GENERAL REAL ESTATE PORTFOLIO (GREP)
Financial Statements
For the year ended March 31, 2019

GENERAL REAL ESTATE PORTFOLIO
FINANCIAL STATEMENTS
For the year ended March 31, 2019

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Independent auditor's report

To the Minister of the General Real Estate Portfolio

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the General Real Estate Portfolio (the Organization) as at March 31, 2019 and the results of its operations, changes in its net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

What we have audited
The Organization's financial statements comprise:

- the statement of financial position as at March 31, 2019;
- the statement of operations for the year then ended;
- the statement of accumulated surplus for the year then ended;
- the statement of changes in net financial assets for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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 financial statements* section of our report.

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

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

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 public sector accounting standards, 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.

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

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

Auditor's 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 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 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 Organization'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 Organization'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 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 Organization 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.

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.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
June 28, 2019

GENERAL REAL ESTATE PORTFOLIO
STATEMENT OF FINANCIAL POSITION
As at March 31
(in thousands of dollars)

		2019 Actual		2018 Actual (Note 18)
Financial assets				
Cash (Note 2)	**$**	**197,721**	$	408,772
Accounts receivable (Note 3)		**118,235**		105,693
P3 receivable (Note 4)		**1,080,069**		955,349
P3 receivable under capital lease (Note 5)		**347,240**		356,337
Due from related party (Note 6)		**22,358**		3,917
Project receivable (Note 7)		**43,695**		49,619
Assets held for sale (Note 8)		**12,833**		1,901
		1,822,151		1,881,588
Liabilities				
Accounts payable and other liabilities (Note 9)		**194,011**		184,054
Liability for contaminated sites (Note 10)		**97,122**		130,774
P3 liabilities (Note 4)		**1,080,069**		955,349
P3 capital lease obligations (Note 5)		**347,240**		356,337
Customers' deposits		**336**		23,292
Due to related party (Note 6)		**-**		167,584
		1,718,778		1,817,390
Net financial assets		**103,373**		64,198
Non-financial assets				
Tangible capital assets (Note 11)		**5,462,786**		5,447,690
Prepaids, deposits and other assets		**3,432**		3,412
		5,466,218		5,451,102
Accumulated surplus	**$**	**5,569,591**	$	5,515,300

Contractual rights (Note 15)
Commitments (Note 16)
Contingent liabilities (Note 17)

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

GENERAL REAL ESTATE PORTFOLIO
STATEMENT OF OPERATIONS
For the year ended March 31
(in thousands of dollars)

	2019 Budget	**2019 Actual**	2018 Actual (Note 18)
Revenue			
Rent (Notes 6, 12)	$ 712,813	**$ 710,481**	$ 706,038
Rent from P3 properties	164,059	**163,731**	169,309
Ministry project cost recoveries (Notes 6, 13)	349,826	**282,664**	223,150
Portfolio rationalization cost recoveries (Note 6)	22,891	**21,278**	16,607
Interest income	1,686	**3,369**	2,683
	1,251,275	**1,181,523**	1,117,787
Operating expenses			
Facility operating expenses (Notes 6, 14)	624,035	**613,492**	610,996
P3 operating expenses (note 6)	73,261	**72,933**	77,087
P3 interest expense	90,798	**90,798**	92,222
Capital repair program expenses	65,921	**76,193**	100,213
Ministry project recoverable costs (Note 13)	349,826	**281,926**	223,733
Portfolio rationalization costs (Note 6)	22,891	**21,278**	16,607
General and administration	1,251	**645**	517
	1,227,983	**1,157,265**	1,121,375
Reduction/(increase) in liability for contaminated sites (Note 10)	11,822	**27,411**	(2,857)
Gain on sale of tangible capital assets (Note 11)	89,550	**63,850**	152,377
Gain on sale of assets held for sale (Note 8)	18,486	**14,568**	11,688
Easements and license revenue (Note 11)	-	**5,941**	7,028
	108,036	**84,359**	171,093
Operating surplus before amortization, retirement and write-down of tangible capital assets and government transfers	143,150	**136,028**	164,648
Amortization of tangible capital assets	(224,731)	**(231,742)**	(225,581)
Retirements and write-down of tangible capital assets	-	**(3,776)**	(5,598)
Deficit before Government transfers	(81,581)	**(99,490)**	(66,531)
Government transfers			
Capital funding from the Ministry of Infrastructure (Note 6)	65,581	**67,374**	70,987
Asset additions transferred in from ministries (Note 11, 13)	196,850	**226,925**	168,938
Funding for remediation of contaminated sites (Note 6)	10,710	**6,241**	4,318
	273,141	**300,540**	244,243
Assets transfers to ministries (Note 11)	-	**(22,572)**	(35,878)
Private sector revenue distribution to the Province (Note 6)	(129,706)	**(124,187)**	(221,973)
	(129,706)	**(146,759)**	(257,851)
Surplus/(Deficit)	$ 61,584	**$ 54,291**	$ (80,139)

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

GENERAL REAL ESTATE PORTFOLIO
STATEMENT OF ACCUMULATED SURPLUS
For the year ended March 31
(in thousands of dollars)

	2019 Actual	2018 Actual
Accumulated surplus, beginning of the year	**$ 5,515,300**	$ 5,595,439
Surplus/(Deficit)	**54,291**	(80,139)
Accumulated surplus, end of the year	**$ 5,569,591**	$ 5,515,300

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

GENERAL REAL ESTATE PORTFOLIO
STATEMENT OF CHANGES IN NET FINANCIAL ASSETS
For the year ended March 31
(in thousands of dollars)

		2019 Actual		2018 Actual
Surplus/(Deficit) for the year	**$**	**54,291**	$	(80,139)
Acquisition of tangible capital assets		**(292,403)**		(232,567)
Transfer of tangible capital assets to/(from) held for sale		**11,402**		(57)
Amortization of tangible capital assets		**231,742**		225,581
Gain on sale of tangible capital assets		**(63,850)**		(152,377)
Proceeds on sale of tangible capital assets		**71,665**		178,896
Transfer of tangible capital assets to ministries		**22,572**		35,878
Write-down of tangible capital assets		**3,776**		5,598
		39,195		(19,187)
(Increase)/Decrease in prepaids, deposits and other assets		**(20)**		576
Increase/(Decrease) in net financial assets		**39,175**		(18,611)
Net financial assets, beginning of the year		**64,198**		82,809
Net financial assets, end of the year	**$**	**103,373**	$	64,198

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

GENERAL REAL ESTATE PORTFOLIO
STATEMENT OF CASH FLOWS
For the year ended March 31
(in thousands of dollars)

		2019		2018
Operating activities				
Surplus/(Deficit) for the year	**$**	**54,291**	$	(80,139)
Changes in non-cash items				
Amortization of tangible capital assets		**231,742**		225,581
Gain on sale of tangible capital assets		**(63,850)**		(152,377)
Gain on sale of assets held for sale		**(14,568)**		(11,688)
Write-down of tangible capital assets		**3,776**		5,598
(Reduction)/increase in contaminated sites liability		**(27,411)**		2,857
Transfer of capital assets from ministries		**(226,925)**		(168,938)
Transfer of capital assets to ministries		**22,572**		35,878
Changes in non-cash working capital balances				
(Increase) in accounts receivable		**(12,542)**		(15,742)
(Increase)/Decrease in P3 receivable		**(124,720)**		12,297
Decrease in P3 receivable under capital lease		**9,097**		8,641
(Increase)/Decrease in due from related party		**(18,441)**		11,984
Decrease/(Increase) in project receivable		**5,924**		(19,569)
Increase in accounts payable and other liabilities		**9,957**		27,725
Remediation of contaminated sites		**(6,241)**		(4,318)
Increase/(Decrease) in P3 liabilities		**124,720**		(12,297)
(Decrease) in P3 capital lease obligations		**(9,097)**		(8,641)
(Decrease)/Increase in customers' deposits		**(22,956)**		22,492
(Decrease)/Increase in due to related party		**(167,584)**		167,506
(Increase)/Decrease in prepaids, deposits and other assets		**(20)**		576
		(232,276)		47,426
Capital activities				
Proceeds from sale of tangible capital assets		**71,665**		178,896
Acquisition of tangible capital assets		**(65,478)**		(63,629)
		6,187		115,267
Investing activities				
Proceeds from disposition of assets held for sale		**15,038**		11,874
Net change in cash and cash equivalents		**(211,051)**		174,567
Cash and cash equivalents, beginning of the year		**408,772**		234,205
Cash and cash equivalents, end of the year	**$**	**197,721**	$	408,772

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of organization

The General Real Estate Portfolio (GREP) consists of certain realty assets owned and/or leased by Her Majesty the Queen, in Right of Ontario, as represented by the Minister of Infrastructure. The portfolio is managed by Ontario Infrastructure and Lands Corporation (Infrastructure Ontario) with oversight by the Ministry of Government and Consumer Services (MGCS). Other real estate assets and liabilities within the Ministry of Infrastructure's (MOI) portfolio are not reflected in these statements. GREP is a component of MOI, carved out for the purpose of managing its real estate portfolio and is not a standalone legal entity.

GREP provides real estate accommodation and project management services to ministries, crown agencies and other government organizations for their program needs through provincially owned and third party leased real estate assets.

Basis of accounting

The financial statements are prepared in accordance with Canadian generally accepted accounting principles for governments as established by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada (Canadian public sector accounting standards).

Tangible capital assets

Tangible capital assets are recorded at cost less accumulated amortization. Cost includes the expenditures directly attributable to the acquisition, design, construction, development, improvement or betterment of an asset or leased premises, such as material, labour and capitalized interest.

Land includes land acquired for transportation infrastructure, parks, buildings and other program use, as well as land improvements that have an indefinite life and are not being amortized.

Buildings include administrative and service structures. Public-Private Partnership (P3) buildings and P3 assets under capital lease represent the value of P3 buildings in use and transferred from sponsoring ministries on the completion of construction.

The costs incurred to develop or construct a tangible capital asset are classified as construction work in progress (CIP). Capitalization ceases when the asset is ready for its intended use or occupancy. CIP includes new buildings under construction and alterations to existing buildings.

Costs of P3 assets under construction are not included in GREP's Tangible Capital Assets, but are recorded in the accounts of the sponsoring ministries. P3 assets and P3 assets under capital lease, are transferred to GREP's tangible capital assets when the assets have reached substantial completion and are ready for use.

Premises leased from third party landlords through commercial operating lease agreements are excluded from tangible capital assets.

All tangible capital assets, except CIP, land and land improvements, are amortized on a straight line basis over their estimated useful lives. Useful lives of GREP's tangible capital assets have been estimated as:

Buildings, P3 buildings and P3 assets under capital lease	20 to 40 years
Improvements made to third party leased premises	Lower of useful life of the asset or term of lease
Yard works, including airport runways, parking lots and a dam	12 to 40 years

The carrying value of tangible capital assets are written down to the asset's residual value if it can no longer contribute to the Province's ability to provide service and the impairment is permanent in nature, or when the value of the future economic benefit is less than the carrying value of the tangible capital asset for assets not in program use. Write-downs are recognized in the statement of operations and are not reversed.

Interest capitalization
The cost of tangible capital assets constructed or developed by the Province includes interest costs incurred by the Province during the development or construction period.

All interest incurred by the Province to fund capital assets during the construction period is capitalized to tangible capital assets. There is no capitalization threshold.

The interest rate used in calculating the interest cost incurred during construction in any given year is the Weighted Average Cost of Capital (WACC) of the Province. The Ontario Financing Authority (OFA) provides the appropriate WACC. For fiscal year 2018-19, the WACC is 3.63% (2017-18 – 3.11%).

Capitalization of interest ceases once the asset is ready for use, even though the asset may be put to use at a later date. If construction of the tangible capital asset is terminated or deferred indefinitely before completion, the costs capitalized to date are expensed, unless there is an alternative use for the tangible capital asset.

P3 receivable and P3 liabilities
P3 receivable represents the amount owed from the sponsoring ministries for the capital costs of all P3 assets that are owned by GREP, or those under construction which will be owned by GREP when operational. The sponsoring ministry is the ministry who is responsible for the program for which the P3 project was approved. GREP pays the P3 construction consortium for the capital costs of the P3 properties as per the terms of the agreement. GREP invoices the sponsoring ministries to recover these payments and draws down the receivable accordingly. Amounts receivable from the sponsoring ministries for regular operating and maintenance costs of the P3 properties are excluded from P3 receivable and are recorded under accounts receivable.

P3 liabilities represent the amounts owed to the construction consortium for the value of all P3 assets that are owned by GREP, or those under construction which will be owned by GREP when operational. These amounts are paid to the construction consortium as per the terms of the project agreement, which consists of interim payments, partial or full payments at substantial completion and the remaining amounts, if any, through monthly service payments.

P3 receivable under capital lease and P3 capital lease obligations
MOI has entered into contractual agreements with private sector entities on behalf of sponsoring ministries to finance, design, build and manage certain assets, which meet the criteria of, and are classified as, capital leases. A lease liability is recorded as a P3 capital lease obligation at the present value of the minimum lease payments at substantial completion of the P3 building. P3 receivable under capital lease reflects the amounts owed from the sponsoring ministries for the value of the capital lease obligation to the P3 construction consortiums. GREP pays the capital lease obligation as per the terms of the agreement, invoices the sponsoring ministries to recover these payments and draws down the P3 receivable under capital lease accordingly.

Assets held for sale
Assets that meet the following criteria are categorized as held for sale: (i) the asset has been authorized or committed to be sold; (ii) is in a saleable condition; (iii) is publicly seen to be available for sale; (iv) has an active market with a plan in place for sale; and (v) is reasonably anticipated to be sold to a purchaser external to the Province within one year of the financial statement date.

Assets held for sale are recorded at the lower of carrying value and net realizable value. Cost includes all costs of acquisition and capitalized improvements on the property, net of amortization.

Liability for contaminated sites
Contaminated sites are a result of contamination being introduced into air, soil, water or sediment of a chemical, organic or radioactive material or live organism that exceeds an environmental standard.

A liability for remediation of contaminated sites is recognized when all the following criteria are met: (i) an environmental standard exists; (ii) contamination exceeds the environmental standard; (iii) GREP is directly responsible or accepts responsibility; (iv) it is expected that future economic benefits will be given up; and (v) a reasonable estimate of the amount can be made.

The estimated liability includes costs directly attributable to the remediation, containment or mitigation activities and cost of post remediation maintenance and monitoring in order to bring the site up to, and maintain it at, the current minimum standard for its use prior to contamination. The cost of remediation is calculated based on the best available information and is reviewed and revised on an annual basis.

Revenue recognition
Revenue is recognized in the period in which the event that generates the revenue occurs.

Rent is earned from leasing GREP owned and third party landlord leased properties to government ministries and private sector tenants. Rental revenue includes base rent and recoveries from ministries for operating expenses. Free rent, lease increments and fixturing allowances related to third party leased buildings are recognized on a straight line basis over the term of the lease. Rent also includes some incidental revenues from private sector tenants and operating funding from MOI to supplement the recovery of operating expenses received from tenants.

Rent from P3 properties includes the recovery of operating expenses and interest costs related to P3 buildings and P3 assets under capital lease from sponsoring ministries.

Ministry project cost recoveries are recoveries from ministry tenants for costs related to projects they initiate and fund for improvements to GREP owned or leased assets for their program requirements. Ministry project cost recoveries include the recovery of both expensed and capitalized projects. Revenues are recognized as the associated expenses are incurred.

Portfolio rationalization cost recoveries are recoveries from MOI for costs incurred to bring specific assets identified for sale to a marketable condition. Costs include property planning, marketing, environmental assessment, zoning, permits, and settlements. The recovery of strategic asset management fee is also included in portfolio rationalization cost recoveries.

Interest income represent interest earned on cash and cash equivalents. Interest income does not include the recovery of interest costs on P3 properties from sponsoring ministries, which is included in rent from P3 properties.

Gain on sale of tangible capital assets and gain on sale of assets held for sale reflects the proceeds received net of the cost of the associated assets sold in the period.

Easements and license revenue represents income earned from granting third parties the right to use GREP properties for a specific purpose for a specified long term or in perpetuity, where such rights do not meet the definition of a lease.

Operating expenses
Operating expenses are recorded as incurred.

Facility operating expenses include rental expenses paid to third party landlords, and expenses incurred for the operation and maintenance of owned properties, including utilities, property taxes, as well as facility management fees.

P3 operating expenses consists of facility operating expenses related to P3 buildings and P3 assets under capital lease.

P3 interest expense consists of interest on debt due to the construction consortiums for the P3 properties.

Capital repair program expenses represent costs for major repairs and maintenance of GREP owned properties.

Ministry project recoverable costs include costs incurred for real estate projects requested and funded by ministries. All costs are recoverable from the respective ministry and are recognized based on the value of work completed. The recovery of ministry project recoverable costs is recognized in ministry project cost recoveries within revenue.

(in thousands of dollars)

Portfolio rationalization costs are costs incurred to bring specific assets identified for sale to a marketable condition. The costs are expensed as incurred. Costs include property planning, marketing, environmental assessment, zoning, permits, and settlements. Portfolio rationalization costs also include a strategic asset management fee. The recovery of portfolio rationalization costs is recognized as portfolio rationalization cost recovery within revenue.

Government transfers
Government transfers represent capital assets and funding for capital improvements received from MOI as well as assets transferred from, or to, other ministries or government organizations. Government transfers also include the payment of funds collected by GREP from the private sector and distributed to the Consolidated Revenue Fund (CRF) in accordance with the requirements of the Financial Administration Act (FAA). Government transfers are recorded in the statement of operations.

Use of estimates
The above policies require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the statement of financial position and the reported amounts of revenues and expenses during the reporting period. Major areas where management made estimates include those relating to useful lives of tangible capital assets, accruals for value of work completed on projects in progress, allowance for doubtful receivables, liabilities for contaminated sites and accrued expenses. Actual results could differ from these estimates.

2. CASH

Cash of $197,721 (March 31, 2018 - $408,722) is held in interest bearing accounts. Interest earned on cash balances is recorded as interest income on the statement of operations.

3. ACCOUNTS RECEIVABLE

Accounts receivable includes amounts receivable for rent, rent from P3 properties, recovery of project costs from ministries, HST rebate, tenant inducements receivable arising from amortization of free rents, and other receivables including those from private sector tenants. Allowances for doubtful accounts are recorded for specific private sector balances, which are determined uncollectible to reduce their values to the amount expected to be recovered. The balance consists of the following:

	March 31, 2019	March 31, 2018
Rent receivable	**$ 22,012**	$ 22,227
P3 rent receivable	**11,393**	8,352
Project receivable	**33,127**	20,999
HST receivable	**12,026**	13,275
Private sector and other receivables	**6,905**	11,257
Allowance for doubtful accounts	**(105)**	(1,041)
Tenant inducements receivable	**32,877**	30,624
	$ 118,235	$ 105,693

4. P3 RECEIVABLE AND P3 LIABILITIES

P3 receivable represents the amount owed from sponsoring ministries for the capital costs of all P3 assets owned by GREP, or those under construction which will be owned by GREP when operational.

P3 liabilities represent the amounts owed to the construction consortiums for the capital costs of all P3 assets owned by GREP, or those under construction which will be owned by GREP when operational.

(in thousands of dollars)

Interest expense incurred after the asset is substantially complete is not included in the P3 receivable or P3 liabilities, but is recorded within accounts receivable and accounts payable as incurred.

The following table shows the future annual payments to the construction consortium for the P3 liability and the corresponding receivables from the ministry.

		Amount
2019-20	$	14,308
2020-21		122,331
2021-22		47,739
2022-23		17,964
2023-24		19,381
Thereafter		858,346
	$	1,080,069

5. P3 RECEIVABLE UNDER CAPITAL LEASE AND P3 CAPITAL LEASE OBLIGATIONS

P3 receivable under capital lease represents the amount owed from sponsoring ministries for the capital costs of all P3 assets which meet the criteria for, and are classified as a capital lease.

P3 capital lease obligations represent the amounts owed to the construction consortiums for the capital costs of all P3 assets which meet the criteria for, and are classified as a capital lease.

Interest expense incurred after substantial completion of the asset is not included in the P3 receivable under capital lease, or P3 capital lease obligations, but is recorded within accounts receivable and accounts payable as incurred.

		March 31, 2019		March 31, 2018
Due March 2040, repayable in blended monthly installments of $1,026, interest at 5.19%, secured by the tangible capital assets under the P3 project.	**$**	**157,006**	$	161,043
Due November 2039, repayable in blended monthly installments of $1,244, interest at 5.11%, secured by the tangible capital assets under the P3 project.		**190,234**		195,294
	$	**347,240**	$	356,337

Future minimum lease payments under capital lease are as follows:

		Amount
2019-20	$	27,233
2020-21		27,233
2021-22		27,233
2022-23		27,233
2023-24		27,233
Thereafter		430,337
Total minimum lease payments		566,502
Less: Imputed interest		(219,262)
	$	347,240

(in thousands of dollars)

6. RELATED PARTY TRANSACTIONS

Substantially all of GREP's revenues, expenses, assets and liabilities result from the provision of accommodation, facility management and project management services to ministries, agencies and government entities, all under common provincial control. Significant related parties of GREP are MOI, MGCS and Infrastructure Ontario. The oversight responsibility for GREP was transferred to MGCS from MOI in the current fiscal year, although funding and financial management remains the responsibility of MOI. There has been no changes to Infrastructure Ontario's role and responsibility for management of GREP.

Revenues from related parties include rent earned from accommodation services, the recovery of portfolio rationalization costs, and the recovery of MOI, MGCS and Infrastructure Ontario initiated project costs.

MOI provides funding to GREP for part of the shortfall between its operating and capital needs and the income generated by operations. Funding is provided for operating costs of vacant, non-leasable properties as well as those leased to private sector tenants in addition to portfolio management fees. MOI also provides funding for projects with long term benefits such as the capital repair program and the greenhouse gas reduction program, which is recorded as part of government transfers on the statement of operations.

Infrastructure Ontario manages the real estate portfolio including providing project and contract management services. Infrastructure Ontario's fees include a facility management fee at 15% of the operating and maintenance budget for the owned portfolio and a project management fee, both of which were recorded as facility operating expenses. In addition, Infrastructure Ontario charges GREP a P3 contract management fee for P3 assets in service, which is included in P3 operating expenses and a strategic asset management fee recorded in portfolio rationalization costs.

The related party transactions recorded as revenue, operating expenses and government transfers for the year ended March 31, 2019 are summarized below.

		MOI	MGCS	Infrastructure Ontario	Total
Revenue					
Rent	$	53,345	43,446	4,975	101,766
Ministry project cost recoveries		89,363	4,383	300	94,046
Portfolio rationalization cost recoveries		21,278	-	-	21,278
	$	163,986	47,829	5,275	217,090
Operating expenses					
Facility operating expenses	$	-	-	37,105	37,105
P3 operating expenses		-	-	739	739
Portfolio rationalization costs		-	-	10,531	10,531
	$	-	-	48,375	48,375
Government transfers					
Capital funding from MOI	$	67,374	-	-	67,374
Funding for remediation of contaminated sites		6,241	-	-	6,241
Private sector revenue distribution to the Province		(124,187)	-	-	(124,187)
	$	(50,572)	-	-	(50,572)

Due from related party

Due from related party consists of the following amounts receivable from MOI, MGCS and Infrastructure Ontario on account of rent, project services and capital funding. The receivable from MOI is shown net of the amounts due to MOI for remittance to the CRF. Amounts due from Infrastructure Ontario relates to projects that they manage and deliver unrelated to GREP, but for which Infrastructure Ontario leverages GREP's project management information system to manage the projects and pay service providers. The amounts are due on demand, unsecured and non-interest bearing.

(in thousands of dollars)

	March 31, 2019	March 31, 2018
MOI	**$ 8,518**	$ -
MGCS	**10,039**	3,835
Infrastructure Ontario	**3,801**	82
	$ 22,358	$ 3,917

Due to related party

There we no amounts due to related parties as at March 31, 2019. Due to related parties as at March 31, 2018 - $167,584 included amounts payable to MOI for remittance to the CRF on account of property sales revenue and private sector revenues net of rent, operating and capital funding allocations receivable.

	March 31, 2019	March 31, 2018
MOI	**$ -**	$ 167,584

7. PROJECT RECEIVABLE

Project receivable of $43,695 consists of accrued project costs incurred up to March 31, 2019 (March 31, 2018 - $49,619), but not yet invoiced.

8. ASSETS HELD FOR SALE

Assets held for sale are real estate assets that have been declared surplus to the needs of the Province and have been approved for sale by an Order in Council. It is reasonably anticipated that assets held for sale will be sold outside the reporting entity within one year of the statement of financial position date. Assets held for sale are summarized below.

	March 31, 2019	March 31, 2018
Land	**$ 12,833**	**$** 1,671
Yard works	**-**	327
Buildings	**12,761**	88
	25,594	2,086
Accumulated amortization	**(12,761)**	(185)
Net book value	**$ 12,833**	**$** 1,901

During the year ended March 31, 2019, ten properties (March 31, 2018 - fifteen properties) with a carrying value of $470 (March 31, 2018 - $186) were sold for net proceeds of $15,038 (March 31, 2018 - $11,874) which generated a net gain on sale of $14,568 (March 31, 2018 - $11,688).

9. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities include trade payable related to facility expenses incurred, project payable related to expenses incurred for projects, HST payable and tenant inducements from amortization of free rents from third party landlords over the life of the lease. The balance consists of the following:

(in thousands of dollars)

		March 31, 2019		March 31, 2018
Trade payable	**$**	**62,043**	$	65,078
Project payable		**100,896**		87,752
HST payable		**375**		414
Tenant inducements payable		**30,697**		30,810
	$	**194,011**	$	184,054

10. LIABILITY FOR CONTAMINATED SITES

A liability for remediation of contaminated sites is recognized when all the following criteria are met: (i) an environmental standard exists; (ii) contamination exceeds the environmental standard; (iii) GREP is directly responsible or accepts responsibility; (iv) it is expected that future economic benefits will be given up; and (v) a reasonable estimate of the amount can be made.

The sources of contamination specific to individual sites may include petroleum hydrocarbons, volatile organic compounds, metals, inorganics, herbicides, pesticides, industrial waste and construction debris. Contamination was assessed primarily based on Phase I and Phase II Environmental Site Assessments (ESA) under Ontario regulations. In addition, GREP considered a range of key risk factors for each site including potential or historic human habitation or operations, potential offsite contamination, impacted media, potentially contaminating activities, areas of potential environmental concern and the contaminants of concern.

Remediation means the improvement of a contaminated site to prevent, minimize or mitigate damage to human health or the environment. Remediation involves the development and application of a planned approach that removes, destroys, contains, or otherwise reduces availability of contaminants to receptors of concern.

GREP manages a database of sites with known existing or potential contamination, developed using historical information it has collected on its properties through past development and investigation. GREP continues to update the database on an ongoing basis with new information and developments. Based on the current available information, there are 72 sites (March 31, 2018 - 76 sites) identified with known existing or potential contamination, of which 34 sites (March 31, 2018 - 37 sites) have met the liability recognition criteria. For the 38 sites which have not met the liability recognition criteria, no liability has been recorded as a reasonable estimate of any amounts to be incurred cannot be determined.

Of the 34 contaminated sites that met the liability recognition criteria, five are not owned by the Province. MOI became responsible for remediation of these sites by operational law due to forfeiture to the Crown. MOI has directed GREP to undertake the responsibility for remediation of these sites.

Assumptions used in estimating the liability for remediation include land use scenarios, ecological impact and human health risk. The liability is based on the minimum estimated costs for remediation of contamination to bring the site to the minimum acceptable environmental standards for its use just prior to contamination, in addition to ongoing monitoring and management of the site.

Significant judgment and estimation were involved in determining whether the properties met the criteria for recognition including management’s views with respect to the expectation of whether future economic benefits would be given up, the type of remediation activities that would be required and the associated costs.

During the year ended March 31, 2019, GREP incurred $6,241 (March 31, 2018 - $4,318) of remediation costs and accordingly, reduced the associated liability for the specific contaminated sites. Additionally, a liability reduction of $27,411 was recorded due to: (i) the reassessment of the extent of contamination for three sites based on additional information gained during remediation activities completed in fiscal 2018-19, (ii) disposition of two sites and part of another site, and (iii) long term lease of part of one site.

Management’s best estimate of the amount required to settle or otherwise extinguish the liability as at March 31, 2019 for the 34 sites (March 31, 2018 - 37 sites) on an undiscounted basis is $97,122 (March 31, 2018 - $130,774).

(in thousands of dollars)

11. TANGIBLE CAPITAL ASSETS

		Land	Yard-works	Buildings	CIP	P3 Buildings	P3 Assets under Capital Lease		Total
Cost									
Balance as at April 1, 2018	**$**	**893,144**	**52,824**	**4,229,539**	**232,573**	**2,045,063**	**504,312**	**$**	**7,957,455**
Additions		**30,934**	**-**	**11,373**	**248,341**	**1,641**	**114**		**292,403**
Transfer out from CIP		**588**	**-**	**136,341**	**(136,929)**	**-**	**-**		**-**
Disposals		**(7,267)**	**(32)**	**(3,620)**	**-**	**-**	**-**		**(10,919)**
Transfers to ministries		**(17,239)**	**-**	**(38,082)**	**-**	**-**	**-**		**(55,321)**
Retirements and write-downs		**-**	**-**	**(18,473)**	**-**	**-**	**-**		**(18,473)**
Transfer (to)/from held for sale		**(11,402)**	**-**	**(12,761)**	**-**	**-**	**-**		**(24,163)**
Balance as at March 31, 2019		**888,758**	**52,792**	**4,304,317**	**343,985**	**2,046,704**	**504,426**		**8,140,982**
Accumulated Amortization									
Balance as at April 1, 2018		**-**	**17,957**	**2,122,855**	**-**	**259,980**	**108,973**		**2,509,765**
Additions		**-**	**3,288**	**164,114**	**-**	**51,680**	**12,660**		**231,742**
Disposals		**-**	**(10)**	**(3,094)**	**-**	**-**	**-**		**(3,104)**
Transfers to ministries		**-**	**-**	**(32,749)**	**-**	**-**	**-**		**(32,749)**
Retirements and write-downs		**-**	**-**	**(14,697)**	**-**	**-**	**-**		**(14,697)**
Transfer (to)/from held for sale		**-**	**-**	**(12,761)**	**-**	**-**	**-**		**(12,761)**
Balance as at March 31, 2019		**-**	**21,235**	**2,223,668**	**-**	**311,660**	**121,633**		**2,678,196**
Net book value at March 31, 2019	**$**	**888,758**	**31,557**	**2,080,649**	**343,985**	**1,735,044**	**382,793**	**$**	**5,462,786**

		Land	Yard-works	Buildings	CIP	P3 Buildings	P3 Assets under Capital Lease		Total
Cost									
Balance as at April 1, 2017	$	781,402	59,584	4,121,750	317,688	2,042,100	502,382	$	7,824,906
Additions		24,662	-	(340)	203,352	2,963	1,930		232,567
Transfer out from CIP		134,598	(1,454)	155,323	(288,467)	-	-		-
Disposals		(26,519)	-	-	-	-	-		(26,519)
Transfers to ministries		(15,788)	(64)	(47,647)	-	-	-		(63,499)
Retirements and write-downs		(5,300)	(4,965)	(2,819)	-	-	-		(13,084)
Transfer (to)/from held for sale		89	(277)	3,272	-	-	-		3,084
Balance as at March 31, 2018		893,144	52,824	4,229,539	232,573	2,045,063	504,312		7,957,455
Accumulated Amortization									
Balance as at April 1, 2017		-	15,865	1,995,711	-	208,343	96,345		2,316,264
Additions		-	7,161	154,155	-	51,637	12,628		225,581
Disposals		-	-	-	-	-	-		-
Transfers to ministries		-	(23)	(27,598)	-	-	-		(27,621)
Retirements and write-downs		-	(4,965)	(2,521)	-	-	-		(7,486)
Transfer (to)/from held for sale		-	(81)	3,108	-	-	-		3,027
Balance as at March 31, 2018		-	17,957	2,122,855	-	259,980	108,973		2,509,765
Net book value at March 31, 2018	$	893,144	34,867	2,106,684	232,573	1,785,083	395,339	$	5,447,690

(in thousands of dollars)

Capital additions of $292,403 for the year ended March 31, 2019 (March 31, 2018 - $232,567) include $226,925 (March 31, 2018 - $168,938) of government transfers and $65,478 (March 31, 2018 - $63,629) of GREP capital repair projects. Government transfers include capitalized ministry recoverable projects of $173,982 (March 31, 2018 - $133,668), other assets transferred in from ministries of $42,307 (March 31, 2018 - $24,647), P3 variation projects transferred in of $1,755 (March 31, 2018 -$4,893), and capitalized interest of $8,881 (March 31, 2018 - $5,730).

During the year ended March 31, 2019, 19 properties (March 31, 2018 – 14 properties) with a carrying value of $7,815 (March 31, 2018 - $26,519) were disposed of for net proceeds of $71,665 (March 31, 201 - $178,896) generating a net gain on sale of $63,850 (March 31, 2018 - $152,377). Easements and license transactions for the year generated $5,941 (March 31, 2018 - $7,028).

12. RENT

Rent consists of income earned from leasing of GREP owned and third party landlord leased properties to government ministries and private sector tenants. Rental revenue includes base rent and recoveries from ministries to fund operating expenses. MOI funds a portion of operating expenses of vacant and non-leasable properties and properties leased to private sector as the revenues from private sector entities must be remitted to the CRF in accordance with FAA requirements, as well as project management fees.

Rent for the year ended March 31, 2019 and March 31, 2018 are as follows:

		March 31, 2019		March 31, 2018
Base rent and recoverable operating expenses - leased properties	**$**	**323,865**	$	316,112
Base rent and recoverable operating expenses - owned properties		**331,537**		337,228
Private sector revenues		**24,591**		22,550
MOI funding for vacant properties and other expenses		**21,975**		21,660
MOI funding for project management fees		**8,513**		8,304
	$	**710,481**	$	706,038

13. MINISTRY PROJECT COST RECOVERIES & MINISTRY PROJECT RECOVERABLE COSTS

Ministry recoverable projects include capital and non-capital projects, related to GREP assets, initiated by ministries for their program requirements, the costs of which are fully recovered from the ministry requesting the work. Ministry project cost recoveries also include recoveries from MOI for specific GREP program costs.

The portion of ministry funded capital projects which result in additions or improvements to GREP's tangible capital assets are recorded as asset additions transferred in from the ministries on the statement of operations and as an addition to the tangible capital assets.

14. FACILITY OPERATING EXPENSES

Facility operating expenses include rental expenses paid to third party landlords, as well as expenses incurred for the operation and maintenance of owned properties, including utilities, property taxes, and facility and project management fees.

Facility operating expenses for the year ended March 31, 2019 and March 31, 2018 are as follows:

(in thousands of dollars)

	March 31, 2019	March 31, 2018
Third party leased property expenses	**$ 321,459**	$ 314,437
Operating and maintenance expenses	**131,167**	128,563
Utilities	**71,027**	73,512
Property taxes	**47,692**	47,907
Facility management fees	**28,592**	32,291
IT systems and other non-recoverable costs	**5,042**	5,982
Project management fees	**8,513**	8,304
	$ 613,492	$ 610,996

15. CONTRACTUAL RIGHTS

GREP has entered into contracts with various private sector parties for property leases and property sales which are expected to generate revenues and assets in future periods. Property leases are lease contracts entered into with certain private sector tenants in MOI owned or leased buildings. Occupancy agreements with provincial government tenants are determined to be not in the nature of contracts and hence future revenues and assets from such agreements are not considered contractual rights. Contractual rights also include contracts entered into with private sector parties for sale of properties in a future period. Contractual rights as at March 31, 2019 are as follows:

	Property leases	**Sale of properties and easements**
2019-20	$ 17,690	$ 18,295
2020-21	15,449	-
2021-22	8,046	-
2022-23	6,229	-
2023-24	3,649	-
Thereafter	13,420	-
	$ 64,483	$ 18,295

16. COMMITMENTS

GREP has entered into contractual obligations and does so on a continuing basis for building leases, construction contracts and construction and operation management of P3 assets. The building leases are lease contracts with third party landlords to provide accommodation to the ministries and government organizations. Commitments for construction contracts are determined based on management's estimate of costs to be incurred over the construction period. P3 commitments include P3 operating costs and interest for P3 assets in operation as well as the substantial completion payments and annual service payments due in future periods for two projects under construction. Contractual obligations as at March 31, 2019 are as follows:

	Building Leases	**Construction Contracts**	**P3 Commitments**
2019-20	$ 296,603	456,971	135,832
2020-21	270,501	114,615	265,232
2021-22	221,913	40,089	187,606
2022-23	188,655	16,576	319,534
2023-24	149,359	1,968	154,683
Thereafter	466,544	1,833	2,967,723
	$ 1,593,575	632,052	4,030,610

17. CONTINGENT LIABILITIES

Prior to the amalgamation of Stadium Corporation of Ontario Limited (STADCO) with Infrastructure Ontario and Ontario Realty Corporation on June 6, 2011, all assets, liabilities and operations of STADCO were transferred to GREP, including ground leases dated June 3, 1989 with Canada Lands Company for the SkyDome Lands and the sublease to Rogers Stadium Limited Partnership (sub-tenant). Under the terms of the ground lease, GREP is responsible for base rent, realty taxes, utilities and certain operating costs, which are assumed by the sub-tenant under the terms of the sub-lease. In the event of a default by the sub-tenant, the potential financial impact to GREP is estimated to be the base rent in the range of $300 to $400 annually plus realty taxes, utilities and certain operating costs.

In estimating the Liability for Contaminated Sites, management made significant judgment with respect to the determination of sites which met the recognition criteria and the costs associated with remediation. There may be additional sites owned by GREP with contamination that exceeds an environmental standard, or certain sites identified by GREP as having contamination that exceeds an environmental standard which may have migrated beyond GREP’s property boundaries (i.e. offsite contamination). No liability has been accounted for in these financial statements for these sites, as management does not have sufficient information to determine if the recognition criteria has been met, nor can an estimate of the amount of the liability, if any, be made at this point in time.

Management continues to closely monitor and improve its knowledge of these sites and will recognize a liability once additional information is known, resulting in the property meeting the recognition criteria.

18. PRIOR YEAR BALANCES

Certain prior year comparative figures have been reclassified to conform to the current year’s presentation.