

**AYR AND DISTRICT CITIZENS
ASSOCIATION
FINANCIAL STATEMENTS
FOR THE YEAR ENDED MAY 31, 2022**

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INDEPENDENT AUDITORS' REPORT

To the Members of Ayr and District Citizens Association:

Opinion

We have audited the financial statements of Ayr and District Citizens Association (the organization), which comprise the statement of financial position as at May 31, 2022, and the statements of operations and net assets, and cash flows for the year ended May 31, 2022, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements are prepared, in all material respects, 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 of our report. We are independent of the organization in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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 for accounting unless management either intends to liquidate the organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the organization's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian 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 judgement 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.

Cambridge, Ontario
September 19, 2022

Racolta Jensen LLP
Chartered Professional Accountants
Licensed Public Accountants

AYR AND DISTRICT CITIZENS ASSOCIATION
(Incorporated under the laws of Canada)

STATEMENT OF FINANCIAL POSITION AS AT MAY 31, 2022
(With comparative figures as at 2021)

	2022	2021
ASSETS		
CURRENT		
Bank	\$ 498,379	\$ 363,437
Accounts receivable	1,949	7,888
Government remittances recoverable	10,918	72,242
Prepaid expenses	<u>15,957</u>	<u>15,252</u>
	527,203	458,819
RESTRICTED FUNDS (note 2)	295,839	284,423
CAPITAL ASSETS (note 3)	<u>9,661,853</u>	<u>9,974,051</u>
	<u>\$ 10,484,895</u>	<u>\$ 10,717,293</u>

LIABILITIES

CURRENT		
Accounts, payable and accrued	\$ 32,287	\$ 127,414
Rent deposits	40,110	38,609
Scheduled repayments of long-term debt due within one year (note 4)	59,676	44,193
Loan forgiveness expected within one year (note 5)	<u>73,072</u>	<u>74,072</u>
	205,145	284,288
DEFERRED CONTRIBUTIONS (note 6)	98,723	102,836
LONG-TERM DEBT (note 4)	3,758,740	3,866,736
FORGIVABLE LOANS (note 5)	<u>1,570,620</u>	<u>1,499,691</u>
	<u>5,633,228</u>	<u>5,753,551</u>

ORGANIZATION'S NET ASSETS

SURPLUS (note 7)	<u>4,851,667</u>	<u>4,963,742</u>
	<u>\$ 10,484,895</u>	<u>\$ 10,717,293</u>

APPROVED ON BEHALF OF THE BOARD:

_____ Director

_____ Director

(See accompanying notes to financial statements)

AYR AND DISTRICT CITIZENS ASSOCIATION
STATEMENT OF OPERATIONS AND NET ASSETS
FOR THE YEAR ENDED MAY 31, 2022
(With comparative figures for 2021)

	2022	%	2021	%
REVENUE				
Rental income	\$ 495,567	97.1	\$ 405,663	96.9
Laundry and air conditioning	12,726	2.5	9,908	2.4
Region of Waterloo - rent assistance payments	-	-	1,750	0.4
Rebates	<u>1,908</u>	<u>0.4</u>	<u>1,152</u>	<u>0.3</u>
	<u>510,201</u>	<u>100.0</u>	<u>418,473</u>	<u>100.0</u>
EXPENDITURE				
Amortization	395,647	77.5	274,310	65.6
Cleaning	14,275	2.8	10,148	2.4
Equipment rent	5,438	1.1	4,014	1.0
Hydro	27,021	5.3	29,797	7.1
Insurance	21,340	4.2	15,345	3.7
Interest on long-term debt (note 4)	60,978	12.0	26,168	6.3
Maintenance - buildings	78,409	15.4	38,040	9.1
Maintenance - decorating	5,849	1.1	1,240	0.3
Maintenance - grounds	25,902	5.1	20,693	4.9
Natural gas	6,910	1.4	4,778	1.1
Office administrator	11,091	2.2	10,010	2.4
Office and general	4,481	0.9	6,038	1.4
Professional fees	21,476	4.2	14,545	3.5
Subcontracts	11,912	2.3	10,672	2.6
Water	<u>19,429</u>	<u>3.8</u>	<u>17,301</u>	<u>4.1</u>
	<u>710,158</u>	<u>139.2</u>	<u>483,099</u>	<u>115.4</u>
LOSS BEFORE THE FOLLOWING	<u>(199,957)</u>	<u>(39.2)</u>	<u>(64,626)</u>	<u>(15.4)</u>
OTHER REVENUE AND EXPENDITURES				
Donations	13,310	2.6	50,780	12.1
Forgiveness of loans (note 5)	74,072	14.5	33,668	8.0
Property tax rebate	-	-	17,924	4.3
Amortization of deferred contributions (note 6)	4,113	0.8	2,099	0.5
Rent geared to income subsidy	<u>(5,914)</u>	<u>(1.2)</u>	<u>(6,960)</u>	<u>(1.7)</u>
	<u>85,581</u>	<u>16.8</u>	<u>97,511</u>	<u>23.3</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURE	(114,376)	<u>(22.4)</u>	32,885	<u>7.9</u>
SURPLUS, beginning	4,963,742		4,926,385	
INTEREST EARNED ON REPLACEMENT RESERVES	<u>2,301</u>		<u>4,472</u>	
SURPLUS, ending	<u>\$ 4,851,667</u>		<u>\$ 4,963,742</u>	

(See accompanying notes to financial statements)

AYR AND DISTRICT CITIZENS ASSOCIATION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MAY 31, 2022

(With comparative figures for 2021)

	2022	2021
OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expenditure for the year	\$ (114,376)	\$ 32,885
Charges not requiring cash:		
Amortization	395,647	274,310
Forgiveness of loans	(74,072)	(33,668)
Amortization of deferred contributions	<u>(4,113)</u>	<u>(2,099)</u>
	203,086	271,428
CHANGES IN NON-CASH WORKING CAPITAL		
Decrease (increase) in accounts receivable	5,939	(7,888)
Decrease in government remittances recoverable	61,324	73,175
Increase in prepaid expenses	(705)	(10,282)
Decrease in accounts, payable and accrued	(95,125)	(950,509)
Increase in rent deposits	<u>1,501</u>	<u>17,804</u>
Cash from (used in) operating activities	<u>176,020</u>	<u>(606,272)</u>
FINANCING ACTIVITIES		
Repayment of note payable	-	(50,000)
Proceeds from long-term debt	-	2,002,618
Repayment of long-term debt	(92,513)	(29,154)
Increase in forgivable loans	<u>144,000</u>	<u>957,431</u>
Cash from financing activities	<u>51,487</u>	<u>2,880,895</u>
INVESTING ACTIVITIES		
Interest earned on replacement reserve	2,301	4,472
Purchases of capital assets	(83,450)	(2,633,972)
Increase in restricted funds	<u>(11,416)</u>	<u>(67,588)</u>
Cash used in investing activities	<u>(92,565)</u>	<u>(2,697,088)</u>
INCREASE (DECREASE) IN BANK	134,942	(422,465)
BANK, beginning	<u>363,437</u>	<u>785,902</u>
BANK, ending	<u>\$ 498,379</u>	<u>\$ 363,437</u>

(See accompanying notes to financial statements)

AYR AND DISTRICT CITIZENS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

AS AT MAY 31, 2022

PURPOSE OF THE ORGANIZATION

The organization is incorporated without share capital under the laws of the province of Ontario as a not-for-profit organization. The purpose of the organization is to provide low income housing to seniors, low income persons and those with disabilities.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Capital assets

Capital assets are recorded at cost. Amortization is provided at the following annual rates:

Building - 191 Stanley Street	- 4% declining balance basis
Furniture and fixtures	- 20 years on a straight line basis
Land - 191 Stanley Street	- not depreciated
Maintenance equipment	- 20% declining balance basis
Office equipment	- 20% declining balance basis
Sidewalks and paving	- 8% declining balance basis

Assets under construction are not depreciated until ready for use.

(b) Impairment of long-lived assets

A long-lived asset is tested for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognized when the assets carrying value exceeds the sum of its undiscounted cash flows resulting from its use and eventual disposition. No impairment has been recognized on long-lived assets.

(c) Measurement of financial instruments

The organization initially measures its financial assets and liabilities at fair value. The organization subsequently measures all its financial assets and liabilities at amortized cost. Financial assets measured at amortized cost include bank and restricted funds. Financial liabilities measured at amortized cost include accounts payable and accrued, and long-term debt.

Financial assets measured at cost or amortized cost are tested for impairment if there are indications of possible impairment. The amount of the write-down is recognized in income. A previously recognized impairment loss may be reversed to the extent of the improvement, either directly or by adjusting the allowance account, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment loss not been recognized previously. The amount of the reversal is recognized in income.

The cost of financial instruments approximates their fair value due to their short-term nature.

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AYR AND DISTRICT CITIZENS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

AS AT MAY 31, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(d) Revenue recognition

The organization's operations are supported primarily through the collection of rents, donations, and government assistance.

Rents received from tenants are recognized as revenue as earned, in accordance to lease agreements.

Laundry and air conditioning income, is recognized when received.

The organization uses the deferral method of accounting for revenue from operating activities. Externally restricted contributions that are used towards purchasing capital assets are recognized as revenue in line with the amortization taken on the asset. Unrestricted contributions and donations are recognized as revenue when received.

Government assistance received in the form of forgivable loans, which is meant to subsidize the future rent for affordable units, is recognized as revenue in a straight line over the term of the loan.

Investment income is recognized when earned.

(e) Income taxes

The organization is a registered charity under the Income Tax Act and is exempt from income tax.

(f) Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the amounts reported in the financial statements and related notes to the financial statements. Actual results may differ from these estimates. Items material to the financial statements that require the use of estimates include the useful lives of capital assets, accrued liabilities, holdbacks payable, forgiveness of loans, deferred contributions and amortization expense.

2. RESTRICTED FUNDS

Restricted funds are made up of guaranteed investment certificates (GICs), deposit accounts and investment savings accounts. The GICs earn interest at an average rate of 0.7%. All GICs mature within 180 days of year-end. The restricted funds relate to the replacement reserve funds and the archaeological reserve fund (see note 7).

AYR AND DISTRICT CITIZENS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

AS AT MAY 31, 2022

3. CAPITAL ASSETS

	Cost	Accumulated Amortization	2022 Net Book Value	2021 Net Book Value
Land - 191 Stanley Street	\$ 483,031	\$ -	\$ 483,031	\$ 483,031
Building - 191 Stanley Street	9,772,000	803,411	8,968,589	9,311,923
Office equipment	5,001	1,600	3,401	3,723
Maintenance equipment	1,630	1,630	-	-
Sidewalks and paving	178,576	12,410	166,166	131,685
Furniture and fixtures	<u>83,307</u>	<u>42,641</u>	<u>40,666</u>	<u>43,689</u>
	<u>\$ 10,523,545</u>	<u>\$ 861,692</u>	<u>\$ 9,661,853</u>	<u>\$ 9,974,051</u>

4. LONG-TERM DEBT

	2022	2021
Royal Bank of Canada mortgage - mortgage on Lot 9, part of Lot 17 and part of Birch Street, repayable in blended interest and principal repayments of \$6,481, bearing fixed interest at 2.54%, due September 2029. Secured by a first mortgage and charge on the building and land located on the property in the amount of \$1,956,496, an assignment of rents and leases for the existing building, an assignment of property insurance executed by the borrower in favour of the lender, and the rent reserve fund via a cash collateral agreement on the RBC savings account. Carrying value of security is \$9,617,786.	\$ 1,878,412	\$ 1,908,311
Regional Municipality of Waterloo mortgage - mortgage on Lot 9, part of Lot 17 and part of Birch Street, bearing interest at prime plus 2%, due September 2030. Accrued interest is forgivable September 2030. As at May 31, 2022, there was no default under the conditions of the mortgage therefore the interest accrual was waived. The loan is secured by a fourth collateral charge on the building and land located on the property in the amount of \$240,000. Carrying value of security is \$9,617,786.	192,000	240,000
CMHC mortgage - mortgage on Lot 9, part of Lot 17 and part of Birch Street, repayable in blended interest and principal repayments of \$3,523, bearing interest at 0.75%, due September 2030. The mortgage is secured by a second priority mortgage registered on title to 191 Stanley Street, a General Security Agreement granting second priority, a second priority assignment of rents and leases, an assignment of contracts, and an assignment of property insurance related to the project. Carrying value of security is \$9,617,786.	<u>1,748,004</u>	<u>1,762,618</u>
	3,818,416	3,910,929
Less scheduled repayments due within one year	<u>59,676</u>	<u>44,193</u>
	<u>\$ 3,758,740</u>	<u>\$ 3,866,736</u>

As at May 31, 2022, there was no default under the conditions of the mortgages.

Interest expense for the above loans totaled approximately \$60,978 (2021 - \$26,168). Interest incurred up until December 1, 2020 was capitalized to the building asset. Total interest capitalized in 2022 was \$NIL (2021 - \$29,542).

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AYR AND DISTRICT CITIZENS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

AS AT MAY 31, 2022

4. LONG-TERM DEBT - continued

Principal repayments of debt are as follows:

2023	\$	59,676
2024		60,677
2025		61,701
2026		62,747
2027		63,815
thereafter		<u>3,509,800</u>
	\$	<u>3,818,416</u>

5. FORGIVABLE LOANS

	2022	2021
Regional Municipality of Waterloo - forgivable term loan on Lot 9, part of Lot 17 and part of Birch Street, bearing interest at prime plus 2%, principal and interest are forgivable June 2023, provided there is no default under the Affordable Housing Partnership Program. As at May 31, 2022, there was no default under the conditions of the mortgage therefore the interest accrual was waived. The purpose of the loan was to assist in the construction of the two apartment units constructed in 2002.	\$ -	\$ 1,000
Regional Municipality of Waterloo - forgivable term loan on Lot 9, part of Lot 17 and part of Birch Street, bearing interest at prime plus 2%, principal and accrued interest are forgivable 25 years after the completion of the project, provided there is no default under the program. As at May 31, 2022, there was no default under the conditions of the mortgage therefore the interest accrual was waived. The loan is secured by a third collateral charge on the building and land located on the property in the amount of \$1,440,000. Carrying value of security is \$9,617,786.	1,353,600	1,267,200
CMHC - forgivable term loan on Lot 9, part of Lot 17 and part of Birch Street. The principal is forgivable 20 years after the final advance of CMHC funds, provided there is no default under the program. The loan is secured by a second priority mortgage registered on title to 191 Stanley Street, a General Security Agreement granting second priority, a second priority assignment of rents and leases, an assignment of contracts, and an assignment of property insurance related to the project. Carrying value of security is \$9,617,786.	<u>290,092</u>	<u>305,563</u>
	1,643,692	1,573,763
Less portion expected to be forgiven within one year	<u>73,072</u>	<u>74,072</u>
	<u>\$ 1,570,620</u>	<u>\$ 1,499,691</u>

These forgivable loan amounts have been treated as a deferred revenue item and forgiveness of the loans is recognized on a straight line basis over the duration of the loan term.

The forgiveness of loans recognized in income during the year totalled \$74,072 (2021 - \$33,668).

AYR AND DISTRICT CITIZENS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

AS AT MAY 31, 2022

6. DEFERRED CONTRIBUTIONS

Deferred contributions represents restricted contributions for which the organization does not have a fund and is unable to use the funds due to its restrictions during the fiscal year. These contributions are deferred and recognized as revenue in the year in which related expenses are incurred. If the deferred contribution relates to a capital asset, the deferred contribution is recognized as revenue in line with the amortization taken on the related asset. All deferred contributions received to date were used to finance the building expansion and are amortized at a rate of 4% declining balance.

	2022	2021
Deferred contributions, beginning	\$ 102,836	\$ 104,935
Less: restricted contributions recognized during the year	<u>4,113</u>	<u>2,099</u>
Deferred contributions, ending	<u>\$ 98,723</u>	<u>\$ 102,836</u>

7. SURPLUS

RESERVE FUNDS

The organization is required to contribute to three separate reserve accounts, with a fourth legacy account that no longer requires contributions that accumulates interest.

Regional Municipality of Waterloo Replacement Reserve

Under the terms of the Housing Services Act the Replacement Reserve funds along with accumulated interest, must be held in a separate bank account and/or invested only in accounts or instruments insured by the Canada Deposit Insurance Corporation or as may otherwise be approved by the Ministry of Municipal Affairs. Withdrawals are credited to interest first, then principal. The mortgage related to this capital reserve was extinguished in 2017. There is no longer a requirement to contribute to the externally restricted reserve fund, with the exception of the interest earned on the investments within this fund.

Royal Bank of Canada Replacement Reserve

Under the terms of the RBC mortgage agreement the organization is required to establish an escrow account with RBC. The organization must contribute 2% of the monthly gross rents from 30 identified rental units into this account on the day their mortgage payments are due. Withdrawals by the organization must be approved by the lender, and the amounts must relate to costs associated with capital repairs, replacements, or improvements to the property.

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AYR AND DISTRICT CITIZENS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

AS AT MAY 31, 2022

7. SURPLUS - continued

Canada Mortgage and Housing Coporation Archaeological Reserve

Under the terms of the CMHC mortgage agreement the organization is required to establish and maintain a reserve account in a segregated depository account designated by the borrower in the amount of \$55,000 for any costs associated with any archaeological investigation or burial investigation pertaining to land located at 191 Stanley Street. This reserve is to be maintained until the earlier of: the mortgage repayment date or the date of a letter of authorization from CMHC to release the funds. The organization had the option of paying the reserve into the account in 4 annual payments of \$13,750, however they have contributed the full amount of \$55,000 during the previous year.

Canada Mortgage and Housing Coporation Replacement Reserve

Under the terms of the CMHC mortgage agreement the organization is required to establish and maintain a replacement reserve account in a segregated depository account designated by the borrower. The organization must contribute 4% of the monthly gross rents from 9 identified rental units into this account on the day their mortgage payments are due. Withdrawals by the organization must be approved by the lender, and the amounts must relate to costs associated with capital repairs, replacements, or improvements to the property.

RESTRICTED SURPLUS

	2022	2021
Balance, beginning	\$ 284,423	\$ 217,373
Transfer to archaeological reserve fund	-	55,000
Contribution to replacement reserve funds	9,115	7,578
Interest income	<u>2,301</u>	<u>4,472</u>
Balance, ending (note 2)	<u>295,839</u>	<u>284,423</u>

NON-RESTRICTED SURPLUS

	2022	2021
Balance, beginning	\$ 4,679,319	\$ 4,709,012
Excess (deficiency) of revenue over expenditure	(110,876)	32,885
Less: transfer to archaeological reserve fund	-	(55,000)
Less: allocation to replacement reserve funds	<u>(9,115)</u>	<u>(7,578)</u>
Balance, ending	<u>4,559,328</u>	<u>4,679,319</u>

SURPLUS

	2022	2021
Replacement reserve funds	\$ 295,839	\$ 284,423
Non-restricted surplus	<u>4,559,328</u>	<u>4,679,319</u>
Balance, ending	<u>4,855,167</u>	<u>4,963,742</u>

AYR AND DISTRICT CITIZENS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

AS AT MAY 31, 2022

8. FINANCIAL INSTRUMENT RISKS

(a) Credit risk

Credit risk refers to the risk that other parties may default on their financial obligations.

The organization is exposed to credit risk on its bank and restricted funds balances.

Credit risk associated with bank and restricted funds are minimized substantially by ensuring that these assets are invested in a major financial institution.

The extent of the organization's exposure to credit risk remains the same in 2022.

(b) Interest rate risk

Interest rate risk refers to the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The organization is exposed to interest rate risk on the Regional Municipality of Waterloo loan, the Canada Mortgage and Housing Corporation mortgage and the Royal Bank of Canada mortgage.

The extent of the organization's exposure to interest rate risk remains the same in 2022.

(c) Liquidity risk

Liquidity risk refers to the risk that the organization will not be able to meet a demand for cash or fund its obligations as they come due. Liquidity risk also includes the risk of the company not being able to liquidate assets in a timely manner at a reasonable price.

The company is exposed to this risk mainly in respect of its long-term debt, and accounts payable.

The organization meets its liquidity requirements by monitoring cash flows from operations, anticipating investing and financing activities and holding assets that can be readily converted into cash.

The extent of the company's exposure to liquidity risk remains the same in 2022.