

Financial statements of

**Calgary Municipal
Land Corporation**

December 31, 2015

Calgary Municipal Land Corporation

December 31, 2015

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Independent Auditor's Report

To the Shareholder of
Calgary Municipal Land Corporation

We have audited the accompanying financial statements of Calgary Municipal Land Corporation, which comprise the statement of financial position as at December 31, 2015, the statements of operations and accumulated surplus, cash flows and changes in net financial assets for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Calgary Municipal Land Corporation as at December 31, 2015 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.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountant
April 22, 2016

Calgary Municipal Land Corporation

Statement of financial position as at December 31, 2015

	2015	2014
	\$	\$
Financial assets		
Cash and cash equivalents (Note 3)	12,975,182	6,522,887
Accounts receivable (Note 14)	20,478,467	18,204,956
Term deposit (Note 4)	-	50,000
Mortgage receivable (Note 5)	4,442,227	2,000,000
Infrastructure development assets (Note 8)	267,966,131	217,757,981
Land inventory (Note 9)	61,434,016	65,127,995
	367,296,023	309,663,819
Financial liabilities		
Accounts payable and accrued liabilities (Notes 6 and 14)	10,937,170	11,293,588
Holdbacks payable	4,249,273	5,153,500
Interest payable (Note 14)	2,632,005	2,633,012
Developer deposits (Note 7)	3,335,000	3,135,000
Long-term debt (Note 12)	241,998,324	219,933,702
Share capital (Note 13)	1	1
	263,151,773	242,148,803
Net financial assets	104,144,250	67,515,016
Non-financial assets		
Tangible capital assets (Note 10)	8,007,458	6,496,541
Accumulated surplus	112,151,708	74,011,557

The accompanying notes to the financial statements are an integral part of this financial statement.

Calgary Municipal Land Corporation

Statement of operations and accumulated surplus year ended December 31, 2015

		2015	2014
	Budget (Note 17)	Actual	Actual
	\$	\$	\$
Revenues			
Community Revitalization Levy	38,000,000	37,390,663	32,080,555
Land sales	-	36,973,877	8,936,100
Interest	90,000	262,240	261,386
Rental	60,000	358,850	470,727
Project management fees (Note 14)	850,000	1,729,412	-
Miscellaneous	-	194,216	68,946
Insurance proceeds	-	19,998	81,841
	39,000,000	76,929,256	41,899,555
Expenses			
Salaries and employee benefits	2,475,000	2,464,523	2,156,046
Cost of sales - land Inventory	-	25,246,813	6,306,647
General administration	3,225,000	3,127,981	2,990,393
Repair and maintenance due to flood	-	165,196	1,466,475
Amortization expense	600,000	582,210	256,872
Interest - debentures	7,000,000	6,713,725	6,376,882
Loan administration fees	500,000	448,331	411,025
Financing charges	40,000	40,326	30,281
	13,840,000	38,789,105	19,994,621
Excess of revenues over expenses	25,160,000	38,140,151	21,904,934
Accumulated surplus, beginning of year	74,011,557	74,011,557	52,106,623
Accumulated surplus, end of year	99,171,557	112,151,708	74,011,557

The accompanying notes to the financial statements are an integral part of this financial statement.

Calgary Municipal Land Corporation

Statement of cash flows year ended December 31, 2015

	2015	2014
	\$	\$
Operating activities		
Excess of revenue over expenses	38,140,151	21,904,934
Deduct items not affecting cash		
Amortization expense	582,210	256,872
Write down of tangible capital assets	14,378	2,211
Changes in non-cash working capital		
Accounts receivable	(2,273,511)	(3,880,345)
Term deposit	50,000	-
Mortgage receivable	(2,442,227)	500,000
Infrastructure development assets	(50,208,150)	(48,687,643)
Acquisition of land inventory (net)	3,693,979	(11,714,621)
Accounts payable and accrued liabilities	(356,418)	2,362,759
Holdbacks payable	(904,227)	2,620,283
Interest payable	(1,007)	248,091
Developer deposits	200,000	(750,000)
	(13,504,822)	(37,137,459)
Capital activity		
Acquisition of tangible capital assets	(2,107,505)	(6,248,815)
Financing activities		
Infrastructure debentures (Note 12)	5,000,000	31,000,000
Repayment of debenture principal (Note 12)	(10,592,723)	(3,004,280)
The City of Calgary mortgages (Note 12)	(2,102,584)	(3,762,129)
New Central Library Loan (Note 12)	29,759,929	14,512,775
	22,064,622	38,746,366
Increase (decrease) in cash and cash equivalents	6,452,295	(4,639,908)
Cash and cash equivalents, beginning of year	6,522,887	11,162,795
Cash and cash equivalents, end of year	12,975,182	6,522,887

The accompanying notes to the financial statements are an integral part of this financial statement.

Calgary Municipal Land Corporation

Statement of changes in net financial assets year ended December 31, 2015

		2015	2014
	Budget (Note 17)	Actual	Actual
	\$	\$	\$
Excess of revenue over expenses	25,160,000	38,140,151	21,904,934
Amortization of tangible capital assets	600,000	582,210	256,872
Write down of tangible capital assets	-	14,378	2,211
Acquisition of tangible capital assets	-	(2,107,505)	(6,248,815)
Increase in net financial assets	25,760,000	36,629,234	15,915,202
Net financial assets, beginning of year	67,515,016	67,515,016	51,599,814
Net financial assets, end of year	93,275,016	104,144,250	67,515,016

The accompanying notes to the financial statements are an integral part of this financial statement.

Calgary Municipal Land Corporation

Notes to the financial statements

December 31, 2015

1. Description of business

Calgary Municipal Land Corporation (“CMLC” or the “Corporation”), a wholly owned subsidiary of The City of Calgary (“The City”), was incorporated on February 22, 2007. On July 5, 2007, pursuant to the Alberta Municipal Government Act and the Control of Corporation Regulation (AR 284/2003), the Provincial Minister of Municipal Affairs approved, via Ministerial Order L: 162/07, The City of Calgary as the sole shareholder pursuant to Section 250(2) (e) of the Municipal Government Act. CMLC, as a wholly owned subsidiary of The City, is not subject to income tax.

The Corporation was formed to implement public infrastructure improvements that will be the catalyst for private and public sector real estate development.

2. Significant accounting policies

Basis of presentation

The financial statements are prepared in accordance with Public Sector Accounting Standards (“PSAS”) for local government organizations as established by the Public Sector Accounting Board of Chartered Professional Accountants Canada.

Basis of accounting

The financial statements are prepared using the accrual basis of accounting. The accrual basis of accounting records revenue as it is earned and measurable. Expenses are recognized as they are incurred and measurable based upon receipt of goods or services and/or the legal obligation to pay.

Cash and cash equivalents

Cash and cash equivalents consist of cash in the bank and cashable investments that are highly liquid and easily convertible to cash.

Land inventory

Land inventory is carried at the lower of cost and net realizable value. The net realizable value is the market value of land less any selling costs. CMLC capitalizes all costs associated with land held for resale, including property taxes and maintenance charges.

Infrastructure development assets

Infrastructure development assets are projects currently under construction that will result in an asset being constructed which will be turned over to The City at the final acceptance certificate phase of construction. Infrastructure development assets are recorded at cost. CMLC capitalizes direct construction and development costs to the project under development, which will be recovered from The City through the Community Revitalization Levy (“CRL”) controlled by The City on behalf of CMLC. These assets are not being amortized by CMLC.

Non-financial assets

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the normal course of operations. The change in non-financial assets during the year, together with the excess of revenues over expenses, represents the Change in Net Financial Assets for the year.

Accumulated surplus/deficit

Accumulated surplus represents CMLC’s net economic resources. It is an amount by which all assets (financial and non-financial) exceed liabilities. An accumulated surplus indicates that CMLC has net resources (financial and physical) that can be used to provide future services. An accumulated deficit means that liabilities are greater than assets.

Calgary Municipal Land Corporation

Notes to the financial statements

December 31, 2015

2. Significant accounting policies (continued)

Tangible capital assets ("TCA")

Tangible capital assets are stated at cost less accumulated amortization. Amortization is provided using methods and rates intended to amortize the cost of assets over their estimated useful lives. The amortization rates are as follows:

Office furniture and equipment	straight-line method over 5 years
Computer infrastructure	straight-line method over 5 years
Computer software	straight-line method over 5 years
Start-up costs	straight-line method over 5 years
Sales Centre - Bosa & Fram	straight-line method over 3.5 years
N3 Sales Centres	straight-line method over 2 years
Simmons Building improvements	straight-line method over 10 years

Amortization commences in the first full month of ownership.

Tangible capital assets are recorded at cost and are tested for impairment whenever a change in events or circumstances indicates that the carrying value may not be recoverable. Any resulting impairment loss is recognized in the period it is determined.

Revenue recognition

Community Revitalization Levy "CRL", interest and rental and project management fees are recognized when persuasive evidence of an arrangement exists, the amounts are earned and measurable, and collection is reasonably assured.

Land sale revenues are recognized upon title of the property passing to the purchaser and receipt of at least 15% of the total proceeds, and collection is reasonably assured.

Miscellaneous revenue includes sales centre management fees and advertising revenue on the East Village magazine. Sales centre management fees & advertising revenue are recognized when the service is completed.

Use of estimate

The preparation of financial statements, in conformity with PSAS, requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates include the net realizable value of land inventory, estimated useful life and potential impairment of tangible capital assets and accrued liabilities.

Actual results could differ from these estimates. These estimates and assumptions are reviewed quarterly and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

Adoption of New Public Sector Accounting Standards

Effective January 1, 2015, the Corporation was required to adopt the new Public Sector Accounting Board accounting standard, Liability for Contaminated Sites (PS3260). PS3260 specifies that a liability for a contaminated site must be recognized when, as at the financial reporting date, all of the following criteria are met for a site or a portion of a site which is no longer in productive use:

- i. There is evidence that contamination exceeds an environmental standard as verified by a qualified assessment,
- ii. The Corporation is either directly responsible or has accepted responsibility for the contamination, and
- iii. It is expected that future economic benefits will be given up and a reasonable estimate for the amount can be made.

Calgary Municipal Land Corporation

Notes to the financial statements

December 31, 2015

2. Significant accounting policies (continued)

Adoption of New Public Sector Accounting Standards (continued)

The Corporation's management has determined that there was no impact on the financial statements at the financial reporting date as a result of adopting this standard.

3. Cash and cash equivalents

	2015	2014
	\$	\$
Cash	975,182	527,027
Cash equivalents	12,000,000	5,995,860
	12,975,182	6,522,887

The cash equivalents of \$12,000,000 (2014 - \$5,995,860) represent cashable investments (less than 90 days to maturity) with ATB.

4. Term deposit

	2015	2014
	\$	\$
Term deposit	-	50,000

The term deposit of \$50,000 with the Bank of Montreal, was required as a security deposit for the corporate credit card. The corporate credit card was cancelled and the term deposit refunded in October 2015.

5. Mortgage receivable

	2015	2014
	\$	\$
Mortgage receivable	4,442,227	2,000,000

The mortgage receivable represents the mortgage balance of \$4,442,227 (2014 - \$2,000,000) with F.S. Calgary LP and bears no interest. The balance was received on February 1, 2016.

6. Accounts payable and accrued liabilities

	2015	2014
	\$	\$
Accounts payable	7,870,099	7,948,642
Vacation pay accrual	45,098	28,480
Accrued liabilities	3,021,973	3,316,366
	10,937,170	11,293,488

Calgary Municipal Land Corporation

Notes to the financial statements

December 31, 2015

7. Developer deposits

	2015	2014
	\$	\$
Developer deposits	3,335,000	3,135,000

Developer deposits of \$3,335,000 (2014 - \$3,135,000) are for land purchases and sales agreements that will close subsequent to 2015.

8. Infrastructure development assets

	2015	2014
	\$	\$
East Village Infrastructure	108,460,674	92,054,178
New Central Library	49,699,112	17,813,504
Riverwalk	23,530,453	26,054,116
4th Street Underpass	55,078,909	54,993,541
The City of Calgary recovery	(28,000,000)	(28,000,000)
St. Patrick's Bridge and Island	50,363,753	48,103,930
West Village	1,136,184	-
Environmental	7,697,046	6,738,712
	267,966,131	217,757,981

In 2010 and 2011, CMLC recovered a total of \$28,000,000 from The City for work performed on the 4th Street Underpass as per a cost sharing agreement with The City.

9. Land inventory

	2015	2014
	\$	\$
Balance, beginning of year	65,127,995	53,413,374
Additions	21,464,750	18,021,268
Dispositions	(25,158,729)	(6,306,647)
Balance, end of year	61,434,016	65,127,995

The total dispositions of \$25,158,729 (2014 - \$6,306,647) relates to land sales to third parties.

Calgary Municipal Land Corporation

Notes to the financial statements

December 31, 2015

10. Tangible capital assets

	2015		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Furniture and equipment	304,755	218,114	86,641
Computer infrastructure	255,345	72,458	182,887
Computer software	140,967	71,243	69,724
Simmons Building improvements	7,763,843	388,192	7,375,651
Sales Centre - Bosa & Fram	1,335,418	1,247,780	87,638
Sales Centre - N3	245,901	40,984	204,917
	10,046,229	2,038,771	8,007,458

The Simmons Building improvements were completed in June 2015. Amortization commenced July 2015 using the straight-line method over 10 years.

	2014		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Furniture and equipment	262,654	188,763	73,891
Computer infrastructure	275,009	56,875	218,134
Computer software	79,687	59,177	20,510
Simmons Building improvements	6,043,787	-	6,043,787
Sales Centre	1,335,418	1,195,199	140,219
	7,996,555	1,500,014	6,496,541

11. Operating facility

The Corporation has arranged an operating facility to a maximum amount of \$5,000,000, which bears interest, payable monthly, at Alberta Treasury Branches' prime interest rate plus 0.25% per annum. This facility is secured by a general security agreement pledging all assets and obligations of the Corporation. As at December 31, 2015, \$Nil (2014 - \$Nil) of the operating facility has been drawn down by the Corporation.

12. Long-term debt

	2015	2014
	\$	\$
Debentures	177,320,749	182,913,472
Mortgages	8,502,048	10,604,632
New Central Library Advance	10,000,000	10,000,000
New Central Library Loan	46,175,527	16,415,598
	241,998,324	219,933,702

During 2015, the Corporation issued \$5 million (2014 - \$31 million) in debentures from The City of Calgary through arrangements with Alberta Capital Finance Authority ("ACFA").

Calgary Municipal Land Corporation

Notes to the financial statements

December 31, 2015

12. Long-term debt (continued)

Debenture details are:

Debenture no.	Interest rate %	Maturity date \$	2015 \$	2014 \$
20080001	4.660	17/03/2028	15,000,000	15,000,000
20080009	4.791	16/06/2028	14,000,000	14,000,000
20080016	4.736	15/09/2028	11,000,000	11,000,000
20090005	5.222	16/03/2029	8,000,000	8,000,000
20090012	5.125	15/06/2029	10,000,000	10,000,000
20090019	4.880	15/09/2029	8,000,000	8,000,000
20100003	4.390	15/03/2025	5,000,000	5,000,000
20100004	4.362	15/06/2025	15,000,000	15,000,000
20100015	3.947	15/09/2025	13,000,000	13,000,000
20100016	2.425	15/09/2015	-	5,000,000
20110006	3.569	15/06/2026	10,959,971	11,760,769
20110010	3.013	15/09/2026	7,755,291	8,341,887
20110012	1.915	15/09/2016	4,000,000	4,000,000
20120001	2.023	15/03/2017	2,000,000	2,000,000
20120002	2.769	15/03/2027	6,416,979	6,884,923
20120008	2.599	17/09/2027	8,297,295	8,879,581
20130003	2.229	15/03/2023	5,392,674	6,046,312
20140006	2.512	16/06/2024	13,662,824	15,000,000
20140012	2.404	15/09/2024	9,104,067	10,000,000
20140015	2.314	15/12/2024	5,731,648	6,000,000
20150008	1.835	15/09/2025	5,000,000	-
			177,320,749	182,913,472

Mortgages of \$8,502,048 (2014 - \$10,604,632) held by The City of Calgary relate to developable land parcels transferred to CMLC by The City. The mortgages are due on the earlier of December 31, 2019 or when CMLC closes a sale of the related land to a third party. The mortgages are secured by land and are non-interest bearing.

\$10,000,000 of The City's contribution to the New Central Library project budget was received in July 2013 as an advance by The City to CMLC to fund working capital for the Library Project. The City has also funded \$46,175,527 (2014 - \$16,415,598) to the New Central Library project by the end of 2015. The City's total funding commitment to the New Central Library is \$175,000,000, which is a non-interest bearing loan.

Long-term debt is repayable as follows:

	\$
2016	11,877,535
2017	8,685,111
2018	55,424,515
2019	15,209,886
Thereafter	150,801,277
	241,998,324

Calgary Municipal Land Corporation

Notes to the financial statements

December 31, 2015

13. Share capital

Authorized, unlimited number

Common shares

CMLC has one common share issued and outstanding for \$1 with the City of Calgary

14. Transactions with The City and City entities

Total purchases from The City and City entities:

	2015	2014
	\$	\$
ENMAX	3,305,050	4,268,619
The City of Calgary	4,154,428	2,574,795
	7,459,478	6,843,414

Purchases from ENMAX Corporation ("Enmax") are for infrastructure and energy related goods and services. Purchases from The City are for infrastructure upgrade work, application fees and payment of property taxes to The City. In 2015, interest in the amount of \$6,713,895 (2014 - \$6,376,876) relating to ACFA debentures was paid to The City.

Accounts payable and accrued liabilities with The City and City entities:

	2015	2014
	\$	\$
ENMAX	719,404	3,904,326
The City of Calgary	2,853,882	3,684,621
	3,573,286	7,588,947

Amounts payable to ENMAX are for infrastructure and energy related goods and services. Amounts payable to The City include interest of \$2,623,827 (2014 - 2,624,663), loan management fees \$222,327 (2014 - \$217,153), infrastructure upgrade work, application fees and property taxes.

Revenue from The City and City entities:

	2015	2014
	\$	\$
Community Revitalization Levy	37,390,663	32,080,555
Calgary Parking Authority parking profit	267,436	383,502
ENMAX	91,641	-
The City of Calgary - project management fee	1,729,412	-
	39,479,152	32,464,057

Revenues from Calgary Parking Authority are related to profits from CMLC land that are managed by Calgary parking Authority as parking lots. Revenue from Enmax refers to the administration fee that CMLC had earned for the New Central Library North Corridor Duct Bank project and the project management fee refers to the payments received from the City of Calgary to deliver the New Central Library Project.

Calgary Municipal Land Corporation

Notes to the financial statements

December 31, 2015

14. Transactions with The City and City entities (continued)

Receivables from The City and City entities:

	2015	2014
	\$	\$
The City of Calgary	19,584,908	15,817,038
Calgary Parking Authority parking profit	39,791	191,180
ENMAX	-	3,793
	19,624,699	16,012,011

Receivables from The City are related to the Fourth Quarter 2015 CRL payment, the New Central Library and the 4th Avenue Road Raising amounts which were invoiced but not received until after year end.

The above transactions have been recorded at the exchange amount, which represents the amount of consideration established and agreed to by the related parties.

15. Letters of credit

In the normal course of operations, letters of credit are issued to The City to facilitate the issuance of development permits necessary to undertake infrastructure work. The Corporation issued a letter of credit in the amount of \$1,350,000 which is secured under a general security agreement with the Alberta Treasury Branch and a letter of credit in the amount of \$14,500 which is secured under a general security agreement with Hongkong and Shanghai Banking Corporation as at December 31, 2015 (2014 - \$1,364,500).

16. Financial instruments

Credit risk

The Corporation's credit risk is primarily attributable to its accounts receivables. The Corporation's credit risk is limited as 96% (2014 - 88%) of the Corporation's accounts receivable balance at December 31, 2015 is due from the City of Calgary and ENMAX, with the remaining balance comprised of Goods and Services Tax receivable, insurance proceeds and chargebacks.

Fair value

The fair values of cash and cash equivalents, accounts receivable, term deposit, mortgages receivable, accounts payable and accrued liabilities, holdbacks payable and interest payable approximate their carrying values due to their short-term maturity. The estimated fair value of the debentures is \$188,666,384 (2014 - \$192,466,775). The estimated fair value is based on current lending rates with similar maturities obtainable from AFCA.

17. 2015 budget

The budget amounts presented throughout these financial statements are based on the Operating and Capital Budgets approved by the Board of Directors of CMLC and The City of Calgary Council.

18. Commitments

As per the agreement with The City, CMLC has committed to contribute a total of \$70 million to build the New Central Library in East Village, CMLC will complete the New Central Library Project no later than December 31, 2018.

Capital commitments of \$14,373,061 are also not reflected in the financial statements. This amount represents uncompleted portions of contracts, as at December 31, 2015, on major projects and estimated obligations under other various agreements.

Calgary Municipal Land Corporation

Notes to the financial statements

December 31, 2015

19. Subsequent events

Subsequent events have been evaluated through to April 22, 2016, the date on which the December 31, 2015 financial statements were authorized to be issued.