Grant Thornton

Financial statements

Crossroads Christian Communications Inc.

August 31, 2018

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Independent auditor’s report

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To the Members of

Crossroads Christian Communications Inc.

We have audited the accompanying financial statements of **Crossroads Christian Communications Inc.**, which comprise the statement of financial position as at August 31, 2018 and the statements of operations and changes in fund balances and cash flows for the year then ended, and 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.

Auditor’s 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 the 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 the auditor's 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, the auditor considers 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, the financial statements present fairly, in all material respects, the financial position of **Crossroads Christian Communications Inc.** as at August 31, 2018 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.

Grant Thornton LLP

Mississauga, Canada
December 07, 2018

Chartered Professional Accountants
Licensed Public Accountants

Crossroads Christian Communications Inc.

Statement of financial position

August 31		2018		2017
Assets				
Current				
Cash	**$**	**6,241,229**	$	887,868
Accounts receivable and other assets		**522,832**		303,698
Assets held for sale (Note 5)		**-**		11,187,664
Mortgage receivable (Note 6)		**14,133**		14,133
		6,778,194		12,393,363
Investments held for endowment fund		**65,578**		63,020
Advances to producers (Note 7)		**-**		391,230
Due from related parties (Note 4)		**91,872**		868,664
Mortgage receivable (Note 6)		**54,052**		69,652
Vendor take-back mortgage receivable (Note 5)		**3,800,474**		-
Capital assets (Note 8)		**2,023,205**		1,997,651
	$	**12,813,375**	$	15,783,580
Liabilities				
Current				
Accounts payable and accrued liabilities	**$**	**1,255,384**	$	1,387,070
Due to related parties (Note 4)		**1,401,999**		2,764,743
Trusts payable - revocable (Note 9)		**23,800**		263,800
Current portion of capital lease obligations (Note 10)		**11,436**		53,989
Current portion of mortgages payable (Note 11)		**-**		6,869,194
Current portion of deferred gain on sale of property (Note 5)		**939,266**		-
Current portion of deferred capital contributions (Note 12)		**49,921**		128,172
		3,681,806		11,466,968
Trusts payable - irrevocable (Note 9)		**2,039,840**		1,975,040
Capital lease obligations (Note 10)		**-**		14,122
Deferred gain on sale of property (Note 5)		**3,342,756**		-
Deferred capital contributions (Note 12)		**448,874**		277,334
		5,831,470		2,266,496
Fund balances				
Capital and Operating Fund		**2,832,402**		1,156,670
Externally restricted (Note 13)		**417,697**		843,446
Endowment Fund		**50,000**		50,000
		3,300,099		2,050,116
	$	**12,813,375**	$	15,783,580

Commitments (Note 14)

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	**2018**	2017
Revenue		
Contributions		
General (Note 4)	**$ 12,163,665**	$ 11,768,102
Designated contributions		
Missions Fund	**879,728**	1,188,755
Debt Retirement Fund	**150,200**	87,500
Contribution from Media Voice Generation (Note 2)	**-**	154,523
Other income	**2,330,175**	1,746,271
	15,523,768	14,945,151
Expenses		
Remuneration of personnel	**6,746,618**	6,368,498
Airtime and production costs	**3,221,150**	2,650,156
Rent, utilities and other occupancy costs	**1,344,507**	1,199,073
Interest and bank charges	**507,113**	687,428
Administrative costs	**612,181**	830,552
Correspondence and distribution costs	**711,657**	577,920
Fundraising and promotion	**524,852**	387,193
Other missions and programs	**1,306,729**	1,338,505
	14,974,807	14,039,325
Excess of revenue over expenses before undernoted items	**548,961**	905,826
Gain on sale of property (Note 5)	**2,779,034**	-
Amortization and impairment (Notes 7 and 8)	**(1,236,274)**	(1,029,769)
Provision for amounts receivable and loans receivable, net of recovery (Notes 4(a) and Note 4(d))	**(841,738)**	(106,082)
Excess (deficiency) of revenue over expenses for the year	**$ 1,249,983**	$ (230,025)

See accompanying notes to the financial statements.

Crossroads Christian Communications Inc.

Statement of changes in fund balances

Year ended August 31

	Capital and Operating Fund	Externally restricted (Note 13)	Endowment Fund	**2018 Total**	2017 Total
Fund balances, beginning of year	$ 1,156,670	$ 843,446	$ 50,000	**$ 2,050,116**	$ 2,280,141
Excess (deficiency) of revenue over expenses for the year	1,608,768	(358,785)	-	**1,249,983**	(230,025)
Interfund transfers (Note 13)	66,964	(66,964)	-	**-**	-
Fund balances, end of year	$ 2,832,402	$ 417,697	$ 50,000	**$ 3,300,099**	$ 2,050,116

See accompanying notes to the financial statements.

Crossroads Christian Communications Inc.

Statement of cash flows

Year ended August 31	2018	2017
Increase (decrease) in cash		
Operating activities		
Excess (deficiency) of revenue over expenses for the year	**$ 1,249,983**	$ (230,025)
Items not affecting cash:		
Investments transferred from Media Voice Generation	-	(61,844)
Gain on sale of property before discount on vendor take-back mortgage receivable	**(3,544,453)**	-
Amortization of capital assets	**368,109**	563,741
Amortization of intangible assets	**-**	104,741
Loss on disposal/sale of other capital assets	**476,935**	115,897
Impairment loss of intangible assets	**391,230**	245,390
Provision for amounts and loan receivable	**841,737**	106,082
Unrealized gain on investments	**(2,558)**	(1,176)
Donated trusts	**(175,200)**	(176,500)
Interest on vendor take-back mortgage receivable	**(65,893)**	-
Amortization of deferred capital contributions	**(156,710)**	(107,196)
	(616,820)	559,110
Change in non-cash working capital items		
Accounts receivable and other assets	**(219,134)**	(93,778)
Accounts payable and accrued liabilities	**(131,686)**	(1,233,532)
	(967,640)	(768,200)
Financing activities		
Amounts due to related parties	**(1,362,744)**	(154,906)
Repayment of capital lease obligations	**(56,675)**	(215,066)
Repayment of mortgage principal	**(6,869,194)**	(130,806)
Deferred capital contributions received	**250,000**	-
Proceeds from mortgage payable	**-**	1,000,000
	(8,038,613)	499,222
Investing activities		
Amounts due from related parties (net)	**776,792**	186,011
Mortgage receivable (net)	**(15,600)**	9,776
Vendor take-back mortgage receivable (net)	**(3,800,474)**	-
Imputed interest on vendor take-back mortgage receivable	**(699,526)**	-
Advances to producer (net)	**-**	78,194
Purchase of capital assets	**(320,947)**	(182,420)
Proceeds on property sale (net of fees)	**18,419,369**	-
	14,359,614	91,561
Increase (decrease) in cash	**5,353,361**	(177,417)
Cash, beginning of year	**887,868**	1,065,285
Cash, end of year	**$ 6,241,229**	$ 887,868

1. Excess (deficiency) of revenue over expenses

After several years of operating deficiencies, Crossroads Christian Communications Inc. ("Crossroads" or "CCCI") experienced an operating surplus in 2018. Due to the sale of the land and building in March 2018 (Note 5), the continued support of its donors and Board of Directors' and management's initiatives, Crossroads is positioned and committed to continue operating in a surplus in 2019 and beyond.

2. Nature of operations

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 3).

3. 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, loans, and other advances to related parties, and the useful life of capital and intangible assets. Actual results could vary from those estimates.

3. Summary of significant accounting policies (continued)

Fund accounting

Crossroads uses fund accounting (Note 13) 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.

Designated Funds

Designated Funds are comprised of externally restricted Funds.

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 principal must be maintained permanently with the income available for purposes specified in the agreement and additional projects at the discretion of the Board. Investments of $65,578 related to the principal and undisbursed interest are held in long-term assets.

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.

3. Summary of significant accounting policies (continued)

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 are recognized as revenue of the appropriate Designated 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.

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.

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

Restricted contributions to the Capital and Operating Fund 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. Donated goods are recognized in revenue of the appropriate fund at fair value.

Assets held for sale

Assets held for sale are measured at the lower of their carrying amounts or fair value less costs to sell and are no longer subject to amortization.

Capital assets

Purchased capital assets are recorded at cost. Amortization is provided using the declining balance method, which is 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
Television, film and studio equipment	10.0%
Office, computer equipment and other assets	15.0% - 30.0%

3. Summary of significant accounting policies (continued)

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 and loans due from related parties, mortgages receivable, vendor take-back mortgage receivable, investments, accounts payable, amounts payable to related parties, trusts, capital lease obligations, and mortgage payable.

Initial measurement

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

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.

4. 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:

	2018	2017
Amounts receivable from Tricord Media Inc. (a)	**$ -**	$ 797,694
Loan receivable from Tricord Media Inc. (a)	**-**	70,970
Loan receivable from Young Once S2 Inc. (b)	**91,872**	-
	$ 91,872	$ 868,664

4. Related party transactions and balances (continued)

	2018	2017
Amounts payable to related party		
Crossroads Television Systems Inc. ("CTS") (c)	**$ 1,552,232**	$ 2,834,928
Less: Amounts receivable from CTS (c)	**(150,233)**	(70,185)
	$ 1,401,999	$ 2,764,743

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 2018, the accounts receivable and a loan receivable from Tricord were written off to $Nil balances as at August 31, 2018.

(b) Young Once S2 Inc.

Young Once Television S2 Inc. has been set up 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 is provided in the form of a loan from CCCI, to be repaid from licensing fees and media funding that may be available from various government agencies. As at August 31, 2018, $91,872 has been funded.

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

	2018	2017
Shared costs recovered	**$ 778,019**	$ 887,683
Rental income	**266,550**	332,700
Shared costs paid	**558,925**	1,097,916
Free airtime received included in general contributions	**1,327,040**	1,196,630

(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.

5. Sale of property

In March 2018, Crossroads sold its Burlington, Ontario property 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 $3,734,581 using an imputed interest rate of 4% with the interest recognized over 5 years. In fiscal 2018, $65,893 of imputed interest was recognized in rental and other income, bringing the total mortgage receivable to $3,800,474.

5. Sale of property (continued)

The sale resulted in a gain of $7,061,056. 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 will be recognized as income over the 5 year lease term. The portion of the gain applicable to the remainder of the building, $2,779,034, is recognized as a gain in the current year.

From the net sale proceeds, mortgages payable of $6,869,194 million were retired (Note 11).

6. 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 2018, an additional $7,167 was received for a total of $21,500 in payments for the fiscal year. As at August 31, 2018, the amount receivable is $68,185 (2017 - $83,785).

7. Advances to producers

Included in amortization and impairment of $1,236,274 in 2018 is $391,230 (2017 - $350,131) in impairment writedowns of advances to producers.

8. Capital assets

			2018	2017
	Cost	Accumulated Amortization	**Net Book Value**	Net Book Value
Buildings	$ 313,857	$ 45,217	**$ 268,640**	$ -
Leasehold improvements	84,485	-	**84,485**	-
Television, film and studio equipment	3,402,258	1,962,878	**1,439,380**	1,635,148
Office, computer equipment and other assets	910,498	679,798	**230,700**	362,503
	$ 4,711,098	$ 2,687,893	**$ 2,023,205**	$ 1,997,651

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

Included in capital assets are costs of $217,128 (2017 - $Nil) related to assets not yet in use as of year end and, as such, are not being amortized.

8. Capital assets (continued)

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

			2018	2017
	Cost	Accumulated Amortization	**Net Book Value**	Net Book Value
Television, film and studio equipment	$ 116,598	$ 43,923	**$ 72,675**	$ 214,504

Included in amortization and impairment is $368,109 (2017 - $563,741) of amortization, a loss on disposal of $473,097 (2017- $115,897), and a loss on sale of assets of $3,838 (2017- $Nil).

9. Trusts payable

	2018	2017
Revocable		
Capital and Operating Fund	**$ 23,800**	$ 263,800
Irrevocable		
Capital and Operating Fund	**$ 1,235,640**	$ 1,020,640
Debt Retirement Fund	**804,200**	954,400
	$ 2,039,840	$ 1,975,040

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, at which time they 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 13). 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 $804,200 (2017 - $954,400) have been offset within these financial statements, leaving only the net balance due to the beneficiaries on the statement of financial position.

10. Capital lease obligations

The capital lease obligations bear a weighted average interest rate of 6.89%, with monthly blended payments of $2,197, and maturity dates in fiscal 2019. The capital lease obligations are secured by a floating charge on CCCI's assets. The full amount of the liability may be repaid by CCCI at any time, and is as follows:

		2018		2017
Total capital lease payments	$	**11,659**	$	70,843
Less: imputed interest		**(223)**		(2,732)
Capital lease obligations		**11,436**		68,111
Less: amounts due in less than one year		**(11,436)**		(53,989)
Amounts due in more than one year	$	**-**	$	14,122

11. Mortgages payable

		2018		2017
(a) First mortgage, bearing interest of 5.25%, repayable in monthly blended principal and interest payments of $40,098, commencing September 1, 2016, based on a 21-year amortization period, renewable on November 13, 2020	$	**-**	$	5,869,194
(b) Second mortgage, bearing interest at 8%, requiring monthly interest payments only, principal due on November 30, 2018, secured by a second charge on land and buildings		**-**		1,000,000
				6,869,194
Less: current portion		**-**		(6,869,194)
	$	**-**	$	-

(a) In 2015, CCCI entered into a first mortgage agreement for $6,000,000. The mortgage is secured against a first mortgage charge registered on the land and buildings owned by CCCI. Upon sale of the property in fiscal 2018 (Note 5), the principal and accrued interest were repaid.

(b) CCCI paid back the mortgage in full upon sale of the property (Note 5).

12. Deferred capital contributions

	2018	2017
Balance, beginning of year	**$ 405,506**	$ 512,702
Donation received	**250,000**	-
Amount recognized in revenue during the year	**(156,711)**	(107,196)
Balance, end of year	**498,795**	405,506
Less: current portion	**(49,921)**	(128,172)
	$ 448,874	$ 277,334

13. Externally restricted funds

	Opening Balance September 1, 2017	Revenue	Expenses	Transfers In (Out)	Closing Balance August 31, 2018
Missions Funds	843,446	879,728	1,343,058	37,581	417,697
Debt Retirement Fund	-	150,200	45,655	(104,545)	-
	$ 843,446	$ 1,029,928	$ 1,388,713	$ (66,964)	$ 417,697

14. Commitments

CCCI is committed under contracts for television airtime in 2019 in the amount of $762,649.

CCCI is committed under contracts for leasehold construction in 2019 in the amount of $2,152,569

CCCI is also committed to the following minimum rent, lease, and service contract payments until fiscal 2023:

2019	$ 1,558,512
2020	1,492,532
2021	1,539,315
2022	1,586,442
2023	805,593
	$ 6,982,394

15. 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.

15. Financial risk management (continued)

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 the vendor take-back receivable, amounts and loan receivable from related parties. A provision of $815,651 against the related party receivable was recognized in fiscal 2018 and therefore the risk associated with amounts due from related parties has been eliminated.

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 $4,981 (2017 - $4,572). 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 trusts and capital lease obligations.