

Financial statements of

Calgary Municipal Land Corporation

December 31, 2017

Calgary Municipal Land Corporation

December 31, 2017

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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, 2017, and the statements of operations, change in net financial assets and cash flows 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.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Calgary Municipal Land Corporation as at December 31, 2017, and the results of its operations, changes in net financial assets and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Deloitte LLP

Chartered Professional Accountants
April 27, 2018

Chartered Professional Accountants

Calgary Municipal Land Corporation

Statement of financial position as at December 31, 2017

	2017	2016
	\$	\$
Financial assets		
Cash and cash equivalents (Note 3)	15,005,193	9,352,438
Accounts receivable (Note 12)	10,621,077	25,102,129
Infrastructure development assets (Note 6)	416,951,068	343,780,266
Land inventory (Note 7)	113,104,510	89,090,255
	555,681,848	467,325,088
Financial liabilities		
Accounts payable and accrued liabilities (Note 4 and Note 13)	6,964,136	12,350,931
Holdbacks payable	13,903,418	7,036,050
Interest payable (Note 13)	2,820,438	2,656,672
Developer deposits (Note 5)	3,339,935	3,339,735
Long term debt (Note 10)	394,322,933	323,938,486
Share capital (Note 11)	1	1
	421,350,861	349,321,875
Net financial assets	134,330,987	118,003,213
Non-financial assets		
Prepaid expenses	128,333	84,428
Tangible capital assets (Note 8)	10,508,619	8,197,072
	10,636,952	8,281,500
Accumulated surplus	144,967,939	126,284,713

Calgary Municipal Land Corporation

Statement of operations and accumulated surplus year ended December 31, 2017

		2017	2016
	Budget (Note 17)	Actual	Actual
	\$	\$	\$
Revenues			
Community revitalization levy	42,000,000	34,251,064	38,422,727
Land sales	-	-	250,718
Interest	100,000	25,325	45,582
Rental	550,000	2,351,641	528,826
Project management fees	870,000	970,991	914,093
Miscellaneous	84,000	82,829	79,218
Insurance proceeds	-	1,839,205	-
	43,604,000	39,521,055	40,241,164
Expenses			
Salaries and employee benefits	2,858,000	2,706,038	2,679,889
Cost of sales - land inventory	-	-	379,158
Site servicing & remediation	-	5,038,707	-
General administration	3,187,000	2,706,186	3,553,006
Donations & contributions (Note 14)	-	102,500	10,083,898
Repair and maintenance - EV	-	1,236,822	380,995
Amortization expense (Note 8)	-	1,511,175	1,910,766
Interest - debentures	7,410,000	7,004,293	6,622,826
Loan administration fees	-	495,442	443,627
Financing charges	60,000	36,666	53,994
	13,515,000	20,837,829	26,108,159
Excess of revenues over expenses	30,089,000	18,683,226	14,133,005
Accumulated surplus, beginning of year	126,284,713	126,284,713	112,151,708
Accumulated surplus, end of year	156,373,713	144,967,939	126,284,713

Calgary Municipal Land Corporation

Statement of cash flows year ended December 31, 2017

	2017	2016
	\$	\$
Operating activities		
Excess of revenues over expenses	18,683,226	14,133,005
Deduct items not affecting cash		
Amortization expense	1,511,175	1,910,766
Write down of tangible capital assets	-	53,716
	20,194,401	16,097,487
 Change in non-cash working capital		
Accounts receivable	14,481,053	(4,721,727)
Mortgage receivable	-	4,442,227
Infrastructure development assets	(73,170,803)	(75,814,136)
Acquisition of land inventory (net)	(24,014,255)	(27,656,239)
Accounts payable and accrued liabilities	(5,386,795)	1,413,761
Holdbacks payable	6,867,368	2,786,777
Interest payable	163,766	24,667
Developer deposits	200	4,735
Prepaid expense	(43,905)	13,637
	(60,908,970)	(83,408,811)
 Capital activity		
Acquisition of tangible capital assets	(3,822,722)	(2,154,096)
 Financing activities		
Infrastructure debentures (Note 10)	26,500,000	28,000,000
Repayment of debenture principal (Note 10)	(11,366,346)	(10,475,377)
NCL City of Calgary repayment (Note 10)	(10,000,000)	-
NCL City of Calgary loan (Note 10)	64,408,934	64,415,540
CPA 9th Ave Parkade loan (Note 10)	841,859	-
	70,384,447	81,940,163
 Increase (decrease) in cash and cash equivalents	5,652,755	(3,622,744)
Cash and cash equivalents, beginning of year	9,352,438	12,975,182
Cash and cash equivalents, end of year	15,005,193	9,352,438
 Cash and cash equivalents consist of		
Cash	1,505,193	2,352,438
Cash equivalents	13,500,000	7,000,000
	15,005,193	9,352,438

Calgary Municipal Land Corporation

Statement of changes in net financial assets year ended December 31, 2017

		2017	2016
	Budget (Note 17)	Actual	Actual
	\$	\$	\$
Excess of revenues over expenses	30,089,000	18,683,226	14,133,005
Amortization of tangible capital assets	-	1,511,175	1,910,766
Write down of tangible capital assets	-	-	53,716
Acquisition of tangible capital assets	-	(3,822,722)	(2,154,096)
Use of prepaid assets	-	(43,905)	13,637
Increase in net financial assets	30,089,000	16,327,774	13,957,028
Net financial assets, beginning of year	118,003,213	118,003,213	104,046,185
Net financial assets, end of year	148,092,213	134,330,987	118,003,213

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 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 of 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 on 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, maintenance charges and environmental costs.

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, development costs and environmental costs to the project under development, which will be recovered from The City through the Community Revitalization Levy ("CRL") collected by The City on behalf of CMLC. Assets will be transferred to tangible capital assets and amortized when they have received final acceptance certificates and they have not yet been transferred to The City.

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 or 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.

2. Significant accounting policies (continued)

Tangible capital assets

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 3 years
Computer software	straight-line method over 3 years
Leasehold improvements	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
Building improvements	straight-line method over 10 years
Elbow River Traverse	straight-line method over 50 years

Amortization commences in the first full month of ownership.

Tangible capital assets are recorded at cost and 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, interest, rental and project management fee revenues 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 when collection is reasonably assured.

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

Site servicing

Site servicing costs relating to land parcels that have been sold are expensed as incurred.

Remediation

Remediation costs relating to land inventory are capitalized until the land inventory is sold. Remediation costs relating to land parcels that have been sold are expensed as incurred.

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 lives 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 the statement of operations and accumulated surplus in the period in which they become known.

2. Significant accounting policies (continued)*Future Accounting Pronouncements*

CMLC is currently assessing the impact of the following new accounting standards effective for future periods.

Standards effective beginning on or after April 1, 2017

(a) Assets

Assets ("PS 3210") provides guidance for applying the definition of assets and establishes general disclosure standards for assets. Disclosure information about the major categories of assets that are not recognized is required. When an asset is not recognized because a reasonable estimate cannot be made, the reason(s) for this should be disclosed.

(b) Contingent Assets

Contingent Assets ("PS 3320") defines and establishes disclosure on contingent assets. Disclosure of information about contingent assets is required when the occurrence of the confirming future event is likely.

(c) Contractual Rights

Contractual Rights ("PS 3380") defines and establishes disclosure standards on contractual rights. Disclosure of the nature, extent, and timing of any contractual rights is required.

(d) Related Party Transactions

Related Party Transactions ("PS 2200") defines a related party and establishes disclosures required for related party transactions. Disclosure of information about related party transactions and the relationship underlying them is required when they have occurred at a value different from that which would have been arrived at if the parties were unrelated, and they have, or could have, a material financial effect on the financial statements.

(e) Inter-entity Transactions

Inter-entity Transactions ("PS 3420") specifically addresses the reporting of transactions between entities controlled by the government's reporting entity from both a provider and recipient perspective. Disclosure of this information is required whether or not the transaction is given accounting recognition.

Standards effective beginning on or after April 1, 2018

(a) Restructuring Transactions

Restructuring Transactions ("PS 3430") establishes how to record assets, liabilities, revenues, and expenses related to restructuring transactions as well as disclosure requirements for the recipient and transferor.

3. Cash and cash equivalents

	2017	2016
	\$	\$
Cash	1,505,193	2,352,438
Cash equivalents	13,500,000	7,000,000
	15,005,193	9,352,438

The cash equivalents of \$13,500,000 (2016 - \$7,000,000) represent cashable investments (less than 90 days to maturity) with Alberta Treasury Branch ("ATB Financial").

4. Accounts payable and accrued liabilities

	2017	2016
	\$	\$
Accounts payable	4,773,234	9,385,573
Vacation pay accrual	59,735	60,871
Accrued liabilities	2,131,167	2,904,487
	6,964,136	12,350,931

5. Developer deposits

	2017	2016
	\$	\$
Developer deposits	3,339,935	3,339,735

Developer deposits of \$3,339,935 (2016 - \$3,339,735) are for land purchases and sales agreements.

6. Infrastructure development assets

	2017	2016
	\$	\$
East Village	112,944,758	111,174,248
New Central Library	190,062,699	119,142,281
RiverWalk	24,008,781	24,006,733
4th Street Underpass	54,805,921	54,796,359
The City of Calgary recovery	(28,000,000)	(28,000,000)
St. Patrick's Bridge & Island	50,743,033	50,516,429
West Village	2,907,137	2,461,559
Environmental	6,004,684	8,856,855
Victoria Park	1,884,756	484,491
9th Ave Parkade	1,180,551	135,806
Arts Commons	228,502	175,517
David D. Oughton	165,688	29,988
Fifth Street Underpass	10,430	-
Fort Calgary	4,128	-
	416,951,068	343,780,266

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.

7. Land inventory

	2017	2016
	\$	\$
Balance, beginning of year	89,090,255	61,434,016
Additions	24,483,992	28,421,469
Dispositions/transfers	(469,737)	(765,230)
Balance, end of year	113,104,510	89,090,255

8. Tangible capital assets

	2017		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Office furniture and equipment	359,118	212,039	147,079
Computer infrastructure	404,524	302,021	102,503
Computer software	140,967	121,407	19,560
Building improvements	8,009,744	2,186,862	5,822,882
Sale centres	1,395,973	1,395,973	-
Leasehold improvements	2,270,279	1,086,108	1,184,171
Elbow River Traverse	3,298,392	65,968	3,232,424
	15,878,997	5,370,378	10,508,619

	2016		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Office furniture and equipment	324,159	170,692	153,467
Computer infrastructure	357,215	175,268	181,947
Computer software	140,967	94,685	46,282
Building improvements	8,009,744	1,328,511	6,681,233
Sale centres	1,395,973	1,320,548	75,425
Leasehold improvements	1,828,217	769,499	1,058,718
	12,056,275	3,859,203	8,197,072

9. Operating facility

The Corporation has arranged an operating facility to a maximum amount of \$15,000,000, which bears interest, payable monthly, at ATB Financial's 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, 2017, \$Nil (2016 - \$Nil) of the operating facility has been drawn down by the Corporation.

10. Long-term debt

	2017	2016
	\$	\$
Debentures	193,084,052	182,200,276
Mortgages	8,502,048	8,502,048
Calgary Parking Authority 9th Avenue Parkade loan	841,859	
New Central Library advance	-	10,000,000
New Central Library loan	175,000,000	110,591,067
	377,427,959	311,293,391
Add: current portion	16,894,974	12,645,095
	394,322,933	323,938,486

During the year, the Corporation issued \$26.5 million (2016 - \$28 million) in debentures from The City through arrangements with Alberta Capital Finance Authority ("ACFA"). Total debentures outstanding including current portion at December 31, 2017 were \$209,979,025 (2016 - \$194,845,372).

Debenture details are as follows:

Debenture no.	Interest rate	Maturity date	2017	2016
	%		\$	\$
D20080001	4.660	16/06/2028	15,000,000	15,000,000
D20080009	4.791	16/06/2028	14,000,000	14,000,000
D20080016	4.736	15/09/2028	11,000,000	11,000,000
D20090005	5.222	16/03/2029	8,000,000	8,000,000
D20090012	5.125	15/06/2029	10,000,000	10,000,000
D20090019	4.880	15/09/2029	8,000,000	8,000,000
D20100003	4.390	15/03/2025	5,000,000	5,000,000
D20100004	4.362	15/06/2025	15,000,000	15,000,000
D20100015	3.947	15/09/2025	13,000,000	13,000,000
D20110006	3.569	15/06/2026	9,270,822	10,130,336
D20110010	3.013	15/09/2026	6,528,138	7,150,889
D20120001	2.023	31/12/2017	-	2,000,000
D20120002	2.769	15/03/2027	5,441,586	5,935,988
D20120008	2.599	17/09/2027	7,086,629	7,699,777
D20130003	2.229	15/03/2023	4,041,117	4,724,385
D20140006	2.512	16/06/2024	10,886,223	12,291,847
D20140012	2.404	15/09/2024	7,246,673	8,186,466
D20140015	2.314	15/12/2024	4,626,831	5,185,594
D20150008	1.835	15/09/2025	4,071,700	4,540,089
D20160007	1.782	15/09/2026	15,432,479	17,000,000
D20160009	2.299	15/12/2026	10,507,661	11,000,000
D20170001	1.660	15/03/2022	4,518,392	-
D20170002	2.277	15/03/2027	3,820,775	-
D20170008	2.671	15/09/2027	8,500,000	-
D20170009	2.270	15/09/2022	2,000,000	-
D20170013	2.532	15/12/2027	7,000,000	-
			209,979,026	194,845,371

10. Long-term debt (continued)

Mortgages of \$8,502,048 (2016 - \$8,502,048) held by The City 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.

An amount of \$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 New Central Library project. The City has also funded \$165,000,000 (2016 - \$110,591,067) to the New Central Library project by the end of December 2017. 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:

	\$
2018	191,894,974
2019	29,539,762
2020	23,915,318
2021	23,848,398
Thereafter	125,124,481
	<u>394,322,933</u>

11. Share capital

Authorized, unlimited number

Common shares

CMLC has one common share issued and outstanding for \$1 with The City.

12. Accounts receivable

	2017	2016
	\$	\$
The City of Calgary	8,408,324	24,637,554
Canada Revenue Agency	195,821	203,514
Calgary Parking Authority	1,654,780	76,509
Calgary Public Library	227,590	-
Other receivables	134,562	184,552
	<u>10,621,077</u>	<u>25,102,129</u>

13. Transactions with The City and City entities

Total purchases from The City and City entities were as follows:

	2017	2016
	\$	\$
ENMAX	539,925	3,843,435
The City of Calgary	9,050,668	1,382,202
Calgary Public Library	114,364	-
	<u>9,704,957</u>	<u>5,225,637</u>

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

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 2017, interest in the amount of \$6,840,526 (2016 - \$6,622,826) relating to ACFA debentures was paid to The City.

Accounts payable and accrued liabilities with The City and City entities were as follows:

	2017	2016
	\$	\$
ENMAX	852,689	1,235,651
The City of Calgary	327,279	2,921,713
	1,179,968	4,157,364

Amounts payable to ENMAX are for infrastructure and energy related goods and services. Amounts payable to The City include interest of \$2,820,438 (2016 - \$2,656,672), infrastructure upgrade work, application fees and property taxes.

Revenue from The City and City entities was as follows:

	2017	2016
	\$	\$
Community Revitalization Levy	34,251,064	38,422,727
Calgary Parking Authority	2,577,167	320,660
Calgary Public Library	307,040	-
The City of Calgary	1,163,020	864,706
	38,298,291	39,608,093

Revenues from Calgary Parking Authority are related to profits from CMLC land that are managed by Calgary Parking Authority as parking lots. Revenue from the Calgary Public Library related to rent from the Hillier building lease which is a donation expense to CMLC.

Receivables from The City and City entities were as follows:

	2017	2016
	\$	\$
The City of Calgary	8,408,324	24,637,554
Calgary Parking Authority	1,654,780	76,509
	10,063,104	24,714,063

Receivables from The City are related to the fourth quarter of 2017 CRL payment and the New Central Library amounts which were invoiced but not received until after the 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.

14. Donations and contributions

The Corporation made donations of \$102,500 as of December 31, 2017. In 2016, a one-time donation of \$10,000,000 in relation to the National Music Centre.

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 letters of credit in the amount of \$1,643,500 which is secured under a general security agreement with ATB Financial as at December 31, 2017 (2016 - \$1,567,500).

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 97% (2016 - 98%) of the Corporation's accounts receivable balance at December 31, 2017 is due from The City, with the remaining balance comprising 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 \$173,961,541 (2016 - \$198,111,165). The estimated fair value is based on current lending rates with similar maturities obtainable from AFCA.

17. 2017 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 \$12,371,298 are also not reflected in the financial statements. This amount represents uncompleted portions of contracts, as at December 31, 2017, on major projects and estimated obligations under other various agreements.

19. Comparative figures

Certain comparative figures have been reclassified to conform to current year's presentation.