Consolidated Financial Statements of

# CENTREVENTURE DEVELOPMENT CORPORATION

Year ended December 31, 2019

# CENTREVENTURE DEVELOPMENT CORPORATION

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Year ended December 31, 2019


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# MANAGEMENT REPORT

## Management's Responsibility for the Financial Statements

The accompanying consolidated financial statements are the responsibility of the management of CentreVenture Development Corporation and have been prepared in accordance with Canadian public sector accounting standards. In management's opinion, the financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgment regarding all necessary estimates and all other data available to March 12, 2020.

Management maintains internal controls designed to properly safeguard the assets and to provide reasonable assurance that the books and records from which the financial statements are derived accurately reflect all transactions and that established policies and procedures are followed.

The responsibility of the external audit is to express an independent opinion on whether the consolidated financial statements of CentreVenture Development Corporation are fairly represented in accordance with Canadian public sector accounting standards. The Independent Auditors' Report outlines the scope of the audit examination and provides the audit opinion.

On behalf of Management,

CentreVenture Development Corporation



Angela Mathieson, President & CEO

March 12, 2020

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# INDEPENDENT AUDITORS' REPORT

To the Members of CentreVenture Development Corporation

## *Opinion*

We have audited the accompanying consolidated financial statements of CentreVenture Development Corporation (the "Entity"), which comprise the consolidated statement of financial position as at December 31, 2019, the consolidated statements of operations, changes in net assets, and cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies (hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2019, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

## *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 "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity 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.

## *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 Canadian public sector accounting standards, 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.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

In preparing the financial statements, management is responsible for assessing the Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

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

## *Auditors' 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 auditors' 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 the 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 Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Entity 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.

- 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.

KPMG LLP

Chartered Professional Accountants

Winnipeg, Canada

March 12, 2020

# CENTREVENTURE DEVELOPMENT CORPORATION

Consolidated Statement of Financial Position

December 31, 2019, with comparative information for 2018

| | 2019 | 2018 (Restated, note 2) |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash | $ 1,421,542 | $ – |
| Accounts receivable (note 4) | 4,233,055 | 3,823,394 |
| Prepaid expenses | 2,353 | 18,571 |
| Property held for resale (note 5) | 2,049,606 | 4,329,406 |
| Current portion of mortgages receivable (note 5) | 785,841 | 177,903 |
| Current portion of loans receivable (note 7) | 749,467 | 832,200 |
| Current portion of SHED project receivable (note 8) | 502,661 | 483,900 |
| | 9,744,525 | 9,665,374 |
| Mortgages receivable (note 6) | 3,715,621 | 2,018,265 |
| SHED project receivable (note 8) | 4,116,271 | 4,616,788 |
| Capital assets (note 9) | 4,099,777 | 4,378,298 |
| | $ 21,676,194 | $ 20,678,725 |
| **Liabilities, Deferred Contributions and Net Assets** | | |
| Current liabilities: | | |
| Bank indebtedness (note 10) | $ – | $ 636,684 |
| Accounts payable and accrued liabilities | 624,921 | 525,320 |
| Current portion of long-term debt (note 11) | 688,502 | 661,789 |
| | 1,313,423 | 1,823,793 |
| Long-term debt (note 11) | 6,612,830 | 7,301,332 |
| Forgivable loans (note 12) | 2,360,851 | 2,713,398 |
| Deferred contributions (note 13): | | |
| Expenses of future periods | 3,691,940 | 3,523,094 |
| Capital assets | 1,220,252 | 962,072 |
| | 4,912,192 | 4,485,166 |
| Net assets: | | |
| Invested in capital assets (note 15) | 2,568,280 | 5,032,234 |
| Unrestricted | 3,908,618 | (677,198) |
| | 6,476,898 | 4,355,036 |
| Commitments (note 14) | | |
| | $ 21,676,194 | $ 20,678,725 |

See accompanying notes to consolidated financial statements.

On behalf of the Board:



Director



Director

# CENTREVENTURE DEVELOPMENT CORPORATION

Consolidated Statement of Operations

Year ended December 31, 2019, with comparative information for 2018

| | 2019 Total | 2018 Total (Restated, note 2) |
|---|---|---|
| Revenue: | | |
| Rental properties (note 16) | $ 485,207 | $ 397,258 |
| Interest | 111,094 | 281,685 |
| SHED project (note 16) | 264,628 | 283,363 |
| Designated grants (note 13) | 100,000 | 147,248 |
| Commissions | 88,500 | 140,021 |
| Gain on disposal of property held for resale (note 5) | 4,049,260 | 867,300 |
| Other | 3,187 | 2,169 |
| | 5,101,876 | 2,119,044 |
| Expenditures: | | |
| General operations | 706,183 | 796,693 |
| Rental properties | 345,421 | 311,663 |
| SHED project expenditures | 264,628 | 283,363 |
| Grants | 100,000 | 147,248 |
| Projects | 1,096,578 | 264,526 |
| | 2,512,810 | 1,803,493 |
| Excess of revenue over expenditures before the undernoted | 2,589,066 | 315,551 |
| Write-down of property held for resale (note 5) | (600,000) | (935,000) |
| Amortization | (279,926) | (273,233) |
| Amortization of deferred contributions (note 13) | 412,722 | 210,027 |
| Excess (deficiency) of revenue over expenditures | $ 2,121,862 | $ (682,655) |

See accompanying notes to consolidated financial statements.

# CENTREVENTURE DEVELOPMENT CORPORATION

Consolidated Statement of Changes in Net Assets

Year ended December 31, 2019, with comparative information for 2018

| | Invested in capital assets | Unrestricted | Total |
|---|---|---|---|
| Balance, December 31, 2017 | $ 2,720,019 | $ 2,317,672 | $ 5,037,691 |
| Deficiency of revenue over expenditures | (130,906) | (551,749) | (682,655) |
| Transfer for purchase of capital assets (note 15) | 62,515 | (62,515) | – |
| Transfer for repurchase of property held for Resale | 3,584,606 | (3,584,606) | – |
| Transfer of proceeds on disposal of property held for resale (note 5) | (1,204,000) | 1,204,000 | – |
| Balance, December 31, 2018 | $ 5,032,234 | $ (677,198) | $ 4,355,036 |
| Excess (deficiency) of revenue over expenditures | 3,582,056 | (1,460,194) | 2,121,862 |
| Transfer for purchase of capital assets (note 15) | 1,405 | (1,405) | – |
| Transfer of contribution for previous years purchase of capital assets (note 15) | (318,355) | 318,355 | – |
| Transfer of proceeds on disposal of property held for resale (note 5) | (5,729,060) | 5,729,060 | – |
| Balance, December 31, 2019 | $ 2,568,280 | $ 3,908,618 | $ 6,476,898 |

See accompanying notes to consolidated financial statements.

# CENTREVENTURE DEVELOPMENT CORPORATION

Consolidated Statement of Cash Flows

Year ended December 31, 2019, with comparative information for 2018

| | 2019 | 2018 (Restated, note 2) |
|---|---|---|
| Cash provided by (used in): | | |
| Operating activities: | | |
| Excess (deficiency) of revenue over expenditures for the year | $ 2,121,862 | $ (682,655) |
| Adjustments for: | | |
| Amortization of capital assets | 279,926 | 273,233 |
| Amortization of deferred contributions | (412,722) | (210,027) |
| Write-down of property held for resale | 600,000 | 935,000 |
| Gain on disposal of property held for resale | (4,049,260) | (867,300) |
| | (1,460,194) | (551,749) |
| Changes in non-cash working capital balances: | | |
| Restricted cash | – | 1,426,013 |
| Accounts receivable | (110,279) | 181,164 |
| Prepaid expenses | 16,218 | (15,330) |
| Accounts payable and accrued liabilities | 99,601 | (36,627) |
| Increase (decrease) in deferred contributions related to expenses of future periods | 2,999,579 | (88,232) |
| | 1,544,925 | 915,239 |
| Capital activities: | | |
| Purchase of capital assets | (1,405) | (62,515) |
| Repurchase of property held for resale, net of mortgage receivable previously provided nil (2018 - $3,000,000) | – | (584,606) |
| Proceed from sale of property held for resale, net of mortgages receivable of $2,480,500 (2018 - $700,000) accounts receivable of $2,811,760 (2018 - nil) | 436,800 | 504,000 |
| | 435,395 | (143,121) |
| Investing activities: | | |
| Principal repaid on mortgages receivable | 175,206 | 1,016,744 |
| Principal repaid on loans receivable | 82,733 | 1,462,191 |
| Principal repaid on SHED project receivable | 481,756 | 463,022 |
| | 739,695 | 2,941,957 |
| Financing activities: | | |
| Change in bank indebtedness | (636,684) | (3,140,196) |
| Repayment of long-term debt | (661,789) | (635,501) |
| | (1,298,473) | (3,775,697) |
| Increase (decrease) in cash | 1,421,542 | (61,622) |
| Cash, beginning of year | – | 61,622 |
| Cash, end of year | $ 1,421,542 | $ – |

See accompanying notes to consolidated financial statements.

# CENTREVENTURE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

Year ended December 31, 2019

## 1. General:

CentreVenture Development Corporation (the "Corporation") is a non-profit organization incorporated without share capital under the laws of the Province of Manitoba (the "Province") on July 9, 1999. The goal of the Corporation is to promote and foster economic, residential and cultural growth and development in the downtown district of The City of Winnipeg (the "City"). The Corporation is exempt from income tax by virtue of p.149(1)(e) of the *Income Tax Act*.

## 2. Change in accounting policies:

As a result of the change in tax status of the Corporation's wholly-owned subsidiaries, STR Properties Inc. and CCC Properties Inc., from profit-oriented enterprises to non-profit organizations, the Corporation has changed its accounting for these subsidiaries within the consolidated financial statements. Previously, the Corporation accounted for these subsidiaries using the modified equity method and the accounts of these subsidiaries are now consolidated into the financial statements of the Corporation. This change has been applied retroactively and accordingly, the comparative financial statements have been restated as follows:

| | Increase (Decrease) |
|---|---|
| Consolidated Statement of Financial Position: | |
| Accounts receivable | $ 4,888 |
| Property held for resale | 2,649,606 |
| Investment in hotel properties | (6,811,483) |
| Accounts payable and accrued liabilities | 31,648 |
| Payable to CCC Properties Inc. | (3,789,795) |
| Payable to STR Properties Inc. | (398,842) |
| Consolidated Statement of Operations: | |
| Rental properties revenue | 13,500 |
| Loss from investment in hotel properties | (951,890) |
| Rental properties expenses | 30,390 |
| Write-down of property held for resale | 935,000 |

## 3. Significant accounting policies:

These consolidated financial statements have been prepared by management in accordance with Canadian public sector accounting standards including the 4200 standards for government not-for-profit organizations and include the following significant accounting policies:

(a) Basis of consolidation:

These consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries STR Properties Inc., CCC Properties Inc. and Centre Village Housing Inc.

**3. Significant accounting policies (continued):**

Intra-company and inter-company transactions and balances have been eliminated upon consolidation.

(b) Financial instruments:

Financial instruments are recorded at fair value when acquired or issued. Derivative instruments and equity instruments that are quoted in an active market are reported at fair value. All other financial instruments are reported at cost or amortized cost less impairment, if applicable. Financial assets are tested for impairment when changes in circumstances indicate the asset could be impaired. 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 effective interest method.

(c) Revenue recognition:

The Corporation follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenditures are incurred. 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. Contributions restricted for the purchase of capital assets are deferred and amortized into revenue on a straight-line basis at a rate corresponding with the amortization rate for the related capital assets.

Interest income and rental revenue is recognized on an accrual basis consistent with the terms of the related mortgage and loan agreements and when collection is reasonably assured. Reasonable assurance is based upon the Corporation’s past experience with its claims and collections associated with clients and similar transactions.

Sale proceeds on properties and the related costs of properties are recognized when the risks and rewards of ownership are transferred to the purchaser and collection is reasonably assured. Reasonable assurance is based upon the Corporation’s past experience with its claims and collections associated with clients and similar transactions. A transaction fee is levied by the Corporation on these sales.

**3. Significant accounting policies (continued):**

(d) Special projects - restricted funding arrangements:

In addition to regular operating revenues, the Corporation receives grants from time to time for specific programs or initiatives to be administered by the Corporation. The following special funding arrangements were ongoing during the year:

*Province of Manitoba - North Main Economic Development Program Grant:*

The purpose of this grant is to attract business investment to the North Main area of downtown Winnipeg.

*City of Winnipeg - Downtown Housing Strategy:*

The purpose of this grant is to encourage unique and innovative approaches that support downtown housing developments and result in quality, affordable housing by providing financial assistance to proponents.

*City of Winnipeg - Gail Parvin Hammerquist:*

The purpose of this grant is to fund innovative measures to attract new investment, occupants and uses for heritage buildings, as well as to conserve the heritage character, architectural elements and detailing of designated buildings.

*City of Winnipeg/Province of Manitoba - Downtown Residential Development Program (DRDG):*

The purpose of this program is to promote and support significant improvement projects to revitalize communities and neighborhoods, encourage economic development, enhance social and cultural development, and preserve heritage properties. The Corporation provides administration and other services to the City for this program.

*City of Winnipeg/Province of Manitoba - East Waterfront Neighborhood Development Program (EWND):*

The purpose of this program is to undertake initiatives, such as marketing, safety programs, beautification, amenity attraction etc. that to enhance the Exchange Waterfront neighborhood where clusters of residential development are occurring. The public investment is being made to attract private sector investment and protect existing investments that has been made by individuals and business owners who want to live and work in a vibrant complete community.

**3. Significant accounting policies (continued):**

*City of Winnipeg/Province of Manitoba - Sports, Hospitality, and Entertainment District (SHED) Project:*

The purpose of this program is to make the SHED a key destination downtown, by providing funds to the Corporation to stimulate private and public investment in the District, with the goal of revitalizing Winnipeg's downtown.

*City of Winnipeg - Homelessness Partnering Strategy:*

The purpose of this grant is to fund renovations at the Bell Hotel whose goal is to provide affordable housing to individuals who have experienced extended periods of homelessness.

(e) Mortgages and loans receivable:

Mortgages and loans are carried at the unpaid principal plus accrued interest, less allowances for doubtful loans. Amounts considered uncollectible are written-off in the year in which the uncollectible amount is determined. Recoveries on mortgages and loans previously written-off are taken into income in the year the amount is received.

(f) Allowance for doubtful loans:

The allowance for doubtful loans is maintained at a level considered adequate to absorb credit losses existing in the Corporation's portfolio. The allowance is evaluated on an ongoing basis and increased as deemed necessary, which is charged against income and is reduced by write-offs.

(g) Capital assets:

Purchased capital assets are recorded at cost less accumulated amortization. Contributed capital assets are recorded at fair value at the date of contribution. Amortization is provided on a straight-line basis in accordance with the following estimated useful life of the asset:

| Asset | Term |
|---|---|
| Buildings | 25 years |
| Computer equipment | 3 years |
| Furniture and fixtures | 5 years |
| Leasehold improvements | 3 to 15 years |

**3. Significant accounting policies (continued):**

Property held for development is recorded at cost and is not amortized until the asset is available for productive use.

(h) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

**4. Accounts receivable:**

| | 2019 | 2018 |
|---|---|---|
| Trade and other receivables | $ 3,745,854 | $ 223,815 |
| Grants receivable - the City | 487,201 | 3,599,579 |
| | $ 4,233,055 | $ 3,823,394 |

**5. Property held for resale:**

Under the asset agreement between the Corporation and the City, the Corporation has the option to acquire an interest in surplus City-owned properties and buildings within the downtown area for the consideration of one dollar or a maximum of three years back property taxes. Any properties obtained under either of these options are recorded at the consideration price. The land inventory available under the asset agreement has been substantially depleted. As at December 31, 2019, the Corporation has available the option to acquire four City-owned properties. These properties include the Waterfront Drive property with an optioned area of 10,885 square feet (sf), Market Lands property with an optioned area of 73,103sf, Waterfront Drive property with an optioned area of 2,163sf and the Triangle Corner property with an optioned area of 4,665sf.

Property held for resale also includes properties acquired at fair market value from third parties for the purpose of development and/or resale. Material costs associated with the acquisition, development and resale of these properties are capitalized at cost.

During the year ended December 31, 2019, the Corporation sold a property held for resale as at December 31, 2018 for $1,780,000, consisting of cash consideration of $417,000 and a vendor take back mortgage receivable of $1,363,000 (note 5), resulting in a gain on disposal of $100,000.

**5. Property held for resale (continued):**

During the year ended December 31, 2019, the Corporation further acquired four properties from the City for one dollar each and sold them for $3,949,260, consisting of cash consideration of $2,831,760 and vendor take back mortgages receivable of $1,117,500 (note 5), resulting in a gain on disposal of $3,949,260.

During fiscal 2018, STR Properties Inc. reacquired the St. Regis Property for $3,585,000 through cash consideration of $584,000 including transaction costs and settlement of the $3,000,000 mortgage held by the Corporation. The St. Regis property was subsequently written down by $935,000 during the year ended December 31, 2018 with a further write-down of $600,000 during the year ended December 31, 2019.

**6. Mortgages receivable:**

| | 2019 | 2018 |
|---|---|---|
| Mortgages receivable | $ 4,521,462 | $ 2,216,168 |
| Allowance for doubtful loans | (20,000) | (20,000) |
| | 4,501,462 | 2,196,168 |
| Current portion of mortgages receivable | 785,841 | 177,903 |
| | $ 3,715,621 | $ 2,018,265 |

Mortgages receivable at December 31, 2019 are on five properties in downtown Winnipeg with maturity from fiscal 2023 to 2025 monthly instalments are applied to interest first, compounded semi-annually not in advance. Mortgages receivable are secured by recourse to the related underlying property and other forms of security except for $1,338,264 (2018 - $1,516,154) for which the City funds principal and interest payments and has provided a guarantee on the related term loan payable that the Corporation had obtained to providing financing for the mortgage (note 12). Interest rates charged for the mortgages receivable range from non-interest bearing to 4.95 percent (2018 - 4.5 percent to 5.0 percent) and are both fixed and variable in reference to the prime interest rate of lending at the time of loan disbursement.

Mortgage principal receipts are expected as follows:

| | |
|---|---|
| 2020 | $ 785,841 |
| 2021 | 1,557,148 |
| 2022 | 202,827 |
| 2023 | 1,432,091 |
| 2024 | 221,365 |
| Thereafter | 322,190 |
| | $ 4,521,462 |

## 7. Loans receivable:

Loans receivable at December 31, 2019 are repayable during fiscal 2020. Loans receivable are secured by an assignment of Heritage Tax Credits or other forms of security. The loans receivable outstanding at December 31, 2019 are non-interest bearing (2018 - non-interest bearing) and are payable in monthly instalments.

## 8. SHED project receivable:

The SHED project is funded by the City and Province with grants provided under the project to make the SHED a key destination downtown with the goal of revitalizing Winnipeg's downtown. Under the terms of the agreement, the Corporation has obtained proceeds from term loans aggregating $8,290,000 (note 11) to utilize for grants in accordance with Phase 1 of the SHED project. As grants are expended by the Corporation a SHED project receivable from the City and Province is recognized for an equivalent amount. The City and Province provide annual funding to the Corporation equivalent to the annual debt servicing cost of the term loans.

SHED project principal receipts are expected as follows:

| | |
|---|---|
| 2020 | $ 502,661 |
| 2021 | 523,508 |
| 2022 | 544,526 |
| 2023 | 566,387 |
| 2024 | 588,695 |
| Thereafter | 1,893,155 |
| | $ 4,618,932 |

## 9. Capital assets:

| | Cost | Accumulated amortization | 2019 Net book value | 2018 Net book value |
|---|---|---|---|---|
| Buildings | $ 6,140,734 | $ 2,200,833 | $ 3,939,901 | $ 4,178,014 |
| Computer equipment | 140,388 | 138,063 | 2,325 | 2,939 |
| Furniture and fixtures | 70,015 | 68,849 | 1,166 | 2,332 |
| Leasehold improvements | 632,045 | 475,660 | 156,385 | 195,013 |
| | $ 6,983,182 | $ 2,883,405 | $ 4,099,777 | $ 4,378,298 |

## 10. Bank indebtedness:

| | 2019 | 2018 |
|---|---|---|
| Cheques issued in excess of cash on hand | $ – | $ 636,684 |

The Corporation has an approved operating line of credit with the Royal Bank of Canada to a maximum amount of $10,400,000 (2018 - $10,400,000). The line of credit bears interest at Royal Bank prime rate minus 1.0 percent (2.95 percent as at December 31, 2019) per annum and is secured by an unconditional and irrevocable guarantee signed by the City in the amount of $10,400,000 and a general security agreement on all personal property of the Corporation. The Corporation had not utilized the line of credit at December 31, 2019 (2018 - nil).

## 11. Long-term debt:

| | 2019 | 2018 |
|---|---|---|
| Term loan, interest at 4.47%, due October 2025, blended annual payments of $241,597, secured by a general security agreement constituting a first ranking security interest in all personal property, and an unconditional and irrevocable guarantee signed by the City in the amount of $2,600,000 | $ 1,247,333 | $ 1,425,222 |
| Term loan, interest at 3.98%, due October 2029, blended annual payments of $349,338, secured by a guarantee signed by the City in the amount of $3,890,000 | 2,842,968 | 3,069,721 |
| Term loan, interest at 3.91%, due October 2029, blended annual payments of $393,254, secured by a guarantee signed by the City in the amount of $4,400,000 | 3,211,031 | 3,468,178 |
| | 7,301,332 | 7,963,121 |
| Current portion of long-term debt | 688,502 | 661,789 |
| | $ 6,612,830 | $ 7,301,332 |

Principal repayments for the next five years are as follows:

| | |
|---|---|
| 2020 | $ 688,502 |
| 2021 | 717,656 |
| 2022 | 747,353 |
| 2023 | 778,280 |
| 2024 | 810,060 |
| Thereafter | 3,559,481 |
| | $ 7,301,332 |

**11. Long-term debt (continued):**

Proceeds from the 4.47 percent term loan were utilized by the Corporation to provide a 15 year mortgage receivable to Youth Centre of Excellence project at 333 King Street (note 5).

The Corporation receives annual principal and interest payments for the Youth Centre of Excellence mortgage receivable from the City.

The 3.98 percent and 3.91 percent term loans were incurred to finance phase 1 of the SHED project under the Strategic Downtown Investments Funding Agreement. In accordance with the SHED agreement, the City and the Province provide annual funding to the Corporation equivalent to the annual debt servicing costs of these loans (note 7).

**12. Forgivable loans:**

The details of forgivable loans are as follows:

| | 2019 | 2018 |
|---|---|---|
| Bell Hotel: | | |
| Province of Manitoba 15 year term loan, with maturity date set at August 1, 2026, payments are not required as long as the property operates as an affordable housing complex | $ 1,150,555 | $ 1,310,555 |
| Government of Canada 15 year term loan, with maturity date set at August 1, 2026, payments are not required as long as the property offers services for the homeless approved by the Government of Canada | 1,210,296 | 1,402,843 |
| | $ 2,360,851 | $ 2,713,398 |

The five year forgiveness schedule for the forgivable loans is as follows:

| | |
|---|---|
| 2020 | $ 352,547 |
| 2021 | 352,547 |
| 2022 | 352,547 |
| 2023 | 352,547 |
| 2024 | 352,547 |
| Thereafter | 598,116 |
| | $ 2,360,851 |

At December 31, 2019, the Corporation has met all requirements during the year relating to the terms of the forgivable loans.

## 13. Deferred contributions:

(a) Expenses of future periods:

Deferred contributions related to expenses of future periods represents externally restricted funding received from various sources for the operation of the project to which the funding relates.

Deferred contributions for externally restricted projects during the year is as follows:

| | 2019 | 2018 |
|---|---|---|
| Balance, beginning of year | $ 3,523,094 | $ 1,699,257 |
| Grants received | 100,000 | 59,016 |
| Grants receivable | 487,201 | 1,912,069 |
| Transfer to deferred contributions - capital assets | (318,355) | – |
| Amounts recognized as revenue in the year | (100,000) | (147,248) |
| Balance, end of year | $ 3,691,940 | $ 3,523,094 |

Deferred contributions related to the following projects:

| | 2019 | 2018 |
|---|---|---|
| Gail Parvin Hammerquist | $ 3,668,929 | $ 3,500,083 |
| North Main Economic Development Program Grant | 2,600 | 2,600 |
| Province of Manitoba - Downtown Winnipeg ground floor activation strategy grant | 20,411 | 20,411 |
| | $ 3,691,940 | $ 3,523,094 |

(b) Capital assets:

Deferred contributions related to capital assets represent the unamortized amount of grants and other contributions received for the purchase of capital assets.

| | 2019 | 2018 |
|---|---|---|
| Balance, beginning of year | $ 962,072 | $ 819,552 |
| Contributions transferred from forgivable loans | 352,547 | 352,547 |
| Transfer from deferred contributions - expenses of future periods | 318,355 | – |
| Amount amortized to revenue in the year | (412,722) | (210,027) |
| Balance, end of year | $ 1,220,252 | $ 962,072 |

## 14. Commitments:

The Corporation has made commitments for leases with minimum annual lease payments as follows:

| | |
|---|---|
| 2020 | $ 42,489 |
| 2021 | 42,489 |
| 2022 | 42,489 |
| 2023 | 17,704 |

## 15. Invested in capital assets:

Investment in capital assets is calculated as follows:

| | 2019 | 2018 |
|---|---|---|
| Capital assets | $ 4,099,777 | $ 4,378,298 |
| Property held for sale | 2,049,606 | 4,329,406 |
| Forgivable loans | (2,360,851) | (2,713,398) |
| Deferred contributions | (1,220,252) | (962,072) |
| | $ 2,568,280 | $ 5,032,234 |

Change in net assets invested in capital assets is calculated as follows:

| | 2019 | 2018 |
|---|---|---|
| Excess (deficiency) of revenue over expenditures: | | |
| Amortization of deferred contributions | $ 412,722 | $ 210,027 |
| Amortization of capital assets | (279,926) | (273,233) |
| Gain on sale of disposal of property held for sale | 4,049,260 | 867,300 |
| Write-down of property held for resale | (600,000) | (935,000) |
| | 3,582,056 | (130,906) |
| Purchase of capital assets | 1,405 | 62,515 |
| Repurchase of property held for resale | – | 3,584,606 |
| Contributions for previous years purchase of capital assets | (318,355) | – |
| Proceeds from disposal of property held for sale | (5,729,060) | (1,204,000) |
| | $ (2,463,954) | $ 2,312,215 |

## 16. Related party transactions and balances:

The following table summarizes the Corporation's related party transactions and balances with The City of Winnipeg for the year:

| | 2019 | 2018 |
|---|---|---|
| **Consolidated statement of operations** | | |
| Revenue: | | |
| Downtown Residential Development grant | $ 30,279 | $ 30,279 |
| SHED project grant | 132,314 | 141,681 |
| Expenditures: | | |
| Property taxes | 43,670 | 67,736 |
| **Consolidated statement of financial position** | | |
| Accounts receivable | 487,201 | 3,599,579 |
| Mortgages receivable | 1,338,264 | 1,516,154 |
| Loan receivable | 391,537 | 391,537 |
| SHED project receivable | 2,309,466 | 2,550,344 |
| Accounts payable and accrued liabilities | – | 316,902 |
| Deferred contributions expenses of future periods - Gail Parvin Hammerquist grants | 487,201 | 1,912,069 |

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

## 17. Financial instruments risks:

General objectives, policies and processes:

The Board of Directors has overall responsibility for the determination of the Corporation's risk management objectives and policies and, while retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure effective implementation of the objectives and policies to the Corporation's President and Chief Executive Officer. The Board of Directors receives reporting during the fiscal year from the Corporation's President and Chief Executive Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The Corporation's financial instruments are exposed to certain financial risks, including credit risk, interest rate risk and liquidity risk.

There have been no significant changes from the previous year in the exposure to risk, policies or procedures used to manage financial instruments risks.

**17. Financial instruments risks (continued):**

Interest rate risk:

The Corporation is exposed to interest rate risk arising from the possibility that changes in interest rates will affect the cash flows related to its mortgages and loans receivable, and long-term debt. The Corporation's objective is to minimize interest rate risk by locking in fixed rates on its mortgages and loans receivable, and its long-term debt.

The Corporation is exposed to interest rate risk through its line of credit, which bears interest at prime minus one percent. These funds are used as interim financing until permanent financing, with a fixed rate, can be put in place.

The Corporation's financial instruments subject to interest rate risk are subject to fixed rates of interest and will not be renewed within the next twelve months, and therefore are not subject to interest rate risk. The line of credit is not subject to interest rate risk as it is as a market rate and the funds are usually used for a period of less than twelve months.

Credit risk:

The Corporation is exposed to credit risk through the possibility of non-collection of its accounts receivable. The majority of the Corporation's receivables are from government entities which minimizes the risk of non-collection. The Corporation also makes sure it meets all the eligibility criteria for the amounts to ensure they will collect the amounts outstanding.

The Corporation is also exposed to credit risk through the possibility of non-collection of its mortgages and loans receivable. The Corporation's loan guidelines set out the minimum requirements for management of credit risk. The Corporation's loan guideline includes policies regarding the approval of lending, eligibility for loans, lending limits, and loan collateral security.

With respect to credit risk, the Board of Directors receives details of new loans and delinquent loans. The Corporation's maximum exposure to the credit risk is limited to the amount presented on the face of the consolidated statement of financial position for accounts receivable, mortgages receivable and loans receivable.

Liquidity risk:

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation has a planning and budgeting process in place to help determine the funds required to support the Corporation's normal operating requirements on an ongoing basis. The Corporation ensures that there are sufficient funds to meet its short-term requirements, taking into account its anticipated cash flows from operations and its holdings of cash and cash equivalents.

**18. Programs under administration:**

*DRDG Program*

The DRDG Program is funded by the City and Province and provides grants to developers of residential/mixed use projects in the downtown. The grants provided are based upon the annual incremental taxes generated by the development in the first full year following completion. For condominium developments, the developers receive a grant of 10 times the first years' incremental taxes. For rental developments, the developer receives a grant equal to 15 times the first years' incremental taxes. Developers can elect to receive a lump sum payment of the net present value or, receive annual payments. When lump sum payments are elected, the funds are borrowed from a conventional lender and loans are repaid by the annual incremental taxes.

The Corporation administers this program on behalf of the City and Province, which entails the acceptance of applications and monitoring development through to completion. When lump sum grants are payable under the program, the City provides the Corporation with direction to borrow funds and the loans are drawn by the Corporation and guaranteed by the City. The City provides funding for the annual loan repayments to the Corporation from the annual incremental taxes.

*Exchange Waterfront Neighborhood Development Program*

The Exchange Waterfront Neighbourhood Development Program's (the "EWND Program") objective is to support the development of a complete community in the Exchange Waterfront Neighbourhood. The Program is funded by the City and Province through tax increment financing and achieved by borrowing for an additional five years against the incremental taxes that are generated by the condominium projects that receive grants under the DRDG Program. Under the DRDG Program, the developer is entitled to receive a grant equal to the net present value of 10 years of incremental taxes generated by the project and the EWND Program is funded receiving the net present value of an additional 5 years of incremental taxes. The City and Province forgo the incremental taxes for 15 years on the condominium projects to provide the funds required to repay the borrowing for the DRDG and EWND Programs.

The funds are used to undertake initiatives relating to increasing safety, providing transportation options, improving the image and awareness of the neighbourhood and infrastructure improvements to beautify the neighbourhood and make it more pedestrian friendly. The Corporation administers the EWND Program on behalf of the City and the Province, which entails doing the research and making recommendations for initiatives to undertake and then implementing and monitoring the initiatives to completion.

**18. Programs under administration (continued):**

As the Corporation only administers the DRDG and EWND Programs on behalf of the City and Province, the related assets and liabilities that are administered by the Corporation have not been reflected in these consolidated financial statements. The Corporation has recorded commissions earned for the administration of the DRDG and EWND Programs as revenue during the fiscal year.

The assets and liabilities that are administered by the Corporation under the DRDG and EWND Programs are as follows:

| | 2019 | 2018 |
|---|---|---|
| Assets: | | |
| DRDG TIF receivable - the City | $ 15,134,004 | $ 16,144,170 |
| Accounts receivable - EWND | – | 948,543 |
| | $ 15,134,004 | $ 17,092,713 |
| Liabilities: | | |
| Bank indebtedness | $ – | $ 942,688 |
| Loans payable | 15,134,004 | 16,150,025 |
| | $ 15,134,004 | $ 17,092,713 |

The Corporation receives an annual payment from the City for the loans to cover the annual debt servicing costs. The loans payable are fully guaranteed by the City.