

**Squamish Oceanfront Development
Corporation**
Financial Statements
For the year ended December 31, 2014

Draft

Squamish Oceanfront Development
Corporation
Financial Statements
For the year ended December 31, 2014

	<u>Contents</u>
Independent Auditor's Report	2
Financial Statements	
Statement of Financial Position	3
Statement of Operations	4
Statement of Changes in Net Financial Assets (Net Debt)	5
Statement of Cash Flows	6
Summary of Significant Accounting Policies	7 - 8
Notes to Financial Statements	9 - 11

Independent Auditor's Report

To the Shareholder of
Squamish Oceanfront Development Corporation

We have audited the accompanying financial statements of the Squamish Oceanfront Development Corporation, which comprise the Statement of Financial Position as at December 31, 2014, and the Statements of Operations, Changes 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 controls 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 the Squamish Oceanfront Development Corporation as at December 31, 2014, and the results of its operations, changes in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Accountants

Squamish, British Columbia
March XX, 2015

Squamish Oceanfront Development Corporation
Statement of Financial Position

December 31	2014	2013
Financial Assets		
Cash	\$ 588	\$ 488
Accounts receivable	23,060	31,503
Land held for sale (Note 3)	14,392,400	18,828,105
	14,416,048	18,860,096
Liabilities		
Accounts payable and accrued liabilities	41,609	58,352
Due to shareholder (Note 5)	3,276,623	47,794
Long-term debt (Note 4)	7,928,851	10,258,109
	11,247,083	10,364,255
Net Financial Assets	3,168,965	8,495,841
Non-Financial Assets		
Tangible capital assets (Note 2)	19,890	24,626
Accumulated Surplus (Note 6)	\$ 3,188,855	\$ 8,520,467

Approved by:

_____ Board Member

_____ Board Member

Squamish Oceanfront Development Corporation
Statement of Operations

For the year ended December 31	Fiscal Plan 2014	2014	2013
Revenue			
Leasing revenue	\$ -	\$ 11,000	\$ 9,500
Tipping fees and other revenue	-	138	14
	-	11,138	9,514
Expenses			
Advertising and promotion	16,200	7,005	-
Amortization of property and equipment	-	5,716	6,349
Board expenses and director fees	-	-	13,462
Environmental Monitoring	66,600	53,052	-
Impairment of land held for sale (Note 3)	-	4,435,705	-
Insurance	7,835	7,833	7,809
Interest and bank charges	15,480	6,285	235
Interest on long-term debt	-	323,412	52,948
Office administration	24,835	17,886	16,735
Professional fees	758,950	413,915	69,622
Salaries and wages	56,275	57,259	65,911
Utilities	13,195	14,682	15,358
	959,370	5,342,750	248,429
Annual deficiency	(959,370)	(5,331,612)	(238,915)
Accumulated surplus, beginning of year	8,520,467	8,520,467	8,759,382
Accumulated surplus, end of year	\$ 7,561,097	\$ 3,188,855	\$ 8,520,467

Squamish Oceanfront Development Corporation
Statement of Changes in Net Financial Assets

For the year ended December 31	Fiscal Plan 2014	2014	2013
Annual deficiency	\$ (959,370)	\$ (5,331,612)	\$ (238,915)
Acquisition of tangible capital assets	-	(980)	(1,018)
Expenditure on land under development	-	-	(656,829)
Amortization of tangible capital assets	-	5,716	6,349
Change in prepaid expenses	-	-	875
Land under development reclassified as land held for sale	-	-	18,828,105
Change in net financial assets	(959,370)	(5,326,876)	17,938,567
Net financial assets (debt), beginning of year	8,495,841	8,495,841	(9,442,726)
Net financial assets, end of year	\$ 7,536,471	\$ 3,168,965	\$ 8,495,841

Draft

Squamish Oceanfront Development Corporation
Statement of Cash Flows

For the year ended December 31	2014	2013
Cash provided by (used in)		
Operating transactions		
Annual surplus (deficit)	\$ (5,331,612)	\$ (238,915)
Item not involving cash		
Amortization of tangible capital assets	5,716	6,349
Impairment of land held for sale	4,435,705	-
Changes in non-cash operating working capital:		
Accounts receivable	8,443	47,567
Prepaid expenses	-	875
Accounts payable and accrued liabilities	(16,743)	(12,344)
Deferred revenue	-	(5,000)
Due to related party	3,228,829	44,070
	<u>2,330,338</u>	<u>(157,398)</u>
Capital transactions		
Property and equipment additions	(980)	(1,018)
Development costs	-	(656,829)
	<u>(980)</u>	<u>(657,847)</u>
Financing transactions		
Increase (decrease) in long-term debt	<u>(2,329,258)</u>	841,795
Increase (decrease) in cash during the year	100	26,550
Cash (bank indebtedness), beginning of year	488	<u>(26,062)</u>
Cash (bank indebtedness), end of year	<u>\$ 588</u>	<u>\$ 488</u>
Supplementary Information:		
Interest Paid	\$ 329,697	\$ 295,136

Squamish Oceanfront Development Corporation

Summary of Significant Accounting Policies

December 31, 2014

**Management's
Responsibility for the
Financial Statements**

The financial statements of the Corporation are the responsibility of management. They have been prepared in accordance with Canadian public sector accounting standards.

Tangible Capital Assets

Tangible capital assets are recorded at cost less accumulated amortization. Costs includes all costs directly attributable to acquisition or construction of the tangible capital asset including transportation costs, installation costs, design and engineering fees, legal fees and site preparation costs. Contributed tangible capital assets are recorded at fair value at the time of donation, with a corresponding amount recorded as revenue. Amortization is provided using the following methods and annual rates:

Machinery and equipment - 20% declining-balance basis
Furniture and fixtures - 20% declining-balance basis
Computer hardware - 45% - 55% declining-balance basis

Land Held for Sale

Land held for sale consists of real estate property, known as the Squamish Oceanfront Lands, which are available to be sold and for which there is an available market. Land held for sale is valued at the lower of cost or expected net realizable value.

Land held for sale is written down when conditions indicate that the future economic benefits are less than their net book value. Any impairment is accounted for as an expense in the statement of operations in the period.

Squamish Oceanfront Development Corporation

Summary of Significant Accounting Policies

December 31, 2014

Use of Estimates	The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Significant items subject to such estimates and assumptions include the carrying amount of land held for sale, estimated selling price of the land, estimated costs to sell the land and contingent liabilities. Actual results could differ from those estimates and may impact the results of future periods.
Financial Instruments	The Corporation's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, and long-term debt. Unless otherwise indicated, it is management's opinion that the Corporation is not exposed to any significant interest, credit, or currency risks arising from these financial instruments.
Government Transfers	Government transfers which include government grants are recognized in the financial statements in the period in which events giving rise to the transfers occur, providing the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amount can be made.
Leasing Revenue	Leasing revenue is recognized in the financial statements in the period in which it is earned.

Squamish Oceanfront Development Corporation

Notes to Financial Statements

December 31, 2014

1. Nature of Operations and Going Concern

Squamish Oceanfront Development Corporation (the "Corporation") was incorporated on January 19, 2004 under the Business Corporations Act (British Columbia). The Corporation was originally incorporated under the name Squamish Waterfront Development Corporation and changed its name to Squamish Oceanfront Development Corporation effective September 30, 2005. The Corporation is a wholly owned subsidiary of the District of Squamish (the "District"). The Corporation is engaged in the business of developing property.

The Corporation's ability to continue as a going concern is dependent upon maintaining the bank financing, the support of the District of Squamish, and completing a profitable sale of the land held for sale. These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Corporation be unable to continue in business.

During the year, the Corporation entered into a purchase and sale agreement with a third party for the sale of all of the land held for sale. The completion of the sale is expected to occur in the spring of 2015. As at December 31, 2014, the Corporation and its sole shareholder, the District of Squamish, are still in the process of finalizing the land transaction. A sale of the land would trigger a requirement for repayment of the long-term debt (Note 4). It is expected that final arrangements will provide sufficient consideration for the Corporation to meet its financial liabilities.

2. Tangible Capital Assets

	Equipment	Furniture	Computers	Total
Cost, beginning of year	\$ 94,000	\$ 7,729	\$ 16,542	\$ 118,271
Additions	-	-	980	980
Cost, end of year	94,000	7,729	17,522	119,251
Accumulated Amortization, beginning of year	71,822	6,190	15,633	93,645
Amortization	4,435	308	973	5,716
Accumulated Amortization, end of year	76,257	6,498	16,606	99,361
Net Book Value, December 31, 2014	\$ 17,743	\$ 1,231	\$ 916	\$ 19,890
Net Book Value, December 31, 2013	\$ 22,178	\$ 1,539	\$ 909	\$ 24,626

Squamish Oceanfront Development Corporation

Notes to Financial Statements

December 31, 2014

3. Land Held for Sale

In 2005, the District contributed beneficial ownership of the land under development to the Corporation with a fair value of \$9,945,000. The District maintains legal title and acts as the bare trustee over the contributed lands.

During the year, the Corporation entered into a purchase and sale agreement with a third party for the sale of all of the land held for sale. The agreement provides for cash consideration of \$15 million and a 25% limited partnership interest in the prospective development with a provision granting the general partner the option to purchase the limited partnership at any time after the completion of the Oceanfront Park to a state that is usable by and accessible to the public. The Corporation has estimated that any recovery from the limited partnership will likely be far in the future, the present value of which is best estimated to be \$nil. Future transaction costs to finalize the sale are estimated to be \$607,600. Accordingly, a valuation allowance of \$4,435,705 has been recognized and expensed in the statement of operations.

The completion of the sale is expected to occur in the spring of 2015. As at December 31, 2014, the Corporation and District are still in the process of finalizing the land transaction.

The agreement for development of the land brings benefits to the District including the development of a major park which will become an asset of the District. However, these benefits cannot be accounted for in the Corporation's determination of the value since they accrue to the District.

4. Long-term Debt

	2014	2013
Scotiabank operating line of credit (a)	\$ 2,928,851	\$ 2,258,109
Scotiabank demand term loan (b)	5,000,000	8,000,000
	<u>\$ 7,928,851</u>	<u>\$ 10,258,109</u>

(a) The Corporation has established a demand bank operating line of credit with Scotiabank with a limit of \$3,000,000, bearing interest at the bank's prime rate payable monthly. The amount is repayable on demand, however, if the loan has not been called then it is due on May 5, 2016.

(b) The Corporation has established a non-revolving term loan with Scotiabank with a limit of \$5,000,000 bearing interest at the bank's prime rate payable monthly. Future principal payments are due: \$3,000,000 May 5, 2015 and any remaining balance on May 5, 2016.

The line of credit and term loan are collateralized by a general security agreement covering all present and future property with insurance loss payable to the Bank and an \$8,000,000 guarantee from the District.

A sale of the land would trigger a requirement for repayment of the long-term debt. It is expected that final arrangements will provide sufficient consideration for the Corporation to meet its financial liabilities.

Squamish Oceanfront Development Corporation
Notes to Financial Statements

December 31, 2014

5. Due to Shareholder

Amounts due to the District are as follows:

- (a) In May 2014, The District advanced \$3,000,000 to assist the Corporation meet it's bank loan instalment to Bank of Nova Scotia before May 4, 2014. This advance accrues interest at an annual rate that equals the Municipal Finance Authority deposit rate prevalent during the term of the Loan and is due on or before May 1, 2019. As at December 31, 2014, a balance of \$3,062,396 was outstanding.
- (b) In 2014, the District paid for expenses on behalf of the Corporation as part of the land transaction negotiations. These amounts do not accrue interest and are due on demand. As at December 31, 2014, a balance of \$214,227 (2013 - \$47,794) was outstanding.

6. Accumulated Surplus

Accumulated Surplus consists of:

	2014	2013
Share capital		
Authorized:		
Unlimited number of common shares with no par value		
Issued and outstanding		
1 common share	\$ 1	\$ 1
Accumulated surplus	3,188,854	8,520,466
	\$ 3,188,855	\$ 8,520,467

7. Commitments

The property acquired by the Corporation through beneficial interest has been remediated for historical contamination and continues to be subject to environmental regulations. As a result of these regulations, the Corporation is committed to provide continued monitoring and water treatment costs. Ongoing monitoring and treatment costs are estimated at \$60,000 per year. The Corporation is also committed to implement groundwater, soil and sediment management plans prior to undertaking any development. The cost of implementing such plans is undeterminable at this time.

The Property is currently being offered for sale. It is expected that the final arrangements will transfer the responsibility for ongoing monitoring, treatment and remediation to the purchaser.