CCMBC Legacy Fund Inc.

Report on the Consolidated Financial Statements for the Year Ended December 31, 2019

Submitted by Jim Davidson

Summary Update

CCMBC Legacy Fund Inc. (Legacy) has been created to manage the Stewardship Funds and the financial services for the Canadian Conference of the Mennonite Brethren Church of North America (CCMBC). The management of the financial services operations was transferred to Legacy in January of 2018. This transition included the transfer of all the financial and support services staff from CCMBC to Legacy. The financial services include accounting services, payroll services, benefits and pension fund administration and facilities management.

During 2019 the remainder of the Stewardship assets and liabilities were transferred from CCMBC to CCMBC Investments Ltd. (Investments) and to Legacy. These reorganization transactions finalized the division of Stewardship and Ministry operations into separate entities.

On August 30, 2019, the deposit liabilities (Funds loaned by investors to CCMBC), the mortgage portfolio and three of four private investment funds were transferred from CCMBC to Investments. As the total value of the three private funds and the mortgages exceeded the value of the deposit liabilities, a liability was set up with a due to CCMBC to balance the transaction. The three private investment accounts were subsequently liquidated, the obligation to CCMBC was repaid and the funds were invested with Capstone Asset Management (Capstone).

In relation to the August 30, 2019 reorganization an Offering Memorandum was issued on July 17, 2019 for the notes and shares offered by Investments and subsequently, Capstone, an Exempt Market Dealer, has been facilitating new investments being received. This action was necessary in order to comply with various securities regulations. The operations of Investments from August 30, 2019 until December 31, 2019 are included in the Legacy Consolidated Financial Statements.

It should be noted that Investments, being a public for profit entity, is required to follow the International Financial Reporting Standards (IFRS) and, therefore, there are standards that have to be adhered to in the process of evaluating and reporting assets and liabilities.

On December 30, 2019, the remainder of the Stewardship assets and liabilities were transferred to Legacy. This transaction included land, buildings, artwork, capital equipment and the liability deposits from various MB churches, conferences, and related MB agencies. As the liability deposits exceeded the value of the assets transferred an amount due from a related party (CCMBC) was recorded to balance the transaction. A summary of this transaction is described in Note 3 of the Consolidated Financial Statements.

Consolidated Balance Sheet

As at December 31, 2019, the unclassified balance sheet includes cash of $28,403,345 and due from related parties in the amount of $9,350,529. The large cash balance resulted from the liquidation of the last of the private investment funds being in transit. These funds have now been invested with Capstone or used to pay out deposit withdrawal requests. The due from related party is owing from CCMBC.

The change in net assets from a negative $335,032 to a surplus of $44,027 as well as the addition of the deferred contributions are a direct result of the reorganizations, previously described.

Consolidated Statement of Operations

During the year ended December 31, 2019 the operations of Legacy and Investments were in a state of transition which did impact the results.

Revenue

The transfer of the three private investment funds to Investments and the liquidation process did have a small impact on the income from other investments. During this process of liquidation and reinvestment, there were times when there was cash in the bank accounts and was earning very little interest. It is difficult to fully quantify what this amount would have been.

Expenditures

With the reorganization of Legacy and Investments, there were significant professional fees incurred, including an additional audit for the August 30, 2019 Offering Memorandum, Legal costs for consulting, OM preparation and numerous other work completed with the incorporation of Investments and the transition to a securities compliant model. It is estimated that at least 50% of the professional fees will not be recurring.

The result of the operations that are expected to be ongoing was a shortfall of $360,383.

Other Income and expenses

At the time of the reorganizations, there were requirements to evaluate the assets that were transferred from CCMBC. These are non-cash transactions.

The mortgages were transferred at net of the allowance for credit losses (See note 4). Our mortgage portfolio must be evaluated. Our staff undertook a vigorous process of gathering information and developed a model to evaluate all our mortgages. The result of this evaluation, using conservative assumptions resulted in us having to make an adjustment of $830,467.

The change in unrealized appreciation in value of other investments relates to the valuation of our investments with Capstone and to adjust for the current market value of the investments.

Income Taxes

As Investments is a public company, we do have to pay income taxes. The future tax is potential offset for future taxes.