

Financial Statements of

**THE CANADIAN REAL ESTATE
ASSOCIATION**

Year ended December 31, 2015

THE CANADIAN REAL ESTATE ASSOCIATION

Financial Statements

Year ended December 31, 2015

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INDEPENDENT AUDITORS' REPORT

To the Members of the Canadian Real Estate Association

We have audited the accompanying financial statements of the Canadian Real Estate Association, which comprise the statement of financial position as at December 31, 2015, the statements of operations, changes in fund balances and cash flows for the year then ended, and notes, comprising 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 accounting standards for not-for-profit organizations, 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.

Auditors' 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 our 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, we consider 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 the Canadian Real Estate Association as at December 31, 2015, and its results of operations, changes in fund balances and cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

February 16, 2016

Ottawa, Canada

THE CANADIAN REAL ESTATE ASSOCIATION

Statement of Financial Position

December 31, 2015, with comparative information for 2014

	2015	2014
Assets		
Current assets:		
Cash	\$ 626,335	\$ 3,497,734
Accounts receivable	1,166,322	1,223,859
Membership dues receivable (note 12(c))	3,705,649	2,627,643
Prepaid expenses	501,267	1,678,946
	<u>5,999,573</u>	<u>9,028,182</u>
Investments (note 3)	19,624,996	14,411,396
Tangible capital and intangible assets (note 4)	11,657,932	12,434,089
	<u>\$ 37,282,501</u>	<u>\$ 35,873,667</u>

Liabilities and Fund Balances

Current liabilities:		
Accounts payable and accrued liabilities (note 5)	\$ 2,333,606	\$ 2,953,246
Deferred revenue	40,097	18,062
Current portion of long-term debt (note 6)	3,245,867	518,231
	<u>5,619,570</u>	<u>3,489,539</u>
Long-term debt (note 6)	–	3,245,867
Fund balances:		
Operating Fund	12,661,110	9,747,389
Restricted Funds (note 7(b))	10,589,756	10,720,881
Capital Asset Fund	8,412,065	8,669,991
	<u>31,662,931</u>	<u>29,138,261</u>
Commitments (note 8)		
Contingencies (note 9)		
	<u>\$ 37,282,501</u>	<u>\$ 35,873,667</u>

See accompanying notes to financial statements.

On behalf of the Board:

_____ Director

_____ Director

THE CANADIAN REAL ESTATE ASSOCIATION

Statement of Operations

Year ended December 31, 2015, with comparative information for 2014

	Operating Fund	Restricted Funds	Total 2015	Total 2014
		(note 7(b))		
Revenues:				
Membership dues	\$ 37,003,413	\$ –	\$ 37,003,413	\$ 35,157,047
Technology	274,881	–	274,881	228,202
Conferences	298,574	–	298,574	306,341
Building Reserve Fund (schedule)	–	705,249	705,249	904,440
Other	71,732	340,040	411,772	213,769
Sponsorship	96,423	–	96,423	91,500
Investment	343,001	–	343,001	431,005
	38,088,024	1,045,289	39,133,313	37,332,304
Expenses:				
Services to members	19,032,108	–	19,032,108	18,670,036
Governance and representation	2,132,556	–	2,132,556	2,127,157
Operating	2,198,389	–	2,198,389	1,852,299
Salaries and benefits	10,474,152	–	10,474,152	9,943,153
Legal Defence Support Program Fund	–	676,009	676,009	608,609
Futures Fund	–	–	–	167,750
Building Reserve Fund (schedule)	–	799,909	799,909	846,021
	33,837,205	1,475,918	35,313,123	34,215,025
Excess of revenues over expenses (expenses over revenues) before amortization of tangible capital and intangible assets				
	4,250,819	(430,629)	3,820,190	3,117,279
Amortization of tangible capital and intangible assets				
	(1,234,056)	(61,464)	(1,295,520)	(1,686,915)
Excess of revenues over expenses (expenses over revenues)				
	\$ 3,016,763	\$ (492,093)	\$ 2,524,670	\$ 1,430,364

See accompanying notes to financial statements.

THE CANADIAN REAL ESTATE ASSOCIATION

Statement of Changes in Fund Balances

Year ended December 31, 2015, with comparative information for 2014

	Operating Fund	Restricted Funds (note 7(b))	Capital Asset Fund	2015 Total	2014 Total
Fund balances, beginning of year	\$ 9,747,389	\$ 10,720,881	\$ 8,669,991	\$ 29,138,261	\$ 27,707,897
Excess of revenues over expenses (expenses over revenue)	3,016,763	(492,093)	–	2,524,670	1,430,364
Transfer from Operating Fund	(500,000)	500,000	–	–	–
Net change in Capital Asset Fund:					
Tangible capital and intangible asset additions	(318,867)	(200,496)	519,363	–	–
Repayment of long-term debt	(518,231)	–	518,231	–	–
Amortization of tangible capital and intangible assets	1,234,056	61,464	(1,295,520)	–	–
	396,958	(139,032)	(257,926)	–	–
Fund balances, end of year	\$ 12,661,110	\$ 10,589,756	\$ 8,412,065	\$ 31,662,931	\$ 29,138,261

See accompanying notes to financial statements.

THE CANADIAN REAL ESTATE ASSOCIATION

Statement of Cash Flows

Year ended December 31, 2015, with comparative information for 2014

	2015	2014
Cash provided by (used in):		
Operating activities:		
Excess of revenues over expenses	\$ 2,524,670	\$ 1,430,364
Items not involving cash:		
Amortization of tangible capital and intangible assets	1,295,520	1,686,915
Gain on disposal of investments	–	(7,131)
Change in non-cash operating working capital	(440,395)	(763,110)
	<u>3,379,795</u>	<u>2,347,038</u>
Investing activities:		
Additions to investments	(5,721,686)	(1,021,173)
Tangible capital and intangible assets additions	(519,363)	(2,095,405)
	<u>(6,241,049)</u>	<u>(3,116,578)</u>
Financing activities:		
Repayment of long-term debt	(518,231)	(495,656)
Withdrawals from investments	508,086	1,341,803
	<u>(10,145)</u>	<u>846,147</u>
Increase (decrease) in cash	(2,871,399)	76,607
Cash, beginning of year	3,497,734	3,421,127
Cash, end of year	<u>\$ 626,335</u>	<u>\$ 3,497,734</u>

See accompanying notes to financial statements.

THE CANADIAN REAL ESTATE ASSOCIATION

Notes to Financial Statements

Year ended December 31, 2015

1. Operations:

The Canadian Real Estate Association (the "Association") was incorporated without share capital on November 1, 1954 under the Canada Corporations Act. Effective December 11, 2013, the Association continued their articles of incorporation from the Canada Corporations Act to the Canada Not-for-profit Corporations Act. The Association is a not-for-profit organization and as such is not subject to income tax under paragraph 149(1)(l) of the Income Tax Act (Canada).

The Association coordinates activities between individual real estate boards and provincial real estate associations. In addition, the Association at the federal level represents members' interests in all aspects of the real estate industry.

2. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the CPA Canada Handbook - Accounting and include the following significant accounting policies:

(a) Basis of presentation:

The Association follows the deferral method of accounting for contributions for not-for-profit organizations, and uses fund accounting.

These financial statements reflect the operations of the Canadian Real Estate Association. The financial statements do not include the revenues, expenses, assets and liabilities of the Association's related entities: the Canadian REALTORS Care® Foundation, Realtor Canada Inc. and its Member Boards and Provincial Associations. These organizations are disclosed in note 12.

(b) Fund accounting:

The Operating Fund reports the revenues, expenses, assets, liabilities and fund balances of the Association's general operations and services to members.

The Capital Asset Fund reports the Association's investment in tangible capital and intangible assets.

Restricted Funds are described in note 7(b).

(c) Revenue recognition:

Revenues from membership dues and technology assessments are based on membership information provided by the individual Boards enrolled in the Association. Dues received in advance of the year to which they apply are deferred and recognized as revenue in the appropriate future year. Revenues from membership initiation dues are recognized on a cash basis.

Sponsorship, building, legal defense support, and other revenues are recognized in the period to which they relate.

THE CANADIAN REAL ESTATE ASSOCIATION

Notes to Financial Statements (continued)

Year ended December 31, 2015

2. Significant accounting policies (continued):

(d) Expenses:

The Association presents its expenses by function with the exception of salaries and benefits, and amortization of tangible capital and intangible assets, which are presented separately.

Expenses are recognized in the year incurred and are recorded in the function to which they are directly related.

The Association does not allocate expenses between functions after initial recognition.

(e) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently measured at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Association has not elected to carry any such financial instruments at fair value.

Sales and purchases of investments are recorded on the trade date. Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs. These costs are amortized using the straight line method.

Financial assets are assessed for indicators of impairment on an annual basis at the end of the fiscal year. Where an indicator of impairment is present, the Association determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Association expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial impairment charge.

(f) Tangible capital and intangible assets:

Tangible capital and intangible assets are stated at cost. Betterments which extend the estimated life of an asset are capitalized. When a capital asset no longer contributes to the Association's ability to provide services, its carrying amount is written down to its residual value.

THE CANADIAN REAL ESTATE ASSOCIATION

Notes to Financial Statements (continued)

Year ended December 31, 2015

2. Significant accounting policies (continued):

(f) Tangible capital and intangible assets (continued):

Amortization is provided on the straight-line basis or declining balance method using the following annual rates:

Asset	Rate
Tangible capital assets:	
Building	4%
Office equipment	10% to 20%
Computer equipment	30%
Building improvements (straight-line)	15 years
Office improvements (straight-line)	15 years
Intangible assets:	
Computer software	30%
Web-sites	30%

The MLS Domain Name is not amortized as it has an indefinite life.

(g) Defined contribution pension plan:

The Association recognizes an expense in the Operating Fund for the contribution required to be made by the Association to the defined contribution pension plan based on employee services rendered in the year.

(h) Use of estimates:

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations 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 and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management's estimates include the recognition of membership revenue for the fourth quarter. Actual results could differ from these estimates. Estimates are reviewed annually and as adjustments become necessary, they are recognized in the financial statements in the period in which they become known.

THE CANADIAN REAL ESTATE ASSOCIATION

Notes to Financial Statements (continued)

Year ended December 31, 2015

3. Investments:

(a) Investment balances:

Investments consist of the following:

December 31, 2015	Carrying value	Fair value
Cash and cash equivalents	\$ 157,562	\$ 157,562
Guaranteed investment certificates	18,088,875	18,088,875
Corporate bonds	43,881	46,333
Equities	1,334,678	1,334,678
	<u>\$ 19,624,996</u>	<u>\$ 19,627,448</u>

December 31, 2014	Carrying value	Fair value
Cash and cash equivalents	\$ 521,173	\$ 521,173
Guaranteed investment certificates	12,739,862	12,739,862
Corporate bonds	32,300	44,501
Equities	1,118,061	1,118,061
	<u>\$ 14,411,396</u>	<u>\$ 14,423,597</u>

Investments are held by the Association to fund the Operating Fund, Contingency Reserve Fund, Legal Defense Support Program Fund, Building Capital Reserve Fund and the MLS® Domain Fund.

Investments are managed by investment managers in accordance with an investment policy approved by the Board of Directors.

(b) Effective interest rates and maturities of investments:

The Association's effective interest rate and maturity date ranges are as follows:

December 31, 2015	Interest rate	Maturity date
Guaranteed investment certificates	1.00% to 2.75%	February 2016 to October 2019
Corporate bonds	10.75%	April 2019

THE CANADIAN REAL ESTATE ASSOCIATION

Notes to Financial Statements (continued)

Year ended December 31, 2015

3. Investments (continued):

(b) Effective interest rates and maturities of investments (continued):

The Association's effective interest rate and maturity date ranges are as follows:

December 31, 2014	Interest rate	Maturity date
Guaranteed investment certificates	1.46% to 3.28%	March 2015 to May 2019
Corporate bonds	10.75%	April 2019

4. Tangible capital and intangible assets:

	Cost	Accumulated amortization	2015 Net book value	2014 Net book value
Tangible capital assets:				
Land	\$ 2,593,000	\$ –	\$ 2,593,000	\$ 2,593,000
Building	7,372,126	2,801,408	4,570,718	4,865,603
Office equipment	1,487,032	1,253,529	233,503	344,592
Computer equipment	835,279	747,905	87,374	121,195
Office improvements	1,613,325	843,319	770,006	877,561
Building improvements	1,084,046	406,649	677,397	538,365
Intangible assets:				
Computer software	1,560,775	1,462,670	98,105	173,122
Web-sites	7,058,086	6,373,107	684,979	977,801
.MLS Domain Name	1,942,850	–	1,942,850	1,942,850
	\$ 25,546,519	\$ 13,888,587	\$ 11,657,932	\$ 12,434,089

Cost and accumulated amortization of tangible capital and intangible assets at December 31, 2014 amounted to \$27,329,613 and \$14,895,524, respectively.

In the year, the Association wrote-off assets with a cost and accumulated amortization of \$2,302,457 (2014 - \$Nil).

5. Accounts payable and accrued liabilities:

At year end, the Association had no amounts payable for government remittances, such as harmonized sales tax and payroll taxes.

THE CANADIAN REAL ESTATE ASSOCIATION

Notes to Financial Statements (continued)

Year ended December 31, 2015

6. Long-term debt:

The Association has a long-term debt agreement relating to its purchase of the land and building.

	2015	2014
Term loan bearing interest of prime plus 1.00%, repayable in equal monthly instalments of principal and interest of \$56,308, maturing May 31, 2016	\$ 3,245,867	\$ 3,764,098
Current portion of long-term debt	3,245,867	518,231
	\$ –	\$ 3,245,867

The loan is secured by the land and building.

Payments of the principal portion are as follows:

	Principal
2016	\$ 3,245,867

7. Fund balances:

(a) Capital management:

The Association considers its capital to consist of its fund balances. The Association's overall objective with regards to its fund balances is to fund tangible capital and intangible assets, future projects and ongoing operations. The Association manages its net assets by establishing restricted funds and appropriating amounts to the restricted funds for anticipated future projects, contingencies and other capital requirements. These allocations are disclosed in note 7(b).

The Association is not subject to externally imposed capital requirements and its overall strategy with respect to net assets remains unchanged from the year ended December 31, 2014.

THE CANADIAN REAL ESTATE ASSOCIATION

Notes to Financial Statements (continued)

Year ended December 31, 2015

7. Fund balances (continued):

(b) Restricted funds:

Restricted funds consist of the following.

Fund	Fund balance, beginning of year	Deficiency of revenues over expenses	Appropriation from (to) Operating Fund	Appropriation from (to) Capital Asset Fund	Fund balance, end of year
Contingency Reserve Fund	\$ 6,590,447	\$ -	\$ -	\$ -	\$ 6,590,447
Legal Defence Support Program Fund	1,924,223	(335,969)	500,000	-	2,088,254
Building Reserve Fund	506,211	(156,124)	-	(139,032)	211,055
Building Capital Reserve Fund	1,000,000	-	500,000	-	1,500,000
MLS® Domain Fund	700,000	-	(500,000)	-	200,000
	\$ 10,720,881	\$ (492,093)	\$ 500,000	\$ (139,032)	\$ 10,589,756

(i) Contingency Reserve Fund:

This fund was established by the Board of Directors to improve the Association's financial position. The Association's objective is to maintain a balance equivalent to four months of operating expenses, approximately \$7 million, in the contingency reserve fund.

(ii) Legal Defense Support Program Fund:

The Legal Defense Support Program Fund was established by the Board of Directors to support boards and associations which find themselves facing litigation as a result of their adherence to, or enforcement of, national policies of the Canadian Real Estate Association. The Association's objective is to maintain a balance of approximately \$2 million in the Legal Defense Support Program Fund.

(iii) Building Reserve Fund:

This fund was established by the Board of Directors to reflect the cumulative excess of revenues over expenses from the operation of the building. The Association's objective is to maintain reserves up to \$1.5 million for future maintenance projects of the building.

(iv) Building Capital Reserve Fund:

This fund was established by the Board of Directors to cover any unanticipated costs related to tenant turnover such as leasehold improvements and free rent. The Association's objective is to maintain a minimum reserve of \$1.5 million for future unanticipated tenant costs.

THE CANADIAN REAL ESTATE ASSOCIATION

Notes to Financial Statements (continued)

Year ended December 31, 2015

7. Fund balances (continued):

(b) Restricted funds (continued):

(v) MLS® Domain Fund:

This fund was established by the Board of Directors to provide funds for potential upcoming and ongoing costs related to the application for the .mls and .realtor domain names.

8. Commitments:

The Association is committed to the rental of office equipment and web-site maintenance costs. The minimum annual payments are as follows:

2016	\$ 48,152
2017	24,076
	<hr/>
	\$ 72,228

9. Contingencies:

The Association is involved with pending litigation and claims which arise in the normal course of operations. In the opinion of management, an estimate of the potential liability from these claims cannot be made, but any liability that may arise from such contingencies would not have a significant adverse effect on the financial statements of the Association. Losses, if any, arising from these matters will be accounted for in the year in which they are resolved.

10. Pension plan:

The Association is the sponsor and administrator of the Pension Plan for the Canadian Real Estate Association (the "Plan"), which is registered under the Pension Benefits Act (Ontario). The Plan is a defined contribution plan covering all the employees of the Association who meet eligibility requirements as specified in the Plan Agreement, and elect to join the Plan. The Association matches a percentage of gross earnings for all members of the Plan based on the employees' years of experience at the Association. In the year, the Association contributed \$428,193 (2014 - \$441,823) to the Plan, which is recorded in salaries and benefits expense.

THE CANADIAN REAL ESTATE ASSOCIATION

Notes to Financial Statements (continued)

Year ended December 31, 2015

11. Financial risks:

(a) Credit risk:

The Association is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments. Credit exposure is minimized by dealing mostly with creditworthy counterparties such as Canadian real estate boards, governments and public companies.

The Association assesses, on a continuous basis, accounts and membership dues receivables and provides for any amounts that are not collectible in an allowance for doubtful accounts. At year end, there were no amounts allowed for in accounts and membership dues receivable.

(b) Interest rate risk:

The Association is exposed to interest rate risk with respect to its interest-bearing investments and long-term debt as disclosed in notes 3 and 6.

(c) Foreign currency risk:

The Association believes that it is not exposed to significant foreign currency risk arising from its financial instruments.

12. Related party transactions:

The Association is related to the Canadian REALTORS Care® Foundation, Realtor Canada Inc. and its Member Boards and Provincial Associations:

(a) Canadian REALTORS Care® Foundation:

The Association is related to the Canadian REALTORS Care® Foundation by virtue of its financial and operational support. The Foundation was incorporated without share capital under Part II of the Canada Corporations Act on October 5, 2006 and effective August 29, 2013 continued their articles of incorporation under the Canada Not-for-profit Corporations Act. The Foundation is a registered charity under the Income Tax Act (Canada). The Foundation is a promotional and public relations vehicle for charitable efforts for REALTORS® and provides administrative service to Boards and Associations regarding the collection and disbursement of funds and provision of charitable tax receipts.

THE CANADIAN REAL ESTATE ASSOCIATION

Notes to Financial Statements (continued)

Year ended December 31, 2015

12. Related party transactions (continued):

(a) Canadian REALTORS Care® Foundation (continued):

The Foundation's assets, liabilities and net assets, revenues and expenses are as follows for the year ended December 31:

	2015	2014
Assets	\$ 175,531	\$ 163,101
Liabilities	\$ 16,648	\$ 16,250
Net assets	158,883	146,851
Total liabilities and net assets	\$ 175,531	\$ 163,101
Revenues:		
Contribution from the Association	\$ 80,500	\$ 75,500
Donations	1,500	1,043
Investment income (loss)	(2,745)	575
	79,255	77,118
Expenses:		
Contributions to other registered charities	2,200	1,043
Other	65,023	49,802
	67,223	50,845
Excess of revenues over expenses	\$ 12,032	\$ 26,273

(b) REALTOR® Canada Inc.:

The Association is related to REALTOR® Canada Inc. by virtue of its 50% ownership of the shares in REALTOR® Canada Inc., which is a for-profit entity. The objective of REALTOR® Canada Inc. is to hold the trademark registration for the term REALTOR® in Canada. REALTOR® Canada Inc. has no assets or liabilities and had no financial transactions during the year.

(c) Member Boards and Provincial Associations:

The Association is related to its member real estate boards and provincial associations by virtue of its governance structure. The Association and the member boards and provincial associations provide services to their members in an integrated manner.

The Association collects membership dues from individual members through the member boards. National fees are collected by the member boards and then forwarded to the Association. All other transactions between the Association and the member boards and provincial associations occur in the normal course of operations for the Association.

THE CANADIAN REAL ESTATE ASSOCIATION

Notes to Financial Statements (continued)

Year ended December 31, 2015

13. Comparative information:

Certain 2014 comparative information has been reclassified to conform with the financial statement presentation adopted for 2015.

THE CANADIAN REAL ESTATE ASSOCIATION

Schedule of Revenues and Expenditures - Building Reserve Fund

Year ended December 31, 2015, with comparative information for 2014

	2015	2014
Revenues:		
Rental	\$ 528,785	\$ 614,609
Operating recoveries from tenants	89,250	189,976
Parking	84,887	94,386
Interest	2,327	5,469
	<u>705,249</u>	<u>904,440</u>
Expenditures:		
Operating:		
Property taxes	284,758	285,835
Repairs and maintenance	230,676	288,023
Utilities	174,075	183,163
Management fee	58,705	56,081
Administrative	51,695	19,492
	<u>799,909</u>	<u>832,594</u>
Capital	200,496	13,427
	<u>1,000,405</u>	<u>846,021</u>
Excess of revenues over expenditures (expenditures over revenues)	\$ (295,156)	\$ 58,419

The Association capitalized \$200,496 (2014 - \$Nil) of the capital expenditure of the building.