Hamilton Waterfront Trust

Consolidated Financial Statements

For the year ended December 31, 2019

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Independent Auditor's Report

To the Board of Directors of
Hamilton Waterfront Trust

Opinion

We have audited the consolidated financial statements of Hamilton Waterfront Trust and its subsidiaries (the "Group"), which comprise of the consolidated statement of financial position as at December 31, 2019, and the consolidated statements of operations and changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2019, and its results of operations and cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group’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 Group'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 consolidated 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 Group to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants
Burlington, Ontario
October 1, 2020

Hamilton Waterfront Trust
Consolidated Statement of Financial Position

December 31		2019		2018
Assets				
Current				
Cash	**$**	**472,697**	$	553,896
Accounts receivable (Note 2)		**59,775**		185,065
Inventories and prepaid expenses		**28,221**		28,221
		560,693		767,182
Capital assets (Note 3)		**1,384,156**		1,456,917
Note Receivable (Note 6)		**1,342,249**		2,202,149
	$	**3,287,098**	$	4,426,248
Liabilities and Net Assets				
Current				
Accounts payable and accrued liabilities	**$**	**687,047**	$	781,873
Current portion of deferred capital contributions (Note 4)		**40,273**		41,742
		727,320		823,615
Deferred revenue - City of Hamilton		**436,049**		458,830
Deferred capital contributions (Note 4)		**1,171,515**		1,210,319
		2,334,884		2,492,764
Net assets		**952,214**		1,933,484
	$	**3,287,098**	$	4,426,248

On behalf of the Board:

Bernie Mueller (electronic signature) Director

Director

Hamilton Waterfront Trust
Consolidated Statement of Operations and Changes in Net Assets

For the year ended December 31	2019	2018
Revenue		
Investment income	**$ 3,397**	$ 2,015
City of Hamilton contract and management income	**59,445**	119,663
Other income	**13,300**	70,877
Hamiltonian Tour Boat	**36,929**	35,202
Williams Fresh Cafe	**1,428,213**	1,459,362
Hamilton Scoops	**163,488**	171,165
Kids Fest	**19,192**	-
Hamilton Trolley	**27,783**	41,372
Fishing Derby	**-**	1,094
Waterfront Grill	**47,167**	50,316
HWT Centre	**94,007**	74,701
Outdoor Ice Rink	**319,059**	307,049
Skate Rental	**136,856**	99,345
Waterfront Development, City of Hamilton management contract	**374,992**	605,759
Waterfront Wheels	**12,541**	13,611
	2,736,369	3,051,531
Expenses		
Advertising and promotion	**664**	43
Bad debts	**67,461**	-
Bank charges	**4,088**	4,508
Building expenses	**10,458**	6,001
Dues and memberships	**2,570**	1,537
Equipment expenses	**1,853**	3,766
Insurance	**5,400**	11,248
Office expenses	**35,785**	14,839
Professional fees	**25,812**	60,182
Salaries and benefits	**274,510**	329,008
Telephone	**9,348**	9,399
Travel	**147**	373
Other expenses	**11,789**	29,288
Hamiltonian Tour Boat	**34,484**	35,274
Williams Fresh Cafe	**1,372,964**	1,378,293
Hamilton Scoops	**121,669**	151,443
Kids Fest	**12,219**	-
Hamilton Trolley	**31,023**	43,275
Fishing Derby	**13,026**	13,561
Waterfront Grill	**51,651**	62,309
HWT Centre	**50,464**	95,839
Outdoor Ice Rink	**315,147**	306,994
Skate Rental	**72,544**	53,516
Waterfront Development, City of Hamilton management contract	**388,239**	605,759
Waterfront Wheels	**12,828**	13,446
	2,926,143	3,229,901
Deficiency of revenue over expenses before amortization and other revenue (expenses)	**(189,774)**	(178,370)
Other revenue (expenses)		
Amortization of capital assets	**(72,761)**	(73,134)
Amortization of deferred capital contributions	**40,273**	41,742
Expenses associated with tenant dispute (Note 6)	**(759,008)**	(316,729)
Gain on disposal of HWT Centre	**-**	2,667,343
Property taxes	**-**	405,421
	(791,496)	2,724,643
Excess (deficiency) of revenue over expenses for the year	**(981,270)**	2,546,273
Net assets (deficiency), beginning of year	**1,933,484**	(612,789)
Net assets, end of year	**$ 952,214**	$ 1,933,484

The accompanying notes are an integral part of these consolidated financial statements.

Hamilton Waterfront Trust
Consolidated Statement of Cash Flows

For the year ended December 31	2019	2018
Cash flows from operating activities		
Excess (deficiency) of revenue over expenses for the year	**$ (981,270)**	$ 2,546,273
Adjustments to reconcile excess (deficiency) of revenue over expenses to net cash used in operating activities		
Amortization of capital assets	**72,761**	73,134
Amortization of deferred capital contributions	**(40,273)**	(41,742)
Gain on disposal of HWT Centre	**-**	(2,667,343)
Changes in non-cash working capital balances		
Accounts receivable	**125,290**	162,181
Inventories and prepaid expenses	**-**	1,721
Accounts payable and accrued liabilities	**(94,826)**	(175,838)
Deferred revenue	**(22,781)**	14,332
	(941,099)	(87,282)
Cash flows from investing activity		
Purchase of capital assets	**-**	(39,380)
Cash flows from financing activity		
Proceeds from note receivable	**859,900**	460,000
Increase (decrease) in cash during the year	**(81,199)**	333,338
Cash, beginning of year	**553,896**	220,558
Cash, end of year	**$ 472,697**	$ 553,896

1. Significant Accounting Policies

Nature of Business

The purpose of the Hamilton Waterfront Trust (the "Organization") is to improve and develop lands around the Hamilton Harbour and to encourage the local community to enjoy the Bay area. Hamilton is a culturally and ethnically diversified mosaic. Therefore, the Organization helps to promote the image of Hamilton to businesses and individuals over a wide radius.

Following a strategic review undertaken by the Board of Directors, it was decided to restructure the Organization to become a not-for-profit organization effective November 21, 2016. As part of the reorganization on that same date, HWT Inc., a wholly-owned subsidiary, was incorporated.

The Organization is incorporated under the Ontario Corporations Act, and now have a continuance under the Canada Not-for-Profit Corporations Act.

The Organization is registered under the Income Tax Act (Canada) (the "Tax Act") and, as such, is exempt from income taxes.

Basis of Accounting and Presentation

The consolidated financial statements of the Organization have been prepared using Canadian accounting standards for not-for-profit organizations.

These consolidated financial statements include the accounts of the Organization and HWT Inc. All significant intercompany transactions and balances have been eliminated.

Revenue Recognition

The Organization follows the deferral method of accounting for contributions.

Unrestricted revenue is recognized when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Deferred capital contributions related to capital assets represent the unamortized and unallocated amount of grants received for the purchase of capital assets. The amortization of capital contributions is recorded as revenue in the statement of operations.

The Organization recognizes all other revenue when services are performed or goods are sold, there is no uncertainty as to the customer acceptance, the price to the buyer is fixed or determinable and collection is reasonably assured.

1. Significant Accounting Policies (Continued)

Capital assets

Capital assets are recorded at cost. Amortization is based on their estimated useful life using the following methods and rates or terms:

Boat	-	15 years straight-line
Building	-	5% declining balance
Computer equipment	-	30% declining balance
Dock	-	5% declining balance
Furniture and equipment	-	20% declining balance
Trolleys	-	15 years straight-line
Leasehold improvements	-	straight-line over the term of the lease

Use of Estimates

The preparation of consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements, and the reported amount of revenue and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

Financial Instruments

Financial instruments are recorded at fair value when acquired or issued. Subsequently, 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 on the acquisition, sale or issue of financial instruments are charged to the financial instrument for those measured at amortized cost.

2. Accounts Receivable

	2019	2018
Trade accounts receivable	**$ 127,236**	$ 533,138
Impairment allowance	**(67,461)**	(348,073)
	$ 59,775	$ 185,065

3. Capital Assets

	2019		2018	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Boat	**$ 52,156**	**$ 42,042**	$ 52,156	$ 38,565
Building	**17,016**	**7,992**	17,016	7,517
Computer equipment	**42,844**	**41,755**	42,844	41,288
Dock	**15,522**	**8,385**	15,522	8,009
Furniture and equipment	**209,092**	**178,989**	209,092	168,689
Trolleys	**335,782**	**193,025**	335,782	169,570
Leasehold improvements	**2,542,155**	**1,358,223**	2,542,155	1,324,012
	$ 3,214,567	**$ 1,830,411**	$ 3,214,567	$ 1,757,650
Net book value		**$ 1,384,156**		$ 1,456,917

4. Deferred Capital Contributions

Restricted capital contributions are amortized on the same basis as the underlying capital assets.

	2019	2018
Balance, beginning of year	**$ 1,252,061**	$ 2,228,262
Less: contributions recognized as revenue	**(40,273)**	(41,742)
Less: disposal of HWT Centre (Note 6)	**-**	(934,459)
	1,211,788	1,252,061
Less: current portion	**(40,273)**	(41,742)
Balance, end of year	**$ 1,171,515**	$ 1,210,319

5. Commitments

The Organization leases a premise at an annual rent of $33,500 plus applicable taxes. The lease expired on October 31, 2019, however the Organization has verbally agreed to pay 50% of the annual rent until a new agreement has been signed.

6. Note Receivable

Effective January 1, 2018, the Organization's lease on the Parks Discovery Centre with the City of Hamilton was terminated. In consideration of the Organization entering into this arrangement, The City of Hamilton agreed to pay an early surrender fee in the form of a note. The note receivable bears interest at 4% per annum and is payable in equal annual instalments of $230,000 inclusive of interest, with final payment made on January 1, 2032.

During the year, the legal dispute with a tenant was settled. In connection with the legal settlement, the note receivable from The City of Hamilton was amended and the annual instalments were reduced to $166,000 inclusive of interest beginning January 1, 2021.

7. Financial Instrument Risks

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. The Organization is exposed to credit risk resulting from the possibility that a customer or counterparty to a financial instrument defaults on their financial obligations. The Organization's financial instruments that are exposed to concentrations of credit risk relate primarily to its accounts receivable balances. This risk has not changed from the prior year.

Liquidity Risk
Liquidity risk is the risk that the Organization encounters difficulty in meeting its obligations associated with financial liabilities. Liquidity risk includes the risk that, as a result of operational liquidity requirements, the Organization will not have sufficient funds to settle a transaction on a due date; will be forced to sell financial assets at a value which is less than what they are worth; or may be unable to settle or recover a financial asset. Liquidity risk arises from the Organization's accounts payable and accrued liabilities. This risk has not changed from the prior year.

8. Subsequent Event

On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic, resulting in economic uncertainties. As the impacts of COVID-19 continue, there could be further impacts on the Organization, however management is actively monitoring the effect on its financial condition, liquidity, operations, sector, and workforce.

Subsequent to year end, the Organization temporarily suspended its food and beverage operations from March 18, 2020 until June 22, 2020 at which point operations commenced under Ontario’s Phase 2 reopening of businesses. The Organization has successfully applied for the Canada Emergency Wage Subsidy and Canada Emergency Business Account. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Organization is not able to fully estimate the effects of the COVID-19 outbreak on its results of operations, financial condition or liquidity at this time.