Received / Reçue
2019-08-22

Financial Statements of

FORTIUS FOUNDATION

Year ended September 30, 2018

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INDEPENDENT AUDITORS' REPORT

To the Members of Fortius Foundation

We have audited the accompanying financial statements of Fortius Foundation**,** which comprise the statement of financial position as at September 30, 2018, the statements of operations and changes in net assets (deficiency) and cash flows for the year then ended, and notes, comprising 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 an 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 our 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, we consider 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 audit opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of Fortius Foundation as at September 30, 2018, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Emphasis of Matter

Without modifying our opinion, we draw attention to note 1 of the financial statements which indicates that Fortius Foundation has a working capital deficiency of $15,447,118 as at September 30, 2018 and is dependent on donations to support its operations. These conditions, along with other matters described in note 1, indicate the existence of a material uncertainty that may cast significant doubt about Fortius Foundation's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
January 31, 2019

FORTIUS FOUNDATION

Statement of Financial Position

September 30, 2018, with comparative information for 2017

	2018	2017
Assets		
Current assets:		
Cash	$ 196,603	$ 208,433
Investments	1,728	7,584
Accounts receivable	10,045	8,699
Prepaid interest (note 6(a))	-	1,060,900
Due from related party (note 9(a))	400,354	-
	608,730	1,285,616
Prepaid land lease (note 3)	680,537	748,589
Prepaid deferred financing fee (note 6(c))	80,000	-
Capital assets (note 4)	42,847,795	45,301,577
	$ 44,217,062	$ 47,335,782
Liabilities and Net Assets (Deficiency)		
Current liabilities:		
Accounts payable and accrued liabilities (note 5)	$ 727,439	$ 470,113
Current portion of mortgage loans (note 6)	15,268,409	14,799,307
Current portion of long-term debt (note 7)	60,000	60,000
	16,055,848	15,329,420
Long-term liabilities:		
Mortgage loans (note 6)	-	26,477,402
Long-term debt (note 7)	2,672,310	19,285,637
Asset retirement obligation (note 8)	711,973	679,163
Notes payable to related parties (note 9(b))	3,630,000	32,549,628
	7,014,283	78,991,830
	23,070,131	94,321,250
Net assets (deficiency)	21,146,931	(46,985,468)
Nature of operations and going concern (note 1)		
Subsequent events (notes 6(a) and 6(c))		
	$ 44,217,062	$ 47,335,782

See accompanying notes to financial statements.

Approved on behalf of the Board:

____________________ Director   ____________________ Director

FORTIUS FOUNDATION

Statement of Operations and Changes in Net Assets (Deficiency)

Year ended September 30, 2018, with comparative information for 2017

	2018	2017
Revenue:		
Lease and other income (note 10)	$ 3,052,354	$ 2,860,798
Less provision on lease revenue	(2,652,000)	(2,842,797)
Net lease and other revenue	400,354	18,001
Contributions and donations	74,908,149	101,267
Investment and miscellaneous income	200	148
	75,308,703	119,416
Expenses:		
Accretion of asset retirement obligation (note 8)	32,810	31,298
Administration	13,627	15,833
Amortization of capital assets	2,486,752	2,682,121
Amortization of prepaid land lease (note 3)	68,052	68,054
Bad debt (note 9 (a))	1,147,718	893,812
Donations	97,056	31,922
Insurance	137,581	132,411
Interest and loan fees	2,233,617	5,200,692
Professional fees	367,288	479,091
Property taxes	400,354	501,782
Salaries and benefits	185,593	149,180
	7,170,448	10,186,196
Excess of revenue over expenses (deficiency) before the undernoted	68,138,255	(10,066,780)
Unrealized gain (loss) on short-term investments	(5,856)	5,386
Excess of revenue over expenses (deficiency)	68,132,399	(10,061,394)
Deficiency in net assets, beginning of year	(46,985,468)	(36,924,074)
Net assets (deficiency), end of year	$ 21,146,931	$ (46,985,468)

See accompanying notes to financial statements.

FORTIUS FOUNDATION

Statement of Cash Flows

Year ended September 30, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operating:		
Excess of revenue over expenses (deficiency)	$ 68,132,399	$ (10,061,394)
Items not involving cash:		
Amortization of capital assets	2,486,752	2,682,121
Amortization of prepaid land lease	68,052	68,054
Accretion of asset retirement obligation	32,810	31,298
Unrealized loss (gain) on short-term investments	5,856	(5,376)
Interest and loan fees accrued on mortgage loans	1,658,080	1,838,398
Interest accrued on long-term debt	233,135	968,988
Interest accrued on notes to related parties	340,373	228,843
Interest and loan fees paid on mortgage loans	(886,089)	(2,064,564)
Interest paid on long-term debt	(1,650,800)	(12,500)
Interest paid on notes payable to related party	(4,797,139)	-
Bad debt expense	1,199,718	935,107
Changes in non-cash operating working capital:		
Decrease (increase) in accounts receivable	(1,346)	16,558
Decrease in prepaid expenses	-	341,574
Increase (decrease) in prepaid interest	1,060,900	(1,060,900)
Increase in due from related parties	(1,600,072)	-
Accounts payable and accrued liabilities	257,326	221,853
	66,539,955	(5,871,940)
Investments:		
Purchase of capital assets	(32,970)	(74,388)
Financing:		
Advances on mortgage loans	-	4,105,805
Repayment of mortgage loans	(26,780,291)	(445,031)
Issuance of long-term debt	750,000	2,295,000
Repayment of long-term debt	(15,945,662)	(55,000)
Repayment of notes payable to related party	(24,462,862)	-
Payment of financing fees	(80,000)	-
	(66,518,815)	5,900,774
Decrease in cash and cash equivalents	(11,830)	(45,554)
Cash and cash equivalents, beginning of year	208,433	253,987
Cash and cash equivalents, end of year	$ 196,603	$ 208,433

See accompanying notes to financial statements.

1. Nature of operations and going concern:

Fortius Foundation (the “Foundation”) was incorporated under Canada Not-For-Profit Corporations Act, on October 18, 2007, under the name Multisport Centre of Excellence Foundation (“Multisport Foundation”). During the 2012 fiscal year, Multisport Foundation changed its name to Fortius Foundation. As a registered public foundation, the Foundation is exempt from tax under the Income Tax Act.

The Foundation has an integrated sports medicine, science and athlete training and development facility (the “Athlete Development Centre”) located in Burnaby, British Columbia, which is held to generate ongoing passive investment income for use by the Foundation to support other registered charities and qualified donees. The Foundation entered into an agreement to lease the Athlete Development Centre to Fortius Athlete Development Association (the “Association”), a party related by virtue of common Board membership. The Association commenced its operations in May 2013.

These financial statements have been prepared using Canadian Accounting Standards for Not-For-Profit Organizations applicable to a going concern basis, which assumes that the Foundation will continue operations for the foreseeable future and be able to realize its assets and settle its liabilities in the normal course of operations.

The Foundation had a working capital deficiency of $15,447,118 (2017 - $14,043,804) as at September 30, 2018 and is dependent on donations to fund its operating expenses. During the current year, the Foundation received $74,510,000 of charitable donations that are not expected to recur in that magnitude in future years. As a result, the Foundation will have a deficiency of revenue over expenses in future years unless it can continue to raise sufficient donations or increase its rental revenues. As such, there exists a material uncertainty that casts significant doubt about the Foundation’s ability to continue as a going concern.

The ability of the Foundation to continue as a going concern is dependent upon the continued support of its lenders and the ability to generate revenue in excess of expenses and positive cash flows from operations.

If the going concern basis was not appropriate for these financial statements, then adjustments would be necessary to the carrying values of assets and liabilities, the reported revenue and expenses, and the balance sheet classification used.

2. Significant accounting policies:

These financial statements have been prepared by management in accordance with Canadian Accounting Standards for Not-For-Profit Organizations in Part III of the CPA Canada Handbook - *Accounting*. The significant accounting policies are as follows:

(a) Revenue recognition:

The Foundation follows the deferral method of accounting for contributions, which include donations and grants.

Externally restricted contributions are initially deferred and recognized as revenue in the year in which the related expenses are recognized. Unspent amounts are included in deferred revenue and contributions. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Revenue from fees and rental contracts is recognized when the services are provided. Rental revenue includes all amounts earned from tenants related to lease agreements which are recognized on a straight-line basis over the term of the lease.

Restricted investment income is initially deferred and recognized as revenue in the year in which the related expenses are recognized. Unrestricted investment income is recognized as revenue when earned.

(b) Capital assets:

Capital assets are recorded at cost less accumulated amortization.

Interest is capitalized whenever external debt is issued to finance the construction of capital assets. During the year ended September 30, 2018 and 2017, no interest was capitalized to capital assets.

Capital assets are amortized, commencing the date they are available for use, over their estimated useful lives on the following basis:

Asset	Basis	Rate
Athlete Development Centre	Straight-line	25 years
Field turf	Straight-line	13 years
Furniture and fixtures	Straight-line	10 years
Information technology infrastructure	Declining balance	20%
Specialized medical equipment	Straight-line	5 years
Fitness equipment	Straight-line	5 years
Hydrotherapy equipment	Straight-line	5 years
Computer software and hardware	Declining balance	20%
Bedding and appliances	Straight-line	5 years
Telecommunications equipment	Declining balance	20%

2. Significant accounting policies (continued):

(b) Capital assets (continued):

Land is not amortized. Equipment under capital lease is amortized over the lesser of its useful life or the expected term of the lease.

When a capital asset no longer contributes to the Foundation's ability to provide services, its carrying amount is written down to its residual value.

(c) Asset retirement obligation:

The Foundation recognizes an asset retirement obligation where a reasonable estimate of the fair value of the obligation can be determined. The Foundation estimates fair value by determining the current market cost required to settle the asset retirement obligation, adjusted for inflation through to the expected date of settlement, which is discounted to its present value. The resulting annual expense is referred to as accretion expense. The Foundation reviews changes in the amounts and timing of estimated future cash flows underlying the fair value measurement on a periodic basis.

(d) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Foundation has elected to carry all its short-term investments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets carried at cost or amortized cost are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Foundation determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Foundation expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

(e) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Areas subject to significant estimates include valuation of accounts receivable, useful lives for amortization of capital assets, assessment of going concern assumption and valuation of asset retirement obligation. Actual results could differ from these estimates.

2. Significant accounting policies (continued):

(f) Related party transactions:

Monetary related party transactions and non-monetary related party transactions that have commercial substance are measured at the exchange amount when they are in the normal course of business, except when the transaction is an exchange of a product or property held for sale in the normal course of operations. Where the transaction is not in the normal course of operations, it is measured at the exchange amount when there is a substantive change in the ownership of the item transferred and there is independent evidence of the exchange amount.

All other related party transactions are measured at the carrying amount.

3. Prepaid land lease:

Prepaid land lease relates to the prepayment of $1,361,060 in 2008 on an operating lease for land and land improvements with the City of Burnaby on which the field turf is constructed. The prepayment is recognized as an expense on a straight-line basis over the term of the lease, being 20-years, ending February 22, 2028.

4. Capital assets:

			2018	2017
	Cost	Accumulated amortization	Net book value	Net book value
Land	$ 3,098,439	$ -	$ 3,098,439	$ 3,098,439
Athlete Development Centre	48,636,200	10,541,302	38,094,898	40,041,591
Field turf	1,118,422	843,690	274,732	312,137
Furniture and fixtures	1,658,149	895,024	763,125	930,483
Information and technology infrastructure	1,529,490	1,077,792	451,698	564,623
Specialized medical equipment	672,647	640,510	32,137	116,185
Fitness equipment	551,533	539,122	12,411	79,689
Hydrotherapy equipment	283,582	283,582	-	33,085
Computer software and hardware	293,496	197,702	95,794	111,270
Bedding and appliances	93,483	72,434	21,049	9,459
Equipment under capital lease	9,763	7,064	2,699	3,599
Telecommunications equipment	4,911	4,098	813	1,017
	$ 57,950,115	$ 15,102,320	$ 42,847,795	$ 45,301,577

5. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances payable of $11,182 (2017 - $8,846) relating to federal and provincial sales taxes.

6. Mortgage loans:

			2018		2017
Romspen Investment Corporation mortgage loan	(a)	$	15,268,409	$	26,477,402
Almoner Foundation mortgage loan	(b)		-		14,799,307
Bank of Montreal ("BMO")	(c)		-		-
			15,268,409		41,276,709
Less current portion of mortgage loan			15,268,409		14,799,307
		$	-	$	26,477,402

(a) Romspen Investment Corporation mortgage loan:

On July 29, 2015, the Romspen Investment Corporation ("Romspen") loan was refinanced with Romspen to increase the loan amount to $26,420,000 with an interest rate of 10.25% which covered accrued interest, legal and extension fees. The maturity date was extended to March 31, 2017. Since June 1, 2015, the Foundation has been servicing interest on a monthly basis until November 2016. The Foundation has been accruing interest from November 2016 to April 2017.

On May 3, 2017, accrued interest in the amount of $1,060,900 was paid to Romspen and the loan was refinanced at 8%. In addition $2,120,000 was paid to Romspen as prepaid interest to cover interest payments up to March 31, 2018.

On January 16, 2018, the Romspen mortgage loan was partially repaid by virtue of multiple charitable donations (note 6(c)).

Subsequent to September 30, 2018, the Romspen mortgage loan was fully repaid with the BMO credit facility (note 6(c)).

(b) Almoner Foundation mortgage loan:

On October 24, 2012, the Foundation entered into an agreement with Almoner Foundation ("Almoner") for a $13,000,000 non-revolving commercial mortgage loan for purposes of construction of the Athlete Development Centre. The loan bears interest at a floating rate based on the BMO prime rate, calculated and payable monthly, with monthly principal repayments of $41,667 and additional principal repayments of $1,500,000 in each of May 2014 and November 2014 and $1,000,000 in each of May 2015 and November 2015. On December 2, 2014, the additional principal repayments were postponed. The loan is secured by a second mortgage on the Athlete Development Centre, ranking behind a first mortgage in favor of Romspen (note 6(a)).

On May 3, 2017, the Almoner Foundation mortgage loan was refinanced to increase the loan to $15,000,000 with interest at the Bank of Canada prime rate plus 1.00% (2017- 1.00%) with monthly blended principal and interest payments of $88,543. Fortius Foundation received $686,814, net of fees and interest. The loan was also converted into a demand loan without fixed maturity, and accordingly was classified as current as at September 30, 2017.

In December 2017, by virtue of multiple charitable donations, the Almoner Foundation mortgage loan including accrued interest was fully repaid.

6. Mortgage loans (continued):

(c) BMO credit facility:

On July 12, 2018, the Foundation entered into an agreement with BMO. This agreement included $16,000,000 term loan facility to repay any outstanding amounts for the Rompsen mortgage. The amortization period of the loan is 25 years from the initial draw down, inclusive of interest-only period of 24 months from initial draw down. During the interest only period, the loan bears a floating interest rate at prime plus 1.5%. Interest is calculated monthly in arrears and is payable on the last day of the month. During the amortization period after the interest- only period the loan bears interest at a fixed rate that will be decided in future periods, with blended payments comprising of principal and interest in arrears, on the last day of each month. The amount of the payment will be initially determined based on the loan amount, amortization and interest rate in effect at the time of the advance, subject to review at BMO's sole discretion.

During the year ended September 30, 2018, the Foundation paid fees of $80,000 associated with this facility. As of September 30, 2018 this amount has been recorded as prepaid deferred financing fee as the facility was not drawn on.

Subsequent to year end, on October 3, 2018, the Foundation drew on this facility in the amount of $16,000,000 to repay the Rompsen mortgage loan.

7. Long-term debt:

		2018	2017
Promissory notes payable to Homestead on the Hill Foundation	(a)	$ -	$ 3,305,573
Loan payable to TELUS Corporation	(b)	2,253,050	2,240,550
Promissory note payable to Herman Miller Canada, Inc.	(c)	479,260	539,260
Promissory note payable to Almoner Foundation	(d)	-	376,636
Promissory notes payable to Foundation for Public Good	(e)	-	12,175,128
Promissory note payable to Association for the Advancement of Scholarship	(f)	-	708,490
		2,732,310	19,345,637
Less current portion of long-term debt		60,000	60,000
		$ 2,672,310	$ 19,285,637

(a) Promissory notes payable to Homestead on the Hill Foundation ("HHF"):

During the year ended September 30, 2012, the Foundation entered into two promissory note agreements totaling $4,000,000 payable to HHF, an arm's-length charity fund. Each promissory note is in the amount of $2,000,000, bears interest at 7% per annum, is unsecured, and has no fixed repayment terms.

7. Long-term debt (continued):

(a) Promissory notes payable to Homestead on the Hill Foundation ("HHF") (continued):

During the year ended September 30, 2013, the Foundation repaid one of the promissory notes for $2,000,000. The Foundation also amended the second promissory note agreement to extend the maturity date from May 20, 2013 to May 20, 2014, and then to November 15, 2017. HHF agreed, in writing, not to demand repayment on the note prior to October 1, 2018, and accordingly, the amount was classified as a long-term liability.

On February 5, 2015, the Foundation issued a note payable to HHF for additional $500,000. The note bears interest at a rate of 7% per annum, is unsecured.

During the year ended September 30, 2018, the Foundation accrued $35,000 (2017 - $170,000) interest on the unpaid balance owing on the promissory notes payable.

In December 2017, by virtue of multiple charitable donations the promissory notes payable including accrued interest owing to HHF has been fully repaid.

(b) Loan payable to TELUS Corporation ("TELUS"):

(i) On May 7, 2013, the Foundation entered into a loan agreement with TELUS pursuant to which the Foundation received an interest bearing loan of $500,000 to be used to fund construction costs and purchase of furniture and fixtures for the Athlete Development Centre, as well as, to fund the customization of the TELUS Electronic Medical Records software. The loan is secured by a third mortgage on the Athlete Development Centre. The loan was repayable at the initial maturity date of May 7, 2018, with interest on the loan accrued monthly. In fiscal 2017, the maturity date of the loan was extended on the same terms and servicing levels to May 7, 2023.

The loan bears interest at a simple interest rate of 5% per annum calculated monthly. Interest accrued during the first year is payable on the maturity date. Interest accrued for the period from the first anniversary date up to and including maturity date is payable monthly at a rate of 2.5% (50% of interest accruing) per annum commencing on June 1, 2014, and the balance of interest accruing for that period will be deferred and payable on the maturity date.

As at September 30, 2018, accrued interest of $80,970 (2017 - $68,470) is included in debt.

(ii) The Foundation partnered with TELUS to build, integrate, and install an end-to-end information and communication technology solution in the Athlete Development Centre. The cost of the equipment, installation, and labour incurred was $1,672,080. TELUS has agreed, in writing, not to demand repayment on the amount payable of $1,672,080 prior to October 1, 2019, and accordingly, the amount has been classified as a long-term liability.

7. Long-term debt (continued):

(c) Promissory note payable to Herman Miller Canada, Inc. (“Herman Miller”):

On August 27, 2014, the Foundation refinanced accounts payable owing to Workplace Resources of $782,006 by issuing a promissory note payable to Herman Miller for $782,006. The note is unsecured and bears interest at a rate of 5% per annum.

Payments were originally due in monthly blended instalments of $25,000 until June 1, 2017.

In February 2016 and subsequently in February 2017, the Foundation renegotiated repayment schedule with Herman Miller, lowering monthly installment payments to $5,000, with no interest accruing starting February 1, 2016 until February 1, 2018.

Herman Miller has extended current repayment schedule with monthly installment payments of $5,000 to February 1, 2020.

(d) Promissory note payable to Almoner Foundation:

On February 7, 2014, the Foundation issued a promissory note payable to Almoner for $300,000. The note bore interest at a simple interest rate of 7% per annum, was unsecured, and had a maturity date of May 20, 2015.

During the year ended September 30, 2018, the Foundation accrued $4,200 (2017 - $21,000) interest on the loan.

In December 2017, by virtue of multiple charitable donations the promissory note payable including accrued interest owing to Almoner Foundation has been fully repaid.

(e) Promissory notes payable to Foundation for Public Good (“FPG”):

During the year ended September 30, 2018, the Foundation issued an additional tranche of notes payable to FPG for $750,000 (2017 - $2,295,000). The notes were unsecured and bear interest at a rate of 7% per annum.

During the year ended September 30, 2018, the Foundation accrued $160,535 (2017 - $705,988) interest on the unpaid balance owing on the loan.

In December 2017, by virtue of multiple charitable donations the promissory notes payable including accrued interest owing to FPG has been fully repaid.

(f) Promissory note payable to Association for the Advancement of Scholarship (“AAS”):

During the year ended September 30, 2015, the Foundation issued a promissory note payable to the AAS for $600,000. The note was unsecured and bore interest at a simple interest rate of 7% per annum maturing on October 1, 2018.

During the year ended September 30, 2018, the Foundation accrued $8,400 (2017 - $42,000) interest on the unpaid balance owing on the loan.

In December 2017, by virtue of multiple charitable donations the promissory note payable including accrued interest owing to AAS has been fully repaid.

8. Asset retirement obligation:

The Foundation has recorded an asset retirement obligation for future activities and costs related to restoration of a turf field facility leased from the City of Burnaby. The total undiscounted amount of future cash flows required to settle the obligation was estimated to be approximately $1,100,000 which has been discounted at a rate of 4.83%.

	2018	2017
Asset retirement obligation, beginning of year	$ 679,163	$ 647,865
Accretion expense	32,810	31,298
Asset retirement obligation, end of year	$ 711,973	$ 679,163

9. Related party balances:

(a) Due from related parties:

	2018	2017
Fortius Institute Inc. (the "Institute"), an entity related by virtue of common Board membership	$ 5,761,083	$ 4,676,144
Association	16,170,589	13,055,456
Allowance for doubtful accounts	(21,531,318)	(17,731,600)
	$ 400,354	$ -

The amounts due from related parties are advanced on an as needed basis. The related party balances have no fixed repayment terms, do not bear interest, and are unsecured. Due to the uncertainty of collectability from the related parties, the balances advanced during the year ended September 30, 2018 have been recorded to bad debt expense and a corresponding allowance for doubtful accounts has been recorded.

(b) Notes payable to related parties:

		2018	2017
Imladris Foundation	(*i*)	$ -	$ 28,919,628
Director of the Foundation	(*ii*)	3,630,000	3,630,000
		$ 3,630,000	$ 32,549,628

(*i*) Imladris Foundation:

The first note payable in the amount of $23,000,000 bore interest at 5% per annum and was secured by a fourth mortgage on the Athlete Development Centre and a general security agreement. The second note payable in the amount of $1,227,864 was non-interest bearing and was unsecured, due on demand with 90-days' notice. The third note payable in the amount of $110,000, bore interest at a rate of 7% per annum and was unsecured.

9 Related party balances (continued):

(b) Notes payable to related parties (continued):

(i) Imladris Foundation (continued):

During the year ended September 30, 2018, the Foundation accrued $340,373 (2017 - $1,163,950) interest on the unpaid balance owing on the loan.

In January 2018, by virtue of multiple charitable donations the notes payable including accrued interest owing to Imladris Foundation has been repaid.

(ii) Director of the Foundation:

The notes payable to a director of the Foundation are non-interest bearing, unsecured and payable on demand with 90-days' notice. The director has agreed, in writing, not to demand repayment on the note prior to October 1, 2019, and accordingly, the amount has been classified as a long-term liability.

10. Related party transactions:

The Foundation entered into an agreement to lease the land and Athlete Development Centre, including equipment, and sublease the field turf to the Association. The term of the lease is 20 years, expiring April 20, 2033. The agreed-upon basic rent for the year ended April 30, 2014, is $2,100,000 per annum, for the year ended April 30, 2015 is $2,200,000 per annum, and for the 8 year term from May 1, 2015 to and including April 30, 2023 is $2,600,000 per annum. The basic rent for the remaining 10 year term from May 1, 2023 to April 30, 2033 is to be determined by mutual agreement. The Association is required to pay all business and other taxes, cleaning and utility charges relating to the Athlete Development Centre.

During the year ended September 30, 2018, the Foundation was owed lease payments of $2,600,000 (2017 - $2,600,000) and amounts for property taxes of $400,354 from the Association. Due to uncertainty in collectability, the lease revenue was not recognized in the financial statements.

From time to time the Foundation will lend amounts to the Association and the Institute on an as-needed basis. These amounts are non-interest bearing with no set repayment terms.

11. Financial risks:

The significant financial risks to which the Foundation is exposed are interest rate risk, liquidity risk and market risk. Management is of the opinion that there are no material changes in these risks over the prior year.

(a) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates on floating rates or near-term maturity debt instruments. As the loans payable to TELUS are due in 2023, there is interest rate risk in the form of future cash flows relating to their refinancing. Interest rate risk arises from the possibility that changes in interest rates will affect the fair value of financial instruments on fixed rates.

11. Financial risks (continued):

(b) Liquidity risk:

Liquidity risk is the risk that the Foundation will encounter difficulty in meeting obligations associated with financial liabilities. The Foundation is exposed to liquidity risk arising primarily from accounts payable and accrued liabilities, interest and debt repayment obligations. The Foundation's ability to meet obligations depends on donations and lease revenue collections, and obtaining additional financing (note 1).

(c) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Foundation leases the land and Athlete Development Centre to the Association of which there is a risk of collection from the Association.

(d) Economic dependence:

The ability of the Foundation to continue as a going concern is dependent upon the continued support of its lenders, and the ability of the Foundation to obtain alternate sources of financing and to generate positive cash flow from operations.

12. Comparative information:

Certain comparative information has been reclassified to conform with the current year financial statement presentation.