# Hamilton Waterfront Trust
## Consolidated Financial Statements
For the year ended December 31, 2018

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### For the year ended December 31, 2018

**Contents**

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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, 2018, 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, 2018, 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
July 9, 2019

## Hamilton Waterfront Trust
## Consolidated Statement of Financial Position

| December 31 | | 2018 | | 2017 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Current** | | | | |
| Cash | $ | **553,896** | $ | 220,558 |
| Accounts receivable (Note 2) | | **185,065** | | 347,246 |
| Inventories and prepaid expenses | | **28,221** | | 29,942 |
| | | **767,182** | | 597,746 |
| **Capital assets** (Note 3) | | **1,456,917** | | 2,419,936 |
| **Note Receivable** (Note 6) | | **2,202,149** | | - |
| | $ | **4,426,248** | $ | 3,017,682 |

| | | | | |
|---|---|---|---|---|
| **Liabilities and Net Assets** | | | | |
| **Current** | | | | |
| Accounts payable and accrued liabilities | $ | **781,873** | $ | 957,711 |
| Current portion of deferred capital contributions (Note 4) | | **41,742** | | 69,298 |
| | | **823,615** | | 1,027,009 |
| **Deferred revenue - City of Hamilton** | | **458,830** | | 444,498 |
| **Deferred capital contributions** (Note 4) | | **1,210,319** | | 2,158,964 |
| | | **2,492,764** | | 3,630,471 |
| **Net assets (deficiency)** | | **1,933,484** | | (612,789) |
| | $ | **4,426,248** | $ | 3,017,682 |

On behalf of the Board:

______________________ Director

______________________ Director

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

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

| For the year ended December 31 | 2018 | 2017 |
|---|---|---|
| **Revenue** | | |
| Investment income | **$ 2,015** | $ 14,547 |
| City of Hamilton contract and management income | **119,663** | 103,558 |
| Other income | **70,877** | 37,610 |
| Hamiltonian Tour Boat | **35,202** | 35,199 |
| Williams Fresh Cafe | **1,459,362** | 1,466,079 |
| Hamilton Scoops | **171,165** | 167,053 |
| Hamilton Trolley | **41,372** | 41,681 |
| Fishing Derby | **1,094** | 2,188 |
| Waterfront Grill | **50,316** | 60,669 |
| HWT Centre | **74,701** | 258,845 |
| Outdoor Ice Rink | **307,049** | 303,450 |
| Skate Rental | **99,345** | 90,741 |
| Waterfront Development, City of Hamilton management contract | **605,759** | 668,624 |
| Waterfront Wheels | **13,611** | 16,510 |
| Tall Ships | **-** | 93,070 |
| | **3,051,531** | 3,359,824 |
| **Expenses** | | |
| Advertising and promotion | **43** | 340 |
| Bank charges | **4,508** | 10,803 |
| Building expenses | **6,001** | 12,926 |
| Dues and memberships | **1,537** | 2,124 |
| Equipment expenses | **3,766** | 3,490 |
| Insurance | **11,248** | 9,948 |
| Office expenses | **14,839** | 15,610 |
| Professional fees | **60,182** | 49,374 |
| Salaries and benefits | **329,008** | 294,415 |
| Telephone | **9,399** | 9,066 |
| Travel | **373** | 472 |
| Other expenses | **29,288** | 14,230 |
| Hamiltonian Tour Boat | **35,274** | 28,604 |
| Williams Fresh Cafe | **1,378,293** | 1,368,048 |
| Hamilton Scoops | **151,443** | 119,685 |
| Hamilton Trolley | **43,275** | 47,462 |
| Fishing Derby | **13,561** | 14,389 |
| Waterfront Grill | **62,309** | 68,213 |
| HWT Centre | **95,839** | 413,581 |
| Outdoor Ice Rink | **306,994** | 303,000 |
| Skate Rental | **53,516** | 41,625 |
| Waterfront Development, City of Hamilton management contract | **605,759** | 668,624 |
| Waterfront Wheels | **13,446** | 11,769 |
| Tall Ships | **-** | 64,941 |
| | **3,229,901** | 3,572,739 |
| **Deficiency of revenue over expenses before amortization and other revenue (expenses)** | **(178,370)** | (212,915) |
| **Other revenue (expenses)** | | |
| Amortization of capital assets | **(73,134)** | (176,489) |
| Amortization of deferred capital contributions | **41,742** | 69,298 |
| Bad debts associated with tenant dispute | **-** | (156,274) |
| Legal fees associated with tenant dispute | **(316,729)** | (136,123) |
| Gain on disposal of HWT Centre | **2,667,343** | - |
| Property taxes | **405,421** | - |
| | **2,724,643** | (399,588) |
| **Excess (deficiency) of revenue over expenses for the year** | **2,546,273** | (612,503) |
| **Net assets (deficiency)**, beginning of year | **(612,789)** | (286) |
| **Net assets (deficiency)**, end of year | **$ 1,933,484** | $ (612,789) |

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 | 2018 | 2017 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Excess (deficiency) of revenue over expenses for the year | **$ 2,546,273** | $ (612,503) |
| Adjustments to reconcile excess (deficiency) of revenue over expenses to net cash provided by (used in) operating activities | | |
| Amortization of capital assets | **73,134** | 176,489 |
| Amortization of deferred capital contributions | **(41,742)** | (69,298) |
| Gain on disposal of HWT Centre | **(2,667,343)** | - |
| Changes in non-cash working capital balances | | |
| Accounts receivable | **162,181** | (114,059) |
| Inventories and prepaid expenses | **1,721** | (3,894) |
| Accounts payable and accrued liabilities | **(175,838)** | 290,765 |
| Deferred revenue | **14,332** | 444,498 |
| | **(87,282)** | 111,998 |
| **Cash flows from investing activity** | | |
| Purchase of capital assets | **(39,380)** | (21,898) |
| **Cash flow from financing activity** | | |
| Proceeds from note receivable | **460,000** | - |
| **Increase in cash during the year** | **333,338** | 90,100 |
| **Cash**, beginning of year | **220,558** | 130,458 |
| **Cash**, end of year | **$ 553,896** | $ 220,558 |

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

**December 31, 2018**

## 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

| | **2018** | 2017 |
|---|---|---|
| Trade accounts receivable | **$ 533,138** | $ 695,319 |
| Impairment allowance | **(348,073)** | (348,073) |
| | **$ 185,065** | $ 347,246 |

## 3. Capital Assets

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **Cost** | **Accumulated Amortization** | Cost | Accumulated Amortization |
| Boat | **$ 52,156** | **$ 38,565** | $ 52,157 | $ 35,088 |
| Building | **17,016** | **7,517** | 17,016 | 7,017 |
| Computer equipment | **42,844** | **41,288** | 42,844 | 40,622 |
| Dock | **15,522** | **8,009** | 15,522 | 7,614 |
| Furniture and equipment | **209,092** | **168,689** | 206,651 | 158,113 |
| Trolleys | **335,782** | **169,570** | 298,844 | 146,263 |
| Leasehold improvements | **2,542,155** | **1,324,012** | 3,610,933 | 1,429,314 |
| | **$ 3,214,567** | **$ 1,757,650** | $ 4,243,967 | $ 1,824,031 |
| Net book value | | **$ 1,456,917** | | $ 2,419,936 |

On January 1, 2018, the Organization disposed of leasehold improvements with a net book value of $929,265 as part of the termination of its lease with the City of Hamilton (Note 6). The gain on disposal, which is included as an other income item on the income statement, was $2,667,343.

## 4. Deferred Capital Contributions

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

| | **2018** | 2017 |
|---|---|---|
| **Balance**, beginning of year | **$ 2,228,262** | $ 2,297,560 |
| Less: contributions recognized as revenue | **(41,742)** | (69,298) |
| Less: disposal of HWT Centre (Note 6) | **(934,459)** | - |
| | **1,252,061** | 2,228,262 |
| Less: current portion | **(41,742)** | (69,298) |
| **Balance**, end of year | **$ 1,210,319** | $ 2,158,964 |

## 5. Commitments

The Organization leases a premise at an annual rent of $33,500 plus applicable taxes that expires on October 31, 2019.

Future minimum payments under the operating lease are as follows:

| | |
|---|---|
| 2019 | $ 27,917 |

## 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 installments of $230,000 inclusive of interest, with final payment made on January 1, 2032.

## 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. Comparative Figures

Certain of the comparative figures included in these consolidated financial statements have been reclassified to conform to the presentation adopted for the current year.