



Financial statements

Crossroads Christian Communications Inc.

August 31, 2019

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Independent auditor's report

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To the Members of
Crossroads Christian Communications Inc.

Qualified Opinion

We have audited the financial statements of **Crossroads Christian Communications Inc.** ("the Organization"), which comprise the statement of financial position as at August 31, 2019, and the statements of operations, changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects on the corresponding figures of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of **Crossroads Christian Communications Inc.** as at August 31, 2019, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Qualified Opinion

We were not able to complete audit procedures to satisfy ourselves concerning the completeness of donation revenues for the year ended August 31, 2019. Verification of these revenues was limited to the amounts recorded in the records of **Crossroads Christian Communications Inc.** Therefore, we were not able to determine whether any adjustments might be necessary to fundraising revenue, excess of revenues over expenses and cash flows from operations for the year ended August 31, 2019, current assets as at August 31, 2019, and net assets as at August 31, 2019. Our audit opinion on the financial statements for the year ended August 31, 2018 was unmodified.

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 Company 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 qualified opinion.

Responsibilities of Management and Those Charged with Governance 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.

In preparing the financial statements, management is responsible for assessing the Organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the

Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Grant Thornton LLP

Toronto, Canada
March 19, 2020

Chartered Professional Accountants
Licensed Public Accountants

Crossroads Christian Communications Inc.

Statement of financial position

| August 31 | 2019 | 2018 (Restated Note 15) |
|---|---------------------|-------------------------------|
| Assets | | |
| Current | | |
| Cash | \$ 2,050,777 | \$ 6,241,229 |
| Accounts receivable and other assets | 459,160 | 522,832 |
| Mortgage receivable (Note 5) | <u>14,133</u> | <u>14,133</u> |
| | 2,524,070 | 6,778,194 |
| Investments held for endowment fund | 69,537 | 65,578 |
| Due from related parties (Note 3) | 88,845 | 91,872 |
| Mortgage receivable (Note 5) | 42,992 | 54,052 |
| Vendor take-back mortgage receivable (Note 4) | 3,464,624 | 3,193,202 |
| Capital assets (Note 7) | <u>5,115,232</u> | <u>2,023,205</u> |
| | \$11,305,300 | \$12,206,103 |
| Liabilities | | |
| Current | | |
| Accounts payable and accrued liabilities (Note 14) | \$ 981,837 | \$ 1,255,384 |
| Due to related parties (Note 3) | 979,279 | 1,401,999 |
| Trusts payable - revocable (Note 8) | 13,900 | 23,800 |
| Current portion of capital lease obligations (Note 9) | - | 11,436 |
| Current portion of deferred gain on sale of property (Note 4) | 939,266 | 939,266 |
| Current portion of deferred capital contributions (Note 10) | <u>344,207</u> | <u>49,921</u> |
| | 3,258,489 | 3,681,806 |
| Trusts payable - irrevocable (Note 8) | 1,351,900 | 2,039,840 |
| Deferred gain on sale of property (Note 4) | 2,403,491 | 3,342,756 |
| Deferred capital contributions (Note 10) | <u>1,354,135</u> | <u>448,874</u> |
| | 5,109,526 | 5,831,470 |
| Fund balances | | |
| Capital and Operating Fund | 2,521,725 | 2,225,130 |
| Externally Restricted Funds (Note 11) | 365,560 | 417,697 |
| Endowment Fund | <u>50,000</u> | <u>50,000</u> |
| | 2,937,285 | 2,692,827 |
| | \$11,305,300 | \$12,206,103 |

Commitments (Note 12)

On behalf of the Board of Directors



Director



Director

See accompanying notes to the financial statements.

Crossroads Christian Communications Inc.

Statement of operations

| Year ended August 31 | 2019 | 2018 (Restated Note 15) |
|--|-------------------|-------------------------------|
| Revenue | | |
| Contributions | | |
| General (Note 2) | \$12,571,419 | \$12,163,665 |
| Designated contributions | | |
| Missions Fund | 578,956 | 879,728 |
| Debt Retirement Fund | 183,500 | 150,200 |
| Other income | <u>1,892,907</u> | <u>2,379,679</u> |
| | <u>15,226,782</u> | <u>15,573,272</u> |
| Expenses | | |
| Remuneration of personnel | 7,374,164 | 6,746,618 |
| Airtime and production costs | 2,923,078 | 3,221,150 |
| Rent, utilities and other occupancy costs | 2,106,558 | 1,344,507 |
| Correspondence and distribution costs | 684,596 | 711,657 |
| Administrative costs | 513,244 | 612,181 |
| Fundraising and promotion | 443,075 | 524,852 |
| Interest and bank charges | 217,523 | 507,113 |
| Other missions and programs | <u>768,705</u> | <u>1,306,729</u> |
| | <u>15,030,943</u> | <u>14,974,807</u> |
| Excess of revenue over expenses before undernoted items | 195,839 | 598,465 |
| Gain on sale of property (Note 4) | 939,266 | 2,122,258 |
| Amortization and impairment (Notes 6 and 7) | (799,383) | (1,236,274) |
| Provision for amounts receivable and loans receivable, net of recovery (Note 3(a), Note 3(b)) | <u>(91,264)</u> | <u>(841,738)</u> |
| Excess of revenue over expenses for the year | <u>\$ 244,458</u> | <u>\$ 642,711</u> |

See accompanying notes to the financial statements.

Crossroads Christian Communications Inc.
Statement of changes in fund balances

Year ended August 31

| | | | | 2019 | 2018 |
|--|----------------------------------|---------------------------------------|-------------------|----------------------------|--------------------------------|
| | Capital and Operating Fund | Externally restricted (Note 11) | Endowment Fund | Total | Total (Restated Note 15) |
| Fund balances, beginning of year | \$ 2,225,130 | \$ 417,697 | \$ 50,000 | \$ 2,692,827 | \$ 2,050,116 |
| Excess of revenue over expenses for the year | 189,534 | 54,924 | - | 244,458 | 642,711 |
| Interfund transfers (Note 11) | 107,061 | (107,061) | - | - | - |
| Fund balances, end of year | <u>\$ 2,521,725</u> | <u>\$ 365,560</u> | <u>\$ 50,000</u> | <u>\$ 2,937,285</u> | <u>\$ 2,692,827</u> |

See accompanying notes to the financial statements.

Crossroads Christian Communications Inc.

Statement of cash flows

| Year ended August 31 | 2019 | 2018 |
|---|---------------------|-----------------------|
| | | (Restated Note 15) |
| Increase (decrease) in cash | | |
| Operating activities | | |
| Excess of revenue over expenses for the year | \$ 244,458 | \$ 642,711 |
| Items not affecting cash: | | |
| Gain on sale of property before discount on vendor take-back mortgage receivable | (939,266) | (2,907,678) |
| Amortization of capital assets | 528,389 | 368,109 |
| Loss on disposal/sale of other capital assets | 275,313 | 476,935 |
| Impairment loss of intangible assets | - | 391,230 |
| Provision for amounts due from related parties | 91,264 | 841,737 |
| Unrealized gain on investments held for endowment | (3,959) | (2,558) |
| Donated trusts | (687,940) | (175,200) |
| Interest on vendor take-back mortgage receivable | (271,421) | (115,396) |
| Amortization of deferred capital contributions | (159,625) | (156,710) |
| | <u>(922,787)</u> | <u>(636,820)</u> |
| Change in non-cash working capital items | | |
| Accounts receivable and other assets | 63,672 | (219,134) |
| Accounts payable and accrued liabilities | (273,547) | (131,686) |
| | <u>(1,132,662)</u> | <u>(987,640)</u> |
| Financing activities | | |
| Amounts due to related parties | (422,720) | (1,362,744) |
| Repayment of capital lease obligations | (11,436) | (56,675) |
| Repayment of mortgage principal | - | (6,869,194) |
| Repayment of trusts | (9,900) | - |
| Deferred capital contributions received | 1,359,172 | 250,000 |
| | <u>915,116</u> | <u>(8,038,613)</u> |
| Investing activities | | |
| Amounts due from related parties (net) | (88,237) | 776,792 |
| Mortgage receivable (net) | 11,060 | (15,600) |
| Vendor take-back mortgage receivable (net) | - | (3,193,202) |
| Imputed interest on vendor take-back mortgage receivable | - | (1,306,798) |
| Purchase of capital assets | (3,902,296) | (320,947) |
| Proceeds on disposal of capital assets (net of fees) | 6,567 | 18,419,369 |
| | <u>(3,972,906)</u> | <u>14,359,614</u> |
| Increase (decrease) in cash | (4,190,452) | 5,353,361 |
| Cash, beginning of year | <u>6,241,229</u> | <u>887,868</u> |
| Cash, end of year | <u>\$ 2,050,777</u> | <u>\$ 6,241,229</u> |

See accompanying notes to the financial statements.

Crossroads Christian Communications Inc.

Notes to the financial statements

August 31, 2019

1. Nature of operations

Crossroads Christian Communications Inc. ("Crossroads") was incorporated by letters patent under the Canada Corporations Act on March 17, 1977, and continued under the Canadian Not-For-Profit Corporations Act in 2013. Crossroads is a registered charitable organization under the Income Tax Act and is primarily engaged in the production and broadcast of religious television programs.

Effective November 1, 2016, Crossroads merged with Media Voice Generation ("MVG"), a registered charity and Christian media producer, to continue as Crossroads Christian Communications Inc. Crossroads assumed MVG's donor records, contracts and commitments, as well as the production of its program, *Context with Lorna Dueck*. The merger resulted in a contribution to Crossroads from MVG of \$154,523, including a \$50,000 endowment fund for which Crossroads has assumed responsibility (Note 2).

2. Summary of significant accounting policies

The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations (ASNPO) under Part III of the Chartered Professional Accountants of Canada Handbook - Accounting, applied within the framework of the accounting policies summarized below.

Use of estimates

The preparation of financial statements in accordance with ASNPO requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenue and expenses during the reporting year. Significant estimates include the collectability of amounts receivable and amounts due from related parties, impairment of financial assets and the impairment and useful life of capital assets. Actual results could vary from those estimates.

Fund accounting

Crossroads uses fund accounting (Note 12) to present its financial statements whereby resources for particular purposes are classified for accounting and reporting purposes into one of the following funds:

Capital and Operating Fund

The Capital and Operating Fund reflects the activities associated with CCCI's day-to-day operations.

Externally Restricted Funds

Externally Restricted Funds are funds that are received that are restricted for a specific use by the donor.

Crossroads Christian Communications Inc.

Notes to the financial statements

August 31, 2019

2. Summary of significant accounting policies (continued)

Fund accounting (continued)

The Externally Restricted Funds include the following:

- World Harvest Evangelism and Television Fund (“WHEAT”);
- Emergency Response and Development Fund (“ERDF”); and
- Debt Retirement Fund for the retirement of old debt.

Endowment Fund

The Endowment Fund of \$50,000 was transferred to CCCI in fiscal 2017, as a result of the merger with MVG.

The Endowment Fund was established in 2007 to support Christian media communication and productions. Income earned is restricted for purposes specified in the agreement and available for additional special projects at the discretion of the Board. Any unspent income is to be added to the principal. Encroachment of the principal balance was not permitted during the initial ten-year period. Subsequently, Crossroads is permitted to encroach upon the fund in the event of an emergency, only to a maximum of 25% of the principal balance, upon written Board resolution, and the funds must be repaid within three years.

Investments of \$69,537 related to the principal and undisbursed interest are held in long-term assets.

Revenue recognition

CCCI follows the restricted fund method of accounting for restricted contributions.

Gifts are considered to be without restriction as to use unless explicitly designated by the donor. These unrestricted gifts are recognized as revenue of the Capital and Operating Fund when received.

Gifts designated as restricted by the donor, other than restricted contributions for the purchase of capital assets, are recognized as revenue of the appropriate Externally Restricted Fund. Gifts designated toward a program will be used as designated with the understanding that when the need for such a program has been met or cannot be completed for any reason determined by Crossroads, the remaining designated funds will be used where needed most.

Restricted contributions for the purchase of capital assets are initially recorded as deferred capital contributions and are recognized in revenue over the useful life of the asset based on CCCI’s amortization policy.

Externally restricted endowments are recognized in revenue of the Endowment Fund when received.

Revenue from trusts is recognized at the time the trust funds pass to CCCI.

Rental, product sales, and other income are recognized as revenue on an accrual basis as earned.

Crossroads Christian Communications Inc.

Notes to the financial statements

August 31, 2019

2. Summary of significant accounting policies (continued)

Revenue recognition (continued)

Unrestricted investment income earned is reported as revenue of the Capital and Operating Fund. Restricted investment income earned is reported as revenue of the corresponding Externally Restricted Fund. Investment income subject to externally imposed restrictions requiring that it be maintained permanently is recognized as revenue of the Endowment Fund.

Donated goods are recognized in revenue of the appropriate fund at fair value.

Capital assets

Purchased capital assets are recorded at cost. Amortization is provided using the declining balance method or the straight line method, which are designed to amortize the assets over their estimated useful lives at the following annual rates:

| | | |
|---|-----------------------------------|---------------|
| Buildings | | 2.5% - 5.0% |
| Leasehold improvements | Straight line over the lease term | |
| Production set | Straight line over 5 years | |
| Television, film and studio equipment | | 10.0% |
| Office, computer equipment and other assets | | 15.0% - 30.0% |

Advances to producers

CCCI makes advances to producers for the production of documentaries. When the productions are ready for distribution and revenue generation, the investment is transferred to intangible assets and amortization commences.

Impairment of long-lived assets

An impairment charge is recognized for long-lived assets when an event or change causes an asset's carrying value to exceed the total undiscounted cash flows expected from its use and eventual disposition. The impairment loss is calculated as the difference between the fair value of the assets and its carrying value and is recorded in the statement of operations.

Financial instruments

Financial assets and financial liabilities include cash, accounts receivable, amounts due from related parties, mortgages receivable, vendor take-back mortgage receivable, investments, accounts payable, amounts due to related parties and trusts payable.

Initial measurement

Crossroads initially measures all financial assets and financial liabilities at fair value.

Crossroads Christian Communications Inc.

Notes to the financial statements

August 31, 2019

2. Summary of significant accounting policies (continued)

Financial instruments (continued)

Subsequent measurement

Investments are recorded at fair value and all changes in the fair value are recorded in the statement of operations. Related party balances and transactions are recorded at the exchange amount. All other financial assets and liabilities are recorded at amortized cost.

Financial assets are tested for impairment at the end of each reporting period when there are indicators the assets may be impaired. Any impairment loss is recognized in the statement of operations.

3. Related party transactions and balances

Unless otherwise noted, CCCI's related party transactions and balances are trade in nature, unsecured, non-interest bearing and have no set terms of repayment. During the year, the following balances are receivable/payable with related parties:

| | <u>2019</u> | <u>2018</u> |
|--|-------------------|---------------------|
| Loan receivable from Tricord Media Inc. (a) | \$ 70,000 | \$ - |
| Loan receivable from Young Once S2 Inc. (b) | <u>18,845</u> | <u>91,872</u> |
| | <u>\$ 88,845</u> | <u>\$ 91,872</u> |
| | <u>2019</u> | <u>2018</u> |
| Amounts payable to related party | | |
| Crossroads Television Systems Inc. ("CTS") (c) | \$ 1,087,725 | \$ 1,552,232 |
| Less: Amounts receivable from CTS (c) | <u>(108,446)</u> | <u>(150,233)</u> |
| | <u>\$ 979,279</u> | <u>\$ 1,401,999</u> |

The following outlines the transactions with various related parties:

- (a) Tricord Media Inc. ("Tricord"), a faith and values media distribution company, was incorporated in 2012 as a not-for-profit organization controlled by CCCI. In fiscal 2019, a loan of \$113,000 was made to Tricord. A provision of \$43,000 was recorded against this loan in 2019. Tricord repaid \$120,632 during fiscal 2019 relating to a loan which CCCI had previously written off. These amounts are included as part of amortization and impairment in the statement of operations.

Crossroads Christian Communications Inc.

Notes to the financial statements

August 31, 2019

3. Related party transactions and balances (continued)

(b) Young Once Television S2 Inc.

Young Once Television S2 Inc. ("Young Once") was set up by CCCI as an independent corporation for the purpose of producing six episodes of a docu-drama comprising of the second season of Young Once. Funding for this venture was provided in the form of a loan from CCCI. The total amount loaned was \$287,000. During 2019, Young Once repaid \$100,000 to CCCI and a provision of \$168,896 was included in amortization and impairment in the statement of operations.

(c) Crossroads Television Systems Inc. ("CTS"), a party under common control with common directors and officers:

| | <u>2019</u> | <u>2018</u> |
|---|--------------|--------------|
| Free airtime received included in general contributions | \$ 1,420,565 | \$ 1,327,040 |
| Contributions for capital purchases | 1,150,000 | - |
| Shared costs recovered | 837,019 | 778,019 |
| Rental income | 248,028 | 266,550 |
| Shared costs paid | 394,834 | 558,925 |

(d) Crossroads Christian Communications Inc. USA (CRUSA) is a charity registered in the United States of America, under common control with some common directors and officers.

4. Sale of property

In March 2018, Crossroads sold its Burlington, Ontario property to 2607380 Ontario Inc. for \$19 million less fees of approximately \$580,631, under a sale-leaseback arrangement and vendor take-back mortgage of \$4.5 million.

The vendor take-back mortgage has a 5 year term with interest at 0.0% per annum in years 1 to 4 and interest of 3.0% per annum in year 5. The mortgage receivable was recorded at fair value and discounted to \$3,077,807 using an imputed interest rate of 8.5% with interest recognized over the term of the vendor take-back mortgage. In fiscal 2019, \$271,421 (2018 - \$115,396) of imputed interest was recognized in rental and other income, bringing the total mortgage receivable to \$3,464,624 (2018 - \$3,193,202).

The sale resulted in a gain of \$6,404,280. As part of the sale agreement, Crossroads leased a portion of the building for a 5 year term. The portion of the gain applicable to the lease, \$4,282,022, is deferred and is being recognized as income over the 5 year lease term. The portion of the gain applicable to the remainder of the building, \$2,122,258, was recognized in 2018.

On February 26, 2020, a Companies' Creditors Arrangement Act ("CCCA") order was granted in regards to 2607380 Ontario Inc. As this does not reflect conditions that existed as at August 31, 2019, there were no adjustments required to the vendor take-back mortgage as at that date. In addition, due to the uncertainty as to the eventual outcome of the CCAA, an estimate of the financial effect as at March 19, 2020 cannot be made.

Crossroads Christian Communications Inc.

Notes to the financial statements

August 31, 2019

5. Mortgage receivable

A mortgage receivable was registered in 2009 as part of the proceeds on the sale of the Circle Square Ranch (CSR) property in Paisley, Ontario. The mortgage matures on February 6, 2024. Payments are received twice a year for a total annual payment of \$14,133, which includes 5% interest on the outstanding balance. In fiscal 2019, an additional amount of \$Nil (2018 - \$7,167) was received for a total payment of \$14,133 (2018 - \$21,300). As at August 31, 2019, the amount receivable is \$57,125 (2018 - \$68,185).

6. Advances to producers

Impairment writedowns on advances to producers of \$Nil (2018 - \$391,230) is included in amortization and impairment in the statement of operations.

7. Capital assets

| | | | <u>2019</u> | <u>2018</u> |
|--|---------------------|-------------------------------------|---------------------------|---------------------------|
| | <u>Cost</u> | <u>Accumulated Amortization</u> | <u>Net Book Value</u> | <u>Net Book Value</u> |
| Buildings | \$ 313,857 | \$ 51,933 | \$ 261,924 | \$ 268,640 |
| Leasehold improvements | 2,444,511 | 191,573 | 2,252,938 | 84,485 |
| Television, film and studio equipment | 2,856,508 | 1,724,223 | 1,132,285 | 1,439,380 |
| Production set | 473,895 | 64,924 | 408,971 | 84,485 |
| Office, computer equipment and other assets | <u>1,809,824</u> | <u>750,710</u> | <u>1,059,114</u> | <u>230,700</u> |
| | <u>\$ 7,898,595</u> | <u>\$ 2,783,363</u> | <u>\$ 5,115,232</u> | <u>\$ 2,023,205</u> |

Buildings consist of equipment affixed to the building which equipment is owned and used by Crossroads.

Included in capital assets are costs of \$Nil (2018 - \$217,128) related to assets not yet in use as of year end and, as such, are not being amortized.

Included in television, film and studio equipment are assets under lease as follows:

| | | | <u>2019</u> | <u>2018</u> |
|--|-------------|-------------------------------------|---------------------------|---------------------------|
| | <u>Cost</u> | <u>Accumulated Amortization</u> | <u>Net Book Value</u> | <u>Net Book Value</u> |
| Television, film and studio equipment | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 72,675</u> |

Included in amortization and impairment in the statement of operations is amortization of \$528,389 (2018 - \$368,109), a loss on disposal of \$275,313 (2018 - \$473,097).

Crossroads Christian Communications Inc.

Notes to the financial statements

August 31, 2019

8. Trusts payable

| | <u>2019</u> | <u>2018</u> |
|----------------------------|---------------------|---------------------|
| Revocable | | |
| Capital and Operating Fund | <u>\$ 13,900</u> | <u>\$ 23,800</u> |
| Irrevocable | | |
| Capital and Operating Fund | <u>\$ 731,200</u> | <u>\$ 1,235,640</u> |
| Debt Retirement Fund | <u>620,700</u> | <u>804,200</u> |
| | <u>\$ 1,351,900</u> | <u>\$ 2,039,840</u> |

A number of trusts have been established by supporters for the benefit of CCCI. Additional funds may be added to these trusts by way of loans and could be repayable if requested. These funds are available for investment in the obligations of CCCI. During their lifetime, the income of the trusts is payable to the supporter, unless waived, and on death, trust funds pass to CCCI and are recognized as revenue. The revocable trusts can be called at any time by the holder.

A number of trusts have been established for the Debt Retirement Fund (Note 11). As permitted by the terms of the trust agreements, the cash from this fund was invested by the trustees in Series E mortgage certificates of CCCI. These mortgage certificates have been issued in amounts and with interest rates that match each individual trust, with a maturity date that automatically extends for one year each June 30. The certificates will be redeemed when the trusts become revenue of CCCI on death. The certificates held by the trusts and the corresponding liability for CCCI to redeem the certificates of \$620,700 (2018 - \$804,200) have been offset within these financial statements, leaving only the net balance due to the beneficiaries reflected on the statement of financial position.

9. Capital lease obligations

The capital lease obligations were repaid during 2019. The capital lease obligations had blended payments of \$2,197 and a weighted average interest rate of 6.89%. The capital lease obligations were secured by a floating charge on CCCI's assets.

10. Deferred capital contributions

| | <u>2019</u> | <u>2018</u> |
|--|---------------------|-------------------|
| Balance, beginning of year | <u>\$ 498,795</u> | <u>\$ 405,506</u> |
| Donation received | <u>1,359,172</u> | <u>250,000</u> |
| Amount recognized in revenue during the year | <u>(159,625)</u> | <u>(156,711)</u> |
| Balance, end of year | <u>1,698,342</u> | <u>498,795</u> |
| Less: current portion | <u>(344,207)</u> | <u>(49,921)</u> |
| | <u>\$ 1,354,135</u> | <u>\$ 448,874</u> |

Crossroads Christian Communications Inc.

Notes to the financial statements

August 31, 2019

11. Externally restricted funds

| | Opening Balance September 1, 2018 | Revenue | Expenses | Transfers In (Out) | Closing Balance August 31, 2019 |
|----------------------|--|-------------------|-------------------|-----------------------|--|
| Missions Funds | \$ 417,697 | \$ 578,956 | \$ 669,430 | \$ 38,337 | \$ 365,560 |
| Debt Retirement Fund | - | 183,500 | 38,102 | (145,398) | - |
| | <u>\$ 417,697</u> | <u>\$ 762,456</u> | <u>\$ 707,532</u> | <u>\$ (107,061)</u> | <u>\$ 365,560</u> |

12. Commitments

CCCI is committed under contracts for television airtime in 2020 in the amount of \$607,376.

CCCI is also committed to the following minimum rent, lease, and service contract payments until fiscal 2024. The lease commitment of \$1,691,923 (which has an escalation clause of 3% per year) included in the total commitments listed below will be assigned to CTS in fiscal 2020. This will result in a reduction of the annual commitment of \$1,216,682:

| | |
|------|---------------------|
| 2020 | \$ 1,971,383 |
| 2021 | 1,949,020 |
| 2022 | 1,832,124 |
| 2023 | 1,096,359 |
| 2024 | <u>20,265</u> |
| | <u>\$ 6,869,151</u> |

13. Subsequent events

On October 3rd 2019, the CTS Board approved a \$1,048,854 unrestricted donation to Crossroads. The funds were received on October 9th, 2019.

Since January 1, 2020, the spread of Covid-19 has severely impacted many local economies around the globe. In many countries, including Canada, organizations and businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to organizations worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions.

CCCI has determined that these events are a non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended August 31, 2019 have not been adjusted to reflect their impact. The duration and impact of the Covid-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of CCCI for future periods.

Crossroads Christian Communications Inc.

Notes to the financial statements

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14. Financial risk management

Transactions in financial instruments may result in an entity assuming or transferring to another party one or more of the financial risks described below. The required disclosures provide information that assists users of financial statements in assessing the extent of risk related to financial instruments.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Crossroads is exposed to credit risk associated with accounts receivable, amounts due from related parties, mortgage receivable, and vendor take-back mortgage receivable,. A provision of \$91,264 (2018 - \$841,737) against the related party receivable was recognized in fiscal 2019.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Crossroads manages its liquidity risk by maintaining sufficient cash balances and monitoring forecasted and actual cash flows. Included in accounts payable and accrued liabilities are government remittances of \$3,671 (2018 - \$4,981). These amounts are not in arrears.

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. Crossroads is exposed to interest rate price risk with respect to its mortgage receivable, vendor take-back mortgage receivable and trusts payable.

15. Prior period adjustment

During the year ended August 31, 2018, Crossroads sold its Burlington, Ontario property. One of the aspects of the sale included a vendor take-back mortgage. This mortgage receivable had a 5 year term with interest at 0.0% per annum in years 1 to 4 and interest of 3.0% per annum in year 5. The mortgage receivable was recorded at fair value and discounted using an imputed interest rate of 4%. During the year ended August 31, 2019, management revisited the imputed interest rate and concluded that an imputed interest rate of 8.5% would more accurately reflect the credit risk associated with the vendor take-back mortgage.

Crossroads has adjusted this retroactively. The impact on the financial statements for the year ended August 31, 2019 is as follows:

Crossroads Christian Communications Inc.

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15. Prior period adjustment (continued)

| <u>August 31, 2018</u> | <u>Previously Reported</u> | <u>Adjustments</u> | <u>Revised</u> |
|---|--------------------------------|--------------------|----------------|
| Statement of Financial Position | | | |
| Vendor take-back mortgage receivable | \$ 3,800,474 | \$ (607,272) | \$ 3,193,202 |
| Capital and Operating fund | 2,832,402 | (607,272) | 2,225,130 |
| Statement of Operations | | | |
| Interest income for vendor take-back mortgage | 65,892 | 49,504 | 115,396 |
| Gain on sale of property | 2,779,304 | (656,776) | 2,122,528 |
| Statement of cash flows | | | |
| Operating: | | | |
| Excess of revenues over expenses | 1,249,983 | (607,272) | 642,711 |
| Gain on sale of property before vendor take-back mortgage receivable | (3,544,453) | 636,775 | (2,907,678) |
| Interest income for vendor take-back mortgage | (65,892) | (49,504) | (115,396) |
| Investing: | | | |
| Vendor take-back mortgage receivable | (3,800,474) | 607,272 | 3,193,202 |
| Imputed interest on vendor take-back mortgage | (699,526) | (607,272) | (1,306,798) |