such impairments can be subsequently reversed if the value subsequently improves.

The Organization is exposed to the following risks as a result of holding financial instruments:

Interest Rate Risk

Interest rate risk is the risk that the cash flows or fair value of a financial instrument will fluctuate due to changes in market interest rates. The Organization is exposed to interest rate risk arising from its operating line of credit its Bankers' Acceptance loan and its fixed rate term loans. The Organization has addressed this risk by negotiating a swap agreement with the RBC as described in Note 6. The Organization did not designate the interest rate swap as a hedge and did not apply hedge accounting. There has been no change in interest rate risk during the year.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued...)

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Organization is exposed to credit risk with respect to its accounts receivable balances, with 54% (2019 - 43%) of accounts receivable due from one funder (2019 - one funder). The Organization manages its credit risk by monitoring the outstanding balances, communicating frequently with clients to ascertain the collectibility and the regular review of their credit limits. Allowance for doubtful accounts for the current year is $Nil (2019 - $Nil). There has been no change in credit risk during the year.

Liquidity Risk

Liquidity risk is the risk that the Organization will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to fair value. As 64% (2019 - 65%) of current assets consist of cash and investments the Organization is not subject to significant liquidity risk. There has been no change in liquidity risk during the year.

17. COMPARATIVE AMOUNTS

Certain prior year figures have been reclassified to conform with the current year's presentation.