

Financial statements of

**Calgary Municipal Land
Corporation**

December 31, 2016

Calgary Municipal Land Corporation

December 31, 2016

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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, 2016, 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, 2016 and the results of its operations, changes in its net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

A handwritten signature in black ink that reads "Deloitte LLP". The signature is written in a cursive, flowing style.

Chartered Professional Accountants
April 28, 2017

Calgary Municipal Land Corporation

Statement of financial position as at December 31, 2016

	2016	2015
	\$	\$
Financial assets		
Cash and cash equivalents (Note 3)	9,352,438	12,975,182
Accounts receivable (Note 13A and 13B)	25,186,557	20,478,467
Mortgage receivable (Note 4)	-	4,442,227
Infrastructure development assets (Note 7)	343,780,266	267,966,131
Land inventory (Note 8)	89,090,255	61,434,016
	467,409,516	367,296,023
Financial liabilities		
Accounts payable and accrued liabilities (Notes 5 and 13B)	12,350,931	10,937,170
Holdbacks payable	7,036,050	4,249,273
Interest payable (Note 13B)	2,656,672	2,632,005
Developer deposits (Note 6)	3,339,735	3,335,000
Long-term debt (Note 11)	323,938,486	241,998,324
Share capital (Note 12)	1	1
	349,321,875	263,151,773
Net financial assets	118,087,641	104,144,250
Non-financial assets		
Tangible capital assets (Note 9)	8,197,072	8,007,458
Accumulated surplus	126,284,713	112,151,708

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, 2016

		2016	2015
	Budget (Note 17)	Actual	Actual
	\$	\$	\$
Revenue			
Community Revitalization Levy	39,000,000	38,422,727	37,390,663
Land sales	-	250,718	36,973,877
Interest	200,000	45,582	262,240
Rental	300,000	528,826	358,850
Project management fees	850,000	914,093	1,729,412
Miscellaneous	350,000	79,218	194,216
Insurance proceeds	-	-	19,998
	40,700,000	40,241,164	76,929,256
Expenses			
Salaries and employee benefits	2,840,000	2,679,889	2,464,523
Cost of sales - land inventory	-	379,158	25,246,813
General administration	3,600,000	3,553,006	3,127,981
Donations and contributions (Note 14)	-	10,083,898	-
Repair and maintenance	-	380,995	-
Repair and maintenance due to flood	-	-	165,196
Amortization (Note 9)	600,000	1,910,766	582,210
Interest - debentures	7,000,000	6,622,826	6,713,725
Loan administration fees	500,000	443,627	448,331
Financing charges	55,000	53,994	40,326
	14,595,000	26,108,159	38,789,105
Excess of revenue over expenses	26,105,000	14,133,005	38,140,151
Accumulated surplus, beginning of year	112,151,708	112,151,708	74,011,557
Accumulated surplus, end of year	138,256,708	126,284,713	112,151,708

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, 2016

	2016	2015
	\$	\$
Operating activities		
Excess of revenues over expenses	14,133,005	38,140,151
Items not affecting cash and cash equivalents		
Amortization expense	1,910,766	582,210
Write-down of tangible capital assets	53,716	14,378
	16,097,487	38,736,739
Changes in non-cash working capital		
Accounts receivable	(4,708,090)	(2,273,511)
Term deposit	-	50,000
Mortgage receivable	4,442,227	(2,442,227)
Infrastructure development assets	(75,814,136)	(50,208,150)
Acquisition of land inventory, net	(27,656,239)	3,693,979
Accounts payable and accrued liabilities	1,413,761	(356,418)
Holdbacks payable	2,786,777	(904,227)
Interest payable	24,667	(1,007)
Developer deposits	4,735	200,000
	(83,408,811)	(13,504,822)
Capital activity		
Acquisition of tangible capital assets	(2,154,096)	(2,107,505)
Financing activities		
Infrastructure debentures (Note 11)	28,000,000	5,000,000
Repayment of debenture principal (Note 11)	(10,475,377)	(10,592,723)
The City of Calgary mortgage advances (Note 13B)	-	(2,102,584)
New Central Library City of Calgary loan (Note 11)	64,415,540	29,759,929
	81,940,163	22,064,622
Net (decrease) increase in cash and cash equivalents	(3,622,744)	6,452,295
Cash and cash equivalents, beginning of year	12,975,182	6,522,887
Cash and cash equivalents, end of year	9,352,438	12,975,182
Cash and cash equivalents consist of		
Cash	2,352,438	975,182
Cash equivalents	7,000,000	12,000,000
	9,352,438	12,975,182

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, 2016

		2016	2015
	Budget (Note 17)	Actual	Actual
	\$	\$	\$
Excess of revenue over expenses	26,105,000	14,133,005	38,140,151
Amortization of tangible capital assets	600,000	1,910,766	582,210
Write-down of tangible capital assets	-	53,716	14,378
Acquisition of tangible capital assets	-	(2,154,096)	(2,107,505)
Increase in net financial assets	26,705,000	13,943,391	36,629,234
Net financial assets, beginning of year	104,144,250	104,144,250	67,515,016
Net financial assets, end of year	130,849,250	118,087,641	104,144,250

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, 2016

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 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 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.

Calgary Municipal Land Corporation

Notes to the financial statements

December 31, 2016

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

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.

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.

3. Cash and cash equivalents

	2016	2015
	\$	\$
Cash	2,352,438	975,182
Cash equivalents	7,000,000	12,000,000
	9,352,438	12,975,182

The cash equivalents of \$7,000,000 (2015 - \$12,000,000) represent cashable investments (less than 90 days to maturity) with Alberta Treasury Branch ("ATB Financial").

Calgary Municipal Land Corporation

Notes to the financial statements

December 31, 2016

4. Mortgage receivable

	2016	2015
	\$	\$
Mortgage receivable	-	4,442,227

As at December 31, 2016, the mortgage receivable represented a balance of \$Nil (2015 - \$4,442,227) as this balance was received on February 1, 2016 from F.S. Calgary LP.

5. Accounts payable and accrued liabilities

	2016	2015
	\$	\$
Accounts payable	9,385,573	7,870,099
Vacation pay accrual	60,871	45,098
Accrued liabilities	2,904,487	3,021,973
	12,350,931	10,937,170

6. Developer deposits

	2016	2015
	\$	\$
Developer deposits	3,339,735	3,335,000

Developer deposits of \$3,339,735 (2015 - \$3,335,000) are for land purchases and sales agreements that will close subsequent to 2016.

7. Infrastructure development assets

	2016	2015
	\$	\$
East Village	111,174,248	108,460,674
New Central Library	119,142,281	49,699,112
RiverWalk	24,006,733	23,530,453
4th Street Underpass	54,796,359	55,078,909
The City of Calgary recovery	(28,000,000)	(28,000,000)
St. Patrick's Bridge & Island	50,516,429	50,363,753
West Village	2,461,559	1,136,184
Environmental	8,856,855	7,697,046
Victoria Park	484,491	-
9th Ave Parkade	135,806	-
Arts Commons	175,517	-
David D. Oughton	29,988	-
	343,780,266	267,966,131

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.

Calgary Municipal Land Corporation

Notes to the financial statements

December 31, 2016

8. Land inventory

	2016	2015
	\$	\$
Balance, beginning of year	61,434,016	65,127,995
Additions	28,421,469	21,464,750
Dispositions	(765,230)	(25,158,729)
Balance, end of year	89,090,255	61,434,016

9. Tangible capital assets

	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

	2015		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Office 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
Building improvements	8,009,744	429,176	7,580,568
Sale centres	1,335,418	1,247,780	87,638
	10,046,229	2,038,771	8,007,458

10. 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, 2016, \$Nil (2015 - \$Nil) of the operating facility has been drawn down by the Corporation.

Calgary Municipal Land Corporation

Notes to the financial statements

December 31, 2016

11. Long-term debt

	2016	2015
	\$	\$
Debentures	182,200,276	165,443,214
Mortgages	8,502,048	8,502,048
New Central Library advance	10,000,000	10,000,000
New Central Library loan	110,591,067	46,175,527
	311,293,391	230,120,789
Add: current portion	12,645,095	11,877,535
	323,938,486	241,998,324

During the year, the Corporation issued \$28 million (2015 - \$5 million) in debentures from The City through arrangements with Alberta Capital Finance Authority ("ACFA"). Total debentures outstanding including current portion at December 31, 2016 were \$194,845,372 (2015 - \$177,320,749).

Debenture details are as follows:

Debenture no.	Interest rate	Maturity date	2016	2015
	%		\$	\$
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	10,130,337	10,959,971
D20110010	3.013	15/09/2026	7,150,889	7,755,291
D20110012	1.915	15/09/2016	-	4,000,000
D20120001	2.023	31/12/2017	2,000,000	2,000,000
D20120002	2.769	15/03/2027	5,935,988	6,416,979
D20120008	2.599	17/09/2027	7,699,777	8,297,295
D20130003	2.229	15/03/2023	4,724,385	5,392,674
D20140006	2.512	16/06/2024	12,291,847	13,662,824
D20140012A	2.404	15/09/2024	3,274,586	3,641,627
D20140012B	2.404	15/09/2024	4,911,880	5,462,440
D20140015	2.314	15/12/2024	5,185,594	5,731,648
D20150008	1.835	15/09/2025	4,540,089	5,000,000
D20160007	1.782	15/09/2026	17,000,000	-
D20160009	2.299	15/12/2026	11,000,000	-
			194,845,372	177,320,749

Mortgages of \$8,502,048 (2015 - \$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.

Calgary Municipal Land Corporation

Notes to the financial statements

December 31, 2016

11. Long-term debt (continued)

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 \$110,591,067 (2015 - \$46,175,527) to the New Central Library project by the end of December 2016. 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:

	\$
2017	12,645,095
2018	132,448,871
2019	26,372,739
2020	19,835,390
Thereafter	132,636,391
	<u>323,938,486</u>

12. Share capital

Authorized, unlimited number

Common shares

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

13A. Accounts receivable

	2016	2015
	\$	\$
The City of Calgary	24,637,554	19,584,908
Canada Revenue Agency	203,514	472,529
Calgary Parking Authority	76,509	39,791
Prepaid expense	84,428	98,065
Other receivables	184,552	283,174
	<u>25,186,557</u>	<u>20,478,467</u>

13B. Transactions with The City and City entities

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

	2016	2015
	\$	\$
ENMAX	3,843,435	3,305,050
The City of Calgary	1,382,202	4,154,428
	<u>5,225,637</u>	<u>7,459,478</u>

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 2016, interest in the amount of \$6,622,826 (2015 - \$6,731,725) relating to ACFA debentures was paid to The City.

Calgary Municipal Land Corporation

Notes to the financial statements

December 31, 2016

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

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

	2016	2015
	\$	\$
ENMAX	1,235,651	719,404
The City of Calgary	2,921,713	2,853,882
	4,157,364	3,573,286

Amounts payable to ENMAX are for infrastructure and energy related goods and services. Amounts payable to The City include interest of \$2,656,672 (2015 - \$2,632,005), infrastructure upgrade work, application fees and property taxes.

Revenue from The City and City entities was as follows:

	2016	2015
	\$	\$
Community Revitalization Levy	38,422,727	37,390,663
Calgary Parking Authority	320,660	267,436
ENMAX	-	91,641
The City of Calgary	864,706	1,729,412
	39,608,093	39,479,152

Revenues from Calgary Parking Authority are related to profits from CMLC land that are managed by Calgary Parking Authority as parking lots.

Receivables from The City and City entities were as follows:

	2016	2015
	\$	\$
The City of Calgary	24,637,554	19,584,908
Calgary Parking Authority	76,509	39,791
	24,714,063	19,624,699

Receivables from The City are related to the fourth quarter of 2016 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 a donation of \$10,000,000 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 a letter of credit in the amount of \$1,567,500 which is secured under a general security agreement with ATB Financial as at December 31, 2016 (2015 - \$1,350,000).

Calgary Municipal Land Corporation

Notes to the financial statements

December 31, 2016

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 98% (2015 - 96%) of the Corporation's accounts receivable balance at December 31, 2016 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 \$198,111,165 (2015 - \$188,666,384). The estimated fair value is based on current lending rates with similar maturities obtainable from AFCA.

17. 2016 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 \$8,200,727 are also not reflected in the financial statements. This amount represents uncompleted portions of contracts, as at December 31, 2016, on major projects and estimated obligations under other various agreements.

19. Subsequent events

Subsequent events have been evaluated through to April 28, 2017, the date on which the December 31, 2016 financial statements were authorized to be issued.

On January 25, 2017, the Corporation entered into an Offer to Purchase and Agreement of Purchase and Sale with 1966722 Alberta Ltd. to purchase Plan C, Block 79, Lots 6-15, 20, the West half of 26, 27-29, 31-35 for \$14,600,000. The closing date was April 12, 2017.