Consolidated Financial Statements of

CCMBC LEGACY FUND INC.

Year ended December 31, 2021

CCMBC LEGACY FUND INC.

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INDEPENDENT AUDITORS' REPORT

To the Directors of CCMBC Legacy Fund Inc.

Opinion

We have audited the consolidated financial statements of CCMBC Legacy Fund Inc. (the "Entity"), which comprise the consolidated statement of financial position as at December 31, 2021, the consolidated statements of operations, changes in net assets and cash flows for the year then ended, and notes to the consolidated financial statements, comprising a summary of significant accounting policies (hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2021, and its consolidated results of operations and its consolidated 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 "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian 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 Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditors’ Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

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

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

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

KPMG LLP

Chartered Professional Accountants

Winnipeg, Canada

June 30, 2022

CCMBC LEGACY FUND INC.

Consolidated Statement of Financial Position

December 31, 2021, with comparative information for 2020

	2021	2020
Assets		
Cash	$ 9,134,592	$ 8,135,267
Accounts receivable	158,947	105,975
Income tax receivable	146,907	–
Other investments (note 4)	68,520,712	63,558,024
Mortgage investments (note 3)	71,898,900	77,906,297
Prepaid expenses and other assets	239,503	286,241
Due from related party (note 13)	2,249,741	3,142,840
Land held for sale	6,963,022	6,939,867
Capital assets (note 5)	4,156,058	3,974,357
Future tax asset	162,478	186,098
	$ 163,630,860	$ 164,234,966
Liabilities, Deferred Contributions and Net Assets		
Accounts payable and accrued liabilities (note 7)	$ 500,205	$ 621,434
Income taxes payable	–	271,342
Deposit notes (note 8)	31,110,368	29,044,791
Promissory notes (note 9)	125,847,166	130,427,625
Due to related party (note 13)	561,443	–
Preferred shares (note 10)	678,500	752,500
	158,697,682	161,117,692
Deferred contributions:		
Capital assets (note 11)	2,495,108	2,693,731
Net assets:		
Unrestricted	2,438,070	423,543
	$ 163,630,860	$ 164,234,966

See accompanying notes to consolidated financial statements.

On behalf of the Governing Board:

______________________ Director ______________________ Director

CCMBC LEGACY FUND INC.

Consolidated Statement of Operations

Year ended December 31, 2021, with comparative information for 2020

	2021	2020
Revenue:		
Grants and donations (note 2[l])	$ 50,000	$ 165,498
Sales revenue	–	102,327
Payroll and accounting services (note 13)	294,026	270,615
Rental and property management revenue	335,148	377,485
Mortgage interest (note 3)	3,420,131	3,426,576
Income from other investments	4,216,087	4,158,343
Other interest income	6,203	50,675
Deferred contributions related to capital assets (note 11)	198,623	223,926
Net realized gains (losses) on sale of other investments	118,569	(128,549)
Other revenue	27,991	–
	8,666,778	8,646,896
Expenditures:		
Salaries and benefits	1,209,268	1,198,223
Professional fees	366,301	389,212
General and administrative (note 13)	341,081	416,391
Interest on deposit notes (note 8)	419,643	656,940
Interest on promissory notes (note 9)	1,967,869	3,125,888
Interest on preferred shares (note 10)	7,161	8,026
Investment management fees (note 12)	676,827	677,884
Occupancy	61,194	320,631
Property administration	208,046	198,609
Property taxes	225,534	231,752
Insurance	61,663	83,448
Depreciation	211,326	218,027
Bad debt expense	–	51,578
	5,755,913	7,576,609
Excess of revenue over expenditures before the undernoted	2,910,865	1,070,287
Other income (loss):		
Other income	–	114,334
Gain (loss) on disposal of capital assets	(2,197)	85,209
Change in unrealized appreciation (depreciation) in value of other investments	10,263	(495,738)
Allowance for credit losses (note 3)	(717,380)	(27,811)
	(709,314)	(324,006)
Excess of revenue over expenditures before income taxes	2,201,551	746,281
Income taxes:		
Current	163,405	350,446
Future	23,619	16,319
	187,024	366,765
Excess of revenue over expenditures	$ 2,014,527	$ 379,516

See accompanying notes to consolidated financial statements.

CCMBC LEGACY FUND INC.

Consolidated Statement of Changes in Net Assets

Year ended December 31, 2021, with comparative information for 2020

	2021	2020
Balance, beginning of year	$ 423,543	$ 44,027
Excess of revenue over expenditures	2,014,527	379,516
Balance, end of year	$ 2,438,070	$ 423,543

See accompanying notes to consolidated financial statements.

CCMBC LEGACY FUND INC.

Consolidated Statement of Cash Flows

Year ended December 31, 2021, with comparative information for 2020

	2021	2020
Cash flows from (used in) operating activities:		
Excess of revenue over expenditures	$ 2,014,527	$ 379,516
Adjustments for:		
Net realized losses (gains) on sale of other investments	(118,569)	128,549
Change in unrealized depreciation (appreciation)		
In value of other investments	(10,263)	495,738
Depreciation	211,326	218,027
Deferred contributions related to capital assets	(198,623)	(223,926)
Loss (gain) on sale of capital assets	2,197	(85,209)
Bad debt expense	–	51,578
Amortization of transaction costs (note 9)	141,912	141,074
Allowance for credit losses (note 3)	717,380	27,811
Current income taxes	163,405	350,446
Future income taxes	23,619	16,319
Mortgage interest (note 3)	(3,420,131)	(3,426,576)
Interest on deposit notes (note 8)	419,643	656,940
Interest on promissory notes (note 9)	1,825,957	2,984,814
Interest on preferred shares (note 10)	7,161	8,026
Change in non-cash operating working capital:		
Accounts receivable	(52,972)	92,461
Inventories	–	18,243
Prepaid expenses	46,738	(55,944)
Accounts payable and accrued liabilities	(121,229)	(72,953)
Due to related party (note 13)	561,443	–
Funding of mortgage investments	(1,759,551)	(3,763,934)
Mortgage repayments	7,531,271	8,737,156
Purchase of other investments	(14,480,606)	(32,451,359)
Proceeds from sale of other investments	9,646,752	17,197,385
Mortgage interest received	2,938,433	3,231,015
Interest paid on deposit notes (note 8)	(16,819)	(25,855)
Interest paid on promissory notes (note 9)	(81,831)	(147,781)
Interest paid on preferred shares (note 10)	(431)	(584)
Income taxes paid	(581,654)	(162,652)
	5,409,085	(5,681,675)
Cash flows from (used in) financing activities:		
Proceeds on issuance of deposit notes (note 8)	3,225,995	7,045,595
Repayment of deposit notes (note 8)	(1,563,242)	(7,172,691)
Proceeds on issuance of promissory notes (note 9)	12,511,333	5,680,791
Repayment of promissory notes (note 9)	(18,993,060)	(26,226,690)
Proceeds from issuance of preferred shares (note 10)	15,500	21,500
Repayment on redemption of preferred shares (note 10)	(81,000)	(117,000)
Change in due from related party (note 13)	893,099	6,207,689
	(3,991,375)	(14,560,806)
Cash flows used in investing activities:		
Purchase of capital assets	(395,224)	(120,016)
Proceeds on disposal of capital assets	–	117,106
Expenditures on land held for sale	(23,161)	(22,687)
	(418,385)	(25,597)
Increase (decrease) in cash	999,325	(20,268,078)
Cash, beginning of year	8,135,267	28,403,345
Cash, end of year	$ 9,134,592	$ 8,135,267

See accompanying notes to consolidated financial statements.

CCMBC LEGACY FUND INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2021

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1. Nature of organization:

CCMBC Legacy Fund Inc. (the "Legacy") was incorporated under the Canada Not-for-profit Corporations Act on July 30, 2015 and amended on May 30, 2016. Legacy is a registered charity within the meaning of the *Income Tax Act* and therefore is exempt from income taxes under Section 149(1) of the *Income Tax Act*. The sole member of Legacy is The Canadian Conference of Mennonite Brethren Church of North America (CCMBC).

Through its wholly-owned for-profit subsidiary, CCMBC Investments Ltd. (CCMBC Investments), Legacy's objective is to facilitate the raising of funds to accomplish the charitable purposes of CCMBC. CCMBC Investments issues redeemable preferred shares (preferred shares) and promissory notes (promissory notes) to facilitate the lending of money secured by mortgages for Mennonite Brethren Churches (MB Churches), pastors of Mennonite Brethren Churches (MB Church Pastors) and other Mennonite Brethren and affiliated institutions such as schools and camps (MB Church Entities). Any excess funds not required for lending are invested in other investments pursuant to specified investment guidelines. Legacy also provides accounting and payroll services to Canadian MB Churches and MB Church Entities and administers deposit notes for MB Churches and MB Church Entities.

These consolidated financial statements present the activities of Legacy and its wholly-owned subsidiaries CCMBC Investments and CCMBC Holdings Inc. (CCMBC Holdings). CCMBC Holdings is a for-profit entity that owns all of the shares in the following entities:

CP Printing Solutions
Crossfield Highways Development Inc.
Deer River Properties Inc.

2. Significant accounting policies:

(a) Basis of accounting:

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

(b) Revenue recognition:

Legacy follows the deferral method of accounting for contributions. Restricted contributions other than endowment contributions are recognized as revenue in the year in which the related expenses are recognized. Contributions restricted for the purposes of capital assets are deferred and amortized into revenue at a rate corresponding with the related capital assets. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

CCMBC LEGACY FUND INC.

2. Significant accounting policies (continued):

Interest on mortgage investments and other investments is recorded as income on an accrual basis, using the effective interest method. Rental revenue includes recovery of common area maintenance costs and is recognized on an accrual basis over the term to which it applies.

(c) Land held for sale:

Purchased land held for sale is recorded at cost. Costs that are directly attributable to development of the land are capitalized, provided that the carrying value does not exceed net realizable value.

(d) Capital assets:

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Repairs and maintenance costs are charged to expense. Betterments which extend the estimated life of an asset are capitalized.

Legacy amortizes its capital assets as follows:

Asset	Rate
Buildings	30 years straight-line
Computer equipment	3 - 5 years straight-line
Office equipment	5 - 10 years straight-line
Parking lot	15 years straight-line
Artwork	Indefinite

(e) Impairment of long-lived assets:

Capital assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. When circumstances indicate that a capital asset is impaired, the net carrying amount of the capital asset is written down to the asset's fair value or replacement cost. The write-down of the asset is charged to income during the year. An impairment loss is not reversed if the fair value of the related asset subsequently increases.

2. Significant accounting policies (continued):

(f) Assets held for sale:

Long-lived assets are classified by Legacy as an asset held for sale at the point in time when the asset is available for immediate sale, management has committed to a plan to sell the asset and is actively locating a buyer for the asset at a sales price that is reasonable in relation to the current fair value of the asset, and the sale is probable and expected to be completed within a one-year period.

Assets to be disposed of are separately presented on the consolidated statement of financial position and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held for sale are presented separately in the appropriate asset and liability sections of the consolidated statement of financial position.

(g) Mortgage investments:

Mortgage investments are initially measured at fair value plus incremental direct transaction costs. Mortgage investments are subsequently re-measured at their amortized cost, net of allowance for credit losses, using the effective interest method. Interest income is accounted for on the accrual basis.

A mortgage is classified as impaired when, in management's opinion, there has been deterioration in credit quality to the extent that there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest.

When a mortgage is classified as impaired the carrying amount of the mortgage is reduced to its estimated realizable amount. Estimated realizable amounts are measured by discounting the expected future cash flows, if they can be reasonably estimated, using the effective interest rate inherent in the mortgage. When the amounts and timing of cash flows cannot be reasonably estimated, the carrying amount of the mortgage is reduced to its estimated net realizable value based on either:

(i) the fair value of any security underlying the mortgage, net of expected costs of realization or;

(ii) observable market prices for the mortgage.

2. Significant accounting policies (continued):

(h) Allowance for credit losses:

Legacy maintains an allowance for credit losses which, in management's opinion, is adequate to absorb all credit related losses in its portfolio. The allowance for credit losses consists of specific provisions, being provisions against specific credit exposures determined on an item-by-item basis, and a general provision for losses which have occurred, but where such losses cannot be determined on an item-by-item basis.

In assessing existing credit losses, management must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. Changes in circumstances may cause future assessments of credit risk to be significantly different than current assessments and may require an increase or decrease in the allowance for credit losses.

(i) Inventories:

Inventories are measured at the lower of cost and net realizable value. Cost is determined on the first-in, first-out basis.

(j) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. Legacy has elected to carry its other investments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

CCMBC LEGACY FUND INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2021

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2. Significant accounting policies (continued):

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, Legacy determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount Legacy expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

(k) Income taxes:

The for-profit subsidiaries of Legacy use the future income taxes method of accounting for income taxes. Under the future income taxes method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment. Refundable taxes that will be recovered on the payment of qualifying dividends are recognized as a future income tax asset.

A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized. Income tax expense or benefit is the sum of the company’s provision for the current income taxes and the difference between the opening and ending balances of the future income tax assets and liabilities.

(l) Government assistance:

Government assistance related to current expenses is included in the determination of net income for the period when the related expenditures are incurred. A liability to repay government assistance, if any, is recorded in the period in which the condition arises that causes the assistance to become repayable.

During the year ended December 31, 2021, Legacy has included in grants and donations nil (2020 - $19,498) for government assistance related to salaries expenditures under the Temporary Wage Subsidy for Employers program.

2. Significant accounting policies (continued):

(m) Use of estimates:

The preparation of the 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 financial statements, and the reported amounts of revenue and expenditures during the reporting period. Significant items subject to estimates and assumptions include the allowance for credit losses and the carrying amounts of capital assets and land held for sale. Actual results could differ from management`s best estimates as additional information becomes available in the future.

COVID-19

The COVID-19 outbreak has resulted in the federal and provincial governments enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally, resulting in an economic slowdown.

The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the property is unknown. Legacy continues to monitor and assess the impact that COVID-19 will have on its business activities and financial results and the impact on Canadian and local economies, financial markets, and sectors and issuers in which Legacy may invest. COVID-19 has the potential to adversely affect the value of Legacy’s mortgages and other investments and the extent of promissory note redemptions.

The estimates that could be most significantly impacted by COVID-19 include those underlying the allowance for credit losses (note 3). Actual results could differ from those estimates.

CCMBC LEGACY FUND INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2021

3. Mortgage investments:

Legacy's mortgage investments consist of the following at December 31:

	2021		2020	
	Principal	Accrued interest	Principal	Accrued interest
Mortgages investments	$ 76,104,245	$ 99,148	$ 82,193,516	$ 141,801
Allowance for credit losses	(4,304,493)		(4,429,020)	–
	71,799,752		77,764,496	141,801
		$ 71,898,900		$ 77,906,297

As at December 31, 2021, unadvanced mortgage commitments under the existing gross mortgage investments amounted to $3,974,589 (2020 - $3,782,899). The mortgage investments are secured by real property and will mature between 2022 and 2048. During the year ended December 31, 2021, Legacy generated net interest income of $3,420,131 (2020 - $3,426,576).

All mortgage investments bear interest at a variable rate. At December 31, 2021, the interest rate on mortgages to MB Churches and MB Church Entities is 3.90 percent (2020 - 3.90 percent) and for MB Church Pastors is 2.90 percent (2020 - 2.90 percent). Legacy reviews the interest rates every six months and adjusts the rates, as required, to ensure a positive difference between its outstanding promissory notes and the mortgage investments. During the year ended December 31, 2021, the weighted average interest rate earned on net mortgage investments was 3.85 percent (2020 - 3.86) percent.

A majority of the mortgage investments contain a prepayment option, whereby the borrower may repay the principal at any time prior to maturity without penalty or yield maintenance.

If not demanded, principal repayments by contractual maturity dates are expected as follows:

2022	$ 6,368,878
2023	3,996,441
2024	3,958,549
2025	3,962,617
2026 and thereafter	57,817,760
	$ 76,104,245

CCMBC LEGACY FUND INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2021

3. Mortgage investments (continued):

The provision for credit losses amounted to $4,304,493 as at December 31, 2021 (2020 - $4,429,020) which is recorded in mortgage investments on the statement of financial position. Certain mortgage investments held by Legacy do not have a provision for credit losses due to the value of the underlying collateral.

During the year ended December 31, 2020, Legacy worked with borrowers on a case-by-case basis on deferral arrangements. At December 31, 2021, 1.1 percent (2020 - 2.2 percent) of borrowers (excluding those in default) were still on deferral arrangements or had not resumed their principal and interest payments.

The following table summarizes the mortgage investments and allowance for credit losses at December 31:

December 31, 2021	MB Churches	MB Church Entities	MB Church Pastors	Total
Mortgage investments, including interest receivable	$ 57,937,288	$ 14,818,943	$ 3,447,162	$ 76,203,393
Allowance for credit losses	(3,393,921)	(786,254)	(124,318)	(4,304,493)
	$ 54,543,367	$ 14,032,689	$ 3,322,844	$ 71,898,900

December 31, 2020	MB Churches	MB Church Entities	MB Church Pastors	Total
Mortgage investments, including interest receivable	$ 62,340,394	$ 16,669,020	$ 3,325,903	$ 82,335,317
Allowance for credit losses	(3,237,179)	(1,080,551)	(111,290)	(4,429,020)
	$ 59,103,215	$ 15,588,469	$ 3,214,613	$ 77,906,297

CCMBC LEGACY FUND INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2021

3. Mortgage investments (continued):

The internal risk ratings presented in the table below are defined as follows:

Low risk: Mortgage investments that have lower credit risk than Legacy's risk appetite and credit standards and that have a below average probability of default.

Medium-low risk: Mortgage investments that are typical for Legacy's risk appetite and credit standards and retain a below average probability of default.

Medium-high risk: Mortgage investments that are within Legacy's risk appetite and credit standards and retain an average probability of default.

High risk: Mortgage investments within Legacy's risk appetite and credit standards that have an additional element of credit risk that could result in an above average probability of default.

Default: Mortgage investments that are 90 days past due and when there is objective evidence that there has been a deterioration of credit quality to the extent Legacy no longer has reasonable assurance as to the timely collection of the full amount of principal and interest and/or when Legacy has commenced enforcement remedies available to it under its contractual agreements.

The following table presents the gross carrying amounts of mortgage investments by internal risk ratings used by Legacy for credit risk management purposes:

December 31, 2021	MB Churches	MB Church Entities	MB Church Pastors	Total
Low risk	$ 26,600,255	$ 6,170,051	$ –	$ 32,770,306
Medium-low risk	13,537,818	6,641,565	1,215,645	21,395,028
Medium-high risk	10,863,491	948,058	1,723,490	13,535,039
High risk	1,326,192	–	439,986	1,766,178
Default	5,609,532	1,059,269	68,041	6,736,842
Mortgage investments	57,937,288	14,818,943	3,447,162	76,203,393
Allowance for credit losses	(3,393,921)	(786,254)	(124,318)	(4,304,493)
Mortgage investments	$ 54,543,367	$ 14,032,689	$ 3,322,844	$ 71,898,900

CCMBC LEGACY FUND INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2021

3. Mortgage investments (continued):

December 31, 2020	MB Churches	MB Church Entities	MB Church Pastors	Total
Low risk	$ 19,861,257	$ 4,373,068	$ 979,497	$ 25,213,822
Medium-low risk	22,400,121	9,315,105	1,177,163	32,892,389
Medium-high risk	4,594,871	948,125	647,931	6,190,927
High risk	9,875,689	–	453,271	10,328,960
Default	5,608,456	2,032,722	68,041	7,709,219
Mortgage investments	62,340,394	16,669,020	3,325,903	82,335,317
Allowance for credit losses	(3,237,179)	(1,080,551)	(111,290)	(4,429,020)
Mortgage investments	$ 59,103,215	$ 15,588,469	$ 3,214,613	$ 77,906,297

Geographic analysis:

December 31, 2021	MB Churches	MB Church Entities	MB Church Pastors	Total
British Columbia	$ 37,779,757	$ 6,084,860	$ 1,384,640	$ 45,249,257
Ontario	6,094,768	7,464,187	640,906	14,199,861
Alberta	6,255,477	88,197	–	6,343,674
Saskatchewan	250,868	85,025	262,101	597,994
Manitoba	3,989,877	–	488,550	4,478,427
Quebec	49,608	310,420	546,647	906,675
Atlantic Provinces	123,012	–	–	123,012
	$ 54,543,367	$ 14,032,689	$ 3,322,844	$ 71,898,900

December 31, 2020	MB Churches	MB Church Entities	MB Church Pastors	Total
British Columbia	$ 40,116,545	$ 6,894,378	$ 1,143,436	$ 48,154,359
Ontario	7,714,049	7,895,671	664,394	16,274,114
Alberta	6,465,105	113,824	–	6,578,929
Saskatchewan	366,674	365,668	329,379	1,061,721
Manitoba	4,212,330	–	503,748	4,716,078
Quebec	100,273	318,928	573,656	992,857
Atlantic Provinces	128,239	–	–	128,239
	$ 59,103,215	$ 15,588,469	$ 3,214,613	$ 77,906,297

4. Other investments:

Other investments are comprised of the following at December 31:

	2021		2020	
	Cost	Fair Value	Cost	Fair Value
Private fixed income funds	$ 41,611,788	$ 41,355,224	$ 39,864,134	$ 39,899,537
Private mortgage funds	21,826,099	21,991,031	19,873,302	19,932,723
Private equity fund	1,040,088	1,116,859	–	–
Corporate bonds	2,458,420	2,440,907	2,513,808	2,513,734
Equities and exchange traded funds	260,715	277,281	–	–
Convertible debentures	451,171	459,545	296,760	312,030
Preferred shares	271,986	279,865	–	–
Guaranteed income certificates	600,000	600,000	900,000	900,000
	$ 68,520,267	$ 68,520,712	$ 63,448,004	$ 63,558,024

The funds in which Legacy invests (Investee Funds) are managed by asset managers who apply various investment strategies to accomplish their respective investments objectives. These objectives include generating income and cash flow along with capital appreciation by investing in fixed income securities, mortgages and equities. The Investee Funds also invest in underlying funds. At December 31, 2021 and 2020, Legacy invests in six (2020 - six) private fixed income funds, two (2020 - two) private mortgage funds and one (2020 - nil) equity fund. Legacy can redeem their investment in the Investee Funds ranging from weekly to semi-annually.

The guaranteed income certificates have interest rates ranging from 1.30 percent and 1.85 percent (2020 - ranging from 1.28 percent and 1.85 percent) and mature between March 2022 and March 2023 (2020 - March 2021 and March 2023). At December 31, 2021, the weighted average interest rate is 1.63 percent (2020 - 1.54 percent). The preferred shares have coupon rates ranging from 3.90 percent to 4.70 percent.

The par value of the corporate bonds and convertible debentures at December 31, 2021 is $2,950,000 (2020 - $2,850,000). The corporate bonds and convertible debentures have interest rates ranging from 3.15 percent to 7.85 percent (2020 - ranging from 3.15 percent to 7.85 percent) and mature between May 2023 and October 2032 (2020 - between May 2023 and October 2032).

CCMBC LEGACY FUND INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2021

4. Other investments (continued):

Maturities and interest rates of the corporate bonds and convertible debentures are as follows:

December 31, 2021 Under one year	1 - 5 years	6 - 10 years	Over 10 years	Total	Weighted average yield
$ –	$ 1,060,935	$ 1,545,199	$ 294,318	$ 2,900,452	4.36%

December 31, 2020 Under one year	1 - 5 years	6 - 10 years	Over 10 years	Total	Weighted average yield
$ –	$ 689,150	$ 624,759	$1,511,855	$ 2,825,764	4.13%

5. Capital assets:

Legacy's capital assets consist of the following at December 31, 2021:

	Cost	Accumulated amortization	2021 Net book value	2020 Net book value
Land	$ 1,109,453	$ –	$ 1,109,453	$ 1,109,453
Artwork	46,681	–	46,681	46,681
Buildings	3,293,126	364,073	2,929,053	2,724,391
Computer equipment	87,936	40,958	46,978	56,518
Office equipment	45,391	22,310	23,081	32,151
Parking lot	5,163	4,351	812	5,163
	$ 4,587,750	$ 431,692	$ 4,156,058	$ 3,974,357

6. Operating facility and guarantee:

On August 22, 2020, and as amended October 25, 2020 and May 6, 2021, Legacy entered into a Letter of Agreement with the Bank of Montreal which provides for an operating facility for use by Legacy in the aggregate amount of $1,250,000 (2020 - $2,750,000), bearing interest at prime. The operating facility is secured by a general security agreement over the assets of Legacy and its subsidiaries, a $1,275,000 (2020 - $3,000,000) corporate guarantee from CCMBC, a general security agreement over the assets of CCMBC, and by the corporate bonds and guaranteed income certificates held by Legacy (note 4). As at December 31, 2021 and 2020, the operating facility was unutilized.

6. Operating facility and guarantee (continued):

At December 31, 2020, Legacy had provided a guarantee in the amount of $400,000 and a general security agreement to the Bank of Montreal as security for the operating facility of CCMBC. The operating facility of CCMBC was cancelled during the year ended December 31, 2021.

In addition, On May 6, 2021, CCMBC Investments entered into a Letter of Agreement with the Bank of Montreal providing for an operating facility in the amount of $1,500,000 which bears interest at the prime rate and is repayable on demand. The operating facility is secured by a general security agreement over the assets of CCMBC Investments, a $1,500,000 corporate guarantee from Legacy, CCMBC and CCMBC Holdings Inc., a pledge of securities and accounts from Legacy and general security agreements over the assets of Legacy, CCMBC and CCMBC Holdings Inc. As at December 31, 2021, the operating facility was unutilized.

7. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities is $3,802 (2020 - $3,356) for government remittances.

8. Deposit notes:

Legacy issues deposit notes to MB Churches and MB Church Entities. All deposit notes are due on demand and bear interest at a variable rate of interest which is determined at July 1 and December 31 of each year.

The following table summarizes activity for the deposit notes for the years ending December 31, 2021 and 2020:

	Note	2021	2020
Balance, beginning of year		$ 29,044,791	$ 28,540,802
Deposit notes issued		3,225,995	7,045,595
Deposit notes repaid		(1,563,242)	(7,172,691)
Interest on deposit notes		419,643	656,940
Interest paid		(16,819)	(25,855)
Balance, end of year		$ 31,110,368	$ 29,044,791

CCMBC LEGACY FUND INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2021

9. Promissory notes:

CCMBC Investments is authorized to issue an unlimited number of promissory notes which can be issued in one or more series. The initial minimum subscription amount for each holder of a promissory note is $2,500. The promissory notes are payable on demand and bear interest at a variable interest rate which is determined on January 1 and July 1 of each year. The variable interest rate is equal to the overnight lending rate of the Bank of Canada plus 115 basis points. Interest is compounded and payable on a semi-annual basis on June 30 and December 31 of each year.

On December 20, 2021, CCMBC Investments amended the terms and conditions of the promissory notes to allow for additional interest to be paid at the discretion of CCMBC Investments. Effective January 1, 2022, the interest rate on the promissory notes was increased by 20 basis points to 135 basis points above the overnight lending rate of the Bank of Canada.

The following table summarizes the promissory notes as at December 31, 2021 and 2020:

	2021	2020
Promissory notes	$ 126,269,189	$ 130,991,560
Less: transaction costs	(422,023)	(563,935)
	$ 125,847,166	$ 130,427,625

The following table summarizes activity for the promissory notes for the years ending December 31, 2021 and 2020:

	Note	2021	2020
Balance, beginning of year		$ 130,427,625	$ 147,721,475
Promissory notes issued		12,511,333	5,680,791
Transfer from preferred shares	10	8,500	266,500
Promissory notes repaid		(18,993,060)	(26,226,690)
Amortization of transaction costs		141,912	141,074
Interest on promissory notes		1,825,957	2,984,814
Transfer of interest on preferred shares	10	6,730	7,442
Interest paid		(81,831)	(147,781)
Balance, end of year		$ 125,847,166	$ 130,427,625

10. Preferred shares:

Preferred shares are issued on the first $500 invested by an investor in CCMBC Investments with the remainder invested in promissory notes. The preferred shares are redeemable at the option of the holder for $1, with a minimum of fourteen days' notice to CCMBC Investments. The preferred shares are not entitled to vote at any meetings of shareholders, except where otherwise provided by the Canada Business Corporations Act, and, in such case, they shall then be entitled to one vote for each preferred share held. The preferred shares are entitled in each financial year of CCMBC Investments, cumulative dividends at a rate equal to 1 percent of the redemption amount of $1 per preferred share. Individual holders of preferred shares must subscribe for 500 preferred shares and no holder of preferred shares can hold more than 500 preferred shares.

The following table summarizes the preferred shares at December 31:

	2021		2020	
	Number	Amount	Number	Amount
Authorized: Unlimited preferred shares, non-voting, cumulative dividend entitlement of 1 percent of the redemption amount annually, redeemable at the option of the holder for $1	678,500	$ 678,500	752,500	$ 752,500

The following table summarizes activity for the preferred shares:

	Note	2021	2020
Balance, beginning of year		$ 752,500	$ 1,114,500
Preferred shares issued		15,500	21,500
Preferred shares transferred to promissory notes	9	(8,500)	(266,500)
Preferred shares repurchased		(81,000)	(117,000)
Accrued interest		7,161	8,026
Interest paid		(431)	(584)
Transfer of interest to promissory notes	9	(6,730)	(7,442)
Balance, end of year		$ 678,500	$ 752,500

CCMBC LEGACY FUND INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2021

11. Deferred contributions related to capital assets:

Deferred contributions related to capital assets represent the unamortized amount of donated capital assets. The amortization of capital contributions is recorded as revenue in the statement of operations.

			2021	2020
	Donations	Recognized in revenue	Ending balance	Ending balance
Buildings	$ 2,636,036	$ 176,213	$ 2,459,823	$ 2,636,036
Computer equipment	26,106	12,137	13,969	26,106
Office equipment	26,426	9,068	17,358	26,426
Parking lot	5,163	1,205	3,958	5,163
	$ 2,693,731	$ 198,623	$ 2,495,108	$ 2,693,731

12. Investment management fees:

CCMBC Investments has entered into an Investment Management and Distribution Agreement with a third party that can be cancelled at any time on written notice without penalty. The investment management fees are as follows:

- $400,000 on the first $30,000,000 of assets under management (AUM)
- 0.80% on AUM from $30,000,000 to $50,000,000
- 0.60% on AUM from $50,000,000 to $150,000,000

13. Related party transactions:

At December 31, 2021, Legacy had a receivable in the amount of $2,249,741 (2020 - $3,142,840) from CCMBC which is due on demand with no specified terms of repayment. During the year ended December 31, 2021, Legacy received a cash payment in the amount of $1,000,000 from CCMBC to reduce the amount receivable. During the year, Legacy advanced a further $100,000 to the Conference which was repaid subsequent to December 31, 2021.

At December 31, 2021, Legacy has a payable in the amount of $561,443 (2020 - nil) due to CCMBC relating to contributions to the employee pension plan and premiums on the group benefit plan administered by CCMBC. The payable is due on demand with no specified terms of repayment.

At December 31, 2021, Legacy holds $2,283,725 (2020 - $2,551,710) on deposit from CCMBC which bears interest at a variable rate of interest, 1.40 percent (2020 - 1.40 percent) at December 31, 2021.

CCMBC LEGACY FUND INC.

13. Related party transactions (continued):

During the year ended December 31, 2021, Legacy provided accounting and payroll services to CCMBC for $50,000 (2020 - $47,700). Additionally, during the year ended December 31, 2021, Legacy donated $117,570 (2020 - nil) to CCMBC which is included in general and administrative expense in the consolidated statement of operations.

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

14. Employee pension plan:

Legacy is a participant of a money purchase pension plan. Members of the plan include employees of Legacy. The cost of funding the plan is shared by employee and employer. The rate of employer contributions to the fund in 2021 was 5 percent (2020 - 5 percent) of the employee salaries. The pension expense for the year ended December 31, 2021 was $45,183 (2020 - $37,108).

15. Financial risks:

(a) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Legacy is exposed to interest rate risk on its investments in private fixed income funds and mortgage investments.

As of December 31, 2021, $71,898,900 (2020 - $77,906,297) of net mortgage investments bear interest at variable rates. If there were a decrease or increase of 1 percent in interest rates, with all other variables constant, the impact from variable rate mortgage investments would be a decrease or increase in revenue over expenditures of approximately $759,000 (2020 - $808,000).

As of December 31, 2021, $125,847,166 (2020 - $130,427,625) of promissory notes and $31,110,368 (2020 - $29,044,791) of deposit notes bear interest at variable rates. If there was a decrease or increase of 1 percent in interest rates, with all other variables constant, the impacting from variable rate promissory notes and deposit notes would be a decrease or increase in revenue over expenditures of approximately $1,406,000 (2020 - $1,752,000).

Legacy manages its sensitivity to interest rate fluctuations by managing the interest rate spread between its promissory notes and mortgage investments.

15. Financial risks (continued):

Legacy is also exposed to interest rate risk through its investments in Investee Funds (note 4).

The Investee Funds are exposed to interest rate risk through their investments in interest-bearing financial instruments and in underlying funds exposed to interest rate risk. Two of the Investee Funds have high-yield (or below investment grade) exposure to mortgages and therefore net assets tend to be affected more by changes in economic growth than changes in interest rates.

(b) Other price risk:

Other price risk is the risk that the fair value of the financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or factors affecting all instruments traded in the market or market segment.

The maximum risk resulting from financial instruments held by Legacy is determined by the fair value of the financial instruments. Legacy moderates this risk through careful selection of its investments within the parameters of the investment strategy.

For Legacy, the most significant exposure to other price risk arises from the investment in equity securities and a private equity fund. As at December 31, 2021, had the prices increased or decreased by 10 percent, all other variables held constant, net income would have increased or decrease by approximately $128,000 (2020 - nil).

(c) Currency risk:

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. Legacy has no significant direct exposure to currency risk at December 31, 2021 and 2020 or indirect exposure at December 31, 2020. Legacy does have indirect exposure to currency risk through its investment in Investee Funds at December 31, 2021.

15. Financial risks (continued):

(d) Credit risk:

Credit risk is the risk that a borrower may be unable to honour its debt commitments as a result of a negative change in market conditions that could result in a loss to Legacy. Legacy mitigates this risk by the following:

(i) adhering to the mortgage investment policies and investment guidelines (subject to certain duly approved exceptions);

(ii) ensuring all new mortgage investments over a pre-determined threshold are approved by the Board of Directors, and by appropriate members of management below a pre-determined threshold before funding; and

(iii) actively monitoring the mortgage investments and initiating recovery procedures, in a timely manner, where required.

The exposure to credit risk at December 31, 2021 relating to net mortgages amounts to $71,898,900 (2020 - $77,906,297) and for accounts receivable amounts to $158,947 (2020 - $105,975). Legacy has recourse under these mortgages in the event of default by the borrower; in which case, Legacy would have a claim against the underlying collateral. Management believes that the potential loss from credit risk with respect to cash that is held at a Schedule 1 bank to be minimal.

Legacy is also exposed to credit risk through its investments in Investee Funds (note 4).

Two of the private fixed income Investee Funds, which represent approximately 75 percent (2020 - 78 percent) of the investment in private fixed income funds, are exposed to credit risk through investments in debt securities, mortgage loans and promissory notes. The mortgage loans are secured by all assets of the borrower as defined by general security agreements which may be subordinate to other lenders.

For one of the other private fixed income Investee Funds, it is exposed to credit risk through direct investment in debt securities and for the other two private fixed income Investee Funds, they are indirectly exposed to credit risk through investment in underlying funds that are exposed to credit risk.

15. Financial risks (continued):

(e) Liquidity risk:

Liquidity risk is the risk that Legacy will encounter difficulty in meeting financial obligations as they become due. This risk arises in normal operations from fluctuations in cash flow as a result of the timing of mortgage investment advances and repayments and the need for working capital. Management routinely forecasts future cash flow sources and requirements to ensure cash is efficiently utilized.

Legacy’s deposit notes, promissory notes and preferred shares are due on demand. All of the rest of Legacy’s financial liabilities are due within one year.

Legacy is also exposed to liquidity risk through its investments in Investee Funds (note 4).

The fixed income Investee Funds are exposed to liquidity risk through weekly or monthly cash redemptions on their units and therefore they invest the majority or a portion of assets in investments and underlying funds that can be readily disposed of. The mortgage Investee Funds are exposed to liquidity risk through monthly or semi-annual cash redemptions on their units and therefore use cash flow projections to forecast funding requirements on mortgage proposals and anticipated redemption of units and my also enter into loan facilities with one or more Canadian chartered banks to hedge the liquidity risk of redemptions.

A portion of the amounts invested in underlying funds are subject to redemption restrictions exercisable by the manager of the underlying fund to manage extraordinary liquidity pressures which includes the ability to suspend redemptions or withhold varying amounts of any redemption requested.