AGENDA

AUDIT COMMITTEE

October 24, 2019, 9:30 AM

IN THE COUNCIL CHAMBER

Members

Councillor E. Woolley, Chair
Councillor J. Gondek, Vice-Chair
Councillor G-C. Carra
Councillor J. Farkas
Citizen Representative L. Caltagirone
Citizen Representative M. Dalton
Citizen Representative M. Lambert
Mayor N. Nenshi, Ex-Officio

1. CALL TO ORDER

2. OPENING REMARKS

3. CONFIRMATION OF AGENDA

4. CONFIRMATION OF MINUTES

   4.1 Minutes of the Regular Meeting of the Audit Committee, 2019 September 06

5. CONSENT AGENDA

   5.1 DEFERRALS AND PROCEDURAL REQUESTS
   None

   5.2 BRIEFINGS
   None

6. POSTPONED REPORTS
   (including related/supplemental reports)

   None

7. ITEMS FROM OFFICERS, ADMINISTRATION AND COMMITTEES

7.1 Calgary Economic Development Audit Committee Annual Report, AC2019-0625

7.2 Opportunity Calgary Investment Fund Audit Committee Annual Report, AC2019-0890

7.3 Attainable Homes Calgary Corporation Audit and Accountability Committee Annual Report, AC2019-0646

7.4 Calgary Housing Company 2018 Annual Report, AC2019-0645

7.5 Data Analytics Desktop Review Program, AC2019-1242

7.6 City Auditor's Office Revised 2020 Audit Plan, AC2019-1243

7.7 Off-site Levy Annual Reporting Audit, AC2019-1241

7.8 City Auditor's Office 3rd Quarter 2019 Report, AC2019-1244

7.9 Comprehensive Public Sector Pension Review Referral to Audit Committee Final Report, AC2019-1329

7.10 2019 Law and Corporate Security Report, AC2019-1361

8. ITEMS DIRECTLY TO COMMITTEE

8.1 REFERRED REPORTS
None

8.2 NOTICE(S) OF MOTION
None

9. URGENT BUSINESS

10. CONFIDENTIAL ITEMS

10.1 ITEMS FROM OFFICERS, ADMINISTRATION AND COMMITTEES

10.1.1 External Auditor Pre-Approval Request, AC2019-1362
Held confidential pursuant to Sections 16 (Disclosure harmful to business interests of a third party) and 24 (Advice from officials) of the *Freedom of Information and Protection of Privacy Act*.

REVIEW DATE: 2020 October 24

10.1.2 External Auditor Provision of Additional Services, AC2019-1363
Held confidential pursuant to Sections 16 (Disclosure harmful to business interests of a third party) and 24 (Advice from officials) of the *Freedom of Information and Protection of Privacy Act*.

REVIEW DATE: 2020 April 24

10.1.3 Audit Forum (Verbal), AC2019-1210

10.1.4 External Auditor (Verbal), AC2019-1212

10.1.5 City Auditor (Verbal), AC2019-1214

10.2 URGENT BUSINESS

11. ADJOURNMENT

MINUTES

AUDIT COMMITTEE

September 6, 2019, 9:30 AM
IN THE COUNCIL CHAMBER

PRESENT:	Councillor E. Woolley, Chair Councillor J. Gondek, Vice-Chair Councillor G-C. Carra Councillor J. Farkas Citizen Representative L. Caltagirone Citizen Representative M. Dalton Citizen Representative M. Lambert
ALSO PRESENT:	Acting Chief Financial Officer, C. Male City Auditor K. Palmer Executive Assistant C. Smillie External Auditor H. Gill Acting City Clerk K. Martin Legislative Advisor J. Palaschuk

1. CALL TO ORDER

Councillor Woolley called the Meeting to order at 9:33 a.m.

2. OPENING REMARKS

Councillor Woolley provided opening remarks and introduced Shahid Qureshi, a former member of the Audit Committee.

3. CONFIRMATION OF AGENDA

Moved by Councillor Carra

That the Agenda for the 2019 September 6 Regular Meeting of the Audit Committee be confirmed.

MOTION CARRIED

4. CONFIRMATION OF MINUTES

4.1 Minutes of the Regular Meeting of the Audit Committee, 2019 July 23

Moved by Citizen Representative Caltagirone

That the Minutes of the 2019 July 23 Regular Meeting of the Audit Committee be confirmed.

MOTION CARRIED

5. CONSENT AGENDA

5.1 DEFERRALS AND PROCEDURAL REQUESTS

None

5.2 BRIEFINGS

None

6. POSTPONED REPORTS

None

7. ITEMS FROM OFFICERS, ADMINISTRATION AND COMMITTEES

7.1 Calgary Police Commission Finance and Audit Committee Annual Report, AC2019-0629

A document entitled 'Calgary Police Service Financial Statements' dated 2018, December 31, was distributed with respect to Report AC2019-0629.

Moved by Councillor Gondek

That with respect to Report AC2019-0629, the following be approved:

That the Audit Committee receives the verbal presentation and distribution from the Calgary Police Commission for information.

MOTION CARRIED

7.2 Calgary Parking Authority Annual Report to Audit Committee, AC2019-0630

A revised Attachment 5 was distributed with respect to Report AC2019-0630.

Moved by Citizen Representative Dalton

That with respect to Report AC2019-0630, the following be approved:

That the Audit Committee receive the presentation from the Calgary Parking Authority for information and the Corporate Record.

MOTION CARRIED

7.3 Green Line LRT - Project Governance Update (Verbal), AC2019-1107

Moved by Councillor Carra

That with respect to Verbal Report AC2019-1107, the following be approved:

That the Audit Committee receive Verbal Report, Green Line LRT - Project Governance Update, for information.

MOTION CARRIED

7.4 Human Resources Challenges and Opportunities (Verbal), AC2019-1095

Committee, by general consent, suspended Section 78(2)(a) of the Procedure Bylaw, 35M2017, as amended, to complete the remainder of the Agenda prior to the scheduled lunch recess.

Moved by Councillor Gondek

That with respect to Verbal Report AC2019-1095, the following be approved:

That the Audit Committee receive the presentation from Human Resources for information and for the Corporate Record.

MOTION CARRIED

7.5 Supply Management Warehouse and Inventory Audit, AC2019-1027

Moved by Citizen Representative Lambert

That with respect to Report AC2019-1027, the following be approved:

That the Audit Committee:

1. Receive report AC2019-1027 for the **Corporate Record**; and
2. Recommend that Council receive Report AC2019-1027 for the **Corporate Record**

MOTION CARRIED

8. ITEMS DIRECTLY TO COMMITTEE

8.1 REFERRED REPORTS

8.1.1 Comprehensive Public Sector Pension Review, (C2019-0568), AC2019-1041

A Supplementary Report was distributed with respect to Report AC2019-1041.

Moved by Councillor Gondek

That with respect to Report AC2019-1041, the following be approved:

That the Audit Committee recommends Council direct Audit Committee to provide final recommendations on how to best achieve the intent of Notice of Motion C2019-0568 at the 2019 November 18 Combined Meeting of Council.

MOTION CARRIED

Moved by Councillor Gondek

That Committee reconsider it decision with respect to Report AC2019-1041

MOTION CARRIED

Moved by Councillor Gondek

That with respect to Report AC2019-1041, the following be approved:

1. That Council approve the Audit Committee request to defer their September Report to 2019 November to allow the Working Group the opportunity to complete their work; and
2. The Audit Committee accept the distributed Report into the Corporate Record.

MOTION CARRIED

8.2 NOTICE(S) OF MOTION

None

9. URGENT BUSINESS

None

10. CONFIDENTIAL ITEMS

Moved by Councillor Farkas

That pursuant to Sections 16 (Disclosure harmful to business interests of a third party), 19 (Confidential evaluations), 24 (Advice from officials), and 25 (Disclosure harmful to economic and other interests of a public body) of the *Freedom of Information and Protection of Privacy* Act, the Audit Committee move into Closed Meeting in the Council Lounge, at 12:26 p.m. to discuss confidential matters, with respect to the following items:

- 10.1.1. Audit Forum (Verbal), AC2019-0993
- 10.1.2. External Auditor (Verbal), AC2019-0994
- 10.1.3. City Auditor (Verbal), AC2019-0995
- 10.1.4. External Auditor 2018-2019 Performance Assessment, AC2019-0937

And further, that Harman Gill and Ivana Cvitanusic, External Auditors, (Deloitte LLP), be invited to attend the Closed Meeting.

MOTION CARRIED

Committee moved into Public Meeting at 1:01 p.m. with Councillor Woolley in the Chair.

Moved by Councillor Gondek

That Committee rise and report.

MOTION CARRIED

10.1 ITEMS FROM OFFICERS, ADMINISTRATION AND COMMITTEES

10.1.1 Audit Forum (Verbal), AC2019-0993

People in attendance during the Closed Meeting discussions with respect to Report AC2019-0993:

Administration: K. Martin. Advice: C. Male. Observer: K. Palmer and C. Smillie. External Advice: H. Gill and I. Cvitanusic.

Moved by Citizen Representative Lambert

That with respect to Verbal Report AC2019-0993, the following be approved:

That the Audit Committee:

1. Receive Verbal Report AC2019-0993 for information; and
2. Direct the Closed Meeting discussions remain confidential pursuant to Sections 24 (Advice from officials) and 25 (Disclosure harmful to economic and other interests of a public body) of the *Freedom of Information and Protection of Privacy Act*.

MOTION CARRIED

10.1.2 External Auditor (Verbal), AC2019-0994

No report was given.

10.1.3 City Auditor (Verbal), AC2019-0995

People in attendance during the Closed Meeting discussions with respect to Report AC2019-0995:

Administration: K. Martin. Advice: C. Male. Observer: K. Palmer and C. Smillie.

Moved by Citizen Representative Caltagirone

That with respect to Verbal Report AC2019-0995, the following be approved:

That the Audit Committee:

1. Receive Verbal Report AC2019-0995 for information; and
2. Direct the Closed Meeting discussions remain confidential pursuant to Section 24 (Advice from officials) of the *Freedom of Information and Protection of Privacy Act*.

MOTION CARRIED

10.1.4 External Auditor 2018 - 2019 Performance Assessment, AC2019-0937

A revised confidential Attachment 1 was distributed with respect to Report AC2019-0937.

People in attendance during the Closed Meeting discussions with respect to Report AC2019-0937:

Administration: K. Martin. Advice: C. Male. Observer: C. Smillie.

Moved by Councillor Farkas

That with respect to Report AC2019-0937, the following be approved:

That the Audit Committee:

1. Receive Report AC2019-0937 for the Corporate Record;
2. Forward the Report and Attachments to Council for information; and
3. Direct the Report, revised Attachments, and Closed Meeting discussions remain confidential pursuant to Sections 16 (Disclosure harmful to business interests of a third party) and 19 (Confidential evaluations) of the *Freedom of Information and Protection of Privacy Act*, to be reviewed by 2034 September 06.

MOTION CARRIED

10.2 URGENT BUSINESS

None

11. ADJOURNMENT

Moved by Citizen Representative Lambert

That this meeting adjourn at 1:05 p.m.

MOTION CARRIED

The following items have been forwarded to the 2019 September 30 Combined Meeting of Council:

CONSENT:

- Supply Management Warehouse and Inventory Audit, AC2019-1027

CONFIDENTIAL CONSENT:

- External Auditor 2018-2019 Performance Assessment, AC2019-0937

The next Regular Meeting of the Audit Committee is scheduled to be held 2019 October 24

CONFIRMED BY COMMITTEE ON

CHAIR	ACTING CITY CLERK

**Calgary Economic Development Report to Audit Committee
2019 October 24**

**ISC: UNRESTRICTED
AC2019-0625**

Calgary Economic Development Audit Committee Annual Report

EXECUTIVE SUMMARY

This report is the annual report to The City of Calgary's Audit Committee from Calgary Economic Development.

CALGARY ECONOMIC DEVELOPMENT RECOMMENDATION:

That the Audit Committee receives the presentation for information.

PREVIOUS COUNCIL DIRECTION / POLICY

The City of Calgary Audit Committee Bylaw 48M2012, states that the Audit Committee is responsible for:

> "overseeing its governance responsibility with audit committees of The City's major autonomous civic entities."
>
> Section 4(1)(i)

BACKGROUND

A letter dated 2019 May 6 was provided to the President and Chief Executive Officer of Calgary Economic Development from the City of Calgary Audit Committee Chair requesting a report and presentation on its 2018 Annual Report, risk management processes and the Audit and Finance Committee terms of reference.

The letter outlined the items to be provided in their annual report to The City's Audit Committee, as follows:

1. **Brief summary on governance structure, succession planning and recruitment process, recent financial highlights and key 2019 initiatives/strategy;**

1.1 Governance Structure

(a) Calgary Economic Development

CED was incorporated as Promoting Calgary Inc. under the Business Corporations Act in the province of Alberta in July 1999. It was reconstituted and changed its name to Calgary Economic Development Ltd. on January 1, 2003. CED is a government non-profit organization under the Income Tax Act of Canada and accordingly is exempt from income taxes under section 149(1)(e) or (l). CED is a controlled not-for-profit (NFP) organization of The City of Calgary with 100 shares issued.

CED's mission is we collaborate to advance opportunities in achieving economic success, embracing shared prosperity and building a strong community for Calgary. CED's purpose is to work with business, government and community partners to position Calgary as the location of choice for the purpose of attracting business investment, fostering trade and growing Calgary's workforce.

As a wholly owned subsidiary of The City of Calgary, CED is governed by an independent Board of Directors (the "Board) is currently made up of 18 directors with varied industry

Calgary Economic Development Audit Committee Annual Report

experience. The Board oversees the organization's overall strategic direction while management develops strategy and manages and conducts the day-to-day business.

The Board approves the mission, the 4-year corporate strategy, the annual business plan, and the annual budget. It monitors risk and compliance with fiduciary and legal requirements of the organization. It delegates to management the achievement of strategic, financial and other plans. CED's responsibilities to its multiple stakeholders are paramount in conducting its business. The overriding objective for the Board is the maximize the value of the work of CED.

The Board is supported by four board committees, which includes the Corporate Governance and Effectiveness Committee, the Audit Committee, the Performance and Compensation Committee, and the Economic Strategy Committee. Alongside CED's Board and board committees, CED manages the Board of Directors and board committees for Calgary Film Centre Ltd. ("CFCL") and Opportunity Calgary Investment Fund Ltd. ("OCIF").

In addition to the various boards and board committees, in 2018 there were sector specific Advisory Committees and several ad-hoc committees that supported CED's work in a specific sector and the implementation of the economic strategy for Calgary. These committees included:

1) Agribusiness;
2) Renewable Energy;
3) Energy Services;
4) Transportation and Logistics;
5) Workforce; and
6) Real Estate.
7) Life Sciences
8) Marketing and Brand

The Calgary Executive Roundtable was created in December 2017 to receive direct input on the updated economic strategy for Calgary and was disbanded in June 2018 following the completion and unanimous approval by City Council of *Calgary in the New Economy.* As the stewards of the *Calgary in the New Economy,* in 2018 CED also coordinated Talent, Innovation, Business Friendliness and Place Committees, as well as an overarching Leadership Implementation Team, which draws representation from the entire strategy. All orders of government, education, and industry are well represented at each of these committees to oversee the strategy's implementation. CED also sits on the City of Calgary's Downtown Strategy Committee and Business Advisory Committee.

CED has been receiving contributions from The City of Calgary since incorporation to sustain its operations. In 2018, CED received an operating grant of $5,808,765 (2017 - $5,584,179). The base grant contributed 48% (2017 – 45%) of CED's revenue in 2018. Additional revenue sources in 2018 included revenue recognition on The City of Calgary Economic Resiliency funds $2.5 million (2017 - $2.4M), private sector revenue of $1.3 million (2017 - $1.7M), and revenue recognition on funding from other orders of government $1.5M (2017 – $2.3M).

(b) Calgary Film Centre Ltd.

CFCL was incorporated as The Alberta Creative Hub under the Companies Act in the province of Alberta in on December 17, 2009. It was reconstituted and changed its name to Calgary Film Centre Ltd. on June 23, 2014. CFCL is a government non-profit organization under the Income

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Tax Act of Canada and accordingly is exempt from income taxes under section 149(1)(e) or (l). CFCL is a wholly owned subsidiary of CED.

CFCL is governed by an independent Board of Directors that reports to the CED Board of Directors and CED Audit Committee. In 2018, the Board of Directors had six Directors, which included one Director from the CED Board and the President and CEO of CED. On August 13, 2018 the Board was reduced to five directors as President and CEO of CED resigned from the CFCL Board coinciding with her leave of absence from CED to lead the 2026 Olympic Bid (July 2018 – January 2019). At the Annual General Meeting held on April 18, 2018 the slate of Directors agreed to continue serving on the CFCL Board until the sale of the facility to The City of Calgary was finalized. Following the sale of the facility in October 2018, the Board of Directors was reconstituted when four of the six Directors stepped down and were replaced by one CED board representative and one City Council representative from The City of Calgary. As of December 31, 2018, the CFCL Board of Directors is made up of four Directors including an independent Board Chair, Patricia McLeod, Councillor Jeff Davison as The City of Calgary's representative, and two representatives from the CED Board in Quincy Smith and Debra Deane. In May 2019, Debra Deane resigned from both the CED and CFCL Board and it was determined a three (3) person CFCL Board was sufficient given the current composition with independent, CED and City representatives.

CFCL's Board of Directors was supported by a CED and CFCL Joint Sub-Committee. The CED and CFCL Joint Sub-Committee was created in November 2017 to monitor debt and cash flow of the Calgary Film Centre and was disbanded in September 2018 due to the sale of the facility to The City of Calgary. Given that there are no committees of the CFCL Board, the CFCL financial and board reports are monitored by the CED Audit Committee and tabled at the CED Board of Directors meetings on a quarterly basis.

1.2 Succession Planning and Recruitment Process

CED has a succession plan for each of the senior management team members and a development plan for high potential management within the organization. The succession plan is reviewed and updated by the organization annually. In 2018, there were seven senior management roles in place. Management completed a succession plan for those key positions. The senior management team and key leaders were supported with one on one executive coaching and are undertake a management test called Success Finder as part of their ongoing developmental journey. CED supports ongoing training and development for all leaders and employees.

The organization has also commenced succession planning for the Board Chair. The term of the current Board Chair expires in May 2020 and as such in late 2018 CED began to engage with local recruitment firms to begin the succession and recruitment process, which resulted in five (5) Board appointments at the AGM on June 24, 2019 and a new Board Chair in Q4 2019.

The Board Manual includes a Board Recruitment Policy that sets out the steps and requirements for board recruitment and the nomination of new Directors. Under the Board Recruitment Policy, the Board reviews and approves the recruitment procedure for new directors on an annual basis, including utilization of an open and transparent process. Under the policy the Board delegates the execution of the recruitment to the Corporate Governance and

Calgary Economic Development Audit Committee Annual Report

Effectiveness Committee. CED board recruitment is a public process open to the whole community and key stakeholders are notified of any vacancies on the Board. Action Calgary (now Team Calgary) Partners and CED's Advisory Committee are viewed as a pathway for industry leaders to learn more about the organization to qualify for open Board positions.

The Board is carefully composed of Directors from legal, financial and key sector backgrounds. A Skills Matrix of the Board is consolidated and reviewed by the Corporate Governance and Effectiveness Committee on an annual basis evaluating skills, diversity, and experience of individual Board members. Consideration of applicants is based on areas of industry representation and experience that are identified by the Skills Matrix and Corporate Governance and Effectiveness Committee as underrepresented by the current makeup of the Board.

Board Directors for CED are appointed at the annual general meeting of the shareholder for one or two years terms and are eligible for re-election to a maximum of six consecutive years. A Director who has served a maximum term on the CED Board may be re-appointed after an absence of at least one year.

In 2019, the CED Board of Directors decreased in size by five members – Jeff Fielding, Kevin Zimmel, Tom Hodson, Hannes Kovac and Debra Deane. City Council appointed Glenda Cole to the CED Board of Directors effective March 29, 2019 to replace Jeff Fielding as the interim City Manager. Glenda Cole was subsequently replaced on September 24, 2019 when the City Council appointed a new City Manager, David Duckworth. In 2020, the size of the Board with be decreased further with the exit of four further members – Steve Allan, Brad Pierce, Quincy Smith, and Leontine Atkins. On June 14, 2019, the CED Board of Directors appointed five new Directors (Charles Duncan, Katherine Emberly, Christine Gillespie, Andrea Whyte, and Robert Hayes) identified in the recruitment process with the goal of achieving a Board size of fourteen to fifteen Directors by June 2020. The demographic of the CED board currently includes 50% male to female representation. In Q4 2019, Steve Allan will be stepping down as the CED Board Chair and Joe Lougheed will be appointed as the new Chair of the Board.

See Attachment 13.0 for List of CED Board Directors

1.3 Recent Financial Highlights

(a) Calgary Economic Development Ltd.

CED's December 31, 2018 financial statement audit was approved by the Board and completed on March 29, 2019. The December 31, 2018 audited financial statements and auditor's year end communications are attached to this report. *See Attachments 1.0 and 2.0.*

MNP provided an audit opinion that the financial statements present fairly, in all material respects, the financial position of CED as at December 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with Canadian Public Sector Accounting Standards for Not-For-Profit Organizations. CED uses deferral method of accounting for contributions such that restricted contributions are recognized as revenue in the year in which the related expenses are incurred.

Calgary Economic Development Audit Committee Annual Report

CED has received core funding from the City of Calgary since inception to sustain its operations. In 2018, the Company received an operating grant of $5,808,765 (2017 - $5,584,179). The base grant contributed 48% of CED's revenue in 2018 (2017 - $45%). Additional revenue and funding sources in 2018 include a onetime grant: from the City of Calgary Economic Resiliency funds of $2.7 million (2017 - $2.4M), from other orders of government of $1.5M (2017- $2.3M). Other revenue sources include private sector revenue of $1.3 million (2017 - $1.7M).

The December 31, 2018 accumulated surplus was $1,044,596. CED has maintained this level of surplus due to uncertainly of cash flow with short term funding, potential decrease in core funding and to support CFCL's cash position, which at one point had a loan of $900,000 from CED. In turn look for additional support from the private sector and other orders of government which are unpredictable sources that could fluctuate annually. The surplus is expected to be reduced over the next three to five years, as CFCL no longer has debt and it's not anticipated to have cashflow shortfalls. CED's cash position at yearend is relatively strong.

The restricted cash and deferred contributions are both down significantly year-over-year, which is related to use of one-time grant funding received in 2018 from the City of Calgary's Resiliency Fund, Government of Canada's Western Diversification and Government of Alberta.

During 2018 CED, continued to execute on the initiatives to expand CED's out of market and local marketing campaigns, further develop Calgary as an inland port, expand agribusiness and renewables initiatives, and focus on real estate/head office strategy for Calgary. The result was an increase in the number of jobs and companies created and/or retained. See *Attachment 6.0* for CED's Balanced Score Card and Key Performance Indicators.

(b) Calgary Film Centre Ltd.

CFCL's December 31, 2018 financial statement audit was approved by the CFCL Board and completed on March 20, 2019. The December 31, 2018 audited financial statements and auditor's year end communications are attached to this report. *See Attachments 3.0 and 4.0.*

MNP provided an audit opinion that the financial statements present fairly, in all material respects, the financial position of CFCL as at December 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with Canadian Public Sector Accounting Standards for Not-For-Profit Organizations. CFCL uses the deferral method of accounting for contributions such that restricted contributions are recognized as revenue in the year in which the related expenses are incurred.

CFCL earned $1,031,314 in rental revenue in 2018 (2017 - $941,809). CFCL received a grant from the Government of Alberta in 2018 for $315,000 to support programming related activities. Deferred revenue recognized by CFCL was $503,145 (2017 - $315,910).

On October 19, 2018 CFCL sold the land, buildings and its related fixtures to The City for proceeds of $12,679,332. The total proceeds from the sale were used to settle the outstanding debt of CFCL including the loan of $900,000 from CED. This has allowed CFCL to focus on sales and marketing. The has proved to be a successful undertaking as in 2019CFCL is forecasting a 77% occupancy level and will breakeven for the fiscal year.

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Key 2019 Initiatives/Strategy

CED's major initiatives are led by the economic strategy and the four pillars contained therein. CED has been reorganized in order to better align with *the* New Economic Strategy, including new 4-year Corporate Strategy and Annual Business Plan. The 2019 Business Plan was adapted with four new strategic objectives to measure the organization's success – (1) high performing and engaged team, (2) exceptional client service, (3) global recognition as a place to learn, live and do business, and (4) accelerate sector development and diversification.

See Attachments 5.0 and 6.0.

2. Report on the organization's key operating and strategic risks including trends and risk management plans and processes;

CED and CFCL create and regularly update an Enterprise Risk Matrix to identify and manage risks and identify mitigating strategies (s*ee Attachments 7.0 and 8.0*). Risks are identified using four broad categories:

1) Financial;
2) Reputational and Relevance;
3) Safety and Security; and
4) Sustainability and Operational.

Within each category identified risks are assigned as low, medium or high probability of occurrence. Mitigating strategies are outlined for every risk identified in the Enterprise Risk Matrix *(See Attachment 7.0)*, which is reviewed and updated by the Audit Committee, the Performance and Compensation Committee, and the Board of Directors on a quarterly basis.

3. Analysis of the top three financial and/or operational risks that in our opinion would impact the City of Calgary and be of concern to the City's Audit Committee;

As of December 31, 2018, CED's top three operating and strategic risks are:

1) Financial Risk: Reliance on various sources of public and private sector revenue and the financial support of the Calgary Film Centre. High probability with a potentially high impact.
2) Reputational Risk: Opportunity Calgary Investment Fund Ltd. ("OCIF"). High probability with a potentially high impact.
3) Sustainability and Operational: Human Resources. High probability with a potentially high impact due to no salary increases in 5 years and high attrition.

CED is actively focused on mitigating strategies to minimize the financial and reputational risks of the top three risks noted above.

Financial Risk: Reduction in Revenue

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In 2018, CED had multiple sources of short-term funding from all orders of government and is becoming increasingly reliant on private sector revenue to help sustain the organization's marketing and promotional projects. As the profile of the organization increases in the community, CED is asked by government, civic partners, and industry to take on more initiatives. As a result, the organization has had to look to the private sector to secure additional revenue to be able continue to play a key role in the community. However, CED's 67 industry partners are susceptible to decrease in revenue because of the downturn, which in turn affects CED's ability to secure private funding.

In June 2019, CED received a notice from The City that its 2019 core funding would be reduced by $269K as part of the One Calgary budget reductions. Furthermore, 2020 core funding by The City could be reduced also be reduced between $148K to $294K with a potential for further reductions. To ensure continued revenue from the private sector the organization has developed a new Action Calgary strategy rebranded as Team Calgary, which was approved by the Board in 2019. While private sector revenue is more volatile than other sources, the revenue targets for the Team Calgary program continue to be increased to offset the One Calgary budget reductions.

On September 24, 2019 the CED Board of Directors approved a reduction of the retained earnings balance going forward in the context of this challenge, to help address Human Resource needs, and the additional surplus is no longer required to support the Calgary Film Centre financially.

Reputational Risk: Calgary Film Centre Ltd.

CFCL, a wholly owned subsidiary of CED, has acted to mitigate financial risk by selling the facility to The City of Calgary in 2018 and eliminating all third-party and inter-company debt. CFCL continues to manage and operate the facility and tenants under a Head Lease with The City of Calgary. In 2017, CED and CFCL engaged third-party consultants to provide a third-party situation assessment and viable business plan for the Calgary Film Centre. Following the third-party consultation, CED worked with CFCL to develop a new 2018 and 4-year strategy for the Calgary Film Centre. The new strategy aims to diversify the range of clients by refocusing the mix of marketing and sales efforts to new markets, increasing lead generation and conversion rates. Due to an uncompetitive incentive program, there is still a financial risk as we try to compete with other Canadian jurisdictions with strong incentives.

CFCL creates a reputational risk for CED, as the long-term financial viability and occupancy of CFCL is largely dependent on the Alberta Media Fund incentive program and related policy change with the Government of Alberta. Both CED and CFCL have engaged with government to discuss the Alberta Media Fund and its impact on both the industry in Alberta and the Calgary Film Centre and is actively working to change the incentive.

Reputational Risk: Opportunity Calgary Investment Fund Ltd.

Another reputational risk for CED is OCIF, which is the risk attached to a government grant program and the public's perception on who qualifies versus who does not. There is also the additional risk of the program's overall reputation and in turn CED's reputation regarding the

Calgary Economic Development Audit Committee Annual Report

success of applicants that do receive funding as there is no guarantee of their success. It is CED's responsibility via the Management Services agreement, and as Manager of OCIF, to make sure that we are administrating, communicating, servicing and redirecting applicants. CED and OCIF teams have been working with the OCIF Board of Directors to ensure a strong intake process, due diligence, milestone-based contribution agreements, and strategic direction that aligns with the strategy outlined in the new economic strategy. Calgary in the New Economy. The OCIF Board of Directors was elected in May 2018, which includes Mayor Naheed Nenshi, Councillor Jeff Davison, the CED Board Chair, and seven independent directors. As the stewards of OCIF, CED has worked with the OCIF Board and the board committees to ensure that governance best practices are implemented, and that third-party due diligence is used to review business cases prior to investment.

Sustainable and Operational: Human Resources

CED's main operational risk is the human resource risks due to heavy workloads, recent increased attrition, salary freezes, and succession planning in a small, not for profit corporation. CED is currently managing three organizations with OCIF and CFCL and given the number of important initiatives the organization is involved with, the employees continue to experience a heavy workload. Additionally, given that CED is a lean organization, management has identified succession planning as a priority for the organization and to continue to work on skills that will be required for the future. To mitigate any future risks within human resources, CED completes an Annual Talent Review and Succession Plan, which identifies key individuals in the organization for future growth opportunities. CED engaged third-party consultants to provide key leadership with skills development and coaching. CED also engaged a firm to do a HR review, including hiring and onboarding practices. During the President and CEO's leave of absence in 2018, the Senior Management Team took on additional responsibilities and gained valuable experience to support the succession planning process.

4. Report on internal controls including information technology and systems;

CED has implemented several controls as part of its fraud prevention activities, including appropriate segregation of duties and regular reviews of financial results. Approval processes and procedures are in place and reviewed regularly. As part of the audit, CED has an annual fraud risk assessment with the audit committee.

CED has outsourced its IT Services to Northern Backup and adopted a cloud strategy by leveraging Microsoft's Office 365 platform. Northern Backup provides technology services, helpdesk and technical support. CED has also expanded its IT team using third parties to include Office 365 security and deployment experts.

In 2018 and 2019, the following services were relocated to the OCIF 365: Email, Telephone, Instant Messaging and File Storage and Sharing. This migration was completed in a controlled manner ensuring that service interruptions were kept to a minimum and that date was protected from risks during the move. As part of CED's data loss prevention strategies, the Corporation has implemented the following:

- Adopted an IT strategy with cloud first initiative in mind.
- Updated Data Retention and Destruction Policy

Calgary Economic Development Audit Committee Annual Report

- All workstations and servers are regularly patched as well as monitored for any problems; and
- Redundant backup systems are in place protecting CED information.

CED, in conjunction with its IT provider, has a fully hosted computing on cloud-based solution and a business continuity plan.

5. Most recent management letter including management responses as appropriate; and

MNP LLP, auditors for both CED and CFCL, attended the March meetings of the CED Audit Committee, CED Board of Directors, and the CFCL Board of Directors to present their reports for both CED and CFCL for the year ended December 31, 2018.

See Attachments 1.0 and 3.0.

6. Audit Committee 2019 Work Plan

See Attachment 9.0.

Calgary Economic Development Report to Audit Committee 2019 October 24

ISC: UNRESTRICTED AC2019-0625

Calgary Economic Development Audit Committee Annual Report

As requested in the letter, presenters of the report will be prepared to answer the following questions:

1. What is the frequency of review and are there any recent changes to the Audit Committee Charter or Terms of Reference?

The Audit Committee meets quarterly to review financial and risk reporting and reports to the Board of Directors based on information reviewed at those sessions. The Audit Committee is responsible for stewardship of the Corporation's finances. The Audit Committee has oversight responsibility and makes recommendations to the Board on financial and risk matters.

The Audit Committee shall review its terms of reference at minimum on an annual basis, or more often so as required, and recommend changes as necessary.

The Audit Committee Terms of Reference were last revised at the Audit Committee meeting held on May 31, 2018 *(See Attachment 10.0)*. The Audit Committee Terms of Reference were reviewed at the Audit Committee meeting held on September 19, 2019. The CFCL Board met 8 times in 2019 and updated the Board Manual on February 21, 2019.

2. What is the current composition of the Audit Committee and what is their relevant financial experience?

(a) Calgary Economic Development Ltd.

2018

Leontine Atkins, Committee Chair – CED Board Director

Steve Allan – CED Board Chair *(to be replaced by Joe Lougheed in Q4)*

Lori Caltagirone – CED Board Director

Tom Hodson – CED Board Director

Mary Moran – President & CEO Calgary Economic Development

Tom Hodson's six-year term with the CED Board of Directors expired at the Annual General and Special Meeting of the Shareholder on June 24, 2019 and Leontine Atkin's term is set to expire June 2020. As such, during the 2019 board recruitment process the Corporate Governance and Effectiveness Committee identified financial experience as key recruitment priority.

2019

Leontine Atkins, Committee Chair – CED Board Director

Steve Allan – CED Board Chair

Lori Caltagirone – CED Board Director

Robert Hayes– CED Board Director

Trent Edwards – CED Board Director

Calgary Economic Development Audit Committee Annual Report

Christie Gillespie – CED Board Director

Mary Moran – President & CEO Calgary Economic Development

See Attachment 11.0 for Bio's of Audit committee.

(b) Calgary Film Centre Ltd.

2018

The CFCL Board does not have a separate Audit Committee. The CFCL Board has instead been carefully composed of Directors with financial, operating and film industry experience to provide the necessary strategic direction to CFCL. Financial reporting on CFCL funnels through the CED Audit Committee as a wholly owned subsidiary of CED. Below are the board members for CFCL.

Patricia McLeod, QC, Board Chair – Former CED Board Director

Debra Deane – CED Board Director

Quincy Smith CED Board Director

Jeff Davison – CED Board Director

Debra Deane stepped down from the CFCL and CED Board of Directors effective June 24, 2019. As such, she will no longer serve on CFCL Board. As part of CED's board recruitment process, the CED Corporate Governance and Effectiveness Committee determined the CFCL Board composition was appropriate to continue as a three (3) person Board.

See Attachment 12.0 for Bios of CFCL board.

3. Have there been any significant changes to organizational leadership?

Mary Moran, the President and CEO of the Corporation, took a leave of absence from CED from August 13, 2018 until December 31, 2018 to take on the role of CEO for Calgary 2026 Olympic Bid Corporation. During the leave of absence, the Board Chair stepped into the role of Executive Chair to take on additional responsibilities. The Executive Chair and the Senior Management Team managed without replacing the President and CEO on a temporary basis until the bid process was completed. A contingency plan was created if Calgary's bid for the 2026 Olympic and Paralympic Winter Games was successful. In addition, there were changes to the Board as previously discussed.

4. Are there any regulatory or market changes that may impact the current business approach and would they be relevant to share publicly with the Audit Committee?

(a) Calgary Economic Development Ltd.

CED is focused on the new economic strategy, *Calgary in the New Economy,* as well as the city's changing economic environment from oil and gas through to talent, which effects the Corporations' business activities on daily basis. CED's business approach has been adjusted accordingly to focus on the four pillars of the economic strategy and to mitigate the economic impacts from the decline in the oil and gas sector.

(b) Calgary Film Centre Ltd.

Calgary Economic Development Audit Committee Annual Report

CFCL is exposed to risk based on funding provided by the Government of Alberta to support the film industry, which impacts lease revenue of CFCL. The current film tax credit in Alberta directly inhibits the ability to attract new tenants to the Film Centre. In October 2018, CFCL assets were transferred to The City of Calgary and debt has been eliminated, which will increase ability of management and CFCL Board to focus on the strategic marketing and occupancy of the film centre rather than debt and interest obligations.

5. Are there any results of any regulatory or internal/external business assessments that provide assurance on the effective management of risks as addressed in your presentation?

Both CED and CFCL have created an Enterprise Risk Matrix (*see Attachments 7.0 and 8.0*) to identify the top risks to their strategic goals and identify mitigating strategies. The Enterprise Risk Matrixes are reviewed by the Audit Committee and the CED and CFCL Board of Directors on a quarterly basis.

CED has developed a Balanced Scorecard and individual performance metrics to help focus efforts and measure impacts. CFCL produces pipeline reports for monitoring opportunities.

6. What initiatives are currently in progress to improve the efficiency of your processes? (e.g. sustainable operations, key performance indicators and relevance of the organization in the future)

(a) Calgary Economic Development Ltd.

CED has prepared a 4-year Budget and 4-year Corporate Strategy for 2019-2022, which include alignment to the four pillars of the economic strategy – Talent, Innovation, Place and Business Environment. The four pillars are address through High-performing and engaged team (Talent), exception client services (Innovation), Global recognition as a place to learn, live and do business (Place), and sector development and diversification (Business Environment). All of the organization's major initiatives, including the Calgary Film Centre, Opportunity Calgary Investment Fund Ltd., Startup Calgary, and the Trade Accelerator Program, address and align with the objectives of the economic strategy. Key performance indicators focus on jobs, companies, and commercial industrial space absorption.

CED has restructured its customer segmentation approach to maximize time spent on high value, star, and development clients, which will have the greatest impact. In addition, CED is placing a high focus on attracting new companies in new industries to promote diversity in the Calgary economy. CED is focused on growing talent pipeline in Calgary by ***Retaining*** post secondary graduates in fast scaling tech companies, ***Retraining*** Calgary talent to futureproof Calgary's workforce for most in demand tech skills, and ***Recruiting*** top talent to Calgary by developing recruitment strategies national and globally.

The organization continues to monitor the structure of the organization to ensure alignment with these strategies.

Calgary Economic Development Audit Committee Annual Report

(b) Calgary Film Centre Ltd.

In 2018 the CFCL management team and the Board of Directors developed a new strategy for the Company, which is focused on new markets and innovative ways to fill the facility and maximise occupancy, including revisiting market rates and actively work with government to change incentive program.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

This report responds to The City of Calgary Audit Committee's reporting requirements of the CED Board and is intended to be an ongoing dialogue between The City of Calgary and the CED Board. It is anticipated the annual report from the CED Board will continue to evolve over time to meet The City of Calgary Audit Committee's information requirements in discharging its governance responsibilities.

Stakeholder Engagement, Research and Communication

No implications for this report.

Strategic Alignment

No implications for this report.

Social, Environmental, Economic (External)

No implications for this report.

Financial Capacity

Current and Future Operating Budget:

There are no budget implications for this report.

Current and Future Capital Budget:

There are no budget implications for this report.

Risk Assessment

CED reviews risks on an ongoing basis. Risk reporting is one of the main topics in the report.

REASON(S) FOR RECOMMENDATION(S):

The City of Calgary Audit Committee oversees its governance responsibility with audit committees of The City's major autonomous civic entities and an annual report is requested each year.

Calgary Economic Development Audit Committee Annual Report

ATTACHMENTS

1. MNP Report to the CED Board of Directors for the year ended December 31, 2018
2. Calgary Economic Development Ltd. Audited Financial Statements for the Year Ended December 31, 2018
3. MNP Report to the CFCL Board of Directors for the year ended December 31, 2018
4. Calgary Film Centre Ltd. Audited Financial Statements for the Year Ended December 31, 2018
5. CED 2019 Business Plan
6. CED Balanced Scorecard and KPIs
7. CED Enterprise Risk Matrix
8. CFCL Enterprise Risk Matrix
9. Audit Committee 2019 Work Plan
10. Audit Committee Terms of Reference
11. CED Audit Committee Biographies
12. 2019-2020 CFCL Board of Directors Biographies
13. CED Board of Directors List

AC2019-0625
ATTACHMENT 1

Calgary Economic Development Ltd.
Report to the Audit Committee

For the Year Ended December 31, 2018

For presentation at the Audit Committee meeting March 19, 2018

MNP

March 19, 2019

Members of the Audit Committee of Calgary Economic Development Ltd.

Dear Sirs and Mesdames:

We are pleased to submit to you this report for discussion of our audit of the financial statements of Calgary Economic Development Ltd. (the "Company") as at December 31, 2018 and for the year then ended. In this report we cover those significant matters which, in our opinion, you should be aware of as members of the Audit Committee.

We have completed our audit of the financial statements of the Company which has been carried out in accordance with Canadian generally accepted auditing standards.

Unless unforeseen complications arise, our Audit Report will provide an unqualified opinion to the Board of Directors of the Company. A draft copy of our proposed Independent Auditors' Report is attached at the end of this report.

This report is intended solely for the information and use of the Audit Committee and management and should not be distributed to or used by any other parties than these specified parties.

The matters raised in this and other reports that will flow from the audit are only those which have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising, and in particular we cannot be held responsible for reporting all risks in your business or all control weaknesses. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared for, and is not intended for, any other purpose.

We would like to express our appreciation for the excellent cooperation we have received from Management and employees with whom we worked.

We appreciate having the opportunity to meet with you and to respond to any questions you may have about our audit, and to discuss any other matters that may be of interest to you.

Yours truly,

MNP LLP

Chartered Professional Accountants

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CONTENTS

MNP LLP

INTRODUCTION

As auditors, we report to the members on the results of our examination of the financial statements of Calgary Economic Development Ltd. (the "Company") as at and for the year ended December 31, 2018. The purpose of this Audit Findings Report is to assist you, as members of the Audit Committee, in your review of the results of our audit. To facilitate in your understanding of our findings, Appendix A to this report summarizes our audit process.

Our report will discuss the status of our engagement, as well as communicate to you significant audit, accounting and reporting matters arising from our procedures. We hope that this report is of assistance to you, and we look forward to discussing our findings and answering your questions.

ENGAGEMENT STATUS

We have completed our audit of the financial statements of the Company and are prepared to sign our Auditors' Report subsequent to completion of the following procedures:

- Receipt of the remaining outstanding legal confirmations;
- Receipt of the signed management representation letter;
- Discussion of subsequent events with the Audit Committee;
- The Board of Directors review and approval of the financial statements.

We expect to have the above procedures completed and to release our Audit Report on March 29, 2019. Our draft report, which will provide an unqualified opinion, is attached at the end of this report.

SIGNIFICANT AUDIT, ACCOUNTING AND REPORTING MATTERS

CHANGES FROM AUDIT SERVICE PLAN

We previously presented our proposed Audit Service Plan to you on September 11, 2018, which proposed $480,000 as overall materiality for audit planning purposes. Final materiality was calculated based on the Calgary Economic Development's year-end results using 4% of gross expenses. This resulted in an overall materiality of $490,000, a performance materiality of $441,000, and a threshold for differences included in this report of $24,500.

There were no other changes from the Audit Service Plan presented to you.

AREAS OF AUDIT EMPHASIS

The following lists the key areas of our audit emphasis for the Company:

- Deferred contributions.
- Recognition of revenue;
- Expenses, payroll and employee costs; and
- Financial statement disclosures.

Detailed information on Areas of Audit Emphasis is included as Appendix B to this report.

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FINAL MATERIALITY

Materiality is a concept used to assess the significance of misstatements or omissions that are identified during the audit and is used to determine the level of audit testing that is carried out. The scope of our audit work is tailored to reflect the relative size of operations of the Company, and is affected by our assessment of materiality and audit risk.

Final materiality used for our audit was $490,000 for December 31, 2018 and was based on a percentage of gross expenses. Our threshold for differences reported to the Audit Committee was $24,500.

SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL

Our audit process focuses on understanding the controls utilized in management's reporting systems to the extent necessary to identify overall and specific financial reporting risks. This risk assessment allows us to concentrate our audit procedures on high risk areas and, where possible, place reliance on controls within the financial reporting system to reduce the extent of our testing.

It is important to note that our assessment was not, nor was it intended to be, sufficient to comment or conclude on the sufficiency of internal controls.

We are required under Canadian generally accepted auditing standards to communicate all significant deficiencies identified during an audit to the Audit Committee on a timely basis. However, we may not be aware of all significant deficiencies that do, in fact, exist.

While our review of controls was not sufficient to express an opinion as to their effectiveness or efficiency, no significant deficiencies in internal control have come to our attention.

DIFFICULTIES ENCOUNTERED

No significant limitations were placed on the scope or timing of our audit.

IDENTIFIED OR SUSPECTED FRAUD

Due to the inherent limitations of an audit and the nature of fraud, including attempts at concealment through forgery or collusion, an audit conducted in accordance with Canadian generally accepted auditing standards cannot be relied upon to detect fraud.

While our audit cannot be relied upon to detect all instances of fraud, no incidents of fraud, or suspected fraud, came to our attention in the course of our audit.

IDENTIFIED OR SUSPECTED NON-COMPLIANCE WITH LAWS AND REGULATIONS

Nothing has come to our attention that would suggest any non-compliance with laws and regulations that would have a material effect on the financial statements.

MATTERS ARISING IN CONNECTION WITH RELATED PARTIES

The following significant matters arose in connection with related parties of the Company during the course of our audit:

Opportunity Calgary Investment Fund ("OCIF")

- The Company and OCIF are related by virtue of common control as they are wholly owned subsidiaries of the City, share two common Board of Director members and have common management.
- OCIF entered into an Administrative Services and Fund Management Agreement with the Company effective April 19, 2018. This agreement is in consideration of the performance of the administrative services and the management of the Reserve Fund by the Company for a management fee of $1 per month.
- In addition, the Company will be reimbursed by OCIF for reasonable out-of-pocket costs and expense incurred directly by the Company in connection with the performance of the administrative services, the Fund management and any additional services including travel and lodging. The Company will not be reimbursed for any of its ongoing overhead costs and expenses unless such costs or expenses are incurred by the retention of any additional personnel specifically for OCIF.

Calgary Film Centre Ltd. ("CFCL")

- On June 29, 2017, the Company and CFCL entered into an agreement which enabled CFCL to draw on a demand loan of up to $500,000, with an interest rate at prime. On September 29, 2017 the available funds on this loan were increased to $700,000, which were fully drawn in 2017. On December 12, 2018 the available funds were further increased to $900,000. Additional funds of $200,000 were drawn in 2018. On October 23, 2018 CFCL utilized proceeds received from the sale of assets and repaid the note receivable in full;
- During September 2018, the Company approved a reduction in the available demand loan to CFCL to $300,000. As of December 31, 2018, no draws had been made on the demand loan;
- In addition, it was noted during our audit that the Company's subsidiary, Calgary Film Centre Ltd. (the "Centre"), continuation as a going concern is dependent upon the continued support of related parties, generating excess revenue over expenses through increased occupancy, and the ability to generate sufficient cash from operations;
- Management is reviewing its options to increase revenue of the Centre with the support of its related parties and anticipates it will continue operating as a going concern;
- The Company's and the Centre's financial statements do not reflect any adjustments in the carrying values of the assets and liabilities, the reported revenue and expenses and the statement of financial position classifications used that would be necessary if the going concern assumption were not appropriate should the Centre not be able to continue on in the normal course of business;
- As a result of the above circumstances, we are of the opinion that the going concern assumption is appropriate in preparation of the Centre's financial statements. The circumstances identified are disclosed adequately in Note 2 of the Centre's financial statements and a material uncertainty related to going concern paragraph has been added to the Auditors' Report with respect to the material uncertainty of the Centre to continue as a going concern; and
- As discussed earlier, our independent auditors' report will provide an unqualified opinion to the Board of Directors.

MNP

GOING CONCERN

We do not expect that the Centre's going concern issue discussed above to cause a material uncertainty to the Company itself.

We have not identified any other material uncertainties related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

We are of the opinion that the going concern assumption is appropriate in preparation of the financial statements.

AUDITORS' VIEWS OF SIGNIFICANT ACCOUNTING PRACTICES

The application of Canadian Public Sector Accounting Standards for Not-For-Profit Organizations allows and requires the Company to make accounting estimates and judgments regarding accounting policies and financial statement disclosures.

As auditors, we are uniquely positioned to provide open and objective feedback regarding your Company's accounting practices, and have noted the following items during the course of our audit that we wish to bring to your attention.

Accounting Policies

- The accounting policies used by the Company are appropriate and have been consistently applied.
- No new accounting policies, or changes in accounting policies were applied.

Accounting Estimates

Allowance for Doubtful accounts

- Provision for doubtful accounts receivable is based on individual account balances at the time that all other collection efforts have failed. At December 31, 2018 there was no provision for doubtful accounts receivable.

Amortization of property, equipment and intangibles

- Property, equipment and intangibles are amortized using the straight-line method at rates intended to amortize the cost of assets over their estimated useful lives. The rates range from two to five years.

Provision for legal contingencies

- No provision deemed necessary. We are finalizing the receipt of legal letters required to fully complete our audit. We do not expect the finalization of these outstanding matters to be of any concern.

Financial Statement Disclosures

The disclosures made in the notes to the financial statements appear clear, neutral and consistent with our understanding of the entity and the amounts presented in the financial statements.

MATTERS ARISING FROM DISCUSSIONS WITH MANAGEMENT

We would like to formally acknowledge the cooperation and assistance we received from the management and staff of the Company.

There were no significant matters discussed, or subject to correspondence, with Management that in our judgment need be brought to your attention.

SIGNIFICANT DIFFERENCES

No differences were proposed to Management with respect to the December 31, 2018 financial statements.

MODIFICATIONS TO THE INDEPENDENT AUDITORS' REPORT

As discussed earlier, our independent auditors' report will provide an unqualified opinion to the Board of Directors.

MANAGEMENT REPRESENTATIONS

We have requested certain written representations from management, which represent a confirmation of certain oral representations given to us during the course of our audit.

This letter, provided by management, has been included as additional material to this report.

AUDITOR INDEPENDENCE

We confirm to the Audit Committee that we are independent of the Company. Our letter to the Audit Committee discussing our independence is included under separate cover from this report.

APPENDIX A – MNP Audit Process

Our audit was carried out in accordance with Canadian generally accepted auditing standards, and included a review of all significant accounting and management reporting systems, with each material year end balance, key transaction and other events considered significant to the financial statements considered separately.

Our audit process focused on understanding the controls utilized in management's reporting systems to the extent necessary to identify overall and specific financial reporting risks. This risk assessment enabled us to concentrate our audit procedures on the areas where differences were most likely to arise. Our assessment was not, nor was it intended to be, sufficient to conclude on the effectiveness or efficiency of internal controls.

During the course of our audit, we have:

- Examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- Assessed the accounting principles used and significant estimates made by Management;
- Obtained an understanding of the Company and its environment, including Management's internal controls (regardless of whether we relied on them for the purpose of the audit), sufficient to identify and assess the risks of material misstatement of the financial statements and to design and perform audit procedures;
- Reviewed and assessed those accounting systems deemed necessary to support our audit opinion;
- Evaluated the overall financial statement presentation;
- Performed a subsequent events review with management;
- Reviewed and assessed the status of contingencies, commitments and guarantees;
- Reviewed and assessed exposure to environmental liabilities.

We have obtained written representations from management, included as additional materials following this report, in order to confirm oral representations given to us and reduce the possibility of misunderstanding. Specifically, we have obtained written confirmation of significant representations provided on matters that are:

- Directly related to items that are material, either individually or in the aggregate, to the financial statements;
- Not directly related to items that are material to the financial statements, but are significant, either individually or in the aggregate, to the engagement; and
- Matters relevant to Management judgments or estimates that are material, either individually or in the aggregate, to the financial statements.

APPENDIX B – Areas of Audit Emphasis

Deferred contributions

The Company receives contributions for projects, of which some contributions are deferred to future years when the expenses are incurred. As at December 31, 2018, the Company has restricted contributions totaling $790,827 (2017 - $2,074,166). Of this amount, $409,852 (2017 - $1,595,790) has been restricted for the Opportunity Calgary initiative, $174,193 (2017 - $202,109) for the Startup Calgary program, $nil (2017 - $181,153) for the Careers in Calgary program, $172,793 (2017 - $32,286) for the Headquarter Strategy initiative, and $33,989 (2017 - $62,828) for other various programs.

- MNP tested a sample of amounts outstanding at year-end to revenue contracts to ensure the revenue was being appropriately deferred in accordance with the Company's revenue recognition policy.
- MNP tested a sample of deferred contributions recognized during the year to supporting documentation and to ensure appropriate expenditures had occurred.

We have concluded that deferred contributions have been reasonably stated as at December 31, 2018.

Recognition of revenue

The Company follows the deferral method of accounting for contributions. Restricted contribution are recognized as revenue in the year in which the related expense are incurred. Contributions for the purchase of property, equipment and intangible assets are deferred and recognized on the same basis as amortization expense of the related asset. Unrestricted contributions are recognized as revenue when received or receivable.

- MNP tested a sample of amounts recorded during the year to signed agreements to ensure the revenue was being appropriately recorded in relation to the Company's revenue recognition policy. These were also verified to payments received to ensure the Company is collecting on its agreements.
- MNP recalculated the revenue recognized for deferred contributions for the purchase of property and equipment using amortization rates as disclosed by the Company. No issues were noted in the recalculation.

We have concluded that revenue has been reasonably stated for the year ended December 31, 2018.

Expenses, payroll and employee costs

The Company incurs significant costs related to payroll and other employee costs and benefits. The Company incurred $12,331,309 in expenses during the year (2017 - $12,091,082) of which $6,152,672 related to employee costs (2017 - $5,314,538).

- MNP tested a sample of payroll to Ceridian reports and employee files to ensure wages are being appropriately recorded and deductions are being accurately made. MNP also tested the completeness of the bonus and vacation accruals.
- MNP agreed a sample of other expense transactions to supporting documents to ensure amounts were complete, had occurred, and were accurate

We have concluded that expenses, payroll and employee costs are reasonably stated for the year ended December 31, 2018.

APPENDIX B – Areas of Audit Emphasis *(continued from previous page)*

Financial statement disclosures

- MNP analysed the financial statements and note disclosure of the Company to ensure the accounting policies, statement of financial position, statement of operations and net assets, and the statement of cash flows communicate information that is useful to users of the financial statements and is in accordance with Canadian Public Sector Accounting Standards for Not-for-Profit Organizations.
- MNP analysed the agreements between the Company, the City of Calgary, CFCL and OCIF and compared them to the notes to the financial statements to ensure the notes included a description of the relationship, a description of the transactions and amounts of the transactions, the measurement basis used for recognizing the transactions and the terms for the amounts due to the Company.

We have concluded that the financial statements and its related disclosures include all appropriate information to ensure that the statements are presented fairly in accordance Canadian Public Sector Accounting Standards for Not-for-Profit Organizations for the year ended December 31, 2018.

Independent Auditor's Report

To the Board of Directors of Calgary Economic Development Ltd.:

Opinion

We have audited the financial statements of Calgary Economic Development Ltd. (the "Company"), which comprise the statement of financial position as at December 31, 2018, and the statements of operations, changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with Canadian Public Sector Accounting Standards for Not-for-Profit Organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian Public Sector 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Calgary, Alberta

Chartered Professional Accountants

March 29, 2019

MNP LLP
1500, 640 - 5th Avenue SW
Calgary, Alberta T2P 3G4

To Whom It May Concern:

In connection with your audit of the financial statements of Calgary Economic Development Ltd. (the "Company") as at December 31, 2018 and for the year then ended, we hereby confirm to the best of our knowledge and belief, the following representations made to you during the course of your audit.

We understand that your audit was made in accordance with Canadian generally accepted auditing standards. Accordingly, the audit included an examination of the accounting system, controls and related data, and tests of the accounting records and such other auditing procedures as you considered necessary in the circumstances, for the purpose of expressing an opinion on the financial statements. We also understand that such an audit is not designed to identify, nor can it necessarily be expected to disclose, misstatements, non-compliance with laws and regulations, fraud or other irregularities, should there be any.

Certain representations in this letter are described as being limited to matters that are material. An item is considered material, regardless of its monetary value, if it is probable that its omission from or misstatement in the financial statements would influence the decision of a reasonable person relying on the financial statements.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated September 11, 2018, for the preparation and fair presentation of the Company's financial statements in accordance with Canadian Public Sector Accounting Standards for Not-for-Profit Organizations. We believe these financial statements are complete and present fairly, in all material respects, the financial position of the Company as at December 31, 2018, and the results of its operations and its cash flows, in accordance with Canadian Public Sector Accounting Standards for Not-for-Profit Organizations.

2. All transactions have been recorded in the accounting records and are reflected in the financial statements, and are reported in the appropriate period.

3. We acknowledge that we are responsible for the accounting policies followed in the preparation of the Company's financial statements. Significant accounting policies, and any related changes to significant accounting policies, are disclosed in the financial statements. The selection of accounting policies is appropriate in accordance with the requirements of Canadian Public Sector Accounting Standards for Not-for-Profit Organizations, and are applied consistently throughout the financial statements.

4. We have disclosed to you all significant assumptions used in making accounting estimates and judgments, and believe they are reasonable.

5. We are aware of and concur with the contents and results of the attached journal entries prepared by you, and accept responsibility for the financial statement effects of the entries.

6. We believe the effects of those uncorrected financial statement differences aggregated by you during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

7. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Canadian Public Sector Accounting Standards for Not-for-Profit Organizations.

8. All events or transactions that have occurred subsequent to the statement of financial position and for which Canadian Public Sector Accounting Standards for Not-for-Profit Organizations require adjustment or disclosure have been adjusted or disclosed appropriately in the financial statements.

9. All plans or intentions that may affect the carrying value or classification of assets and liabilities are appropriately reflected in the financial statements in accordance with Canadian Public Sector Accounting Standards for Not-for-Profit Organizations.

10. All liabilities, both known and contingent, requiring recognition or disclosure in the financial statements in accordance with the requirements of Canadian Public Sector Accounting Standards for Not-for-Profit Organizations have been adjusted or disclosed as appropriate.

11. All outstanding and possible claims, whether or not they have been discussed with legal counsel, have been disclosed to you and are appropriately reflected in the financial statements.

12. All assets, wherever located, to which the Company had satisfactory title at the year-end, have been fairly stated and recorded in the financial statements. The assets are free from hypothecation, liens and encumbrances, except as noted in the financial statements. We have disclosed the nature and carrying amounts of any assets pledged as collateral. All assets of uncertain value, and restrictions imposed on assets, are appropriately reported in the financial statements.

13. All aspects of laws, regulations or contractual agreements, including non-compliance, are appropriately reflected in the financial statements.

14. All restricted cash has been appropriately designated and separated from operating funds.

15. Investments in marketable securities are appropriately recorded in the financial statements in accordance with the requirements of Canadian Public Sector Accounting Standards for Not-for-Profit Organizations. All events or circumstances giving rise to impairments are reflected in the financial statements.

16. Accounts and contributions receivable are correctly described in the records and represent valid claims as at December 31, 2018. An appropriate allowance has been made for losses from uncollectible accounts and for costs or expenses that may be incurred with respect to sales made or services rendered.

17. All charges to capital assets represent capital expenditures. No expenditures of a capital nature were charged to operations of the Company. Depreciation of property, plant and equipmentcapital lease obligations has been recorded according to our best estimates of their useful lives. All events or circumstances giving rise to impairments are appropriately reflected in the financial statements.

18. All intangible assets have been appropriately recorded in the financial statements in accordance with the requirements of Canadian Public Sector Accounting Standards for Not-for-Profit Organizations. All events or circumstances giving rise to impairments are appropriately reflected in the financial statements. Where intangible assets are subject to amortization, they are amortized at appropriate rates based on our best estimates of their useful lives.

19. Revenue has been recognized only where sales have been made and items delivered, or services rendered, and the amounts have been collected or are collectible. Revenues do not include any amounts arising from consignment sales or from any other transaction from which the Company is not entitled to the proceeds.

20. We have identified all financial instruments, including derivatives, and hedging relationships. These have been appropriately recorded and disclosed in the financial statements in accordance with the requirements of Canadian Public Sector Accounting Standards for Not-for-Profit Organizations.

Information provided

1. We have responded fully to all inquiries made to us and have made available to you:

    - A complete record of all financial records that are relevant to the preparation and presentation of the financial statements and minutes of the meetings of members and board of directors held throughout the year to the present date;
    - Additional information that you have requested from us for the purpose of your audit;
    - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. We acknowledge management's responsibility for the design, implementation and operation of controls that have been designed to prevent and detect fraud.

3. We have assessed the risk that the financial statements may be materially misstated as a result of fraud, and have determined such risk to be low.

4. Where the impact of any frauds or suspected frauds, and non-compliance or possible non-compliance with laws and regulations, has a material effect on the financial statements, we have disclosed to you all known significant facts relating thereto, including circumstances involving management, employees having significant roles over controls, and others. We have made known to you any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators and others. The effects of such events, if any, are properly presented in the financial statements.

5. We have disclosed to you all deficiencies in the design or operation of internal controls over financial reporting of which we are aware.

6. We have disclosed to you all aspects of laws, regulations or contractual agreements that may affect the financial statements, including non-compliance.

7. We have disclosed to you the identities of all related parties to the Company and all related party relationships and transactions of which we are aware.

8. We have no knowledge of side agreements (contractual or otherwise) with any parties that have not been disclosed to you.

9. The previous year's representation letter dated April 18, 2019 is still applicable to the prior year's financial statements and, and no matters have arisen that require restatement of those financial statements.

10. There are no discussions with your firm's personnel regarding employment with the Company.

Other Information

11. We have informed you of all the documents containing other information that comprise our annual report. Further, the financial statements and the other information provided to you prior to the date of your audit report are consistent with one another, and the other information does not contain any material misstatements.

Professional Services

1. We acknowledge the engagement letter dated September 11, 2018, which states the terms of reference regarding your professional services.

2. We are not aware of any reason why MNP LLP would not be considered independent for purposes of the Company's audit.

Sincerely,
Calgary Economic Development Ltd.

______________________________ ______________________
Signature Title

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Financial Statements

December 31, 2018

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Contents

For the year ended December 31, 2018

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Management's Responsibility

To the Board of Directors of Calgary Economic Development Ltd.:

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian Public Sector Accounting Standards for Not-For-Profit Organizations and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors and Audit Committee are composed primarily of Directors who are neither management nor employees of the Company. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Board is also responsible for recommending the appointment of the Company's external auditors.

MNP LLP is appointed by the Directors to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Board and management to discuss their audit findings.

March 29, 2019

Mary Moran
Chief Executive Officer

Sheila Will
Chief Financial Officer

Independent Auditor's Report

To the Board of Directors of Calgary Economic Development Ltd.:

Opinion

We have audited the financial statements of Calgary Economic Development Ltd. (the "Company"), which comprise the statement of financial position as at December 31, 2018, and the statements of operations, changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with Canadian Public Sector Accounting Standards for Not-for-Profit Organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian Public Sector 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Calgary, Alberta

MNP LLP

March 29, 2019

Chartered Professional Accountants

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Calgary Economic Development Ltd.
Statement of Financial Position
As at December 31, 2018

	2018	*2017*
Assets		
Current		
Cash	**1,943,452**	514,404
Accounts receivable and accrued revenue *(Note 3)*	**371,784**	1,182,863
Due from related parties *(Note 10)*	**130,105**	172,795
Prepaid expenses	**48,897**	46,647
Employee expense advances	**5,500**	9,380
Note receivable from a related party (*Note 8*)	**-**	700,000
	2,499,738	2,626,089
Restricted cash *(Note 7)*	**790,827**	2,074,166
Property and equipment *(Note 4)*	**119,939**	126,587
Intangible assets *(Note 5)*	**7,830**	23,513
	3,418,334	4,850,355
Liabilities		
Current		
Accounts payable and accrued liabilities *(Note 6)*	**1,077,773**	914,016
Deferred contributions *(Note 7)*	**790,827**	2,074,166
Salary and vacation payable	**505,138**	481,739
Due to related parties *(Note 10)*	**-**	4,385
	2,373,738	3,474,306
Commitments *(Note 12)*		
Net Assets		
Invested in property, equipment and intangible assets *(Note 9)*	**127,769**	150,100
Unrestricted	**916,827**	1,225,949
	1,044,596	1,376,049
	3,418,334	4,850,355

Approved on behalf of the Board

Director

Director

The accompanying notes are an integral part of these financial statements

Calgary Economic Development Ltd.
Statement of Operations
For the year ended December 31, 2018

	2018	*2017*
Revenue		
City of Calgary		
Operating grant *(Note 1)*	**5,808,765**	5,584,179
Other grants (*Note 10*)	**2,701,646**	2,453,699
Alberta government	**1,296,977**	1,227,431
Federal government	**232,939**	1,030,646
Business community *(Note 10)*	**1,265,426**	1,640,946
Expense recovery *(Note 10)*	**401,642**	173,347
Other revenue	**215,875**	200,845
Investment income *(Note 10)*	**77,978**	51,017
	12,001,248	12,362,110
Expenses		
Employee costs	**6,152,672**	5,314,538
Marketing and promotion *(Note 10)*	**3,126,203**	3,928,671
Program costs *(Note 10)*	**1,663,261**	1,529,430
Corporate services *(Note 10)*	**1,005,349**	915,874
Business travel	**290,017**	299,093
Amortization of property and equipment (*Note 4*)	**79,516**	48,542
Amortization of intangible assets (*Note 5*)	**14,291**	54,934
	12,331,309	12,091,082
(Deficiency) excess of revenue over expenses before other items	**(330,061)**	271,028
Other items		
Loss on disposal of property, equipment and intangibles	**(1,392)**	(27,233)
(Deficiency) excess of revenue over expenses	**(331,453)**	243,795

The accompanying notes are an integral part of these financial statements

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Calgary Economic Development Ltd.
Statement of Changes in Net Assets
For the year ended December 31, 2018

	Invested in property, equipment and intangible assets	*Unrestricted*	***2018***	*2017*
Net assets, beginning of year	150,100	1,225,949	**1,376,049**	1,132,254
(Deficiency) excess of revenue over expenses *(Note 9)*	(95,199)	(236,254)	**(331,453)**	243,795
Investment in property and equipment	72,868	(72,868)	**-**	-
Net assets, end of year	**127,769**	**916,827**	**1,044,596**	1,376,049

The accompanying notes are an integral part of these financial statements

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Calgary Economic Development Ltd.
Statement of Cash Flows
For the year ended December 31, 2018

	2018	*2017*
Cash provided by (used for) the following activities		
Operating		
(Deficiency) excess of revenue over expenses	**(331,453)**	243,795
Amortization of intangible assets	**14,291**	54,934
Amortization of property and equipment	**79,516**	48,542
Loss on disposal of property, equipment and intangibles	**1,392**	27,233
	(236,254)	374,504
Changes in working capital accounts		
Accounts receivable and accrued revenue	**811,079**	(506,342)
Due from related party	**42,690**	74,059
Prepaid expenses and employee expense advances	**1,630**	17,562
Accounts payable and accrued liabilities	**163,757**	61,269
Due to related party	**(4,385)**	3,710
Salary and vacation payable	**23,399**	88,609
Deferred contributions	**(1,283,339)**	(1,200,095)
	(481,423)	(1,086,724)
Investing		
Purchase of property and equipment (*Note 4*)	**(72,868)**	(77,180)
Purchase of intangible assets (*Note 5*)	**-**	(952)
	(72,868)	(78,132)
Financing		
Note repaid by a related party	**900,000**	-
Note advanced to a related party	**(200,000)**	(700,000)
	700,000	(700,000)
Increase (decrease) in cash and cash equivalents	**145,709**	(1,864,856)
Cash and cash equivalents, beginning of year	**2,588,570**	4,453,426
Cash and cash equivalents, end of year	**2,734,279**	2,588,570
Cash and cash equivalents are composed of:		
Unrestricted cash	**1,943,452**	514,404
Restricted cash - external	**790,827**	2,074,166
	2,734,279	2,588,570

The accompanying notes are an integral part of these financial statements

1. Incorporation and nature of the organization

Calgary Economic Development Ltd. (the "Company") was incorporated as Promoting Calgary Inc. under the Business Corporations Act in the Province of Alberta in July 1999. The Company changed its name to Calgary Economic Development Ltd. on January 1, 2003. The Company is registered as a non-profit organization under the Income Tax Act of Canada, and is exempt from income taxes. The Company is a controlled not-for-profit organization of the City of Calgary (the "City").

The mandate of Calgary Economic Development Ltd. is to lead the City of Calgary's economic development efforts in promoting the City's competitive advantages and pro-business climate. Successful economic development results in business growth and industry development, increased investment and trade activities. In turn, this fosters increased competitiveness, access to foreign markets, sustainable prosperity, diversification, productivity, high employment and a desirable quality of life.

The Company has been receiving contributions from the City since inception to sustain its operations. In the current year, the Company received an operating grant of $5,808,765 (2017 - $5,584,179) and the City has approved an increase in base operating grant for 2019 to $8,147,000, with a one-time incremental grant of $2,000,000.

2. Significant accounting policies

Basis of accounting

The financial statements are expressed in Canadian dollars. The financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards for Not-for-Profit Organizations, with the optional 4200 series, as established by the Public Sector Accounting Board in Canada. The significant polices are described below.

Use of estimates

The preparation of financial statements in conformity with Canadian Public Sector 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 revenue and expenses during the reporting period.

Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. Amortization is based on the estimated useful lives of property and equipment, and intangible assets.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in the statement of operations in the periods in which they become known.

Controlled not-for-profit

The Company's financial statements do not include the accounts of Calgary Film Centre Ltd. ("CFCL"), which is controlled by the Company. The required disclosures have been provided in Note 15.

All transactions with the subsidiary are disclosed as related party transactions (refer to Notes 8 and 10).

Revenue recognition

The Company follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Contributions for the purchase of property and equipment are deferred and recognized on the same basis as amortization expense of the related asset. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Sponsorship (pledges) are recognized as revenue when the amount to be received can be reasonably estimated and ultimate collection is reasonably assured.

Contributions for program related activities include amounts recovered from events and projects undertaken by the Company alone or with a number of economic partners.

Interest revenue is recognized on a pro rata basis over the term of the related deposit or investment.

2. Significant accounting policies *(Continued from previous page)*

Cash

Cash include balances with banks. Cash subject to restrictions that prevent its use for current purposes is included in restricted cash.

Property, equipment and intangible assets

Purchased property, equipment and intangible assets are recorded at cost. Contributed property, equipment and intangible assets are recorded at fair value at the date of contribution if fair value can be reasonably determined.

Amortization is provided using methods and rates intended to amortize the cost of assets over their estimated useful lives. Tenant improvements are amortized over the lease term.

	Method	Rate
Technology	straight-line	2 years
Furniture and fixtures	straight-line	5 years
Software	straight-line	1 year
Trademarks	straight-line	5 years
Website development costs	straight-line	30 %

Long-lived assets

Long-lived assets consist of property, equipment and intangible assets. Long-lived assets held for use are measured and amortized as described in the above accounting policy.

When the Company determines that a long-lived asset no longer has any long-term service potential to the Company, the excess of its net carrying amount over any residual value is recognized as an expense in the statement of operations. Write-downs are not reversed.

Financial instruments

The Company recognizes its financial instruments when the Company becomes party to the contractual provisions of the financial instrument. All financial instruments are initially recorded at their fair value, including financial assets and liabilities originated and issued in a related party transaction with management. Financial assets and liabilities originated and issued in all other related party transactions are initially measured at their carrying or exchange amount in accordance with PSAS Section 4260 *Disclosure of Related Party Transactions By Not-For-Profit Organizations* (refer to Note 10).

At initial recognition, the Company may irrevocably elect to subsequently measure any financial instrument at fair value. The Company has not made such an election during the year.

Transaction costs related to financial instruments remeasured at fair value at each reporting date are expensed in the period, whereas they are added to the carrying value of the financial instrument for those measured at cost or amortized cost.

Financial asset impairment

The Company assesses impairment of all of its financial assets measured at cost or amortized cost. When there is an indication of impairment, the Company determines whether it has resulted in a significant adverse change in the expected timing or amount of future cash flows during the year. If so, the Company reduces the carrying amount of any impaired financial assets to the highest of: the present value of cash flows expected to be generated by holding the assets; the amount that could be realized by selling the assets; and the amount expected to be realized by exercising any rights to collateral held against those assets. Any impairment, which is not considered temporary, is included in current year deficiency of revenue over expenses. The Company reverses impairment losses on financial assets when there is a decrease in impairment and the decrease can be objectively related to an event occurring after the impairment loss was recognized. The amount of the reversal is recognized in the statement of operations in the year the reversal occurs.

2. Significant accounting policies (*Continued from previous page)*

Contributed materials and services

The Company receives various contributions in the form of material or services that it uses to carry out its objectives. Because of the difficulty in determining the fair value of these materials and services, the Company does not recognize the amounts in the financial statement.

3. Accounts receivable and accrued revenue

Accounts receivable and accrued revenue relate to the following:

	2018	*2017*
Trade accounts receivable	**249,828**	172,123
Goods and Services Tax receivable	**107,506**	108,514
Accrued revenue	**14,450**	902,226
	371,784	1,182,863

As at December 31, 2018, accounts receivable includes $31,032 (2017 - $6,533) in amounts outstanding greater than 90 days, of which $29,498 was subsequently received (2017 - $5,000). Accounts receivable have been recorded at their net realizable value, based on management's best estimate of the recoverable amounts.

4. Property and equipment

	Technology	*Furniture and fixtures*	*Tenant improvements*	***Total***
Cost:				
Balance December 31, 2017	742,312	385,062	2,606,413	**3,733,787**
Additions	54,304	18,564	-	**72,868**
Balance at December 31, 2018	**796,616**	**403,626**	**2,606,413**	**3,806,655**
Accumulated amortization:				
Balance December 31, 2017	(671,060)	(344,267)	(2,591,873)	**(3,607,200)**
Amortization	(57,506)	(12,393)	(9,617)	**(79,516)**
Balance at December 31, 2018	**(728,566)**	**(356,660)**	**(2,601,490)**	**(3,686,716)**
Net book value December 31, 2017	71,252	40,795	14,540	126,587
Net book value December 31, 2018	**68,050**	**46,966**	**4,923**	**119,939**

5. Intangible assets

	Software	*Trademarks*	*Website development costs*	***Total***
Cost:				
Balance December 31, 2017	265,959	1,954	438,121	**706,034**
Additions	-	-	-	**-**
Disposals	-	-	(3,180)	**(3,180)**
Balance at December 31, 2018	**265,959**	**1,954**	**434,941**	**702,854**
Accumulated amortization:				
Balance December 31, 2017	(265,959)	(1,129)	(415,433)	**(682,521)**
Additions	-	(191)	(14,100)	**(14,291)**
Disposals	-	-	1,788	**1,788**
Balance at December 31, 2018	**(265,959)**	**(1,320)**	**(427,745)**	**(695,024)**
Net book value December 31, 2017	-	825	22,688	23,513
Net book value December 31, 2018	**-**	**634**	**7,196**	**7,830**

6. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities relate to the following:

	2018	*2017*
Accrued liabilities	**569,570**	136,586
Trade accounts payable	**508,203**	777,430
	1,077,773	914,016

7. Deferred contributions

Deferred contributions consist of unspent contributions externally restricted for programs. Recognition of these amounts as revenue is deferred to periods when the specified expenses are made. Changes in the deferred contribution balance are as follows:

	2018	*2017*
Balance, beginning of year	**2,074,166**	3,274,261
Amount received during the year	**3,170,395**	3,152,292
Less: Amount recognized as revenue during the year	**(4,450,497)**	(4,338,578)
Less: Funds held for return as accrued liability	**(3,237)**	(13,809)
Balance, end of year	**790,827**	2,074,166

8. Note receivable from related party

On June 29, 2017, the Company and CFCL entered into an agreement which enabled CFCL to draw on a demand loan of up to $500,000, with an interest rate at prime. On September 29, 2017 the available funds on this loan were increased to $700,000, which were fully drawn in 2017. On December 12, 2017 the available funds were further increased to $900,000. Additional funds of $200,000 were drawn in 2018. On October 23, 2018 CFCL utilized proceeds received from the sale of assets and repaid the note receivable in full.

In September 2018, the Company approved a reduction in the available demand loan to CFCL to $300,000. As of December 31, 2018, no draws had been made on the demand loan.

9. Net assets invested in property, equipment and intangible assets

	2018	*2017*
Property and equipment	**119,939**	126,587
Intangible assets	**7,830**	23,513
Invested in property, equipment and intangible assets	**127,769**	150,100
Amortization of intangible assets	**(14,291)**	(54,934)
Amortization of property and equipment	**(79,516)**	(48,542)
Loss on disposal of property, equipment and intangibles	**(1,392)**	(27,233)
Deficiency of revenue over expenses	**(95,199)**	(130,709)

10. Related party transactions

CFCL

The Company entered into a Management Services Agreement with CFCL, whereby CFCL is required to pay for management fees and other expenses incurred by the Company on behalf of CFCL.

Related party balances and transactions with CFCL consist of:

	2018	*2017*
Due from related party:		
Management Services Agreement and other	**82,096**	168,687
Interest on note receivable from related party	**-**	4,108
Note receivable from a related party	**-**	700,000
Due to related party	**-**	4,385
Revenue recognized from CFCL:		
Management Services Agreement	**168,612**	168,612
Recoveries netted against expenses (incl. $37,035 of legal fees for Film Centre sale)	**38,091**	4,185
Interest on note receivable from related party	**23,398**	4,108
Expenses paid to CFCL for website development and other marketing activities	**9,058**	25,245

City

Related party balances and transactions with the City consist of:

	2018	*2017*
Accounts receivable	**-**	5,250
Accounts payable	**190**	1,195
Revenue and expense recovery (excluding operating grant identified in Note 1)	**2,701,646**	2,463,958
Expenses paid to City	**201,798**	191,613

10. Related party transactions *(Continued from previous page)*

Opportunity Calgary Investment Fund ("OCIF")

The Company and OCIF are related by virtue of common control as they are wholly owned subsidiaries of the City, share two common Board of Director members and have common management.

OCIF entered into an Administrative Services and Fund Management Agreement with the Company effective April 19, 2018. This agreement is in consideration of the performance of the administrative services and the management of the Reserve Fund by the Company for a management fee of $1 per month.

In addition, the Company will be reimbursed by OCIF for reasonable out-of-pocket costs and expense incurred directly by the Company in connection with the performance of the administrative services, the Fund management and any additional services including travel and lodging. The Company will not be reimbursed for any of its ongoing overhead costs and expenses unless such costs or expenses are incurred by the retention of any additional personnel specifically for OCIF.

Related party balances and transactions with OCIF consist of:

	2018	*2017*
Due from related party	**48,009**	-
Expense recovery of administrative services	**138,612**	-

Other companies related through common ownership

The Company had the following balances and transactions with other companies related through common ownership by the City:

	2018	*2017*
Accounts receivable	**-**	35,000
Accounts payable	**18,426**	7,497
Revenue recognized from companies related by common ownership	**129,028**	85,000
Expenses paid to companies related by common ownership	**322,408**	403,425
(These transactions include expenses for event space and catering, and staff for parking)		

Other companies related to directors

The Company paid to organizations related to directors of the Company for other services totaling $145,610 (2017 - $64,113), of which $86,000 (2017 - $64,000) is included in program costs, $58,855 (2017 - $113) is included in corporate services expense, and $754 (2017 - $ nil) is included in marketing and promotion. At year end, $792 was outstanding (2017 - $23,100) and included in accounts payable. The Company also recognized revenue from these companies totaling $114,000 (2017 - $232,781), which is included in business community revenue related to Action Calgary and other programming. At year end, $25,000 (2017 - $62,500) of this amount was outstanding and included in accounts receivable.

All transactions are in the normal course of operations and have been recorded at the agreed to exchange amounts that have been negotiated between the parties.

11. Income taxes

The Company is a tax-exempt organization under the *Income Tax Act* (the "Act") and as such is exempt from income taxes. In order to maintain its tax-exempt status under the Act, the Company must meet certain requirements within the Act. In the opinion of management, these requirements have been met.

12. Commitments

Facility lease

On September 16, 2016, the Company entered a five-year lease with the related party, City of Calgary Corporate Properties, with an effective date of January 1, 2015. Annual rent for 2019 is $74,473 plus operating costs (2018 - $63,834 plus operating costs).

The Company has a ten-year rental agreement, effective June 15, 2009, with a third-party corporation, for office space in the Neilson Block which is part of the TELUS Convention Centre facility. The term of the agreement is for ten years with an option to not continue after the first five years. On March 27, 2014, the Company agreed to continue the lease for another five years. There are no rental costs and the Company does pay operating costs.

The Company has a five year lease agreement for office printing/copying equipment that was signed in September 2016, and runs until September 30, 2021. Annual lease cost is $11,256, plus printing/usage costs.

The estimated minimum annual payments on leases for facilities and equipment are as follows:

2019	85,729
2020	11,256
2021	8,442
	105,427

13. Financial instruments

General objectives, policies and processes

The Board of Directors, through the Audit Committee, has overall responsibility for the determination of the Company's risk management objectives and policies and, while retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure effective implementation of the objectives and policies to the Company's senior management. The Board of Directors receives quarterly reports from the Company's senior management through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The Company, as part of its operations, carries a number of financial instruments. The nature of these instruments and the Company's operations expose the Company to credit, interest rate and liquidity risk. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical. There have been no significant changes from the previous year in the exposure to risk, policies or procedures used to manage financial instrument risks.

13. Financial instruments *(Continued from previous page)*

Credit risk

Credit risk is the risk that the Company will incur a financial loss because a contributor or counterparty has failed to discharge an obligation. The Company is exposed to credit risk on its amounts receivable. This risk is somewhat mitigated because the trade accounts receivable and accrued revenue are comprised of amounts due from the City of Calgary and the provincial and federal governments. To further mitigate this risk, the Company regularly reviews its amounts receivable and follows up on collections in a timely manner. The amounts outstanding at year end, which is the Company's maximum exposure to credit risk, are disclosed in Notes 3, 8, and 10, and summarized below.

	Current	*0-30 days*	*31-60 days*	*61-90 days*	*91 days and older*	*Total*
2018						
Trade accounts receivable	**138,771**	**52,207**	**27,344**	**525**	**30,981**	**249,828**
Accrued revenue	**14,450**	**-**	**-**	**-**	**-**	**14,450**
Due from related parties	**89,141**	**26,913**	**14,051**	**-**	**-**	**130,105**
Employee advances	**5,500**	**-**	**-**	**-**	**-**	**5,500**
Total	**247,862**	**79,120**	**41,395**	**525**	**30,981**	**399,883**
2017						
Trade accounts receivable	67,000	41,046	55,544	2,000	6,533	172,123
Accrued revenue	280,758	150,479	184,622	155,846	130,521	902,226
Due from related party	18,159	14,126	14,051	14,051	112,408	172,795
Employee advances	7,200	2,180	-	-	-	9,380
Note receivable	245,000	85,000	85,000	85,000	200,000	700,000
Total	618,117	292,831	339,217	256,897	449,462	1,956,524

Credit concentration

As at December 31, 2018, one member accounted for 38% of accounts receivable and accrued revenue (2017 – one member, 78%); the Company believes that there is no unusual exposure associated with the collection of these amounts. The balance of accounts receivable is widely distributed amongst the remainder of the Company's large membership base. The Company performs regular credit checks and provides allowances for potentially uncollectible accounts receivable.

Interest rate risk

The Company is exposed to interest rate risk arising from the possibility that changes in interest rates will affect the fair value of financial instruments. As at December 31, 2018 a 1% change in interest rate, with all other variables held constant would impact the excess of revenue over expenses by $26,788 (2017 - $25,886).

13. Financial instruments *(Continued from previous page)*

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term requirements, considering its anticipated cash flows from operations and its holdings of cash and cash equivalents.

	0-90 days	*91 days and older*	*Total*
2018			
Accrued liabilities	**569,570**	**-**	**569,570**
Trade accounts payable	**508,203**	**-**	**508,203**
Total	**1,077,773**	**-**	**1,077,773**
2017			
Trade accounts payable	777,430	-	777,430
Accrued liabilities	128,136	8,450	136,586
Due to related party	4,385	-	4,385
Total	909,951	8,450	918,401

14. Defined contribution pension plan

The Company established a defined contribution pension plan for its salaried employees on January 1, 2000. The total expense incurred for the year ended December 31, 2018 was $171,879 (2017 - $152,198).

15. Controlled not-for-profit

The Company controls its wholly owned subsidiary, the Calgary Film Centre Ltd., formerly The Alberta Creative Hub. The companies are under common management. CFCL has not been consolidated in the Company's financial statements, but its financial statements are available on request. CFCL was incorporated under the authority of the Alberta Companies Act on December 17, 2009 and commenced operations on January 1, 2010. The Company is registered as a not-for-profit organization and thus is exempt from income taxes under the Income Tax Act of Canada. It was formed with the primary purpose of supporting the growth and development of the film, television, media and other creative industries.

The following is condensed financial information of CFCL as at and for the years ended December 31, 2018 and December 31, 2017. This information was prepared using the same accounting policies as Calgary Economic Development Ltd.

15. Controlled not-for-profit *(Continued from previous page)*

	2018	*2017*
Financial position		
Total assets	**415,523**	27,274,112
Total liabilities	**(372,872)**	(23,797,571)
Total net assets	**42,651**	3,476,541
Statement of operations		
Revenue	**1,870,248**	1,709,255
Expenses	**2,458,601**	2,540,526
Loss on disposal of property	**(2,845,537)**	-
Deficiency of revenue over expenses	**(3,433,890)**	(831,271)
Cash flows		
Cash flows from operating activities	**(439,667)**	(842,922)
Cash flows from investing activities	**12,673,695**	(111,187)
Cash flows from financing activities	**(12,412,744)**	478,971
Decrease in cash and cash equivalents	**(178,716)**	(475,138)

CFCL has entered into a management agreement with the Company that sets out the terms and conditions by which the Company is to provide services of its employees in relation to general day-to-day administration and management services in connection with the business of CFCL (Note 10).

On October 19, 2018, CFCL and The City executed an agreement of purchase and sale transferring all land, buildings and a portion of furniture, fixtures, and equipment with a carrying value of $25,876,318 for proceeds of $12,679,332 plus proceeds from the settlement of swap agreements related to the construction loan of the related assets of the sale which amounted to $626,106. The remaining balance of deferred contributions related to property, equipment and intangibles were recognized resulting in a loss on disposal of $2,845,537. This amount was used to retire all debt facilities, including amounts owed to the Company by CFCL.

Proceeds from sale of property and equipment	12,679,332
Proceeds from settlement of swap agreements	626,106
Deferred revenue balance related to property, equipment and intangibles	9,725,343
Carrying value of assets disposed	(25,876,318)
Loss on disposal	(2,845,537)

CFCL had entered into a term loan agreement of $900,000 with the Company, to provide interim financing (Note 8); this amount was fully repaid on October 23, 2018, using proceeds from the sale of land, buildings, and other assets to the City. The Board of the Company approved in September 2018, a reduction in the available term loan to $300,000.

In June 2015, CFCL entered into a credit facility for interim construction financing of up to $13,000,000, bearing interest at a rate of prime. On August 2, 2016, CFCL converted the $12,431,163 drawn on the interim construction loan to a term facility, in the form of one 5-year and one 10-year interest rate swap. On October 19, 2016, CFCL entered into a new credit facility of up to $550,000, bearing interest at prime. On October 19, 2018 all outstanding debt was fully repaid. As at December 31, 2018, CFCL has bank indebtedness of $nil (2017 - $12,338,850), and the $550,000 demand loan has been cancelled.

The credit facilities, as noted above, were secured by a general security agreement with a Canadian Chartered Bank representing first charge on all CFCL's present and after acquired personal property, and all other property, assets and undertakings and by a continuing collateral mortgage representing a first charge on CFCL's real property in the principal amount of $14,100,000, beneficially owned by and registered in the name of CFCL. On October 19, 2018 this agreement was concluded when the debt was fully repaid.

15. Controlled not-for-profit *(Continued from previous page)*

CFCL's continuation as a going concern is dependent upon the continuing support of its related parties, generating excess revenue over expenses through increased occupancy, and the ability to generate sufficient cash from operations. CFCL eliminated all debt in 2018 using the proceeds resulting from the sale of its assets to The City.

CFCL's management is currently reviewing its options to increase revenue of the Centre with the support of its related parties and anticipates it will continue operating as a going concern. There can be, however, no assurance that the actions described above will be sufficient for CFCL to continue operating as a going concern.

The Company's financial statements and CFCL's financial statements do not reflect any adjustments in the carrying values of the assets and liabilities, the reported revenue and expenses and the statement of financial position classifications used that would be necessary if the going concern assumption were not appropriate for CFCL.

16. Comparative figures

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

Calgary Film Centre Ltd.
Report to the Board of Directors

For the Year Ended December 31, 2018

For presentation at the Board of Directors meeting March 20, 2019

MNP

MNP LLP

March 20, 2019

Members of the Board of Directors of Calgary Film Centre Ltd.

Dear Sirs and Mesdames:

We are pleased to submit to you this report for discussion of our audit of the financial statements of Calgary Film Centre Ltd. (the "Centre") as at December 31, 2018 and for the year then ended. In this report we cover those significant matters which, in our opinion, you should be aware of as members of the Board of Directors.

We have substantially completed our audit of the financial statements of the Centre which has been carried out in accordance with Canadian generally accepted auditing standards.

Unless unforeseen complications arise, our Audit Report will provide an unqualified opinion to the Board of Directors of the Centre. A draft copy of our proposed Independent Auditor's Report is attached at the end of this report.

This report is intended solely for the information and use of the Board of Directors and management and should not be distributed to or used by any other parties than these specified parties.

The matters raised in this and other reports that will flow from the audit are only those which have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising, and in particular we cannot be held responsible for reporting all risks in your business or all control weaknesses. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared for, and is not intended for, any other purpose.

We would like to express our appreciation for the excellent cooperation we have received from Management and employees with whom we worked.

We appreciate having the opportunity to meet with you and to respond to any questions you may have about our audit, and to discuss any other matters that may be of interest to you.

Yours truly,

MNP LLP

Chartered Professional Accountants

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CONTENTS

INTRODUCTION

As auditors, we report to the members on the results of our examination of the financial statements of Calgary Film Centre Ltd. (the "Centre") as at and for the year ended December 31, 2018. The purpose of this Audit Findings Report is to assist you, as members of the Board of Directors, in your review of the results of our audit. To facilitate in your understanding of our findings, Appendix A to this report summarizes our audit process.

Our report will discuss the status of our engagement, as well as communicate to you significant audit, accounting and reporting matters arising from our procedures. We hope that this report is of assistance to you, and we look forward to discussing our findings and answering your questions.

ENGAGEMENT STATUS

We have completed our audit of the financial statements of the Centre and are prepared to sign our auditor's report subsequent to completion of the following procedures:

- Receipt of the signed management representation letter;
- Discussion of subsequent events with the Board of Directors;
- Review of any legal invoices received subsequent to year-end; and
- The Board of Directors' review and approval of the financial statements.

We expect to have the above procedures completed and to be able to release our Audit Report on March 13, 2019. Our draft report, which will provide an unqualified opinion, is attached at the end of this report. Our report includes a separate section under the heading "Material Uncertainty Related to Going Concern", our opinion is not modified in respect of this matter.

SIGNIFICANT AUDIT, ACCOUNTING AND REPORTING MATTERS

CHANGES FROM AUDIT SERVICE PLAN

We previously presented our proposed Audit Service Plan to you on September 11, 2018 which proposed $68,000 as overall materiality for audit planning purposes. Final materiality was calculated based on the Centre's year end results using 3% of gross revenue. This resulted in an overall materiality of $56,000, a performance materiality of $42,000 and a threshold for differences included in this report of $2,800.

There were no other changes from the Audit Service Plan presented to you.

AREAS OF AUDIT EMPHASIS

The following lists the key areas of our audit emphasis for the Centre:

- Disposal of Film Centre;
- Deferred Contributions and Revenue Recognition;
- Expenses;
- Going Concern; and
- Financial statement disclosures.

Detailed information on Areas of Audit Emphasis is included as Appendix B to this report.

FINAL MATERIALITY

Materiality is a concept used to assess the significance of misstatements or omissions that are identified during the audit and is used to determine the level of audit testing that is carried out. The scope of our audit work is tailored to reflect the relative size of operations of the Centre, and is affected by our assessment of materiality and audit risk.

Final materiality used for our audit was $56,000 for December 31, 2018 and was based on a percentage of gross revenue. Our threshold for differences reported to the Board was $2,800.

SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL

Our audit process focuses on understanding the controls utilized in Management's reporting systems to the extent necessary to identify overall and specific financial reporting risks. This risk assessment allows us to concentrate our audit procedures on high risk areas and, where possible, place reliance on controls within the financial reporting system to reduce the extent of our testing.

It is important to note that our assessment was not, nor was it intended to be, sufficient to comment or conclude on the sufficiency of internal controls.

We are required under Canadian generally accepted auditing standards to communicate all significant deficiencies identified during an audit to the Board of Directors on a timely basis. However, we may not be aware of all significant deficiencies that do, in fact, exist.

While our review of controls was not sufficient to express an opinion as to their effectiveness or efficiency, no significant deficiencies in internal control have come to our attention.

DIFFICULTIES ENCOUNTERED

No significant limitations were placed on the scope or timing of our audit.

IDENTIFIED OR SUSPECTED FRAUD

Due to the inherent limitations of an audit and the nature of fraud, including attempts at concealment through forgery or collusion, an audit conducted in accordance with Canadian generally accepted auditing standards cannot be relied upon to detect fraud.

While our audit cannot be relied upon to detect all instances of fraud, no incidents of fraud, or suspected fraud, came to our attention in the course of our audit.

IDENTIFIED OR SUSPECTED NON-COMPLIANCE WITH LAWS AND REGULATIONS

Nothing has come to our attention that would suggest any non-compliance with laws and regulations that would have a material effect on the financial statements.

MATTERS ARISING IN CONNECTION WITH RELATED PARTIES

All related party transactions identified were in the normal course of business and accounted for appropriately in accordance with Canadian Public Sector Accounting Standards for Not-for-Profit Organizations.

GOING CONCERN

During the course of our audit we identified the following issues which may impact the Centre's ability to continue as a going concern:

- It was noted during our audit the Centre's continuation as a going concern is dependent upon the continued support of related parties, generating excess revenue over expenses through increased occupancy, and the ability to generate sufficient cash from operations;
- The financial statements do not reflect any adjustments in the carrying values of the assets and liabilities, the reported revenue and expenses and the statement of financial position classifications used that would be necessary if the going concern assumption were not appropriate should the Centre not be able to continue on in the normal course of business;

As a result of the above circumstances, we are of the opinion that the going concern assumption is appropriate in preparation of the financial statements. The circumstances identified are disclosed adequately in Note 2 of the financial statements and a Material Uncertainty Related to Going Concern paragraph has been added to our auditor's report.

AUDITORS' VIEWS OF SIGNIFICANT ACCOUNTING PRACTICES

The application of Canadian Public Sector Accounting Standards for Not-For-Profit Organizations allows and requires the Centre to make accounting estimates and judgments regarding accounting policies and financial statement disclosures. We have noted the following items during the course of our audit that we wish to bring to your attention.

Accounting Policies

- The accounting policies used by the Centre are appropriate and have been consistently applied.
- No new accounting policies, or changes in accounting policies were applied.

Accounting Estimates

Allowance for Doubtful accounts

- Provision for doubtful accounts receivable is based on individual account balances at the time that all other collection efforts have failed. At December 31, 2018 there was no provision for doubtful accounts receivable.

Amortization of property and equipment

- Buildings and furniture, fixtures and equipment are amortized using the straight-line method at rates intended to amortize the cost of assets over their estimated useful lives. The rates range from two years to 25 years. Land was appropriately not amortized.

Provision for legal contingencies

- No provision deemed necessary.

Financial Statement Disclosures

The disclosures made in the notes to the financial statements appear clear, neutral and consistent with our understanding of the entity and the amounts presented in the financial statements.

MATTERS ARISING FROM DISCUSSIONS WITH MANAGEMENT

We would like to formally acknowledge the cooperation and assistance we received from Management and staff of the Centre and Calgary Economic Development.

There were no significant matters discussed, or subject to correspondence, with Management that in our judgment need be brought to your attention.

SIGNIFICANT DIFFERENCES

A few differences were proposed to Management with respect to the December 31, 2018 financial statements.

MODIFICATIONS TO THE INDEPENDENT AUDITOR'S REPORT

As discussed earlier, our independent auditor's report will provide an unqualified opinion to the Board of Directors.

MANAGEMENT REPRESENTATIONS

We have requested certain written representations from Management, which represent a confirmation of certain oral representations given to us during the course of our audit.

This letter, provided by Management, has been included as additional material to this report.

AUDITOR INDEPENDENCE

We confirm to the Board of Directors that we are independent of the Centre. Our letter to the Board of Directors discussing our independence is included under separate cover from this report.

APPENDIX A – MNP Audit Process

Our audit was carried out in accordance with Canadian generally accepted auditing standards, and included a review of all significant accounting and management reporting systems, with each material year end balance, key transaction and other events considered significant to the financial statements considered separately.

Our audit process focused on understanding the controls utilized in Management's reporting systems to the extent necessary to identify overall and specific financial reporting risks. This risk assessment enabled us to concentrate our audit procedures on the areas where differences were most likely to arise. Our assessment was not, nor was it intended to be, sufficient to conclude on the effectiveness or efficiency of internal controls.

During the course of our audit, we have:

- Examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- Assessed the accounting principles used and significant estimates made by Management;
- Obtained an understanding of the Centre and its environment, including Management's internal controls (regardless of whether we relied on them for the purpose of the audit), sufficient to identify and assess the risks of material misstatement of the financial statements and to design and perform audit procedures;
- Reviewed and assessed those accounting systems deemed necessary to support our audit opinion;
- Evaluated the overall financial statement presentation;
- Performed a subsequent events review with Management;
- Reviewed and assessed the status of contingencies, commitments and guarantees;
- Reviewed and assessed exposure to environmental liabilities.

We have obtained written representations from Management, included as additional materials following this report, in order to confirm oral representations given to us and reduce the possibility of misunderstanding. Specifically, we have obtained written confirmation of significant representations provided on matters that are:

- Directly related to items that are material, either individually or in the aggregate, to the financial statements;
- Not directly related to items that are material to the financial statements, but are significant, either individually or in the aggregate, to the engagement; and
- Matters relevant to Management judgments or estimates that are material, either individually or in the aggregate, to the financial statements.

APPENDIX B – Areas of Audit Emphasis

Disposal of the Film Centre
The Centre sold the Film Centre to the City of Calgary for consideration of $12.68M per the Agreement of Purchase and Sale, effective October 19, 2018. As a result of the sale, the Centre repaid its constructions loans with TD Canada Trust and its parent company, Calgary Economic Development Ltd.

- MNP reviewed the Agreement of Purchase and Sale with the City and vouched the distribution of proceeds to the supporting documentation to confirm debt repayment.
- MNP compared the net book value of the film centre at the date of disposal to the property and equipment continuity to ensure the disposals were properly recorded.
- MNP recalculated the loss on sale of disposal of property and equipment.
- MNP recalculated the recognition of revenue related to the deferred contributions received for the Film Centre.
- MNP reviewed the journal entries related to sale and concluded that the financial information recorded and related financial statement disclosure were reasonably stated.

We have concluded that the disposal of the film centre has been reasonably stated as at December 31, 2018.

Deferred Contributions and Revenue Recognition
The Centre received funds from the Government of Alberta in the amount of $315k, which was deferred upon receipt. Revenue recognized in the period was $503k, which was equal to the amount of eligible costs incurred for programming.

- MNP compared the total amount received to the bank deposit to ensure it was accurately recorded.
- MNP obtained supporting documentation of a sample of eligible expenditures and agreed them to invoices and analysed whether the amounts support recognition of revenue based on restrictions of the related funding agreements.
- MNP analysed the Company's revenue recognition policy and determined that revenue is reasonably stated for the year ended December 31, 2018.

We have concluded that deferred contributions and revenue have been reasonably stated at and for the year-ended December 31, 2018.

Expenses
The Centre incurred $2.46M in expenses during the year (2017 - $2.54M). Interest on long-term debt, bank indebtedness and amortization decreased a total of $327k as a result of the sale of the film centre and there was a reduction in event management and marketing expenses of $36k. These decreases were offset by an increase in project management, operating and utility costs, corporate services and salaries and benefits for a total of $283k.

- MNP agreed a sample of expense transactions to supporting documents to ensure amounts were complete, had occurred, and were accurate.
- MNP examined legal correspondence and analyzed legal expenses for indications of any pending or threatened or actual litigation.

We have concluded that expenses have been reasonably stated for the year-ended December 31, 2018.

APPENDIX B – Areas of Audit Emphasis *(continued from previous page)*

Going Concern
The financial statements of the Centre have been prepared on a going concern basis. The going concern basis of presentation assumes the Centre will continue operations for the foreseeable future and will be able to realize its assets and fulfills its liabilities and commitments in the normal course of business.

The Centre's continuation as a going concern is dependent upon the continuing support of its related parties, generating excess revenue over expenses through increased occupancy, and the ability to generate sufficient cash flow from operations.

MNP reviewed Management's plan of action and cash flow projections to ensure that it was reasonable to support the going concern basis. MNP reviewed the financial statement disclosure in detail to ensure that all required disclosures were included.

We have concluded that the going concern assumption is appropriate in the preparation of the financial statements.

Financial Statement Disclosure
MNP analysed the financial statements and note disclosure of the Centre to ensure the statement of financial position, statement of operations and net assets, and the statement of cash flows and accounting policies communicate information that is useful to users of the financial statements and is in accordance with Canadian Public Sector Accounting Standards for Not-for-Profit Organizations.

We have concluded that the financial statements and its related disclosures include all appropriate information to ensure that the statements are presented fairly in accordance Canadian Public Sector Accounting Standards for Not-for-Profit Organizations for the year ended December 31, 2018.

Independent Auditor's Report

To the Board of Calgary Film Centre Ltd.:

Opinion

We have audited the financial statements of Calgary Film Centre Ltd. (the "Centre"), which comprise the statement of financial position as at December 31, 2018, and the statements of operations, changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Centre as at December 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with Canadian Public Sector Accounting Standards for Not-for-Profit Organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Centre in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian Public Sector 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.

In preparing the financial statements, management is responsible for assessing the Centre's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Centre or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Centre's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Centre's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Centre's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Centre to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Calgary, Alberta

Chartered Professional Accountants

March 20, 2019

MNP LLP
1500, 640 - 5th Avenue SW
Calgary, Alberta T2P 3G4

To Whom It May Concern:

In connection with your audit of the financial statements of Calgary Film Centre Ltd. (the "Centre") as at December 31, 2018 and for the year then ended, we hereby confirm to the best of our knowledge and belief, the following representations made to you during the course of your audit.

We understand that your audit was made in accordance with Canadian generally accepted auditing standards. Accordingly, the audit included an examination of the accounting system, controls and related data, and tests of the accounting records and such other auditing procedures as you considered necessary in the circumstances, for the purpose of expressing an opinion on the financial statements. We also understand that such an audit is not designed to identify, nor can it necessarily be expected to disclose, misstatements, noncompliance with laws and regulations, fraud or other irregularities, should there be any.

Certain representations in this letter are described as being limited to matters that are material. An item is considered material, regardless of its monetary value, if it is probable that its omission from or misstatement in the financial statements would influence the decision of a reasonable person relying on the financial statements.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated September 11, 2018, for the preparation and fair presentation of the Centre's financial statements in accordance with Canadian Public Sector Accounting Standards for Not-for-Profit Organizations. We believe these financial statements are complete and present fairly, in all material respects, the financial position of the Centre as at December 31, 2018 and the results of its operations and its cash flows, in accordance with Canadian Public Sector Accounting Standards for Not-for-Profit Organizations.

2. All transactions have been recorded in the accounting records and are reflected in the financial statements, and are reported in the appropriate period.

3. We acknowledge that we are responsible for the accounting policies followed in the preparation of the Centre's financial statements. Significant accounting policies, and any related changes to significant accounting policies, are disclosed in the financial statements. The selection of accounting policies is appropriate in accordance with the requirements of Canadian Public Sector Accounting Standards for Not-for-Profit Organizations, and are applied consistently throughout the financial statements.

4. We have disclosed to you all significant assumptions used in making accounting estimates and judgments, and believe they are reasonable.

5. We are aware of and concur with the contents and results of the attached journal entries prepared by you, and accept responsibility for the financial statement effects of the entries.

6. We believe the effects of those uncorrected financial statement differences aggregated by you during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

7. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Canadian Public Sector Accounting Standards for Not-for-Profit Organizations.

8. All events or transactions that have occurred subsequent to the balance sheet and for which Canadian Public Sector Accounting Standards for Not-for-Profit Organizations require adjustment or disclosure have been adjusted or disclosed appropriately in the financial statements.

9. All plans or intentions that may affect the carrying value or classification of assets and liabilities are appropriately reflected in the financial statements in accordance with Canadian Public Sector Accounting Standards for Not-for-Profit Organizations.

10. All liabilities, both known and contingent, requiring recognition or disclosure in the financial statements in accordance with the requirements of Canadian Public Sector Accounting Standards for Not-for-Profit Organizations have been adjusted or disclosed as appropriate.

11. All outstanding and possible claims, whether or not they have been discussed with legal counsel, have been disclosed to you and are appropriately reflected in the financial statements.

12. All assets, wherever located, to which the Centre had satisfactory title at the year-end, have been fairly stated and recorded in the financial statements. The assets are free from hypothecation, liens and encumbrances, except as noted in the financial statements. We have disclosed the nature and carrying amounts of any assets pledged as collateral. All assets of uncertain value, and restrictions imposed on assets, are appropriately reported in the financial statements.

13. All aspects of laws, regulations or contractual agreements, including non-compliance, are appropriately reflected in the financial statements.

14. All restricted cash has been appropriately designated and separated from operating funds.

15. Accounts receivable are correctly described in the records and represent valid claims as at December 31, 2018. An appropriate allowance has been made for losses from uncollectible accounts and for costs or expenses that may be incurred with respect to sales made or services rendered.

16. All charges to property and equipment and intangible assets represent capital expenditures. No expenditures of a capital nature were charged to operations of the Centre. Depreciation of property and equipment and intangible assets has been recorded according to our best estimates of their useful lives. All events or circumstances giving rise to impairments are appropriately reflected in the financial statements.

17. All long-term debt has been appropriately recorded in the financial statements. All payments and accrued interest has been accounted for. The current portion of long-term debt is appropriately classified.

18. Revenue has been recognized only where sales have been made and items delivered, or services rendered, and the amounts have been collected or are collectible. Revenues do not include any amounts arising from consignment sales or from any other transaction from which the Centre is not entitled to the proceeds.

19. We have identified all financial instruments, including derivatives, and hedging relationships. These have been appropriately recorded and disclosed in the financial statements in accordance with the requirements of Canadian Public Sector Accounting Standards for Not-for-Profit Organizations.

20. All intangible assets have been appropriately recorded in the financial statements in accordance with the requirements of Canadian Public Sector Accounting Standards for Not-for-Profit Organizations. All events or circumstances giving rise to impairments are appropriately reflected in the financial statements. Where intangible assets are subject to amortization, they are amortized at appropriate rates based on our best estimates of their useful lives.

Information provided

1. We have responded fully to all inquiries made to us and have made available to you:

   - A complete record of all financial records that are relevant to the preparation and presentation of the financial statements, related data and minutes of the meetings of members and board of directors held throughout the year to the present date as well as summaries of recent meetings for which minutes have not yet been prepared;
   - Additional information that you have requested from us for the purpose of your audit;
   - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. We acknowledge management's responsibility for the design, implementation and operation of controls that have been designed to prevent and detect fraud.

3. We have assessed the risk that the financial statements may be materially misstated as a result of fraud, and have determined such risk to be low.

4. Where the impact of any frauds or suspected frauds, and non-compliance or possible non-compliance with laws and regulations, has a material effect on the financial statements, we have disclosed to you all known significant facts relating thereto, including circumstances involving management, employees having significant roles over controls, and others. We have made known to you any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators and others. The effects of such events, if any, are properly presented in the financial statements.

5. We have disclosed to you all deficiencies in the design or operation of internal controls over financial reporting of which we are aware.

6. We have disclosed to you all aspects of laws, regulations or contractual agreements that may affect the financial statements, including non-compliance.

7. We have disclosed to you the identities of all related parties to the Centre and all related party relationships and transactions of which we are aware.

8. The use of the going concern assumption is appropriate. We have provided you with appropriate and complete information about identified events or conditions that may cast significant doubt on the Centre's ability to continue as a going concern, our plans for future action.

9. We have no knowledge of side agreements (contractual or otherwise) with any parties that have not been disclosed to you.

10. The previous year's representation letter dated March 16, 2018 is still applicable to the prior year's financial statements and no matters have arisen that require restatement of those financial statements.

11. There are no discussions with your firm's personnel regarding employment with the Centre.

Professional Services

1. We acknowledge the engagement letter dated September 11, 2018, which states the terms of reference regarding your professional services.

2. We are not aware of any reason why MNP LLP would not be considered independent for purposes of the Centre's audit.

Sincerely,
Calgary Film Centre Ltd.

____________________________ ____________________
Signature Title

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Financial Statements

December 31, 2018

Contents

For the year ended December 31, 2018

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Management's Responsibility

To the Board of Directors of Calgary Film Centre Ltd.:

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian Public Sector Accounting Standards for Not-for-Profit Organizations. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors is composed entirely of Directors who are neither management nor employees of the Centre. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Board is also responsible for recommending the appointment of the Centre's external auditors.

MNP LLP is appointed by the Board to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Board and management to discuss their audit findings.

March 20, 2019

Luke Azevedo
Chief Operating Officer, Calgary Film Centre Ltd.

Sheila Will
Chief Financial Officer, Calgary Economic Development Ltd.

Independent Auditor's Report

To the Board of Calgary Film Centre Ltd.:

Opinion

We have audited the financial statements of Calgary Film Centre Ltd. (the "Centre"), which comprise the statement of financial position as at December 31, 2018, and the statements of operations, changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Centre as at December 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with Canadian Public Sector Accounting Standards for Not-for-Profit Organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Centre in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian Public Sector 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.

In preparing the financial statements, management is responsible for assessing the Centre's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Centre or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Centre's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Centre's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Centre’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Centre to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Calgary, Alberta

March 20, 2019

MNP LLP

Chartered Professional Accountants

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Calgary Film Centre Ltd.
Statement of Financial Position
As at December 31, 2018

	2018	2017
Assets		
Current		
Cash and cash equivalents	**195,020**	185,591
Amounts receivable *(Note 4)*	**53,280**	38,429
Due from related parties *(Note 15)*	**1,674**	41,885
	249,974	265,905
Restricted cash *(Note 11)*	**142,448**	330,593
Property and equipment *(Note 5)*	**6,290**	26,649,272
Intangible assets *(Note 6)*	**16,811**	28,342
	415,523	27,274,112
Liabilities		
Current		
Accounts payable and accrued liabilities *(Note 10)*	**89,601**	154,265
Tenant deposits	**5,065**	51,200
Due to related party *(Note 15)*	**135,758**	172,795
Deferred contribution *(Note 11)*	**142,448**	330,593
Current portion of bank indebtedness *(Note 7)*	-	762,465
Note payable to related party *(Note 8 and 15)*	-	700,000
	372,872	2,171,318
Bank indebtedness *(Note 7)*	-	11,576,385
Deferred contributions related to property and equipment *(Note 12)*	-	10,049,868
	372,872	23,797,571
Commitments and contingencies *(Note 16)*		
Net Assets		
Invested in property, equipment and intangible assets	**23,101**	4,288,896
Unrestricted	**19,550**	(812,355)
	42,651	3,476,541
	415,523	27,274,112

Approved on Behalf of the Board

Director

Director

The accompanying notes are an integral part of these financial statements

Calgary Film Centre Ltd.
Statement of Operations
For the year ended December 31, 2018

	2018	*2017*
Revenue		
Rental revenue	**1,031,314**	941,809
Amortization of deferred contributions *(Note 11)*	**503,145**	315,910
Amortization of deferred contributions related to property and equipment *(Note 12)*	**324,525**	429,580
Related party contributions *(Note 15)*	**11,264**	14,745
Other revenue	-	7,211
	1,870,248	1,709,255
Expenses		
Amortization *(Note 5 and Note 6)*	**783,832**	1,042,952
Operating and utility costs	**612,246**	565,120
Programming events	**369,159**	209,835
Interest expense	**258,010**	326,192
Corporate services *(Note 15)*	**199,423**	209,780
Employee costs	**180,354**	134,898
Legal services *(Note 15)*	**45,099**	2,681
Business travel, entertainment and events	**10,290**	42,706
Marketing and promotion	**188**	6,362
	2,458,601	2,540,526
Deficiency of revenue over expenses before other items	**(588,353)**	(831,271)
Loss on disposal of property *(Note 5)*	**(2,845,537)**	-
Deficiency of revenue over expenses	**(3,433,890)**	(831,271)

The accompanying notes are an integral part of these financial statements

Calgary Film Centre Ltd.
Statement of Changes in Net Assets
For the year ended December 31, 2018

	Invested in property, equipment and intangible assets	*Unrestricted*	***2018***	*2017*
Net assets, beginning of year	**4,288,896**	**(812,355)**	**3,476,541**	**4,307,812**
Deficiency of revenue over expenses (Note 9)	**(459,307)**	**(2,974,583)**	**(3,433,890)**	**(831,271)**
Invested in property and equipment	**5,637**	**(5,637)**	-	-
Construction loan repayments	**11,948,941**	**(11,948,941)**	-	-
Credit facility repayment	**389,909**	**(389,909)**	-	-
Sale of land	**(4,815,656)**	**4,815,656**	-	-
Sale of building	**(20,945,565)**	**20,945,565**	-	-
Sale of furniture, fixtures and equipment	**(115,096)**	**115,096**	-	-
Reduction of deferred revenue	**9,725,342**	**(9,725,342)**	-	-
Net assets, end of year	**23,101**	**19,550**	**42,651**	**3,476,541**

The accompanying notes are an integral part of these financial statements

Calgary Film Centre Ltd.
Statement of Cash Flows
For the year ended December 31, 2018

	2018	2017
Cash provided by (used for) the following activities:		
Operating		
Deficiency of revenue over expenses	**(3,433,890)**	(831,271)
Adjustments for items not involving cash:		
Amortization	**783,832**	1,042,952
Recognition of deferred contributions related to programming funds	**(503,145)**	(315,910)
Recognition of deferred contributions related to property and equipment	**(324,525)**	(429,580)
Loss on disposal related to property	**2,845,537**	-
	(632,191)	(533,809)
Changes in working capital accounts		
Amounts receivable	**(14,851)**	21,988
Due from related parties	**40,211**	(41,210)
Accounts payable and accrued liabilities	**(64,664)**	9,218
Due to related party	**(37,037)**	(74,059)
Tenant deposits	**(46,135)**	(114,800)
Deferred contribution	**315,000**	-
Deferred rental revenue	-	(110,250)
	(439,667)	(842,922)
Investing		
Purchase of property and equipment *(Note 5)*	**(5,637)**	(106,187)
Purchase of intangible assets *(Note 6)*	-	(5,000)
Proceeds from sale of property and equipment *(Note 5 and 15)*	**12,679,332**	-
	12,673,695	(111,187)
Financing		
Repayment of bank indebtedness *(Note 7)*	**(11,948,941)**	(363,196)
Repayment of credit facility *(Note 7)*	**(389,909)**	-
Advance of note payable from related party *(Note 8)*	**200,000**	700,000
Repayment of note payable from related party *(Note 8)*	**(900,000)**	-
Proceeds from settlement of interest rate swap agreements *(Note 5 and 15)*	**626,106**	-
Increase in bank indebtedness *(Note 7)*	-	64,167
Cash contributions received for property and equipment *(Note 5)*	-	78,000
	(12,412,744)	478,971
Decrease in cash and cash equivalents	**(178,716)**	(475,138)
Cash and cash equivalents, beginning of year	**516,184**	991,322
Cash and cash equivalents, end of year	**337,468**	516,184
Cash and cash equivalents are composed of:		
Unrestricted cash	**195,020**	185,591
Restricted cash - external	**142,448**	330,593
	337,468	516,184

The accompanying notes are an integral part of these financial statements

1. Incorporation

Calgary Film Centre Ltd. (the "Centre") was incorporated under the authority of the Alberta Companies Act on December 17, 2009. The Centre is a wholly owned subsidiary of Calgary Economic Development Ltd. the ("Parent Company") and was granted para-municipal status retroactive to the incorporation date.

The Centre was formed with the primary purpose of supporting the growth and development of the film, television, media and other creative industries.

On June 23, 2014, the Centre changed its name from The Alberta Creative Hub to Calgary Film Centre Ltd.

2. Going concern

The accompanying financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes the Centre will continue operations for the foreseeable future and will be able to realize its assets and fulfill its liabilities and commitments in the normal course of business.

The Centre's continuation as a going concern is dependent upon the continuing support of its related parties, generating excess revenue over expenses through increased occupancy, and the ability to generate sufficient cash from operations. The Centre eliminated all debt in 2018 using the proceeds resulting from the sale of its assets to The City of Calgary ("The City").

Management is currently reviewing its options to increase revenue of the Centre with the support of its related parties and anticipates it will continue operating as a going concern. There can be, however, no assurance that the actions described above will be sufficient for the Centre to continue operating as a going concern.

These financial statements do not reflect any adjustments in the carrying values of the assets and liabilities, the reported revenue and expenses and the statement of financial position classifications used that would be necessary if the going concern assumption were not appropriate should the Centre not be able to continue its normal course of business.

3. Significant accounting policies

Basis of accounting

The financial statements are expressed in Canadian dollars. The financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards for Not-for-Profit Organizations, with the optional 4200 series, as established by the Public Sector Accounting Board. The significant policies are described below.

Cash and cash equivalents

Cash and cash equivalents include balances with banks and short-term investments with maturities of three months or less. Cash subject to restrictions that prevent its use for current purposes is included in restricted cash.

Revenue recognition

The Centre follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Contributions for the purchase of property and equipment are deferred and recognized on the same basis as amortization expense of the related asset. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Rental revenue is recognized on a monthly basis pursuant to the terms of the lease agreement.

Contributions for program related activities include amounts recovered from events and projects undertaken by the Centre alone or with a number of economic partners.

Interest revenue is recognized on a pro rata basis over the term of the related deposit or investment.

3. Significant accounting policies *(Continued from previous page)*

Contributed materials and services

The Centre received various contributions in the form of materials or services that it uses to carry out its objectives. Because of the difficulty in determining the fair value of these materials and services, the Centre does not recognize the amounts in the financial statements.

Property and equipment and intangible assets

Purchased property, equipment and intangible assets are recorded at cost. Contributed property, equipment and intangible assets are recorded at fair value at the date of contribution if fair value can be reasonably determined.

Amortization is provided using the straight-line method at rates intended to amortize the cost of assets over their estimated useful lives. Amortization is calculated in the month the asset is put into use and ends in the month of disposal.

	Rate
Buildings	10 to 25 years
Furniture and fixtures	5 to 10 years
Equipment	2 to 5 years

Financial instruments

The Centre recognizes its financial instruments when the Centre becomes party to the contractual provisions of the financial instrument. All financial instruments are initially recorded at their fair value, including financial assets and liabilities originated and issued in a related party transaction with management. Financial assets and liabilities originated and issued in all other related party transactions are initially measured at their carrying or exchange amount in accordance with PSAS Section 4250 *Disclosure of Related Party Transactions By Not-For-Profit Organizations* (refer to Note 15). At initial recognition, the Centre may irrevocably elect to subsequently measure any financial instrument at fair value. The Centre has not made such an election during the year.

Transaction costs related to financial instruments remeasured at fair value at each reporting date are expensed in the period, whereas they are included in the carrying value of financial instruments for those measured at cost or amortized cost.

Derivative financial instruments and hedging activities

Derivative financial instruments are financial contracts whose value changes in response to a change in an underlying variable, such as specified interest rate, financial instrument or commodity price, or foreign exchange rate. The Centre held derivative financial instruments to hedge its interest rate risk exposure.

Derivative financial instruments may be designated for hedge accounting, provided that the Centre formally documents the hedging relationship at its inception by outlining the risks being hedged along with the details of both the hedged and hedging item. The documentation identifies the specific asset, liability, or anticipated transaction being hedged, the hedging item, the risk that is being hedged, and the intended term of the hedging relationship. The Centre must formally assess, at inception and over the term of the hedging relationship, whether the critical terms of the hedging and hedged item match.

Interest on the hedged item is recognized using the effective interest method. Net amounts receivable/payable on the hedging item adjust the interest on the hedged item in the period accrued.

3. Significant accounting policies (*Continued from previous page)*

Financial asset impairment

The Centre assesses impairment of all of its financial assets measured at cost or amortized cost. When there is an indication of impairment, the Centre determines whether it has resulted in a significant adverse change in the expected timing or amount of future cash flows during the year. If so, the Centre reduces the carrying amount of any impaired financial assets to the highest of: the present value of cash flows expected to be generated by holding the assets; the amount that could be realized by selling the assets; and the amount expected to be realized by exercising any rights to collateral held against those assets. Any impairment, which is not considered temporary, is included in current year excess of revenue over expenses.

Use of estimates

The preparation of financial statements in conformity with Canadian Public Sector 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 revenue over expenses during the reporting period.

Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. Amortization is based on the estimated useful lives of property and equipment and intangibles.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in excess of revenue and expenses in the periods in which they become known.

4. Amounts receivable

Amounts receivable relates to the following:

	2018	*2017*
Rent and recovery of expenses receivable	**53,280**	38,429

5. Property and equipment

	Land	*Buildings*	*Furniture, fixtures and equipment*	***Total***
Cost:				
Balance at December 31, 2017	4,815,656	23,478,375	167,674	28,461,705
Additions	-	-	5,637	5,637
Disposals	(4,815,656)	(23,478,375)	(139,424)	(28,433,455)
Balance at December 31, 2018	-	-	**33,887**	**33,887**
Accumulated amortization:				
Balance at December 31, 2017	-	1,775,667	36,766	1,812,433
Amortization	-	757,142	15,159	772,301
Disposals	-	(2,532,809)	(24,328)	(2,557,137)
Balance at December 31, 2018	-	-	**27,597**	**27,597**
Net book value at December 31, 2017	4,815,656	21,702,708	130,908	26,649,272
Net book value at December 31, 2018	-	-	**6,290**	**6,290**

On October 19, 2018, the Centre sold the land, buildings and its related fixtures and equipment with a carrying value of $25,876,318 to The City for proceeds of $12,679,332. The balance of unamortized deferred contributions related to property and equipment was recognized in full resulting in a loss on disposal of $2,845,537.

Proceeds from sale of property and equipment	12,679,332
Proceeds from settlement of interest rate swap agreements *(Note 7)*	626,106
Unamortized deferred contributions related to property and equipment	9,725,343
Carrying value of assets disposed	(25,876,318)
Loss on disposal	(2,845,537)

The total proceeds from the sale of property and equipment and settlement of the interest rate swap agreements of $13,305,438 were used to settle debt of the Company.

Loans – 5 year and 10 year swap and outstanding interest	11,691,885
Demand loan and outstanding interest	390,976
Note payable from related party and outstanding interest	927,506
Due to related party	295,071
	13,305,438

6. Intangible assets

	Website Development Costs	***Total***
Cost:		
Balance December 31, 2017	38,400	38,400
Additions	-	-
Balance at December 31, 2018	**38,400**	**38,400**
Accumulated amortization:		
Balance December 31, 2017	10,058	10,058
Amortization	11,531	11,531
Balance at December 31, 2018	**21,589**	**21,589**
Net book value, December 31, 2017	28,342	28,342
Net book value December 31, 2018	**16,811**	**16,811**

7. Bank indebtedness

	Interest Rate	***2018***	*2017*
Bank indebtedness:			
Loan – 5-year Swap *(a)*	2.30%	-	5,213,459
Loan – 10-year Swap *(b)*	2.75%	-	6,735,482
Demand Loan *(c)*	Prime	-	389,909
		-	12,338,850
Less: current portion of loans payable		-	(762,465)
Non-current portion of loans payable		-	11,576,385

In June 2015, the Centre entered into a credit facility for interim construction financing of up to $13,000,000, bearing interest at a rate of prime. On August 2, 2016, the Centre converted the $12,431,163 drawn on the interim construction loan to a term facility, in the form of one 5-year and one 10-year swap.

On October 1, 2018 the 5 year and 10 year loans were converted into a term loan and the interest rate swaps were closed. On October 19, 2018 the proceeds from the sale of the related assets were utilized to settle the balance of the term loans.

(a) *Loan – 5-year interest rate swap*

On August 2, 2016, the Centre converted $5,431,163 of its interim construction loan to a term facility with a 5-year interest rate swap which ends on August 1, 2021. The Centre used hedge accounting for the interest rate swap which was in place to fix the interest rate on the balance of the loan payable at 2.30% in order to reduce its exposure to fluctuation of interest rate on the loan. On October 19, 2018 the Centre repaid its principal portion of the debt of $5,088,038 with proceeds from the sale of assets and terminated the loan agreement.

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7. Bank indebtedness *(Continued from previous page)*

On the notional amount of the above described loan, the Centre had entered into an interest rate swap agreement with a Canadian Chartered Bank, under which the Centre has swapped its floating bankers' acceptance rate for fixed interest payments at 2.30% per annum. The swap agreement was settled on October 1, 2018 resulting in a gain on proceeds of $184,160. The settlement was included in the proceeds of the sale with The City.

(b) *Loan – 10-year interest rate swap*

On August 2, 2016 the Centre converted $7,000,000 of its interim construction loan to a term facility with a 10-year interest rate swap which ends on August 1, 2026. The Centre used hedge accounting for the interest rate swap which was in place to fix the interest rate on the balance of the loan payable at 2.75% in order to reduce its exposure to fluctuation of interest rate on the loan. On October 19, 2018 the Centre repaid its principal portion of the debt of $6,582,377 with proceeds from the sale of assets and terminated the loan agreement.

On the notional amount of the above described loan, the Centre had entered into an interest rate swap agreement with Canadian Chartered Bank, under which the Centre has swapped its floating bankers' acceptance rate for fixed interest payments at 2.75% per annum. The swap agreement was settled on October 1, 2018 resulting in a gain on proceeds of $441,946. The settlement was included in the proceeds of the sale with The City.

(c) *Demand loan*

On October 19, 2016, the Centre entered into a credit facility with a Canadian Chartered Bank at an interest rate of prime and with a $550,000 limit, to fund additional capital requirements. Up to a maximum of four draws were permitted under this facility. On October 18, 2018 the Centre repaid the balance on the demand loan with proceeds from the sale of assets and terminated the loan agreement.

8. Note payable with related party

On June 29, 2017 the Centre and its Parent Company entered into an agreement which enabled the Centre to draw on a demand loan of up to $500,000, with an interest rate at prime. On September 29, 2017, the available funds on this loan were increased to $700,000 which were fully drawn in 2017. On December 12, 2017 the available funds were further increased to $900,000. Additional funds of $200,000 were drawn in 2018. On October 23, 2018 the Centre utilized the proceeds received from the sale of assets and repaid the note payable in full.

In 2018, the CED Board of Directors approved a reduction in the available demand loan to the Centre to $300,000. As of December 31, 2018, no draws had been made on the demand loan.

9. Net assets invested in property, equipment and intangible assets

	2018	*2017*
Property and equipment	**6,290**	26,649,272
Intangible assets	**16,811**	28,342
Invested in property, equipment and intangible assets	**23,101**	26,677,614
Amortization of intangible assets	**(11,532)**	(10,058)
Amortization of property and equipment	**(772,301)**	(1,032,893)
Amortization of deferred contributions related to property	**301,426**	29,580
Loss on disposal of property	**(2,845,537)**	-
Deficiency of revenue over expenses	**(3,304,843)**	(613,371)

10. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities relate to the following:

	2018	*2017*
Trade accounts payable	**44,927**	88,996
Accrued liabilities	**43,540**	63,483
Goods and Services Tax payable	**1,134**	1,786
	89,601	154,265

11. Deferred contribution

Deferred contributions consist of grant funding from the Government of Alberta externally restricted for the development, operations and programming of the Calgary Film Studio. Recognition of this amount as revenue is deferred to periods when the specified expense occurs.

Changes in the deferred contribution balance are as follows:

	2018	*2017*
Balance, beginning of year	**330,593**	646,503
Amount received during the year	**315,000**	-
Amounts recognized as revenue during the year	**(503,145)**	(315,910)
Balance, end of year	**142,448**	330,593

12. Deferred contributions related to property and equipment

Deferred capital contributions related to property consist of the unamortized amount of contributions received for construction of the Centre. Recognition of these amounts as revenue is deferred to the periods in which the related capital assets are amortized.

	City of Calgary	*Government of Alberta*	*Business Community Funder*	***Total***
Balance at January 1, 2017	4,909,452	4,523,469	968,527	10,401,448
Additional contributions	78,000	-	-	78,000
Revenue recognized	(202,759)	(186,821)	(40,000)	(429,580)
Balance at December 31, 2017	4,784,693	4,336,648	928,527	10,049,868
Additional contributions	-	-	-	-
Revenue recognized	(154,410)	(140,115)	(30,000)	**(324,525)**
Disposal of property	(4,630,283)	(4,196,533)	(898,527)	**(9,725,343)**
Balance at December 31, 2018	-	-	-	-

13. Income taxes

The Centre is registered as a tax-exempt organization under the *Income Tax Act* (the "Act") and as such is exempt from income taxes. In order to maintain its tax free status under the Act, the Centre must meet certain requirements within the Act. In the opinion of management, these requirements have been met.

14. Financial instruments

General objectives, policies and processes

The Board of Directors has overall responsibility for the determination of the Centre's risk management objectives and policies and, while retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure effective implementation of the objectives and policies to the Centre's senior management. The Board of Directors receives quarterly reports from the Centre's senior management through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

Credit risk

Credit risk is the risk that the Centre will incur a financial loss because a lessee, contributor or counterparty has failed to discharge an obligation. The Centre is exposed to credit risk on its amounts receivable. At December 31, 2018, $37,214 (2017 - $67,126) of the receivables were current.

	Current	*0-30 days*	*31-60 days*	*61-90 days*	*91 days and older*	***Total***
2018						
Accounts receivable	20,200	15,340	8,367	9,373	-	**53,280**
Due from related parties	-	1,674	-	-	-	**1,674**
Total	**20,200**	**17,014**	**8,367**	**9,373**	-	**54,954**
2017						
Accounts receivable	17,170	12,456	8,803	-	-	38,429
Due from related party	-	37,500	1,800	2,585	-	41,885
Total	17,170	49,956	10,603	2,585	-	80,314

The Centre is also exposed to credit risk as a significant portion of the Centre's cash and cash equivalents are held at one Canadian Chartered Bank. As such, the Centre is exposed to all the risks of that financial institution.

Credit Concentration

As at December 31, 2018, one vendor accounted for 91% of accounts receivable, of which the vendor has a history with the Centre of making payments. The Centre believes that there is no unusual exposure associated with the collection of these amounts.

Liquidity risk

Liquidity risk is the risk that the Centre will not be able to meet its financial obligations as they fall due. The Centre has a forecasting and budgeting process in place to help determine the funds required to support the Centre's normal operating requirements on an ongoing basis. The Centre ensures that there are sufficient funds to meet its short-term requirements, taking into account its anticipated cash flows from operations and its holdings of cash and cash equivalents.

14. Financial instruments *(Continued from previous page)*

The following table sets out the contractual maturities of financial liabilities:

2018	*0-90 days*	*91 days and older*	***Total***
Due to related party	82,096	-	**82,096**
Trade accounts payable	44,927	-	**44,927**
Accrued liabilities	43,540	-	**43,540**
Total	**170,563**	-	**170,563**

2017	*0-90 days*	*91 days and older*	*Total*
Note payable to related party	700,000	-	700,000
Due to related party	60,387	112,408	172,795
Trade accounts payable	88,508	-	88,508
Accrued liabilities	63,483	-	63,483
Total	912,378	112,408	1,024,786

15. Related party transactions

The Centre is a wholly owned subsidiary of Calgary Economic Development Ltd. ("Parent Company"). The Centre has entered into a Management Services Agreement with the Parent Company and is required to pay $168,612 (2017 - $168,612) for management fees, this is recorded in corporate services. Additional expenses of $61,489 (2017 - $8,293) are expenses incurred by the Parent Company on the Centre's behalf including legal fees of $37,035 (2017- nil). Management fees for October to December 2018 are outstanding at December 31, 2018. The Centre received $9,058 (2017 - $25,245) from the Parent Company in 2018 to fund website development and other marketing activities, this is recorded in related party contributions.

In 2015 the Parent Company disbursed $5,000,000 to the Centre that had been received from the Government of Alberta for the construction of the Calgary film studio. $140,115 was recognized as deferred contributions in 2018 (2017 - $186,821). The remaining deferred balance of $4,196,533 was recognized upon the sale of assets with The City.

Calgary Economic Development Ltd.	***2018***	*2017*
Due from related party	-	4,385
Due to related party	**82,096**	172,795
Note payable to related party	-	700,000
Revenue recognized from Parent Company	**9,058**	25,245
Expenses paid to Parent Company	**230,101**	176,905

On October 19, 2018, The City purchased the land, buildings and a portion of furniture, fixtures, and equipment with a carrying value of $25,876,318 for proceeds of $12,679,332 and proceeds from settlement of swap agreements related to the construction loan of the related assets of the sale resulted in proceeds of $626,106. The remaining balance of deferred contributions related to property, equipment and intangibles were recognized resulting in a loss on disposal of $2,845,537.

15. Related party transactions *(Continued from previous page)*

The City of Calgary ("The City") and affiliates	***2018***	*2017*
Proceeds from sale of assets	**12,679,332**	-
Due from related party for artwork reimbursement	**1,674**	37,500
Due to related party	**53,662**	488
Utilities expense	**7,066**	6,224
Business tax reimbursement	**531**	-
Rental of leased facility	**10**	-
Deferred revenue recognized	**154,410**	202,760
Deferred revenue recognized on sale of assets	**4,630,283**	-
Property tax expense	**295,494**	263,597

All transactions are in the normal course of operations and have been recorded at the agreed exchange amounts that have been negotiated between the parties.

16. Commitments and contingencies

Commitments

Commitments payable for operations within the next two years are as follows:

2019	27,068
2020	10,068
	37,136

Contingencies

The Centre is party to disputes arising in the ordinary course of operations. While it is not feasible to predict the outcomes of these disputes, it is the opinion of management that the resolution of these matters will not have a material adverse effect on the operations of the Centre.

17. Comparative figures

Certain comparative information has been reclassified to conform to the current year's presentation.

2019 Business Plan Matrix - Template

Strategic Objectives	Activities	Outcomes	Progress (R/Y/G) Budget 2019
High Performing and Engaged Team impact measures*: • Achieve overall staff engagement of 70% • Achieve 80% in overall Board assessment in Board surveys			
1A Establish a great place to work environment with engaged and empowered employees	• Enhance Human Resource processes (job descriptions, onboarding, training, staff surveys and performance reviews) • Live our values, vision, culture and brand in supporting and collaborating with each other • Ensure adaptive and effective workspace including WORKshift and transition to Office 365 • Continually assess the decision-making processes against values, corporate and Economic Strategy. • Conduct regular performance and progress meetings with every employee • Deploy semi-annual quarterly employee surveys • Continue to host Culture Club events	• 80% of employees feel a shared sense of purpose • 70% employees would recommend Calgary Economic Development as a place to work	
1B Cultivate Board Engagement	• Implement changes to Calgary Economic Development governance structure as proposed by Finley and Associates • Calgary Film Centre and Opportunity Calgary Investment Fund are reported to Calgary Economic Development Board on routine basis • Board supports Action Calgary program with leads and reviews progress • Board is regularly engaged and updated on implementation progress of "Calgary in the New Economy" strategic plan and provides guidance and support to CED for its related activity • CG&E's and other Committee's terms of reference are amended to reflect changes in governance structure and approach and to align to current issues and practices including board diversity, skills, size and succession • Oversee that Board Evaluations completed on Directorpoint subsequent to each Board meeting and are regularly reviewed and actioned including rating on strategic conversations	• 80% response rate to board evaluation surveys • 75% of Board satisfied with time spent on strategic conversations	
1C Develop and prioritize skills and build talent pipeline accordingly	• Develop and implement training plans for all employees (includes cross-training and job shadowing and mentoring) • Continue to develop and implement leadership training • Continue to deploy lunch and learns for additional training • Provide up to date technology, tools and training to increase individual and overall effectiveness	• 80% of employees feel they have the training and resources to excel at their job	

2019 Business Plan Draft September 19, 2018
- Only impact measures will be reported to the Board and external stakeholders.
- High Performing and Engaged Team indirectly supports Calgary Economic Development's capacity to implement Calgary in the new economy.
- Activities specifically supporting Calgary in the new economy are highlighted in RED.

2019 Business Plan Matrix - Template

calgary economic development
be part of the energy

Strategic Objectives	Activities	Outcomes	Progress (R/Y/G) Budget 2019
Exceptional Client Service impact measures*: • Non-core revenue targets achieved (AC and government) • 80% of Economic Strategy stakeholders agree positive progress is being made • 83% favourable impression (79% Spring 2018) of Calgary Economic Development			
2A Deliver consistent, fit-for-purpose client service (external facing – how we interact with clients)	• Adopt a client service delivery model (including website and other tools) based on client segmentation (All Areas of Focus) • Monitor client satisfaction and engagement • Anticipate client needs to continually improve and enhance self-serve access to research and information (Business Environment) • Enhance client triage, prioritization and off-ramp process paying attention to client touch points (Business Environment) • Increase website traffic to industry and research pages	• 75% of clients (73% Spring 2018) feel Calgary Economic Development contributed to their success • 90% of clients (88% Spring 2018) will continue to use Calgary Economic Development programs and services	
2B Prioritize our initiatives based on their value-add to clients (internal – how we respond internally)	• Focus relentlessly on target clients (Talent, Place and Innovation) • Continue to strengthen team approach to OCIF and CFCL • Create and deploy client segmentation and prioritized geographic markets (Talent and Innovation) • Encourage continued use of CRM for clients and program initiatives • Identify internal leadership roles and deploy activation plans for the Talent, Innovation and Place areas of focus in the Economic Strategy for Calgary (Talent, Place and Innovation)	• 100% Automated reporting of clients using PowerBI	
2C Foster strong relations with government, partner organizations and Action Calgary to enhance our client offering **Calgary in the new economy – All Areas of Focus**	• Rebuild and/or reposition our advisory committees maximizing value to the organization, committee members and the community (All Areas of Focus) • Evolve and grow Action Calgary (All Areas of Focus) • Continually and consistently communicate goals and objectives to all orders of government and collaborate to advance policies in support Calgary in the new economy (All Areas of Focus) • Create and deploy a clear government relations strategy • Across a broad section of community stakeholders utilize the Economic Strategy to delivery consistent messages to all orders of government (All Areas of Focus) • Convene stakeholders and align localized networks with Calgary in the new economy (All Areas of Focus) • Evolve our Signature Event program improving message alignment, ROI and revenue generation • Leverage Board networks and community support (All Areas of Focus)	• 80% engagement of advisory committee and Economic Strategy Committee members • 25 registered ambassadors as part of ambassador program	

2019 Business Plan Draft September 19, 2018

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2019 Business Plan Matrix - Template

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Strategic Objectives	Activities	Outcomes	Progress (R/Y/G) Budget 2019
Global recognition as a place to learn, live and do business impact measures*: • Benchmark and increase in house marketing measure			
3A Create and distribute an amazing narrative for Calgary and the entities we support	• Build a comprehensive content creation and distribution plan to support an always-on campaign (All Areas of Focus) • Evolve and enhance Be Part of the Energy that supports our awareness, engagement and lead generation activities in key markets for business and talent (Talent, Place and Innovation) • Tell the story of the innovation ecosystem (Talent and Innovation) • Tell the story of our evolving downtown and the downtown strategy (Place) • Promote launch party as part of a broader Calgary Innovation Week (Talent and Innovation)	• 20% growth in leads generated from the website • 10% growth in website traffic from social media channels	
3B Work with partners to drive Calgary's brand	• Support value creation with Action Calgary partners and other key stakeholders (All Areas of Focus) • Create a proactive approach to working with local, national and key industry media (All Areas of Focus) • Enhance and broaden the Ambassador Program to support engagement with all Calgarians and Calgary champions in other markets (trade offices) (All Areas of Focus) • Collaborate with promotional partners to support cohesive narrative for Calgary (All Areas of Focus) • Calgary Brand toolkit is completed and executed (All Areas of Focus)	• 100 people added to self-identified ambassador program • 80% engagement of action Calgary partners in our campaigns	
3C Highlight advantages in established and emerging sectors to attract new companies	• Understand and communicate the value proposition of our core sectors and program initiatives (All Areas of Focus) • Execute campaigns for established and emerging sectors in targeted markets (Talent, Place and Innovation) • Execute campaigns for established and emerging sectors as well as initiatives including Startup Calgary, CFCL and OCIF in targeted markets (Talent, Place and Innovation) • Continually expand the perception of Calgary's innovation ecosystem (Talent, Place and Innovation) • Expand and evolve the brand identity for Startup Calgary (Talent and Innovation) • Expand Calgary Cool Companies list	• Benchmark and increase usage of online resources and tools (Pitch Decks) • 6 tech focused media outlets telling Calgary's innovation story	

2019 Business Plan Draft September 19, 2018

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2019 Business Plan Matrix - Template

Strategic Objectives	Activities	Outcomes	Progress (R/Y/G) Budget 2019
Accelerate sector development and diversification impact measures: • 100 companies attracted/expanded/retained • 7000 jobs created/retained • 500,000 ft2 of commercial/industrial space absorbed			
4A Drive growth by attracting new companies and industries	• Conduct research to effectively leverage trade agreements and understand target markets • Leverage GAC, GoA, CCCA and others for leads and out of market missions (All Areas of Focus) • Leverage events, conferences and inbound missions for lead generation (All Areas of Focus) • Generate stronger understanding of leads, opportunities and wins from travel, conferences and sponsorships • Identify and target growth and attraction leads for the downtown (Place) • Leverage OCIF, inside sales and research tools in generating leads • Develop and execute an effective enterprise sector strategy, including activation of OCIF (All Areas of Focus) • Execute international missions for lead generation in targeted markets (All Areas of Focus)	• 200 opportunities in the pipeline (classified as 3 or 4 in the CRM) • $185 million on film and television production • 300,000 ft2 downtown office space absorbed	
4B Nurture growth by helping local organizations reach their full potential	• Increase and enhance Trade Accelerator Program (TAP) (frequency, sector participation) (Innovation) • Maintain outreach to local companies with greatest opportunities to scale • Leverage TAP graduates for GoA and GAC out of market missions (Innovation) • Leverage strategic partnerships with other business support and development agencies to maximize growth potential of local companies (All Areas of Focus) • Leverage startup, community partners and resources in advancing startups through the growth continuum (Innovation) • Support growth in downtown businesses through the downtown strategy (Place)	• Five (5) TAP graduates secure export deals • 12 startups securing funding and generating jobs	
4C Advocate for established businesses in order to retain jobs and companies	• Continue to work with clients and government administration to understand and leverage policy, programs and regulations to meet client needs (Business Environment) • Refresh and understand Calgary's competitiveness and select markets and share intelligence with local companies (Business Environment) • Continually monitor the local business environment for potential flight risks and activate as required to retain companies (Business Environment) • Support The City of Calgary in achieving 'business friendly' goals (e.g. living lab) (Place, Innovation and Business Environment)	• 80% of client survey respondents recognize CED can support with retention strategy	

2019 Business Plan Draft September 19, 2018
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Sept 10, 2019
Scorecard

Scorecard	Business Plan Impacts	YTD Metrics			2019 Forecast/ Business Plan			2019 Progress (R/Y/G)
Above the Line	Companies attracted/retained/expanded - BD/CS	51			67			
	Companies attracted/retained/expanded - CI	10			29			
	Total Companies	61			96			
		Direct	Indirect	Total	Direct	Indirect	Total	
	# of direct jobs created/retained/expanded - BD/CS/Other*	1,882	2,823	4,705	1,032	1,548	2,580	
	# of direct jobs created/retained/expanded - CI/Other*	2,319	1,160	3,479	2,947	1,473	4,420	
	Total Jobs	4,201	3,983	8,184	3,979	3,021	7,000	
	Downtown Office Space Absorbed Sq Ft	281,185			200,000			
	Other Commercial/industrial space absorbed Sq Ft	209,904			300,000			
	Total Commercial/industrial space absorbed Sq Ft	491,089			500,000			

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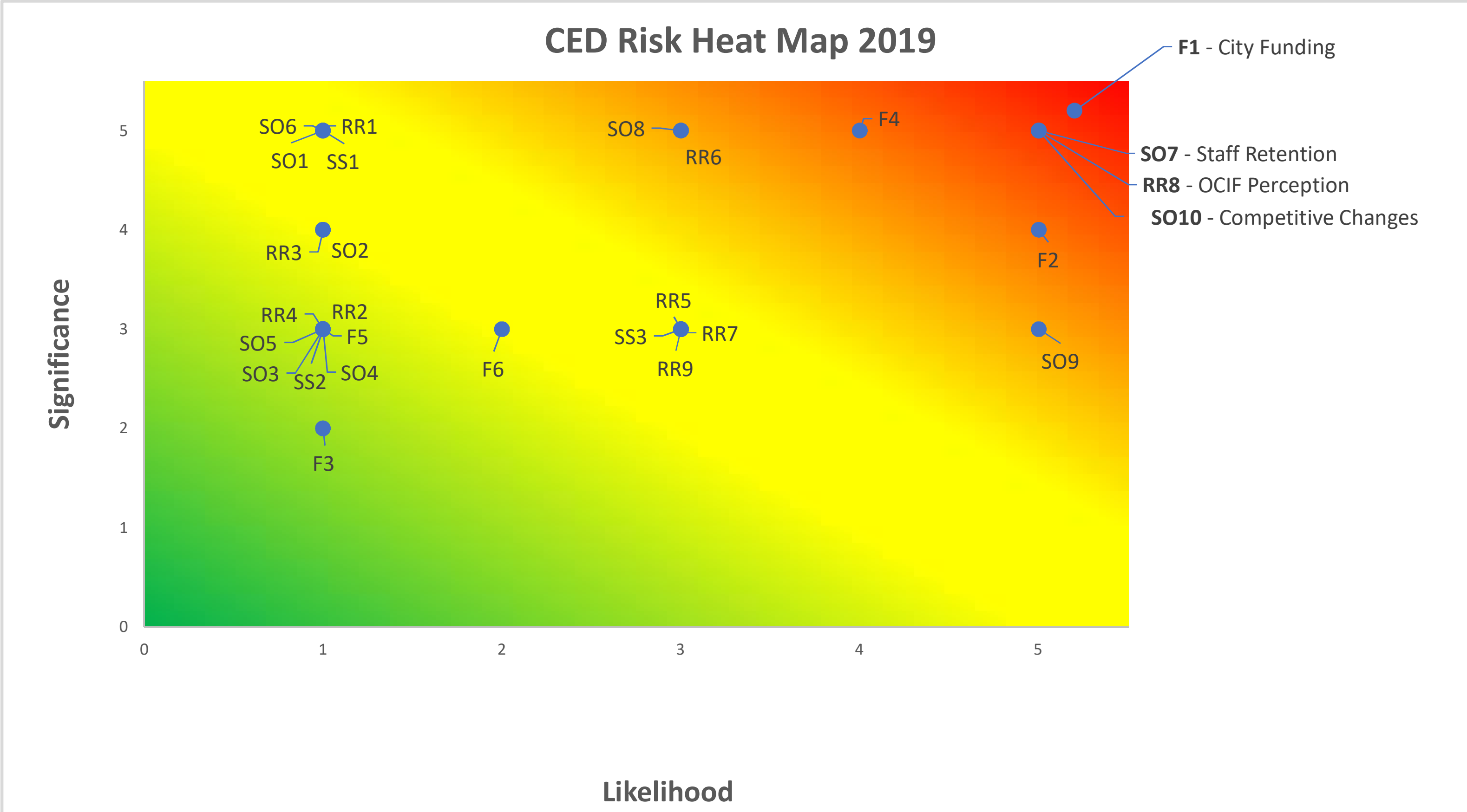
Colour			
Rank	1,2	3	4,5
Description	1 - Some outputs 2 - Most outputs	3 - All outcomes some impacts	4 - All impacts 5 - Exceeded targets



Likelihood Scale	
5 - High	Risk is expected to occur frequently
4 - Medium/High	Risk is probable to occur
3 - Medium	Risk might occur
2 - Low/Medium	Risk could occur
1 - Low	Risk is unlikely to occur

Consequence Scale	
5 - High	Risk impact would be critical
4 - Medium/High	Risk impact would be serious
3 - Medium	Risk impact would be major
2 - Low/Medium	Risk impact would be moderate
1 - Low	Risk impact would be minor

Emerging Risks Identified by SMT

1. City Funding - Reduction in Revenue
2. Attrition - Staff Retention / Capacity
3. Reputation Risk - Perception of City Council, OCIF
4. Competitive changes with competing agencies

Calgary Economic Development Enterprise Risk Matrix 2019

Category		Risk	Probability	Potential Impact(s)	Management Ownership	Board Ownership	Mitigating Strategies	Status
FINANCIAL	F1	Reduction in Revenue	High	High	CEO	Board	- Manage program activity to available funding	Ongoing
							- Identify other revenue sources	Ongoing
							- Educate City Council around value CED brings	Ongoing
							- Importance of Economic Diversity Activity & Measurement	Ongoing
							- Post Activity Analysis of Impact	Ongoing
	F2	Operating Deficit/Retained Earnings	High	Medium	Senior Management	Audit Committee/Board	- Ensure Senior Management takes accountability for their budgets	Ongoing
							- Ensure spending decisions are impactful (post initiative evaluation)	Ongoing
	F3	Fraud	Low	Low-Med	CFO	Audit Committee	- Internal controls including segregation of duties and oversight/review of results	Ongoing
							- Fraud Risk Assessment, including interviews with Audit Committee	Completed
							- Approval processes in place & reviewed regularly	Ongoing
							- Procedures	Ongoing
							- Reconciliations	Ongoing
	F4	Calgary Film Centre	Medium	High	CEO/Film Commissioner	Audit Committee/Board	- Line of credit available for CFCL by CED	Ongoing
							- Create a long-term strategic plan for funding the Film Center from City and GoA Incentives	Ongoing
	F5	Non-compliance with contractual provisions and grant agreements	Low	Medium	CFO	Audit Committee	- We monitor all grant agreements to ensure compliance with contractual deliverables	To be implemented
							- We create systems with all agreement deliverables and follow up to ensure compliance	To be implemented
	F6	OCIF - service agreement is not sufficient to cover costs incurred to manage program and OCIF	Low-Med	Medium	CEO/OCIF Team Lead/CFO	Audit Committee/Board	- Prepare accurate budget for OCIF and program	In Progress
							- Review OCIF and program budget on a monthly basis	In Progress
							- Coordinate with stakeholders to detail processes and plans for delivery	In Progress

Calgary Economic Development Enterprise Risk Matrix 2019

Category		Risk	Probability	Potential Impact(s)	Management Ownership	Board Ownership	Mitigating Strategies	Status
REPUTATIONAL & RELEVANCE	RR1	Negative media coverage/tarnished reputation	Low	High	CEO/VP Marketing & Communications	CGE/Board	- Ensure consistency in messaging	Ongoing
							- Ensure official spokesperson have media training	Ongoing
							- Respond to all queries in timely and respectful manner	Ongoing
							- Crisis communication plan	Ongoing
	RR2	Strategic Alignment	Low	Medium	CEO/VP Research & Strategy	Board	- Maintain strong municipal government and private sector relationships to ensure strategic alignment to Market and Shareholder needs	Ongoing
							- KPI calibration and alignment to achieve organizational objectives and Economic Strategy	Ongoing
							-Communicate accomplishments against strategic plan	Ongoing
	RR3	Staff Conduct & Effectiveness	Low	Medium-High	CEO/Senior Management	P&C	- Annual staff and board acknowledgement of Policies and Procedures	In Progress
							- Staff adherence to Policies and Procedures	Ongoing
							- Staff training and development	Ongoing
							- Staff acknowledgement of signed confidentiality clause in agreement pertaining to CED and third parties	Completed
	RR4	Board Composition & Effectiveness	Low	Medium	CEO	CGE	- Board Effectiveness Survey conducted annually	Completed
							- Use of evaluation matrix to compose diverse and skilled Board	Ongoing
							- Board Member discilpine on determining conflict of interest	Completed
	RR5	Calgary Film Centre	Medium	Medium	CEO/Film Commissioner	CGE/Board	- Create Risk Assessment for CFCL	Completed
							- Create strong ties with gov't for film incentives to enhance film attraction and incentives	In Progress
							- Enhance film incentives	In Progress
							- Create a long-term strategic plan for the Film Center	Ongoing
	RR6	OCIF - Investments selected do not provide benefit or does not meet the expectations of public, OCIF and City	Medium	High	CEO/VP Client Services	Board/Audit Committee	- Develop and implement strong and consistent due diligence process	In Progress
							- Develop and implement regular performance reporting requirements	In Progress
							- Outline the criteria in the application which was developed by all key stakeholders	In Progress
							- Evaluation of application follows established criteria and is "audited"	In Progress
							- Strong contractual agreements and obligations to project funds	In Progress
							- Select investments that provide very high ROI and facilitates replenishment of the fund. Consider risk and reward, a range of metrics and qualitative attributes.	In Progress
	RR7	OCIF - Delivery of services does not meet needs of OCIF and public	Medium	Medium	VP Client Services	CGE/Board/Audit Committee	- Enhance CRM to allow automatic application	In Progress
							- Business case is robust and evaluation includes ROI	In Progress
							- Close monitoring of the stages of the OCIF application with established timelines and goals	In Progress
							- utilization of expertise at City, external consultants and volunteers	In Progress
	RR8	OCIF - Fund is not perceived as independent of CED and is perceived as controlled by CED or a political fund	High	High	CEO	Board/CGE	- Establish and communicate roles and responsiblities	In Progress
							- Implement governance best practices with OCIF	In Progress
							- 3rd party due diligence to audit intake process and review the business case	In Progress
							- Accept the risk for the first year once the program is established and evaluate each year.	In Progress
	RR9	EvolveU Program	Medium	Medium	VP Research & Strategy	Board	- Write letter and monitor compliance with agreement	In Progess
							- Communication with Thin Air to ensure insurance is obtained and know what is occurring	In Progress
							- Exit Program in September	In Progess

Calgary Economic Development Enterprise Risk Matrix 2019

Category		Risk	Probability	Potential Impact(s)	Management Ownership	Board Ownership	Mitigating Strategies	Status
SAFETY & SECURITY	SS1	Death or injury to staff, volunteer or guest	Low	High	CFO/Senior Management	P&C	- Health & Safety Practices, including emergency procedures	Completed
							- Sufficient insurance coverage (liability & recovery cost)	Completed
	SS2	Theft	Low	Medium	CFO	Audit Committee	- Property insurance	Completed
							- Physical asset tracking within Bamboo	Completed
							- Security access cards	Completed
							- Cameras in Convention Centre	Completed
	SS3	Damage to Assets	Medium	Medium	Senior Management	Audit Committee	- Reparation conditions in GBC Facility Agreement	Completed

Calgary Economic Development Enterprise Risk Matrix 2019

Category		Risk	Probability	Potential Impact(s)	Management Ownership	Board Ownership	Mitigating Strategies	Status
SUSTAINABILITY & OPERATIONAL	SO1	Technology - loss of data	Low	High	CFO	Audit Committee/Board	- Disaster recovery plan and Emergency Response Solution	Completed
							- Data backed up regularly (hourly or daily based on server type)	Ongoing
							- Automated data integrity check for back-up	Ongoing
							- Off-site Data back-up	Completed
							- Climate controlled server rooms	Completed
							- Hosted Environment	Completed
							- Data loss and business interruption insurance	Completed
	SO2	Disrupted or significantly diminished operations	Low	Med-High	Senior Management	Audit Committee/Board	- Business Continuity Plan	Completed
							- Contingency for GBC & Film Centre	Completed
							- Cloud based IT environment	Completed
	SO3	Shareholder Relationship	Low	Medium	CEO	Board	- Regular meetings with Mayor, Council and Administration	Ongoing
							- Board and Committees include members from City Administration and/or Council	Completed
							- Create and communicate meaningful KPIs	Completed
	SO4	Government regulations/legislation changes	Low	Medium	Senior Management	CGE/Board	- Adhere to all regulatory requirements	Ongoing
							- Luke meeting with parties to revisit current funding structure	Ongoing
							- Monitor changes in legislation that have a potential impact on operations/policies	Ongoing
							- Strengthen government relations	Ongoing
	SO5	Non-compliance with Human Rights or Employment Standards	Low	Medium	HR/CFO	Board/P&C	- Ensure policies comply with legislation with attention to employer's duty to accommodate and communicate policies to staff	Ongoing
							- Build an inclusive, diverse and respectful workforce	Ongoing
							- Provide ongoing support and counsel to all levels of management	Ongoing
							- Keep abreast of current legislative changes and requirements	Ongoing
	SO6	IP	Low	High	CFO	CGE/Board	- Be cognizant of issues of infringement and respond to them	Ongoing
							- Create inventory of Intellectual Property	In Progress
	S07	Staff Retention/Capacity	High	High	HR/CFO/CEO	P&C/Board	- Competitive Salary and Benefits	Ongoing
							- Reorganization to minimize impacts and manage staff capacities	Ongoing
							- Create robust succession and retention plan and development plan	Ongoing
	SO8	OCIF - Staff Capacity to meet the changing needs of the program and OCIF	Medium	High	CEO/VP Client Services/CFO	P&C/Board	- Conduct regular reviews of resource capacity and volume of inquiries	Ongoing
							- Daily and Weekly Scrums to review the application process	Ongoing
							- Project team with strong skills	Ongoing
							- Utilization of expertise from City, external consultants and volunteers	Ongoing
							- Project plan with resource requirements	Ongoing
							- Clear but flexible evaluation criteria and process	Ongoing
	SO9	Succession Plan for CEO and Senior Management Team	High	Medium	CEO/CFO	P&C/Board	- Annual Talent Review and Succession Plan	Ongoing
							- Execution of hiring plan to meet future needs	In Progress
	SO10	Competitive changes with related agencies	High	High	CEO / Board Chair	Board	- Communication of Economic Strategy	Ongoing
							- Education of City Council	Ongoing

Calgary Film Center - Enterprise Risk Matrix

Category	Risk	Probability	Potential Impact(s)	Management Ownership	Board Ownership	Mitigating Strategies	Status
FINANCIAL	Reduction in Revenue/Operating Deficit	High	High	COO/GM	Board	- Manage rent charged per square foot to ensure maximum profitabilty & occupancy - Identify and manage all operating costs and utility costs - Create pipeline of tenants and manage to assure maximum capacity - Management responsible for spending decisions consider impact to operating cash flow - Temporary short term fund set up with CED	Ongoing Ongoing Ongoing Ongoing Ongoing
	Fraud	Low	Low-Med	CED CFO	Board	- Internal controls including segregation of duties and oversight/review of results - Fraud Risk Assessment, including interviews with Board members - Approval processes in place & reviewed regularly - Procedures - Reconciliations	Ongoing Ongoing Ongoing Ongoing Ongoing
	Ability to Secure Debt Without Assets	Medium	High	CED CFO	Board	- Continue communication with the City, TD Bank, and CED to ensure funds available - Monitor cash flow and revenue projections to ensure cash flow is sufficient	Ongoing Ongoing
	Calgary Economic Development (CED) MSA Cost	Medium	High	COO/GM	Board	- Organize processes and create standard schedule for recurring requirements such as reporting, invoicing and payments - Avoid last minute urgent requests - Focus on risks in decision making and communication of this	Ongoing Ongoing Ongoing

Category	Risk	Probability	Potential Impact(s)	Management Ownership	Board Ownership	Mitigating Strategies	Status
REPUTATIONAL & RELEVANCE	Negative media coverage/tarnished reputation	Medium	High	COO/VP Marketing & Communications / GM	Board	- Ensure consistency in messaging - Pipeline of tenants - Ensure official spokesperson have media training - Respond to all queries in timely and respectful manner - Crisis communication plan	Ongoing Ongoing Ongoing Ongoing Ongoing
	Impairment to Rate Acceptance Due to Public Knowledge of Sale with City	Medium	High	COO/GM/CFO	Board	- Ensure market rates continue to be proposed - Create pipeline of tenants and manage to assure maximum capacity - Market historical rates charged to long term tenants - Establishment of flexible rate card	Ongoing Ongoing Ongoing Ongoing
	Strategic Alignment	Low	Medium	COO/GM	Board	- Communicate accomplishments against strategic plan	Planned
	Staff Conduct & Effectiveness as administered by CED	Low	Medium-High	COO/GM	Board	- Annual staff acknowledgement of Policies and Procedures - Staff adherence to Policies and Procedures - Staff training and development	Planned Ongoing Ongoing
	Board Composition & Effectiveness as administered by CED	Low	Medium	COO/GM	Board	- Board Effectiveness Survey conducted annually - Use of evaluation matrix to compose diverse and skilled Board - Board Member discipine on determining conflict of interest	Planned Ongoing Ongoing
	Service Delivery	Medium	Medium	COO/GM	Board	- Ensure tenant satisfaction and brand awareness - Current Labor Market Availability	Planned Planned
	Facility Revitalization and Maintenance	High	High	COO/GM	Board	- Focus on market rates that will allow investment in facility - Consistent resources and ability to maintain and upgrade the facility	Planned Planned

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Calgary Film Center - Enterprise Risk Matrix

Category	Risk	Probability	Potential Impact(s)	Management Ownership	Board Ownership	Mitigating Strategies	Status
SAFETY & SECURITY	Death or injury to staff, volunteer or guest	Low	High	GM	Board	- Ensure appropriate Health & Safety Practices, including emergency procedures and evacuation drills	Completed
						- Sufficient insurance coverage (liability & recovery cost)	Completed
	Theft	Low	Medium	GM	Board	- Property insurance	Completed
						- Physical asset tracking and audit	Completed
						- Security access cards	Completed
	Damage to Leased Assets and Contents	Medium	High	GM	Board	- Conditions in tenant sub-lease Agreements and continued security arrangements.	Completed
						- Conditions in lease agreement with City	Ongoing
						- Significant deposits are part of all sub-lease agreements.	Completed
						- Security guard and arrangements are closely managed and issues followed up.	Completed

Category	Risk	Probability	Potential Impact(s)	Management Ownership	Board Ownership	Mitigating Strategies	Status
SUSTAINABILITY & OPERATIONAL	Disrupted or significantly diminished operations	Medium	Med-High	GM/CED CFO	Board	- Business Continuity Plan and Disaster Recovery Plan	Ongoing
						- Access controlled offices and facility	Ongoing
	Shareholder Relationship	Medium	Medium	GM	Board	- Regular meetings with CEO of CED, CFC Board Chair, GM and COO	Ongoing
						- Board and Committees include members from CED	Ongoing
						- Create and communicate KPIs on a monthly basis and more often as needed	Planned
	Government regulations/legislation changes	Low	High	Senior Management	Board	- Adhere to all regulatory requirements	Ongoing
						- Monitor changes in legislation that have a potential impact on operations/policies	Ongoing
						- Work with current gov't on long term issues	Ongoing
						- Strengthen government relations	Ongoing
	Non-compliance with Human Rights or Employment Standards	Low	Medium	HR/CED CFO	Board	- Ensure policies comply with legislation with attention to employer's duty to accommodate and communicate policies to staff	Ongoing
						- Build an inclusive diverse and respectful workforce	Ongoing
						- Provide ongoing support and counsel to all levels of management	Ongoing
						- Keep abreast of current legislative changes and requirements	Ongoing
	Loss of key staff	Medium	High	Management	Board	- Competitive Salary and Benefits	Ongoing
						- Create robust succession and development plan	Ongoing

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Audit Committee
2019 Annual Work Plan

Major Deliverable	Actions, Tasks, Activities	Lead	Support	Committee Meeting Date	Board Meeting Date	Action Target Due Date	Status
Risk Management	• Review and assess the adequacy of the risk management policies and procedures	Sheila Will	Brian McClure	Each Meeting	2019-03-29 2019-06-14 2019-09-26 2019-11-28		
Review of Quarterly interim internal Financial Statements (unaudited) including financial reports and policies	• Review Financial reports for Quarter including unaudited financial statements and forecasts • Discuss any anomalies or concerns and suggest changes to Financial reports if required • Review new or changed financial projects and proposals • Review system of internal controls and financial system of reliability and integrity • Review financial obligations and undertakings • Recommend acceptance of the interim internal Financial reports to CED Board • Recommend all annual and other financial information for public distribution	Sheila Will	Brian McClure	2019-03-19 2019-05-30 2019-09-19 2019-11-21	2019-03-29 2019-06-14 2019-09-26 2019-11-28		

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Major Deliverable	Actions, Tasks, Activities	Lead	Support	Committee Meeting Date	Board Meeting Date	Action Target Due Date	Status
Review of Audited Financial Statements and the Audit Finding	• Review CED Auditor's report to Audit Committee, and Management • Review CED Audited Financial statements for year ended December 31, 2018 • Review CFCL Auditor's report to Audit Committee, and Management • Review CFCL Audited Financial statements for year ended December 31, 2018 • Review business and financial risks and system of internal control with auditors • Review financial reporting to City of Calgary • Disclosure of Related Parties/Transactions • Recommend acceptance of the Financial Statements and Audit by Board of Directors • In Camera with Auditors	Sheila Will	Brian McClure	2019-03-19	2019-03-29		
Insurance	• Review the adequacy of insurance • Review protection of physical assets & corporate data	Sheila Will	Mary Moran	2019-03-19	2019-03-29		
Review the FA Team Staff	• Assess the FA Team Staff complement	Sheila Will	Mary Moran	2019-03-19			

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Major Deliverable	Actions, Tasks, Activities	Lead	Support	Committee Meeting Date	Board Meeting Date	Action Target Due Date	Status
Review of Terms of Reference	• Review Audit Committee Terms of Reference	Audit Committee		2019-05-30	2019-06-14		
Self-Assess Audit Committee Performance	• Self-Assess Audit Committee Performance	Audit Committee		2019-09-19	2019-09-26		
Review the FA Team Staff	• Assess the FA Team Staff complement	Sheila Will	Mary Moran	2019-09-19	2019-09-26		
Review Corporate Filing to Registry Office	• Review annual corporate filing	Sheila Will	Brian McClure	2019-09-19	2019-09-26		
Long-term Forecast	• Review forecast and funding for CED for 2019 and 2020 considering OC and base funding	Sheila Will	Mary Moran	2019-09-19	2019-09-26		
Review Business Continuity Plan	• Review business continuity plan and protection of corporate data	Sheila Will	Abid Ali	2019-11-21	2019-11-28		
Review of 2019 Business Plan & Budget	• Review proposed Annual Budget and associated Business Plans • Discuss anomalies or concerns and suggest changes to Budget or Business plans as required • Recommend approval of the Budget and associated Business Plan to the CED Board	Sheila Will	Mary Moran	2019-09-19	2019-09-26		
RFP for 2022 – 2026 Audit Services	• Review and approve RFP • Review Audit Firms' Applications • Approve final selection	Sheila Will	Brian McClure	Next required in 2021			

5.3 AUDIT COMMITTEE

Date Approved:	May 18, 2005
Date Revised:	June 4, 2008
Date Revised:	Mar 18, 2009
Date Revised:	May 18, 2010
Date Revised:	Sept 27, 2012
Date Revised:	June 9, 2016
Date Revised:	September 15, 2016
Date Revised:	June 8, 2017
Date Revised:	May 31, 2018

Purpose

The Audit Committee ("Committee") shall be a Committee of the Board responsible for stewardship of the Corporation's finances. The Committee has oversight responsibility and makes recommendations to the Board on:

a) the integrity of CED's annual audited financial statements, and interim internal (unaudited) financial statements;
b) corporate filings to Registry office and City of Calgary;
c) the external auditors' qualifications and independence;
d) the performance of audit functions;
e) annual budgets;
f) financing arrangements;
g) the adequacy and effectiveness of internal controls (including Segregation of Duties);
h) risk areas around fraud, including amendments to Corporate Policies;
i) adequacy of financial stewardship by Management;
j) protection of physical assets, whether due to theft or damage;
k) protection of corporate data and technology continuity;
l) business continuity; and
m) monitor CED subsidiaries and programs.

Responsibilities

Management, together with the Board and the Committee, is responsible for setting the proper tone, creating and maintaining a culture of honesty and high ethical standards and establishing appropriate controls to ensure sound financial decision-making, accurate financial reporting, and to prevent and detect fraud.

To achieve reliable financial statements, internal controls must be in place to ensure that: records accurately and fairly reflect transactions in, and dispositions of, CED assets; records of transactions are sufficient to prepare financial statements in accordance with Canadian generally accepted accounting principles; receipts and expenditures are properly authorized; and, that steps are in place to prevent and detect irregularities that could have a material effect on CED's financial statements, and to ensure financial system integrity and continuity.

In fulfilling its responsibilities, the Committee shall:

Financial Management, Reporting, External Auditors and Risk

a) Review financial results and have the right to inspect all of the accounts and records of CED and to discuss those accounts and records with CED's management, the Board and the Auditors;
b) Review and recommend for approval by the Board annual audited financial statements;
c) Review quarterly interim (unaudited) financial statements and reports from CED;
d) Ensure, through management confirmation, timely corporate filings with Registry office and City of Calgary;
e) Review CED cash flow forecasts, liquidity, and cash management strategies;
f) Review and bring for approval by the Board, the annual budget and updated forecasts of CED and any revisions thereto, including:
   - reviewing the financial impact of new or changed projects and proposals subsequent to the Board's approval of annual budgets and, where practicable, prior to their presentation to the Board for consideration, and make recommendations to the Board; and
   - reviewing and recommending to the Board in respect of those financial obligations and undertakings above, Management's Board-approved authority, including by not limited to: loans, bank indebtedness, covenants, guarantees, letters of credit, policies, objectives and controls.
g) Review and recommend for approval by the Board, all annual and other financial information prepared for public distribution;
h) Review and recommend for approval by the Board, CED's financial and accounting policies;
i) Make recommendations to the Board with regard to the selection of the Independent Auditor and review and approve auditor fees, including advance approval of any non-audit services performed. Meet annually with the external auditors and report to the Board on such meetings, including assessment of their independence. Meet separately with the external auditors to discuss any matters that the Committee or auditors believe should be discussed in camera, including any fraud and risks of fraud, illegal acts, deficiencies in internal control and similar issues;
j) Participate in the process of hiring the Chief Financial Officer, including committee representation in the interview and decision activities;
k) Review the results of the annual audit and make recommendations thereon to the Board;
l) Review the design and effectiveness of the systems of internal control over financial and operational reporting. Review recommendations from the external auditors for

internal control improvement, management's consideration thereof and, as appropriate, implementation and results;

m) Review compliance with all applicable finance and audit legal and regulatory requirements, including confirmation of filing of Corporate Returns; and

n) Review and make recommendation to the Board regarding CED's risk management procedures and controls, including:
   - the maintenance of appropriate insurance;
   - Financial System reliability and integrity, and
   - discussing significant business and financial risks with the external auditors, including their assessment of management's related plans, processes and programs, paying particular attention to large, complex, related party, and/or unusual transactions, including joint ventures, partnerships and other contractual arrangements, and the associated accounting treatment and financial statement disclosures.

Membership

The Committee shall be comprised of a Committee Chair, and a minimum of two (2) other Board members, plus any other independent or community members as selected by the Board.

The Corporate Governance & Effectiveness Committee will recommend Committee members and Committee Chair appointment for approval by the Board.

Authority and Accountability

1. The Committee shall report regularly to the Board on its activities.

2. The Committee, in consultation with the Board Chair, shall have the authority to direct and supervise the investigation of any matter brought to its attention within the scope of its duties.

3. The Committee shall review its terms of reference as needed, but at least annually, and recommend changes as necessary. The timeframe for an annual review of committee terms of reference will be for the committee meeting immediately prior to the Board of Directors Business Planning meeting with Management.

Meetings

The Committee may require the attendance of CED senior management at meetings as appropriate. The Committee shall meet at least four times per year.

Resources

The Committee shall be provided with the resources necessary to carry out its responsibilities. The Committee may retain such advisors and consultants as it deems necessary to assist the Committee in discharging its responsibilities.

REFERENCE DOCUMENTS

- CED Management Authorities Policy

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Calgary Economic Development
Audit Committee 2019-2020 Biographies

Leontine Atkins – Chair

Leontine Atkins holds the Institute of Corporate Directors Education Program Designation (ICD.D) and regularly facilitates sessions for the ICD Director Education Program and ICD Audit Committee Effectiveness seminars.

Leontine was recently appointed a Board member of KPMG Canada's Board of Directors. Leontine is currently a member of the Board of Calgary Economic Development and Chair of their Audit Committee. Leontine is also a Board and Audit Committee member of the Heritage Park Society. She is a former Board member and Chair of the Glenbow Museum's Audit Committee. She previously served on the UNICEF Calgary Patron's Council for the annual Water for Life Gala.

Leontine has been with KPMG since 1987, an audit partner since 1998, and worked in KPMG's European (Amsterdam, London) practice for 15 years. Leontine has financial experience in industrial and energy sectors, including international and North American oil and gas (upstream and downstream), oil sands, utilities, pipelines, gas storage, power (gas, coal, nuclear and renewables), and (petro and agri) chemicals.

Leontine is a Business Administration - Finance graduate of Acadia University, and earned her Master of Business Administration degree at Dalhousie University. Leontine also holds the Canadian Institute of Chartered Professional Accountants and Netherlands Institute of Chartered Accountants professional designations.

Steve Allan

Steve Allan is a Fellow of the Chartered Professional Accountants of Alberta. He practiced in the area of corporate restructuring, insolvency and forensic accounting and throughout his career was involved in some of the most-high profile and complex files in Alberta. He is a graduate of the University of Calgary (Bachelor of Commerce) and holds the ICD.D designation with the Institute of Corporate Directors.

Steve is the Board Chair of Calgary Economic Development, and McMahon Stadium Society, Board Vice-Chair of the Neyaskweyahk Trust of the Ermineskin Cree Nation and Vice Chair of the inaugural board of the Opportunity Calgary Investment Fund.

Steve currently serves as an advisor to the City of Calgary Event Centre Assessment Committee and the Foothills Athletic Park Redevelopment Advisory Committee. He serves as a director of three Limited Partnerships, two involving real estate development and one focused on distress business opportunities. Steve is one of the co-chairs of the Top 7 Over 70 Awards program and serves on the board of the related InterGen Canada, dedicated to creating opportunities for retired businesspeople to mentor entrepreneurs.

Steve recently completed a five-year term as Governor of the University of Calgary and served as Chair of the Canadian Tourism Commission (now known as Destination Canada) for seven years. He also served as Co-Chair of the Calgary Poverty Reduction Initiative and chaired the Committee to Refresh Calgary's 2013-2018 Economic Strategy.

He is Past President of the Institute of Chartered Accountants of Alberta and continues to volunteer for the Institute (now CPA Alberta), as he has throughout his career.

Steve has been a committed member of the Rotary Club of Calgary since 1980. He served as Club President in 1994-95 and as Governor of Rotary District #5360 in 2009-10. He remains active with Rotary as a mentor in the club's Stay in School program and is one of the stewards of the Rotary Tom Jackson Stay in School program, focused on First Nations students.

Steve has served as Trustee of the Calgary Zoological Society, a Director of the Calgary Foundation, a Director of University Technologies Inc., and was a member of the Committee to End Homelessness in Calgary. He was also a director of Compton Petroleum Corp. and Chaired the Independent Review Committee of the Citadel Group of Funds.

Steve has been a volunteer of the Calgary Exhibition and Stampede since 1974 and served as Chairman of the Board and President of the Stampede from 2005-2007. He joined the Calgary Stampede Foundation Board in 2008, and ultimately chaired the board from 2016-2018.

Steve was recognized as Calgary's 'Citizen of the Year" for 2006. He also was recognized with the Lifetime Achievement Award by the Institute of Chartered Accountants and was named Distinguished Alumni of the Year by the Calgary Board of Education in 2009. He is humbled to be an Honorary Treaty Seven Chief, "Rides Many Horses". In 2017, Steve was inducted into the Alberta Order of Excellence.

A former marathoner, Steve still enjoys running, fitness, skiing, cycling and golf.

Lori Caltagirone

Lori Caltagirone, CPA, CA, is President & CEO of Sunesis Consulting, a leading governance and compliance firm specializing in risk management, Sarbanes-Oxley, and internal audit services within the intermediate energy industry. Lori currently serves on the on the boards of directors for Calgary Economic Development, the City of Calgary Audit Committee, and the Canadian think tank Cardus. Lori has also served on the Board of Directors for the Calgary Philharmonic Orchestra for seven years, four of which she Chaired the Audit & Finance Committee.

Early in her career, Lori spent a decade with several multinational companies including, Mobil Oil Canada, ExxonMobil, Imperial Oil and Enbridge Pipelines where she developed an extensive knowledge of world-class corporate and operational practices.

Inspired by the concepts of excellence in thought, strategic foresight and good judgement, in 2004, Lori formed Sunesis, whose name is a Greek word for "wisdom".

Over the last fifteen years, through Sunesis, Lori has created and led Sarbanes-Oxley compliance programs, governance evaluations, whistleblower investigations, enterprise risk management implementations and internal audit functions for her clients, which include Tourmaline Oil Corp, Seven Generations, Advantage Oil & Gas, Crescent Point Energy and Northview REIT to name a few. Lori also currently serves as Crescent Point Energy's Chief Audit Executive.

Recognized as an expert, Lori's insights have been quoted in the National Post, Oil Week, and the Explorer Magazine. Lori is also a frequently sought speaker at the Federated Press and Infonex conferences and has been a guest lecturer at Mount Royal University and the University of Alberta.

In 2015, received the prestigious Distinguished Service Award from the Institute of Chartered Accountants of Alberta.

Mary Moran

Mary became President and CEO of Calgary Economic Development in 2015. Under her leadership there has been greater focus on Calgary's competitiveness in the new economy; including the areas of talent development, innovation, placemaking, and the business environment.

Mary initially joined Calgary Economic Development as Vice President of Marketing, Communications and Research in 2010. She brought extensive leadership experience in the development of strategy, marketing, stakeholder relations and fund development with leading companies, including TELUS Delta Hotels, Canadian Airlines and Wardair.

At Calgary Economic Development, Mary led teams that created the Calgary Be Part of the Energy promotional brand adopted by all civic agencies, the award-winning 2013 flood recovery campaign YYC is OPEN, and oversaw development of two iterations of the city's economic strategy, Calgary Building on our Energy and Calgary in the New Economy. Mary is the CEO of the Opportunity Calgary Investment Fund, a board director of the Calgary Film Centre, and was CEO of Calgary 2026 Bid corporation developing and promoting a bid to host the Winter Olympic and Paralympic Games.

Mary earned an MBA from Royal Roads University. She is active in the Calgary community and serves as a director for the Calgary Petroleum Club, O'Brien Institute for Public Health and is the Chair of Sport Calgary. She is a past Chair of Ronald McDonald House Southern Alberta.

Robert Hayes

Robert Hayes is currently Regional President & Head of Corporate Finance and Commercial Banking, Western Canada and Ontario, National Bank of Canada.

A native of Halifax, Nova Scotia, Mr. Hayes has enjoyed a career in banking that has spanned over 30 years, leading small to large teams in excess of 2,500 people doing business across North America. He has lived in Atlantic Canada, Ontario and for the last 17 years in Calgary, Alberta. He has held numerous senior Executive positions over his tenure with three financial institutions, overseeing businesses that included retail, commercial, corporate, M&A, risk management, and international banking. Through his involvement in several billion dollars of financing, he has knowledge of many industries including agriculture, automotive, real estate, transportation, oil & gas, gaming, energy, and manufacturing. His direct business experience areas include strategy, brand building, operations, risk management, human resources, distressed turnaround leadership, lean process redesign, project management, and finance.

Mr. Hayes holds a Bachelor of Commerce degree from Dalhousie University, CMA, CPA, and ICD.D designations. He has also completed Executive Leadership & Strategic Management programs at Northwestern University, University of Western Ontario, and University of Toronto. In 2013 Mr. Hayes was selected as one of Alberta's 50 most influential people.

In the community, Mr. Hayes was on the Calgary Stampede Foundation $100 million capital campaign committee that exceeded its goal raising over $117 million, served three terms on the United Way Executive Campaign Cabinet that set new records in fundraising each year, Chaired the Wood's Homes Foundation board and represented them on the Capital Campaign Committee that raised over $12 million, was a Westside Recreation Centre board member where he Chaired the Human Resources Committee, Chaired the Western Canada Canadian Bankers Association board, sat on the Peter Lougheed Centre Development Council for over 10 years, and has coached numerous city champion hockey teams. He also keeps busy by actively participating in hockey, golf and running. Robert is married to his wife of over 25 years Jacqueline, and they have triplet children attending university on the east coast.

Trent Edwards

As COO of Brookfield Residential (Alberta) LP, Trent is currently responsible for overseeing Brookfield Residential's Alberta operations. He has taken on various roles at Brookfield as the company has grown, including vice president of finance with Brookfield Residential Alberta (formerly Carma Developers) and chief operating officer in Australia. Brookfield Residential Alberta now employs over 400 people and creates communities for approximately 2,000 families and 1,000 homes per year.

Trent obtained a Bachelor of Commerce degree at the University of Alberta in 1994, followed by his chartered accountant designation. Proud of his team for valuing partnerships at all levels, Trent is committed to taking an even more collaborative and informative approach with all stakeholders and is excited to be part of a vibrant industry in a growing, lively province. Trent is passionate about giving back to the community through volunteering with local non-profit organizations. In addition to joining the Board of Calgary Economic Development, he is a former Senator at the University of Calgary and is on the Advisory Board for the Haskayne School of Business and the Westman Centre. He was previously on the Board of the Sheldon Kennedy Child Advocacy Centre and the Board of the Urban Land Institute, Alberta Chapter.

Christie Gillespie

Christine Gillespie is a General Manager with a 20-year career in global agribusiness, in both bulk commodities (chemical and mining) and high-service agronomic retail, including roles leading operations, corporate development and strategy, marketing, investor relations and supply chain. A strategic, entrepreneurial-minded, operational leader with proven business acumen across diverse business segments and geographies, including internationally (Canada, US, West and Central Europe). A multi-faceted leader who spearheads critical initiatives including turnarounds, M&A, integration, product adoption and delivers operational improvement streamlining process, reducing costs, and building teams. In her leadership roles, she has overseen the implementation of programs and cultures to ensure top-tier performance in safety, health and environment, compliance, and governance. In her current role as Managing Director, International Strategy, she is developing strategies for China, India and Africa for the world's largest integrated agricultural solutions provider and fertilizer company (Nutrien).

Ms. Gillespie holds a Master of Business Administration and a Bachelor of Commerce with Distinction, both from University of Calgary Haskayne School for Business. She is a member of the Institute of Corporate Directors and a 2018 graduate of the ICD-Rotman Directors Education Program. She has also completed Directors' programs through ECODA and the Kellogg School of Business.

Ms. Gillespie co-founded the industry-leading Agrium's Women's Leadership Group (now WIN).

CFCL
Board of Directors 2019 – 2020
Biographies

Patricia McLeod, QC

Patricia McLeod, Q.C., is a lawyer and corporate director with legal, regulatory, governance and compliance experience in-house with regulated and deregulated companies, and private practice law firms. Patricia is proficient in the areas of corporate/commercial, regulatory and securities law, strategic planning, compliance, corporate governance, privacy, ethics and corporate responsibility.

Patricia has been a general counsel and Vice President of Corporate Responsibility, and a Compliance and Privacy Officer for utilities, real estate development, insurance and financial services companies in Alberta. Patricia has an MBA from Queen's University and is a graduate of the Institute of Corporate Directors' accredited directors program. She was appointed as Queen's Counsel in January 2014.

Patricia is the current Chair of the Board of Directors of Calgary Co-op as well as Chair of the Board of Directors of the Calgary Film Centre. She is a board director of the Beverage Container Management Board, First Air, Air Inuit and Alberta Innovates. She is a former Chair and board director of YWCA Calgary and cSpace Projects, as well as former Vice Chair and board director for Calgary Economic Development. Patricia was recognized as one of Canada's Top 100 Most Powerful Women by WXN in 2018, as one of the 2016 Diversity 50 board candidates cohort by the Canadian Board Diversity Council and was the recipient of the Community Advocate Award for the Calgary Awards in 2015.

Quincy Smith, QC

B.A.R. (Quincy) Smith, QC is a Senior Counsel and former Senior Partner of Dentons Canada LLP legal partnership. His practice of 40 years involved insolvency and corporate restructuring, and he has been named a Fellow of the Insolvency Institute of Canada. He was appointed Queen's Counsel in 1985.

His community experience includes 10 years as a Director of the Calgary Stampede, a Founder and Director of the Stampede Foundation, and now as an Honorary Life Director. He is a past member of the Board of Governors of the Glenbow Alberta Institute Museum and Archives, a past member of the Calgary Airport Authority Board of Directors, Co-Chair of the United Way of Calgary and Area 2005 Campaign and a Board member until 2008. He was Chairman of the Board of Travel Alberta from November 2008 to March 2014. He was recipient of a joint Law Society of Alberta and Canadian Bar Association Distinguished Service Award in 2008, a Calgary Board of Education distinguished Alumni Award in 2013, and a University of Alberta Distinguished Alumni Award in 2014.

In his spare time, he is an active skier, golfer, tennis player and outdoorsman.

Jeff Davison

Councillor Jeff Davison was elected to serve the City of Calgary in October 2017.

Prior to being elected, Councillor Davison had a successful career in communications and investor relations in the private sector. From 2000 to 2009 he held various exploration and communications roles at Canadian Natural, one of Canada's largest oil and gas producers. From 2009 to 2012 he was Vice President of Marketing & Communications for Poynt Corp., where he focused on building brand and expanding the company's international audience to over 25 million users in 10 countries.

Since 2012, Councillor Davison has consulted for several public and private energy and technology companies including Getty Images, where he managed global integrated marketing efforts for multiple brands and products.

Councillor Davison currently sits on the Board of Directors for Calgary Economic Development, the Opportunity Calgary Investment Fund, Calgary Film Centre, Calgary Parking Authority and is the Chair of the Event Centre Assessment Committee.

Calgary Economic Development
Board of Directors 2019-2020

Steve Allan – Chairman of the Board

Leontine Atkins

Shannon Bowen-Smed

Lori Caltagirone

David Duckworth

Jeff Davison

Charles Duncan

Trent Edwards

Katherine Emberly

Judy Fairburn

Christine Gillespie

Robert Hayes

Brad Pierce

Alice Reimer

David Ross

Quincy Smith

Andrea Whyte

Opportunity Calgary Investment Fund Report to Audit Committee
2019 October 24

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Opportunity Calgary Investment Fund Audit Committee Annual Report

EXECUTIVE SUMMARY

This report is the annual report to The City of Calgary's Audit Committee from Opportunity Calgary Investment Fund Ltd. ("OCIF").

OPPORTUNITY CALGARY INVESTMENT FUND RECOMMENDATION:
That the Audit Committee receives the presentation for information.

The City of Calgary Audit Committee Bylaw 48M2012, states that the Audit Committee is responsible for:

> "overseeing its governance responsibility with audit committees of The City's major autonomous civic entities."
>
> Section 4(1)(i)

BACKGROUND

A letter dated 2019 June 12 was provided to the Chairman of the Opportunity Calgary Investment Fund Board of Directors from the City of Calgary Audit Committee Chair requesting a report and presentation on its 2018 Annual Report, risk management processes and the Audit and Finance Committee terms of reference.

The letter outlined the items to be provided in their annual report to The City's Audit Committee, as follows:

1. **Brief summary on governance structure, succession planning and recruitment process, recent financial highlights and key 2019 initiatives/strategy;**

1.1 Governance Structure

OCIF was incorporated under the Business Corporations Act in the province of Alberta on April 19, 2019. OCIF is a government non-profit organization under the Income Tax Act of Canada and accordingly is exempt from income taxes under section 149(1)(e) or (l). OCIF is a controlled not-for-profit (NFP) organization of The City of Calgary with one (1) share issued. A timeline on the decision process to establish OCIF is attached.

(See Attachment 9.0.)

OCIF was established with a mandate to manage the OCIF Reserve effectively and in a manner that creates an environment within the city of Calgary that encourages economic recovery and growth, helps reduce the impact of the economic downturn on Calgary's citizens and businesses, and capitalizes on new opportunities to support Calgary's economic success into the future. Due to the wide variety and nature of projects that can support economic development, OCIF's governance is arranged to be both nimble and broad, thereby facilitating a greater opportunity to capitalize on potential projects that can support Calgary's economic strategy. OCIF represents one strategic and leverageable tool for Calgary's disposal to capture opportunities that can positively impact Calgary's economic development activities.

Opportunity Calgary Investment Fund Audit Committee Annual Report

The Board of Directors is comprised of ten (10) members, with the ability to appoint up to twelve (12), including the Mayor of the Shareholder, as an ex-officio member, the Councillor of the Shareholder appointed to the CED Board of Directors, as an ex-officio member, the Chair of the CED Board of Directors, and nine (9) other members from the business community. A director who holds office an as ex-officio member has all the same rights, obligations and duties as a director on the Board who is not an ex-officio Director.

The Board oversees the organization's overall strategic direction while management develops strategy and manages and conducts the day-to-day business.

The Board reviews the annual business plan and the annual budget for approval by The City of Calgary as the Shareholder. It monitors risk and compliance with fiduciary and legal requirements of the organization. It delegates to management the achievement of strategic, financial and other plans. OCIF's responsibilities to its multiple stakeholders are paramount in conducting its business. The Board's overriding objective is to the maximize the value of the investments made by the Fund.

The Board of Directors approves all investment decisions up to $10 million per beneficiary. The CEO has authority to approve investment decisions up to $150,000 per beneficiary. Any investment decisions exceeding $10 million are recommended by the Board of Directors to City Council and are subject to its approval.

1.2 Succession Planning and Recruitment Process

As the Manager of OCIF, CED has a succession plan for its key leaders, who are common to the OCIF leadership team. OCIF has hired team members and contracted consultants to support the programs and support OCIF program succession.

The Board Manual approved by the Corporate Governance and Effectiveness Committee and Board of Directors includes a Board Recruitment Policy that sets out the steps and requirements for board recruitment and the nomination of new Directors. Under the Board Recruitment Policy, the Board reviews and approves the recruitment procedure for new Directors on an annual basis, including utilization of an open and transparent process. Under the policy, the Board delegates recruitment to the Corporate Governance and Effectiveness Committee. OCIF board recruitment is a public process open to the whole community and key stakeholders, including City Council for The City of Calgary.

The OCIF Board of Directors is carefully composed of Directors from legal, financial and key sector backgrounds. A Skills Matrix of the Board is consolidated and reviewed by the Corporate Governance and Effectiveness Committee on an annual basis, evaluating skills, diversity, and experience of individual Directors. Consideration of applications is based on areas of industry representation and experience that are identified by the Skills Matrix and Corporate Governance and Effectiveness Committee as underrepresented by the current makeup of the Board.

In June 2018, the Corporate Governance and Effectiveness Committee created a Board Recruitment Project Plan and Timeline outlining the process for board recruitment. This project plan included the creation of the Skills Matrix and a list of potential candidates which were compiled by the Corporate Governance and Effectiveness Committee with input from the Board of Directors and City Council. Two of the ten Directors appointed by the Shareholder in 2018, Carol Kitchen and Geeta Sankappanavar, were recruited for the OCIF Board of Directors based on the Skills Matrix and diversity goals.

In 2019, OCIF was engaged in succession planning for the Board of Directors by way of a detailed Board Recruitment Plan led by the Corporate Governance and Effectiveness Committee.

In February 2019, the Corporate Governance and Effectiveness Committee commenced recruitment for 2019 board appointments. The Committee prepared a Recruitment Plan which was presented to and approved by the OCIF Board of Directors on March 8, 2019. Included in the recruitment plan was joint board recruitment with CED, engagement of a recruitment firm, a search profile, and recruitment timeline.

The board recruitment process included consultation meetings with key stakeholders, including City Council and the current OCIF Board of Directors, public advertisement online and in the Calgary Herald, targeted search for qualified candidates, review of applications, creation of short-list, and scheduling of interviews. At the Annual General and Special Meeting of the Shareholder on June 24, 2019, Jim Gray and Carol Kitchen resigned and Mark Blackwell and Nancy Laird were appointed as members of the OCIF Board of Directors. In Q4 2019, Steve Allan will resign as CED Chair and accordingly the new CED Board Chair will be appointed to OCIF.

(See Attachment 4.0 for Board Structure)

1.3 Recent Financial Highlights

OCIF's December 31, 2018 financial statement audit was reviewed by the OCIF Audit Committee and approved by the Board of Directors and completed on March 8, 2019. The December 31, 2018 audited financial statements and auditor's year end communications are attached to this report *(See Attachments 1.0 and 2.0).*

MNP provided its audit opinion that the financial statements present fairly, in all material respects, the financial position of OCIF as at December 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with Canadian Public Sector Accounting Standards for Not-For-Profit Organizations. OCIF uses the deferral method of accounting for contributions such that restricted contributions are recognized as revenue in the year in which the related expenses are incurred.

OCIF is funded from the interest earned on the $100 million Reserve fund (administered by The City of Calgary) since incorporation to sustain its operations. In 2018 OCIF incurred expenses of $445,048 out of its approved budget of $811,000. OCIF has carried forward the remaining $365,952 of unspent contribution from The City of Calgary as deferred revenue to be utilized to fund 2019 approved expenses. The 2019 approved operating budget is $1,352,380, all of which is to be funded by the interest from the Fund.

Opportunity Calgary Investment Fund Audit Committee Annual Report

1.4 Key 2019 Initiatives/Strategy

As a newly established entity in 2018, OCIF established key objectives to maximize the effectiveness and impact of the fund. These objectives were as follows:

- Help create the right conditions for growth
- Diversify the local economy
- Leverage municipal funds for additional private and public sector investments
- Create and stimulate employment
- Create a return on investment (both direct and indirect)
- Support The City's downtown vacancy challenges
- Increase The City's tax assessment base

2. Report on the organization's key operating and strategic risks including trends and risk management plans and processes;

OCIF creates and regularly updates an Enterprise Risk Matrix where risks are identified using three broad categories:

1) Financial;
2) Reputational and Relevance;
3) Sustainability and Operational.

Within each category identified risks are assigned as low to high in both probability of occurrence and potential impact within OCIF's Enterprise Risk Matrix (*See Attachment 6.0*). Mitigating strategies are outlined for each risk identified in the Enterprise Risk Matrix, which is reviewed and updated by the Audit Committee and the Board of Directors on a quarterly basis.

3. Analysis of the top three financial and/or operational risks that in our opinion would impact the City of Calgary and be of concern to the City's Audit Committee;

As of December 31, 2018, OCIF's top three operating and strategic risks are:

1) Financial Risk: Reliance on The City of Calgary as its sole source of revenue. High probability with a potentially medium impact.
2) Reputational Risk: Alignment of the fund with the Calgary Economic Strategy. High probability with a potentially low impact.
3) Sustainability and Operational: Board/Staff capacity and continuity to meet the changing needs of managing the fund. High probability with a potentially medium impact.

OCIF is actively focused on mitigating strategies to minimize the financial and reputational risks of the top three risks noted above.

Adequate Revenue

With The City of Calgary as OCIF's sole source of revenue, OCIF works with its Audit Committee, Board of Directors and The City of Calgary City Manager to ensure the budget is submitted and approved in accordance with its Funding Agreement with The City of Calgary and any substantial changes to forecasted costs are communicated to ensure adequate revenue is received.

Reputational Risk

There are inherent risks attached to a government grant program and the public's view on who qualifies versus who does not. There is also the additional risk of the program's overall reputation, and in turn, CED's regarding the success of applicants that do receive funding as there is no guarantee of their success. It is CED's responsibility, via the Management Services Agreement and as Manager of OCIF, to make sure that we are administering, communicating, servicing and redirecting applicants. CED and OCIF teams have been working with the OCIF Board of Directors to ensure a strong intake process, due diligence, and strategic direction that aligns with the strategy outlined in the new economic strategy, "Calgary in the New Economy". The OCIF Board of Directors was elected in May 2018, which includes Mayor Naheed Nenshi, Councillor Jeff Davison, the CED Board Chair, and seven independent directors. As the stewards of OCIF, CED has worked with the OCIF Board and the board committees to ensure that governance best practices are implemented, and that third-party due diligence is used to review business cases prior to investment.

Available Resources and Staff Capacity

A key operational risk for OCIF is the ability to have the capacity and resources available to continue to operate the entity effectively and manage the OCIF fund. OCIF relies solely on the interest generated from the cash balances within the OCIF fund to pay for all direct costs as well as the incremental resources provided by CED without compensation to CED. OCIF is reliant on the availability of that interest to be able to continue to pay for the costs of the direct OCIF staff under this agreement and to ensure that OCIF has sufficient resources available to effectively manage the fund on a long-term basis. OCIF is also directly reliant on the capacity of CED Senior Management to continue to manage the fund without incremental compensation paid to CED for such critical executive management services. Lastly OCIF is reliant on its ability to have access to a highly skilled volunteer board for governance and guidance/approval on investment decisions.

OCIF submits an annual budget to its Board of Directors and the City Manager and Chief Financial Officer. Once approved, OCIF received quarterly deposits based on the approved budget requirements.

4. Report on internal controls including information technology and systems;

OCIF has several controls fraud prevention controls, including appropriate segregation of duties and regular reviews of financial results. Approval processes and procedures are in place and reviewed regularly. As part of the audit, OCIF has an annual fraud risk assessment with the audit committee.

Via the management services agreement with CED, OCIF has outsourced its IT services to Northern Backup and adopted a cloud strategy by leveraging Microsoft's Office 365 platform. Northern Backup provides hosting services, helpdesk and technical support. CED has also

Opportunity Calgary Investment Fund Audit Committee Annual Report

expanded its IT team through the use of third parties to include cloud security and deployment experts.

The following services are located to the Office 365 cloud: Email, Telephone, Instant Messaging and File Sharing. This migration was completed in a controlled manner ensuring that service interruptions where kept to a minimum and that data was protected from risks during the move. As part of CED's data loss prevention strategies, it has implemented the following:

- Adopted an IT strategy with cloud first initiative in mind.
- Updated Data Retention and Destruction Policy
- All workstations and servers are regularly patched as well as monitored for any problems; and
- Redundant backup systems are in place protecting CED information.

OCIF, in conjunction with CED, its IT provider, has a fully hosted computing solution, a disaster recovery plan, emergency response plan and a business continuity plan. A dedicated internet line directly connects to the Calgary-based data centre provided by Bell and is managed by OCIF's IT Managed Service Provider, Northern Backup.

5. Most recent management letter including management responses as appropriate; and

MNP LLP, auditors for OCIF, attended the March meeting of the OCIF Audit Committee and OCIF Board of Directors and presented their report on OCIF for the year ended December 31, 2018.

(See Attachment 1.0 and Attachment 2.0)

6. Audit Committee 2019 Work Plan.

(See Attachment 7.0)

As requested in the letter, presenters of the report will be prepared to answer the following questions:

1. What is the frequency of review and are there any recent changes to the Audit Committee Charter or Terms of Reference?

The Audit Committee meets quarterly to review financial and risk reporting and reports to the Board of Directors based on information reviewed at those sessions. The Audit Committee is responsible for stewardship of the Corporation's finances. The Audit Committee has oversight responsibility and makes recommendations to the Board on financial and risk matters.

Per the OCIF bylaws, the Board of Directors shall establish and review the Terms of Reference for each committee established by it. The Audit Committee shall review its terms of reference at minimum on an annual basis, or more often as may be required, and recommend changes as necessary.

The Terms of Reference were originally approved by the Audit Committee on September 21, 2018 (*See Attachment 3.0)* and last reviewed at the September 24, 2019 Audit Committee meeting.

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2. What is the current composition of the Audit Committee and what is their relevant financial experience?

At December 31, 2018

Carol Kitchen, Committee Chair – OCIF Board Director

Barry Munro – OCIF Board Director

Ian Bruce - OCIF Board Director

Steve Allan – OCIF Board Director

(See Attachment 8.0 for Bios and Financial experience.)

At the June 24, 2019 annual meeting, Carol Kitchen resigned. At the September 2019 CGE and Board meetings, Ian Bruce was appointed as chair of the Audit Committee. As all three remaining committee members are CPAs, it was determined that the composition of the committee was effective.

3. Have there been any significant changes to organizational leadership?

No management changes. Board changes have been previously discussed.

4. Are there any regulatory or market changes that may impact the current business approach and would they be relevant to share publicly with the Audit Committee?

No.

5. Are there any results of any regulatory or internal/external business assessments that provide assurance on the effective management of risks as addressed in your presentation?

OCIF has established an enterprise risk matrix to identify the top risks to their strategic goals and identify mitigating strategies that is monitored by both committees and the Board.

6. What initiatives are currently in progress to improve the efficiency of your processes? (e.g. sustainable operations, key performance indicators and relevance of the organization in the future)

OCIF will focus on three investment streams; Cluster Development (e.g. Hubs, centres of excellence, Anchor Companies, and Scale-Up & Expansion). In order to align with the Economic Strategy, *Calgary in the New Economy*, OCIF will focus on three specific areas: Talent, Life Sciences, and Digitization of Industry Through Artificial Intelligence. Talent is a pillar of the Economic Strategy, as it is critical for growth across all industries.

OCIF is designed to the create the following benefits:

- **Talent:** Increase the quantity and quality of full-time direct and indirect jobs

Opportunity Calgary Investment Fund Audit Committee Annual Report

- **Alignment with Key Industries and Emerging Sectors:** Investment in key industries and emerging, high potential sectors
- **Economic Benefits:** Increase in direct investment, revenues, property tax, and quantifiable benefits to other Calgary companies
- **Alignment with Strategic Initiatives:** Align with other public and private initiatives including funding programs and priorities of other levels of government
- **Innovation and Sector Benefits:** Strategic projects that act as a catalyst to their sector, fill a gap in the ecosystem, or make Calgary a more competitive place to do business
- **Social Benefits:** Intangible benefits resulting from the project

The 2020 business plan has increased focus on Cluster and Anchor streams, and significant effort has been made since inception on the Scale Up and Expansion stream.

See Attachment 5.0 Progress to Date as at June 10, 2019

INVESTIGATION: ALTERNATIVES AND ANALYSIS

This report responds to The City of Calgary Audit Committee's reporting requirements of the OCIF Board and is intended to be an ongoing dialogue between The City of Calgary and the OCIF Board. It is anticipated the annual report from the OCIF Board will continue to evolve over time to meet The City of Calgary Audit Committee's information requirements in discharging its governance responsibilities.

Stakeholder Engagement, Research and Communication

No implications for this report.

Strategic Alignment

No implications for this report.

Social, Environmental, Economic (External)

No implications for this report.

Financial Capacity

Current and Future Operating Budget:

There are no budget implications for this report.

Current and Future Capital Budget:

There are no budget implications for this report.

Risk Assessment

OCIF reviews risks on an ongoing basis. Risk reporting is one of the main topics in the report.

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REASON(S) FOR RECOMMENDATION(S):

The City of Calgary Audit Committee oversees its governance responsibility with audit committees of The City's major autonomous civic entities and an annual report is requested each year.

ATTACHMENT(S)

1) MNP Report to the OCIF Audit Committee for the year ended December 31, 2018
2) Opportunity Calgary Investment Fund Financial Statements for the Year Ended December 31, 2018
3) Audit Committee Terms of Reference
4) OCIF Board Structure
5) OCIF Progress Report
6) OCIF Enterprise Risk Matrix
7) OCIF Audit Committee 2019 Work Plan
8) OCIF Audit Committee Bios and Financial experience
9) Decision Process to Establish OCIF

Opportunity Calgary Investment Fund Ltd.
Report to the Audit Committee

For the Period Ending December 31, 2018

For presentation at the Board of Directors meeting March 7, 2019

MNP

MNP LLP

March 7, 2019

Members of the Audit Committee of Opportunity Calgary Investment Fund Ltd.

Dear Members:

We are pleased to submit to you this report for discussion of our audit of the financial statements of Opportunity Calgary Investment Fund Ltd. (the "Company") as at December 31, 2018 and for the period then ended. In this report we cover those significant matters which, in our opinion, you should be aware of as members of the Audit Committee.

We have completed our audit of the financial statements of the Company which has been carried out in accordance with Canadian generally accepted auditing standards.

Unless unforeseen complications arise, our Audit Report will provide an unqualified opinion to the shareholders of the Company. A draft copy of our proposed Independent Auditors' Report is attached at the end of this report.

This report is intended solely for the information and use of the Audit Committee and management and should not be distributed to or used by any other parties than these specified parties.

The matters raised in this and other reports that will flow from the audit are only those which have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising, and in particular we cannot be held responsible for reporting all risks in your business or all control weaknesses. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared for, and is not intended for, any other purpose.

We appreciate having the opportunity to meet with you and to respond to any questions you may have about our audit, and to discuss any other matters that may be of interest to you.

Yours truly,

MNP LLP

Chartered Professional Accountants

encls.

CONTENTS

INTRODUCTION

As auditors, we report to the members on the results of our examination of the financial statements of Opportunity Calgary Investment Fund Ltd. (the "Company") as at and for the period ended December 31, 2018. The purpose of this Audit Findings Report is to assist you, as members of the Audit Committee, in your review of the results of our audit. To facilitate in your understanding of our findings, Appendix A to this report summarizes our audit process.

Our report will discuss the status of our engagement, as well as communicate to you significant audit, accounting and reporting matters arising from our procedures. We hope that this report is of assistance to you, and we look forward to discussing our findings and answering your questions.

ENGAGEMENT STATUS

We have completed our audit of the financial statements of the Company and are prepared to sign our Auditors' Report subsequent to completion of the following procedures:

- Receipt of the signed management representation letter;
- Discussion of subsequent events with the Audit Committee;
- The Board of Directors' review and approval of the financial statements.

We expect to have the above procedures completed and to release our Audit Report on March 7, 2019. Our draft report, which will provide an unqualified opinion, is attached at the end of this report.

SIGNIFICANT AUDIT, ACCOUNTING AND REPORTING MATTERS

CHANGES FROM AUDIT SERVICE PLAN

There were no deviations from the Audit Service Plan previously presented to you.

AREAS OF AUDIT EMPHASIS

The following lists the key areas of our audit emphasis for your Company:

- Deferred Contributions and Revenue Recognition;
- Expenses; and
- Financial Statement Disclosures.

Detailed information on Areas of Audit Emphasis is included as Appendix B to this report.

FINAL MATERIALITY

Materiality is a concept used to assess the significance of misstatements or omissions that are identified during the audit and is used to determine the level of audit testing that is carried out. The scope of our audit work is tailored to reflect the relative size of operations of the Company, and is affected by our assessment of materiality and audit risk.

Final materiality used for our audit was $13,300 for December 31, 2018. Our threshold for differences reported to the Audit Committee was $665 (5% of final materiality).

SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL

Our audit process focuses on understanding the controls utilized in management's reporting systems to the extent necessary to identify overall and specific financial reporting risks. This risk assessment allows us to concentrate our audit procedures on high risk areas and, where possible, place reliance on controls within the financial reporting system to reduce the extent of our testing.

It is important to note that our assessment was not, nor was it intended to be, sufficient to comment or conclude on the sufficiency of internal controls.

We are required under Canadian generally accepted auditing standards to communicate all significant deficiencies identified during an audit to the Audit Committee on a timely basis. However, we may not be aware of all significant deficiencies that do, in fact, exist.

While our review of controls was not sufficient to express an opinion as to their effectiveness or efficiency, no deficiencies in internal control have come to our attention.

DIFFICULTIES ENCOUNTERED

No significant limitations were placed on the scope or timing of our audit.

IDENTIFIED OR SUSPECTED FRAUD

Due to the inherent limitations of an audit and the nature of fraud, including attempts at concealment through forgery or collusion, an audit conducted in accordance with Canadian generally accepted auditing standards cannot be relied upon to detect fraud.

While our audit cannot be relied upon to detect all instances of fraud, no incidents of fraud, or suspected fraud, came to our attention in the course of our audit.

IDENTIFIED OR SUSPECTED NON-COMPLIANCE WITH LAWS AND REGULATIONS

Nothing has come to our attention that would suggest any non-compliance with laws and regulations that would have a material effect on the financial statements.

MATTERS ARISING IN CONNECTION WITH RELATED PARTIES

The following significant matters arose in connection with related parties of the Company during the course of our audit:

- Incremental costs incurred by Calgary Economic Development on behalf of the Company for purposes of managing it. Refer to Appendix B.

GOING CONCERN

We have not identified any material uncertainties related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

We are of the opinion that the going concern assumption is appropriate in preparation of the financial statements.

AUDITORS' VIEWS OF SIGNIFICANT ACCOUNTING PRACTICES

The application of Canadian Public Sector Accounting Standards for Not-for-Profit Organizations allows and requires the Company to make accounting estimates and judgments regarding accounting policies and financial statement disclosures.

As auditors, we are uniquely positioned to provide open and objective feedback regarding your Company's accounting practices, and have noted the following items during the course of our audit that we wish to bring to your attention.

Accounting Policies

- The accounting policies used by the Company are appropriate and have been consistently applied.

Accounting Estimates

Provision for legal contingencies

- No provision deemed necessary.

Financial Statement Disclosures

The disclosures made in the notes to the financial statements appear clear, neutral and consistent with our understanding of the entity and the amounts presented in the financial statements.

MATTERS ARISING FROM DISCUSSIONS WITH MANAGEMENT

We would like to formally acknowledge the cooperation and assistance we received from the management and staff of the Company.

There were no significant matters discussed, or subject to correspondence, with management that in our judgment need be brought to your attention.

SIGNIFICANT DIFFERENCES

No significant differences were proposed to management with respect to the December 31, 2018 financial statements.

MODIFICATIONS TO THE INDEPENDENT AUDITORS' REPORT

As discussed earlier, our independent auditors' report will provide an unqualified opinion to the shareholders.

MANAGEMENT REPRESENTATIONS

We have requested certain written representations from management, which represent a confirmation of certain oral representations given to us during the course of our audit.

This letter, provided by management, has been included as additional material to this report.

AUDITOR INDEPENDENCE

We confirm to the Audit Committee that we are independent of the Company. Our letter to the Audit Committee discussing our independence is included as part of the additional materials attached to this report.

APPENDIX A – MNP Audit Process

Our audit was carried out in accordance with Canadian generally accepted auditing standards, and included a review of all significant accounting and management reporting systems, with each material period end balance, key transaction and other events considered significant to the financial statements considered separately.

Our audit process focused on understanding the controls utilized in management's reporting systems to the extent necessary to identify overall and specific financial reporting risks. This risk assessment enabled us to concentrate our audit procedures on the areas where differences were most likely to arise. Our assessment was not, nor was it intended to be, sufficient to conclude on the effectiveness or efficiency of internal controls.

During the course of our audit, we have:

- Examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- Assessed the accounting principles used and significant estimates made by management;
- Obtained an understanding of the Company and its environment, including management's internal controls (regardless of whether we relied on them for the purpose of the audit), sufficient to identify and assess the risks of material misstatement of the financial statements and to design and perform audit procedures;
- Reviewed and assessed those accounting systems deemed necessary to support our audit opinion;
- Evaluated the overall financial statement presentation;
- Performed a subsequent events review with management;
- Reviewed and assessed the status of contingencies, commitments and guarantees;
- Reviewed and assessed exposure to environmental liabilities.

We have obtained written representations from management, included as additional materials following this report, in order to confirm oral representations given to us and reduce the possibility of misunderstanding. Specifically, we have obtained written confirmation of significant representations provided on matters that are:

- Directly related to items that are material, either individually or in the aggregate, to the financial statements;
- Not directly related to items that are material to the financial statements, but are significant, either individually or in the aggregate, to the engagement; and
- Matters relevant to management judgments or estimates that are material, either individually or in the aggregate, to the financial statements.

APPENDIX B – Areas of Audit Emphasis

Deferred Contributions and Revenue Recognition

The Company received contributed funds from the City of Calgary in the amount of $811,000, which was deferred upon receipt. Revenue recognized in the period was $445,048, which was equal to the amount of direct costs incurred to administer the Fund Reserve.

- MNP compared the total amount received to the bank deposit to ensure it was accurately recorded.
- MNP obtained supporting documentation of a sample of eligible expenditures and agreed them to invoices and analysed whether the amounts support recognition of revenue based on restrictions of the Operating and Funding Agreement dated May 11, 2018.
- MNP analysed the terms of Clause 6.6 *Surplus* and concluded the presentation of the surplus funds as deferred contributions is reasonably stated as at December 31, 2018.
- MNP analysed the Company's revenue recognition policy and determined that revenue is reasonably stated for the period ended December 31, 2018.

We have concluded that deferred contributions and revenue are reasonably stated for the period ended December 31, 2018.

Expenses

The Company incurred $445,048 in direct costs to administer the Fund Reserve.

- MNP examined legal correspondence files and analyzed legal expenses for indications of pending, threatened or actual litigation. MNP also selected a sample of legal transactions from the general ledger and compared those to source documents to determine if the expense was accurately recorded as per its nature, amount and period.
- MNP selected a sample of expense transactions from the general ledger and compared those to source documents to determine if the expense was accurately recorded as per its nature, amount and period.
- MNP performed a proof in total to evaluate whether the salary allocations were accurate, and reviewed the employee contracts to determine if the allocations were appropriate and in accordance with the Master Services Agreement between the Company and Calgary Economic Development.

We have concluded that expenses are reasonably stated for the period ended December 31, 2018.

Financial Statement Disclosures

This is the Company's first year of operations and therefore no comparative figures are presented.

- MNP analysed the financial statements and note disclosure of the Company to ensure the accounting policies, statement of financial position, statement of operations and net assets, and the statement of cash flows communicate information that is useful to users of the financial statements and is in accordance with Canadian Public Sector Accounting Standards for Not-for-Profit Organizations.
- MNP analysed the Operating and Funding Agreement between the Company and the City of Calgary in relation to the incorporating and nature of the organization and ensured that the note described the Company's purpose, its intended community service, its status under income tax legislation and its legal form.

APPENDIX B – Areas of Audit Emphasis *(continued from previous page)*

Financial Statement Disclosures *(continued from previous page)*

- MNP analysed the Master Services Agreement between the Company and Calgary Economic Development Ltd. ("CED") and compared it to the note to the financial statements to ensure the note included a description of the relationship, a description of the transactions and amounts of the transactions, the measurement basis used for recognizing the transaction, the terms for the amounts due to CED and the the contractual obligations entered into.

We have concluded that the financial statements and its related disclosures include all appropriate information to ensure that the statements are presented fairly in accordance Canadian Public Sector Accounting Standards for Not-for-Profit Organizations for the period ended December 31, 2018.

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Opportunity Calgary
Investment Fund

Financial Statements

December 31, 2018

Opportunity Calgary Investment Fund

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For the period ended December 31, 2018

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Management's Responsibility

To the Board of Directors of Opportunity Calgary Investment Fund Ltd.:

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian Public Sector Accounting Standards for Not-for-Profit Organizations. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors is composed entirely of Directors who are neither management nor employees of the Company. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Board is also responsible for recommending the appointment of the Company's external auditors.

MNP LLP is appointed by the Board to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Board and management to discuss their audit findings.

March 8, 2019

Mary Moran
Chief Executive Officer
Opportunity Calgary Investment Fund Ltd.

Sheila Will
Chief Financial Officer
Opportunity Calgary Investment Fund Ltd.

Independent Auditor's Report

To the Board of Directors of Opportunity Calgary Investment Fund Ltd.:

Opinion

We have audited the financial statements of Opportunity Calgary Investment Fund Ltd. (the "Company"), which comprise the statement of financial position as at December 31, 2018, and the statements of operations and changes in net assets and cash flows for the period then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018, and the results of its operations and its cash flows for the period then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Calgary, Alberta

MNP LLP

March 8, 2019

Chartered Professional Accountants

calgary be part of the energy Opportunity Calgary Investment Fund

Opportunity Calgary Investment Fund Ltd.
Statement of Financial Position
As at December 31, 2018

	2018
Assets	
Current	
Cash	**187,412**
Amounts receivable *(Note 3)*	**12,364**
Restricted cash *(Note 5)*	**365,952**
	565,728
Liabilities	
Current	
Accounts payable and accrued liabilities *(Note 4)*	**151,766**
Due to related party *(Note 7)*	**48,009**
Deferred revenue *(Note 5)*	**365,952**
	565,727
Net Assets	
Share capital *(Note 10)*	**1**
	565,728

Approved on behalf of the Board

Director

Director

The accompanying notes are an integral part of these financial statements

calgary
be part of the energy

Opportunity Calgary Investment Fund

Opportunity Calgary Investment Fund Ltd.
Statement of Operations
For the 256-day period ended December 31, 2018

	2018
Revenue	
City of Calgary funds *(Note 7)*	**445,048**
Expenses	
Legal services *(Note 1)*	**190,290**
Professional services	**112,169**
Corporate services *(Note 1 and Note 7)*	**89,132**
Technology services *(Note 7)*	**53,457**
	445,048
Excess of revenue over expenses	**-**

The accompanying notes are an integral part of these financial statements

Opportunity Calgary Investment Fund

Opportunity Calgary Investment Fund Ltd.
Statement of Changes in Net Assets
For the 256-day period ended December 31, 2018

	2018
Net assets, beginning of period	**-**
Excess of revenue over expenses	**-**
Issuance of share capital	**1**
Net assets, end of period	**1**

The accompanying notes are an integral part of these financial statements

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Opportunity Calgary Investment Fund Ltd.
Statement of Cash Flows
For the 256-day period ended December 31, 2018

	2018
Cash provided by (used for) the following activities:	
Operating	
Excess of revenue over expenses	-
Changes in working capital accounts	
Amounts receivable	(12,364)
Accounts payable and accrued liabilities	151,766
Due to related party	48,009
Deferred revenue	365,952
	553,363
Financing	
Issuance of share capital	1
Increase in cash and cash equivalents	553,364
Cash and cash equivalents, beginning of period	-
Cash and cash equivalents, end of period	553,364
Cash and cash equivalents are composed of:	
Unrestricted cash	187,412
Restricted cash	365,952
	553,364

The accompanying notes are an integral part of these financial statements

1. Incorporation and nature of the organization

Opportunity Calgary Investment Fund Ltd. (the "Company") was incorporated under the authority of the Business Corporations Act on April 19, 2018. The Company is registered as a non-profit organization under the Income Tax Act of Canada and is exempt from income taxes. The Company is a wholly owned subsidiary of The City of Calgary ("The City") and is governed under a unanimous shareholders agreement declared on May 11th, 2018.

The Company was established with a mandate to manage the $100,000,000 OCIF Fund Reserve ("Fund Reserve") effectively and in a manner that creates an environment within The City of Calgary that encourages economic recovery and growth, helps reduce the impact of the economic downturn on Calgary's citizens and businesses and capitalizes on new opportunities to support Calgary's economic success into the future. The Fund Reserve is an interest-bearing capital and operating reserve fund administered by the City, as such, the Fund Reserve is not reflected in these financial statements.

The Company, in part by engaging the services of Calgary Economic Development Ltd. ("CED"), establishes and carries out a contribution program pursuant to which the Company, as steward of the OCIF Reserve, will select, or in certain instances recommend to Calgary City Council ("Council") projects with The City of Calgary in which to contribute Fund Reserve funds.

The Company is required to conduct and manage the intake and review of applications and business cases, present reviewed business cases to the OCIF Board or if required to present the City of Calgary Priorities and Finance Committee ("PFC") and Council for consideration; maintain timely and appropriate communication with applicants and The City, develop and enter into contribution agreements; request disbursement of funds from the Fund Reserve; and monitor and manage the execution and performance of contribution agreements. Upon approval of an application and business case and execution of a contribution agreement, the Company will deliver a request for funds to The City. The City is responsibly for the disbursement of requested funds to the beneficiary from the Fund Reserve.

Organizational costs incurred to create the Company were $153,119, which are included in legal services and technology services.

2. Significant accounting policies

Basis of accounting

The financial statements are expressed in Canadian dollars. The financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards for Not-for-Profit Organizations, with the optional 4200 series, as established by the Public Sector Accounting Board. The significant policies are described below.

Cash

Cash include balances with banks. Cash subject to restrictions that prevent its use for current purposes is included in restricted cash. Restricted cash will be utilized against 2019 expenditures.

Revenue recognition

The Company follows the deferral method of accounting for City of Calgary funding. These funds are recognized as revenue in the year in which the related direct costs required to administer the Fund Reserve are incurred.

Use of estimates

The preparation of financial statements in conformity with Canadian Public Sector 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 revenue and expenses during the reporting period.

Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in the statement of operations in the periods in which they become known.

2. Significant accounting policies *(Continued from previous page)*

Financial instruments

The Company recognizes its financial instruments when the Company becomes party to the contractual provisions of the financial instrument. All financial instruments are initially recorded at their fair value, including financial assets and liabilities originated and issued in a related party transaction with management. Financial assets and liabilities originated and issued in all other related party transactions are initially measured at their carrying or exchange amount in accordance with PSAS Section 4260 *Disclosure of Related Party Transactions By Not-For-Profit Organizations* (refer to Note 7).

At initial recognition, the Company may irrevocably elect to subsequently measure any financial instrument at fair value. The Company has not made such an election during the year.

Transaction costs related to financial instruments remeasured at fair value at each reporting date are expensed in the period, whereas they are added to the carrying value of the financial instrument for those measured at cost or amortized cost.

Financial asset impairment

The Company assesses impairment of all of its financial assets measured at cost or amortized cost. When there is an indication of impairment, the Company determines whether it has resulted in a significant adverse change in the expected timing or amount of future cash flows during the year. If so, the Company reduces the carrying amount of any impaired financial assets to the highest of: the present value of cash flows expected to be generated by holding the assets; the amount that could be realized by selling the assets; and the amount expected to be realized by exercising any rights to collateral held against those assets. Any impairment, which is not considered temporary, is included in current year deficiency of revenue over expenses. The Company reverses impairment losses on financial assets when there is a decrease in impairment and the decrease can be objectively related to an event occurring after the impairment loss was recognized. The amount of the reversal is recognized in the statement of operations in the year the reversal occurs.

Contributed materials and services

The Company receives various contributions in the form of material or services that it uses to carry out its objectives. Because of the difficulty in determining the fair value of these materials and services, the Company does not recognize the amounts in the financial statement.

3. Amounts receivable

Amounts receivable relates to the following:

	2018
Goods and Services Taxes receivable	**12,364**

4. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities relate to the following:

	2018
Trade accounts payable	118,203
Accrued liabilities	33,563
	151,766

5. Deferred revenue

Deferred revenue consists of unspent funds from The City which are restricted for direct costs to administer the Fund Reserve. Recognition of these amounts as revenue is deferred to periods when the specified expenses are made. Changes in the deferred revenue balance are as follows:

	2018
Balance, beginning of period	-
Funding received	811,000
Amounts recognized as revenue during the period	(445,048)
Balance, end of period	**365,952**

6. Income taxes

The Company is registered as a tax-exempt organization under the *Income Tax Act* (the “Act”), and as such is exempt from income taxes. In order to maintain its tax-exempt status under the Act, the Company must meet certain requirements within the Act. In the opinion of management, these requirements have been met.

7. Related party transactions

The Company has entered into an Operating and Funding Agreement (“Agreement”) with The City.

In the current year, the Company received $811,000 under this agreement of which $445,048 was recognized as revenue in 2018 and $365,952 deferred to 2019.

The City of Calgary (“The City”) and affiliates

Related party balances and transactions with The City consist of:

	2018
Deferred revenue	365,952
Revenue recognized	445,048
Total	**811,000**

Calgary Economic Development Ltd. (“CED”)

Calgary Economic Development Ltd. (“CED”) and the Company are related by virtue of common control as they are wholly owned subsidiaries of the City, share two common Board of Director members and have common management.

The Company entered into an Administrative Services and Fund Management Agreement with CED effective April 19, 2018. This agreement is in consideration of the performance of the administrative services and the management of the Reserve Fund by CED for a management fee of $1 per month.

In addition, CED will be reimbursed by the Company for reasonable out-of-pocket costs and expense incurred directly by CED in connection with the performance of the administrative services, the Fund management and any additional services including travel and lodging. CED will not be reimbursed for any of CED’s ongoing overhead costs and expenses unless such costs or expenses are incurred by the retention of any additional personnel specifically for the Company.

Related party balances and transactions with CED consist of:

	2018
Due to related party:	
Corporate services	47,255
Technology services	754
Total	**48,009**
Expenses:	
Corporate services	85,155
Technology services	53,457
Total	**138,612**

All transactions are in the normal course of operations and have been recorded at the agreed exchange amounts that have been negotiated between the parties.

8. Contribution Agreements

The Company develops and executes Contribution Agreements with approved Beneficiaries. Each Contribution Agreement defines the Project, the estimated costs of the Project, schedule of payment and milestones for disbursements of funds that will be made by the City to the Beneficiary, the terms and conditions upon which the funds will be disbursed and restrict the Beneficiaries use of its allocation of the Fund Reserve to the subject of the Project. Further, the Contribution Agreement defines the expected economic outcomes and timeline in respect of the Project; provides for the return of funds from the Beneficiary to the City in the event of a material breach in terms of the Contribution Agreement, or abandonment, delay or suspension of the Project for greater than six months; and provides for the reporting by the Beneficiary to the Company on the status of the subject Project and the use of the disbursed Reserve Funds.

The Company will monitor and manage each Contribution Agreement until all obligations of the Beneficiary have been satisfied in full.

As of December 31, 2018, the Company has developed and executed three Contribution Agreements, and delivered to the City a commitment for funds. The estimated payments from the Fund Reserve are as follows:

- Beneficiary one is expected to receive up to $1.5 million of the Fund Reserve, paid in instalments as it achieves specific employment numbers. The expected completion date of this Project is December 31, 2020.
- Beneficiary two is expected to receive up to $4.5 million of the Fund Reserve, paid in instalments as it expands its operations in the City of Calgary. The expected completion date of this Project is September 30, 2020.
- Beneficiary three is expected to receive up to $4 million of the Fund Reserve, paid in instalments as it relocates to downtown Calgary and achieves specific employment numbers as a result. The expected completion date is January 20, 2020.

Subsequent to year-end, on February 6, 2019, the Company executed an agreement with its fourth Beneficiary, and delivered to the City a commitment for funds. This Beneficiary is expected to receive $8.5 million of the Fund Reserve, paid in instalments as it develops programming that will support turning advancing research into commercial ventures. The expected completion date is March 31, 2022.

9. Financial instruments

General objectives, policies and processes

The Board of Directors, through the Audit Committee, has overall responsibility for the determination of the Company's risk management objectives and policies and, while retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure effective implementation of the objectives and policies to the Company's management. The Board of Directors receives periodic reports from the Company's management through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term requirements, considering its anticipated cash flows from operations and its holdings of cash and cash equivalents.

The following table sets out the contractual maturities of financial liabilities:

2018	*0-90 days*	*91 days and older*	***Total***
Due to related party	48,009	-	**48,009**
Trade accounts payable	118,203	-	**118,203**
Accrued liabilities	33,563	-	**33,563**
Total	**199,775**	-	**199,775**

10. Share capital

On April 20th, 2018, the Company issued one common share to The City.

ROLE OF BOARD COMMITTEES

The Board establishes standing committees and ad hoc committees to assist the Board with its governance functions. Committees serve in an advisory capacity and make recommendations to the Board. The Board maintains accountability for all of the actions, decisions and recommendations of its committees.

Committees operate within terms of reference approved by the Board. Each committee shall maintain notes as a record of all committee meetings, and report regularly to the Board on its activities.

OCIF AUDIT COMMITTEE

Date Approved:	September 21, 2018
Date Revised:	

Purpose

The Audit Committee ("Committee") shall be a Committee of the Board responsible for stewardship of the Corporation's finances. The Committee has oversight responsibility and makes recommendations to the Board on:

a) reviewing and assessing processes relating to annual budgets;
b) identifying and monitoring risks;
c) monitoring the Corporation's compliance with financial and regulatory requirements;
d) overseeing the monitoring and the integrity of the Corporation's accounting and financial reporting processes, financial statements and systems of internal controls regarding accounting and financial reporting and accounting compliance;
e) overseeing audits of the Corporation's financial statements, and
f) overseeing and monitoring the qualifications, independence and performance of the Corporation's auditors.

Responsibilities

Management, together with the Board and the Committee, is responsible for setting the proper tone, creating and maintaining a culture of honesty and high ethical standards and establishing appropriate controls to ensure, accurate financial accounting reporting, and to prevent and detect fraud.

To achieve reliable financial statements, internal controls must be in place to ensure that: records accurately and fairly reflect transactions in, and dispositions of, OCIF assets; records of transactions are sufficient to prepare financial statements in accordance with Canadian generally accepted accounting principles; receipts and expenditures are properly authorized; and, that steps are in place to prevent and detect irregularities that could have a material effect on OCIF's financial statements, and to ensure financial system integrity and continuity.

In fulfilling its responsibilities, the Committee shall:

Financial Management, Reporting, External Auditors and Risk

a) Review financial results and have the right to inspect all of the accounts and records of OCIF and to discuss those accounts and records with OCIF's management, the Board and the Auditors;
b) Review and recommend for approval by the Board the annual audited financial statements;
c) Review quarterly interim (unaudited) financial statements and reports from OCIF;
d) Ensure, through management confirmation, timely filings with Registry office and City of Calgary, including any other regulatory filings;
e) Review OCIF cash flow forecasts, liquidity, and cash management strategies;
f) Review and bring for approval by the Board, the annual budget and business plan and any revisions thereto, including:
    - reviewing the financial impact of new or changed projects and proposals subsequent to the Board's approval of annual budgets and business plan, where practicable, prior to their presentation to the Board for consideration, and make recommendations to the Board;
g) Review and recommend for approval by the Board, all annual and other financial information and financial statements prepared for public distribution;
h) Review and recommend for approval by the Board, OCIF's financial and accounting policies;
i) Make recommendations to the Board with regard to the selection of the independent auditor and review and approve auditor fees, including advance approval of any non-audit services performed. Meet annually with the external auditors and report to the Board on such meetings, including an assessment of their independence. Meet separately with the external auditors to discuss any matters that the Committee or auditors believe should be discussed in camera, including any fraud and risks of fraud, illegal acts, deficiencies in internal control and similar issues;
j) Review the results of the annual audit and make recommendations thereon to the Board;
k) Review the design and effectiveness of the systems of internal control over financial and operational reporting. Review recommendations from the external auditors for internal control improvement, management's consideration thereof and, as appropriate, implementation and results;
l) Review compliance with all applicable finance and audit legal and regulatory requirements, including confirmation of filing of Corporate Returns; and
m) Review and make recommendation to the Board regarding OCIF's risk management procedures and controls, including:
    - the maintenance of appropriate insurance;
    - reliability and integrity of the financial system, and

- Referring any significant business and financial risks with the external auditors, including their assessment of management's related plans, processes and programs, paying particular attention to large, complex, related party, and/or unusual transactions, including joint ventures, partnerships and other contractual arrangements, and the associated accounting treatment and financial statement disclosures.

Membership

The Committee shall be comprised of a Committee Chair, and a minimum of two (2) other Board members.

The Corporate Governance & Effectiveness Committee will recommend Audit Committee members and Audit Committee Chair appointment for approval by the Board.

Authority and Accountability

1. The Committee shall report regularly to the Board on its activities.

2. The Committee, in consultation with the Board Chair, shall have the authority to direct and supervise the investigation of any matter brought to its attention within the scope of its duties.

3. The Committee shall review its terms of reference as needed, but at least annually, and recommend changes as necessary. The timeframe for an annual review of committee terms of reference will be for the committee meeting immediately prior to the Board of Directors Business Planning meeting with Management.

Meetings

The Committee may require the attendance of OCIF (CED) senior management at meetings as appropriate.

Resources

The Committee shall be provided with the resources necessary to carry out its responsibilities. The Committee may retain such advisors and consultants as it deems necessary to assist the Committee in discharging its responsibilities.

Opportunity Calgary Investment Fund
Board of Directors 2019-2020

Barry Munro – Board Chair (Audit Committee member, Corporate Governance & Effectiveness Committee member)

Mayor Naheed Nenshi

Councillor Jeff Davison

Steve Allan (Audit Committee member, Corporate Governance & Effectiveness Committee member)

Michael Brown (Corporate Governance & Effectiveness Committee member)

Ian Bruce (Chair of Audit Committee)

Cheryl Gottselig, Q.C. (Chair of Corporate Governance & Effectiveness Committee)

Geeta Sankappanavar

Mark Blackwell

Nancy Laird

Progress to Date

Opportunity Calgary Investment Fund

The City of Calgary initiative was launched in 2018 as a tool to invest in long-term transitional opportunities to support our evolving economy and accelerate the economic strategy Calgary in the New Economy. All submissions for the nonrepayable funding are subject to rigorous review.

Timeline

As at June 11, 2019

Funds Commited

$18.6M

June 2017: City Council approves $10 million for Fund, Steering Committee appointed

December 2017: Council approves an additional $90 million

April 2018: Official launch, begin accepting applications

May 2018: First Shareholder meeting, Board of Directors appointed

June 2018: 100 applications received in first seven weeks

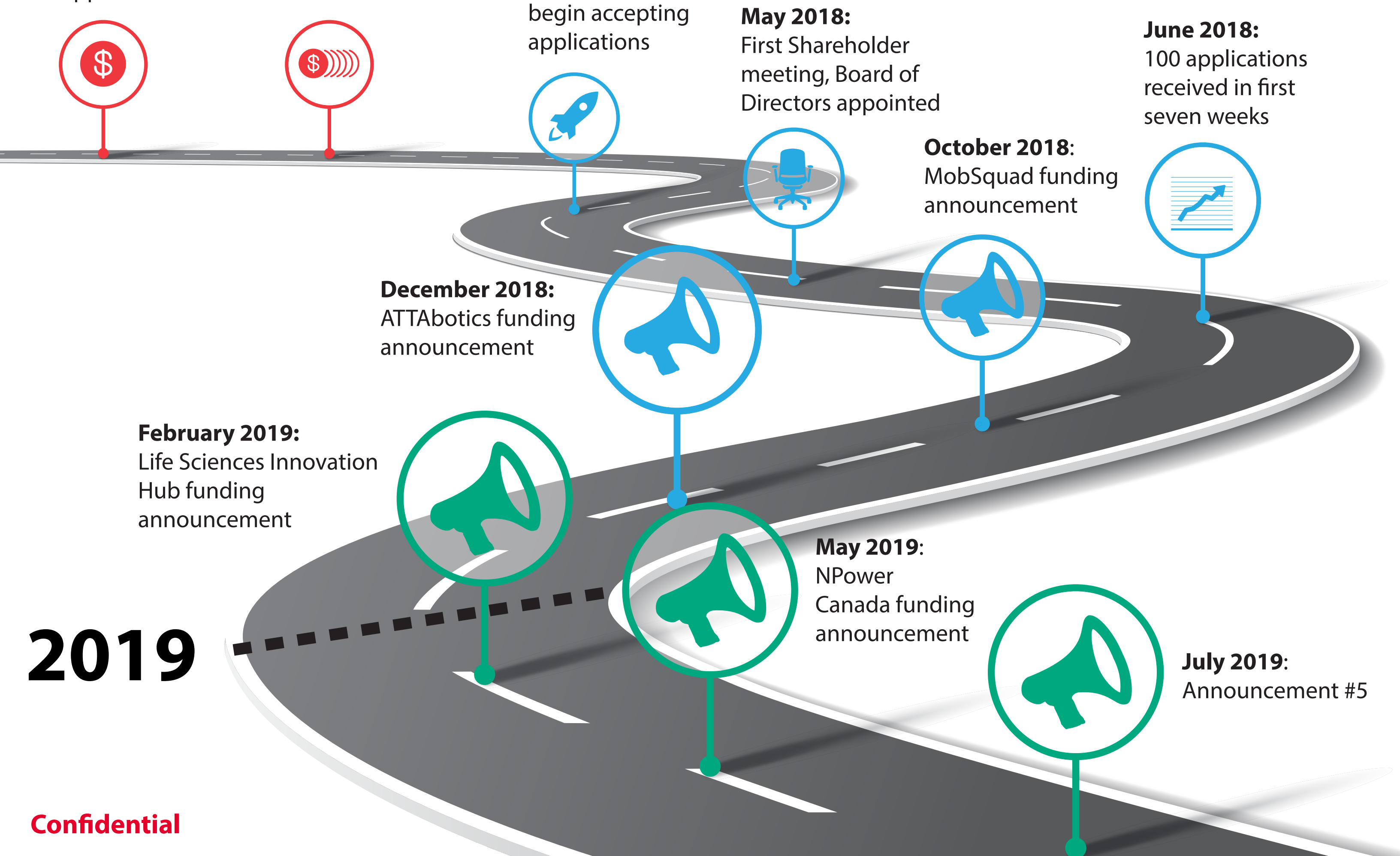
October 2018: MobSquad funding announcement

December 2018: ATTAbotics funding announcement

February 2019: Life Sciences Innovation Hub funding announcement

May 2019: NPower Canada funding announcement

July 2019: Announcement #5



Confidential

Progress to Date

Forecasted Benefits

Projects Approved **5***	Committed Jobs **770**	Amount Commited **$18.6M**
Total Project Investment **$95.9M**	New Jobs **580**	Amount Disbursed **$250K**
New Space (sq. ft.) **271,000**	Retained Jobs **190**	Leveraged Funding Projection **$19.6M**

Investing Calgary

ATTABOTICS - DISRUPTING SUPPLY CHAINS AND GROWING LOGISTICS ECOSYSTEMS

ATTAbotics is a Calgary company reinventing supply chains through robotics with its 3D storage, retrieval and real-time order fulfillment system. The $4.5 million investment will support the scale up of manufacturing and 150 full-time positions. The investment is intended to be a catalyst for growth in the advanced manufacturing and robotics ecosystems.

LIFE SCIENCES INNOVATION HUB - INCUBATING COMPANIES IN THE LIFE SCIENCES SECTOR

The Life Sciences Innovation Hub is a centre that serves as a bridge to commercialize advanced research conducted at the University of Calgary. The Hub provides entrepreneurial programs and space for researchers and companies to turn ground-breaking ideas into business ventures. The $8.5 million investment is intended to lead to a steady stream of new companies to drive expansion of Calgary life sciences and health sector.

MOBSQUAD - BUILDING CALGARY'S PIPELINE OF TOP TECH TALENT

MobSquad headquartered its operations in Calgary to provide Silicon Valley clients with teams of software engineers and data scientists from locations in Canada. The $1.5 million investment support's hiring of 150 tech workers in its downtown offices. The investment is intended to grow the tech community and entice other top talent here to spur additional growth.

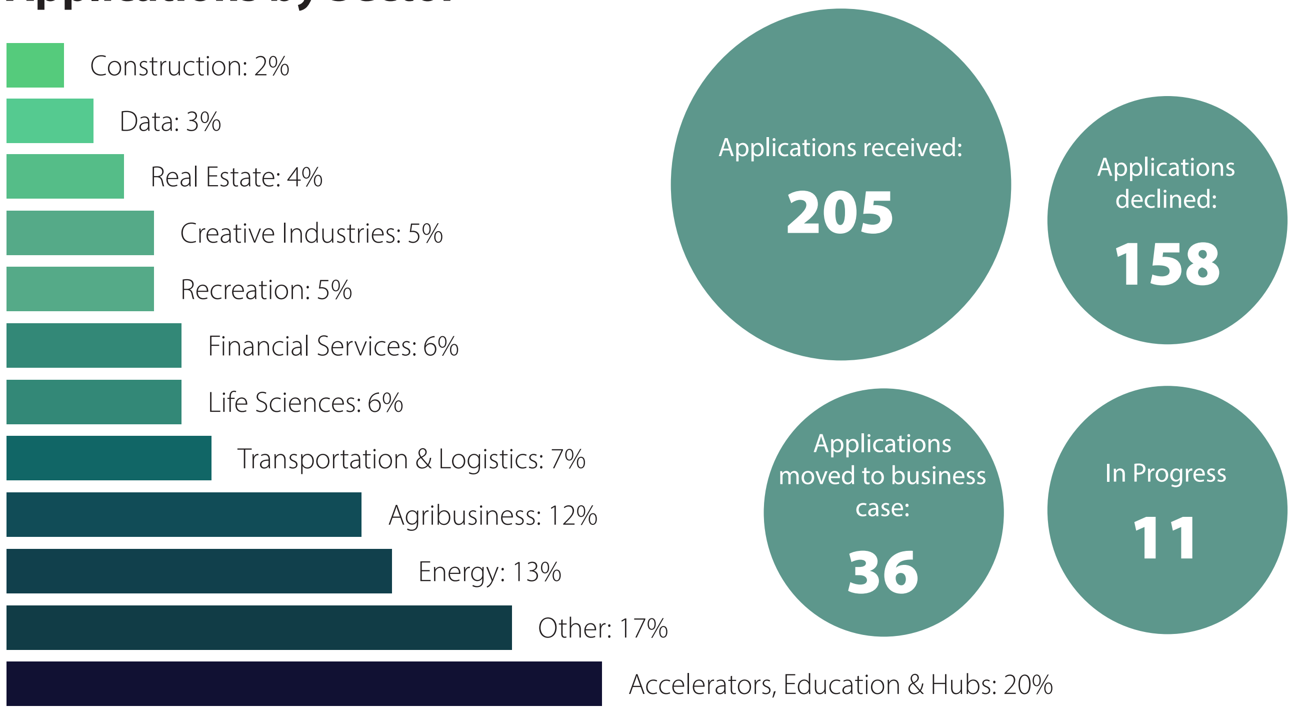
NPOWER CANADA - DEVELOPING TECH SKILLS FOR UNDERSERVED YOUTH

NPower Canada is a non-profit organization that helps launch young adults from underserved communities into careers in tech. The $100,000 investment supports opening its first location in Western Canada will provide tech training to 300 youth over three years to provide companies with the entry-level workers.

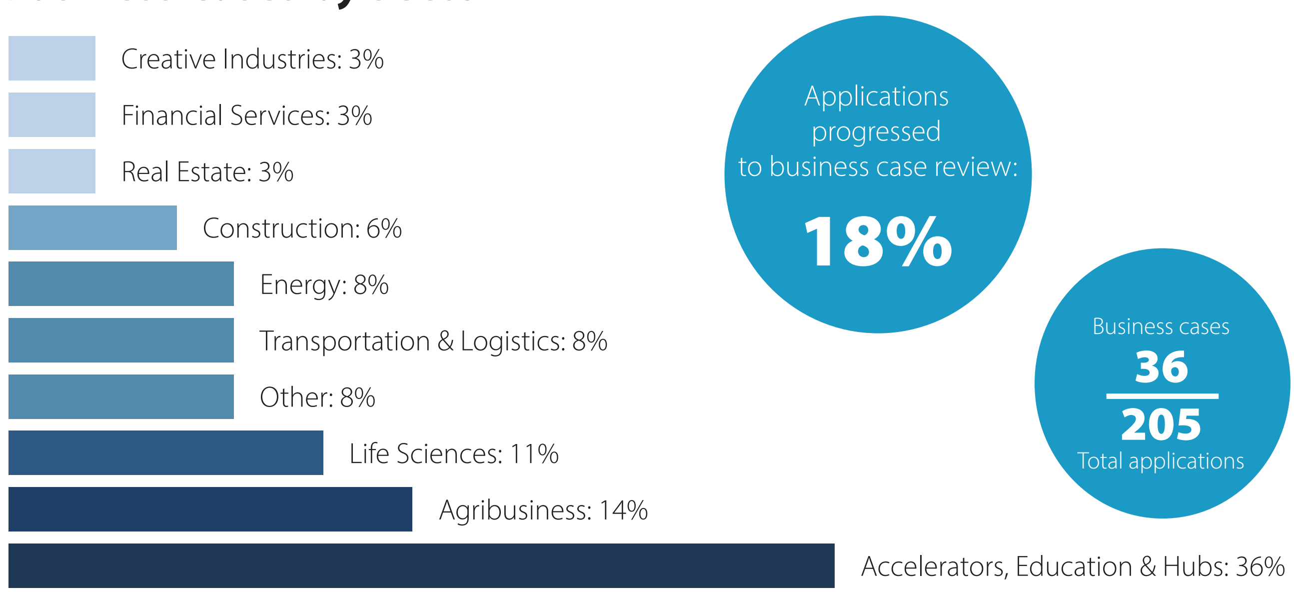
*Project 5 will be announced in July 2019

Progress to Date

Applications by Sector



Business Cases by Sector



Processing Times

The large volume of submissions to OCIF led to longer than targeted processing times in 2018. Most applications were processed within eight weeks. Some required additional information from the applicants, delaying the process. Establishing consistent evaluation methods aligned with the Economic Strategy was vital to streamlining the process in year one. From the time of submission, it typically takes three to four months until a contribution agreement is signed. In 2019 most applications are process within four weeks.

Progress to Date

OCIF Priorities

1. OCIF's focus is on investing in Calgary's long term future and expanding the economic base

2. The five OCIF investments will yield exceptional results for the ecosystem. $18.6 million of investments will enable projects of about $100 million, absorb 270 000 sq ft of space and create (or retain) 770 jobs.

3. Major projects in the pipeline exceed the remaining $81.4 million of funds available. These current opportunities represent a potential call on OCIF funds for as much as $100 million. Over a five year period these projects are expected to yield approximately 6000 jobs, absorb approximately 1 million sq. ft, create 300 companies and add training for more than 5,000 tech students.

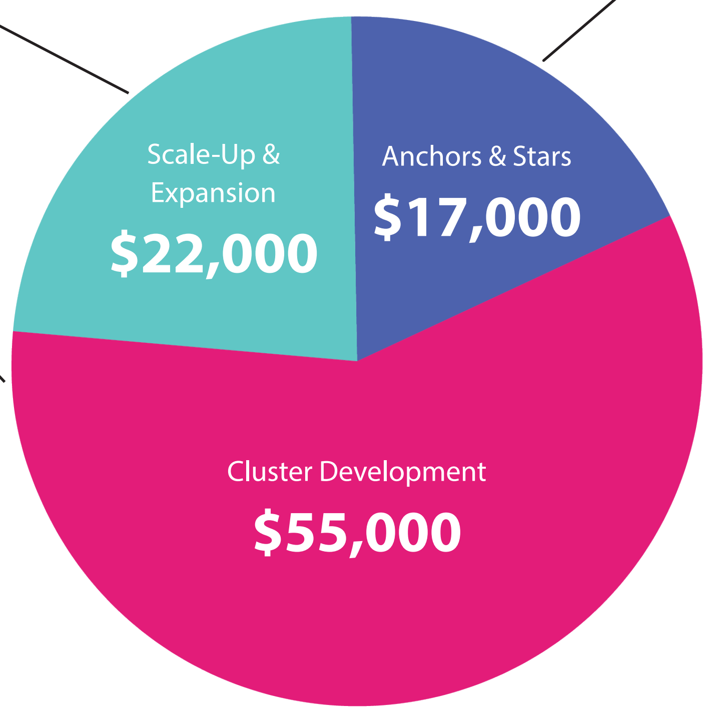
Projections for Projects in the Pipeline - by Stream ($000s)

Approx. $94 million would be required for the 22 projects in the pipeline.

Potential for:
- > 1,300 jobs created
- > 65,000 sq ft of space

Potential for:
- > 2,200 jobs created
- > 265,000 sq ft of space

Potential for:
- ~ 850,000 sq ft of space, including 500,000 sq ft of office conversions
- > 5,000 students job ready with tech skills
- > 300 companies incubated and created
- ~ 2,500 jobs created



Total Projected Benefits
3 to 5 Year Timeframe

Jobs Created:	> 6,000
Space Absorbed:	~ 1.2 million sq ft
Tech Students:	~ 5000
Companies Created:	~ 300

Progress to Date

Economic Strategy For Calgary – the beacon to guide OCIF approvals

Calgary in the New Economy, approved by City Council, is the driving force behind all investments by the Fund.

Vision

Calgary is the city of choice in Canada for the world's best entrepreneurs.

We embrace innovation and create solutions to meet the world's needs in food, health, energy and transportation.

Values

Calgary is an inclusive and entrepreneurial city connected through our community spirit.

4 Focus Areas

- **Talent** – Canada's destination for talent
- **Innovation** – Canada's leading B2B innovation ecosystem
- **Place** – Canada's most livable city
- **Business Environment** – Canada's most business-friendly city

Industry Focus:

Established Clusters

- Transportation & Logistics
- Agribusiness
- Energy

Emerging & Growth Clusters

- Tourism
- Creative Industries
- Life Sciences / Health
- Financial Services

Program Goals

- Create a return on investment
- Increase the tax assessment base
- Stimulate employment
- Create the right conditions for growth
- Diversify the local economy
- Leverage private and public sector investments
- Reduce downtown office vacancy

Applications are subject to rigorous review against specific criteria, including:

Investment Criteria

Job Creation
Incremental growth in the quantity and quality of full-time direct and indirect jobs

Social Benefits
Benefits to citizens or the environment

Economic Benefits
Increases in direct investment, revenues, and property tax

Innovation and Sector Benefits
Strategic projects that spur and facilitate growth

Alignment with Strategic Initiatives
Align with other public and private initiatives

Third-Party Due Diligence
Finance and industry experts review the business case

Alignment with Key Industries and Emerging Sectors
Investment in key industries and emerging, high potential sectors

Progress to Date

Board of Directors

Barry Munro
Partner, EY and President, Ernst & Young Orenda Corporate Finance Inc. (Chair)

Steve Allan
Chair of the Board, Calgary Economic Development (Vice Chair)

Naheed Nenshi
Mayor

Jeff Davison
Councillor, Ward 6

Carol Kitchen - outgoing
President & CEO, UFA Co-operative Limited (OCIF Audit Committee Chair)

Cheryl Gottselig
Partner, Burnet, Duckworth & Palmer LLP (OCIF Corporate Governance & Effectiveness Chair)

Michael Brown
President & CEO, Calgary Municipal Land Corporation

Ian Bruce
Former CEO, Peters & Co. Limited.

Jim Gray - outgoing
Chairman of the Energy Group, Brookfield Asset Management

Geeta Sankappanavar
Co-founder and President, Grafton Asset Management

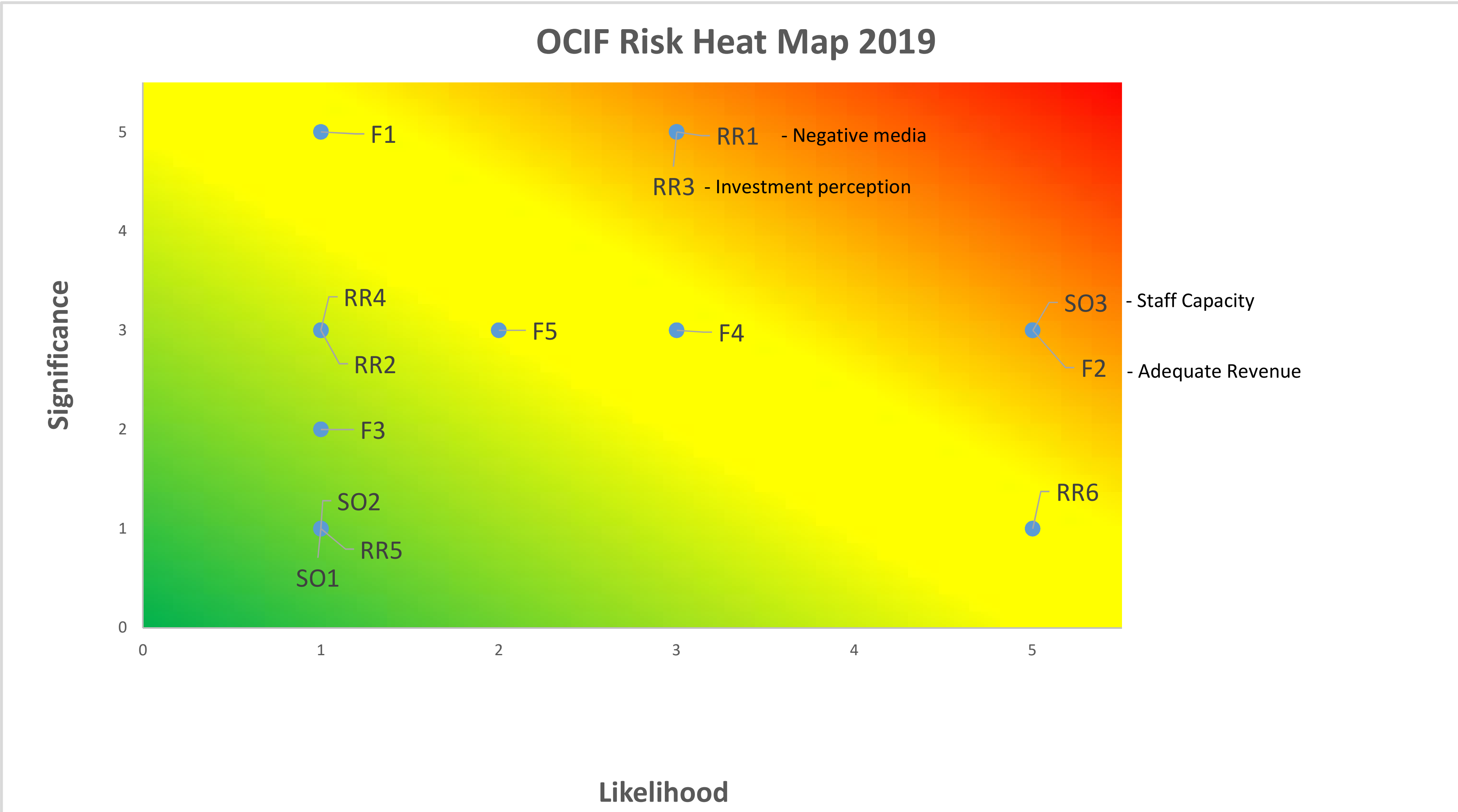
Mark Blackwell - incoming
Partner, Builders VC

Nancy Laird - incoming
Corporate Director

Officers

Mary Moran
Chief Executive Officer

Sheila Will
Chief Financial Officer and Secretary of the Corporation



Likelihood Scale	
5 - High	Risk is expected to occur frequently
4 - Medium/High	Risk is probable to occur
3 - Medium	Risk might occur
2 - Low/Medium	Risk could occur
1 - Low	Risk is unlikely to occur

Consequence Scale	
5 - High	Risk impact would be critical
4 - Medium/High	Risk impact would be serious
3 - Medium	Risk impact would be major
2 - Low/Medium	Risk impact would be moderate
1 - Low	Risk impact would be minor

OCIF Enterprise Risk Matrix 2019

Category		Risk	Probability	Potential Impact(s)	Management Ownership	Board Ownership	Mitigating Strategies	Status
FINANCIAL	F1	Overspend Fund	Low	High	CFO	Audit Committee	- Develop OCIF and program budget	Complete
							- Conduct monthly financial review	Ongoing
							- Develop commitments reporting process	Ongoing
							- Investments have strong GDP and when possible include return on investment	Ongoing
	F2	Adequate Revenue	High	Medium	CFO	Audit Committee/Board	- For any ammendments to the forecast, advise City Managers	Ongoing
							- Provide quarterly financials and project reports to the OCIF Board, City Manager and City CFO	Ongoing
	F3	Fraud	Low	Low-Med	CFO	Audit Committee	- Develop and implement internal controls	Ongoing
							- Develop and implement sound Contribution agreements and Term Sheets	Ongoing
							- Approval processes in place	Ongoing
							- Internal controls including segregation of duties and oversight/review of results and reconciliations	Ongoing
							- Fraud Risk Assessment, including interviews with Audit Committee	Ongoing
	F4	Consultants do not meet objectives and provide inconsistent valuation or services	Medium	Medium	CFO	Audit Committee/Board	- Develop consistent evaluation criteria and processes	Ongoing
							- Contracts and statement of work clearly lay out requirements	Ongoing
							- Communication with all consultants to establish best practices and expectations	Ongoing
	F5	CED - service agreement is not cost effective	Low-Med	Medium	CFO	Audit Committee/Board	- Review costs and services on a regular basis	Ongoing
							- Annual Evaluation during budget process to assess options for services i.e. employees vs service agreement	Ongoing

Category		Risk	Probability	Potential Impact(s)		Board Ownership	Mitigating Strategies	Status
REPUTATIONAL & RELEVANCE	RR1	Negative media coverage/tarnished reputation	Medium	High	CED, VP Marketing	CGE/Board	- Develop communications plan and key messages	Ongoing
							- Communicate regularly to stakeholders	Ongoing
							- Ensure official spokesperson have media training	Complete
							- Respond to all queries in timely and respectful manner	Ongoing
	RR2	Strategic Alignment between OCIF, CED and City	Low	Medium	VP, Client Services	Board	-Maintain strong municipal government and private sector relationships to ensure strategic alignment to Market and Shareholder needs	Ongoing
							-KPI calibration and alignment to achieve CED and OCIF organizational objectives and align	Ongoing
							- Strong Communication	Ongoing
	RR3	Investments selected do not provide benefit or does not meet the expectations of public, OCIF and City	Medium	High	CEO	Subcommittee	- Develop and implement strong and consistent due diligence process	Complete
							- Develop and implement regular performance reporting requirements	Ongoing
							- Strong contractual agreements and obligations to project funds	Ongoing
							- Select investments that provide strong ROI and facilitates replenishment of the fund	Ongoing
	RR4	Board Composition & Effectiveness	Low	Medium	CEO	CGE	- Strong policies on governance, scope, and conflict of interest	Ongoing
							- Recruit based on skills matrix with staggered terms	Ongoing
							- Annual evaluation of composition and skills	Ongoing
	RR5	Reporting is not adequate to deliver results	Low	Low	CFO	Board	- Review and adjust report content, quality on a regular basis to ensure it meets stakehbolder needs	Ongoing
							- 3rd party review of due diligence process and business case	Ongoing
	RR6	The Fund may be perceived as a Conflict of Interest with CED as the Manager.	Medium	Low	CFO	CGE/Board	- Establish and communicate roles and responsiblities	Ongoing
							- Implement governance best practices	Ongoing
							- Contribution Agreements contain reporting requirements and are monitored	Ongoing
							- Experienced Board to make all signifcant decisions	Ongoing
							- 3rd party due diligence to audit intake process and review the business case	Ongoing
							- Create Conflict of Interest Policy for both OCIF Board and CED Management	In progress

OCIF Enterprise Risk Matrix 2019

Category		Risk	Probability	Potential Impact(s)		Board Ownership	Mitigating Strategies	Status
SUSTAINABILITY & OPERATIONAL	SO1	Reporting is not adequate to deliver results	Low	Low	VP, Client Services, OCIF Program Lead	Board	- Review and adjust report content, quality on a regular basis to ensure it meets stakehbolder needs	Ongoing
							- Establishment of standards and regular communications	Ongoing
							- Strong GDP on investments	Ongoing
	SO2	Measurement criteria not standard	Low	Low	VP, Client Services, OCIF Program Lead	Board	- Confirm evaluation criteria with the Board	Ongoing
							- Provide criteria to reviewers and third party validation	Ongoing
							- Development and implement standard evaluation templates/scorecard/Term Sheets/Contribution Agreement	Ongoing
	SO3	Staff Capacity to meet changing needs	High	Medium	CEO	Board	- Reorganization to minimize impacts and manage staff capacities	Ongoing
							- Daily and weekly scrums	Ongoing

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Opportunity Calgary
Investment Fund

Audit Committee
2019 Annual Work Plan

Major Deliverable	Actions, Tasks, Activities	Lead	Support	Committee Meeting Date	Board Meeting Date	Action Target Due Date	Status
Risk Management	• Develop and assess the adequacy of the risk management policies and procedures	Sheila Will		Each Meeting			
Review and approve Quarterly interim internal Financial Statements (unaudited) including financial reports and policies	• Review Financial reports for Quarter including unaudited financial statements and forecasts • Discuss any anomalies or concerns and suggest changes to Financial reports if required • Review new or changed financial projects and proposals • Review financial obligations and undertakings • Recommend acceptance of the interim internal Financial reports to OCIF Board	Sheila Will Carol Kitchen		2019-03-07 2019-05-09 2019-09-05 2019-11-21	2019-03-08 2019-05-10 2019-09-13 2019-12-06		
Review Forecast	• Review budget vs. actual spending • Review quarterly forecast, including, budget comparison, cash flow projection and interest projection	Sheila Will		2019-03-07 2019-05-09 2019-09-05 2019-11-21	2019-03-08 2019-05-10 2019-09-13 2019-12-06		

Major Deliverable	Actions, Tasks, Activities	Lead	Support	Committee Meeting Date	Board Meeting Date	Action Target Due Date	Status
Review and Approve of Audited Financial Statements and the Audit Finding	• Review OCIF's Auditor's report to Audit Committee, and Management • Review OCIF Audited Financial statements for year ended December 31, 2018 • Review business and financial risks and system of internal control with auditors • Review financial reporting to City of Calgary • Disclosure of Related Parties/Transactions • Recommend acceptance of the Financial Statements and Audit by Board of Directors • In Camera with Auditors	Sheila Will Carol Kitchen		2019-03-07	2019-03-08	2019-Q1	
Insurance	• Review the adequacy of insurance • Review protection of physical assets & corporate data	Sheila Will		2019-03-07	2019-03-08	2019-Q1	
Internal Controls	• Review system of internal controls and financial system of reliability and integrity	Sheila Will		2019-03-07	2019-03-08	2019-Q1	Internal Controls
Annual Report	• Develop & review	Sheila Will		2019-05-09	2019-05-10	2019-Q2	
AGM	• Recommend all annual and other financial information for public distribution at AGM	Audit Committee		2019-05-09	2019-05-10	2019-Q2	
Review of Terms of Reference	• Review Audit Committee Terms of Reference	Audit Committee		2019-09-05	2019-09-13	2019-Q3	
Self-Assess Audit Committee Performance	• Self-Assess Audit Committee Performance	Audit Committee		2019-09-05	2019-09-13	2019-Q3	

Review Corporate Filing to Registry Office	• Review annual corporate filing	Audit Committee		2019-09-05	2019-09-13	2019-Q3	
Review of Business Plan & Budget	• Review proposed Annual Budget and associated Business Plans • Discuss anomalies or concerns and suggest changes to Budget or Business plans as required • Recommend approval of the Budget and associated Business Plan to the OCIF Board	Sheila Will		2019-09-20	2019-11-29	2019-Q3	
Review Business Continuity Plan	• Review business continuity plan and protection of corporate data	Sheila Will		2019-11-21	2019-12-06	2019 Q4	

Opportunity Calgary Investment Fund
Board of Directors 2019-2020

Biographies

Barry Munro – Chair

Barry leads EY's corporate finance business in Canada comprised of EY's Mergers & Acquisitions, Capital Markets, Infrastructure Transactions Advisory and Transactional Real Estate businesses. Barry served as the Canadian Oil & Gas leader from 2012 to 2017 and as the Managing Partner of the Calgary office from 2005 to 2012. He specializes in all facets of corporate finance, having advised on more than 200 transactions, including mandates on strategy, mergers, acquisitions, divestitures, valuations, and financings. Barry speaks frequently at energy industry events across Canada and globally and provides multiple insights to various media organizations on energy industry issues.

Barry has extensive specific transactions experience working in the energy industry and working with entrepreneurial organizations within Canada, and operating globally. This includes working with numerous global and state-owned organizations making investments into Canada's oil and gas business from China, Malaysia, Indonesia, Japan, India, USA, and Europe. He also has extensive experience on mandates for Board of Directors relating to assessing strategic alternatives ranging from assessing financing options to initiating, evaluating and advising on transactions intended to maximize value for the shareholders. Barry is a Fellow of the Chartered Professional Accountants of Alberta.

Steve Allan

Steve Allan is a Fellow of the Chartered Professional Accountants of Alberta. He practiced in the area of corporate restructuring, insolvency and forensic accounting and throughout his career was involved in some of the most-high profile and complex files in Alberta. He is a graduate of the University of Calgary (Bachelor of Commerce) and holds the ICD.D designation with the Institute of Corporate Directors.

Steve is the Board Chair of Calgary Economic Development, and McMahon Stadium Society, Board Vice-Chair of the Neyaskweyahk Trust of the Ermineskin Cree Nation and Vice Chair of the inaugural board of the Opportunity Calgary Investment Fund.

Steve currently serves as an advisor to the City of Calgary Event Centre Assessment Committee and the Foothills Athletic Park Redevelopment Advisory Committee. He serves as a director of three Limited Partnerships, two involving real estate development and one focused on distress business opportunities. Steve is one of the co-chairs of the Top 7 Over 70 Awards program and serves on the board of the related InterGen Canada, dedicated to creating opportunities for retired business people to mentor entrepreneurs.

Steve recently completed a five-year term as Governor of the University of Calgary and served as Chair of the Canadian Tourism Commission (now known as Destination Canada) for seven years. He also served as Co-Chair of the Calgary Poverty Reduction Initiative and chaired the Committee to Refresh Calgary's 2013-2018 Economic Strategy.

He is Past President of the Institute of Chartered Accountants of Alberta and continues to volunteer for the Institute (now CPA Alberta), as he has throughout his career.

Steve has been a committed member of the Rotary Club of Calgary since 1980. He served as Club President in 1994-95 and as Governor of Rotary District #5360 in 2009-10. He remains active with Rotary as a mentor in the club's Stay in School program and is one of the stewards of the Rotary Tom Jackson Stay in School program, focused on First Nations students.

Steve has served as Trustee of the Calgary Zoological Society, a Director of the Calgary Foundation, a Director of University Technologies Inc., and was a member of the Committee to End Homelessness in Calgary. He was also a director of Compton Petroleum Corp. and Chaired the Independent Review Committee of the Citadel Group of Funds.

Steve has been a volunteer of the Calgary Exhibition and Stampede since 1974 and served as Chairman of the Board and President of the Stampede from 2005-2007. He joined the Calgary Stampede Foundation Board in 2008, and ultimately chaired the board from 2016-2018.

Steve was recognized as Calgary's 'Citizen of the Year" for 2006. He also was recognized with the Lifetime Achievement Award by the Institute of Chartered Accountants and was named Distinguished Alumni of the Year by the Calgary Board of Education in 2009. He is humbled to be an Honorary Treaty Seven Chief, "Rides Many Horses". In 2017, Steve was inducted into the Alberta Order of Excellence.

A former marathoner, Steve still enjoys running, fitness, skiing, cycling and golf.

Ian Bruce

Ian Bruce is the former president and CEO of Peters & Co. Limited, an independent investment dealer. He has more than 30 years of experience in investment banking with specialization in corporate finance and mergers and acquisitions, predominantly in the oil and gas industry.

Ian brings a strong finance and investment banking background as well as board, executive and energy sector experience.

Ian is a Fellow of the Chartered Professional Accountants of Alberta, a recognized Specialist in Valuation under Canadian CPA rules, and is a Chartered Business Valuator. He is a past member of the Expert Panel on Securities Regulation for the Minister of Finance of Canada. Ian is also a past board member and Chair of the Investment Industry Association of Canada and the Alberta Children's Hospital Foundation.

Ian is the Chair of the Board of Cameco Corporation. He is a director of the private company Production Plus Energy Services Inc., an entity actively commercializing oilfield technology solutions. Ian is also a past board member of Cona Resources Inc., Logan International Inc. (Houston headquarters), Taylor Gas Liquids, and Hardy Oil and Gas (UK LSE listed India upstream company), amongst others.

Decision Process to Establish Opportunity Calgary Investment Fund

2017 March 06
Council directed Administration to explore the creation of an Economic Development Investment Fund (EDIF)

2017 June 19
- Council approved the creation of the Economic Development Investment Fund (EDIF)
- Council approved $10 million from the Fiscal Stability Reserve (FSR) to initiate the short-term start-up of the EDIF

2017 September 11
Council directed Administration to provide recommendations on the EDIF's Terms of Reference, long term recommended value and funding sources in 2017 December Priorities and Finance Committee (PFC) Meeting

2017 December 05
- PFC recommended Council to approve an additional allocation of $90 million sourced from existing reserves for the EDIF
- PFC directed Administration and Calgary Economic Development (CED) to report the EDIF's Terms of Reference

2017 December 18
Council approved an additional allocation of $90 million for EDIF making the total initial value of the fund $100 million

2018 March 6
PFC recommended Council to approve EDIF's governance structure and Terms of Reference

Fund name changed to Opportunity Calgary Investment Fund (OCIF)

2018 October 2
OCIF Program Update

Council Meeting

Priorities and Finance Committee Meeting

Attainable Homes Calgary Corporation Report to Audit Committee
2019 October 24

ISC: UNRESTRICTED
AC2019-0646

Attainable Homes Calgary Corporation Audit and Accountability Committee Annual Report

EXECUTIVE SUMMARY

This report is the annual audit report to the City of Calgary Audit Committee from the Attainable Homes Calgary Corporation (AHCC) Audit and Accountability Committee.

ATTAINABLE HOMES CALGARY CORPORATION RECOMMENDATION:

That Audit Committee receive the presentation by Attainable Homes Calgary Corporation for information.

PREVIOUS COUNCIL DIRECTION / POLICY

The Audit Committee Bylaw 48M2012 states that the Audit Committee is responsible for:

"overseeing its governance responsibility with audit committees of The City's major autonomous civic entities."

Section 4(1)(i)

BACKGROUND

A letter dated 2019 May 7 was provided to the Chief Executive Officer of Attainable Homes Calgary Corporation from the City of Calgary Audit Committee Chair requesting a report and presentation on its 2018 Annual Report, risk management processes and the Audit and Finance Committee terms of reference.

The letter outlined the items to be provided in their annual report to The City's Audit Committee, as follows:

1. Brief summary on governance structure, succession planning and recruitment process, recent financial highlights and key 2019 initiatives/strategy;
2. Report on the organization's key operating and strategic risks including trends and risk management plans and processes;
3. Analysis of the top three financial and/or operational risks that in our opinion would impact the City of Calgary and be of concern to the City's Audit Committee;
4. Report on internal controls including information technology and systems;
5. Most recent management letter including management responses as appropriate; and
6. Audit Committee 2019 Work Plan.

As requested in the letter, presenters of the report will be prepared to answer the following questions:

1. What is the frequency of review and are there any recent changes to the Audit Committee Charter or Terms of Reference?
2. What is the current composition of the Audit Committee and what is their relevant financial experience?
3. Have there been any significant changes to organizational leadership?
4. Are there any regulatory or market changes that may impact the current business approach and would they be relevant to share publicly with the Audit Committee?

Attainable Homes Calgary Corporation Audit and Accountability Committee Annual Report

5. Are there any results of any regulatory or internal/external business assessments that provide assurance on the effective management of risks as addressed in your presentation?
6. What initiatives are currently in progress to improve the efficiency of your processes? (e.g. sustainable operations, key performance indicators and relevance of the organization in the future)

INVESTIGATION: ALTERNATIVES AND ANALYSIS

The Audit and Accountability Committee of Attainable Homes Calgary Corporation (AHCC) has a number of roles and responsibilities (attached); its primary purpose includes the integrity of AHCC's financial statements and the adequacy and effectiveness of internal controls.

In support of the Committee's oversight role, this report includes in the attachments: AHCC Audit and Accountability Committee Terms of Reference; AHCC 2019 Board and Committee Work Plan; AHCC Financial Statements of December 31, 2018; RSM – AHCC 2018 Audit Findings Report; AHCC 2019 Risk Register.

Stakeholder Engagement, Research and Communication

AHCC's management created this report with input from the Audit and Accountability committee and the Board of Directors.

Strategic Alignment

AHCC is a non-profit, social enterprise, created and wholly owned by The City of Calgary, working to help moderate-income Calgarians achieve their dreams of quality home ownership. AHCC operates in alignment with the City's Affordable Housing Strategy (2016-2025).

Social, Environmental, Economic (External)

AHCC was created in 2009 with a mandate to provide 1,000 moderate-income Calgarians with the opportunity for home ownership.

Financial Capacity

Current and Future Operating Budget:

No implications for this report.

Current and Future Capital Budget:

No implications for this report.

Attainable Homes Calgary Corporation Report to Audit Committee 2019 October 24

ISC: UNRESTRICTED AC2019-0646

Attainable Homes Calgary Corporation Audit and Accountability Committee Annual Report

Risk Assessment

This report has been completed in accordance with The City of Calgary's Integrated Risk Management (IRM) Policy and Framework. There are no implications for this report.

REASON(S) FOR RECOMMENDATION(S):

The City of Calgary Audit Committee oversees its governance responsibility with audit committees of The City's major autonomous civic entities and an annual report is requested each year.

ATTACHMENT(S)

1. AHCC Annual Report and Risk Management Process
2. AHCC Audit and Accountability Committee Terms of Reference
3. AHCC 2019 Board and Committee Work Plan
4. AHCC Financial Statements as of December 31, 2018
5. RSM – AHCC 2018 Audit Findings Report
6. AHCC 2019 Risk Register

ANNUAL REPORT AND RISK MANAGEMENT PROCESS
For City of Calgary Audit Committee
October 24, 2019

1.0 Overview of Attainable Homes Calgary Corporation

At Attainable Homes Calgary Corporation (AHCC), we believe homeownership is a great thing; it provides housing stability, security and flexibility. Through our program we work to remove barriers to homeownership for moderate-income Calgarians who are looking to move along the housing continuum. We assist people looking to move from the rental market into homeownership, as well as those who have experienced a dramatic life change and are in need of assistance in order to remain a homeowner, such as recently singled Calgarians with children.

Since 2009, through our down-payment assistance program, AHCC has helped nearly 950 families purchase their own homes. Of those, 240 families have moved through the program, either by selling their home, or by paying out AHCC to remove us from title. The funds received from participants exiting the program supports future development.

AHCC is a public not-for-profit corporation incorporated in 2009 under the Business Corporations Act. Upon inception, AHCC received seed funding of one million dollars from the City of Calgary which was matched by the Government of Alberta. In addition, the City of Calgary contributed eight parcels of land at the City's book value, which AHCC pays for at the time of development. Of these original eight sites, AHCC has two remaining. Since the original infusion of funding, AHCC has been financially self-sustaining with any profits generated used to reinvest in the program.

As AHCC moves forward in the new economic environment, we are revisiting our original mandate to ensure we are meeting the needs of our clients. When established, AHCC's mandate was to move 500 people into homes through the down payment assistance program and another 500 into homes through perpetual affordable housing. The down payment assistance program is a success and we will continue with this program, however going into 2020 we are looking to address the second portion of our mandate and develop housing opportunities under a perpetual affordable model as well.

2.0 Governance Structure

AHCC is guided by a strong volunteer board with a diversity in backgrounds and skills. We have twelve potential board positions, ten of which are filled. Two of the Board members are council members appointed by the City of Calgary; the Honourable Mayor Nenshi and Councillor George Chahal.

The Board also has three committees:

- Audit and Accountability Committee (3 members)
- Corporate Performance & Governance Committee (3 members)
- Development Committee (4 members)

Committees and Board generally meet five times per year.

2.1 Succession Planning & Recruitment Process

Each board member can serve a maximum of two, three-year terms. A Board/CEO succession and Board term review is performed by the Corporate Performance and Governance Committee (CP&G) in the first quarter of every year. At that time, the current Board is measured against a skills matrix and gaps are identified. The Committee then goes to the Board with the recommendation to begin the recruitment process.

Applicants are solicited through a variety of routes including the Institute of Corporate Directors. Candidates are screened with the aid of a skills matrix and short listed for interviews. Interviews are performed by the CP&G Committee and a short list of candidates are taken to the Board for discussion based on those interviews.

After that discussion, a second interview can be performed, or the CP&G Committee can recommend the nomination of a candidate to join the Board. The Board of Directors must approve the candidate(s) to be brought forward to the Shareholder for election.

2.2 Terms of Reference

The Board and Committees review their Charter and Terms of Reference at least annually. There have been no significant changes this year.

2.3 Current Board Members

At the Shareholder Meeting in June 2019, Robin Lokhorst was appointed Board Chair.

Also, at the Shareholder meeting it was resolved that a new position of "Past Chair" be established. This objective of this position is to assist during the transition of a new Board Chair. The position is optional, and the term will not exceed one year from the date of the appointment of the new Board Chair. Sano Stante is currently acting as the Past Chair with his Director term extended until December 31, 2019.

Other new members include Barb Richardson, Fraser de Walle, and John Kozole.

In addition, Gerry Wagner has been appointed Chair of the Audit and Accountability Committee, Melanie Ross has been appointed Chair of the Development Committee, and John Kozole has been appointed Chair of the CP&G committee.

ROBIN LOKHORST, Board Chair

Robin is Managing Partner of McLeod Law and is the Chair of the firm's Executive Committee. With over 25 years of legal experience, Robin is focused exclusively in commercial and residential real estate.

Working with home builders, property developers and lenders, through to buyers and sellers, Robin has a highly transactional practice involving land development and construction projects, real estate transactions, corporate finance and lease agreements. He is also involved in condominium development work in Alberta and out of province.

Robin has been a Calgarian since 1977, joining McLeod Law over 25 years ago. Robin is on the Executive of the CBA Managing Partner Subsection and serves as legal counsel to the Canadian Luge Association since 2007.

<u>SANO STANTE, Past Board Chair, Member - Corporate Performance & Governance Committee</u>
Sano contributes over 31 years of direct experience in real estate sales/development and nine years prior experience in development and construction. He has expertise consulting to governments, businesses and institutions regarding residential and commercial real estate markets, as well as assisting builders in developing and marketing real estate in Calgary. A passion for sustainable housing and communities remains a common theme in Sano's endeavours throughout his career.

<u>MAYOR NAHEED NENSHI, Director</u>
Naheed Nenshi is Calgary's 36th Mayor. He is a passionate Calgarian, an accomplished business professional and a community leader. During his term in office, Mayor Nenshi's leadership has resulted in many positive changes in Calgary to build better communities and transform government to reinforce a culture of constant citizen-focused improvement at The City of Calgary. Prior to becoming Mayor, he ran a large non-profit, was a trusted advisor to corporate leaders in Canada and the US, and authored the book "Building Up: Making Canada's Cities Magnets for Talent and Engines of Development".

<u>COUNCILLOR GEORGE CHAHAL, Director, Member - Development Committee</u>
Councillor Chahal is currently serving as a Councillor at The City of Calgary. In his previous career, he was a small business owner and successful entrepreneur. His post-secondary education was from the University of Calgary where he graduated with a Bachelor of Arts in Economics and a Master of Environmental Design (Planning). Councillor Chahal will be able to lend his experience in planning and development and education in urban planning to the AHCC Board during his term.

<u>BARB RICHARDSON, Director, Member - Development Committee</u>
Barb is a seasoned business leader in Calgary and is currently the Senior Vice President of Real Estate for Sotheby's International Realty Canada. Barb hopes to leverage her expertise with Calgary's residential real estate market to assist AHCC in selecting and maximizing the value of their real estate investments.

<u>KEN TOEWS, Director, Member – Development Committee</u>
Ken has over 25 years of experience in land, multifamily, shopping centre, office and hotel development. He played a key role in the development of the Garrison Woods and Currie

Barrack's communities and helped shape the redevelopment of the Edmonton Griesbach Armed Forces Base.

Currently, Ken is Vice President of Development for Strategic Group with a focus on repurposing office buildings into apartments, new townhouse developments and low and high-rise residential mixed-use projects. He is an active member of both the University of Calgary's Dean's Circle in the Environmental Design School and the City of Calgary's Development Advisory Committee. Ken also teaches Mixed-Use Development at the U of C and has a passion for affordable, attainable housing.

<u>MELANIE ROSS, Director, Chair – Development Committee</u>
Leading the sustainable building team at Integral Group, Melanie supports a wide range of projects ranging from LEED, WELL, FitWel and other third- party certifications to energy management and existing building performance, while managing a growing portfolio in sustainability planning and policy development.

Melanie was appointed to the WELL Building Standard teaching faculty and has delivered several workshops and presentations on the topic of health and wellness in buildings. She was also appointed to the CaGBC WELL Taskforce, working to identify the challenges for Canadian market adoption of the standard. Lastly, she serves as Chair of the CaGBC Alberta Chapter Leadership Board.

<u>GERRY WAGNER, Director, Chair – Audit & Accountability Committee, Member - Corporate Performance & Governance Committee</u>
Gerry Wagner is a corporate director and advisor. He has over 35 years' experience as a Chartered Accountant and holds the Institute of Corporate Directors designation ICD.D. He serves on the board of directors of both public and private companies. He is also a consultant to companies in the financial services industry. Gerry has held founding director and executive positions at several financial institutions focused on residential mortgage lending including CFF Bank, MonCana Bank of Canada, ResMor Trust Company and Bridgewater Bank.

<u>FRASER de WALLE, Director, Member – Audit & Accountability Committee</u>
Fraser de Walle is the National Residential Construction Product Leader within Marsh Canada's Construction & Surety Practice. He is responsible for product development, market agreements, and the overall residential strategy. Fraser specializes in insurance and surety related products and services required by a residential developer, including but not limited to builders' risk, property, casualty, equipment, auto fleet, development bonds and risk management services.

JOHN KOZOLE, Director, Chair - Corporate Performance & Governance Committee

John has spent the last 12 years in the Home Warranty Industry. Since 2018 he has acted as the CEO of the Saskatchewan New Home Warranty Program and previously held the role of President & CEO of the Alberta New Home Warranty Program Group of Companies. He has been instrumental in restructuring and evolving both organizations respectively. This includes creating The New Home Warranty Insurance (Canada) Corporation "NHWIC", a Property and Casualty Insurance company licenced in 4 provinces. NHWIC is part of the Alberta New Home Warranty Program Group of Companies.

Prior to and concurrently with his involvement in the Home Warranty Industry, John also acts as the President & CEO of Spring Edge Developments Inc. & Spring Willow Development Corporation. He was instrumental in developing the residential communities of Elkton Ridge Estates, The Shire of Spring Valley, and Spring Willow Estates located on the West side of Calgary. John currently sits on the Board of The Canadian Home Warranty Council.

2.4 Current Organizational Leadership

AHCC would like to thank interim President and CEO Elizabeth Huculak for the excellent work that she did in leading AHCC in 2018. Elizabeth resigned from her interim position in December 2018 upon the appointment of Jaydan Tait as the new President & CEO.

Jaydan Tait, President & CEO

Jaydan joined AHCC in December 2018. Jaydan is a Registered Professional Planner and has a Masters Degree in Urban Planning from the University of Calgary. Jaydan worked for the City of Calgary early in his career before embarking on a career path in the Development Industry. Since 2003, he has worked for several development companies active in Calgary and across North America, working on land development and building construction projects and communities.

He has specialized in infill multi family and mixed-use product design, delivery and project organization, from land acquisition to project completion. Jaydan has volunteered for BILD Calgary as a member of the Board of Directors and has been active in his community as a volunteer member of his Community Association Board of Directors. Jaydan currently sits on the Calgary Subdivision and Development Appeal Board. Jaydan has deep experience in both development and planning and brings a holistic approach to project development through an understanding of the forces at play in the enterprise of city and community building.

Melody Nikleva, Director of Finance

Melody joined AHCC in April 2019. As a Chartered Professional Accountant, Melody brings over 13 years of finance experience to the organization. Melody obtained her designation with Deloitte & Touche and then spent several years in the accounting group of an international technology company, was followed by six years with a leading residential land developer and homebuilder. Melody has a strong background in treasury, forecasting and business planning.

Cathy Wolski, Director of Sales
Cathy joined AHCC in September 2019. Cathy brings over 25 years of administrative and management experience to the organization. Cathy began her career as an administrator within the oil and gas industry progressing to a management position. This was followed by nine years at a leading residential land developer and homebuilder as Executive Assistant and Area Sales Manager. Cathy has a strong background in land administration and sales management.

Jennifer McCarron, Director of Marketing & Communications
Jennifer joined AHCC in October 2016. She brings over 20 years' experience in communication, marketing and stakeholder relations. Jennifer began her career as a communications consultant to all orders of government. She spent five years writing news and producing television before entering the field of non-profit communications and marketing where she has remained for nearly 13 years. Jennifer completed her MA in Communication in 2010. She provides expertise in strategic communications and messaging to connect with program clients and partners.

3.0 Recent Financial Highlights
The 2018 fiscal year was challenging as multi-family real estate prices continued to be subjected to downward pressure. AHCC closed 46 units with a gross margin of 3.2%, compared to 108 closings in 2017 with a gross margin of 7.9%. In addition, slower sales resulted in higher inventory carrying costs, interest, marketing, and selling costs. Additional costs were also incurred for the preparation and planning of AHCC's townhouse development, Reach Martindale. Costs that could be cut without impacting clients were made, resulting in administration, communications, and legal fees coming in under budget.

Credit facility balances were higher than in previous years due to funding construction of the townhouse development and inventory purchased in 2018. As a result of slow sales and higher interest costs, AHCC was offside on one of its covenants at December 31, 2018.

3.1 2018 Audit Results
AHCC reports its financial results in accordance with Canadian public sector accounting standards for government not-for-profit organizations.

The 2018 Audit was completed by RSM Canada. As a result of the acquisition of Collins Barrow LLP by RSM Canada, there is a reference in the audit report to the fact that 2017 information was audited by a different firm. AHCC had the same Audit Partner (Terry Booth) under both firms, which provided continuity on the audit team.

While an unqualified audit opinion was granted, the audit report referenced a "Material Uncertainty Related to Going Concern". The basis of this going concern note was that AHCC was offside with one of its covenants at December 31, 2018, had poor financial results in 2018 with net operating deficiencies and negative cash flows from operations, and had entered into significant future purchase commitments.

AHCC would like to address each of these issues specifically. However, first we would like to highlight a key change to our business model in 2018.

In 2018, AHCC, for the first time in the organization's history, acted as a developer of a townhome project ("the project"). This project commenced construction in the fall of 2018. Significant costs were incurred in 2018 without any corresponding revenue as the homes were not completed in the same fiscal period. While this is normal course of business for a developer, this was new for AHCC. AHCC utilized the revolving line of credit to fund construction.

As AHCC continued construction on the project, in early 2019 the organization faced a serious cash flow challenge. As a result of this, AHCC obtained a short-term $2M debt facility secured by firm sales in the project. Funds were advanced on this facility in June 2019 and the amount was fully repaid upon the first closings in the project in August 2019.

i) Covenants

AHCC has covenants imposed by its third-party lender, as well as by its shareholder who provides a guarantee on AHCC's $10M revolving line of credit. The challenges referred to above resulted in AHCC being offside with one of its covenants.

In 2019 AHCC's new leadership team has spent considerable time working with its third-party lender and shareholder to address the covenant breach. It has been determined that the interest coverage ratio is no longer a practical covenant for AHCC given the change in the business operations. AHCC is working with its lender to have the interest coverage ratio removed as a covenant.

AHCC has obtained approval from its third-party lender to use the revolving line of credit to fund construction on the remainder of Phase 1 of the project. Management is currently working to prepare a financing proposal for Phase 2 of the project with the goal to obtain a construction financing facility in 2020.

ii) 2018 Financial Results

2018 was characterized by slower than planned sales activity which negatively impacted income and cash flow. Further to this, AHCC held significant inventory throughout the year, which resulted in high carrying costs and high debt levels.

In 2019, AHCC leadership has made significant progress in reducing inventory levels, although in order to do so the inventory has had to been sold at below targeted margins. AHCC believes that reducing the number of inventory units carried by the organization is key to maintaining financial strength and flexibility. AHCC has used the proceeds from the sale of this aged inventory to reduce debt levels and fund the townhouse project.

AHCC has also imposed an internal pre-sales test relating to construction of buildings in its townhouse project. AHCC will only commence construction once a reasonable number of units have firm sales; this is a key risk management approach which will ensure AHCC does not invest significant funds into construction before having firm revenue in place.

iii) Purchase Commitments

At December 31, 2018 AHCC had entered into purchase agreements with third party builders to purchase over $16M/68 units in housing inventory. AHCC has since reduced their obligations and managed the associated risk of these commitments in two ways:

- Reducing purchase obligations through negotiation
    - In several projects, the builder partners have been willing to reduce the number of units AHCC was committed to acquire.
- Exercising right to defer purchase clauses
    - In two of the significant purchase agreements, AHCC has the option to defer purchasing units if we do not have a firm sale to an end customer in place. AHCC had exercised this option in two of our projects.
    - This is a strong cost management approach for AHCC as we only pay carrying costs until we have an end purchaser and do not have to finance the units on our credit facilities.

As of Q2 2019 AHCC's commitment has been reduced to $14M/59 units. Of the unpurchased units, 10 have firm sales in place and will close in the second half of 2019/early 2020.

4.0 Internal Controls

During the 2018 Audit, RSM identified areas of significant deficiency in internal controls, primarily due to turnover in leadership during the year. AHCC is confident that with a new, stabilized leadership group in 2019, these issues are being addressed. Below are management's responses to the items noted in the Audit Findings report which is included in this submission.

Segregation of Duties

AHCC continues to identify opportunities to better segregate duties where possible while considering the size of the organization. The review of financial results by senior leadership, Audit and Accountability Committee and Board is key to reducing errors and preventing/detecting misappropriations.

Review of Sales Contracts

AHCC has implemented appropriate review and approval of purchase and sale agreements in 2019.

Reviews and Approvals
AHCC management has implemented appropriate review and approval of closing documents in 2019. In addition, AHCC has improved its process surrounding journal entries and requires appropriate approval to be documented for any non-standard transactions.

4.1 Internal Controls & Improvements in Efficiency
AHCC staff sign off annually that they are familiar with the internal control documents. The documents are frequently used as a basis for process development and have been an essential part of staff training given the number of new staff at the organization during the past year. In addition, as part of AHCC's Committee workplan and Terms of Reference, the Audit and Accountability Committee reviews internal controls annually.

The current leadership group is committed to a strong internal control environment and encourages staff to review and suggest improvements in internal control documentation.

Last year, AHCC had engaged our auditor to complete a Cyber security audit. This was not completed in 2018 due to the changes in leadership. AHCC will look to complete this audit as soon as possible as data security is a key risk for all organizations.

The new management team at AHCC is working to develop a revised dashboard of key indicators which will be provided to the Audit and Accountability committee as well as the Board. AHCC's management is placing renewed focus on its forecasting approach, putting greater emphasis on leading indicators and proactive risk management. In addition, AHCC is looking at opportunities to diversity its program through new programs such as loan only transactions where AHCC does not have to purchase inventory and perpetual affordable housing, ensuring the organization remains relevant into the future.

5.0 Key 2019 Initiatives & Strategy

i) Sell 120 Homes
    - At end of Q2 2019 we have achieved 60 sales. We are forecasting 110 sales for the year
ii) Deliver on townhome project
    - Continuing sales and construction in Phase 1
    - Develop sales and construction strategy for Phase 2
iii) Inventory management
    - AHCC has taken an aggressive sales strategy to reduce standing inventory which was causing a significant drain on resources
iv) Increase brand awareness and market penetration
    - Ongoing with more focus on social media and use of our historical database
v) Operational efficiency and effectiveness
    - Restructured sales strategy allows for direct sales to customers in a more traditional home sales approach

vi) Capital plan
   - AHCC is targeting construction financing for Phase 2 of its townhome project
   - Revolving line of credit will be used for operations
   - Other sources of funding (FCM, grants (where appropriate)) will be explored but continue to be self-sufficient

vii) New program to address barriers
   - Assess rent-to-own pilot program
   - Continuing to grow loan-only program
   - Continuing to explore perpetual affordable housing models

viii) Improved partnerships
   - Working with stakeholders (3rd party lender, City of Calgary finance/treasury) to provide open communication on financial results
   - Working with Calgary Housing Company, government, the non-profit housing community and others to expand program, raise awareness and identify business opportunities

6.0 Key Operating and Strategic Risks

AHCC utilizes the City of Calgary's risk register format to identify, monitor and evaluate key operating and strategic risks. The Risk Register is updated by Management on a regular basis, at least annually, and reviewed with the Audit and Accountability Committee and Board.

The top three risks for AHCC are as follows:

1) Market

   AHCC is exposed to market risk due to fluctuations in the Calgary area housing market which impacts current and future land and home prices. Reduced real estate values erode margins, slows sales pace, impacts the valuation of our equity loan receivables, and increases the risk of write down of inventory and land.

   To manage this risk, AHCC is minimizing the amount of inventory it carries, ensuring current product is priced appropriately for the current market, and looking at ways to manage pricing risk on future purchase commitments.

2) Inventory

   AHCC had a fragmented supply of housing inventory which was incurring significant carrying costs and tying up capital. In addition, the inventory experienced declines in value due to aging and overall market declines. At the end of 2018, AHCC had 50 units of inventory in 10 projects.

   AHCC is working to reduce their supply of inventory and manage future purchase commitments. As of June 30, 2019, AHCC has reduced their inventory to 27 units.
   The future inventory strategy will be to negotiate terms that enable AHCC to manage its capital effectively with the objective of carrying nominal inventory going forward.

3) Cash Flow – Short term & Long term
Operating cash flow is significantly affected by the timing of project and unit completions as well as sales pace. This has been seen with the current AHCC townhouse project where significant capital was invested in 2018 with subsequent home closings later in 2019 and into 2020. In a challenged housing market with declining prices, margin erosion can also negatively impact cash flow. Any of these challenges can result in AHCC experiencing insufficient cash to fund its operations.

AHCC is addressing the risk of operating cash flow through enhanced forecasting, inventory management, stakeholder engagement and re-alignment of debt structure to better meet the needs of the current business.

<u>6.1 Regulatory & Market Changes</u>

The top three regulatory and market changes and external influences that impact the AHCC's business are:

1) The state of the Calgary real estate market in 2019
The Calgary real estate market has yet to recover from the cratering of the price of oil experienced in fall 2014, and the market continues to be a challenge for all parties involved in Calgary real estate. It requires a strong sales team, appropriate pricing and a properly designed well built product. A key for AHCC's future success is partnering with strong builder groups who have financial stability and build a well constructed product at a good price point.

2) First Time Home Buyer Incentive (FTHBI)
On March 20, 2019, the federal government announced a new housing finance program as part of Budget 2019. The FTHBI is also referred to as a "shared equity mortgage." CMHC is looking to operate in the same field as AHCC, therefore, there is a risk that our program becomes confused with the FTHBI and other programs initiated by CMHC.

It is important to understand that for this federal program buyers must have at least five percent down payment from traditional sources; this is not a zero-down program. Also, the interest free equity loan does have to be repaid, in full, at some point. If property values increase the homeowner will pay 5 - 10% of the appraised value or sale price. If the value decreases, the homeowner repays the full amount of the loan, similar to the AHCC program.

While CMHC is proposing a homeownership program for moderate-income Canadians who have at least five percent saved for a down payment we are confident the program is distinctly different from what AHCC provides to Calgarians as our program participants do not have the full five percent down payment.

AHCC continues to have conversations with CMHC to understand how their program will operate and how to best communicate the differences between the CMHC program and the AHCC program to potential AHCC program participants as well as AHCC stakeholders.

3) The mortgage stress test
The mortgage stress test imposed by the Office of the Superintendent of Financial Institutions in Canada continues to hamper the ability of Canadians to purchase a home. The mortgage rules do not take into consideration the kind of program like ours that already provides safe, secure and structured entry into homeownership. Of concern are modest-income families and single-parent families for whom appropriate rental options are less plentiful and security-of-place is paramount.

AHCC continues to be impacted by the stress test imposed by the Federal Government as good candidates for our program are experiencing difficulties getting approved for a mortgage.

7.0 Effective Risk Management Assessments

There are multiple results of internal/external business assessments that provide assurance on the effective management of risks as addressed in this presentation, including:

- AHCC's management regularly assesses risk using the risk register which effectively categorizes and ranks both internal and external risks.
- AHCC's risk assessment is regularly reviewed by AHCC's Audit and Accountability Committee and Board of Directors.
- Annually, AHCC presents their Business Plan to the Shareholder (City of Calgary) for Approval and presents the risk register to Shareholder via the City Audit Committee.

Audit & Accountability Committee

Terms of Reference (TOR)

1. Purpose

The Audit & Accountability Committee ("Committee") shall be a Committee of the Attainable Homes Calgary Corporation (AHCC) Board, responsible for enterprise risk management and the stewardship of AHCC's finances and assets.
Management, together with the Board and the Committee, is responsible for setting the proper tone, creating and maintaining a culture of honesty and high ethical standards and establishing appropriate measurement and controls to ensure sound financial and operational decision-making; accurate financial reporting; and, to prevent and detect fraud.

The Committee has oversight responsibility and makes recommendations to the Board on:

a. The integrity of AHCC's financial statements;
b. Annual budgets and resourcing of the annual business plan;
c. Risk management with respect to mandate, programs and operations;
d. Capital Plans and Financing arrangements; and
e. The adequacy and effectiveness of internal controls.

Make recommendations to the Board and Shareholder regarding the appointment of the auditor and evaluate the results of the external audits and related matters.

2. Committee Composition

a. The Committee shall be comprised of one Committee Chair, and a minimum oftwo (2) other members elected by the Board. Committee members will serve for two consecutive years.
b. It is a requirement that Committee Members are Board Members. The Committee Chair is appointed by the Board Chair and the Committee Members are appointed by the Committee Chair, in consultation with the Board Chair.
c. The Committee Chair will attend Development Committee meetings as ex-officio, when possible, to provide operational and financial oversite.
d. The Committee members shall be financially literate with a working familiarity with basic finance and accounting practice; risk measurement and mitigation; and, at least one member shall have accounting or related financial management expertise.
e. The Chair of the AHCC Board may attend any meeting at their discretion as ex- officio. The President and CEO is a non-voting ex-officio member of the Committee.
f. The Director, Finance is a non-voting ex-officio member of the Committee.
g. No member of the Committee shall have any personal interest,

directly or indirectly, in any matter put forward for its consideration.

3. Committee Secretary

The AHCC Secretary, or designate, will attend and be the secretary of all Committee meetings.

4. Responsibilities

In fulfilling its responsibilities, the Committee shall report to the Board after each meeting:

A. FINANCIAL AND OPERATIONAL REPORTING PROCESS

a. Review the Corporation's quarterly and annual financial statements, accounting practices and financial control policies. This review will include a discussion with management and if required the external auditors of significant issues regarding the financial results, accounting principles, practices and management estimates and judgments;
b. Recommend for approval by the Board quarterly and annual financial statements and reports of AHCC;
c. Review and recommend for approval by the Board, AHCC’s financial and accounting policies;
d. Review and recommend for approval by the Board, the annual budget of AHCC and any revisions thereto, including:
   - Reviewing the financial impact of new or changed projects and proposals subsequent to the Board’s approval of annual budgets;
   - Reviewing and recommending to the Board in respect of those financial obligations and undertakings above;
e. Review and recommend for approval by the Board, all financial information prepared for public distribution;
f. Review compliance with all applicable finance and audit legal and regulatory requirements;
g. Review and make recommendation to the Board regards AHCC’s risk management procedures and controls, including:
   - Regular review of the operating context including economic, market, and regulatory influences
   - The maintenance of appropriate insurance;
   - Discussing significant business and operational risks with external

professionals and auditors, including their assessment of management's related mitigation plans, processes and programs; Paying particular attention to significant stakeholders, large, complex and/or unusual transactions, including joint ventures, partnerships and other contractual arrangements, and the hedging strategies, associated accounting treatment and financial statement disclosures;

- Review all material related-party transactions; and
- Recommending policy and business model changes as conditions change.

h. Review AHCC's performance measures and key performance indicators for alignment to the AHCC mandate and the desired outcomes of the AHOP or other programs as they are developed.

i. Oversee the implementation of Reporting Procedures in accordance with this document.

B. EXTERNAL AUDITOR

a. Review annual and other reports of the External Auditor, including:
   i. The results of their review/audit of the Corporation's financial statements
   ii. Any significant risk areas or issues reviewed by the External Auditor;
   iii. Any corrected or uncorrected misstatements and disclosure deficiencies;
   iv. Any problems or difficulties and management's response; and
   v. Confirm the External Auditor independence of the Corporation

b. Inquire as to the External Auditor's assessment of the Corporation's internal control over financial reporting and review management's response to any internal control recommendations of the External Auditors.

c. To make recommendations to the Board and Shareholder regarding the appointment of an Auditor, review and approve the Audit Plan, process, results and performance of the independent external auditors.

d. Evaluate the results of external audits and related matters, review and approve auditor fees, including advance approval of any non-audit services performed.

e. Meet at minimum twice a year with the external auditors; once to review the audit plan and once to receive it and report to the Board on such meetings.

f. Meet separately with the external auditors to discuss any matters thatthe Committee or auditors believe should be discussed in camera, includingfraud, illegal acts, deficiencies in internal control and similar issues.

g. Review the audit plan of the external auditor of AHCC and inquire as tothe extent the planned audit scope.
h. Review all material written communications between the external auditors and management, including the annual management representation letter and summary of unrecorded differences.

C. INTERNAL CONTROLS

a. Oversee financial and operational risk management, monitor the integrity of the financial and business reporting process and the system of internal controls that management and the Board have established.
b. Review financial results and have the right to inspect all of the accounts and records of AHCC and to discuss those accounts and records with AHCC's management, the Board and the Auditors.
c. Communicate the Committee's expectations regarding the externalauditor's performance and evaluate the auditor's past performance.
d. Review as required the adequacy and effectiveness of internal controls over the business, accounting and financial reporting systems within the Corporation including management's response to the internal control recommendations of the external auditor.
e. Review any changes in operating and accounting policies and financial impact thereof and review any major areas of management judgement and estimates that have a significant effect upon the financial and mandate results.
f. Review annually with management material covenants in credit and loan agreements.
g. Review and respond to any complaints received by the Corporation regarding accounting, internal controls, or auditing matters including all anonymous submissions by employees; and
h. Monitor the 'reporting misconduct' process and report all complaintsand their disposition to the Board at least annually.

D. INTERNAL AUDIT AND ENTERPRISE RISK ASSESSMENT

a. Review and assess the need for internal audits on an annual basis;
b. Review and assess the probability and severity of enterprise risk measures in the Risk Register quarterly

c. Consider contracting outside assistance to audit internal controls and market and economic assessment;
d. Perform in depth sensitivity analysis of emerging risks as deemed appropriate; and,
e. Perform adhoc internal audits as deemed appropriate.

5. Authority and Accountability

The Committee is responsible to the Board and makes recommendations to the Board, as required:

a. The Committee shall report regularly to the Board on its activities.
b. The Committee, in consultation with the Board Chair, shall have the authority to direct and supervise the investigation of any matter brought to its attention within the scope of its duties.
c. The Committee shall have the authority to conduct any work appropriate to fulfilling its responsibilities and it has direct access to anyone in the organization and to the external auditors who will report directly to the Committee.
d. The Chair of the Committee shall have the authority to approve the engagement of, and compensation to be paid to, independent counsel and other advisors in order to carry out their duties.
e. The Committee shall review its terms of reference as needed and at least annually and recommend changes as necessary.
f. The Committee shall review its effectiveness annually.

6. Meetings

a. The Committee shall meet a minimum of quarterly. Any two members of the Committee may request a special meeting at any time;
b. The Committee may require the attendance of the AHCC President & CEO, other AHCC staff or accountant engaged by AHCC (non-voting) at meetings as appropriate;
c. A simple majority of Committee members constitutes quorum for the Committee;
d. Each member of the Committee has one vote;

7. Resources

The Committee shall be provided with the resources necessary to carry out is responsibilities.

Approval, Review, Revisions

Approval Date	Approved By	Originated By	Review / Revision Details
October 14, 2010	Board of Directors	Sharon McCormick	Terms of Reference
September 13, 2012	Board of Directors	Board of Directors	New Position/Title– President & CEO
May 9, 2013	Board of Directors	Marion Shill	Change the frequency of external auditor meetings from once to at least twice/year.
May 9, 2013	Board of Directors	Marion Shill	Change the frequency of the committee meetings from annually to at least quarterly
July 12,2013	David Watson	David Watson	Formatting Changes
June 26, 2015	Board of Directors	Wendy Hennel	Increase number of committee members; add clauses regarding independence and internal audits
June 20, 2017	Board of Directors	Audit and Accountability Committee	Enhanced enterprise risk measurement and mitigation activities
December 13, 2018	Board of Directors	President and CEO	Harmonization with other Committee TORs and the Board Charter; update A&A Chair as ex-officio of the Development Committee;update of Committee Chair and Committee members appointments as updated in the Board Charter.

2019 Board and Committee Work Plan (Approved - 2018.10.24)

Item	Q1	Q2	Q3	Q4
Annual Business Plan	S		C	C, A, B
Budget – Planning & Approval	S			A, B
Annual Report (previous year)	B, S			
Year End Financial Statements	A, B, S			
Quarterly Financial Statements	A, B	A, B	A, B	A, B
Auditor's Report (previous year)	A, B, S			
Financial Auditor - Recommend/Approve	A, B, S			
KPIs - Review & Revise Measurement Categories	A	A	A	A, B
Risk Register - Review (& Recommend)	A	A, B	A,(City)	A
Risk Management (procedures & controls) - Review		A		
Outgoing bank transactions over $100,000 (signed)	A	A	A	A
Strategic Plan - Review		C		
Board Charter - Review			C	
Board/Committees Performance - Review (alternating years)				C, B
Board/CEO Succession & Board Term Review	C			
AHC Policies - Review (amend) - update to strategic plan	C,*A,*D,B			
CP&G TOR - Review (amend as required)			C	
Audit & Accountability TOR - Review (amend as required)			A	
Development Committee TOR – Review (amend as required)			D	
Internal Controls Environment - Review		A		
Disaster Recovery Plan - Review		A		
Records Management Policy & Procedures - Review		A		
CEO Performance Review	B			C
Annual Compensation - Recommend				C, B
Annual Performance & Incentive	C, B			
Unit Inventory Acquisition and Management	D	D	D	D
Project Development & Pipeline	D	D	D	D

C – CP&G Committee • City – City Audit Committee • A – Audit & Accountability Committee • D – Development Committee • B – Board • S – Shareholder (could be Q1 or Q2 in 2019) • (* Policies as assigned to the Committee)

ATTAINABLE HOMES
CALGARY CORPORATION

Financial Statements

For the year ended December 31, 2018

RSM Alberta LLP

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Independent Auditor's Report

To the Shareholder of Attainable Homes Calgary Corporation

Opinion

We have audited the financial statements of Attainable Homes Calgary Corporation (the "Corporation"), which comprise the statement of financial position as at December 31, 2018, and the statements of operations and accumulated operating surplus, changes in net financial assets and cash flows for the year then ended, and notes to the financial statements including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2018, and its financial statements and its cash flows for the year ended December 31, 2018 in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial statements, which indicates the Corporation incurred a net loss for the year ended December 31, 2018 of $2,845,820 and had negative cash flows from operations of $5,827,051. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Corporation's ability to continue as a going concern. Our opinion is not modified in respect to this matter.

Other Matter

The financial statements of the Corporation for the year ended December 31, 2017 were audited by another auditor who expressed an unqualified opinion on those statements on April 19, 2018.

Responsibilities of Management and Those Charged with Governance 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.

In preparing the financial statements, management is responsible for assessing the Corporation’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Corporation’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

RSM Alberta LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

Calgary, Canada
April 30, 2019

Attainable Homes Calgary Corporation
Statement of Financial Position

As at December 31,		2018		2017
ASSETS				
Cash (Note 14)	$	**1,195,144**	$	550,840
Cash held in trust		**65,852**		-
Accounts receivable		**42,111**		272,917
Prepaid expenses		**108,320**		12,774
Inventory (Note 3)		**12,052,125**		10,933,008
Deposits on units (Notes 4 and 15)		**856,081**		485,708
Other deposits (Note 5 and 7)		**45,237**		1,548,110
Equity receivables (Note 6)		**4,861,061**		5,214,212
Land and site development costs (Note 7)		**4,643,809**		4,952,065
Projects under development and construction (Note 8)		**5,664,111**		-
Tangible capital assets (Note 12)		**36,472**		31,062
Total assets		**29,570,323**		24,000,696
LIABILITIES				
Accounts payable and accrued liabilities	$	**2,062,483**	$	273,147
Credit facilities (Note 9)		**10,422,353**		3,850,974
Mortgages payable (Note 10)		**3,278,804**		3,278,804
Customer deposits		**59,786**		13,730
Deferred rent expense		**7,461**		-
Unearned revenue		**1,215**		-
Total liabilities		**15,832,102**		7,416,655
NET ASSETS				
Share capital (Note 13)		**1**		1
Operating reserve (Note 14)		**1,000,000**		1,000,000
Unrestricted surplus		**12,738,220**		15,584,040
Total net assets		**13,738,221**		16,584,041
Total liabilities and net assets	$	**29,570,323**	$	24,000,696

Obligations (Note 15)
Subsequent events (Note 9(b) and 15)

See accompanying notes to the financial statements.

On behalf of the Board

(signed) *"Robin Lokhorst"*, Director (signed) *"Luciano Sante"*, Director

Attainable Homes Calgary Corporation
Statement of Operations

Year ended December 31	2018	2017
REVENUE		
Sales	$ 12,877,996	$ 29,922,589
Other revenues	157,464	114,215
	13,035,460	30,036,804
EXPENSES		
Cost of goods sold	12,461,203	27,571,434
Salaries and benefits (Note 11)	951,145	916,677
Professional fees	422,645	257,879
Marketing and sales	286,139	242,455
Occupancy expenses	77,743	53,216
General and administrative	106,778	103,953
Inventory carrying costs	390,872	286,164
Realized (gain) loss on equity receivables (Note 6)	(9,295)	215,341
Bad debt expense	17,900	61
Recovery of deposits on units	-	(121,050)
Interest expense	268,247	140,047
	14,973,377	29,666,177
SURPLUS (DEFICIENCY) BEFORE THE FOLLOWING:	(1,937,917)	370,627
Amortization of tangible capital assets (Note 12)	13,680	11,089
Impairment of inventory (Note 3)	579,300	416,100
Impairment reversal of land and site development costs (Note 7)	-	(94,150)
Unrealized loss on equity receivables (Note 6)	314,923	1,843,921
	907,903	2,176,960
OPERATING DEFICIENCY	$ (2,845,820)	$ (1,806,333)

See accompanying notes to the financial statements.

Attainable Homes Calgary Corporation
Statement of Changes in Net Assets

Year ended December 31	2018	2017
NET ASSETS, BEGINNING OF YEAR	**$ 16,584,041**	$ 18,390,374
OPERATING DEFICIENCY	**(2,845,820)**	(1,806,333)
NET ASSETS, ENDING OF YEAR	**$ 13,738,221**	$ 16,584,041

See accompanying notes to the financial statements.

Attainable Homes Calgary Corporation
Statement of Cash Flows

Year ended December 31	2018	2017
CASH PROVIDED BY (USED IN):		
OPERATING		
Operating (deficiency)	**$ (2,845,820)**	$ (1,806,333)
Non-cash and non-operating items:		
Amortization of tangible capital assets	**13,680**	11,089
Vendor take-back mortgages	**-**	(29,986)
Amortization of deferred financing costs	**15,082**	12,020
Unrealized loss on equity receivables	**314,923**	1,843,921
Impairment of inventory	**579,300**	416,100
Impairment reversal of land and site development costs	**-**	(94,150)
	(1,922,835)	352,661
Non-cash working capital and other operating balances:		
Accounts receivable	**230,806**	(76,690)
Prepaid expenses	**(95,546)**	17,101
Deposits on units and other deposits	**1,132,500**	(998,087)
Inventory	**(1,698,417)**	(1,040,074)
Equity receivables	**38,228**	(638,887)
Land and site development costs	**(1,165,944)**	(75,240)
Projects under development and construction	**(4,189,911)**	-
Vendor take-back mortgages	**-**	5,014,039
Accounts payable and accrued liabilities	**1,789,336**	120,615
Customer deposits	**46,056**	(46,767)
Deferred rent expense	**7,461**	-
Unearned revenue	**1,215**	-
	(3,904,216)	2,276,010
Cash provided by (used in) operating activities	**(5,827,051)**	2,628,671
CAPITAL TRANSACTIONS		
Purchases of tangible capital assets	**(19,090)**	(14,883)
Cash used in capital activities	**(19,090)**	(14,883)
FINANCING TRANSACTIONS		
Proceeds from credit facilities	**17,990,186**	14,693,251
Repayment of credit facilities	**(11,433,889)**	(16,596,710)
Mortgage repayment	**-**	(684,609)
Financing costs paid	**-**	(32,587)
Cash (used in) provided by financing activities	**6,556,297**	(2,620,655)
Increase (decrease) in cash, during the year	**710,156**	(6,867)
Cash, beginning of year	**550,840**	557,707
Cash, end of year	**$ 1,260,996**	$ 550,840

See accompanying notes to the financial statements.

Attainable Homes Calgary Corporation
Notes to the Financial Statements
Year ended December 31, 2018

1. Nature of the business

Attainable Homes Calgary Corporation (the "Corporation"), a private not-for-profit corporation, is wholly-owned by The City of Calgary (the "City") and was incorporated November 27, 2009 under the Business Corporations Act of the Province of Alberta. The Corporation provides working, moderate-income Calgarians, an opportunity for home ownership through private and public sector development of entry-level housing. The Corporation is exempt from tax under the *Canada Income Tax Act.*

These financial statements have been prepared on a going concern basis which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Should the Corporation be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and meet its liabilities as they become due.

The Corporation incurred a loss of $2,845,820 for the year ended December 31, 2018 (2017 - $1,806,333) and had negative cash flows from operations of $5,827,051 (2017 – positive cash flow from operations of $2,628,671), which included $4,189,911 (2017 – $nil) of costs related to the development and construction of a townhouse project. Costs related to this project have been financed through the existing revolving credit facility. Revenue related to this project is expected to be recognized in 2019 when the units close. Adjusted for this, cash flows from operations in 2018 was negative $1,637,140. In addition, the Corporation is currently offside on its covenants on its credit facilities, which as a result, are now due on demand from its lender and has approximately $16.3 million of obligations (Note 15) that are due in 2019. Subsequent to December 31, 2018, this commitment was reduced by $904,374 (Note 15). The lender is aware of the breach and the Corporation is working with them on a plan to address the breach. These conditions indicate the existence of material uncertainty which may cast significant doubt about the Corporation's ability to continue as a going concern.

The Corporation's ability to continue as a going concern is dependent upon its ability to sell the existing inventory and complete and sell the townhouse units under construction, attain profitable operations and generate funds therefrom, and to continue to obtain funding from its lender or other parties to meet current and future obligations.

2. Significant accounting policies

a. Basis of presentation

The financial statements are prepared in accordance with Canadian public sector accounting standards for government not-for-profit organizations, including the 4200 series of standards, as issued by the Public Sector Accounting Board ("PSAS for Government NPOs").

b. Revenue recognition

Revenue from the sale of housing units and land is recognized upon the transfer of title and when collectability is reasonably assured. Amounts received from customers that have not met the revenue recognition criteria are included in customer deposits.

Attainable Homes Calgary Corporation
Notes to the Financial Statements
Year ended December 31, 2018

2. Significant accounting policies (continued)

Other revenues include application fees, customer deposits retained from rescinded purchase transactions, rental income earned from the rental of completed inventory units and administration fees related to the facilitation of sales of housing units not held by the Corporation but sold to individuals that qualify for the Corporation's housing program.

Revenue from application fees is recognized upon the customer paying a non-refundable fee in order to hold the unit selected. Customer deposits retained from rescinded purchase transactions are recognized when a client cancels the transaction after the 10-day rescission period has passed and the waivers have been signed by the client and the Corporation. Rental income is recognized monthly, as the rental occurs. Administration fees are recognized when a firm deal on a housing unit is signed and possession date has been set, the amount can be reasonably estimated and collection is reasonably assured.

Interest revenue is recognized on an accrual basis, using the effective interest method.

c. Inventory

The cost of inventory consists of purchase costs of housing units and other costs incurred in preparing the units to be ready for sale. Inventories are measured at the lower of cost and net realizable value, with cost being determined using specific identification. Net realizable value is the estimated selling price in the ordinary course of business less any estimated costs needed to sell the units.

d. Equity receivables

Equity receivables are recognized by the Corporation on the date the Corporation assumes the risks associated with, and acquires the right to receive repayment of principal plus any shared appreciation, in accordance with the terms of the equity loan agreement (Note 8) and when the amount of the loan can be reliability measured. This normally coincides with the disbursement of funds and sale of a housing unit.

Equity receivables are initially reported at cost. Valuation allowances are used to reflect the equity receivable at the lower of cost and net recoverable value. Net recoverable value is the amount determined by management to be the amount of loan receivable that will ultimately be collected. Valuation allowances are determined using the best estimates available in light of past events, current conditions and taking into account all circumstances known at each financial reporting date. Valuation allowances recognized on inception of the equity receivable are offset against revenue recognized related to the home sale. Subsequent to this, valuation allowances are recognized as unrealized losses on the statement of operations. If it is determined that the net recoverable value has subsequently increased, equity receivables can be written back up to their original cost and this reversal of a previously recorded allowance is offset against unrealized losses on the statement of operations in the period that the reversal takes place. Gains or losses are realized in the statement of operations in the period in which the equity receivables are settled.

Attainable Homes Calgary Corporation
Notes to the Financial Statements
Year ended December 31, 2018

2. Significant accounting policies (continued)

e. Land and site development costs

Land and site development costs are carried at the lower of cost and net realizable value, with cost being determined using specific identification. Net realizable value is the estimated selling price in the ordinary course of business less any costs necessary to sell the land.

Land will be used for the construction and development of housing units and is recorded at the fair market value of the land at time of acquisition.

Site development costs consist of the capitalized expenditures related to the construction and development of land. Any incidental revenues related to the land inventory have been netted against the site development costs.

f. Projects under development and construction

Projects under development and construction are carried at the lower of cost and net realizable value, with cost being determined using specific identification. Net realizable value is the estimated selling price in the ordinary course of business less any costs necessary to sell the project under development and construction.

Projects under development and construction consist of land on which a multi-family dwelling is being constructed and the cumulative construction costs to date of the multi-family dwelling.

g. Tangible capital assets

Tangible capital assets are recorded at historical cost which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets is amortized on a straight-line basis over the estimated useful life as follows:

	Years
Computers	5
Office equipment and furniture	5
Leasehold improvements	3

One-half of the annual amortization is charged in the year of acquisition and one-half in the year of disposal.

Attainable Homes Calgary Corporation

Notes to the Financial Statements

Year ended December 31, 2018

2. Significant accounting policies (continued)

h. Impairment of assets

When conditions indicate that a tangible capital asset, inventory, site development costs or land no longer contributes to the Corporation's ability to provide goods and services, or that the value of future economic benefits associated with the asset are less than its net book value, the cost of the asset, is reduced to reflect the decline in the asset's net realizable value. When the opposite occurs on an asset that has previously been impaired, an impairment reversal is recorded, up to the assets original cost before any impairments. Any write-down, or reversal of write down, is included in the statement of operations.

i. Financial instruments and fair values

All the Corporation's financial instruments have been measured at cost or amortized cost.

j. Use of estimates

The financial statements are prepared in accordance with Canadian public sector accounting standards for government not-for-profit organizations which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the year. Significant estimates include valuation of inventory, land and site development costs and allowance for doubtful equity receivables. Actual results could differ from those estimates.

3. Inventory

Inventory consists entirely of housing units held for re-sale. During the year ended December 31, 2018 inventory was written down by $579,300 (2017 - $416,100) to its net realizable value, which has been included in impairment of inventory on the statement of operations.

The movement in inventory during the year consists of the following:

	2018		2017	
	Units	**$**	Units	$
Balance, beginning of year	**47**	**$ 10,933,008**	48	$ 10,309,034
Purchases	**49**	**13,998,388**	109	28,548,310
Sales	**(46)**	**(12,299,971)**	(108)	(27,508,236)
Impairment	**-**	**(579,300)**	-	(416,100)
Balance, end of year	**50**	**$ 12,052,125**	47	$ 10,933,008

Attainable Homes Calgary Corporation
Notes to the Financial Statements
Year ended December 31, 2018

4. Deposits on units

As at December 31, 2018, the Corporation has paid $856,081 (2017 - $485,708) in non-refundable deposits for 68 (2017 – 35) housing units.

5. Other deposits

As at December 31, 2018, the Corporation has paid $45,237 (2017- $1,548,110) in other deposits related to a security deposit on the Corporation's rental space leased in 2018 as well as refundable deposits paid to builders on units.

The balance at December 31, 2017 related to a deposit related to the purchase of a parcel of land. That purchase was completed in 2018 with the value of the deposit transferred to projects under development and construction.

6. Equity receivables

Equity receivables comprise amounts that customers owe the Corporation for the purchase of housing units through participation in the Corporation's housing programs. The amount recorded is approximately 5% of the original sales value of each unit and is stipulated in each equity loan contract signed by the Corporation and the customer.

For agreements entered into prior to April 1, 2018, at such time that the customer sells or refinances their unit, they are obligated to pay the greater of the predetermined minimum repayment amount or a shared participation amount. The shared participation amount is calculated as a percentage of the appraised current market value less the customer's deposit and secured first mortgage.

For agreements entered into after April 1, 2018, at such time that the customer sells or refinances their unit, they are obligated to pay the predetermined minimum repayment amount plus a shared participation amount. The shared participation amount is calculated as a percentage of the appraised current market value less the customer's deposit and secured first mortgage and equity loan receivable.

The length of ownership of the unit by the customer is calculated as the period between the closing date and the disposition date. The number of years the customer owns the property dictates the percentage used in the shared participation calculation; as follows:

For agreements entered into prior to April 1, 2018:

Length of ownership of the unit by the customer	**% of the shared participation due to the Corporation**
From the closing date to the first anniversary of the closing date	100%
From the first anniversary to the second anniversary of the closing date	75%
From the second anniversary to the third anniversary of the closing date	50%
From the third anniversary until the disposition of the unit	25%

Attainable Homes Calgary Corporation

Notes to the Financial Statements

Year ended December 31, 2018

6. Equity receivables (continued)

For agreements entered into subsequent to April 1, 2018:

Length of ownership of the unit by the customer	% of the shared participation due to the Corporation
From the closing date to the first anniversary of the closing date	100%
From the first anniversary to the third anniversary of the closing date	75%
From the third anniversary to the fifth anniversary of the closing date	50%
From the fifth anniversary until the disposition of the unit	25%

Equity receivables consist of the following:

	2018	2017
Face value of equity receivable, beginning of year	**$ 8,838,650**	$ 8,278,710
Add: Face value of sales in the year	**565,093**	1,311,779
Less: Face value of loans settled in the year	**(610,626)**	(751,839)
Face value of equity receivable, end of year	**8,793,117**	8,838,650
Net recoverable allowance, beginning of year	**3,624,438**	1,859,464
Add: Difference between face value and minimum repayment on sales	**220,843**	-
Less: Net recoverable allowance on loans settled in the year	**(228,427)**	(78,736)
Add: Write down to net recoverable value on prior year loans	**250,826**	1,820,446
Add: Increase in foreclosure allowance	**64,376**	23,264
Net recoverable allowance, end of year	**3,932,056**	3,624,438
Equity receivable, net, end of year	**$ 4,861,061**	$ 5,214,212

During the year ended December 31, 2018, $610,626 (2017 - $751,839) of gross equity receivables, net of previously recorded allowances of $228,427 (2017 - $78,736) were settled for cash proceeds of $391,494 (2017 - $457,762) resulting in a realized gain of $9,295 (2017 – realized loss of $215,341) which has been included in the statement of operations.

The Corporation holds encumbrances and security over the property to which the equity receivable relates.

7. Land and site development costs

During the year ended December 31, 2017, the Corporation reversed an impairment of $94,150 that was recorded in the year ended December 31, 2015, on two parcels of land, based on an appraisal that was completed during the year ended December 31, 2017. There were no write-downs or reversal of write downs of land during the year ended December 31, 2018.

Attainable Homes Calgary Corporation
Notes to the Financial Statements
Year ended December 31, 2018

8. Projects under development and construction

During the year ended December 31, 2018, the Corporation purchased a parcel of land from The City of Calgary for $1,474,200. Title transferred on January 10, 2018 at which time the deposits previously paid (Note 5) were recognized.

Projects under development and construction consists of the following:

	December 31, 2018	December 31, 2017
Land	**$ 1,474,200**	$ -
Multi-family dwelling under construction	**4,189,911**	-
	$ 5,664,111	$ -

9. Credit facilities

a) On February 24, 2015, the Corporation entered into an agreement for a $10 million revolving operating credit facility with a financial institution that was due February 28, 2018 with an option to extend for an additional 364 days, at the discretion of the lender. During the year ended December 31, 2018, the facility's term was extended to February 28, 2020, with an additional one year extension. The credit facility is available by way of prime-based loans, guaranteed notes and letters of credit (to an aggregate maximum of $3,000,000).

Interest is payable monthly at an annual rate of prime less 0.75%. As at December 31, 2018 the Corporation had $7,878,885 (2017 - $3,399,060) outstanding on the credit facility, comprised of $7,363,240 (2017 - $3,091,215) outstanding on the revolving credit facility and three (2017 - one) letters of credit of $515,645 (2017 - $307,845) in favour of The City of Calgary that expire between May 20, 2019 and September 19, 2019 and renew automatically on expiry.

Borrowings under this credit facility are secured by a general security agreement. In addition, The City of Calgary has provided a continuing $10 million guarantee in exchange for first ranking fixed charge on all the Corporation's present and after acquired property.

b) On February 21, 2017, the Corporation entered into an agreement for a $10 million evergreen loan facility with a financial institution, that is payable in full on demand by the Lender. It is to be used for purchase of completed units from various housing projects and developments in the City of Calgary.

The balance of all amounts owing under each advance are payable by the end of twelve months from the date of such advance, except the advance relating to Orchard Sky units, which is due by the end of twenty-four months from the date advanced.

9. Credit facilities (continued)

Interest is payable monthly at an annual rate of prime plus 0.35% and a mandatory repayment of 100% of net sale proceeds of each unit is to be applied as a principal repayment under the facility. The Corporation had the following amounts outstanding:

	December 31, 2018		December 31, 2017	
	Due date	**Amount**	Due date	Amount
Chalet No. 6	**April 11, 2019**	**$ 564,598**	-	$ -
Buffalo	**December 20, 2019**	**2,500,000**	-	-
Orchard Sky	-		April 20, 2019	780,326
		$ 3,064,598		$ 780,326

Borrowings under this credit facility are secured by a $10 million first fixed charge over the Chalet No. 6 and Buffalo units and any other eligible units financed under this facility. The City of Calgary subordinates and postpones security interest (see Note 10(a)) as it relates to any eligible units financed under this facility. The book value of the assets secured under this facility is $3,995,152 (2017 - $2,448,600).

Subsequent to December 31, 2018, the Corporation received approval to extend the due date on its Chalet No. 6 loan to May 27, 2019.

Financing costs of $32,587 were incurred during the year ended December 31, 2017 are netted against the outstanding loan balance and are being amortized over the term of the loan. Financing costs remaining at December 31, 2018 were $5,485 (2017 - $20,567).

Both credit facilities include financial covenants based on the interest coverage ratio and the total debt ratio. The Corporation did not meet its interest coverage ratio as at December 31, 2018 and as such all facilities are due on demand.

The credit facilities are scheduled for their next annual review on May 31, 2019.

10. Mortgages payable

The Corporation and the City entered into a Mortgage and a purchase and sale agreement on April 7, 2011, whereby the Corporation received the deemed principal sum of $5,188,312 by advancement of the transfer of four parcels of land (the “Lands”) by the City to the Corporation. The maturity date of the Mortgage is the earlier of (i) August 3, 2021, (ii) in the event the Corporation sells any parcel of land, then a portion of the principal sum allocated to the sold parcel as outlined in the Mortgage agreement or (iii) in the event the Corporation sells the Lands in a single transaction, then on the date the Corporation receives the net proceeds of the sale. The balance owing on the mortgage is $3,278,804 as at December 31, 2018 (2017 - $3,278,804). The book value of the properties secured by the mortgage is $4,643,808 (2017 - $4,643,808). There is no interest on the principal sum provided the Corporation is not in default of any obligations under the Mortgage. Should the Corporation be in an event of default, the interest rate on the Mortgage is the floating annual prime rate as established by the Royal Bank of Canada and is payable on the outstanding principal sum from the date of event of default to the maturity date. The Corporation was not in default at December 31, 2018 or 2017.

10. Mortgages payable (continued)

During the year ended December 31, 2017, the Corporation used the proceeds from the repayment of vendor-take-back mortgages to pay mortgages with the City of $684,609.

11. Pension plan

The Corporation provides a contributory pension plan for qualifying employees through participation in the Local Authorities Pension Plan ("LAPP"). LAPP is a multi-employer defined benefit pension plan offered to various unrelated employers throughout Alberta. The responsibility for high level strategic guidance of the pension plan is held by the LAPP Board of Directors. The pension plan is administered by the Board of Trustees who sets contribution rates and investment policy. The plan provides a defined benefit pension based on the employee's earnings and length of service.

The most recent actuarial report of the plan discloses a funding surplus. LAPP is not able to provide information which reflects AHCC's specific share of the defined benefit obligation or plan assets that would enable the Corporation to account for the plan as a defined benefit plan. Therefore, the Corporation has accounted for its participation in the plan using defined contribution accounting.

During the year ended December 31, 2018, the expense funded and recognized by the Corporation was $66,971 (2017 - $89,085), which has been included in salaries and benefits on the statement of operations.

12. Tangible capital assets

			December 31, 2018
	Cost $	Accumulated Amortization $	**Net Book Value** **$**
Computers	67,118	48,333	**18,785**
Office equipment and furniture	62,132	51,994	**10,138**
Leasehold improvements	98,482	90,933	**7,549**
Total tangible capital assets	227,732	191,260	**36,472**

			December 31, 2017
	Cost $	Accumulated Amortization $	Net Book Value $
Computers	55,498	41,468	14,030
Office equipment and furniture	58,610	48,561	10,049
Leasehold improvements	94,534	87,551	6,983
Total tangible capital assets	208,642	177,580	31,062

Attainable Homes Calgary Corporation
Notes to the Financial Statements
Year ended December 31, 2018

13. Share capital

The Corporation is authorized to issue an unlimited number of common shares. The shares can be issued only to the City, its agent or successor and are not otherwise transferable. As at December 31, 2018 and December 31, 2017 one share was issued and outstanding.

14. Accumulated operating surplus

Accumulated operating surplus consists of:

Operating reserve	**$**	**1,000,000**	$	1,000,000
Unrestricted surplus		**12,393,486**		15,584,040
	$	**13,393,486**	$	16,584,040

During the year ended December 31, 2016, the Board of Directors of the Corporation approved a transfer of $1,000,000 to the operating reserve. The Corporation funded 50% of the reserve. The remaining reserve will be funded through future operating surpluses.

15. Obligations

At December 31, 2018 the Corporation has the following obligations:

a) The Corporation has entered into contracts with builders that require the Corporation to buy inventory units from the builders if the units are not sold within specific time limits.

   At December 31, 2018, the contractual obligations related to these contracts are as follows:

   (i) Up to $8,232,634 for up to 36 inventory units, to be purchased in two tranches, beginning in March 2019. The Corporation shall not be required to complete more than five closings per calendar month, unless the Corporation determines in its sole discretion to increase such amounts.

   Once the Corporation has achieved eighteen unconditional sales, an appraisal will be conducted on one unit type to determine if values have increased or decreased. In the case that values have increased to a point where the Unit value has increased by $7,500 or greater (exclusive of net GST), then the Unit Purchase Price shall increase by the difference between the original agreed upon Unit price and 89% of the updated appraisal value, but in no event shall the Unit Purchase Price for unit increase by greater than 10%, for the remaining 18 units. In the case of a decrease in value, a similar adjustment will be made to ensure the Unit Purchase Price remains 89% of the market value on remaining Units.

   (ii) Up to $6,224,151 for up to 24 inventory units. If the Corporation does not have a firm sale in place, once an occupancy permit has been issued by the City of Calgary on a substantially completed unit, the Corporation will close the purchase within 30 days thereafter up to a maximum of 2 units per month starting no sooner than May 1, 2019.

Attainable Homes Calgary Corporation
Notes to the Financial Statements
Year ended December 31, 2018

15. Obligations (continued)

Once the Corporation has achieved twelve unconditional sales, an appraisal will be conducted on one unit type to determine if values have increased or decreased. In the case that values have increased, then the Unit Purchase Price shall increase by the difference between the original agreed upon Unit price and 91% of the updated appraisal value, but in no event shall the Unit Purchase Price for unit increase by greater than $10,000, for the remaining 12 units. In the case of a decrease in value, the Corporation shall be able to make the same price adjustment to ensure the unit values remain 9% less than market value (exclusive of net GST).

(iii) Up to $1,808,748 for up to 8 inventory units. If the Corporation does not have a firm sale in place, once an occupancy permit has been issued by the City of Calgary on a substantially completed unit, the Corporation will close the purchase within 30 days thereafter.

Any units purchased by the Corporation after December 31, 2018 are subject to revised pricing. Once the Corporation has achieved six unconditional sales (of an initial 12 unit commitment), an appraisal will be conducted on the unit type to determine if values have increased or decreased. In the case that values have increased to a point where the units have a value of $270,000 or greater (exclusive of net GST), then the Unit Purchase Price shall increase by the difference between the original agreed upon Unit price and 91% of the updated appraised value, but in no event shall the Unit Purchase Price for unit increase by greater than $10,000 for the remaining 6 units. In the case of a decrease in value, the Corporation shall be able to make the same price adjustment to ensure the purchase price remains 9% less than market value (exclusive of net GST).

Subsequent to December 31, 2018, the Corporation purchased two units relating to this obligation, for a total of $475,986, less deposits previously paid of $23,799.

Subsequent to December 31, 2018, the Corporation renegotiated this commitment with the builder to reduce the remaining commitment to two units that will be purchased in 2019. The $47,599 deposit paid on the other four units will be returned to the Corporation.

b) The Corporation has a lease commitment for its office lease that ends on December 31, 2023 as follows:

2019	$	13,368
2020		13,368
2021		22,280
2022		6,736
2023		31,192
	$	106,944

Attainable Homes Calgary Corporation
Notes to the Financial Statements
Year ended December 31, 2018

16. Financial instruments

Financial instruments consist of cash, cash held in trust, accounts receivable, equity receivable, other deposits, accounts payable and accrued liabilities, credit facilities, mortgages payable and customer deposits. The carrying value of the cash, cash held in trust, restricted cash, accounts receivable, other deposits, accounts payable, accrued liabilities and customer deposits approximates their fair value due to the short term nature of these financial instruments. The carrying value of the credit facilities approximates fair value due to the facilities bearing interest at market rates. The estimated fair value of the mortgages payable is $3,076,630 (2016 – $2,968,158). Calculation of the estimated fair value of the mortgages payable is based on lending rates obtainable at December 31, 2018 for loans with comparable maturities from the City's primary lender, the Alberta Capital Finance Authority ("ACFA").

a) **Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation is exposed to interest rate cash flow risk to the extent that credit facilities bear interest at floating interest rates. Interest rate risk is limited for mortgages payable as interest is only payable in the event of default.

b) **Credit risk**

Credit risk is the risk that one party's financial instruments will cause a financial loss for the other party by failing to discharge an obligation. The financial instruments that potentially subject the Corporation to a significant concentration of credit risk consist primarily of cash, cash held in trust, accounts receivable, equity receivable and other deposits.

The Corporation mitigates its exposure to credit loss by placing its cash and restricted cash with major financial institutions. Cash held in trust and other deposits are amounts that are held in trust with lawyers and refundable deposits, due from reputable home builders, and the Corporation's landlord, respectively. Credit risk associated with equity receivables are mitigated by encumbrances and security over the property to which they relate.

c) **Liquidity risk**

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with financial liabilities. The Corporation's financial liabilities consist of accounts payable and accrued liabilities, credit facilities, mortgages payable and customer deposits. As at December 31, 2018, the Corporation has available $2,121,115 relating to its revolving credit facility, and $6,935,402 relating to its term loan facility and in addition to its revolving operating credit facility extended to February 28, 2020 (Note 9(a)), the Corporation anticipates that it will be able to repay all financial liabilities as they come due. The Corporation is currently working with its lender to address the breach of covenants.

The Corporation is required to maintain a $1,000,000 operating reserve; funded to 50% with a one-time contribution (Note 14). The operating reserve fund may be used to pay operating and maintenance expenses, if required.

Attainable Homes Calgary Corporation
Notes to the Financial Statements
Year ended December 31, 2018

16. Financial instruments (continued)

d) **Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Corporation's financial instruments are not subject to substantial market risk.

17. Comparative figures

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

Attainable Homes Calgary Corporation

Audit Findings Report
For the Year Ended December 31, 2018

April 30, 2019

This report is intended solely for the use of the Audit Committee and should not be distributed without our prior consent. We accept no responsibility to third parties who use this communication.

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Purpose

This report summarizes certain key audit findings and responses to assessed audit risks which we believe to be of interest to assist the Audit Committee in discharging their responsibilities in connection with the audited financial statements of Attainable Homes Calgary Corporation (the "Corporation") for the year ended December 31, 2018.

We would like to express our appreciation for the cooperation we received from the officers and employees of the Corporation with whom we worked during our audit. We look forward to meeting with the Audit Committee to discuss the content of this report and answering any questions you may have.

Status of the Audit

We have substantially completed our audit of the financial statements of the Corporation for the year ended December 31, 2018.

Outstanding Items

The following items require completion prior to issuing our auditor's report:

- receipt of management representation letter (Appendix C);
- subsequent events review to audit report date;
- receipt of legal enquiry response; and
- approval of the financial statements by the Board of Directors.

Independent Auditor's Report

Our draft independent auditor's report is attached (Appendix B). We expect that our independent auditor's report will contain a *"Material Uncertainty Related to Going Concern"* paragraph drawing attention to the Corporation's going concern disclosure. Our report will not be qualified with respect to this matter. We expect that our independent auditor's report will contain an *"Other Matters"* paragraph disclosing that the previous year's financial statements were audited by another auditor.

Significant Audit Findings

Materiality

Final overall materiality was $549,000 based on 4% of net assets. Final specific materiality for items that affect cash flow from operations was $299,000 based on 2% of expenses. These were changed from overall planning materiality of $530,000 and specific planning materiality of $265,000, as communicated in our Audit Services Plan upon receipt of final numbers.

Accounting Policies

Management is responsible for selecting and applying appropriate accounting policies. The Audit Committee is responsible to review accounting policies adopted by the Corporation and where alternative policies are available, determine the most appropriate policies to be adopted in the circumstances. If the Audit Committee believes that the adoption of or change in accounting policies may produce inappropriate or misleading financial reporting, this concern must be discussed with management and us.

Our views on the qualitative aspects of accounting practices used in the Corporation's financial reporting are intended to assist the Audit Committee in its review of the financial statements. Policies affecting the understandability, relevance, reliability and comparability of the financial statements are:

Changes in significant accounting policies, including adoption of new standards.	There were no new accounting policies adopted by the Corporation during the year, however, the application of the Corporation's equity receivable policy did change. Previously, the Corporation discounted its equity receivables as financial instruments and incorporated the time value of money, which was calculated based on the estimated interest rate applicable to similar financing arrangements to value these receivables. It was determined that equity loans should not be considered financial instruments, but rather should be classified as loans receivable under section 3050 of the Public Section Accounting Standards. Under this standard loans receivables should be initially reported at cost and valuation allowances should be used to reflect loans receivable at the lower of cost and net recoverable value. Net recoverable value at December 31, 2018, as determined by management, was the minimum repayment on all equity receivables and is not discounted under section 3050. Further to this, under Section 3400, and as per the Corporation's revenue recognition policy, revenue from the sale of a housing unit and land is recognized upon the transfer of title and when collectability is reasonably assured. It was determined that given economic conditions that existed upon closing of the 2018 equity receivables, the collectability of the full face value of the loans were not reasonably assured at the date of issue, resulting in a reduction in revenue recognized relating to the sale of homes sold in 2018 in the amount of $220,843. We have reviewed the impact of the application of this policy on the 2017 financial statements and have concluded that no restatement is required for the 2017 fiscal year. The resulting prior year misstatement of $102,120 has been included in our summary of likely aggregate misstatements (Appendix E).
Accounting policies unique to the industry, or relate to controversial or emerging areas.	No significant items to report.
Existence of alternative policies and methods.	No significant items to report.
Effect of timing of occurrence and recognition of transactions relating to when accounting policies are adopted.	No significant items to report.

Conclusion:

We reviewed the significant accounting policies selected and applied by management and in our judgment, we believe that the accounting policies are, in all material respects, acceptable under Canadian public sector accounting standards and are appropriate to the particular circumstances of the Corporation.

Accounting Estimates, Unusual Transactions and Financial Statement Disclosures

Our risk-based audit approach focused on obtaining sufficient appropriate audit evidence to reduce the risk of material misstatement in the financial statements to an appropriate level.

The following is a summary of key issues and significant risks of material misstatement, whether due to fraud or error, encompassing areas of estimates and related judgments and assumptions, significant or unusual transactions and sensitive financial statement disclosures, identified during the audit:

Issue/risk area	***Valuation of inventory*** *Valuation of inventory, specifically homes (units), due to the nature of units held, the length of time units have been held, and current economic conditions.*
Management's approach	The Corporation tested impairment of units held at December 31, 2018 and concluded that, based on management's estimates of net realizable value, an impairment charge of $579,300 was required.
Our response	We have reviewed the inputs, techniques and assumptions used by management, including comparing to recent appraisals and recent sales of comparable units in the developments, and are in agreement with management's assessment of the valuation of inventory units held at December 31, 2018.
Issue/risk area	***Equity Receivables - Allowance*** *Valuation of equity receivables, due to the significant assumptions used in the calculations to assess fair value, as well as current economic conditions.*
Management's approach	Given current real estate market conditions which contributed to losses on equity receivables settled in 2017, there continues to be indicators that equity receivables may not be fully recoverable. In addition, over the past few years, the Corporation has realized a few losses on equity receivables as a result of foreclosures. Therefore, it was determined by management that an allowance should be recorded on outstanding equity receivables relating specifically to estimated foreclosures of units in the future. Based on the above factors, management has recorded an allowance of $314,923 on equity receivables for the year ended December 31, 2018, bringing all outstanding equity receivables to their minimum repayments. Significant assumptions used in these allowance calculations include expected future market pricing and appreciation of units to be resold, expected timing of unit sales and estimated foreclosure rates. Changes to these assumptions can have significant impact on the calculation of the valuation on equity receivables.

Our response	We have reviewed management's assessment of the collectability of equity receivables, their estimation processes and calculations and conclude that they are reasonable and the allowance recorded to December 31, 2018 is appropriate.
Issue/risk area	***Occurrence of Revenue*** *Occurrence of revenue, due to the nature and timing of the recording of revenue.*
Management's approach	Revenue is recorded on possession of units.
Our response	We agreed a sample of amounts recorded in revenue to purchase and sale agreements, final statements of adjustments, and certificates of title and agree that the criteria for the recognition of revenue has been met.
Issue/risk area	***Management Override of Control*** *Management override of control is, by definition, a significant risk.*
Our response	During the course of our audit, we designed and performed audit procedures to respond to the risks of management override of controls. Our procedures included assessing appropriateness of general journal entries and other adjustments on a test basis, performing random audit procedures, reviewing accounting estimates for biases and evaluating business rationale for transactions outside the normal course of business. These procedures did not reveal any evidence of management override of controls and, as such, no additional audit procedures were performed.

Conclusion:

We reviewed all significant accounting estimates and agree that they are, in all material respects, free of possible management bias and of material misstatement. The audit procedures performed in the areas noted above were consistent with those set out in our Audit Services Plan. The accounting treatment of the items noted above and related disclosures are appropriate and in accordance with Canadian public sector accounting standards. We were able to obtain sufficient appropriate audit evidence to reduce the risk of material misstatement in the financial statements to an appropriate low level.

Misstatements and Adjustments

Adjustments

During our audit, we identified accounting differences that required adjustment. These differences were adjusted by management after discussion with us (Appendix D).

Likely Aggregate Misstatements

During our audit, we aggregated uncorrected financial statement misstatements. Management deemed the effects of these misstatements to be immaterial, both individually and in the aggregate, to the financial statements. Management has not corrected these misstatements. We are required to request that the Audit Committee consider adjusting the financial statements for these misstatements although we acknowledge that the amounts are immaterial (Appendix E).

APPENDICES

Appendix A

Other Required Communication

Illegal Acts, Fraud, Intentional Misstatements and Errors	Testing during our audit did not reveal any illegal, improper or questionable payments or acts, nor any acts committed with the intent to deceive, involving either misappropriation of assets or misrepresentation of financial information.
Related Party Transactions	We conducted tests and procedures to identify related parties and transactions. Our audit did not reveal any related parties or significant related party transactions that were not disclosed to us by management, nor did it reveal any significant related party transactions which give rise to suspected fraud. There has been no disagreement between management and ourselves regarding the accounting for and disclosure of related party transactions.
Deficiencies in Internal Controls	A financial statement audit is not designed to and we are not providing any assurance on internal controls. During our audit, we identified some significant deficiencies in internal controls that were primarily related to the turnover in senior management. Specifically, we noted the following: • *Segregation of Duties* The Corporation has a limited number of individuals performing accounting and control functions in addition to having access to Corporation assets. While lack of segregation of duties is common in entities of similar size, we recommend that whenever practical, duties be segregated to help ensure that errors or misappropriations are prevented or detected by management to safeguard Corporation assets. If segregation is not practical or cost effective, senior management should supervise these duties and follow up on any significant or unusual transactions. • *Review of Sales Contracts* We noted that sales contracts are not being reviewed by the finance group prior to providing the contract to the customer. As a result, we found two contracts where the equity loan was higher than the maximum allowed under the program. Management should ensure that the terms of the contract are reviewed and approved prior to finalization. • *Reviews and Approvals* We noted the reviews and approvals were not documented for journal entries, approval of second mortgages, calculation of the equity receivable valuation or finance manager review of the closing documents received from the lawyer. We suggest that management review the control processes and ensure that appropriate review and approval is documented.

Appendix A
Other Required Communication

Deficiencies in Internal Controls (continued)	During our audit, we also identified the following deficiencies in internal controls which are not considered significant: • *Large Payments* We noted several transfers over $100,000 that only had one level of approval. In addition, we noted three transactions over $100,000 that were not included in the report provided to the Board. Both of these weaknesses increase the risk that large unauthorized expenditures could be made. We recommend that two signatures should be required for all transfers, and that management reconcile the large transactions report to the bank statements to ensure the report is complete. • *Account Reconciliations* We noted that a number of balance sheet accounts are not being reconciled on a monthly basis, which resulted in many discrepancies being found at year-end. We recommend that all significant balance sheet accounts be reconciled at least quarterly. • *Reconciliation of Data* We noted that a number of spreadsheets are being kept to track same or similar data, but at times there are inconsistencies between these spreadsheets. These inconsistencies could result in the inaccurate interpretation of data and errors in accounting. We recommend that one comprehensive database is maintained for all aspects of the business and that it is reconciled to accounting records at least quarterly.
Disagreements with Management	During our audit, we did not have any significant disagreements with management.
Consultations with Other Accountants	We are not aware of any consultations that have taken place with other accountants.
Cooperation of Management	We received full cooperation of management and other personnel during our audit and we had full and unrestricted access to all records and personnel required to complete our audit. We encountered no significant difficulties during our audit that should be brought to the attention of the Audit Committee.

Appendix B

Draft Independent Auditor's Report

Independent Auditor's Report

To the Shareholder of Attainable Homes Calgary Corporation

Opinion

We have audited the financial statements of Attainable Homes Calgary Corporation (the "Corporation"), which comprise the statement of financial position as at December 31, 2018, and the statements of operations and accumulated operating surplus, changes in net financial assets and cash flows for the year then ended, and notes to the financial statements including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2018, and its financial statements and its cash flows for the year ended December 31, 2018 in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial statements, which indicates the Corporation incurred a net loss for the year ended December 31, 2018 of $2,845,820 and had negative cash flows from operations of $5,827,051. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Corporation's ability to continue as a going concern. Our opinion is not modified in respect to this matter.

Other Matter

The financial statements of the Corporation for the year ended December 31, 2017 were audited by another auditor who expressed an unqualified opinion on those statements on April 19, 2018.

Responsibilities of Management and Those Charged with Governance 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.

In preparing the financial statements, management is responsible for assessing the Corporation’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

CHARTERED PROFESSIONAL ACCOUNTANTS

Appendix C

Draft Management Representation Letter

ATTAINABLE HOMES CALGARY CORPORATION

April 30, 2019

RSM Alberta LLP
Chartered Professional Accountants
#1400, 777 - 8 Avenue S.W.
Calgary, Alberta
T2P 3R5

Dear Sirs:

We are providing this letter in connection with your audit of the financial statements of Attainable Homes Calgary Corporation as at December 31, 2018 and for the year then ended, for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of Attainable Homes Calgary Corporation in accordance with Canadian public sector accounting standards.

We acknowledge that we are responsible for the fair presentation of the financial statements in accordance with Canadian public sector accounting standards and for the design and implementation of internal control to prevent and detect fraud and error. We have assessed the risk that the financial statements may be materially misstated as a result of fraud, and have determined such risk to be low. Further, we acknowledge that your examination was planned and conducted in accordance with Canadian generally accepted auditing standards so as to enable you to express an opinion on the financial statements. We understand that while your work includes an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, it is not designed to identify, nor can it necessarily be expected to disclose fraud, shortages, errors and other irregularities, should any exist.

Certain representations in this letter are described as being limited to matters that are material. An item is considered material, regardless of its monetary value, if it is probable that its omission from or misstatement in the financial statements would influence the decision of a reasonable person relying on the financial statements.

We confirm, to the best of our knowledge and belief, as of April 30, 2019, the following representations were made to you during your audit.

Financial statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated January 17, 2019, for the preparation of the financial statements in accordance with Canadian public sector accounting standards; in particular, the financial statements are fairly presented in accordance therewith.

2. The Corporation's significant accounting policies are disclosed in the financial statements and:

   (a) there have been no changes in the Corporation's accounting policies.

   (b) the accounting policies selected and applied are appropriate in the circumstances.

   (c) significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

ATTAINABLE HOMES CALGARY CORPORATION

3. Significant matters have not arisen that would require a restatement of the comparative financial statements, except as disclosed in the financial statements and which are adequately accounted for and disclosed.

4. The financial statements, which have been prepared on a going concern basis, assume that the Corporation will be able to meet its commitments, continue its operations, realize its assets and discharge its liabilities in the normal course of business. The financial statements do not reflect adjustments to the carrying values of assets and liabilities that may be necessary should the Corporation be unable to achieve sufficient cash flows to continue as a going concern. Such adjustments could be material. The Corporation's ability to continue on as a going concern is dependent on its ability to achieve cash flows from operations and arrange additional financing. We have disclosed to you the Corporation's future plans in relation to its going concern assessment and the feasibility of these plans. There is no assurance that this financing or cash flows from operations will be available to the Corporation and, accordingly, there is doubt about the Corporation's ability to continue as a going concern.

Completeness of information

5. We have provided you with:

   - access to all information of which we are aware that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
   - additional information that you have requested from us for the purpose of this audit;
   - unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence; and
   - all minutes of the meetings of shareholders, directors and committees of directors, or summaries of recent meetings for which minutes have not yet been prepared.

6. The minute books of the Corporation are a complete record of all meetings and resolutions of the Corporation throughout the year and to the present date.

7. All transactions have been recorded in the accounting records and are reflected in the financial statements.

8. We are unaware of any known or probable instances of non-compliance with the requirements of regulatory agencies, applicable securities commissions or governmental authorities, including their financial reporting requirements.

9. We are unaware of any instances of non-compliance or suspected non-compliance with laws or regulations the effects of which should be considered when preparing financial statements.

10. We have identified to you all known related parties and all known related party relationships and transactions, including guarantees, non-monetary transactions and transactions for no consideration.

11. We have communicated to you all deficiencies in internal control of which management is aware.

Appendix C
Draft Management Representation Letter

ATTAINABLE HOMES CALGARY CORPORATION

Fraud and error

12. We have no knowledge of fraud or suspected fraud affecting the Corporation involving management; employees who have significant roles in internal control; or others, where the fraud could have a non-trivial effect on the financial statements.

13. We have no knowledge of any allegations of fraud or suspected fraud affecting the Corporation's financial statements communicated by employees, former employees, analysts, regulators or others.

14. We believe that the effects of the uncorrected financial statement misstatements summarized in the accompanying schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Recognition, measurement and disclosure

15. We believe that the significant assumptions used in arriving at the fair values of financial instruments as measured and disclosed in the financial statements are reasonable and appropriate in the circumstances.

16. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.

17. All related party relationships and transactions have been appropriately measured and disclosed in the financial statements.

18. We are aware of the environmental laws and regulations that impact on our Corporation and we are in compliance. There are no known environmental liabilities that have not been accrued for or disclosed in the financial statements.

19. The nature of all material measurement uncertainties has been appropriately disclosed in the financial statements, including all estimates where it is reasonably possible that the estimate will change in the near term and the effect of the change could be material to the financial statements.

20. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel. Any such items have been accounted for and disclosed in accordance with Canadian public sector accounting standards.

21. We confirm that there are no derivative or off-balance sheet financial instruments held at the year ended December 31, 2018.

22. We confirm that we have made the appropriate determination, accounting and disclosure in the financial statements of the costs, assets and obligations associated with employee future benefits.

23. All liabilities, both actual and contingent, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

ATTAINABLE HOMES CALGARY CORPORATION

24. The Corporation has satisfactory title to, or control over, all assets, and there are no liens or encumbrances on the Corporation's assets or assets pledged as collateral that are not disclosed in the notes to the financial statements.

25. We have disclosed to you, and the Corporation has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

26. We confirm the appropriateness of accounting policies and the application thereof for complex areas of accounting and areas involving management's judgment and estimates, for example:

    - valuation of inventory;
    - valuation of equity receivables; and
    - valuation of land and site development cost.

27. There have been no events subsequent to the statement of financial position date up to the date hereof that would require recognition or disclosure in the financial statements other than that disclosed in the notes to the financial statements. Further, there have been no events subsequent to the date of the comparative financial statements that would require adjustment of those financial statements and the related notes.

28. The terms of your engagement, as set out in your letter to us dated January 17, 2019, are still in effect and we agree with the terms as set out.

Journal entry approval

29. We approve of and acknowledge responsibility for the journal entries summarized in the accompanying schedule.

Yours very truly,

____
Jaydan Tait, President and CEO

____
Brian Pincott, Director and Audit and Accountability Chair

/tdb

Attainable Homes Calgary Corporation
Year End: December 31, 2018
Journal Entries
Date: 01/01/2018 To 12/31/2018

Number	Date	Name	Account No	Reference	Annotation	Debit	Credit	Recurrence	Misstatement
RSM01	12/31/2018	Accounts Payable - HoldBacks	2621	CC1-1			128,977.07		
RSM01	12/31/2018	Work-In-Progress - WIP Estimating, Design, Eng	1500-1501	CC1-1		128,977.07			
		To record 2018 Holdbacks							
RSM02	12/31/2018	Other Deposits	1486	H77-1		2,000.00			
RSM02	12/31/2018	Security Deposits	2623	H77-1			2,000.00		
		To reverse J/E 18-803							
RSM03	12/31/2018	Accounts Receivable	1060	H77-1		962.50			
RSM03	12/31/2018	Other Deposits	1486	H77-1			2,000.00		
RSM03	12/31/2018	Inventoy Unit Legal Fees	8868	H77-1		1,272.50			
RSM03	12/31/2018	Inventory Operating Cost	8869	H77-1			235.00		
		To Correct SaleEntry							
RSM04	12/31/2018	GST/HST Payable	2680	D2-1		439.45			
RSM04	12/31/2018	Suspense Liabilities	2699	D2-1			14,658.31		
RSM04	12/31/2018	Suspense Liabilities	2699	D2-1		2,085.36			
RSM04	12/31/2018	Professional Fees	8859	D2-1		11,731.00			
RSM04	12/31/2018	Inventory Operating Cost	8869	D2-1		192.50			
RSM04	12/31/2018	Inventory Operating Cost	8869	D2-1		210.00			
		To correct entry JE18-662 for purchase of 12 Units							
RSM05	12/31/2018	Trust Liability (offset)	2237	A2 / A2-2		65,851.80			
RSM05	12/31/2018	Security Deposits	2623	A2 / A2-2			2,000.00		
RSM05	12/31/2018	Security Deposits	2623	A2 / A2-2			2,000.00		
RSM05	12/31/2018	Security Deposits	2623	A2 / A2-2			13,400.99		
RSM05	12/31/2018	Security Deposits	2623	A2 / A2-2			2,000.00		
RSM05	12/31/2018	Security Deposits	2623	A2 / A2-2			13,795.00		
RSM05	12/31/2018	Security Deposits	2623	A2 / A2-2			14,400.00		
RSM05	12/31/2018	Security Deposits	2623	A2 / A2-2			2,000.00		
RSM05	12/31/2018	Security Deposits	2623	A2 / A2-2			2,000.00		
RSM05	12/31/2018	Accrued Liabilities	2626	A2 / A2-2			12,170.45		
RSM05	12/31/2018	Suspense Liabilities	2699	A2 / A2-2			2,085.36		
		Reclass Trust Liability Account							

Attainable Homes Calgary Corporation
Year End: December 31, 2018
Journal Entries
Date: 01/01/2018 To 12/31/2018

Number	Date	Name	Account No	Reference	Annotation	Debit	Credit	Recurrence	Misstatement
RSM06	12/31/2018	Equity Loan Write-Off	4200	N4 / N5.1 / 30			298.50		
RSM06	12/31/2018	Equity Loan Write-Off	4200	N4 / N5.1 / 30			11,159.12		
RSM06	12/31/2018	Gain/Loss - Equity Loan Rec	8680	N4 / N5.1 / 30			588,227.31		
RSM06	12/31/2018	Gain/Loss - Equity Loan Rec	8680	N4 / N5.1 / 30		250,826.00			
RSM06	12/31/2018	Equity G/L Receivable Disc	1699-1729	N4 / N5.1 / 30		627,220.00			
RSM06	12/31/2018	Equity G/L Receivable Disc	1699-1729	N4 / N5.1 / 30			282,514.00		
RSM06	12/31/2018	Sales - Redstone	4000-4014	N4 / N5.1 / 30		20,942.64			
RSM06	12/31/2018	Sales - Arbours II, III	4000-4018	N4 / N5.1 / 30		22,940.00			
RSM06	12/31/2018	Sales - Orchard Sky	4000-4022	N4 / N5.1 / 30		25,970.00			
RSM06	12/31/2018	Sales - Varsity	4000-4023	N4 / N5.1 / 30		11,250.00			
RSM06	12/31/2018	Sales - Chalet No.6	4000-4024	N4 / N5.1 / 30		41,226.17			
RSM06	12/31/2018	Sales - Buffalo	4000-4029	N4 / N5.1 / 30		85,173.00			
RSM06	12/31/2018	Sales - Sunalta	4000-4030	N4 / N5.1 / 30		10,410.00			
RSM06	12/31/2018	Sales - Ashbury	4000-4032	N4 / N5.1 / 30		2,931.50			
RSM06	12/31/2018	Equity Loan Write-Off - DVV I	4200-4201	N4 / N5.1 / 30		2,487.50			
RSM06	12/31/2018	Equity Loan Write-off - DVV II	4200-4202	N4 / N5.1 / 30			13,875.00		
RSM06	12/31/2018	Equity Loan Write-off - DVV II	4200-4202	N4 / N5.1 / 30		2,862.50			
RSM06	12/31/2018	Equity Loan Write-off - DVV II	4200-4202	N4 / N5.1 / 30			137.50		
RSM06	12/31/2018	Equity Loan Write -Off - BH	4200-4203	N4 / N5.1 / 30			14,687.40		
RSM06	12/31/2018	Equity Loan Write-Off - Cr Apt	4200-4204	N4 / N5.1 / 30			18,643.16		
RSM06	12/31/2018	Equity Loan Write-Off - Cr Apt	4200-4204	N4 / N5.1 / 30		11,159.12			
RSM06	12/31/2018	Equity Loan Write-Off - SV 4000	4200-4205	N4 / N5.1 / 30			13,705.00		
RSM06	12/31/2018	Equity Loan Write-Off - SV 5000	4200-4207	N4 / N5.1 / 30			22,350.00		
RSM06	12/31/2018	Equity Loan Write-off - CT	4200-4208	N4 / N5.1 / 30			11,000.00		
RSM06	12/31/2018	Equity Loan Write-Off - WBP	4200-4209	N4 / N5.1 / 30			24,023.06		
RSM06	12/31/2018	Equity Loan Write-Off - 51 Oak	4200-4210	N4 / N5.1 / 30			26,760.00		
RSM06	12/31/2018	Equity Loan Write-Off - Evanston	4200-4212	N4 / N5.1 / 30			11,715.00		
RSM06	12/31/2018	Equity Loan Write-Off - Evanston	4200-4212	N4 / N5.1 / 30			2,862.50		
RSM06	12/31/2018	Equity Loan Write-Off - Evanston	4200-4212	N4 / N5.1 / 30		137.50			
RSM06	12/31/2018	Equity Loan Write-Off - GB	4200-4215	N4 / N5.1 / 30			23,133.00		
RSM06	12/31/2018	Equity Loan Write-off - Redstone	4200-4216	N4 / N5.1 / 30			11,048.00		
RSM06	12/31/2018	Equity Loan Write-Off - SM2000	4200-4217	N4 / N5.1 / 30			10,550.00		
RSM06	12/31/2018	Equity Loan Write-Off - MP	4200-4220	N4 / N5.1 / 30			15,905.50		
RSM06	12/31/2018	Equity Loan Write-Off - Arbours	4200-4223	N4 / N5.1 / 30			6,781.88		
RSM06	12/31/2018	Equity Loan Write-Off - Arbours	4200-4223	N4 / N5.1 / 30			6,160.00		
		To adjust 2018 equity receivable to bring all amounts to minimum repayment (undiscounted)							
CLIENT01	12/31/2018	Security Deposits	2623	H77-2			2,000.00		
CLIENT01	12/31/2018	Suspense Liabilities	2699	H77-2		2,600.00			
CLIENT01	12/31/2018	Interest Expense	8720	H77-2			600.00		

Attainable Homes Calgary Corporation
Year End: December 31, 2018
Journal Entries
Date: 01/01/2018 To 12/31/2018

Number	Date	Name	Account No	Reference	Annotation	Debit	Credit	Recurrence	Misstatement
		To Correct Sales Entry							
CLIENT02	12/31/2018	Security Deposits	2623	H77-3		2,000.00			
CLIENT02	12/31/2018	Legal Fees	8859-8860	H77-3			2,000.00		
		Correcting Sales Entry							
CLIENT03	12/31/2018	Accounts Receivable	1060	H77-4		195.75			
CLIENT03	12/31/2018	Suspense Liabilities	2699	H77-4			1,300.00		
CLIENT03	12/31/2018	Inventoy Unit Legal Fees	8868	H77-4		1,104.25			
		Correct Sales Entry							
CLIENT04	12/31/2018	Accounts Receivable	1060	H77-5		1,115.39			
CLIENT04	12/31/2018	Suspense Liabilities	2699	H77-5			2,171.44		
CLIENT04	12/31/2018	Inventoy Unit Legal Fees	8868	H77-5		1,056.05			
		Correct Sales Entry							
CLIENT05	12/31/2018	Accounts Receivable	1060	H77-6		264.95			
CLIENT05	12/31/2018	Suspense Liabilities	2699	H77-6			1,336.75		
CLIENT05	12/31/2018	Inventoy Unit Legal Fees	8868	H77-6		1,071.80			
		Correct Sales Entry							
CLIENT06	12/31/2018	Suspense Liabilities	2699	H77-8		220.66			
CLIENT06	12/31/2018	Inventory Operating Cost	8869	H77-8			220.66		
		Correct sales entry (only part of suggested client entry recorded)							
CLIENT07	12/31/2018	ATB Chequing - 843063200	1007	H77-10		300.00			
CLIENT07	12/31/2018	ATB Chequing - 843063200	1007	H77-10			60.41		
CLIENT07	12/31/2018	Suspense Liabilities	2699	H77-10			239.59		
		To correct part of JE18-800							
						1,339,186.96	**1,339,186.96**		

Attainable Homes Calgary Corporation
Year End: December 31, 2018
Journal Entries
Date: 01/01/2018 To 12/31/2018

Number	Date	Name	Account No	Reference	Annotation	Debit	Credit	Recurrence	Misstatement

Net Income (Loss) **(2,845,821.58)**

SUMMARY OF LIKELY AGGREGATE MISSTATEMENTS

Client: Attainable Homes Calgary Corporation   Year-end: 31-Dec-18

Record dollar value used for trivial errors (consider 5% of materiality or less) *(1)* $27,450

Description of misstatement *(3)*	W/P Ref	Proposed Adjustments Dr (Cr) *(2)* — Income Statement: *Identified Misstatements (4)*	Income Statement: *Likely Aggregate Misstatements (5)*	Balance Sheet: Assets	Balance Sheet: Liabilities	Balance Sheet: Other Equity	Balance Sheet: Closing Retained Earnings *(6)*	Impact on items with a specific materiality *(7)*		
Allowance on Second Mortgages	W0	$31,687	$31,687	($31,687)			$31,687			
GST Self Assessment on RTO Units	KK2			$37,734	($37,734)		$0			
Overstatement of equity receivable at December 31, 2018	N3.1	$33,518	$33,518	($33,518)			$33,518			
Impact of 2017 understatement of equity receivables not booked on 2018 Statement of Operations	N3.2	$102,120	$102,120							
2017 underaccrual of payables	200	($161,232)	($161,232)							
							$0			
							$0			
							$0			
							$0			
							$0			
							$0			
							$0			
							$0			
							$0			
							$0			
(A) Totals			$6,093	($27,471)	($37,734)	$0	$65,205	$0	$0	$0
(B) Effect of cummulative unadjusted misstatements from previous years not including immediately prior year (i.e. prior year B+C+E) *(9)*										
(C) Effect of unadjusted non-reversing misstatements from prior year (i.e. prior year column N)) *(10)*										
(D) Effect of unadjusted reversing misstatements from prior year (i.e prior year column M) (11*)*										
(E) Effect of gradual reversals of prior years non reversing misstatements - current year effect only *(12)*							$0			
(F) Aggregate likely misstatements (C+D+E+F)			$6,093	($27,471)	($37,734)	$0	$65,205	$0	$0	$0
(G) Final materiality *(12)*			$549,000	$549,000	$549,000	$549,000	$549,000			
(H) Amount remaining for further possible misstatements (G-F) *(13)*			$542,907	$521,529	$511,266	$549,000	$483,795	$0	$0	$0

ATTAINABLE HOMES CALGARY CORPORATION
2019 Risk Summary

IMPACT				
	HIGH	Asset protection (13)	Regulatory (23) Customer base (16) Financial Reporting & Planning (14)	Market (22) Inventory (18) Operating cash management – (< 12 months) (19) Development cash management – (1-9 years) (20)
	MEDIUM	Legal liability (8) Builder partnerships (9)	Business Model (1) Client expectations (6) Accountability alignment (10) Employee retention and compensation (11) Inventory Pipeline (17) Brand (21) Shared Equity (2) Performance Monitoring (7) Cost management (12) Leadership (4)	
	LOW	Shareholder alignment (5) Records management – privacy / legal docs (15)	Governance (3)	
		LOW	**MEDIUM**	**HIGH**
		LIKELIHOOD		

Updated September 12, 2019

ATTAINABLE HOMES CALGARY CORPORATION

	Risk Title	Risk Description	Existing Controls or Treatment Techniques in place	Likelihood	Impact	Risk Rating	Trend	Summary of Risk Rating	Significant Improvement required? (Y / N)	Summary of Improvement Activities	Improve-ment Status	Owner
	Risk title	Risk Description:	List the 5 most important controls which are currently in place, add a succinct description where necessary			High Medium Low	Indicate whether risk is: Increasing ↑ Decreasing ↓ Stable ↔	(If Risk Rating is increasing or decreasing, indicate top 3 reasons)	**Yes:** improvement is required. **No:** Improvement NOT required **NA:** Risk has not been assessed	List key control activities to be implemented; or If risk level is to be increased, what key controls can be removed? **Indicate the projected completion date for each activity (ie. 2016 Q3 or 2018)**	Completed In Progress Overdue NA	List risk owner
1	Business Model	AHCC has the appropriate business model (being the roles, responsibilities and accountabilities of individuals to optimize the achievements of its Mission, Mandate and Corporate Goals and Objectives).	1. Business plan reviewed and approved by Board each year 2. Budget approved by the Board each year 3. Governing documents and agreements with the shareholder are reviewed to ensure ongoing alignment with AHCC business model. 4. Strategic plan is created every 5 years 5. Improvements have been made to the current program and new programs are being designed	Medium	Medium		↔	1. New strategic plan developed in 2016 that includes expansion of the model 2. Current core model of providing Down Payment Assistance with Equity Appreciation share is challenging in flat market experienced since 2014 3. Inventory Acquisition Hedging Strategy adopted to mitigate risk	Yes	1. Evaluate Perpetual Affordable Housing project for potential inclusion in 2020 budget 2. Acquire inventory through traditional builder partnerships, pocket deals, buying builder standing inventory, develop our own projects	In Progress	President & CEO
2	Shared Equity Model	AHCC's long term sustainability is partially dependent on the success of the shared equity model. In concert with access to debt, sufficient future long-term cash streams must be generated to fund the acquisition of land and the construction and/or acquisition of program inventory. The 5-year program aligns the participation calendar with refinancing and adjusts the shared participation calculation to be done after the equity loan is repaid.	1. Improvements have been made to strengthen the model in April 2018 2. Loan impairment now calculated at time of issuance 3. Clients that need a portion of the loan forgiven will still be offered that flexibility 4. Fewer opportunities for a client to exploit the program	Medium	Medium		↓	1. Improvements to the model mitigate losses for future transactions. 2. Focus on quality of life targets and quality product when procuring homes increases resale value 3. Program diversification will reduce dependency on shared equity	No	Improvements to the model are complete, expansion of the model is being tested	Complete	President & CEO
3	Governance	The Board has the appropriate governance process in place supporting the corporation's ability to effectively achieve its mission, mandate and strategic plan.	1. All committees require that policies be reviewed every three years 2. Board composed of two City council members and up to 10 qualified and experienced business leaders. 3. Skill based board that periodically evaluates knowledge gaps. Recently added insurance, sales, construction and development expertise to 2019 Board 4. Added Past chair position to the Board in June 2019	Medium	Low		↓	Expanded, more diverse board	No		NA	Board Chair
4	Leadership	AHCC staff are effectively led or empowered to fulfill the Corporation's mission and mandate and strategic plan.	1. Corporate Performance and Governance committee of the board considers succession planning issues as part of mandate 2. Recent leadership change completed end 2018 with changes to senior leadership team following in spring 2019	Medium	Medium		↓	1. Highly qualified President & CEO in place. 2. Highly qualified Director of Finance in place	No		Complete	Board Chair
5	Shareholder alignment	AHCC acts and is perceived to act in accordance with the letter and spirit of the shareholder agreement and satisfies the needs and expectations of its sole shareholder.	1. Report annual to shareholder 2. Annual reports to the City of Calgary Audit and Accountability Committee 3. 2019- newly established regular relationship with City Treasury/Finance	Low	Low		↓		No		NA	Board Chair
6	Client expectations	AHCC understands, assesses, and manages clients' housing needs and expectations supporting the corporation's ability to effectively meet its mission, mandate and corporate goals and objectives.	1. Market research underway to ensure understanding of client needs; and needs of general moderate income segment 2. Reporting completed that confirms affordable home ownership is still an issue in Calgary	Medium	Medium		↔	1. Research showing that clients don't fully understand program offering. 2. Interest in program continues to increase, but the conversion rate on those leads is traditionally low.	No	1. Market research completed and informs day to day business 2. Lead management process now in place through sales team	In Progress	Director, Marketing & Communications
7	Performance monitoring	Appropriate performance measures exist to monitor and enhance the corporation's performance	1. Key performance indicators are calculated and distributed quarterly to assist with decision making 2. Forecasts are updated during the year 3. New dashboard being created with early market indicators	Medium	Medium		↑	1. KPIs are being updated to be more reflective of key measure of the organization- this work is being undertaken through A and A committee	Yes		In Progress	Director of Finance

	Risk Title	Risk Description	Existing Controls or Treatment Techniques in place	Likelihood	Impact	Risk Rating	Trend	Summary of Risk Rating	Significant Improvement required? (Y / N)	Summary of Improvement Activities	Improve-ment Status	Owner
8	Legal liability	Exposure to risk of litigation or other events which may result in financial loss to the corporation or damage to its reputation is mitigated.	1. Appropriate insurance coverage in place 2. Appropriate internal controls exist to ensure process risk is mitigated with all transactions and commitments are adequately reviewed for potential liabilities and loss to the corporation 3. Oversight of systems of internal control is included in annual work plan 4. Procurement policy was documented in 2016, making process easier to communicate to new partners	Low	Medium		↔	1. Internal Controls function as true controls AND detailed process documents- they need to be reorganized and modernized 2. Cybersecurity an ongoing risk to be constantly addressed	Yes	1. Internal Controls under review 2. Cybersecurity audit to be completed in late 2019/early 2020	In Progress	President & CEO
9	Builder Partnerships	Relationships with key builders which may result in unacceptable business interruptions or unacceptable costs if the existing builders cease to exist or are unable to provide a satisfactory level of service, are appropriately managed.	1. Risk is minimized by working with many builders and by cultivating long term relationships with reliable and proven partners 2. Transparent procurement process with mid-term and post-mortem reporting promotes open communication with vendors	Low	Medium		↓	1. All agreements with builders are reviewed by AHC committee, Board, and fall under City of Calgary procurement policies	No		Complete	President & CEO
10	Accountability alignment	Individual employee responsibilities and accountabilities are adequately defined and aligned with the corporation's business model to support the effective achievement of its strategic and operational goals.	1. Job descriptions exist for all positions 2. Job descriptions align with performance management process 3. Annual goal setting is completed for all employees 4. Corporate Performance and Governance committee has oversight in this area	Medium	Medium		↓		No		NA	President & CEO
11	Employee retention and compensation	The right people are effectively attracted, developed and retained, influencing the corporation's ability to achieve its mission and AHCC establishes and administers proper compensation, benefits and rewards for its employees, impacting the corporation's ability to attract and retain a suitably skilled workforce	1. Recruitment is conducted in targeted and appropriate industry specific settings 2. Annual performance compensation reviews are completed for each member of staff 3. Corporate Performance and Governance Committee oversees performance management and approves compensation levels for each fiscal year 4. Compensation offered is benchmarked against non-profit salaries for Calgary 5. AHCC offers a highly competitive benefits package with the improved benefits package through SunLife established in June 2019	Medium	Medium		↓	1. Absence of a bonus payment incentive is counter to development industry and is a risk in attraction and retention of talent	No		NA	President & CEO
12	Cost management (Operating overheads)	Effective budgetary and cost management processes are in place resulting in the Corporation's ability to meet its existing financial liabilities and commitments.	1. The annual budget is approved by the Board and City Council 2. Each development project is approved on its own merits by the Board 3. Costs are monitored monthly as part of monthly financial statements provided to President & CEO 4. The budget is developed as part of the Business Plan process starting in Fall 2019	Medium	Medium		↔	1. review of project budgets needs to be formalized through ongoing evolution of the Development Committee	No	1. all individual projects and AHC G&A are allocated individual budgets and reviewed individually then rolled up in to Business Plan	NA	Director of Finance
13	Asset protection	Physical and financial assets are protected and the risk of fraudulent activities or unauthorized use of these assets by employees or others is minimized.	1. Internal controls are in place and periodically audited and reviewed. 2. Whistle blower policy is in place 3. Few assets of value are kept on site 4. Cyber security audit planned	Low	High		↓		No		NA	Director of Finance
14	Financial planning & reporting	Appropriate financial planning and related reporting supports the Corporation in making informed decisions and reporting credible financial and management information our Board and Shareholder.	1. The Board or Committee reviews financial statements quarterly 2. External audits are conducted annually of the financial statements	Medium	High		↑	This rating changed significantly from last report- AHC completed regular financial planning and reporting prior to jan 2019 that was not addressing significant financial risk	Yes	1. production of monthly financial statements ON TIME 2. production of quarterly financial statements shared with committee and Board, ON TIME 3. ALL individual projects now include a cash forecast related to budget 4. balance sheet and 18 month Business Plan Forecast will appear in Business Plan 2020 for first time 5. new Business Plan workplan instituted for 2019 and beyond 6. monthly meetings now established with lender and shareholder	In Progress	Director of Finance
15	Records Management (Privacy and Legal Docs)	Personal information pertaining to customers is collected, used only for appropriate business reasons and protected from disclosure.	1. Personal financial information is collected and used only by AHCC banking partners and lawyers 2. Records management internal controls have been developed. 3. Electronic copies of key legal documents are made. All hard copy customer files will be archived in long term storage once the settlement is received and recorded. 4. FOIP training is up to date 5. Keep updated on privacy rules and legislation.	Low	Low		↔		No		NA	Director of Finance
16	Customer base	Customer base and demand may be affected by changes in the market and in legislation.	1. Market, social and environments are monitored so the proactive steps can be taken to address both positive and negative changes in demand. 2. Additional models will increase client base	Medium	High		↓		No		NA	Director, Marketing & Communications

	Risk Title	Risk Description	Existing Controls or Treatment Techniques in place	Likelihood	Impact	Risk Rating	Trend	Summary of Risk Rating	Significant Improvement required? (Y / N)	Summary of Improvement Activities	Improve-ment Status	Owner
17	Inventory pipeline	Access to appropriate inventory will fluctuate depending on what is available in the market.	1. AHC is continuously looking for new inventory via deep connections in the builder, developer, broker, affordable housing, municipal & provincial government and real estate agent communities	Medium	Medium		↔		No		NA	Development Manager
18	Inventory	Over supply of inventory which we are committed to purchase and therefore incur carrying costs.	1. AHC has acquired inventory without an exit strategy 2. Purchase strategy has been adjusted with a more phased approach and a unit take down provision where a completed unit need not be taken into inventory	High	High		↓	1 . Too much inventory remained owned directly by AHC for too long 2. Carrying costs high for finished units	Yes	1. new PSAs with builder partners include conditions wherein unsold units need not be bought by AHC. This reduces risk in owning standing inventory 2. PSAs can be improved to further derisk costs and challenges of owning standing inventory	NA	President & CEO
19	Operating cash management - short term (< 12 months)	Operating cash is significantly affected by the timing of project and unit completions and customer possessions which can be quite irregular.	1. Revolving credit facility of $10M is available without notice 2.Evergreen facility of $10M of debt is available for asset purchases when appropriate.	High	High		↑	1. Cash flow management represents one of the greatest risk to AHC 2. KPIs have been adjusted to include forward looking indicators to help manage cash flow risk	No	1. Cash flow forecasted on a regular basis for upcoming week, month and year 2. KPIs have been revised to include cash flow metrics and forward looking metrics to help manage and mitigate risk 3. Viability and appropriateness of financing facilities is underway as part of Business Planning process	In Progress	Director of Finance
20	Development cash management (1-9 years)	Until consistent cash streams are generated from the release of shared equity on sale or settlement of properties, there may be insufficient cash to fund the acquisition of land and the construction or acquisition of program inventory necessary to maintain the program indefinitely.	1. Revolving credit facility of $10M is available without notice 2. AHCC is researching partnerships with complementary organizations that have land	High	High		↔	1. inventory acquisition represents significant challenges to cash flow if risk assessment of timing of projects and take down impact is not reviewed	No	1. New inventory acquisition process is being developed and implemented through Development Committee and Board	In Progress	President & CEO
21	Brand	As a direct subsidiary of the City, AHCC has a strong brand and higher public exposure than most non-profits of a similar size. AHCC's profile and relationships with the general public, communities, City Council, homebuyers, and the building and development industry are particularly important to our ability to continue delivering homes at attainable prices in Calgary.	1. AHCC engages key stakeholders and proactively positions the organization through traditional and new media 2. AHCC monitors and manages any potential issues that could impact AHCC's profile 3. Standing with the building and development community is protected by working with partners who demonstrate integrity, financial stability and community support 4, AHCC's relationships with clients are paramount; great efforts are put in to educating customers to ensure they enter the program with all available information and realistic expectations 5. Risk of brand erosion due to social media events is mitigated through an internal process for dealing with issues as well as an internal social media policy that applies to employee's business and personal social media usage	Medium	Medium		↔	1. New website makes information more accessible to clients 2. Introduction of CRM software will improve communication	No		NA	Director, Marketing & Communications
22	Market	AHCC is exposed to market risk due to fluctuations in the Calgary area housing market affects future land and housing inventory sale prices	1. Reduced real estate values erode margins and increase the risk of write down of inventory and land. Write downs were taken on inventory in 2016, 2017 and 2018.	High	High		↔	1. Ownership of standing inventory represents a high risk to AHC	No	1. Standing inventory being sold in 2019 2. Working with clients in Rent to Own pilot program	NA	President & CEO
23	Regulatory	AHCC is exposed to regulatory risk that impacts our strategy. This includes federal interest rate policy, CMHC fees and regulations, municipal development policies, bank risk appetite	1. Communicate quarterly with CMHC on upcoming changes 2. Market analysis 3. Skills based board across various sectors	Medium	High		↔	1. Federal government stress test has had huge impact on our business 2. Erosion of grant availability has weakened economic performance of projects	No	1. Ensure all projects are sustainable without reliance on grant funding	NA	President & CEO

Calgary Housing Company 2018 Annual Report

EXECUTIVE SUMMARY

This is the annual report presentation to the City's Audit Committee from the Audit and Risk Management (ARM) Committee of Calhome Properties Ltd. operating as Calgary Housing Company (CHC).

This report, attachments and presentation provide a comprehensive response to the letter from the Audit Committee chair dated 2019 May 7 which requested the following items provided:

1. Brief summary on governance structure, succession planning and recruitment process, recent financial highlights and key 2019 initiatives/strategy;
2. Report on CHC's key operating and strategic risks including trends and risk management plans and processes;
3. Analysis of the top three financial and/or operating risks that in CHC's opinion would impact the City of Calgary and/or be of concern to the City's Audit Committee;
4. Report on internal controls including information technology and systems;
5. Most recent management letter including management responses as appropriate; and
6. Audit Committee 2019 Work Plan.

In summary, CHC has established good governance practices including recruitment processes, has demonstrated good financial performance in 2019. There have been no internal control issues identified through the external audit.

CHC is still facing significant risks. The highest identified risks that may affect CHC and therefore the City of Calgary as shareholder are: insufficient funds, uncertain funding and third party owned assets managed by CHC.

RECOMMENDATION:
That the Audit Committee receives the presentation with respect to Report AC2019-0645 for the information.

PREVIOUS COUNCIL DIRECTION / POLICY

The City of Calgary Audit Committee Bylaw 48M2012 states that Audit Committee is responsible for: "overseeing its governance responsibility with audit committees of The City's major autonomous civic entities."

Section 4(1)(i)

BACKGROUND

This report responds to the letter dated 2019 May 7, sent to the Chair of Calgary Housing Company's (CHC) Audit and Risk Management Committee. This report, attachments and presentation provide a comprehensive response to the letter from the Audit Committee chair.

The annual reporting process is intended to be an ongoing dialogue between The City and CHC. It is anticipated the annual report will assist with developing further understanding of CHC's governance approach.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

This section contains CHC's responses to the six items that are requested to be included in the annual report. Further details are also provided in the attachments noted below.

1. **Brief summary on governance structure, succession planning and recruitment process, recent financial highlights and key 2019 initiatives/strategy**

1.1. Governance Structure, Succession Planning and Recruitment Process

CHC is a wholly-owned subsidiary of The City of Calgary (The City) and established under the *Business Corporations Act* as a non-profit corporation. CHC is governed by a Board of Directors, appointed by City Council which represents The City as the sole shareholder of the company. In 2018 and 2019, CHC's unanimous shareholders agreement was changed to allow between 2 to 3 Council members, an appointee from the City's Treasurer's office, the Director of Calgary Neighbourhoods and between 6 to 8 citizen representatives to be appointed to the Board of Directors. In 2018, CHC's unanimous shareholders agreement was changed to provide authority to the CHC Board of Directors to elect any one of its members as Chairperson of the Board of Directors (previously the Chairperson had to be a Council member). CHC's Administration is led by a President who also holds the role of Director of the Calgary Housing Business Unit.

CHC manages properties and programs on behalf of The City, the Province of Alberta, and itself. CHC, in its present incarnation, was formed in 2001 when Calhome Properties Ltd. took on the assets and liabilities of Calgary Housing Authority and assumed the trading name of CHC.

The Province appoints and authorizes CHC to manage, administer and maintain the social housing portfolio under a Ministerial Order and the Alberta Housing Act. CHC receives its operating funding from provincial government operating subsidies and through rental revenues and does not depend on tax revenue for its funding. Under the existing agreement, The City is responsible for covering 10% of The City-owned social housing deficit and this amount is currently funded through tax support. The surplus contribution returned to The City for City Partnership and Corporate Properties residential portfolios combined was $1.5M in 2018.

The properties that CHC manages are owned by the Province, The City and Calhome Properties Ltd. CHC provides homes for approximately 25,000 tenants in CHC managed properties or with private landlords through the rent supplement program. In addition to ownership, properties are divided across one of seven portfolios. Depending on the portfolio, CHC may be subject to different legislative or operating agreement requirements, such as the Alberta Housing Act or a specific agreement relating to that portfolio.

During 2017, the Federal Fixed Subsidy portfolio (previously subsidized by CMHC), merged with the Provincial Fixed Subsidy portfolio as a result of a reorganization where the subsidy for both portfolios is received by the Province. This decreased the number of portfolios that CHC operates from nine in 2017 to eight in 2018. Subsequently, the Provincial Fixed Subsidy portfolio also merged with the Calhome owned portfolio. This changed the number of portfolios from eight down to seven in 2018.

CHC reports to a Board of Directors. The Board is supported by three committees and a task force, each having a specific mandate and oversight responsibility. They are as follows:

- Audit and Risk Management Committee
- Government Relations Task Force
- Development and Asset Management Committee
- Governance Committee

The Governance Committee is responsible for succession planning and recruitment. These processes are based on Board best practices and identifying appropriate qualifications based on a skills matrix.

For further details on CHC's governance structure, succession planning and recruitment refer to Attachment 2 of this report.

1.2. Recent Financial Highlights

The following section contains recent financial highlights extracted from the 2018 statement of financial position and statement of operations.

Statement of Financial Position

Cash: The cash balance at the end of 2018 has risen from the prior year to $38.9 million. It is worth noting that $27.9 million (see note 3 in financial statements) of this balance is restricted for items such as tenant security deposits, advance government funding, replacement reserve funding and deferred capital contributions.

Mortgages Payable: CHC had $12.6 million in outstanding mortgages at December 31, 2017. Over 2018, CHC repaid $2.5 million in long-term debt. At December 31, 2018 CHC had $10.1 million in mortgages payable.

Tangible Capital Assets: Tangible Capital Assets decreased to $96.9 million as at December 31, 2018 from $99.7 million in 2017. The decrease was mostly due to asset amortization.

Statement of Operations

REVENUE

Rent Revenue: Rent revenue was $48.2 million for the year ended December 31, 2018, which is consistent with the previous year. Rent revenue is being affected by lower regulated rent-geared-to income (RGI) rents.

Rent Supplements: The rent supplement programs provided $19.1 million in revenues and there is a corresponding expense under rent supplement payments as this is a flow through program and CHC receives funding to offset salary and administration costs to deliver this program.

EXPENSES

Administration: CHC incurred $3.9 million in administration costs for the year ended December 31, 2018. These costs, excluding the direct charges to certain portfolios, are allocated based on the number of units in each portfolio. CHC realized $0.3M savings from lower salary expenses due to position vacancies and strategic workforce planning.

Maintenance: Maintenance expenses were $35 million for the year ended December 31, 2018. Actual maintenance expenses were higher than budget driven by additional suite renovation work performed on provincially-owned properties. These costs were incurred to address a backlog of accumulated work requirements. Overall, CHC performed necessary suite renewals and maintenance on 2,156 units during 2018, in addition to work performed on common areas, fencing, and other preventative maintenance measures.

SURPLUS

CHC reported a surplus of $3.8 million after returning $1.5 million to The City from the operation of The City's mixed-income portfolios. The CHC surplus was consistent with the previous year.

Capital Expenditures

Overall, 2018 actual capital expenditures were $4.7 million lower than the budget of $5.2 million primarily due to the delay in renovating the commercial space of the East Village Place project. A project management agreement for the space has been signed in the summer of 2019 and work has commenced in the fall of 2019.

1.3. Key 2019 Initiatives / Strategies

CHC's Strategic Plan was extended by two years at CHC's Annual General Meeting in June 2018 and is now in place until 2022. A summary of CHC's key priorities and objectives as well as specific 2019 initiatives are identified as follows:

Priority I: Deliver quality service to clients that contribute to their individual and community wellbeing

Objective 1: Take a client-centric approach to delivering safe and affordable housing
Objective 2: Create or connect clients with programs and services that contributes to their wellbeing

Priority I 2019 Initiatives:

CHC will work to enhance its programs and services by developing a client centric framework to create positive outcomes. CHC will develop and implement an onboarding program that will build capacity in CHC tenants and increase pride in ownership. In addition, CHC will develop an outcome focused partnership strategy that will identify partners to provide appropriate tenant programs and services to improve housing stability and individual wellbeing.

Priority II: Achieve operational and financial sustainability

Objective 1: Maximize the performance value of assets
Objective 2: Increase financial sustainability

Priority II 2019 Initiatives:

CHC will work to refine its Strategic Asset Management Program and Asset Management Plan to incorporate a level of service framework that improve the management of asset and financial risks as well as customer experience. Furthermore, it will establish a coordinated approach to environmental sustainability initiatives to decrease operational costs. CHC will advance the sustainability program to include factors such as operational costs, building condition assessments, marketability, etc. to effectively manage its portfolio.

Priority III: Realize organizational excellence

Objective 1: Increase organizational efficiency and effectiveness
Objective 2: Engage employees in a safe and empowering environment
Objective 3: Implement innovative and strategic business practices
Objective 4: Advance relationships with stakeholders

Priority III 2019 Initiatives:

CHC will achieve organizational excellence via efficiency and effectiveness in people, processes and technology while continuing to provide quality service to our customers and enhancing relationships with partners. Continuous improvement will be achieved through: implementation of the Enterprise System Software (ESS) program, which is scheduled to “go-live” on November 12, 2019, adoption of an enhanced supply chain operating model, performance measurement, creation of CHC property-specific emergency response plans, and application of best practice project management methods.

2. Report on CHC’s key operating and strategic risks including trends and risk management plans and processes

On 2011 May 27, the Board approved the adoption of the City’s Integrated Risk Management (IRM) Model as a model for use by CHC and directed Administration to annually inform the Board through the ARM Committee regarding the current risk status of the company. The risks identified in this report are integrated in the Calgary Housing business unit risk register in alignment with The City of Calgary IRM model and presented to the City Audit Committee.

Since the approval by the Board and implementation of the City’s IRM Model, Administration has taken the necessary steps to implement and sustain the IRM Model.

Administration has provided annual risk reports in each year following the original adoption of The City’s IRM model.

2.1. Financial Risk: Insufficient Funds

CHC has insufficient operating and capital reserve funds to support projected lifecycle, maintenance, redevelopment and emergency needs. However, CHC has implemented an Asset Management Program and through the Sustainability Project, it is developing a framework to help address these issues and improve informed decision making.

2.2. Political Risk: Uncertain Funding

CHC relies on government transfers to fund Provincially-owned and City-owned social housing portfolios under its management. Funding for these portfolios is discussed in the operating agreements and CHC is required to obtain annual budget and funding approvals from the Government of Alberta. Annual fluctuations in provincial funding commitments as well as the expiration of the operating agreements in the near future pose a major risk to the financial sustainability of Provincially-owned and City-owned social housing portfolios. The current operating agreements expire between 2021 and 2024. Without new operating agreements, there is the risk that the City will become responsible to fund the portion of the operating deficit that the Province currently funds in the City-owned social housing portfolio, which is estimated to be $496K in 2021 and $6.2M in 2024.

2.3. Infrastructure Risk: Third party owned assets managed by CHC

Current operating agreements between CHC and The City and CHC and the Government of Alberta do not identify asset management within the scope of CHC contracted services. CHC Administration has approached both The City of Calgary and the Government of Alberta to provide a disciplined basis for asset condition assessments and capital investment prioritization based on an agreed risk and level of service criteria.

3. Analysis of the top three risks that in CHC's opinion would impact the City of Calgary and/or be of concern to the City's Audit Committee

Attachment 4 of this report provides an overview of the principal risks that could affect the achievement of CHC strategic priorities and plans. The highest identified risks that may affect CHC and therefore the City of Calgary as shareholder are: insufficient funds, uncertain funding and third party owned assets managed by CHC as noted above.

For further details on the top risks, refer to Attachment 3 of this report.

4. Report on internal controls including information technology and systems

In 2018, CHC used the COSO 2013 framework to perform an evaluation of existing controls and their effectiveness. CHC division Managers and the President self-assessed whether the internal controls they are accountable for were present and functioning. Based on their best judgement, CHC Administration evaluated internal controls, within each of the 17 principles set by the COSO framework, and determined that the controls were present, functioning and working together among the principles.

The 2018 Internal Control update (CHC2018-A11) was received for information at the 2018 September 14 ARM committee meeting. At this meeting, Administration was directed to bring forward an update in 2019 rather than the full assessment. The approved internal control framework is intended to continuously evolve with the needs of CHC and any changes in the industry as well as mirror The City of Calgary current framework and assessment. CHC Administration anticipates continuing to conduct an internal control assessment report every two years starting in 2020 with interim status updates on the internal controls improvement opportunities starting in 2021.

For further details on CHC's internal controls evaluation process, refer to Attachment 4 of this report.

5. Most recent management report including management responses as appropriate

Deloitte LLP completed the external audit of CHC's 2018 financial statements and determined there were:

- No uncorrected misstatements in the course of the audit
- No corrected misstatements in the course of the audit
- No unadjusted disclosure deficiencies
- No significant deficiencies in internal controls were identified

For further details on CHC's financial report, audit plan and audit report, refer to Attachments 6 and 7 of this report.

6. Audit Committee 2019 Work Plan

CHC's Audit and Risk Management committee reviews its Terms of Reference each year. The ARM Committee's Terms of Reference outline the committee's membership, calendar and meetings, mandate, duties and responsibilities, resources needed, accountability, accessibility, communication, decision powers, and evaluation. For the complete 2019 Audit and Risk Management Committee terms of reference and workplan, refer to Attachment 5 of this report.

Stakeholder Engagement, Research and Communication
This report was drafted with input from ARM Committee and the Board of Directors. The financial statements were audited by Deloitte LLP.

Strategic Alignment
This report aligns with CHC's 2016 – 2022 Strategic Plan by enhancing its relationship with The City and clarifying CHC's role and governance. This report aligns with the City Audit Committee's governance responsibility to receive annual reports on matters of audit governance, including the CHC's most recent annual financial statements.

Social, Environmental, Economic (External)
This report has no social, environmental or economic implications.

Financial Capacity
Current and Future Operating Budget:
This report has no current or future operating budget implications.

Current and Future Capital Budget:
This report has no current or future capital budget implications.

Risk Assessment

CHC uses The City's Integrated Risk Management Policy and Framework as a model to report annual to its Board of Directors. Attachment 3 provides additional detail on CHC's risk reporting.

REASON FOR RECOMMENDATION:
This report responds to the City Audit Committee reporting requirement and is intended for information only.

ATTACHMENTS

1. CHC Annual Report to City Audit Committee presentation from October 24, 2019
2. CHC Summary of Governance Structure, Succession Planning and Recruitment Process
3. CHC 2019 Analysis of Key Operating and Strategic Risks Impacting the City of Calgary
4. CHC Internal Controls Assessment
5. CHC ARM Committee Workplan
6. Deloitte 2018 Year End Communication
7. CHC 2018 Financial Statements

AC2019-0645
ATTACHMENT 1

2018 Annual Report to City Audit Committee

Thursday, October 24, 2019

Agenda

- Overview
- Governance structure
- Key 2019 strategic initiatives
- 2019 Risk report
- External Audit Report

Home is what we do.

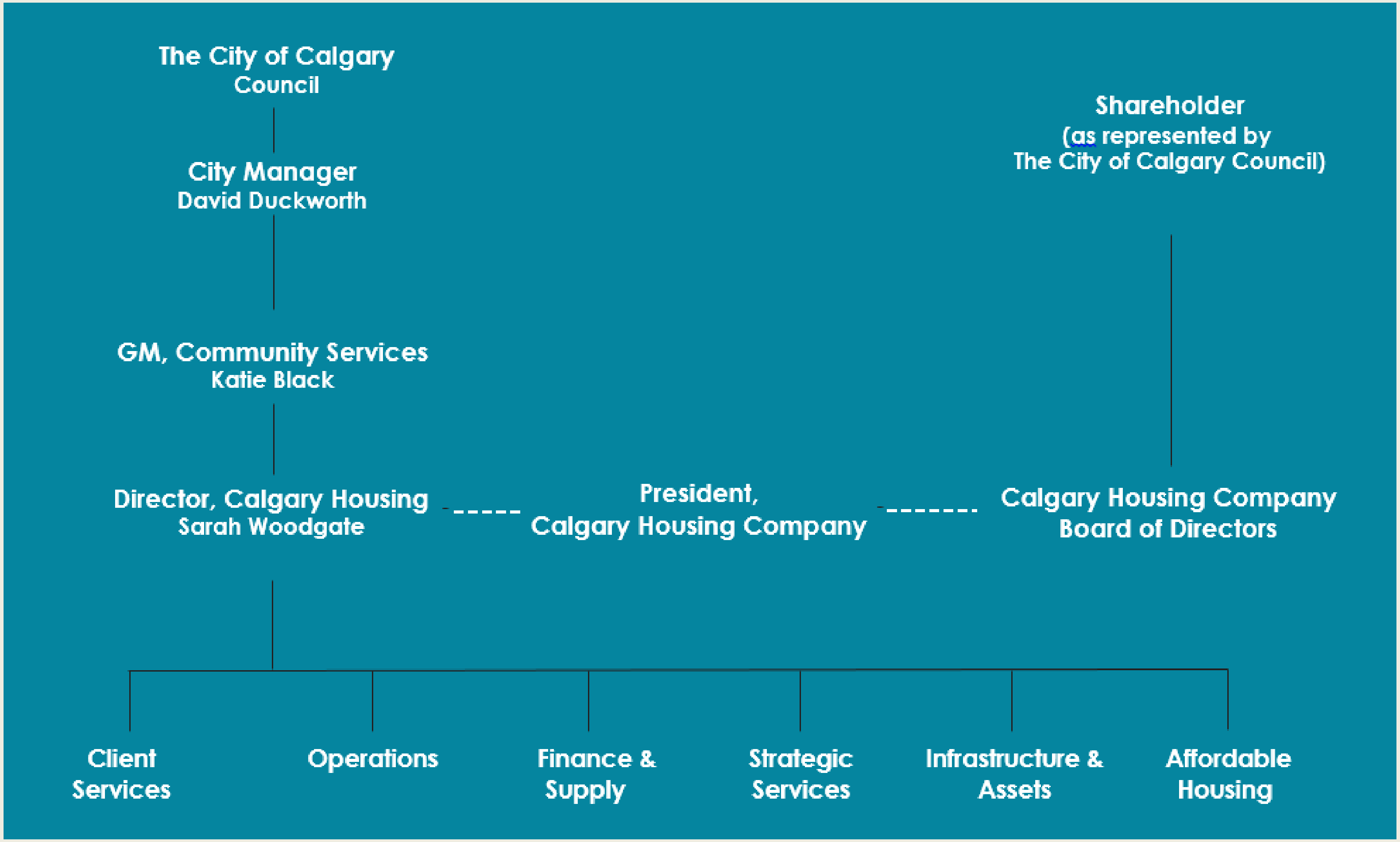
CHC by the numbers

25,000

Housing Tenants

1,100 Seniors	**14,000** Adults
6,700 Children 6-17	**2,600** Pre-School Children

CHC Governance Structure



CHC Board Composition

- Up to 3, but not less than 2 Council Members
- 6-8 Citizen Representatives
- Director of Calgary Neighborhoods, or successor business unit of The City
- City Treasurer, or appointed representative of the Treasurer's Office

CHC's 2016 – 2022 strategic priorities

Deliver quality customer service that contributes to their individual and community wellbeing

Achieve operational and financial sustainability

Realize organizational excellence

Integrated Risk Management Top Rated Risks

Financial Risk: Insufficient Funds	Trending Likelihood Impact
Political Risk: Uncertain Funding	Trending Likelihood Impact
Infrastructure Risk: Condition of Third Party Owned Assets	Trending Likelihood Impact

External Audit Report

Deloitte LLP completed the audit of the 2018 financial statements and issued an unqualified audit opinion

- ❖ No uncorrected misstatement in the course of the audit
- ❖ No corrected misstatements in the course of the audit
- ❖ No disclosure deficiencies identified
- ❖ No significant deficiencies in internal control were identified

Thank You!

CHC Summary of Governance Structure, Succession Planning and Recruitment Process

Calgary Housing Company is a wholly-owned subsidiary of The City of Calgary. In the spring of 2015, Calgary Housing became a business unit within Community Services department. CHC's Board composition is as follows:

Composition:	Up to 3, but no less than 2 Members of Council
	6 to 8 Citizen Representatives
	1 Director, Calgary Neighbourhoods (or successor business unit of The City)
	1 City Treasurer or appointed representative of the Treasurer's office

CHC has four committees each having a specific mandate and oversight responsibility.

AUDIT AND RISK MANAGEMENT COMMITTEE

MANDATE

To assist the Board in fulfilling its oversight responsibilities by:

- Reviewing financial information that will be provided to the shareholder and to the public;
- Maintaining the systems of internal controls that the President and the Corporate Finance & Risk Officer (CFRO) have established; and
- Facilitating the audit process

To oversee the development, implementation and monitoring of appropriate corporate risk strategies relative to legislative compliance, legal/statutory and business requirements.

GOVERNMENT RELATIONS TASK FORCE

MANDATE

- Seeks to develop appropriate external relationships with the major stakeholders of Calgary Housing Company, including the federal, provincial and municipal governments;
- Establishes the strategic goals for maintaining and advancing Calgary Housing Company's relationships with the three orders of government; and
- Establishes the strategic goals that guide Calgary Housing Company's advocacy and government relations activity.

CHC Summary of Governance Structure, Succession Planning and Recruitment Process

DEVELOPMENT AND ASSET MANAGEMENT COMMITTEE

MANDATE

- Guides the creation of Calgary Housing Real Estate Strategy;
- Reviews and approves the Asset Management Plans; and
- Reviews and approves properties to be acquired, disposed of, or re-developed.

GOVERNANCE COMMITTEE

MANDATE

- Reviews the roles of the directors and officers of the corporation and their accountability to the Board;
- Reviews and recommends changes to ensure ongoing good governance practices;
- Develops and monitors Board development plans including educational and informational opportunities for the Board;
- Develops the succession plan for future Board appointments and ensures through appropriate Board activities that the Board operates in a harmonious fashion; and
- Responsible for governance documents and setting agenda for AGM and annual strategic planning retreat.

SUCCESSION PLANNING AND RECRUITMENT PROCESS

Succession planning and recruitment is led by the Board's Governance Committee. The process responds to the number and type of vacancies becoming open.

PROCESS FOR RECRUITMENT OF TENANT, CITIZEN AND OTHER REPRESENTATIVES

When recruiting for citizen representatives or multiple positions, the following process is used:

- Complete a skills matrix to identify gaps in skills/qualifications required;
- Determine the selection panel and whether an external recruitment consultant is required (an external recruitment firm was utilized for the 2018 and 2019 recruitment);
- Develop the tools and timelines (posting, selection criteria, interview questions, etc.);
- Publicize the opportunity;
- Vet the applications and conduct interview; and

CHC Summary of Governance Structure, Succession Planning and Recruitment Process

- Bring forward a slate of recommendations at the Annual Shareholder Meeting.

ISC: UNRESTRICTED
AC2019-0645
Attachment 3

CHC Audit Committee Report to
City Audit Committee
2019 October 24

Calgary Housing Company – 2019 Analysis of Key Operating and Strategic Risks Impacting the City of Calgary

BACKGROUND

On 2011 May 27, The CHC Board of Directors approved the adoption of the City's Integrated Risk Management (IRM) Policy as a model for use by CHC, and directed CHC administration to annually inform the Board through the Audit and Risk Management (ARM) Committee regarding the current risk status of the company.

Since the approval by the Board of Directors and implementation of the City's IRM Model, CHC administration has taken the necessary steps to implement and sustain the IRM Model. Administration has provided annual risk reports in each year following the original adoption of The City's IRM model.

PURPOSE AND METHODOLOGY

Administration continues to actively:

Increase staff awareness and understanding of risks and the IRM model.
Engage all senior managers in the review and in-depth analysis of identified risks (see attachments for detailed analysis).
Develop detailed mitigation/action plans with timelines in addition to an overall mitigation plan for all risks determined to be highest (in terms of both likelihood and impact).

In preparation of this report, Administration's Corporate Management Team (CMT) met on several occasions and evaluated all current identified risks to achieving the business plan goals as part of the CHC Strategic Plan. Based on the professional experience and judgement of Administration, risks to the corporation were discussed and rated in terms of likelihood of occurrence in year 2019 and the significance of their impact on the operational status of CHC. The highest likelihood and highest impact rated risks are continually being monitored. They are outlined in the explained in CHC Risk Analysis. The highest identified risks relate to vacancy rates and rent revenue, reserve funds, uncertainty of funding sources and third party owned assets managed by CHC.

STAKEHOLDER ENGAGEMENT AND STRATEGIC ALIGNMENT

Administration continues to engage senior management staff on the IRM model and regularly monitors its risks. Administration supports a corporate philosophy and culture that encourages all staff to manage risks proactively and communicate openly about risk. All CHC staff actively report and manage operational risk in their work plans.

Annual reporting of the CHC Integrated Risk Management report to the CHC Board of Directors is in alignment with CHC's Strategic Priority to Strive for Organizational Excellence, through the review and evaluation of integrated risks in supporting decision making to meet the company's objective of increasing organizational efficiency and effectiveness. This report is also in alignment with both the City of Calgary and CHC's IRM policies through the consistent identification, analysis and communication of integrated risks within the existing business environment at CHC. The following heat map and trend analysis summarize and analyze CHC's key operating and strategic risks which are also the risks that may impact the City of Calgary. Management's mitigation strategies are also part of the analysis.

CHC Audit Committee Report to
City Audit Committee
2019 October 24

Calgary Housing Company – 2019 Analysis of Key Operating and Strategic Risks Impacting the City of Calgary

Likelihood

Impact	Low	Medium	High
High		Vacancy Rates and Decreased Rent Revenue Increased Cost of Externally Sourced Services Operating without an Agreement	Insufficient Funds Uncertain Funding Third Party Owned Assets Managed by CHC Falls Below Minimum Condition Standards
Medium	Emergency Events Occupational Exposure to Hazards Security Threats Damage to Brand	Business Disruptions CHC Owned Assets Falls Below Minimum Condition Standards Information Security Breach Technology Risk Failure Data Integrity Internal Fraud	
Low			

Level of Risk	Definition
	The organization is willing to accept and monitor some risks since they have low likelihood of occurrence however with minor consequences.
	The organization recognizes these risks will probably occur and will have moderate consequences. Management will monitor and manage risks by implementing contingency plans to reduce the likelihood and impact of their occurrence.
	The organization recognizes that these risks are top priorities of critical importance to the organization. Management is spending more effort to manage and monitor these risks by implementing risk mitigation strategies to reduce the likelihood and impact of their occurrence.

CHC Audit Committee Report to
City Audit Committee
2019 October 24

Calgary Housing Company – 2019 Analysis of Key Operating and Strategic Risks Impacting the City of Calgary

Analysis of CHC's top 3 Risks

Risk #	Risk Category	2017 Risk Map	Change	2018 Risk Map	Change	2019 Risk Map	Trend Explanation and Risk Mitigation Summary
1	**Financial Risk: Insufficient Funds**	Likelihood: High Impact: High	→	Likelihood: High Impact: High	→	Likelihood: High Impact: High	*Trend* • Continues to be one of CHC's top 3 highest risks • CHC has insufficient operating and capital reserves to support lifecycle needs, replacement of assets or meet emergencies. • The current economic situation is limiting availability of funding for operating and capital reserves. *Mitigation* • Asset Management is working to complete assessments of buildings conditions • New financial reserves strategy is in CHC's 2019-2022 business plan • Management reviews regular financial reporting and monitors CHC's revenues and expenditures.
2	**Political Risk: Uncertain Funding**	Likelihood: High Impact: High	→	Likelihood: High Impact: High	→	Likelihood: High Impact: High	*Trend* • Continues to be one of CHC's top 3 highest risks CHC relies on government transfers to fund Provincially-owned and City-owned social housing portfolios under its management. • Annual fluctuations in provincial funding commitments as well as the expiration of the operating agreements in the near future pose a major risk to the financial sustainability social housing portfolios. *Mitigation* • Significant advocacy efforts have resulted in increased funding in 2018 and maintained in 2019. However, CHC may experience revenue shortfall as operating agreements are expiring, which require sufficient and predictable funding to ensure continuing affordable housing services for the social housing units it manages on behalf of the Government of Alberta. • CHC is in the process of negotiating a new operating agreement with the provincial government which would clarify long term commitment and funding responsibility for social housing program.

CHC Audit Committee Report to City Audit Committee 2019 October 24

Calgary Housing Company – 2019 Analysis of Key Operating and Strategic Risks Impacting the City of Calgary

Risk #	Risk Category	2017 Risk Map	Change	2018 Risk Map	Change	2019 Risk Map	Trend Explanation and Risk Mitigation Summary
3	**Infrastructure Risk: 3rd Party Owned Assets Managed by CHC Fall Below Minimum Condition Standards**	Likelihood: High Impact: High	→	Likelihood: High Impact: High	→	Likelihood: High Impact: High	*Trend* • Continues to be one of CHC's top 3 highest risk • Current operating agreements do not identify asset management within the scope of CHC contracted services. • There is an increased risk of being unable to meet minimum condition standards as assets continue to age and lifecycle maintenance is not appropriately funded and prioritized. *Mitigation* • Conducting Building Conditions Assessments on City-owned properties to be completed Q3 2019. • Future Government of Alberta commitment regarding asset management services for Provincial-owned properties is under negotiation.

Risk #1 Financial Risk: Insufficient Funds

CHC currently has insufficient operating and capital reserves to support projected life cycle maintenance, redevelopment and emergency needs.

A reserve fund is a separate fund or account set up by a company to meet any future expenditures or financial obligations such as repairs and improvements that are both planned and/or unplanned in nature. It is important to have these reserves to meet these expenditures and possibly shield the company from large unmanageable payments that could impact the company's financial viability. The creation, use and management of reserve funds in a formalized financial reserve policy is considered good financial management. It is best practice for companies in Canada and the U.S. and a key component to a corporation's credit rating.

Management Mitigation Strategy

- Through the completion of Phase 1 and 2 of the Sustainability Project, CHC has become more aware of actual reserve requirements. In the 2019 – 2022 business plan CHC has identified achieving operational and financial sustainability as one of the top three organizational priorities and will continue to focus on maturing the sustainability program with a strategic focus on effective portfolio management.
- Action is being taken to better understand and manage revenues and expenditures with the goal to fund appropriate reserves.
- CHC is implementing an Asset Management Program to define what is required in order to correlate with the sources and availability of capital to fund these requirements.
- For the Calhome owned portfolios the Infrastructure & Asset Management group initiated a Building Conditions Assessment (BCA) program. This program assessed building conditions and the anticipated capital and non-recurring funding requirements for individual building

components. The completion of the BCAs is anticipated in year 2019. These funding requirements define the required lifecycle reserve. For 2019 and 2019 these lifecycle requirements have been funded by provincial grants, capital funding and City of Calgary capital allocations. A written services offer has been presented to The City and Province for the services of CHC Asset Management division to assist with sustainability plans for respective properties.

- A reserve strategy is in the CHC work plan with expected reserve policy and reserve terms of reference to be developed in 2020-2021. This strategy will set up a structure and priority model which will guide and establish reserves at CHC.

Risk 2 Political Risk: Uncertain Funding

A funding gap exists between the rent paid by social housing tenants, which is provincially regulated, the current amount of subsidy which CHC receives from the Province, and the actual cost to operate housing to a minimum standard. CHC's 2018 operating budget allocation from the Province was increased from $12M to $18M, and was recently maintained at that level for 2019, which is positive. However, capital grant funding is uncertain year-to-year and creates risk of unit closures for any work over $5,000 – especially in the first quarter of the year before Provincial budgets are confirmed at the end of March. The uncertainty over capital funding also delays project planning and procurement, resulting in capital work that often intensifies in the winter months when this work is harder and more expensive to accomplish.

CHC requires sufficient and predictable funding to ensure that the units it manages on behalf of the Government of Alberta meet Minimum Housing and Health Standards. Furthermore, the upcoming expiry of operating agreements (where properties will no longer receive any government subsidy), means that CHC requires investment to address the maintenance backlog and to ensure a viable transition to a more financially sustainable operating model.

Management Mitigation Strategy

- CHC is in the process of negotiating a new operating agreement with the provincial government which would clarify the funding responsibility that lies with the government and have more specific provisions relating to the commitment of long term funding of social housing that should be provided. The agreement will also more specifically spell out the consequences or options that would be available to all parties if a CHC funding request was not met or only partially met. CHC is confident that the new agreement would go a long way to addressing and mitigating this risk.
- CHC will continue to prepare for the eventuality that the 2020 budget request is unmet. Preparations include:
    - Assessing the legal obligations of all parties within the existing agreements.
    - Attempting to reach a new agreement.
    - Continuing to narrow the gap on the estimated investment backlog through the completion of building condition assessments.
- Providing clear and concise budget requirements for 2020 and beyond.

Working with the Province to obtain flexibility over regulations that govern rent calculation to pilot a more financially sustainable, mixed income operating model. CHC is continuing work on the sustainability project which assesses the financial requirements related to operating social housing once the provincial operating agreements expire. The aim is to transition properties to a self-sustaining model.

Risk 3 Infrastructure Risk: Third Party Assets Managed by CHC Fall Below Minimum Standard

As the CHC-managed portfolio of assets owned by third parties continues to age, life cycle maintenance needs to be appropriately identified, prioritized funded and implemented or there will be an increased risk of minimum condition standards not being met or of the lifespan of the housing stock being reduced. As well, construction methods and materials incorporated in older housing stock can represent an environmental safety or health risk if inappropriately managed. Also, there is a risk of high operational costs due to increased energy consumption as a result of dated construction materials or deteriorated asset condition.

Management Mitigation Strategy for Third Party Owned Assets Managed by Calgary Housing Company

Current operating agreements between CHC, The City and the Province do not identify asset management within the scope of CHC contracted services. This asset management program would provide a disciplined basis for asset condition assessments and capital investment prioritization based on agreed risk and level of service criteria. The program would define how capital investment decisions would be conducted and the resulting allocation of risk responsibility identified between CHC and the asset owner. The City of Calgary has responded by providing funding for conducting Building Condition Assessments on the City-owned properties managed by CHC. Asset management roles, and accountability is part of the operating agreement negotiations currently being conducted between CHC and the Province.

Calgary Housing Company
Internal Control Environment Self-Assessment Report

BACKGROUND

On September 19, 2016, Calgary Housing Company (CHC) Administration presented through report CHC2016-A09 to the CHC Audit and Risk Management (ARM) Committee, recommended and received approval that CHC adopt the Committee of Sponsoring Organizations (COSO) of the Treadway Commission: Integrated Framework to guide future internal control environment assessment and reporting. This is the most widely used framework for Sarbanes-Oxley Act (SOX) compliance and is the model of choice in many North American jurisdictions, including Canada. It is also currently utilized by The City of Calgary and the Calgary Parking Authority. This report also included an implementation process and schedule to conduct a self-assessment of current internal control environment at the entity level of CHC.

The implementation of an internal control environment framework, assessing of internal controls effectiveness and reporting is to provide the ARM Committee and CHC Board with an overview of CHC's current internal control environment controls, an assurance that adequate controls are in place and a commitment to ongoing continuous improvement.

The 2018 Internal Control update (CHC2018-A11) was received for information at the 2018 September 14 ARM committee meeting. At this meeting, Administration was directed to bring forward an update in 2019 rather than the full assessment. On September 13, 2019 administration provided to ARM committee a progress report on internal controls improvement opportunities that have been undertaken since the 2018 report.

The approved internal control framework is intended to continuously evolve with the needs of CHC and any changes in the industry as well as mirror The City of Calgary current framework and assessment. CHC Administration anticipates continuing to conduct a bi-annual internal control assessment report and annual status update on the internal controls actions taken and their performance. With the review of the internal controls to be undertaken as part of the 2020 internal audit, CHC anticipates follow-up action to begin in 2021-2022.

CHC INTERNAL CONTROL ENVIRONMENT SELF-ASSESSMENT INVESTIGATION

Objective:
The objective of the CHC Internal Control Environment Self-Assessment is to identify CHC's existing system of internal controls at the entity level.

Methodology:
The following procedure was performed:
- Engaged senior level management representing each operational division of CHC to identify existing internal controls and their owners
- Conducted one on one interviews with senior management regarding current status of internal controls of CHC at the entity level. This is a top-down assessment of critical internal environment controls

Internal Control Evaluation criteria used when completing the 2018 CHC Internal Control Self-Assessment Questionnaires:

- ✓ Present: Does a control exist (designed & implemented)? Answer: Yes or No
- ✓ Functioning: Does the control operate as intended to achieve objectives? Answer: Yes or No
- ✓ Major Deficiency: Management comment if a control exist and is there a major deficiency in the way the control operates to extent that one or more principles is omitted or effectively nonfunctional.

- Reviewed supporting documentation
- Consolidated management responses into one assessment report and opportunities for improvement list.

Limitations of the Self-Assessment:

Internal control can be expected to provide only reasonable assurance to management and board of directors of the achievement of CHC's objectives. No system of internal control will always do what it is designed to do or provide absolute assurance for any of the objective categories. While there are internal control limitations, management must be aware of these when selecting, developing and deploying controls that can practically minimize these limitations.

Types of limitations to internal control are:

- Preconditions of Internal Control such as weak governance
- Flawed human judgment in decision making
- External events outside the organization's control
- Breakdowns due to human errors
- Management can override the system of internal control
- Circumvent controls through collusion by staff

Resources:

The project is supported with resources provided internally by CHC pending availability and direction for CHCMT and ARM Committee.

Testing of Internal Controls:

This project is a review of the entity level internal controls at CHC. No testing was performed at the operational or functional level. CHC is currently, through the implementation of the Enterprise System Solution (ESS) is undergoing a systems, processes and procedures review in all areas of the organizations as it is preparing to transition to new technology in 2019/2020. As such, further scoping of work of a consultant resource to test CHC internal controls could be reviewed in the next phase as instructed by the ARM committee and CHCMT.

INTERNAL CONTROL FRAMEWORK RECOMMENDATION

Based on the 2018 assessment, CHC Administration's conclusion and recommendation is that the overall system of internal controls is effective. The conclusion is based on the professional experience and judgement of the Administration. CHC division managers and the President self-assessed whether the internal controls they are accountable for are present and functioning.

In 2019, CHC Administration focused its efforts on opportunities of improvement. Work is progressing well for many of the previously identified opportunities:

- CHC continues to work on a comprehensive update of CHC policies.
- CHC continues to follow best practices in public sector procurement and introduced changes to comply with new trade agreements. CHC Management has established clear guidelines related to responsibilities of all contracted vendors. CHC is working with internal staff and suppliers for ways to improve quality of proposals and strengthen the contract management process.
- CHC is closely working with The City and Province of Alberta to ensure operational and economic sustainability, and continued alignment between the Provincial Affordable Housing Strategy, the Corporate Affordable Housing Strategy and CHC's Strategic Plan. In 2019, a project team was assembled to work on Transforming Calgary Housing. Renegotiating expired operating agreements with the Province is part of the team's main objectives. Due to the provincial election, negotiations were placed on hold. The parties are expected to reconvene in September 2019 to continue negotiations, with the revised timeline for a new agreement expected in 2020.
- The implementation of an Enterprise System Solution (ESS) has been the focus for CHC as the company will transition to a new technology process in Q4 2019. This project team is working closely with City Information Technology and all CHC divisions to evaluate and develop processes, procedures and controls throughout the whole organization in preparation of a new system implementation.

CHC Audit and Risk Management Committee 2019 Workplan

MEMBERSHIP: As approved by motion at the CHC Board.

CALENDAR AND MEETINGS:

Meeting schedules will correspond with the calendar of the Auditor and otherwise at the call of the Chair.

MANDATE:

The Audit and Risk Management Committee (the "Committee") is established as a committee of the Board. The purpose of the Committee is to assist the Board in fulfilling its oversight responsibilities by reviewing:

I. the external audit process;
II. the financial information that will be provided to the Board and the shareholder and to the public; and
III. the systems of internal controls and integrated risk management framework and assessment that the President and the Corporate Finance and Risk Officer (CFRO) have established.

To oversee the development, implementation and monitoring of appropriate corporate risk strategies relative to legislative compliance, legal/statutory and business requirements.

DUTIES AND RESPONSIBILITIES:

The committee will perform the following activities:

A. External Audit

i. Provide an open avenue of communication between the auditor and the Board;

ii. Review and approve the external audit plan prior to commencement of the audit;
iii. Consider and review with the President, the CFRO and the auditor:
iv. The adequacy of the Corporation's internal controls including computerized information system controls and security;
v. Management letters and any related significant findings and recommendations of the auditor together with the President and CFRO responses.
vi. Review with the President, the CFRO and the auditor at the completion of the annual examination:
    a) The Corporation's annual financial statements;
    b) Any changes in accounting policies and practices, and compliance with accounting standards;
    c) Major judgmental areas;
    d) Significant adjustments arising from the audit;
    e) The findings of the auditor's audit of the financial statements and their report;
    f) Any significant changes to the audit plan;
    g) Any other matters related to the conduct of the audit that are to be communicated to the Committee under public sector accounting standards.
vii. Review other published documents and consider whether the information contained in them is consistent with the information contained in the annual financial statements;
viii. Meet separately with the President, the CFRO, and the auditor as required to discuss any matters that the Committee or these groups believe should be discussed privately.

B. Financial Statements and Other Financial Information:

i. Review and recommend to the Board for approval the annual Operating and Capital budgets of the Corporation;
ii. Ensure that the annual Operating and Capital budgets of the Corporation support the approved Business Plan of the Corporation by ensuring the business plan actions are considered and funded where fiscally feasible;
iii. Review, approve and provide to the Board the quarterly financial statements of the Corporation;
iv. Review and recommend to the Board for approval the annual audited Financial Statements and other financial information that will be provided to the Shareholder;
v. Review and recommend to the Board for approval the four-year Financial Forecast (on cycle).

C. Risk Management and Internal Control:

i. To develop, implement and monitor a risk management framework for CHC;
ii. Inquire of the President, the CFRO, and the auditor (where necessary) about significant risks or exposures and assess the steps the President and CFRO have taken to minimize such risk;
iii. Require that the President and the CFRO provide appropriate assurances of compliance addressed to the Committee outlining their activities to ensure compliance with key regulatory requirements and internal control practices.

RESOURCES NEEDED:

The CHC CFRO, appropriate staff and consultants to advise on risk management and audit matters, as well as staff to document meetings and create reports as directed by the committee.

ACCOUNTABILITY:

The Committee is accountable to the CHC Board only.

ACCESSIBILITY:

Issues may be brought to the Committee through the audit process, from the Board, or through management.

COMMUNICATION:

The Committee will communicate to the Board through reports at regular meetings, and the Committee will also communicate directly with the auditor on behalf of the Board.

DECISION POWERS:

The Committee will forward its recommendations to the CHC Board on all matters brought before it.

EVALUATION:

The Committee will review its terms of reference and effectiveness no later than each year-end.

COMMITTEE TIMETABLE

The timetable on the following pages outlines the Committee's schedule of activities during the year.

ANNUAL WORKPLAN

AUDIT AND RISK MANAGEMENT COMMITTEE

A. External Audit	**Q1**	**Q2**	**Q3**	**Q4**
Review and approve the external audit plan				✓
Consider & review with the President, CFRO, and the auditor: a) The adequacy of the Corporation's internal controls including the computerized information systems controls and security b) Management letters and any related significant findings	✓			
Review with the auditor: a) Annual financial statements b) Any changes in accounting policies and practices c) Significant adjustments arising from the audit. d) The findings of the audit e) Any significant changes to the audit plan	✓			

CHC Audit and Risk Management Committee 2019 Workplan

f) Any other matters related to the conduct of the audit				
B. Financial Statements and Other Financial Information	**Q1**	**Q2**	**Q3**	**Q4**
Review and recommend to the Board for approval the annual Operating and Capital budgets				✓
Ensure that the annual Operating and Capital budgets support the approved business plan				✓
Review, approve and provide to the Board for information the quarterly financial statements including vacancy information and investment reporting		✓	✓	✓
Review and recommend to the Board for approval the annual audited financial statements and other financial information provided to the Shareholder	✓	✓		
Review and recommend to the Board for approval the four-year budget and financial forecast (on cycle)			✓	
D. Risk Management and Internal Control	**Q1**	**Q2**	**Q3**	**Q4**
Review and receive for information the annual Integrated Risk Management report. Forward the report to the Board to be received for information.		✓		
Inquire of the President, the CFRO, and the auditor (where necessary) about significant risks or exposures and assess the steps taken to minimize such risk	✓	✓		
Review information and internal control systems			✓	

Receive for information the annual vendor contract spending (over fifty thousand dollars) report	✓			
Review the outstanding legal claims report	✓			
Bring a recommendation forward on the future application of Maximum Income Limits (MIL)	✓			
Receive for information the Procure2Pay Report on Status of Implementation				✓
Review annually the CHC Investment policy and recommend any required changes. Forward to the CHC Board the CHC Investment policy annually if changes are recommended by ARM committee.		✓		
Other	**Q1**	**Q2**	**Q3**	**Q4**
Review Committee Terms of Reference				✓
Review and approve the annual work plan				✓

AC2019-0645
ATTACHMENT 6

Deloitte.

Calhome Properties Ltd.

Report to the Audit and Risk Management Committee on the 2018 audit

March 13, 2019

Deloitte.

Deloitte LLP
700, 850 2 Street SW
Calgary, AB T2P 0R8
Canada

Tel: 403-267-1700
Fax: 403-213-5791
www.deloitte.ca

March 1, 2019

To the Audit and Risk Management Committee of
Calhome Properties Ltd. (‘Operating as Calgary Housing Company’)

Report on audited annual financial statements

Dear Audit and Risk Management Committee members:

We are pleased to submit this report on the status of our audit of Calhome Properties Ltd. (‘Operating as Calgary Housing Company’) (“Calhome”) for the 2018 fiscal year. This report summarizes the scope of our audit, our findings to date and reviews certain other matters that we believe to be of interest to you. We are continuing to work with management to complete the outstanding matters summarized on page 2 of this report.

As agreed in our master services agreement dated November 16, 2018, we have performed an audit of the financial statements of Calhome Properties Ltd. as of and for the year ended December 31, 2018, in accordance with Canadian generally accepted auditing standards (“Canadian GAAS”) and expect to issue our audit report thereon dated March 21, 2019.

Our audit has been conducted in accordance with the audit plan that was presented to the Audit and Risk Management Committee at the meeting on November 16, 2018.

This report is intended solely for the information and use of the Audit and Risk Management Committee, management and others within Calhome and is not intended to be, and should not be, used by anyone other than these specified parties.

We, at Deloitte, work as one team to provide you with relevant business insights to assist you improving your current practices.

We look forward to discussing this report summarizing the outcome of our audit with you and answering any questions you may have.

Yours truly,

Deloitte LLP

Chartered Professional Accountants

Table of contents

Our audit explained

This report summarizes the main findings arising from our audit to date. When possible, we have also provided business recommendations on challenging issues that Calhome faces, based on our understanding of your organization and industry.

Audit scope and terms of engagement

We have been asked to perform an audit, which includes Calhome's financial statements (the "financial statements") in accordance with Canadian public sector accounting standards ("PSAS") as at and for the year ended December 31, 2018. Our audit was conducted in accordance with Canadian generally accepted auditing standards ("Canadian GAAS").

The terms and conditions of our engagement are described in the master services agreement dated November 16, 2018, which was signed on behalf of the Audit and Risk Management Committee and management.

Significant audit risks

Through our risk assessment process, we have identified the significant audit risks. These risks of material misstatement and related audit responses are discussed in the significant audit risks section of this report.

Materiality

We are responsible for providing reasonable assurance that your financial statements as a whole are free from material misstatement.

Materiality levels are determined on the basis of total actual operating expenditures. Our materiality for the year ended December 31, 2018 was $3,000,000 (2017, $2,550,000).

We have informed the Audit and Risk Management Committee of all uncorrected misstatements greater than a clearly trivial amount of 5% of materiality and any misstatements that are, in our judgment, qualitatively material. In accordance with Canadian GAAS, we asked that any misstatements be corrected.

Audit fees

Fees for the 2018 audit are as follows:

Financial statement audit $80,400 (2017, $76,500)

Specified procedures reports: $3,600 per portfolio x 5 portfolios = $18,000 (2017, $3,500 per portfolio = $17,500)

Adoption of new accounting standards: $12,000(proposed $12,000 to $15,000)

These fees are subject to a 7% administration charge and GST.

Status and outstanding matters

We expect to be in a position to render our audit opinion dated March 21, 2019 on the financial statements of Calhome following approval of the financial statements by the Board of Directors and the completion of the following outstanding procedures:

- Receipt of signed management representation letter
- Review updated final version of financial statements following Board of Directors' approval
- Receipt of subsequent events questionnaire
- Minor documentation items

Uncorrected misstatements

There were no uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented.

Going concern

Management has completed its assessment of the ability of Calhome to continue as a going concern and in making its assessment did not identify any material uncertainties related to events or conditions that may cast significant doubt upon Calhome's ability to continue as a going concern. We agree with management's assessment.

Business Insights

During the course of our audit, we examined the accounting procedures and internal controls employed by Calhome. We did not identify any matters during the current year audit. However, we have included an update to prior year matters in Appendix 3.

Uncorrected disclosure misstatements

There are no disclosure misstatements aggregated by us during the current engagement and pertaining to the latest period presented to report.

Fraud risk

A summary of the results of our audit procedures designed to address the risk of material misstatement in the financial statements relating to fraud is provided in the significant audit risks section of this report.

Based on the audit evidence obtained, our assessment of the risks of material misstatement due to fraud remain appropriate.

Independence

We have developed appropriate safeguards and procedures to eliminate threats to our independence or to reduce them to an acceptable level.

We confirm that we have complied with relevant ethical requirements regarding independence.

Significant accounting practices, judgments and estimates

The significant accounting practices, judgments and estimates include:

- Allowance for doubtful accounts
- Provision for asset impairment
- Useful life of tangible capital assets
- Accrued liabilities

In our judgement, the significant accounting practices and policies, selected and applied by management are, in all material respects, acceptable under PSAS and are appropriate to the particular circumstances of Calhome.

In our judgement, the significant accounting estimates made by management are, in all material respects, free from possible management bias and of material misstatement.

Conclusion

In accordance with Canadian GAAS, our audit is designed to enable us to express an opinion on the fairness of the presentation of Calhome's annual financial statements prepared in accordance with PSAS.

No restrictions have been placed on the scope of our audit. In performing the audit, we were given full and complete access to the accounting records, supporting documentation and other information requested.

We intend to issue an unmodified audit report on the financial statements of Calhome for the year ended December 31, 2018 once the outstanding items referred to above are completed satisfactorily and the financial statements are approved by the Board of Directors.

A draft version of our auditor's report is included in Appendix 2.

Significant audit risks

The significant audit risks identified as part of our risk assessment, together with our planned responses and conclusions, are described below.

Revenue recognition

Audit risk	Our audit response	Audit results
Assurance standards include the presumption of a fraud risk involving improper revenue recognition. There may be a risk of material misstatement relating to the occurrence and cut-off of the following revenue streams: rent revenue, shared cost agreements and rent supplement. This represents a fraud risk for the 2018 audit.	• We performed substantive testing of revenue transactions to ensure that occurrence and cut-off had been appropriately accounted for during the year ended December 31, 2018. • We made inquiries of management, tested control activities involving management's process for accounting for revenue transactions, and determined when the revenue recognition criteria had been met.	We obtained sufficient audit evidence to conclude that there were no material misstatements.

Management override of controls

Audit risk	Our audit response	Audit results
Under Canadian Auditing Standards, it is the responsibility of management, with the oversight of those charged with governance to place a strong emphasis on fraud prevention and detection. Oversight by those charged with governance includes considering the potential for override of controls or other inappropriate influence over the financial reporting process. Management override of controls is present in all entities. It is a risk of material misstatement resulting from fraud and therefore is considered as a significant risk. This represents a fraud risk for the 2018 audit.	• We discussed fraud with management. • We asked the Audit and Risk Management Committee for their views about the risk of fraud, whether they know of any actual or suspected fraud affecting Calhome and their role in the oversight of management's antifraud programs. • We tested a sample of journal entries made throughout the period, and adjustments made at the end of the reporting period. • We evaluated the business rationale for any significant unusual transactions. • We determined whether the judgements and decisions related to management estimates indicate a possible bias, which included performing retrospective analysis of significant accounting estimates.	We obtained sufficient audit evidence to conclude that there were no material misstatements.

New Accounting Standards

Risk identified	Our audit response	Audit results
The following accounting standards are required to be adopted for the year ending December 31, 2018: • Section PS 2200, *Related Party Disclosures* • Section PS 3210, *Assets* • Section PS 3320, *Contingent Assets* • Section PS 3380, *Contractual Rights* • Section PS 3420, *Inter-entity Transactions* There is a risk that the application of these standards is not consistent or compliant with the guidance provided within the standards.	• We reviewed Calhome's methodology and process for application and adoption of each standard, which included a review of position papers prepared by management. • We audited a sample of the accounting transactions recorded under these standards, including testing of internal controls, if applicable. • We also reviewed the disclosure in the year-end financial statements to ensure compliance with the applicable accounting standards.	We obtained sufficient audit evidence to conclude that there were no material misstatements with regards to the adoption of the new accounting standards.

Other reportable matters

The following summarizes the status and findings of key aspects of our audit. In the appendices to this report, we have provided additional information related to certain matters we committed to report to the Audit and Risk Management Committee as part of the audit plan.

	Comment
Changes to the audit plan	The audit was conducted in accordance with our audit plan, which was communicated to the Audit and Risk Management Committee. We confirm that there have been no amendments to the audit scope and approach communicated in the audit plan.
Significant difficulties encountered in performing the audit	During the course of our audit, we did not encounter any significant difficulties in dealing with management related to the performance of the audit.
Concerns regarding management competence and integrity	We do not have any concerns regarding management's competency and integrity.
Related party transactions	We have not identified any related party transactions that were not in the normal course of operations and that involved significant judgments made by management concerning measurement or disclosure.
Disagreements with management	During the current audit, we did not have any disagreements with management.
Consultation with other accountants	Management has informed us that Calhome has not consulted with other accountants about auditing or accounting matters.
Legal and regulatory compliance	Management is responsible for ensuring that Calhome's operations are conducted in accordance with the laws and regulations applicable to Calhome in the jurisdictions in which it operates. The responsibility for preventing and detecting non-compliance rests with management. The auditor is not and cannot be held responsible for preventing non-compliance with laws and regulations. Our limited procedures did not identify any areas of material non-compliance with laws and regulations by Calhome.
Post-statement of financial position events	At the date of finalizing this report, we are not aware of any significant post-statement of financial position events.

Appendix 1 – Communication requirements

The table below summarizes our communication requirements under Canadian GAAS and other communications that we believe would help us achieve an effective audit.

Required communication	Refer to this report or document described below
Audit Service Plan	
1. Our responsibilities under Canadian GAAS, including forming and expressing an opinion on the financial statements	Master services agreement
2. An overview of the overall audit strategy, addressing: a. Timing of the audit b. Significant risks, including fraud risks c. Nature and extent of specialized skill or knowledge needed to perform the audit procedures related to significant risks	Audit plan communicated on November 16, 2018
3. Significant transactions outside of the normal course of business, including related party transactions	Nothing to report.
Year End Communication	
4. Fraud or possible fraud identified through the audit process	We are not aware of any fraudulent events.
5. Significant accounting policies, practices, unusual transactions, and our related conclusions	Significant accounting practices, judgements and estimates
6. Alternative treatments for accounting policies and practices that have been discussed with management during the current audit period	Significant accounting practices, judgements and estimates
7. Matters related to going concern	We concluded that there was no substantial doubt about Calhome's ability to continue as a going concern.
8. Management judgments and accounting estimates	Significant Accounting practices, judgements and estimates
9. Significant difficulties, if any, encountered during the audit	No significant difficulties to report.
10. Material written communications between management and us, including management representation letters	Management representation letter
11. Other matters that are significant to the oversight of the financial reporting process	No other matters to report.
12. Modifications to our opinion(s)	We will issue an unmodified opinion.
13. Our views of significant accounting or auditing matters for which management consulted with other accountants and about which we have concerns	Nothing to report.
14. Significant matters discussed with management	Nothing to report.

Required communication	Refer to this report or document described below
15. Illegal or possibly illegal acts that come to our attention	We are not aware of any illegal acts.
16. Significant deficiencies in internal control, if any, identified by us in the conduct of the audit of the financial statements	No deficiencies to report.
17. Uncorrected misstatements and disclosure items	In accordance with Canadian GAAS, we request that all misstatements be corrected. No uncorrected misstatements and uncorrected disclosure items to report.

Appendix 2 – Draft version of our auditor's report

Our report on the financial statements is expected to be in the following form. However, the final form may need to be adjusted to reflect the final results of our audit.

Independent Auditor's Report

To the Directors of
Calhome Properties Ltd.

Opinion

We have audited the financial statements of Calhome Properties Ltd. ('Operating as Calgary Housing Company') ("Calhome"), which comprise the statement of financial position as at December 31, 2018, and the statements of operations, changes in net debt and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Calhome as at December 31, 2018, and the results of its operations, changes in its net debt, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards ("PSAS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of Calhome in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Unaudited Supplementary Information

The statements of operations by portfolios are presented with the financial statements but are not required by PSAS. Our opinion on the financial statements does not cover this supplementary information.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PSAS, 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.

In preparing the financial statements, management is responsible for assessing Calhome's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate Calhome or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Calhome's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Calhome's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Calhome's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Calhome to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

(To be signed Deloitte LLP)

Chartered Professional Accountants
March 21, 2019

Appendix 3 – Letter of recommendations and business insights

Deloitte.

Deloitte LLP
700, 850 2 Street SW
Calgary, AB T2P 0R8
Canada

Tel: 403-267-1700
Fax: 403-213-5791
www.deloitte.ca

March 21, 2019

The Audit and Risk Management Committee of
Calhome Properties Ltd. ('Operating as Calgary Housing Company')

Dear Audit and Risk Management Committee members:

We have recently completed our audit of the financial statements of Calhome Properties Ltd. ('Operating as Calgary Housing Company') ("Calhome") for the year ended December 31, 2018.

Our audit was designed to provide a cost-effective basis for formulating an opinion on your financial statements. As part of our examination, we reviewed and evaluated relevant aspects of the systems of internal control and the accounting systems to the extent we considered necessary to make an evaluation of such systems and procedures in accordance with Canadian GAAS.

The main purpose of our systems review was to assist in determining the nature, extent and timing of our audit tests and to establish the degree of reliance, which we could place on selected controls; it was not to determine whether internal controls were adequate for management's purposes.

While the audit did not include an in-depth evaluation of all systems or all aspects of any individual system and should not, therefore, be relied upon to identify all significant internal control deficiencies, or all errors, irregularities or inefficiencies that might occur, we undertake to report such matters to you when they come to our attention. Our comments relating to these and other matters are attached.

Yours truly,

Deloitte LLP

Chartered Professional Accountants

Update to December 31, 2017 recommendations

1. Posting of journal entries

Observation

During the course of the audit, it was observed that the JD Edwards system allows posting of unbalanced one-sided entries within the general ledger. We noted through our journal entry reconciliation process that an unbalanced entry for the net amount of $4,051 was posted in order to balance the accounts receivable sub-ledger and general ledger. In order to accomplish this, the flag in JD Edwards that does not allow unbalanced entries to be posted was able to be removed by a Calhome staff member upon consultation with Oracle. Once the entry was posted, the flag that does not allow unbalanced entries was reinstated. It should be noted that immaterial unbalanced amounts between the sub-ledger and general ledger are not uncommon, and often an entity can balance the general ledger through posting of an additional journal entry. It should also be noted that this journal entry was appropriately reviewed and our testing of journal entries did not identify any other issues. However, the following matters were identified for consideration by management:

- System limitation of JD Edwards – this system itself should not allow for an override of this nature.
- Management consider reviewing the general ledger and journal entry details to ensure that no other instances of this nature have occurred.

Implication

Use of this practice to balance the general and sub ledgers may increase the risk of posting inaccurate or possibly inappropriate journal entries and may lead to possible management override of controls.

Recommendation

Management review the current system and if possible request the service provider to deactivate the ability to remove the flag that does not allow unbalanced entries. In the rare event that this option has to be taken, the decision to unset a control flag in the system should involve discussion with senior management, and should not be taken by team leads. If possible, instead of creating a one-sided entry, management should have written off the corresponding amount to any expense account.

Management Response

In response to this finding, Management has identified a requirement to put in place proper system controls in the new financial system that will be implemented in 2018. In the interim, Management has introduced an internal control that requires Corporate Finance and Risk Officer approval any time the JDE flag is removed and reinstated for the purpose of posting one-sided journal entries. Management recognizes that this was a one-time, extraordinary circumstance as a result of a system error and does not foresee a necessity for any such entries in the future.

Management Response (2018)

Management formally presented a report at the June 2018 Audit and Risk Management Committee meeting addressing the posting of one sided journal entries.

The report recommended that proper system controls be put in place for the new ESS system being implemented in 2019. A copy of this report has been provided to our auditors.

In the interim with our current JD Edwards system, Management has introduced an internal control that requires the Corporate Finance and Risk officer and President approval, anytime the JDE flag is removed and reinstated for the purposes of posting one-sided journal entries. There have been no posted one sided journal entries in 2018 and do not foresee there being any in the future.

Auditor Response (2018)
We obtained the copy of the report presented at the June 2018 Audit and Risk Management Committee and agree with management's assessment of ensuring proper system controls are put in place for the new ESS system. Through our audit procedures performed on journal entries, we did not note any instances to which a one-sided journal entry was posted. This recommendation has been satisfactorily addressed.

2. Forgivable mortgages not recorded in the general ledger

Observation
During the course of the audit, the mortgage confirmation received from Canada Mortgage and Housing Corporation ("CMHC") included a forgivable mortgage in the original amount $32,000, which was not included in the mortgage payable balance by Calhome. We understand that although this mortgage was issued in 2010, this is the first time CMHC has included this mortgage in the confirmation for audit purposes. Management or Deloitte are unaware of why CMHC has not confirmed this mortgage previously. Further investigation by management confirmed that as the original amount of $32,000 was a forgivable loan and although was required to be recognized as revenue at the maturity date of 2020, it was recorded as revenue in the year it was received resulting in revenue being recognized earlier than it should have been. We note that the impact of recognizing the loan early as revenue on the 2017 and prior year financial statements is not material.

It is also to be noted that all other mortgages held by Calhome have been recorded in the financial statements accurately.

Implication
Missing an outstanding liability can result in material misstatement in the liabilities.

Recommendation
While the impact on the 2017 and prior financial statements is not material, it is recommended that Calhome perform a review of their existing process and policies, which monitor and reconcile their mortgage amounts against CMHC issued mortgage documents to determine if any changes need to be implemented within the existing process to prevent future occurrences of this nature.

Management Response
In response to this finding, Management will perform a review of the existing process to monitor and reconcile the Company's mortgage amounts. Management will implement any needed changes that result from that review.

Management Response (2018)
Management formally presented a report at the June 2018 Audit and Risk Management Committee meeting addressing the forgivable mortgages not recorded in the general ledger.

The report detailed the review and revised procedures adopted by administration to address this issue and to insure all mortgages are recorded and reconciled in the general ledger.

A copy of this report has been provided to our auditors. This new procedure has been adopted in 2018.

Auditor Response (2018)

We obtained the copy of the report presented at the June 2018 Audit and Risk Management Committee and performed controls around the new procedure management has put in place. Through our audit procedures performed on mortgages payable, we did not note any instances to which a forgivable loan amount should have been recorded.

This recommendation has been satisfactorily addressed.

Appendix 4 – Draft independence

March 21, 2019

The Audit and Risk Management Committee
Calhome Properties Ltd. (‘Operating as Calgary Housing Company’)

Dear Audit and Risk Management Committee members:

We have been engaged to audit the financial statements of Calhome Properties Ltd. (‘Operating as Calgary Housing Company’) (“Calhome”) for the year ended December 31, 2018.

You have requested that we communicate in writing with you regarding our compliance with relevant ethical requirements regarding independence as well as all relationships and other matters between Calhome, our Firm and network firms that, in our professional judgment, may reasonably be thought to bear on our independence. You have also requested us to communicate the related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.

In determining which relationships to report, we have considered relevant rules and related interpretations prescribed by the appropriate provincial regulator/ordre and applicable legislation, covering such matters as:

a. Holding a financial interest, either directly or indirectly, in a client.
b. Holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client.
c. Personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client.
d. Economic dependence on a client.
e. Provision of services in addition to the audit engagement.

We confirm to you that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence.

We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since March 23, 2018, the date of our last letter.

We are not aware of any relationships between the Deloitte Entities and Calhome and its affiliates, or persons in financial reporting oversight roles at Calhome and its affiliates, that, in our professional judgment, may reasonably be thought to bear on independence, that have occurred from March 24, 2018 to March 21, 2019.

The total fees charged to Calhome for audit services were $86,028 (2017, $81,855) for the audit, $19,260 (2017, $18,375 per portfolio) relating to the specified procedures for the special government reports, and $12,840 (2017, $nil) for the adoption of new accounting standards during the period covered by the financial statements. These fees include the 7% administration charge but not GST.

We hereby confirm that we are independent with respect to Calhome in accordance with the Rules of Professional Conduct of the Chartered Professional Accountants of Alberta as of March 21, 2019.

This letter is intended solely for the information and use of the Audit and Risk Management Committee, the Board of Directors, management and others within Calhome and is not intended to be and should not be used for any other purposes.

Yours truly,

Chartered Professional Accountants

Appendix 5 – Draft management representation letter

[Calhome letterhead]

March 21, 2019

Deloitte LLP
700, 850 – 2 Street SW
Calgary, AB T2P 0R8

Dear Sirs:

Subject: Financial statements of Calhome Properties Ltd. (operating as 'Calgary Housing Company') for the year ended December 31, 2018

This representation letter is provided in connection with the audit by Deloitte LLP ("Deloitte" or "you") of the financial statements of Calhome Properties Ltd. (operating as 'Calgary Housing Company') ("Calhome" or "we" or "us") for the year ended December 31, 2018, and a summary of significant accounting policies and other explanatory information (the "Financial Statements") for the purpose of expressing an opinion as to whether the Financial Statements present fairly, in all material respects, the financial position, results of operations, and cash flows of Calhome in accordance with Public Sector Accounting Standards ("PSAS").

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial statements

1. We have fulfilled our responsibilities as set out in the terms of the master services agreement between the Calhome and Deloitte dated November 16, 2018 for the preparation of the Financial Statements in accordance with PSAS. In particular, the Financial Statements are fairly presented, in all material respects, and present the financial position of Calhome as at December 31, 2018 and the results of its operations and cash flows for the year then ended in accordance with PSAS.
2. Significant assumptions used in making estimates, including those measured at fair value, are reasonable.

   In preparing the Financial Statements in accordance with PSAS, management makes judgments and assumptions about the future and uses estimates. The completeness and appropriateness of the disclosures related to estimates are in accordance with PSAS. Calhome has appropriately disclosed in the Financial Statements the nature of measurement uncertainties that are material, including all estimates where it is reasonably possible that the estimate will change in the near term and the effect of the change could be material to the Financial Statements.

The measurement methods, including the related assumptions and models, used in determining the estimates, including fair value, were appropriate, reasonable and consistently applied in accordance with PSAS and appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the entity. No events have occurred subsequent to December 31, 2018 that require adjustment to the estimates and disclosures included in the Financial Statements.

There are no changes in management's method of determining significant estimates in the current year.

3. Calhome has identified all related parties in accordance with Section PS 2200, *Related Party Disclosures* ("PS 2200"). Management has made the appropriate disclosures with respect to its related party transactions in accordance with PS 2200. This assessment is based on all relevant factors, including those listed in paragraph 16 of PS 2200.
4. We have determined that the Financial Statements are complete as of the date of this letter as this is the date when there are no changes to the Financial Statements (including disclosures) planned or expected. The Financial Statements have been approved in accordance with our process to finalize financial statements.
5. We have completed our review of events after December 31, 2018 and up to the date of this letter. All events subsequent to the date of the Financial Statements and for which PSAS requires adjustment or disclosure have been adjusted or disclosed. Accounting estimates and disclosures included in the Financial Statements that are impacted by subsequent events have been appropriately adjusted.
6. The Financial Statements are free of material errors and omissions.

Internal Controls

7. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
8. We have disclosed to you all known deficiencies in the design or operation of internal control over financial reporting identified as part of our evaluation, including separately disclosing to you all such deficiencies that we believe to be significant deficiencies in internal control over financial reporting.

Information provided

9. We have provided you with:
   a. Access to all information of which we are aware that is relevant to the preparation of the Financial Statements, such as records, documentation and other matters;
   b. All relevant information as well as additional information that you have requested from us for the purpose of the audit; and
   c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
10. All transactions have been properly recorded in the accounting records and are reflected in the Financial Statements.
11. We have disclosed to you the results of our assessment of the risk that the Financial Statements may be materially misstated as a result of fraud.
12. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
   a. Management;
   b. Employees who have significant roles in internal control; or
   c. Others where the fraud could have a material effect on the Financial Statements.

13. We have disclosed to you all information in relation to allegations of actual, suspected or alleged fraud, or illegal or suspected illegal acts affecting Calhome.

14. We have disclosed to you all communications from regulatory agencies concerning non-compliance with or deficiencies financial reporting practices and all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the Financial Statements.

15. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware, including guarantees, non-monetary transactions and transactions for no consideration and participation in a defined benefit plan that shares risks between group entities.

16. We have disclosed to you all known, actual or possible litigation and claims, whether or not they have been discussed with our lawyers, whose effects should be considered when preparing the Financial Statements. As appropriate, these items have been disclosed and accounted for in the Financial Statements in accordance with PSAS.

Independence matters

For purposes of the following paragraphs, "Deloitte" shall mean Deloitte LLP and Deloitte Touche Tohmatsu Limited, including related member firms and affiliates.

17. Prior to Calhome having any substantive employment conversations with a former or current Deloitte engagement team member, Calhome has held discussions with Deloitte and obtained approval from the Audit Committee.

18. We have ensured that all non-audit services provided to Calhome have been pre-approved by the Audit Committee. Further, we have adhered to all regulatory requirements regarding the provision of non-audit services by Deloitte to Calhome in accordance with applicable laws, regulations and rules that apply to Calhome, including the Audit Committee approval requirements.

19. We have ensured that all services performed by Deloitte with respect to this engagement have been pre-approved by the Audit Committee in accordance with its established approval policies and procedures.

Other matters

20. Calhome has satisfactory title to and control over all assets, and there are no liens or encumbrances on such assets. We have disclosed to you and in the Financial Statements all assets that have been pledged as collateral.

21. We have disclosed to you all liabilities, provisions, contingent liabilities and contingent assets, including those associated with guarantees, whether written or oral, and they are appropriately reflected in the Financial Statements.

22. We have disclosed to you, and Calhome has complied with all aspects of contractual agreements that could have a material effect on the Financial Statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

23. We have disclosed to you all the documents that we expect to issue that may comprise other information, in the context of CAS 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*.

24. We have provided to you final versions of the following other information:

    - Statement of Operations by Portfolios

    We believe the financial statements and the other information are consistent with one another, and that the other information does not contain any material misstatements.

Fair Value

25. With regard to the fair value measurements and disclosures of certain assets and liabilities, we believe that:

    a. The completeness and adequacy of the disclosures related to fair values are in accordance with PSAS;

    b. No events have occurred subsequent to December 31, 2018 that require adjustment to the fair value measurements and disclosures included in the Financial Statements; and

    c. They appropriately reflect management's intent and ability to carry out specific courses of action on behalf of Calhome when relevant to the use of fair value measurements or disclosures.

Management's responsibilities

26. All transactions and events have been carried out in accordance with law, regulation or other authority.

Loans and receivables

27. Calhome is responsible for determining the appropriate carrying amount of notes, loans, and accounts receivable, as well as estimates used to determine such amounts. Management believes that the carrying amounts recorded and disclosed are appropriate.

28. We have identified to you all forgivable loans and loans with concessionary terms and have appropriately reflected these instruments in the financial statements.

Employee future benefits

29. Employee future benefit costs, assets, and obligations, as applicable, have been properly recorded and adequately disclosed in the Financial Statements including those arising under defined benefit and defined contribution plans as well as termination arrangements. We believe that the actuarial assumptions and methods used to measure defined benefit plan assets, obligations and costs for financial statement purposes are appropriate in the circumstances. Actuarial gains [losses] have been amortized to the liability [asset] and the related expense in a systematic and rational manner over the expected average remaining service life of the related employee group.

30. We have disclosed to you any intentions of terminating any of our pension plans or withdrawing from the multi-employer plan that could result in an effective termination or reportable event for any of the plans. We have disclosed to you any occurrences that could result in the termination of any of our pension or multi-employer plans to which we contribute.

31. We are unable to determine the possibility of a withdrawal liability in a multi-employer benefit plan.

Government transfers

32. We have disclosed to you all correspondence relating to government transfers that Calhome has had with the funding body.

33. We have assessed the eligibility criteria and determined that Calhome is an eligible recipient for the government transfers received.

34. We have assessed the stipulations attached with the funding and have recognized the revenue in accordance with meeting the stipulations required.

35. All government transfers that have been recorded as deferred revenue give rise to an obligation that meets the definition of a liability. Those liabilities have been properly recorded and presented in the Financial Statements.

City of Calgary Capital Asset Policy

36. Calhome was aware of the City of Calgary's change in Capital Asset Policy for Vehicles for the year ended December 31, 2018. Management has reviewed and understands the policy and has determined that this policy change does not apply as Calhome does not have a Vehicle category.

Tangible capital assets

37. Tangible capital assets have been recorded properly and consistently according to the standards in CPA Canada Public Sector Accounting Handbook Section PS 3150, *Tangible Capital Assets.*
38. Contributed tangible capital assets have been appropriately recorded at fair value, unless fair value is not reasonably determinable, and in such case, have been recorded at an appropriate nominal value. All contributed tangible capital assets have been appropriately disclosed.
39. We have assessed the useful lives of tangible capital assets and have determined all tangible capital assets contribute to Calhome's ability to provide goods and services and therefore do not require a write down.

Adjusting journal entries

40. We have reviewed the year-end adjusting entries and acknowledge our responsibility for their accuracy.

Communicating a threshold amount

41. We understand that the threshold used for accumulating misstatements identified during the year was $50,000 for purposes of Appendix A. Misstatements below this amount have been considered clearly trivial.

Section 3260, *Liability for contaminated sites* ("Section 3260")

42. Calhome was required to adopt Section 3260 effective for fiscal 2015 for the purposes of the PSAS management has determined the impact of this standard on the year-end financial statements, and based on management's assessment, there is no impact on the adjustments for the December 31, 2018 PSAS financial statements of this standard.

Use of Deferred Capital Contributions

43. Management has the authority to use funds from the Deferred Capital Contributions balance (Note 10 of the Financial Statements) without formal approval by the Board of Directors.

Agreements with the Province of Alberta

44. Calhome and the Province of Alberta ("Province") entered into an interim social housing agreement ("Interim Agreement") dated October 1, 2001. The Interim Agreement set out, among other things, the terms and conditions under which Calhome would manage and administer certain lands and housing on behalf of the Province.

    The Interim Agreement was to expire on December 31, 2001 as the intention of the parties, as set out in the Interim Agreement, was for Calhome and the Province to enter into a final agreement ("Final Agreement") prior to the expiry date. The Interim Agreement was extended on a number of occasions while a Final Agreement was being negotiated. In 2010, the parties had not entered into a Final Agreement and no further extension of the Interim Agreement was executed. Since that time the parties have continued to operate under the same general principles as set out in the Interim Agreement.

Adoption of new accounting standards

45. Calhome has adopted CPA Canada Public Sector Accounting Handbook Section 3210, *Assets* ("Section 3210"), Section PS 3320, *Contingent Assets* ("Section 3320"), Section PS 3380, *Contractual Rights* ("Section 3380"), Section PS 2200, *Related Party Disclosures* ("Section 2200") and Section PS 3420 *Inter-Entity Transactions* ("Section 3420"), as of January 1, 2018 as discussed in Note 2 – *Change in Accounting Policy.*

Contingent assets

46. Calhome has identified all contingent assets in accordance with Section 3320 and, when the occurrence of the confirming future event is considered likely, appropriately disclosed these items in the financial statements, as disclosed in Note 13 of the financial statements.

Contractual rights

47. Calhome has identified and disclosed all contractual rights, as discussed in Note 14 of the financial statements, that will result in both an asset and revenue in the future, once the terms of the contract or agreement are met, in accordance with Section 3380.

Inter-entity transactions

48. Calhome has recognized all transactions involving the transfer of assets or liabilities between public sector entities in accordance with Section 3420.

49. Calhome has recorded all inter-entity transactions properly at exchange or carrying amount in accordance with the criteria in Section 3420.14-.22.

50. Calhome has disclosed all inter-entity transactions in the notes to the Financial Statements whether or not such transactions are recognized in the financial statements, in accordance with Section 2200 as shown in Note 16 of the financial statements.

Assets

Calhome has recognized all assets, which do not fall within the scope of other standards, only when the requirements in Section 3210 have been met. For those assets, which do not meet the recognition criteria in Section 3210, Calhome has appropriately disclosed details of such unrecognized assets in accordance with Section 3210, if applicable. There was no impact to Calhome’s financial statements upon adoption of Section 3210.

Yours truly,
Calhome Properties Ltd.

____
Sarah Woodgate, President

____
Jana Tchinkova, Corporate Finance and Risk Manager

Appendix A
Calhome Properties Ltd.
Summary of uncorrected financial statement misstatements and disclosure deficiencies
Year ended December 31, 2018

No uncorrected misstatements or disclosure deficiencies.

Financial Statements

Calhome Properties Ltd.

Operating as 'Calgary Housing Company'

December 31, 2018

Deloitte.

Deloitte LLP
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Independent Auditor's Report

To the Directors of Calhome Properties Ltd.

Report on the Audit of the Financial Statements

Opinion
We have audited the financial statements of Calhome Properties Ltd. ("Calhome"), which comprise the statement of financial position as at December 31, 2018, and the statements of operations, changes in net debt and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Calhome as at December 31, 2018, and the results of its operations, changes in its net debt, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards ("PSAS").

Basis for Opinion
We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of Calhome in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Unaudited Supplementary Information
The statements of operations by portfolios are presented with the financial statements but are not required by PSAS. Our opinion on the financial statements does not cover this supplementary information.

Responsibilities of Management and Those Charged with Governance for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with PSAS, 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.

In preparing the financial statements, management is responsible for assessing Calhome's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate Calhome or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Calhome's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Deloitte.

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As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Calhome's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Calhome's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Calhome to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte LLP

Chartered Professional Accountants
March 21, 2019
Calgary, Alberta

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

STATEMENT OF FINANCIAL POSITION
(Expressed in Thousands of Dollars)

As at December 31, 2018

	2018	2017
Financial Assets		
Cash *(Note 3)*	$ 38,935	$ 34,183
Receivables		
Rent and others	687	680
Government	12,075	3,387
	51,697	38,250
Liabilities		
Accounts payable and accrued liabilities	17,571	8,804
Unearned tenant rent revenue	1,909	1,647
Deferred funding *(Note 3)*	9,068	10,405
Payable to government	2,749	899
Rent supplement advance *(Note 4)*	4,255	4,255
Tenants' security deposits	1,069	1,067
Mortgage payable *(Note 5)*	10,056	12,601
Employee benefit obligation *(Note 6)*	2,195	2,041
	48,872	41,719
NET ASSETS (DEBT)	2,825	(3,469)
Non-Financial Assets		
Tangible capital assets *(Note 7)*	96,876	99,678
Prepaid expenses	466	132
	97,342	99,810
ACCUMULATED SURPLUS *(Note 10)*	$ 100,167	$ 96,341

See accompanying notes

On behalf of the Board

D. Hall
Chair

D. Woolgate
President

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

STATEMENT OF OPERATIONS
All Portfolios
(Expressed in Thousands of Dollars)
(Unaudited)

For the year ended December 31, 2018

	BUDGET	**2018**	2017
REVENUE			
Rent revenue	$ 48,528	**$ 48,189**	$ 47,951
Government transfers			
Shared cost agreements	19,639	**19,607**	13,893
Restricted funds *(Note 11)*	20,589	**17,244**	6,439
Debt interest rebate	212	**214**	237
Rent supplement funding	19,200	**19,131**	19,435
Interest income	498	**718**	456
Insurance recoveries *(Note 12)*	-	**233**	423
Miscellaneous	1,375	**1,657**	1,393
	110,041	**106,993**	90,227
EXPENSES			
Administration	5,387	**3,923**	3,052
Salaries and benefits	20,154	**18,609**	18,781
Amortization of tangible capital assets	3,213	**3,027**	3,030
Debt servicing	349	**369**	454
Maintenance	33,373	**34,971**	19,650
Property operations	10,129	**9,875**	8,406
Rent supplement	18,359	**18,269**	18,603
Taxes and leases	1,990	**1,961**	1,975
Utilities	11,402	**10,361**	10,689
Insurance *(Note 12)*	-	**184**	293
Restricted expenses	65	**151**	249
	104,421	**101,700**	85,182
EXCESS OF REVENUE OVER EXPENSES BEFORE OTHER ITEMS	5,620	**5,293**	5,045
OTHER ITEMS			
Return to The City of Calgary	(74)	**(1,467)**	(339)
City of Calgary surplus retained	-	**-**	(570)
Loss on asset disposal	-	**-**	(346)
	(74)	**(1,467)**	(1,255)
SURPLUS	$ 5,546	**$ 3,826**	$ 3,790

See accompanying notes

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

STATEMENT OF CASH FLOWS
(Expressed in Thousands of Dollars)

For the year ended December 31, 2018

	2018	2017
NET INFLOW/(OUTFLOW) OF CASH RELATED TO FOLLOWING ACTIVITIES:		
OPERATING ACTIVITIES		
Surplus	**$ 3,826**	$ 3,790
Non-cash items:		
Amortization of tangible capital assets	**3,027**	3,030
Loss on asset disposal	**-**	346
Change in non-cash working capital *(Note 17)*	**670**	2,869
	7,523	10,035
CAPITAL ACTIVITIES		
Addition of tangible capital assets	**(227)**	(918)
Proceeds on disposal of tangible capital assets	**-**	45
	(227)	(873)
FINANCING AND INVESTING ACTIVITIES		
Repayment of long term debt	**(2,544)**	(3,875)
	(2,544)	(3,875)
NET INCREASE IN CASH DURING THE YEAR	**4,752**	5,287
CASH, BEGINNING OF YEAR	**34,183**	28,896
CASH, END OF YEAR *(Note 3)*	**$ 38,935**	$ 34,183

See accompanying notes

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

STATEMENT OF CHANGE IN NET DEBT
(Expressed in Thousands of Dollars)

For the year ended December 31, 2018

	Budget	2018	2017
ANNUAL SURPLUS	$ 5,546	**$ 3,826**	$ 3,790
TANGIBLE CAPITAL ASSETS			
Additions of tangible capital assets	(5,161)	**(227)**	(918)
Loss on asset disposal	-	-	346
Proceeds on disposal of tangible capital assets	-	-	45
Amortization of tangible capital assets	3,213	**3,027**	3,030
	(1,948)	**2,800**	2,503
OTHERS			
Increase in prepaid expenses	-	**(332)**	(12)
	-	**(332)**	(12)
CHANGE IN NET DEBT	3,598	**6,294**	6,281
NET DEBT, BEGINNING BALANCE	(3,469)	**(3,469)**	(9,750)
NET ASSETS (DEBT), ENDING BALANCE	$ 129	**$ 2,825**	$ (3,469)

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

NOTES TO FINANCIAL STATEMENTS
(Expressed in thousands of Dollars)

For the year ended December 31, 2018

1. NATURE OF THE BUSINESS

Calhome Properties Ltd. [the "Company"], a private not-for-profit corporation, is wholly-owned by the City of Calgary [the "City"] and was incorporated June 16, 1978 under the Business Corporations Act of The Province of Alberta. As at April 1, 2001, the Company assumed the trade name of Calgary Housing Company ["CHC"].

The Company delivers safe and affordable housing solutions to Calgarians under agreements with The City and The Province of Alberta [the "Province"], which provide subsidies for certain properties. Since its inception, the Company has assumed ownership and/or management of Portfolios under different agreements. The following is a brief description of the portfolios:

CHC Provincial Fixed Subsidy Portfolio

This portfolio consists of 198 units [2017 – 592] owned and managed by the Company. The Province subsidizes the interest payments on the mortgages of these properties so that the effective rate of interest to the Company is 2% per annum. In the event the maximum federal assistance received (debt interest rebate) exceeds the actual required, the excess federal assistance received shall be refundable to the Province. The net surplus and/or losses are the responsibility of the Company.

Due to the expiry of Provincial subsidy agreements during 2017, 394 units (6 properties) were moved from this portfolio to the Calhome Owned portfolio. The 2017 figures were reclassified to reflect this transfer in order to provide an appropriate basis for comparative purposes (See note 18). This reclassification only affects the portfolio-level Statements of Operations, and not the consolidated financials.

CHC Private Non-Profit Portfolio

This portfolio consists of 207 units [2017 – 207] owned by the Company. The Provincial government subsidizes any operating deficits with the exception of the Lincoln Park Fanning Centre which receives a subsidy in an amount required to reduce debt financing costs to 2% per annum.

Calhome Owned Portfolio

This portfolio is comprised of 1,532 units [2017 – 1,138] owned by the Company with no direct subsidy from any governmental agency.

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

NOTES TO FINANCIAL STATEMENTS
(Expressed in thousands of Dollars)

For the year ended December 31, 2018

Corporate Properties Residential Units Portfolio

This portfolio consists of 239 units [2017 – 246] owned by the City of Calgary. The Company manages these housing units on behalf of The City. This portfolio receives no subsidy and the net operating results are the responsibility of The City. During the year, the remaining seven units in the Midfield property were closed which caused the decrease in unit count in 2018.

City of Calgary Partnership Portfolio

This portfolio consists of 1,176 units [2017 – 1,128] owned by the City of Calgary. The Company manages a variety of affordable housing units on behalf of The City. The Company is authorized to maintain a replacement reserve for this portfolio. This portfolio receives no subsidy. Historically, the portfolio has returned surpluses to The City and deficits have been funded by The City. During the year, the new Wildwood property with 48 units became operational.

In 2018, the company received Council approval to retain future operating surpluses starting in 2019. These surpluses will be invested in lifecycle maintenance required by any City-owned properties.

City Owned Community Housing Portfolio

This portfolio consists of 1,059 units [2017 – 1,059] owned by The City and managed by the Company. Any operating surpluses or losses are refunded or subsidized 90%, and 10% respectively by provincial and municipal governments under joint agreement.

Provincially Owned Community Housing Portfolio

This portfolio consists of 2,704 units [2017 – 2,704] owned by the Province of Alberta. The Company assumed the management of this portfolio in 2001. The Province subsidizes 100% of the deficits of this portfolio.

Rent Supplement Portfolio

This portfolio is a provincial government program, administered by the Company, to provide rental subsidies paid to the private landlords and tenants. The Company receives reimbursement of administration fees incurred for this program at the rate of $31 per unit per month.

NOTES TO FINANCIAL STATEMENTS
(Expressed in thousands of Dollars)

For the year ended December 31, 2018

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Company are prepared in accordance with public sector accounting standards ("PSAS") for local government organizations as established by the Public Sector Accounting Board of the 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 upon receipt of goods and services and/or the legal obligation to pay.

Revenue

Rents charged to tenants are based on market or below-market rents outlined in the agreements with The Province and The City and are recorded on an accrual basis. Rental revenue includes rents and other sundry revenues.

Government transfers, contributions and other amounts are received from third parties pursuant to legislation, regulation or agreement and may only be used for certain programs, in the completion of specific work, or for the purchase of tangible capital assets. Revenue is recognized in the period when the related expenses are incurred, services performed or the tangible capital assets are acquired. Government transfers and earnings thereon restricted by agreement or legislation are accounted for as deferred funding until used for the purpose specified.

Non-Financial Assets

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They generally have useful lives extending beyond the current year. Non-financial assets include tangible capital assets and prepaid expenses. The change in non-financial assets during the year, together with the excess of revenues over expenditures, provides the information presented in the Statement of Change in Net Debt for the year.

NOTES TO FINANCIAL STATEMENTS
(Expressed in thousands of Dollars)

For the year ended December 31, 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

[i] Tangible Capital Assets

Tangible capital assets are recorded at historical cost, which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets is amortized on a straight-line basis over the estimated useful life as follows:

	YEARS
Land	-
Buildings	50-75
Building Betterments	5-75
Leasehold Improvements	5-10
Systems	5
Furniture	20
Vehicles	10

Assets under construction are not amortized until the asset is available for productive use.

[ii] Contributions of Tangible Capital Assets

Tangible capital assets received as contribution are recorded at fair value at the date of receipt in restricted revenue.

Revenue producing properties are periodically reviewed for impairment. If it is determined that impairment exists, the carrying value of the revenue producing properties is reduced to their estimated fair value, as determined by the third party appraisals.

Restricted Replacement Reserve

The Replacement Reserve is funded by a charge against accumulated surplus. The Province, The City and CHC determine an annual provision for the Replacement Reserve for certain properties. Disposition of the reserve, other than for replacement costs, is subject to the approval or direction of the Province, The City and CHC administration (Notes 3 and 10).

NOTES TO FINANCIAL STATEMENTS
(Expressed in thousands of Dollars)

For the year ended December 31, 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

General and Administration

General and administration expenditures are allocated to properties using a hybrid approach encompassing direct allocation and ratio allocation. Expenditures directly related to certain properties are directly allocated to those properties. Expenditures relating to multiple properties are allocated based on the ratio of the number of units in each property to the total number of units managed by the Company.

Inter-entity Transactions

The Company's financial information is included in the consolidated financial statements of the City of Calgary [the "City"]. Transactions with the City and other consolidated entities are recorded at the exchange amount when they take place on terms similar to arms-length transactions, or where costs are allocated or recovered. The Company does not record any amount for transactions in which it is a recipient and the related costs are unallocated.

Use of Estimates

The financial statements are prepared in accordance with PSAS, which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the statement of financial position date and the reported amounts of revenue and expenses during the year. Significant estimates include the provision for asset impairment, useful lives of tangible capital assets, accrued liabilities and allowance for doubtful accounts. Actual results could differ from those estimates.

Goods and Services Tax

The Company has been granted the status of a municipality for purposes of the Goods and Services Tax and receives the municipal rebate on all the Goods and Services Tax paid.

NOTES TO FINANCIAL STATEMENTS
(Expressed in thousands of Dollars)

For the year ended December 31, 2018

Changes in Accounting Policy

The Company has prospectively adopted the following standards with an effective date of January 1, 2018:

- PS 3210 Assets
- PS 3320 Contingent Assets
- PS 3380 Contractual Rights
- PS 3420 Inter-entity Transactions
- PS 2200 Related Party Disclosures

The adoption of these standards has only impacted note disclosures in the financial statements, as reflected in Notes 13, 14, and 16.

Assets

Assets ("PS 3210") provides additional guidance for applying the definition of assets and establishes general disclosure standards for assets.

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.

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.

Related Party Disclosures

Related Party Disclosures ("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.

NOTES TO FINANCIAL STATEMENTS
(Expressed in thousands of Dollars)

For the year ended December 31, 2018

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.

Future Accounting Pronouncements

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. This standard is effective for fiscal years beginning on or after April 1, 2018. Earlier adoption is permitted.

Asset Retirement Obligation

Asset Retirement Obligation ("PS 3280") provides guidance relating to obligations to retire tangible capital assets of a Public Sector entity that are predictable and unavoidable. This standard is effective for fiscal years beginning on or after April 1, 2021. Earlier adoption is permitted.

Revenue

Revenue ("PS 3400") provides guidance on the recognition of revenue that distinguishes between revenue that arises from transactions that include performance obligations and from transactions that do not have performance obligations. This standard is effective for fiscal years beginning on or after April 1, 2022. Earlier adoption is permitted.

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

NOTES TO FINANCIAL STATEMENTS
(Expressed in thousands of Dollars)

For the year ended December 31, 2018

3. CASH

The Company holds bank accounts in conjunction with The City to maximize interest earned on the cash balances. The cash held at The City is available for use in the Company's operations. Included in cash is as follows:

	2018 $	2017 $
Restricted		
Tenants' security deposits	**1,069**	1,067
Rent supplement fund advance *(Note 4)*	**4,255**	4,255
Restricted replacement reserve	**6,887**	6,583
Restricted operating reserve	**536**	536
Provincial emergency fund	**719**	-
Deferred capital contributions *(Note 10)*	**5,409**	5,409
Deferred funding	**9,068**	10,405
	27,943	28,255
Unrestricted	**10,992**	5,928
	38,935	34,183

4. RENT SUPPLEMENT ADVANCE

The Rent Supplement Portfolio operates on the basis of the Province reimbursing the Company for the rental subsidies paid to private landlords and tenants, and an administration fee. All payments to landlords and tenants are reported as expenses and all rent supplement payments received by the Company from the Province are reported as rent supplement revenue. The Province provided the Company with a $4,255 operational cash advance in 2012. This advance would be used to pay rental subsidies to private landlords and tenants in the event that the Province decides to discontinue the rent supplement program.

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

NOTES TO FINANCIAL STATEMENTS
(Expressed in thousands of Dollars)

For the year ended December 31, 2018

5. MORTGAGES PAYABLE

Mortgages in the amount of $1,593 [2017 - $2,684] are for the fixed subsidy properties. These mortgages have interest rates, before the senior government interest subsidy, between 0.94% and 6.45% per annum [2017 – between 0.94% and 6.45% per annum]. The maximum effective interest rate of the fixed subsidy mortgages to the Company after subsidy payments is 2% per annum over the mortgage term to renewal.

The remaining mortgages are in the amount of $8,463 [2017 - $9,917]. The interest rate of these mortgages varies from 1.04% to 4.34% per annum [2017 – between 1.04% and 4.52% per annum].

The mortgage repayment schedule is as follows:

Year	$
2019	1,391
2020	1,177
2021	1,026
2022	1,066
Thereafter	5,396
	10,056

Related land and buildings have been pledged as collateral for mortgages payable. The net book value of land and buildings pledged amounts to $59,398 [2017 - $69,552] as at December 31, 2018.

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

NOTES TO FINANCIAL STATEMENTS
(Expressed in thousands of Dollars)

For the year ended December 31, 2018

6. EMPLOYEE BENEFIT OBLIGATION

The Company does not pay honoraria to its Board members.

The employee benefit obligation program is administered by employees of The City, and it represents employees' vacation and overtime deferred to the future years.

The City employees are members of the Local Authorities Pension Plan ("LAPP"). LAPP is a multi-employer defined benefit plan. This plan is governed by the Public Sector Pension Plans Act. In 2017 the LAPP reported a surplus, based on extrapolated results of the actuarial valuation, of $4.84 billion [2016 – deficit of $0.64 billion].

The LAPP requires members and employers to make contributions to the pension plan. Yearly maximum pensionable earning ("YMPE") contribution rates are shared between members, and the rates for the current period are as follows:

	2018	2017
Members' Rate up to YMPE	**9.39%**	10.39%
Members' Rate over YMPE	**13.84%**	14.84%
Employers' Rate up to YMPE	**10.39%**	11.39%
Employers' Rate over YMPE	**14.84%**	15.84%

The current service contributions by the Company, as reflected in 'Salaries and Benefits' to the LAPP, were $1,810 [2017 - $1,956]. The current service contributions by the employees allocated to the LAPP were $1,654 [2017 - $1,937].

NOTES TO FINANCIAL STATEMENTS
(Expressed in thousands of Dollars)

For the year ended December 31, 2018

7. TANGIBLE CAPITAL ASSETS

Cost	Jan 1, 2018 Opening Balance $	Additions $	Disposal/ Transfers $	December 31, 2018 Closing Balance $
Land	27,957	-	-	27,957
Building	96,721	-	-	96,721
Building Betterment	31,550	96	-	31,646
Systems/M&E	2,273	-	-	2,273
Leasehold Improvements	515	-	-	515
Vehicles	390	58	-	448
Furniture	347	-	-	347
Work in Progress	728	457	(386)	799
	160,481	611	(386)	160,706

Accumulated Depreciation	Jan 1, 2018 Opening Balance $	Additions $	Disposal/ Transfers $	December 31, 2018 Closing Balance $
Building	51,160	1,886	-	53,046
Building Betterment	6,774	1,008	-	7,782
Systems/M&E	2,225	31	-	2,256
Leasehold Improvements	296	53	-	349
Vehicles	78	45	-	123
Furniture	270	4	-	274
	60,803	3,027	-	63,830
Net Book Value	99,678	(2,416)	(386)	96,876

8. SHARE CAPITAL

The Company is authorized to issue 100 shares with no par value for a maximum consideration of one dollar per share. The shares can be issued only to The City, its agent or successor and are not otherwise transferable. As at December 31, 2018 and 2017, one share was issued.

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

NOTES TO FINANCIAL STATEMENTS
(Expressed in thousands of Dollars)

For the year ended December 31, 2018

9. FINANCIAL INSTRUMENTS

Financial instruments consist of cash, rent and other receivables, payable to and receivable from senior government, accounts payable and accrued liabilities, unearned revenue, deferred funding, rent supplement advance, tenants' security deposits, mortgages payable and employee benefit obligation. The carrying value of these financial instruments approximates their fair value. The estimated fair value approximates the amount for which the financial instruments could currently be exchanged in an arm's length transaction between willing parties who are under no compulsion to act. Certain financial instruments lack an available trading market, therefore fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instrument.

Interest Rate Risk

Interest rate risk reflects the sensitivity of the Company's financial results and condition to movements in interest rates. Interest rate risk is limited for fixed subsidy properties as the effective interest rate after application of senior government interest subsidies is 2% per annum. Interest rate risk for the remaining mortgages is managed through the staggering of mortgage renewals and is locked in for longer terms through Alberta Capital Finance Authority.

Credit Risk

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and receivables. Cash is placed with major financial institutions in conjunction with The City. Concentrations of credit risk with respect to receivables are limited due to the large number of tenants and their dispersion across geographic areas within the City of Calgary.

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

NOTES TO FINANCIAL STATEMENTS
(Expressed in thousands of Dollars)

For the year ended December 31, 2018

10. ACCUMULATED SURPLUS

Accumulated surplus consists of restricted and unrestricted amounts and equity in tangible capital assets as follows:

	2018	2017
	$	$
Accumulated surplus (Opening)	**96,341**	92,551
Surplus	**3,826**	3,790
Accumulated surplus (Closing)	**100,167**	96,341

	2018	2017
	$	$
Accumulated surplus(deficit)	**515**	(3,263)
Restricted replacement reserve	**6,887**	6,583
Operating reserve	**536**	536
Deferred capital contribution	**5,409**	5,409
Equity in tangible capital assets *	**86,820**	87,076
	100,167	96,341

	2018	2017
* Equity in tangible capital assets	**$**	$
Tangible capital assets *(Note 7)*	**160,706**	160,480
Accumulated amortization *(Note 7)*	**(63,830)**	(60,803)
Long-term debt *(Note 5)*	**(10,056)**	(12,601)
	86,820	87,076

The operating reserve represents 50% of operating surplus accumulated in 1999 and future years of the Calhome Owned Portfolio to be used to offset operating losses in future years.

Deferred capital contribution represents the restricted capital contributions received from the third parties for a specified purpose, which will be recognized as a revenue or as an increase in equity in tangible capital assets when the related expenditures are incurred.

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

NOTES TO FINANCIAL STATEMENTS
(Expressed in thousands of Dollars)

For the year ended December 31, 2018

11. RESTRICTED FUNDS

The Company has received restricted grants from The City and the Province to be used for specific purposes. These funds are recognized as restricted revenue in the period they are used for the purpose specified. In 2018, the Company utilized $17,244 [2017 - $6,439] of restricted grants and recorded the related restricted revenue. This resulted in additional $7,709 in Government receivables related to restricted grants.

	January 1, 2018	Restricted Inflows	Revenue Earned	Grants in Receivables	December 31, 2018
	$	$	$	$	$
The City of Calgary	(8,075)	-	695	-	(7,380)
The Government of Alberta	(2,330)	(3,353)	2,994	1,002	(1,688)
	(10,405)	(3,353)	3,689	1,002	(9,068)

The restricted grants provided by the Province have been restricted for capital spending, non-recurring maintenance, preventative maintenance, suite renovations, feasibility study for two new projects, building condition assessments, and the women fleeing violence program.

The grants received from the City of Calgary have been restricted for performing suite renovations, building condition assessments, preventative maintenance, non-recurring maintenance, and new system implementation.

12. INSURANCE RECOVERIES AND INSURANCE EXPENSES

Insurance recoveries represent insurance claims recovered during the year. Insurance recoveries are recognized as revenue when received, or when reimbursement for the insurance claim has been confirmed by the insurer. Insurance expenses are the costs incurred to pay third party contractors during the year, related to insurance claims. The insurance claims are made by the Company to recover current year insurance expenses, but may be processed during the current year or in later years.

NOTES TO FINANCIAL STATEMENTS
(Expressed in thousands of Dollars)

For the year ended December 31, 2018

13. CONTINGENT ASSETS

Contingent assets are possible assets arising from existing conditions or situations that involve uncertainty. That uncertainty will be resolved when a future event not wholly within the Company's control occurs or fails to occur, and resolution of the uncertainty will confirm the existence or non-existence of an asset.

The Company has contingent assets arising from open claims related to insured expenditures. As at December 31, 2018, the estimated amount of claims where recovery is likely is $498.

14. CONTRACTUAL RIGHTS

Contractual rights are rights of the Company to economic resources arising from contracts or agreements that will result in both assets and revenues in the future when the terms of those contracts or agreements are met.

Year	Long-term lease and rental agreements $	Restricted grants and management fees $	Total $
2019	561	7,670	8,231
2020	548	5,898	6,446
2021	381	9,165	9,546
2022	284	4,505	4,789
2023	190	-	190
Thereafter	183	-	183
	2,147	27,238	29,385

NOTES TO FINANCIAL STATEMENTS
(Expressed in thousands of Dollars)

For the year ended December 31, 2018

14. CONTRACTUAL RIGHTS (continued from previous page)

In addition to the contractual rights listed above, the Company has operating and subsidy agreements which are made up of the following:

- Provincial Fixed Subsidy – debt financing at 2%
- Provincial subsidy of CHC-owned Private Non-Profit portfolio
- City of Calgary Community Housing operating agreements
- Province of Alberta Community Housing operating agreement
- Provincial Rent Supplement program

For more information regarding these agreements, and the portfolios to which they relate, refer to Note 1.

15. CONTRACTUAL OBLIGATIONS

The Company has contractual obligations related to leases of land and office space, and a software subscription agreement. The approximate future minimum annual lease payments for the next five years are as follows:

Year	Land $	Office Space $	Software $	Total $
2019	98	497	562	1,157
2020	98	489	562	1,149
2021	98	489	363	950
2022	98	489	-	587
2023	98	229	-	327
Thereafter	784	-	-	784
	1,274	2,193	1,487	4,954

NOTES TO FINANCIAL STATEMENTS
(Expressed in thousands of Dollars)

For the year ended December 31, 2018

16. RELATED PARTY TRANSACTIONS

The Company is related through control and common control to the City of Calgary and all of its business units and subsidiaries. Related parties also includes key management personnel and close family members.

Transactions with related parties, unless separately disclosed, are considered to be in the normal course of operations and are recorded at the exchange amount, which is substantially the same as would occur in an arm's length transaction.

CHC had the following transactions and balances with related parties reported in the Statement of Operations and the Statement of Financial Position. Transactions are recorded at the amount of consideration agreed upon between the related parties.

	2018 $
Revenue	
Restricted revenue	3,546
Expenses and Other Items	
Administration	71
Return to the City of Calgary	1,456
	1,527
Receivable from related parties	1,868
Deferred revenue transactions	7,377
Contractual Rights	25,880

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

NOTES TO FINANCIAL STATEMENTS
(Expressed in thousands of Dollars)

For the year ended December 31, 2018

16. RELATED PARTY TRANSACTIONS (continued from previous page)

The Company shares various administrative services and functions such as banking, payroll, safety, training, and executive leadership with the City of Calgary. These costs are not allocated to, or recovered from, the receiving party and therefore are not recognized in the Statement of Operations.

During the year ended December 31, 2018, the City of Calgary forgave property taxes in the amount of $1,305 on Company owned properties. The Company is not responsible for property taxes on properties it manages but are owned by the Province of Alberta or the City of Calgary.

17. CHANGES IN NON-CASH WORKING CAPITAL

	2018	2017
	$	$
Receivables	**(8,695)**	(1,080)
Accounts payable and accrued liabilities	**8,767**	2,616
Unearned revenue	**262**	(23)
Deferred funding	**(1,337)**	1,925
Payable to senior government	**1,850**	(763)
Tenants' security deposits	**2**	(22)
Employee benefit obligation	**154**	228
Prepaid expenses	**(333)**	(12)
Increase/(Decrease) in non-cash working capital	**670**	2,869

NOTES TO FINANCIAL STATEMENTS
(Expressed in thousands of Dollars)

For the year ended December 31, 2018

18. RECLASSIFICATON OF PRIOR YEAR BALANCES

Certain comparative figures have been reclassified to adjust the presentation and classification of balances in the prior year's financial statement presentation to conform to current year presentation. These reclassifications are due to:

- Transfer of six properties from the Provincial Fixed Subsidy portfolio to the Calhome Owned portfolio. This reclassification only affects the portfolio-level Statements of Operations, and not the consolidated financials.
- Transfer of $536 from unrestricted cash to restricted cash for CHC's operating reserve.

19. APPROVAL OF BUDGET AND FINANCIAL STATEMENTS

Budget figures included in the financial statements were approved by the Board at the September 21, 2018 Board meeting. The Board and Management have approved these financial statements.

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

STATEMENTS OF OPERATIONS BY PORTFOLIOS:

Provincial Fixed Subsidy Portfolio

Private Non-Profit Portfolio

Calhome Owned Portfolio

Corporate Properties Residential Units Portfolio

City of Calgary Partnership Portfolio

City Owned Community Housing Portfolio

Provincially Owned Community Housing Portfolio

Rent Supplement Portfolio

The following information is supplemental and provided for informational purposes and as such has not been audited.

Calhome Properties Ltd.

Operating as 'Calgary Housing Company'

Provincial Fixed Subsidy Portfolio (Unaudited)

This portfolio consists of 198 units [2017 – 592 units], of which 196 are residential and 2 are non-residential, in 5 properties [2017 – 11 properties] owned by the Company, as listed below.

The portfolio receives an interest subsidy from the Province of Alberta equivalent to the amount that reduces the Company's debt financing costs to 2% per annum. The Company bears financial responsibility for operating surpluses or losses subsequent to the application of subsidies.

Due to the expiry of Provincial subsidy agreements during 2018, 394 units were moved from this portfolio to the Calhome Owned portfolio. The 2017 figures were reclassified to reflect this transfer in order to provide an appropriate basis for comparative purposes.

Property	Property Code	Number of Units
Connaught 2	CN2	48
Cedarbrae 5	CB5	14
Penbrooke 3	PB3	77
Sunalta 1	SN1	26
Tuxedo 1	TX1	33
Total		**198**

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

For the Provincial Fixed Subsidy Portfolio
(Expressed in Thousands of Dollars)
(Unaudited)

For the year ended December 31, 2018

	BUDGET	**2018**	2017
REVENUE			
Rent revenues	$ 2,031	**$ 1,905**	$ 2,039
Government transfers			-
Restricted funds	173	**170**	153
Debt interest rebate	6	**11**	11
Insurance recoveries	-	**22**	39
Miscellaneous	25	**44**	33
	2,235	**2,152**	2,275
EXPENSES			
Administration	168	**98**	74
Salaries and benefits	494	**457**	461
Amortization of tangible capital assets	443	**264**	296
Debt servicing	109	**106**	43
Maintenance	795	**616**	578
Property operations	280	**285**	256
Taxes and leases	117	**122**	101
Utilities	212	**235**	208
Insurance	-	**22**	9
	2,618	**2,205**	2,026
EXCESS OF REVENUE OVER EXPENSES BEFORE OTHER ITEMS	(383)	**(53)**	249
OTHER ITEMS			
Loss on asset disposal	-	**-**	(6)
	-	**-**	(6)
SURPLUS	$ (383)	**$ (53)**	$ 243

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

Private Non-Profit Portfolio (Unaudited)

This portfolio consists of 207 units [2017 – 207 units], all of which are residential, in 10 properties [2017 – 10 properties] owned by the Company, as listed below. The Provincial government subsidizes any operating deficits with the exception of the Lincoln Park Fanning Centre. Lincoln Park Fanning Centre receives a subsidy equivalent to the amount required to reduce debt financing costs to 2% per annum. The Company bears the responsibility of financial loss or surplus on the Lincoln Park Fanning Centre property.

Property	Property Code	Number of Units
Crescent Height 1	CH1	9
Inglewood 1	IW1	10
Lincoln Park 1	LP1	46
Lincoln Park 4 (MS)	LP4	1
Lincoln Park 5 (FAN)	LP5	2
Haultain House	NYH	16
London House	NYL	16
Silver Pines	NYS	18
Tamarac House	NYT	18
Villa Blanca	NYV	71
Total		**207**

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

STATEMENT OF OPERATIONS
For the Private Non-Profit Portfolio
(Expressed in Thousands of Dollars)
(Unaudited)

For the year ended December 31, 2018

	BUDGET	**2018**	2017
REVENUE			
Rent revenues	$ 860	**$ 865**	$ 857
Government transfers			
Shared cost agreements	1,639	**1,606**	1,473
Restricted funds	1,733	**1,301**	25
Interest income	6	**13**	5
Insurance recoveries	-	**-**	9
Miscellaneous	19	**14**	18
	4,257	**3,799**	2,387
EXPENSES			
Administration	159	**196**	99
Salaries and benefits	612	**618**	509
Amortization of tangible capital assets	366	**340**	348
Debt servicing	58	**58**	63
Maintenance	2,335	**1,851**	649
Property operations	302	**324**	310
Taxes and leases	97	**90**	96
Utilities	328	**306**	309
Insurance	-	**-**	8
	4,257	**3,783**	2,391
EXCESS OF REVENUE OVER EXPENSES BEFORE OTHER ITEMS	-	**16**	(4)
OTHER ITEMS			
Loss on asset disposal	-	**-**	(6)
	-	**-**	(6)
SURPLUS	$ -	**$ 16**	$ (10)

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

Calhome Owned Portfolio (Unaudited)

This portfolio is comprised of 1,532 units [2017 – 1,138 units], of which 1,528 are residential and 4 are non-residential, in 35 properties [2017–29 properties] owned by the Company. This portfolio does not receive any subsidy from other levels of government. The Company may retain surpluses and is responsible for losses.

Due to the expiry of Provincial subsidy agreements during 2018, 394 units were moved to this portfolio from Provincial Fixed Subsidy portfolio. The 2017 figures were reclassified to reflect this transfer in order to provide an appropriate basis for comparative purposes.

Property	Property Code	Number of Units
Abbeydale 5	AB5	60
Bankview 1	BV1	26
Beddington 4	BD4	66
Cedarbrae 4	CB4	51
CB3-Cedarbrae	CBC	9
CB3-Beddington	BDC	15
Cedar Crescent	CC2	2
Crossroad 1	CR1	100
East Village 1	EV1	166
Erinwoods 1	EW1	58
Erinwoods 4	EW4	72
Fonda Crescent	FC1	2
Falconridge 3	FR3	20
Falconridge 4	FR4	28
Falconridge 5	FR5	14
Huntington Hill 6	HH6	75
Lincoln Park 2	LP2	38
Lincoln Park 3	LP3	25
Manchester 2	MC2	117
Manchester Commercial	MCC	1
McKenzie 2	MK2	57
McLaurin Village	MV1	1
Millrise 1	MR1	53
North Haven 3	NH3	40
Rundle Manor	RD2	75
Radisson Heights 7	RH7	36
Ranchlands 6	RL6	50
Transfer From Province	TR5	5
Vista Hts 2	VH2	52
Parkland 3	PL3	36

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

Queensland 1	QL1	56
Queensland 2	QL2	20
Ranchlands 7	RL7	55
Silver Springs 1	SS1	31
Whitehorn 3	WH3	20
Total		**1532**

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

STATEMENT OF OPERATIONS
For the Calhome Owned Portfolio
(Expressed in Thousands of Dollars)
(Unaudited)

For the year ended December 31, 2018

	BUDGET	2018	2017
REVENUE			
Rent revenues	$ 16,961	**$ 17,686**	$ 16,931
Restricted funds	6,722	**2,148**	1,629
Debt interest rebate	206	**203**	508
Interest income	492	**705**	475
Insurance recoveries	-	**70**	163
Miscellaneous	723	**555**	357
	25,104	**21,367**	20,063
EXPENSES			
Administration	2,037	**828**	754
Salaries and benefits	4,272	**3,926**	3,712
Amortization of tangible capital assets	2,323	**2,325**	2,287
Debt servicing	182	**205**	348
Maintenance	5,602	**6,010**	5,050
Property operations	2,452	**2,182**	1,836
Taxes and leases	730	**703**	732
Utilities	1,512	**1,365**	1,469
Insurance	-	**49**	99
Restricted expenses	65	**151**	249
	19,175	**17,744**	16,536
EXCESS OF REVENUE OVER EXPENSES BEFORE OTHER ITEMS	5,929	**3,623**	3,527
OTHER ITEMS			
Loss on asset disposal	-	**-**	(183)
	-	**-**	(183)
SURPLUS	$ 5,929	**$ 3,623**	$ 3,344

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

Corporate Properties Residential Portfolio (Unaudited)

The Company manages 239 units [2017 – 246 units], all of which are residential, in 8 properties [2017 – 9 properties] on behalf of the City of Calgary. Any operating surplus is to be returned to the City of Calgary.

Property	Property Code	Number of Units
Armour Block (Residential)	ABR	34
North East A	NEA	21
North West A	NWA	19
South East A	SEA	54
South East B	SEB	2
South West A	SWA	1
South West B	SWB	2
South Hill Mobile Homes	SHM	106
Total		**239**

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

STATEMENT OF OPERATIONS

For the Corporate Properties Residential Portfolio
(Expressed in Thousands of Dollars)
(Unaudited)

For the year ended December 31, 2018

	BUDGET	**2018**	2017
REVENUE			
Rent revenues	$ 1,821	**$ 1,714**	$ 2,225
Restricted funds	35	**372**	11
Insurance recoveries	-	**-**	12
Miscellaneous	22	**75**	18
	1,878	**2,161**	2,266
EXPENSES			
Administration	179	**118**	120
Salaries and benefits	794	**554**	774
Amortization of tangible capital assets	4	**5**	3
Maintenance	338	**657**	473
Property operations	205	**249**	248
Utilities	307	**306**	401
	1,827	**1,889**	2,019
EXCESS OF REVENUE OVER EXPENSES BEFORE OTHER ITEMS	51	**272**	247
OTHER ITEMS			
Return to The City of Calgary	(51)	**(272)**	(239)
Loss on asset disposal	-	**-**	(8)
	(51)	**(272)**	(247)
SURPLUS	$ -	**$ -**	$ -

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

City of Calgary Partnership Portfolio (Unaudited)

This portfolio consists of 1,176 units [2017 – 1,128 units], of which 1,171 are residential and 5 are non-residential, in 27 properties [2017 – 26 properties] owned by the City of Calgary, as listed below. The Company manages these properties on behalf of the City of Calgary. In 2018, one new building became operational in this portfolio.

Property	Property Code	Number of Units
Bridges Condos 1	BG1	6
Bridges Condos 2	BG2	2
Bridges Condos 3	BG3	6
Bridges Condos 4	BG4	2
Mcpherson Place	BL3	58
Bridgeland	BL4	24
Beswich House	BWH	2
Cedar Court	CD1	65
Connaught 3	CN3	47
Crescent Heights 1	CT1	40
Crescent Heights 2	CT2	16
Crestwood 1	CW1	60
Lincoln Park 7	LP7	65
Lomond	LM1	16
Louise Station	LS2	88
Lumino	MCN	88
Trinity Foundation	MCL	70
Manchester Tower	MC3	136
Parkhill 1	PK1	9
Forest Height 9	RH9	2
Spring Bank 1	SB1	150
Vista Grande	VG1	41
Ogden Transitional	OTH	11
Vida	VMT	45
West End	WE1	47
Kingsland	KG1	32
Wildwood	WWD	48
Total		**1,176**

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

STATEMENT OF OPERATIONS

For the City of Calgary Partnership Portfolio
(Expressed in Thousands of Dollars)
(Unaudited)

For the year ended December 31, 2018

	BUDGET	**2018**	2017
REVENUE			
Rent revenues	$ 9,438	**$ 9,356**	$ 8,680
Restricted funds	199	**1,092**	44
Insurance recoveries	-	**1**	60
Miscellaneous	347	**508**	390
	9,984	**10,957**	9,174
EXPENSES			
Administration	577	**561**	377
Salaries and benefits	2,732	**2,722**	2,768
Amortization of tangible capital assets	18	**22**	22
Maintenance	3,161	**3,087**	1,993
Property operations	2,007	**1,979**	1,745
Utilities	1,087	**1,151**	985
Insurance	-	**-**	49
	9,582	**9,522**	7,939
EXCESS OF REVENUE OVER EXPENSES BEFORE OTHER ITEMS	402	**1,435**	1,235
OTHER ITEMS			
Inter-portfolio transfers	(378)	**-**	(321)
Return to The City of Calgary	(24)	**(1,195)**	(100)
City of Calgary surplus retained	-	**-**	(570)
Loss on asset disposal	-	**-**	(31)
	(402)	**(1,195)**	(1,022)
SURPLUS	$ -	**$ 240**	$ 213

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

City Owned Community Housing Portfolio (Unaudited)

This portfolio consists of 1,059 units [2017 – 1,059 units], of which 1,050 are residential and 9 are non-residential, in 20 properties [2017 – 20 properties] owned by the City of Calgary, as listed below. CHC manages this portfolio under agreements between the City of Calgary and the Province of Alberta. The agreements provide that The Province of Alberta and the City of Calgary will fund or be refunded operating losses or surpluses in the ratio of 90%, and 10% respectively.

Property	Property Code	Number of Units
Bridgeland 2	BL2	215
Bowness 1	BN1	30
Bowness 2	BN2	6
Bowness 3	BN3	10
Bowness 4	BN4	14
Dover 1	DV1	32
Forest Heights 1	FH1	26
Glenbrook 1	GB1	30
Glenbrook 2	GB2	22
Huntington 1	HT1	24
Huntington 2	HT2	18
Huntington 3	HT3	30
Hillhurst 1	HU1	80
Hillhurst 2	HU2	66
Montgomery 1	MM1	26
Ogden 1	OD1	50
Oakridge 1	OR1	30
Penbrook 1	PB1	27
Spruce Cliff 1	SC2	249
West Dover 2	WD2	74
Total		**1,059**

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

STATEMENT OF OPERATIONS
For the City Owned Community Housing Portfolio
(Expressed in Thousands of Dollars)
(Unaudited)

For the year ended December 31, 2018

	BUDGET	2018	2017
REVENUE			
Rent revenues	$ 4,812	**$ 4,761**	$ 4,775
Government transfers			
Shared cost agreements	4,397	**4,398**	$ 3,669
Restricted funds	6,493	**4,324**	3,874
Insurance recoveries	-	**138**	119
Miscellaneous	161	**189**	181
	15,863	**13,810**	12,618
EXPENSES			
Administration	573	**523**	395
Salaries and benefits	3,033	**2,658**	2,843
Amortization of tangible capital assets	16	**20**	21
Maintenance	8,774	**6,898**	6,147
Property operations	1,776	**1,797**	1,513
Utilities	2,069	**1,814**	1,861
Insurance	-	**100**	128
	16,241	**13,810**	12,908
EXCESS OF REVENUE OVER EXPENSES BEFORE OTHER ITEMS	(378)	**-**	(290)
OTHER ITEMS			
Inter-portfolio transfers	378	**-**	321
Loss on asset disposal	-	**-**	(31)
	378	**-**	290
SURPLUS	$ -	**$ -**	$ -

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

Provincially Owned Community Housing Portfolio (Unaudited)

This portfolio consists of 2,704 units [2017 – 2,704 units], all of which are residential, in 100 properties [2017 - 100 properties] owned by the Province of Alberta, as listed below. The Province subsidizes 100% of the deficits of this portfolio. Of the buildings below, 53 are on City-owned land that is leased by the Province.

Property	Property Code	Number of Units
Abbeydale 1	AB1	13
Abbeydale 2	AB2	9
Abbeydale 3	AB3	17
Abbeydale 4	AB4	14
Abbeydale 6	AB6	21
Accessible Hsg.1	AH1	3
Applewood 1	AP1	53
Beddington Heights 1	BH1	40
Baker House/Langin Place	BKH	270
Beddington Heights 2	BH2	50
Bowness 6	BN6	2
Bowness 7	BN7	9
Bowness 8	BN8	27
Cedarbrae 1	CB1	9
Cedarbrae 2	CB2	24
Cedarbrae 6	CB6	12
Crescent Heights 2	CH2	20
Capital Hill 3	CH3	6
Castleridge 1	CS1	16
Castleridge 5	CR5	12
Dalhousie 1	DA1	64
Deer Ridge 1	DR1	43
Deer Valley 1	DR2	30
Dover 3	DV3	12
Dover 4	DV4	18
Dover 5	DV5	4
Dover 5B	DVB	2
Dover 6	DV6	10
Edgemont 1	ED1	84
Erinwoods 2	EW2	14

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

Erinwoods 3	EW3	84
Erinwoods 5	EW5	28
Forest Heights 2	FH2	7
Forest Heights 3	FH3	14
Forest Lawn 2	FL2	5
Falconridge 1	FR1	20
Falconridge 2	FR2	8
Falconridge 6	FR6	48
Falconridge 7	FR7	49
Glenbrook 3	GB3	2
Glenbrook 4	GB4	46
Highland Park 2	HP2	8
Inglewood 3	IW3	6
Inglewood 8	IW8	18
Killarney 1	KL1	17
Killarney 2	KL2	13
Lincoln Park 6	LP6	65
MacEwan Glen 1 & 2	MG1	74
McKenzie 1	MK1	60
Montgomery 4	MM4	2
Montgomery 6	MM6	51
Mission 1	MN1	30
Midnapore 1	MP1	60
Mountview 1	MT1	7
North Haven 2	NH2	12
Ogden 4	OG4	4
Ogden 5	OG5	4
Ogden 6	OG6	12
Penbrook 2	PB2	4
Parkland 1	PL1	8
Parkland 2	PL2	10
PineHill 1	PH1	40
Pineridge 1	PR1	62
Pineridge 2	PR2	62
Pineridge 3	PR3	24
Rundle 1	RD1	56

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

Renfrew 2	RF2	20
Radisson Heights 1	RH1	7
Radisson Heights 2	RH2	3
Radisson Heights 3	RH3	4
Radisson Heights 4	RH4	7
Radisson Heights 5	RH5	9
Radisson Heights 6	RH6	41
Ranchlands 1	RL1	8
Ranchlands 2	RL2	18
Ranchlands 3	RL3	15
Ranchlands 4	RL4	9
Ranchlands 5	RL5	45
Ranchlands 8	RL8	34
Ramsay 2	RM2	8
Ramsay 7	RM7	12
Rosscarrock 1	RS1	50
South Calgary 1	SC1	24
Social Housing 3	SH3	2
Social Housing 4	SH4	2
Strathcona 1	ST1	63
Southview 2	SV2	40
Shawnessy 1	SY1	37
Stanley 1	SM1	32
Thorncliffe 1	TC1	7
Temple 1	TP1	38
Temple 2	TP2	8
Vista Heights 1	VH1	23
Woodbine 1	WB1	18
Whitehorn 1	WH1	16
Whitehorn 2	WH2	8
Whitehorn 4	WH4	2
Willow Park 1	WP1	22
Woodlands 1	WL1	56
Woodlands 2	WL2	88
Total		**2,704**

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

STATEMENT OF OPERATIONS

For the Provincially Owned Community Housing Portfolio
(Expressed in Thousands of Dollars)
(Unaudited)

For the year ended December 31, 2018

	BUDGET	2018	2017
REVENUE			
Rent revenues	$ 12,604	**$ 11,902**	$ 12,444
Government transfers			
Shared cost agreements	13,603	**13,603**	8,751
Restricted funds	5,233	**7,837**	397
Insurance recoveries	-	**2**	21
Miscellaneous	79	**272**	396
	31,519	**33,616**	22,009
EXPENSES			
Administration	1,488	**1,335**	1,027
Salaries and benefits	7,580	**7,076**	7,088
Amortization of tangible capital assets	43	**51**	54
Maintenance	12,368	**15,852**	4,759
Property operations	3,107	**3,059**	2,498
Taxes and leases	1,046	**1,046**	1,046
Utilities	5,887	**5,184**	5,456
Insurance	-	**13**	-
	31,519	**33,616**	21,928
EXCESS OF REVENUE OVER EXPENSES BEFORE OTHER ITEMS	-	-	81
OTHER ITEMS			
Loss on asset disposal	-	-	(81)
	-	-	(81)
SURPLUS	$ -	$ -	$ -

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

Rent Supplement Portfolio (Unaudited)

CHC is the designated agent to administer the Rent Supplement Programs in Calgary on behalf of The Province.

STATEMENT OF OPERATIONS
For the Rent Supplement Portfolio
(Expressed in Thousands of Dollars)
(Unaudited)

For the year ended December 31, 2018

	BUDGET	**2018**	2017
REVENUE			
Government transfers			
Rent supplement funding	$ 19,200	**$ 19,131**	$ 19,435
EXPENSES			
Administration	203	**264**	206
Salaries and benefits	638	**598**	626
Rent supplement payments	18,359	**18,269**	18,603
	19,200	**19,131**	19,435
SURPLUS	$ -	**$ -**	$ -

Data Analytics Desktop Review Program

EXECUTIVE SUMMARY

This report provides an update of the new desktop review program as part of The City Auditor's Office (CAO) overall data analytics initiative endorsed by Audit Committee in 2016. The desktop review program is preparing to launch in Q2 of 2020, based on a successful pilot that was concluded in Q3 of 2019. The reviews conducted under this program will provide wider assurance on operational compliance and will utilize less resource cost than a traditional risk-based audit. The program utilizes the City's data sourced from multiple systems to evaluate compliance and best practice across the organization, to provide timely feedback to Administration when non-compliance occurs, and to monitor trends to identify escalating risks for remediation. A priority list of areas for review in 2020 will be provided to Audit Committee in early Q2 2020. Scorecard reporting on 2020 compliance assurance and trending will be provided no later than end of Q4 2020.

The desktop audit review process increases The CAO's ability to evaluate performance and processes. The process also helps to identify key issues as they arise in order to be able to initiate a more traditional audit if necessary. The reporting provides detailed data, trending analysis and compliance coverage using 100% of the population. This comprehensive analysis creates more reliable, timely and accurate reporting for Administration and provides reliable assurance for Council and Audit Committee in terms of governance, cost effectiveness, risk management and oversight.

The CAO appreciates the continued support from Audit Committee to our important data analytics initiative.

RECOMMENDATION

1. That the Audit Committee receive this report for information.

PREVIOUS COUNCIL DIRECTION / POLICY

Bylaw number 48M2012 "Audit Committee Bylaw" states in section 1 g) Audit Committee "oversees the integrity of The City's system of internal controls, legal compliance regarding financial matters, Codes of Conduct, and other policies, as determined by the Audit Committee" and in section 6 a) The Audit Committee "monitors Administration's compliance with existing policies and legislation".

Bylaw 30M2004 (as amended) established the position of City Auditor and the powers, duties and functions of the position. The City Auditor is accountable to Council and subject to the oversight of Audit Committee under Bylaw 48M2012 (as amended).

BACKGROUND

In 2016, the CAO received approval from Audit Committee to support a focused initiative on the development and application of data analytics. The CAO purchased Galvanize Analytics, Power BI and added additional server capacity to enable better data analysis and stronger visualizations of data. The CAO uses analytics gleaned from City data to provide greater insight into areas of potential risk exposure which support all aspects of the mandate to deliver effective assurance, advisory and investigative services. To accomplish this, the CAO has dedicated two staff to this initiative, who have collectively developed and maintained over 75 scripts.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Earlier in 2019, The CAO conducted the pilot program across three desktop overtime reviews in Transit, Water Services and Corporate Analytics & Innovation, analyzing 100% of the overtime data over the last three years.

The pilot program was successful from the perspective of both Administration and The CAO. Results of the pilot confirmed the reliability of the data and analysis and Administration indicated they found the CAO reporting provided insight that guided opportunities for improving compliance and operational efficiency. Each of the desktop reviews were completed in less than 50% of the average elapsed time of a traditional audit and did not require a significant amount of support time from the business under evaluation. The CAO will continue to monitor trends identified in this pilot and should unfavourable trends escalate then a formal compliance audit by the CAO may be conducted.

Overall, data analytic desktop reviews assist the CAO in gaining deeper insights into City systems and controls to support ongoing assurance in an economic manner while being responsive to changing risks.

Over the long term, it is anticipated that significant benefits will be provided to Audit Committee and Council specific to their governance and oversight role. This will be achieved through the provision of broader risk assurance, timely identification of compliance improvements and operational efficiency savings gained across the organization.

Stakeholder Engagement, Research and Communication

The pilot review was conducted with Transit, Water Services and Corporate Analytics & Innovation acting as the principal contacts within Administration.

Strategic Alignment

Audit assurance activities assist Council and Audit Committee in their oversight of Administration and its accountability for stewardship over public funds and in achieving value for money in City operations.

Social, Environmental, Economic (External)

N/A

Financial Capacity

Current and Future Operating Budget:

The pilot and proposed launch of the desktop review program is funded within the existing operating budget of the CAO.

Current and Future Capital Budget:

N/A

Risk Assessment

The activities of The CAO serve to promote accountability, mitigate risk, and support an effective governance structure. The Data Analytics desktop review program will improve effective risk management, through timely identification of non-compliance, identification of operational improvement opportunities and increased audit assurance efficiencies.

REASON FOR RECOMMENDATION:

Bylaw 48M2012 (as amended) states: "In accordance with Bylaw 30M2004, oversees and ensures the accountability of the City Auditor on behalf of Council".

ATTACHMENTS

None

City Auditor's Office Revised 2020 Audit Plan

EXECUTIVE SUMMARY

This report provides the City Auditor's Office (CAO) Revised 2020 Audit Plan for Audit Committee's approval. The Revised 2020 Audit Plan consists of seven audits (and an additional five audits initiated in 2019), representing operational, IT, and formal follow-up audits determined using a defined risk-based approach. The 2020 Audit Plan is a critical deliverable provided by the CAO to ensure audit resources are directed to the most significant areas of The City of Calgary (The City) to support our audit mission to add value and enhance public trust.

RECOMMENDATIONS:

That Audit Committee:

1. Approve the City Auditor's Office Revised 2020 Audit Plan and forward to Council for information; and
2. Recommend that Council receive the City Auditor's Office Revised 2020 Audit Plan, AC2019-1243.

PREVIOUS COUNCIL DIRECTION / POLICY

Schedule C of Bylaw 48M2012 states that Audit Committee "reviews and approves the City Auditor's Office annual work plan and forwards to Council for information; the Audit Committee or Council may not remove items from the City Auditor's work plan but may direct items be added to the plan". Schedule C of Bylaw 48M2012 also states that the City Auditor "must formally present the annual audit work plan to Council for information."

Audit Committee approved the City Auditor's Office 2019-2020 Audit Plan (AC2018-0998) on September 18, 2018, and the Plan was formally presented to Council for information on October 15, 2018.

The City Auditor presented the CAO's Revised Annual Audit Plan Approach (AC2019-0899) to Audit Committee on July 23, 2019.

BACKGROUND

The CAO's mission is to provide independent and objective assurance, advisory and investigative services to add value to The City and enhance public trust. The CAO Charter (AC2016-0247 Attachment 2) states that the City Auditor is responsible for assisting Council in its oversight of the City Manager's administration and accountability for stewardship over public funds and achievement of value for money in City operations. The CAO carries out this responsibility through the completion of an Audit Plan.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

The CAO aligns the Audit Plan development to the Four Year – One Calgary Budget Cycle, resulting in an Audit Plan which is presented to Audit Committee for approval and to Council for information. The revised 2020 Audit Plan reflects a deeper understanding of the resource commitment to effectively conduct the selected risk based audits gained through further internal evaluation and discussions with Administration on current strategies. The adjustments on quantity of audits to be completed also provides capacity to deliver on internal efficiency

City Auditor's Office Revised 2020 Audit Plan

initiatives to enhance our resilience, responsiveness, and effectiveness in providing risk reduction recommendations and cost effective solutions.

Stakeholder Engagement, Research and Communication
The CAO reached out to members of Administration impacted by the seven re-prioritized audits planned for 2020 to define and confirm scope and timing of audits.

Strategic Alignment
The CAO's annual audit planning process ensures that audit resources are focused on areas of significant risk and value to The City. The Audit Plan is aligned to support all five Citizen Priorities, which in turn supports the Citizen Priority of A Well-Run City.

Social, Environmental, Economic (External)
N/A

Financial Capacity
N/A

Current and Future Operating Budget
The City Auditor's Office Revised 2020 Audit Plan is based on the CAO's current budget and retention of existing staff positions.

Current and Future Capital Budget
N/A

Risk Assessment
The activities of the CAO serve to promote accountability, mitigate risk, and support an effective governance structure. The CAO conforms to the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing, which states the plan of audit engagements must be based on a documented risk assessment, undertaken at least annually, and must consider the input of key stakeholders.

REASON FOR RECOMMENDATIONS:
Bylaw 48M2012 states that Audit Committee reviews and approves the City Auditor's Office annual work plan and forwards to Council for information; the Audit Committee, or Council, may not remove items from the City Auditor's work plan but may direct items to be added to the plan.

ATTACHMENT
City Auditor's Office Revised 2020 Audit Plan - AC2019-1243 ATT

AC2019-1243
Attachment

Calgary

City Auditor's Office

City Auditor's Office
Revised 2020 Audit Plan

October 24, 2019

ISC: Unrestricted

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Table of Contents

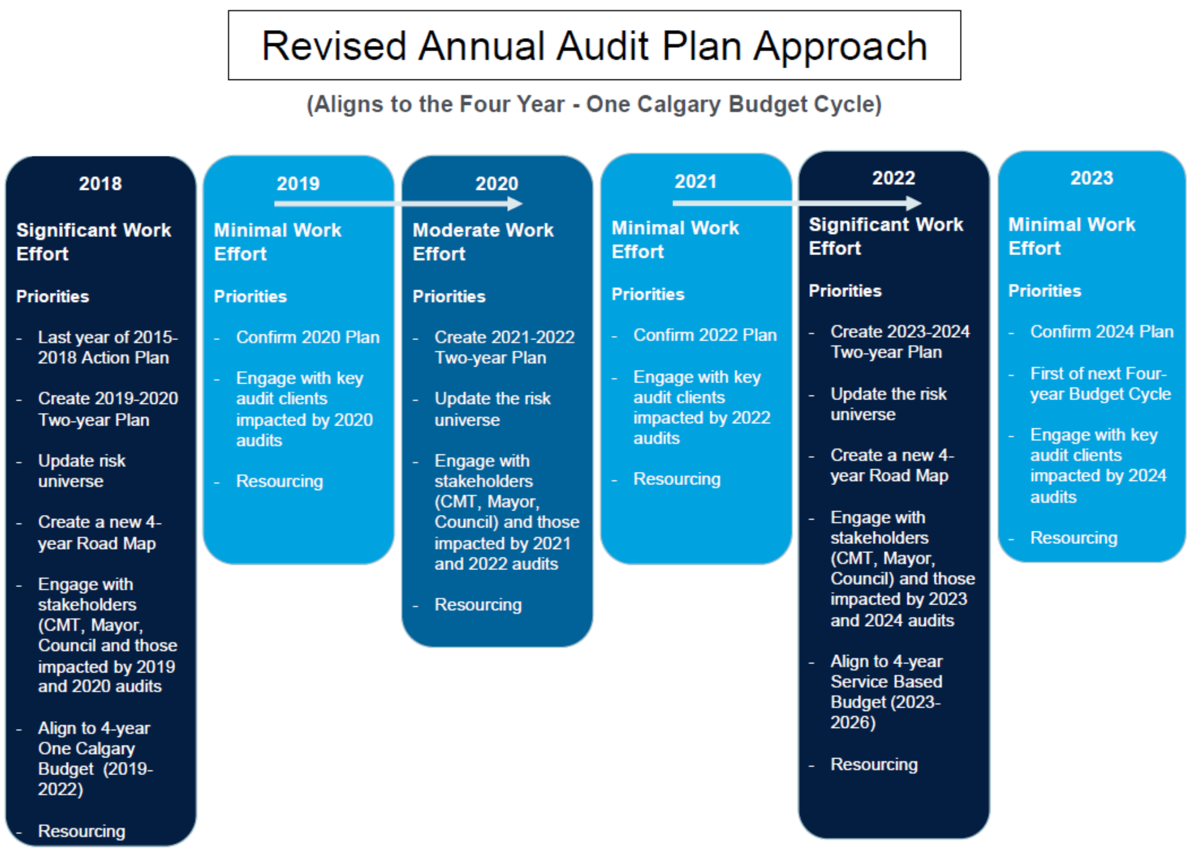
The City Auditor's Office completes all projects in conformance with the *International Standards for the Professional Practice of Internal Auditing.*

1.0 2020 Audit Plan Development

The City Auditor's Office (CAO) provides objective assurance and insight on the effectiveness and efficiency of governance, risk management and internal control processes. This assurance helps The City of Calgary (The City) achieve its strategic, operational, financial, and compliance objectives. The audit and advisory work provided by the CAO is intended to act as a catalyst for improving an organization's effectiveness and efficiency by providing insight and recommendations on risk management effectiveness. The annual presentation of our Audit Plan outlines where those audits and assurance activities will take place.

The CAO Charter requires the City Auditor to prepare annually a risk-based Audit Plan for approval by Audit Committee and for information to Council. The CAO Charter is aligned with The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing, which require the establishment of a risk-based plan to determine the priorities of the internal audit activity be consistent with the organization's goals. The intent of the audit planning process is to ensure that available audit resources are directed to the most significant areas of City activity, and support the achievement of Citizen Priorities and Council Directives.

In July 2019, the City Auditor presented the CAO's revised Annual Audit Plan approach to Audit Committee (AC2019-0899), aligned to the Four Year – One Calgary Budget Cycle. The intent of this revised approach is to provide internal efficiencies and continue to support a risk based approach that provides agility to include emerging risks and alignment with changes occurring in Administration. The CAO presented a two year 2019/2020 Audit Plan for Audit Committee approval in September 2018 (AC2018-0998). As shown in the diagram below, 2019 activities to reconfirm the 2020 Audit Plan included assessing available CAO resources, and engaging with clients impacted by the proposed 2020 audits.



The provisional list of 2020 audits was assessed to determine the resource and skill requirements, and the anticipated budget and cycle time required to complete each audit. Total anticipated audit hours were reconciled against a resource calculation of available and appropriate internal resources and calendar availability. Time sensitive initiatives required to be completed by the CAO during 2020 were also included in the calculation.

As available resources were insufficient to complete all twelve audits originally scheduled for 2020, the CAO re-prioritized audits on a risk relevance basis. Re-prioritization identified seven remaining audits in the Revised 2020 Audit Plan. The five audits excluded from the lists will be re-assessed and considered as part of the 2021-2022 audit planning process (see Appendix).

Scope and timing of the seven re-prioritized audits planned for 2020 were defined and confirmed utilizing input from clients impacted by the proposed audits, and availability of CAO staff. The revised plan is based on eight professional audit staff (auditor and senior auditors) conducting the audits, in addition to an Audit Manager IT supporting data analytics initiatives and supervising IT audits, a Data Strategist, and two Deputy City Auditors supporting audit supervision and advisory functions. A contingency block of time is allocated to provide flexibility for the City Auditor and Deputy City Auditors to respond to emerging risks across The City via advisory projects.

The CAO considers all audits performed to be classified as performance audits. Under this broad title, audits in the 2020 Audit Plan are further classified as:

- Operational Audits
  Utilizing a risk-based approach, review operations, services, processes and/or systems to determine whether they are effective and implemented as planned to achieve their objectives. This type of audit may include assessing the efficiency with which resources are utilized.

- IT Audits
  Review and evaluation of automated information processing systems, related non-automated processes and the interfaces among them to ensure business risks are minimized appropriately.

- Follow-up Audits
  Review the effectiveness of the corrective action implemented in response to previous audit recommendations to ensure the underlying risk was mitigated as intended to support achievement of the objective. This type of audit is generally more limited in scope, but may still identify efficiency opportunities resulting from operational changes and/or redundant control structures.

2.0 Audit Plan Execution

The CAO audit process utilizes a risk-based approach throughout all phases of the audit. In particular, the planning phase includes a detailed risk identification and assessment phase. The purpose of this phase is to identify the most significant risks within the area and focus the allocated audit resources on those areas. The result is an audit project that does not address all risks, but focuses on the most significant risks that could impact the achievement of City objectives. In line with The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing, the planning of an audit considers (dependent on the audit topic) the risks to achievement of the organization's strategic objectives; reliability and integrity of financial and operational information; effectiveness and efficiency of operations and programs; safeguarding of assets; and compliance with laws, regulations, policies, procedures, and contracts.

In delivering the Audit Plan, the CAO focuses on key values:

- Risk reduction: audit and advisory activities and associated recommendations cost-effectively address risks to The City, and our active follow up supports timely implementation;
- Reliability: audit and assurance activities add value and are completed by skilled, experienced staff within expected timelines;
- Responsiveness: the CAO has the ability to address emerging risks, Council and Administration requests; and
- Resiliency: the CAO is supported by structure and protocols which enable the team to remain adaptable and agile in supporting The City through audit and advisory activities.

The City Auditor monitors progress against the approved 2020 Audit Plan and re-assesses risk decisions pertaining to individual project scope and emerging issue requests within the approved plan. The City Auditor is committed to supporting an agile team which can re-prioritize audit and assurance activity.

In accordance with Bylaw 48M2012, the City Auditor communicates progress towards completion of the approved plan to the Audit Committee as part of the CAO's quarterly reports. Audit Committee reviews and forwards these reports to Council for information.

Appendix: Revised 2020 Audit Plan

2020 Audit Plan			
#	**Title**	**Description**	**Report Target**
	2019 Anticipated In-Progress Audits		
1	Budget Management	An operational audit of processes and reporting tools available to DeptID owners to support effective management of their operating budget. *Citizen Priority – A Well-Run City*	Q1
2	Corporate Issue Management Program	An operational audit on the maturity of The City's Corporate Issue Management Program. *Citizen Priority – A Well-Run City*	Q1
3	Calgary Fire - Inspections	An operational audit of the efficiency and effectiveness of Calgary Fire's inspection activities. *Citizen Priority – A City of Safe and Inspiring Neighbourhoods*	Q1
4	Roads – Pothole Remediation	An operational audit of the efficiency and effectiveness of pothole remediation. *Citizen Priority – A City that Moves*	Q2
5	Elections Follow-up	A follow-up audit to review action plans implemented in response to the 2017 Municipal Election Review (AC2018-0852). *Citizen Priority – A Well-Run City*	Q2
	Risk Assessed Higher Priority: 2020		
1	Opportunity Calgary Investment Fund	An operational audit of Opportunity Calgary Investment Fund's grant administration. *Citizen Priority – A Prosperous City*	Q2
2	Green Line Project Governance Follow-up	A follow-up audit to review action plans implemented in response to the 2019 Green Line – Governance Audit (AC2019-0353). *Citizen Priority – A City that Moves*	Q2
3	Assessment Complaints	An operational audit of the processes utilized by The City to efficiently prepare for, and improvement incorporated in response to, the assessment complaints process. *Citizen Priority – A Prosperous City*	Q3
2020 Audit Plan			

#	Title	Description	Report Target
	Risk Assessed Higher Priority: 2020		
4	IT SCADA System Security	An IT security audit of the complex supervisory control and data acquisition (SCADA) systems that support critical City infrastructure. *Citizen Priority – A Well-Run City*	Q3
5	Safety Management	An operational audit of the effectiveness of the Environmental & Safety Management Business Unit's monitoring and mitigation of safety incidents. *Citizen Priority – A Well-Run City*	Q4
6	Integrated Risk Management	A follow-up audit on Integrated Risk Management (AC2014-0295). *Citizen Priority – A Well-Run City*	Q4
7	311 Response	A City-wide operational audit of the service area responses to citizen concerns received through 311. *Citizen Priority – A Well-Run City*	2021
	Initiatives: 2020		
	To enhance resilience, risk reduction, and responsiveness, during 2020 the City Auditor's Office will complete the following time sensitive initiatives: • Organization risk evaluation, and development of the 2021/2022 Audit Plan; • Data preparations and process refinement to upgrade audit software in 2021; and • Launch of a new role position, senior analytics auditor, to support the Data Analytics Desktop Audit Program. The City Auditor's Office will continue to expand the Data Analytics Program during 2020, with a report on planned focus areas to be provided to Audit Committee no later than Q2, 2020.		N/A
	Audits Removed From 2020 Audit Plan		
	The following five audits originally scheduled in 2020 as part of the 2019/2020 Audit Plan will be considered on a risk basis for inclusion in the 2021/2020 Audit Plan.		
1	Transportation Infrastructure – Construction Project	An operational audit of a Transportation Infrastructure capital construction project underway in 2020. *Citizen Priority – A City that Moves*	N/A
2	Calgary Transit Ridership	A follow-up audit on Calgary Transit Fare Revenue (AC2017-0341) specific to ridership.	N/A

		Citizen Priority – A City that Moves	
3	Recreation Initiatives	An operational audit of initiatives implemented by Calgary Recreation to support equitable service provision. *Citizen Priority – A Healthy and Green City*	N/A
4	Diversity Initiatives	An operational audit of the effectiveness of The City's internally focused diversity initiatives. *Citizen Priority – A Well-Run City*	N/A
5	24 Hour/Special Purpose Vehicle Policy (Fleet Services)	A compliance audit of the 24 Hour/Special Purpose Vehicle Administration Policy. *Citizen Priority – A Well-Run City*	N/A

**City Auditor's Report to Audit Committee
2019 October 24**

Off-site Levy Annual Reporting Audit

EXECUTIVE SUMMARY

The City Auditor's Office issued the Off-site Levy Annual Reporting Audit Report to Administration on October 15, 2019. The report includes Administration's response to 11 recommendations raised by the City Auditor's Office to improve stewardship of the annual reporting process and guide coordinated process improvement across multiple departments. Administration accepted all recommendations and has committed to the implementation of action plans no later than December 1, 2021. The City Auditor's Office will track the implementation of these commitments as part of our on-going follow-up process.

RECOMMENDATIONS

1. That Audit Committee receive this report for information; and
2. That Audit Committee recommend that Council receive this report for information.

PREVIOUS COUNCIL DIRECTION / POLICY

Bylaw 30M2004 (as amended) established the position of City Auditor and the powers, duties and functions of the position. Under the City Auditor's Office Charter, the City Auditor presents an annual risk-based audit plan to Audit Committee for approval. The City Auditor's Office 2019/2020 Annual Audit Plan was approved on September 18, 2018. The City Auditor is accountable to Council and subject to the oversight of Audit Committee under Bylaw 48M2012 (as amended).

BACKGROUND

This audit was undertaken as part of the approved City Auditor's Office 2019/2020 Annual Audit Plan. The Off-site Levy (OSL) is a charge that developers pay to The City to help with the cost of growth related road, water, sanitary and storm infrastructure, and the land required for this infrastructure. Developers also contribute funding for recreation centers, libraries, fire halls and police stations attributable to new developments and subdivisions. The OSL 2017 Annual Report identifies $61,198,502 in OSL collection and $139,188,933 OSL spend, and a $435,733,428 OSL closing balance at year-end.

The objective of this audit was to determine whether the OSL annual reporting process is effective and ensures complete, accurate, valid and transparent reporting on the collection and use of OSL in a timely and efficient manner that meets legislative requirements. The audit scope focused on accuracy of the 2017 OSL Annual Report which was produced in December 2018, reflecting the OSL collected and utilized to support associated projects. As such, the audit examined supporting documentation from the various service areas that either collect or utilize OSL funds.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Overall, we concluded that the OSL annual reporting process is not effective. There was no evidence of misuse of OSL funds based on our test sample. An absence of a defined governance structure and clear and consistent internal policies and procedures were an underlying root cause impacting the observations noted, specifically:

- Inadequate financial reconciliations;
- Discrepancies in OSL collection and usage reporting;
- Absence of support for the maximum potential project spend eligible for OSL usage;

- Interest on Water Resources OSL balances not reported; and
- Insufficient information included in OSL annual reporting on whether the OSL being collected is sufficient for planned infrastructure spend.

Stakeholder Engagement, Research and Communication
This audit was conducted with Calgary Growth Strategies acting as the principal audit contact(s) within Administration.

Strategic Alignment
Audit reports assist Council in its oversight of the City Manager's administration and accountability for stewardship over public funds and achievement on value for money in City operations.

Social, Environmental, Economic (External)
N/A

Financial Capacity
Current and Future Operating Budget
N/A

Current and Future Capital Budget
N/A

Risk Assessment
The activities of the City Auditor's Office serve to promote accountability, mitigate risk, and support an effective governance structure.

This audit was undertaken as part of the City Auditor's 2019 Annual Audit Plan as a failure to properly steward OSL collected and utilized may lead to legislative non-compliance, reporting errors, damage to The City's reputation and reduced developer support for the OSL.

REASON FOR RECOMMENDATIONS
Bylaw 48M2012 (as amended) states: "Audit Committee receives directly from the City Auditor any individual audit report and forwards these to Council for information."

ATTACHMENT
Off-site Levy Annual Reporting Audit AC2019-1241 ATT

City Auditor's Office

Off-site Levy Annual Reporting Audit

October 15, 2019

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The City Auditor's Office conducted this audit in conformance with the *International Standards for the Professional Practice of Internal Auditing.*

Executive Summary

The City charges developers an Off-site Levy (OSL) under the Off-site Levy Bylaw (2M2016) to help with the cost of growth related to road, water, sanitary and storm infrastructure, and the land required for this infrastructure as permitted by the Municipal Government Act (MGA) and City Charter. Developers also contribute an OSL for recreation centers, libraries, fire halls and police stations attributable to new developments and subdivisions. Over the years, OSL has represented a significant funding stream to support necessary growth infrastructure. The most current OSL Annual Report issued in December 2018, identifies $61,198,502 in OSL collection, $139,188,933 in OSL spend, and a $435,733,428 OSL closing balance[1] at 2017 year-end. The City has a responsibility to use OSL for the purpose intended and accurately account for and report on the collection and use of the OSL.

The objective of the audit was to determine whether the OSL annual reporting process is effective and ensures complete, accurate, valid and transparent reporting on the collection and use of the OSL in a timely and efficient manner that meets legislative requirements.

Overall, we concluded that the OSL annual reporting process is not effective. There was no evidence of misuse of OSL funds[2]. An absence of a defined governance structure and clear and consistent internal policies and procedures were an underlying root cause impacting the observations noted, specifically:

- Inadequate financial reconciliations;
- Discrepancies in OSL collection and usage reporting;
- Absence of support for the maximum potential project spend eligible for OSL usage;
- Interest on Water Resources OSL balances not reported; and
- Insufficient information included in OSL annual reporting on whether the OSL being collected is sufficient for planned infrastructure spend.

The OSL reporting process is complex since multiple Business Units are involved in tracking and reporting OSL collection and utilization. The process is also highly manual and reliant on the use of spreadsheets to track and report on project spend and budgets. As the levy rates have grown in magnitude over the years, Management recognized a need to address OSL administration. Management advised that this audit is seen as a positive step toward identifying the necessary changes to improve the OSL annual reporting process. To facilitate this, Calgary Growth Strategies Business Unit created the position of Manager, Growth Funding and Investment, in September 2018 to develop an OSL governance model and a new OSL reporting approach. Our recommendations provide a road map to improve stewardship of the annual reporting process and guide coordinated process improvement across multiple departments. Improvements identified support consistent reporting and greater OSL report quality and usefulness to stakeholders, reduced legislative non-compliance risk, and effective use of OSL by The City. Longer term, and budget permitting, additional efficiencies could be gained through automation and greater use of existing financial systems once the recommendations in this report have been addressed.

[1] Intended to be spent in support of new and ongoing infrastructure projects in future years, Off-site Levy 2017 Annual Report
[2] No evidence of misuse was identified during testing based on our test sample.

Calgary Growth Strategies have agreed to all 11 recommendations, on behalf of the departments identified in the report, and have set action plan implementation dates no later than December 1, 2021. The City Auditor's Office will follow-up on all commitments as part of our ongoing recommendation follow-up process.

1.0 Background

The Off-site Levy (OSL) is a charge that developers pay to The City to help with the cost of growth related road, water, sanitary and storm infrastructure, and the land required for this infrastructure. Developers also contribute funding for recreation centers, libraries, fire halls and police stations attributable to new developments and subdivisions. OSL are assessed at the time of subdivision or development approval and are one of the sources of funding used to fund growth infrastructure. Growth infrastructure not fully covered through OSL are funded through utility rates, property taxes and government grants.

The Municipal Government Act[3] (MGA) permits municipalities to charge OSL to developers. The City has been charging developers OSL since 1963 and OSL are currently governed by The Off-site Levy Bylaw (2M2016). This Bylaw was amended by Council on November 12, 2018 to add additional infrastructure needed to serve fourteen new communities not included in the 2016 Bylaw. In addition, City Charter amendments which went into force January 2019 provide greater flexibility for The City to establish OSL, such as Community Services infrastructure which is currently a voluntary charge for developers. It is anticipated that The City will update the OSL Bylaw to apply to community services infrastructure from January 1, 2020. The latest OSL Annual Report was issued in December 2018 and reports on the collection and use of OSL in 2017.

Calgary Growth Strategies (CGS) Business Unit (BU), Planning & Development, is responsible for overall OSL oversight and annual reporting on levies collected and spent. CGS is dependent on Transportation, Utilities & Environmental Protection, Community Services, and Finance, as well as the Calgary Police Service, for information on the use of OSL. CGS also receive information on the collection of OSL from the Calgary Approvals Coordination BU which bills and collects OSL from developers.

Over the years, OSL has represented a significant funding stream to support necessary growth infrastructure. The OSL 2017 Annual Report identifies $61,198,502 in OSL collection and $139,188,933 OSL spend, and a $435,733,428 OSL closing balance at year-end. OSL rates will be reviewed and updated in 2021 and may consider whether expenditures during the 2016 to 2020 period have exceeded or lagged the amounts collected.

The City has a responsibility to use OSL for the purpose for which it was collected and accurately account for and report on the collection and use of OSL. A failure to properly steward OSL collected and utilized may lead to legislative non-compliance, reporting errors, damage to The City's reputation and reduced developer support for the OSL. As a result, this audit is being undertaken as part of the City Auditor's 2019 Annual Audit Plan.

[3] Sections 648 and 649 of the Province of Alberta Municipal Government Act February 1, 2019

2.0 Audit Objectives, Scope and Approach

2.1 Audit Objective

The objective of this audit was to determine whether the OSL annual reporting process is effective and ensures complete, accurate, valid and transparent reporting on the collection and use of OSL in a timely and efficient manner that meets legislative requirements.

2.2 Audit Scope

The audit scope focused on accuracy of the 2017 OSL Annual Report which was produced in December 2018, reflecting the OSL collected and utilized to support associated projects. As such, the audit examined supporting documentation from the various service areas that either collect or utilize OSL funds.

2.3 Audit Approach

We performed detailed audit testing for a sample of 15 OSL eligible infrastructure projects across Community Services, Transportation and Utilities & Environmental Protection. Our testing of the 2017 OSL Annual Report and sample of projects included a review of the following:

- Existence of clear OSL processes, authority, roles and responsibility to support OSL annual reporting.
- Verification of the numerical accuracy of spreadsheets supporting annual reporting.
- Completeness and accuracy of OSL balances, collection and spend.
- Accuracy of project capital spend-to-date and OSL spend-to-date; accuracy of project capital budget and OSL spend budget; and, validity of Project OSL eligibility.
- Reporting compliance with legislative requirements.
- Sufficiency of information to help the reader understand whether the OSL being collected is adequate for planned infrastructure spend.

3.0 Results

CGS was aware of the need to improve the OSL annual reporting process and oversight to support accurate and timely reporting to align with the magnitude and importance of the levies as a funding source. Management advised that this audit is seen as a positive step toward identifying the necessary changes to improve the OSL annual reporting process. As a result, CGS created a Manager, Growth Funding and Investment position on September 24, 2018 with responsibilities that included developing an OSL governance model and a new OSL reporting model and approach. CGS set up a committee in June 2018 to begin the review to update the OSL Bylaw (to be completed in 2021) with support from Community Services, Transportation, and Utilities & Environmental Protection and other BUs supporting the OSL process, including Resilience and Infrastructure Calgary, Law & Legislative Services, Calgary Approvals Coordination, Finance and the Calgary Police Service.

We reviewed a sample of 15 OSL eligible infrastructure projects across Community Services, Transportation and Utilities & Environmental Protection and performed detailed audit testing as outlined in Section 2.3 Audit Approach. The OSL reporting process is complex since multiple BUs are involved in tracking and reporting OSL collection and utilization. We noted that BUs had developed their own processes to support annual reporting and were working in isolation with limited direction and oversight.

Overall, we concluded that the OSL annual reporting process is not effective. We did not observe any evidence of misuse of OSL funds during the audit. Our recommendations provide CGS with a road map to improve stewardship of the annual reporting process and guide coordinated process improvement across multiple BUs to ensure greater OSL report quality and usefulness to stakeholders, reduce legislative non-compliance risk, and support effective use of OSL by The City.

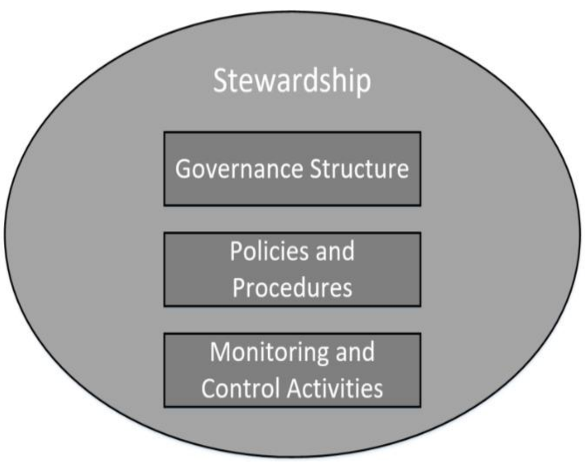

Figure 1: Key Components of Effective Stewardship for the OSL Annual Reporting Process

Adequate stewardship (figure 1) is required to oversee and coordinate the annual reporting process and ensure clear roles and responsibilities. Priority should be given to development of a defined governance structure (Recommendation 1), and internal policies and procedures (Recommendation 2), along with implementation of separate balance sheet accounts to simplify OSL tracking (Recommendation 3). The remaining eight recommendations focus on improvements to monitoring and control activities (Recommendations 4 to 11) and should be prioritized next.

We observed that the OSL process is highly manual and is reliant on the use of spreadsheets to track and report on project spend and budgets. Based on discussions with Finance staff, spreadsheets are currently required due to limitations in the financial system's ability to track and report on capital project spend and budget information across multiple years or funding sources.

Finance staff indicated that the Hyperion budget system may offer potential opportunities for automation of OSL reporting. We have not made specific automation recommendations as automation alone will not resolve the stewardship gaps identified in this report. We encourage management to address the recommendations included in this report to create a solid foundation for OSL reporting before exploring the costs and benefits of opportunities to automate the reporting process.

We would like to thank staff from Planning & Development, Utilities & Environmental Protection, Transportation, Finance and Community Services for assistance and support throughout this audit.

4.0 Observations and Recommendations

4.1 Stewardship of OSL Funds

Adequate stewardship has not been established to oversee and coordinate OSL processes and ensure clear roles and responsibilities for all BUs and groups supporting key activities. In addition, no defined governance structure or overall internal policies and procedures are in place. A defined governance structure and overall internal policies and procedures are needed to establish appropriate stewardship due to the complexity of the overall OSL process and the involvement of multiple BUs and groups in the decision making, tracking, monitoring, billing, collection, budgeting, spend and reporting of OSL across The City. A failure to properly steward levies collected and utilized may lead to legislative non-compliance, reporting errors, and damage to The City's reputation.

CGS are responsible for overseeing the OSL process. However, we did not identify any documented governance structure with defined roles and responsibilities for OSL coordination, decision making, tracking, monitoring, billing, collection, budgeting, spend, or reporting. During audit testing we were unable to identify any individual, within the BUs examined, who held comprehensive knowledge of all related processes. Absence of a defined governance structure and documented internal policies and procedures were an underlying root cause behind the other observations included in this report such as financial reconciliation control gaps, OSL usage reporting discrepancies, and legislative non-compliance risk related to interest earned.

<u>Recommendation 1</u>

Calgary Growth Strategies develop and propose an effective stewardship governance structure, for ALT endorsement, with defined roles and responsibilities for all BUs and groups supporting key activities including:

- Internal independent review and verification of completeness and accuracy of OSL collection and spend reporting.
- Monitoring OSL usage against budget and ensuring budget does not exceed the maximum eligible OSL amount.
- Oversight of maximum eligible OSL spend to ensure appropriateness based on analysis and defensible rationale.
- Ensuring compliance with the OSL Bylaw, legislative requirements and internal policies and procedures.
- Approval of OSL spend strategy and decision making over unused OSL funds.

<u>Management Response</u>

Agreed.

Action Plan	Responsibility
Due to the complexity of the reporting process, and the concurrent review of the OSL Bylaw (2M2016) and Centre City Levy Bylaw (38M2009), a phased approach will be taken to address the recommendations in the audit. The first phase will include the creation of a committee to develop an action plan. Once the committee has been set up, the Manager, Growth Funding and Investment with committee support will develop a stewardship governance structure with defined roles and responsibilities that will be presented to ALT for endorsement.	Lead: Manager, Growth Funding and Investment Support: OSL Action Plan Committee: • Utilities and Environmental Protection (Water Resources) • Transportation (Transportation Planning) • Community Services (Recreation, Fire, Calgary Neighbourhoods) • Law and Legislative Services (Law) • Chief Financial Office (Finance) • Planning and Development (Calgary Growth Strategies, Calgary Approvals Coordination) • Calgary Police Service Commitment Date: • November 1, 2019 to create committee to develop OSL Action Plan • May 1, 2020 to present roles and responsibilities for ALT endorsement

Recommendation 2

Calgary Growth Strategies prepare and maintain clear internal policies and procedures for OSL decision making, tracking, monitoring, billing, collection budgeting, spend and reporting as required to support OSL stewardship and consistent delivery of key processes including:

- Financial accounts to be used and reconciliation support to be maintained.
- Basis of OSL spend reporting (i.e. OSL usage applied in PeopleSoft).
- Basis of OSL collection reporting (i.e. OSL billed or OSL received).
- Maximum OSL eligible amount analysis and rationale support to be maintained.
- Annual reporting and other information requirements.
- Clear definition of authority and responsibility, including responsibility for correcting errors.

Management Response

Agreed.

Action Plan	Responsibility
The Manager, Growth Funding and Investment with OSL Action Plan Committee support will develop internal policies and procedures for OSL decision making, tracking, monitoring, billing, collection budgeting, spend and reporting.	Lead: Manager, Growth Funding and Investment Support: OSL Action Plan Committee Commitment Date: December 1, 2020 to create all policies and procedures excluding revised reporting format requirements

4.2 Financial Reconciliations and Accounts for OSL Tracking

The OSL financial reconciliations do not include sufficient detail or support to allow CGS to verify whether OSL balances, spend or collection are correctly reported. OSL is tracked using spreadsheets rather than in separate financial accounts which results in a mix of OSL and other non-OSL balances being held in the same financial account. Legislation requires that off-site levies collected must be accounted for separately for each type of infrastructure. Without an appropriate independent review of the OSL financial reconciliations there is a risk that errors or inconsistencies in the OSL balances, spend and collection reported may not be detected.

Financial reconciliations are prepared annually by Water Resources, Transportation, and Community Services that reconcile the reported OSL balances (total of $435,733,428 as at December 31, 2017) to the financial balances in PeopleSoft. Each of the reconciliations include adjustments to reflect financial consolidation entries for OSL paid by The City. However, the reconciliations also include other adjustments to reflect various non-OSL amounts held in the same financial accounts in PeopleSoft, such as “City Centre Levy”, “Redevelopment and Local Improvement” and “Others”. The reconciliations do not include sufficient detail and support necessary to confirm whether all adjustments related to non-OSL amounts were complete, accurate or valid.

Water Resources held an OSL balance ($60,615,456 as at December 31, 2017) in “Sustainment Reserves” and reconcile the reported amount to the financial balance in PeopleSoft. This reconciliation includes adjustments for OSL held in Capital Deposits, OSL Deferred revenue and “Non Developer Deposits Off-site levy in the Sustainment Reserves”. This reconciliation did not include sufficient detail and support necessary to confirm whether all adjustments related to non-OSL amounts were complete, accurate or valid.

CGS compare the OSL collected as reported by the Public Infrastructure group within the Calgary Approvals Coordination BU to the OSL collected as reported by the Transportation, Water Resources and Community Services BUs (total of $61,198,502 in 2017). CGS identified that the 2017 OSL collections reported by Public Infrastructure was $331,025 higher than the OSL collected as reported by Transportation and $125,072 less than reported by Water Resources. CGS identified the differences as OSL invoiced in 2017 but received in 2016, and OSL invoiced in 2016 but credited in 2017. However, the OSL collection report provided by Public Infrastructure is available only in summarized form by infrastructure type and month and is not supported by a list of OSL invoices and adjustments. As a result, we were unable to verify whether the reported OSL collected in 2017 is complete or accurate. Public Infrastructure have indicated that they currently have a project underway to improve reporting on OSL collected by Q4 2019.

Legislation requires that the municipality provides full and open disclosure of all levy costs and payments and include in the report the details of all levies received for each type of infrastructure within each benefitting area. CGS indicated that OSL collected is reported on the basis of the amount billed rather than received. However, based on the reconciliation performed by CGS above, Transportation excluded $331,025 from the OSL collected reported in 2017 related to OSL billed in 2017 but received in 2016. There is a risk that OSL collected may not be reported consistently across BUs.

Recommendation 3

Calgary Growth Strategies, in collaboration with Finance, set up separate balance sheet accounts for OSL by infrastructure type, and benefiting areas where applicable to be used for all new OSL collected and used.

Management Response

Agreed.

Action Plan	**Responsibility**
The Finance Manager of Planning and Development, with support from the Manager, Growth Funding and Investment, will set up separate balance sheet accounts for OSL by infrastructure type and benefiting area to be used commencing January 1, 2021.	Lead: Finance Manager, Planning & Development Support: Manager, Growth Funding and Investment Commitment Date: January 1, 2021

Recommendation 4

Calgary Growth Strategies analyze and reconcile existing OSL balances in PeopleSoft, in sufficient detail and with appropriate supporting documentation to identify all OSL and non-OSL balances held in the same financial accounts. CGS then to transfer existing OSL balances to the OSL accounts set-up through recommendation 3.

Management Response

Agreed. It may not be possible for all of the departments to provide sufficient and detailed supporting documents. This will need to be confirmed through the review and development of the action plan (see recommendation #1).

Action Plan	Responsibility
The Finance Manager of Planning and Development, with support from the Manager, Growth Funding and Investment and the OSL Action Plan Committee, to prepare analysis and reconcile existing OSL balances in PeopleSoft and transfer existing OSL balances to the OSL accounts set-up through recommendation 3.	<u>Lead</u>: Finance Manager, Planning & Development <u>Support</u>: Manager, Growth Funding and Investment and OSL Action Plan Committee <u>Commitment Date</u>: March 1, 2021

<u>Recommendation 5</u>
Calgary Growth Strategies ensure that a detailed and accurate report on OSL collection is available to support OSL collection reporting by infrastructure type and development area.

<u>Management Response</u>

Agreed. The reconciliation should be based on what is received. However, due to the lack of separate accounts, the bills have been used to determine the OSL balances collected.

Action Plan	Responsibility
Manager, Growth Funding and Investment will work with Calgary Approvals Coordination and Finance to develop an appropriate OSL collection report to support OSL annual reporting. This will align to the new bylaw that is proposed to be enacted January 1, 2021.	<u>Lead</u>: Manager, Growth Funding and Investment <u>Support</u>: Calgary Approvals Coordination and Finance Manager, Planning & Development <u>Commitment Date</u>: January 1, 2021

<u>Recommendation 6</u>
Calgary Growth Strategies clarify through procedural requirements the preferred basis of reporting OSL collected and monitor to ensure consistency in reporting across Business Units.

<u>Management Response</u>

Agreed.

Action Plan	Responsibility
Manager, Growth Funding and Investment to develop and agree on procedures to ensure consistent reporting on OSL collected with OSL Action Plan Committee and Finance support (commencing with the 2021 OSL Annual Report).	Lead: Manager, Growth Funding and Investment Support: OSL Action Plan Committee and Finance Commitment Date: December 1, 2020

4.3 OSL Eligibility

We observed an absence of documented analysis and rationale to support the maximum potential OSL eligible amounts for several infrastructure projects tested. Analysis should be available to support the maximum potential OSL eligible amounts for each project reported based on the method The City establishes to determine the benefit from each type of infrastructure identified. The City will be unable to properly steward OSL collection or spend, or demonstrate the need for and anticipated benefits from the new facilities, without appropriate analysis and rationale to support OSL eligibility for all projects for which OSL is being collected and used.

The Community Services OSL collection and spend reported in the 2017 OSL Annual Report were not enabled through legislation and were therefore adopted by Council Resolution and were voluntary in nature. However, it would still be appropriate for Community Services to apply the same principles as applied to Transportation and Water Resources. In addition, it is anticipated that The City will update the OSL Bylaw and that legislation will apply to Community Services from January 1, 2020.

We could not find analysis or rationale to support the OSL eligible amounts for debt financed Water Resource Projects completed under the 2011 OSL Bylaw for which OSL was utilized to pay principal and interest in 2017. Water Resources OSL rates in the 2011 OSL Bylaw were negotiated with developers assuming 50% OSL eligibility for sanitary sewer collection and treatment infrastructure and water distribution and treatment infrastructure, although the OSL allocation of principal and interest for these projects has since changed.

We did not observe analysis or rationale to support the OSL eligible amounts for two out of five Transportation projects tested. These projects reported the maximum OSL eligible amount for greenfield projects, i.e. 60.3% of total budget allocation to OSL. However, staff indicated that these projects were a roll-up of a both greenfield and established area projects which have a lower maximum OSL eligible amount.

Recommendation 7
Calgary Growth Strategies reinforce through procedural requirements and monitor to ensure that documented analysis and rationale is available to support the maximum potential OSL eligible amount for all projects for which OSL is being collected and used.

Management Response

Agreed.

Action Plan	Responsibility
Manager, Growth Funding and Investment with OSL Action Plan Committee support, to develop procedures to ensure that documented analysis and rationale is available and in place for the maximum potential OSL eligible amount for all projects being reported (commencing with the 2021 OSL Annual Report).	Lead: Manager, Growth Funding and Investment Support: OSL Action Plan Committee Commitment Date: December 1, 2020

4.4 Interest

Water Resources is not accounting for and using interest for the purpose for which the OSL was collected. Interest is not currently applied by The City to Community Services OSL balances. Legislation requires that any interest earned from the investment of the levy must be accounted for separately for each type of infrastructure and be used only for the specific infrastructure for which it is collected and any land required in connection with that infrastructure. Failure to account for and use interest for the purpose for which the OSL was collected could result in reputational damage to The City.

Water Resources financial reconciliations identified over $4 Million in reserve interest that was not included in the reported OSL balance at December 31, 2017 or used to offset the interest costs on debt financed Water Resource projects.

The Community Services OSL collection and spend reported in the 2017 OSL Annual Report were not enabled through legislation and were therefore adopted by Council Resolution and were voluntary in nature. However, it would still be appropriate for Community Services to apply the same principles as Transportation and Water Resources. In addition, it is anticipated that The City will update the OSL Bylaw and legislation will apply to Community Services from January 1, 2020.

Recommendation 8

Calgary Growth Strategies reinforce through procedural requirements and monitor to ensure interest earned from the investment of the OSL is only used for the specific purpose for which the OSL was collected.

Management Response

Agreed.

Action Plan	Responsibility
Manager, Growth Funding and Investment to develop procedures to ensure OSL interest earned is reported and used appropriately with OSL Action Plan Committee and Finance support (commencing with the 2021 OSL Annual Report).	Lead: Manager, Growth Funding and Investment Support: OSL Action Plan Committee and Finance Commitment Date: December 1, 2020

4.5 OSL Usage Reporting

We observed discrepancies in the way OSL usage is reported. Legislation requires that the municipality provides full and open disclosure of all levy costs and payments and include in the report the details of all levies utilized for each type of infrastructure within each benefitting area, but does not require OSL usage reporting at the individual project level. There is a risk that reporting discrepancies may reduce developer confidence in The City's management of OSL spend.

The OSL spend for three out of five Transportation projects tested exceeded the maximum potential eligible amount. In addition, the OSL budgets exceeded the maximum potential OSL eligible amount for three out of five Water Resources projects tested. We could not identify anyone responsible for monitoring OSL usage or budgets against maximum potential OSL eligibility on an individual project basis.

Water Resources track OSL usage by infrastructure type and benefiting area but report OSL usage by individual project by prorating OSL usage across projects using a spreadsheet. This can make it difficult to track individual projects from year to year as the OSL spend-to-date in 2017 will not equal the 2016 spend-to-date plus 2017 OSL spend as expected and may lead to other unintentional reporting anomalies.

Reported Transportation infrastructure OSL spend currently includes City "front-ended" amounts, where spend was in excess of budget and is to be applied against OSL financial balances in PeopleSoft in future years. OSL spend for two out of five Transportation projects included $7.4 Million in OSL project spend front-ended by The City not yet applied against OSL financial balances.

Recommendation 9

Calgary Growth Strategies report OSL usage by infrastructure type and benefiting area if feasible. Alternatively, CGS reinforce through procedures a consistent approach to accounting for OSL usage by project and monitor to ensure that project maximum OSL eligibility is not exceeded.

Management Response

Agreed.

Action Plan	Responsibility
Manager, Growth Funding and Investment to develop procedures to report OSL usage by infrastructure type and benefiting area if feasible with OSL Action Plan Committee and Finance support (commencing with the 2021 OSL Annual Report).	Lead: Manager, Growth Funding and Investment Support: OSL Action Plan Committee and Finance Commitment Date: • February 1, 2020 to determine if feasible to report OSL usage by infrastructure type and benefiting area and confirm action plan • December 1, 2020 to develop procedures

Recommendation 10

Calgary Growth Strategies reinforce through procedures and monitor to ensure that OSL usage is to be reported by BUs based on what has been applied to OSL financial balances in PeopleSoft.

Management Response

Agreed.

Action Plan	Responsibility
Finance Manager, Planning & Development to develop procedures to report OSL usage and monitor to ensure reporting is based on what has been applied to OSL financial balances in PeopleSoft with OSL Action Plan Committee and Manager, Growth Funding and Investment support (commencing with the 2021 OSL Annual Report).	Lead: Finance Manager, Planning & Development Support: OSL Action Plan Committee and Manager, Growth Funding and Investment Commitment Date: December 1, 2020

4.6 Transparency

The 2017 OSL Annual Report does not include adequate information on whether the OSL being collected is sufficient for planned infrastructure spend or what The City will do with any surplus or shortfall in OSL collected. Without sufficient and relevant information, developers and other stakeholders may question whether The City's OSL rates are appropriate.

The 2017 OSL Annual Report shows an unspent OSL balance on December 31, 2017 of $435,733,428. During our review of the 2017 OSL Annual Report we noted:

- Water Resources do not report OSL collected for drainage by benefiting area and Community Services do not report OSL collected by infrastructure type. Legislation requires that the municipality provides full and open disclosure of all levy costs and payments and include in the report the details of all levies received for each type of infrastructure within each benefitting area.
- $60,615,456 of unspent OSL is held in Water Resources Reserves, but there is no explanation of the purpose of this reserve in the OSL Annual Report or why the OSL in this reserve is not being applied to Water Resources projects during the current year.
- Water Resources have been funding the OSL portion of projects up-front with debt financing. However, the report does not clearly communicate the amount "front-ended".
- The Transportation and Water Resources Appendices in the OSL Annual Report include details on individual projects outside of the current OSL Bylaw collection window (2016 to 2020) that make it more difficult for the reader to understand whether OSL being collected is sufficient. For example, Transportation details include project budget and spend related to the periods prior to 2015 and Water Resources details include project budget and spend during the period 2021 to 2024 which are outside of the current OSL Bylaw collection window.
- There is no explanation in the OSL Annual Report of what The City will do with any surplus or shortfall in the OSL collection window or the mechanisms the City will use to carry-forward surplus and deficit balances into future levy or charge calculations to address any variations in funding and costs over time.
- No OSL collection forecast information is included in the report that could aid in the understanding of whether or not to expect a surplus or shortfall during the current collection window.

<u>Recommendation 11</u>
Calgary Growth Strategies consider revisions to the report layout format to enhance reader clarity on present budget and spend, and answer potential questions on whether OSL being collected is sufficient and what The City will to do with any surplus or shortfall.

<u>Management Response</u>

Agreed.

Action Plan	Responsibility
Manager, Growth Funding and Investment to develop a revised OSL Annual Report layout format with OSL Action Plan Committee and Finance support to be used in preparing the 2022 OSL Annual Report.	<u>Lead</u>: Manager, Growth Funding and Investment <u>Support</u>: OSL Action Plan Committee and Finance <u>Commitment Date</u>: December 1, 2021

City Auditor's Office Report to
Audit Committee
2019 October 24

ISC: UNRESTRICTED
Item # 7.8
AC2019-1244

City Auditor's Office 3rd Quarter 2019 Report

EXECUTIVE SUMMARY

This report presents a summary of the activity of the City Auditor's Office during the period July 1, 2019 to September 30, 2019.

RECOMMENDATIONS:

That with respect to the Report AC2019-1244, the following be approved:

1. That Audit Committee receive this report for information; and
2. That Audit Committee recommend that Council receive this report for information.

PREVIOUS COUNCIL DIRECTION / POLICY

Bylaw 30M2004 (as amended) established the position of City Auditor and the powers, duties and functions of the position. The City Auditor is accountable to Council and subject to the oversight of Audit Committee under Bylaw 48M2012 (as amended). Schedule C of Bylaw 48M2012 (as amended) states that Audit Committee "reviews and forwards to Council for information, the City Auditor's Office quarterly and annual status reports".

Under the City Auditor's Office Charter (AC2016 0247 Attachment 2), the City Auditor presents quarterly reports to Audit Committee summarizing the status of deliverables against the approved Audit Plan. The City Auditor's Office 2019-2020 Audit Plan was approved on September 18, 2018.

BACKGROUND

Quarterly reports are intended to support Audit Committee's oversight of the City Auditor's Office. To support this oversight, our quarterly reports are divided into three sections:

- A summary of key information on office activity during the past quarter;
- A narrative briefing to Audit Committee on a key initiative/responsibility; and
- A summary of our current status against the approved Audit Plan.

During 3rd Quarter 2019, the City Auditor's Office:

- Finalized one audit, completed the planning stage on two audits, and completed the fieldwork on one audit. We additionally initiated a further four audits.
- Reviewed 21 recommendations and closed 17 recommendations (17 implemented as originally planned). Four recommendations required additional time and are in-progress.
- Received 24 new whistle-blower reports and closed 7 investigations.
- Provided advisory guidance to the Infrastructure Calgary Steering Committee and the Corporate Project Management Framework Committee.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

N/A

Stakeholder Engagement, Research and Communication

N/A

Approval: Katharine Palmer, City Auditor

City Auditor's Office 3rd Quarter 2019 Report

Strategic Alignment
The City Auditor's Office quarterly reports provide Audit Committee and Council with information to support their oversight responsibility of the City Auditor's Office. The activities of the City Auditor's Office assist Council in its oversight of the City Manager's administration and accountability for stewardship over public funds and achievement on value for money in City operations.

Social, Environmental, Economic (External)
N/A

Financial Capacity
Current and Future Operating Budget:
N/A

Current and Future Capital Budget:
N/A

Risk Assessment
The activities of the City Auditor's Office, including the Whistle-blower Program, serve to promote accountability, mitigate risk, and support an effective governance structure.

REASON FOR RECOMMENDATIONS:
To comply with Bylaw 48M2012 (as amended) which states: Audit Committee reviews the City Auditor's Office quarterly and annual status reports and forwards these to Council for information.

ATTACHMENT
City Auditor's Office 3rd Quarter 2019 Report - AC2019-1244 ATT

Calgary

City Auditor's Office

3rd Quarter 2019 Report
July 1, 2019 – September 30, 2019

October 24, 2019

Katharine Palmer
City Auditor

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1. Status Update

Key Performance Indicators

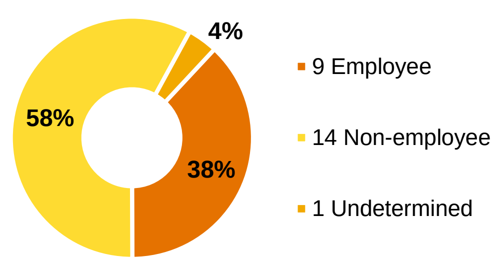
Measure Area	Performance Indicator	Target	Q2 2019	Q3 2019
Efficiency	On Track to Annual Plan	Q2-58% Q3-85%	55%	68%
Effectiveness	Timely Implementation of Audit Rec.	65%	53%	75%
Quality	Client Satisfaction	85%	99%	99%
Staff	Training Plan Achieved	90%	100%	95%

Budget

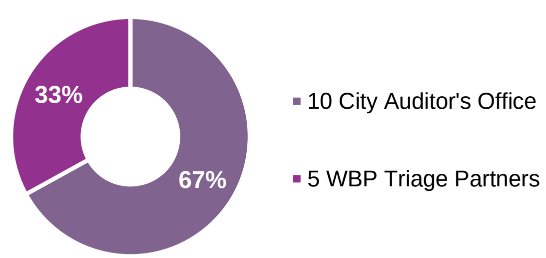
	2019 Annual Budget	Q3 Cumulative Budget	Actual to Date	Variance
Salary	2,684	1,989	1,911	(78)
Tools & Tech.	120	96	95	(1)
Training	52	39	43	4
Other	78	63	58	(5)
Total	2,934	2,187	2,107	(80)

Whistle-blower Program Activity

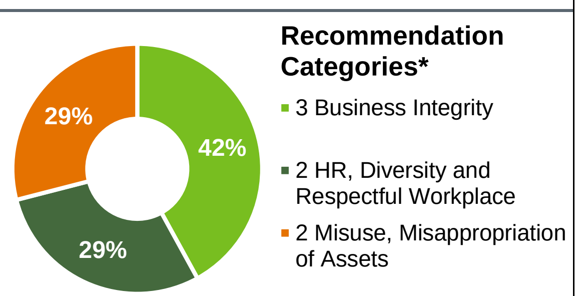
New Reports (Q3 – 2019)
24



In-Progress Investigations (Q3 – 2019)
15



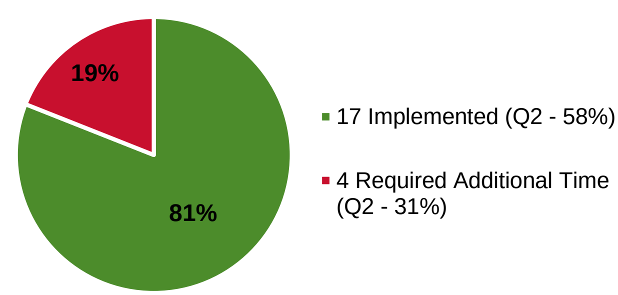
Closed Investigations (Q3 – 2019)
7



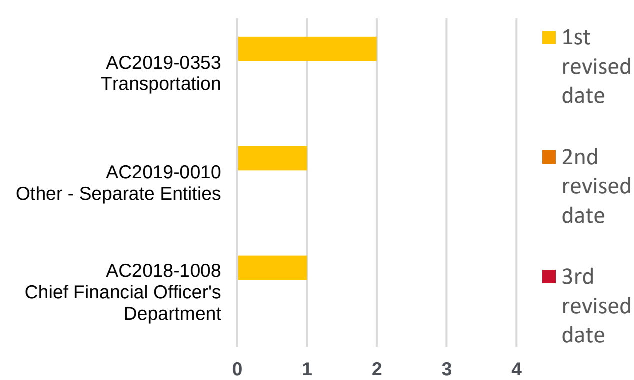
*Recommendations/Corrective Actions are published at www.calgary.ca/whistle

Recommendation Follow-up

Results of 21 Recommendations Due in Q3 (Q2 - 26)



Outstanding Recommendations # of Revised Date Requests



2. Initiative Briefing: Continuous Improvement

The City Auditor's Office (CAO) has developed a framework for continuous improvement that supports our commitment to our "Four R's".

Opportunities for process improvement are identified through the following activities:

- Each audit is assigned a Quality Assurance Reviewer, who is responsible for a supervisory review of audit work papers and associated reports to ensure all CAO planning; fieldwork and reporting is in compliance with The Institute of Internal Auditors (IIA) *Standards.* Quality reviews also identify opportunities for continuous improvement.
- At the conclusion of each audit, the CAO issues an electronic survey to the key client contact. The CAO audit team also hold an internal "lessons learned" meeting to identify and share any feedback.
- Quarterly, the CAO collates and assesses internal and external Key Performance Indicators (KPI) to identify performance trends, and bottlenecks in internal processes.
- Quarterly, an audit file review is conducted by an independent CAO auditor to confirm conformance to IIA *Standards,* and to identify process improvement opportunities.
- CAO audit leaders periodically review specific parts of the audit process to evaluate value-add process steps and to identify challenges.

Any identified process improvement opportunities are discussed and evaluated by the CAO team prior to incorporation into our day to day audit activities, tools and templates. Continuous improvement supports the CAO's "Four R's" in the following ways:




Reliability	**Resilience**	**Risk Reduction**	**Responsiveness**
Process improvement opportunities support the delivery of audit activities within expected timelines and enhance the consistency and quality of deliverables.	Process improvement opportunities support the ongoing resilience of the CAO audit team by enhancing structures utilized by the audit team in their daily work.	Effective audit delivery supports the identification of risk and discussion of cost effective ways to mitigate risk.	Process improvement opportunities to facilitate ongoing audit efficiency, which boosts the CAO's capacity to address emerging risks, as well as Council and Administration requests.

During 2019, the following process improvements were included in our audit activities:

- Developed electronic templates specific to follow-up audits to build planning efficiency;
- Created a partially populated Gantt chart with standardized reporting timelines to streamline the development of audit milestones and the estimated delivery date; and
- Integrated a draft report format checklist into internal reporting processes to support consistency of deliverables and efficiency of internal draft report reviews.

This framework for continuous improvement forms part of the City Auditor's Office Quality Assurance and Improvement Program (QAIP), an integral expectation of IIA *Standards.* The internal and periodic review activities completed to date during 2019 have confirmed ongoing conformance with IIA *Standards.*

2018/2019 Annual Audit Plan – Status as at September 30, 2019

2018/2019 Annual Audit Plan				
#	**Title**	**Description**	**Report Target**	**Status**
2018 Carry Forward				
1	Calgary Parking Authority	An operational audit of Calgary Parking Authority's asset management processes for the parkade portfolio that they own and operate.	Q1, 2019	Reported 01/19
2	Planning Application Review and Approval Process (Previous Title: Community Planning/Calgary Approvals)	An operational audit to assess the effectiveness of controls and risk mitigation processes to deliver quality, fair and timely decisions that support development realization.	Q1, 2019	Reported 04/19
3	Calgary Community Standards – Livery Transport Services	An operational audit assessing the effectiveness of internal controls that support public and driver safety.	Q1, 2019	Reported 03/19
4	Annual Control Environment Assessment	An operational audit assessing the design effectiveness of the Annual Control Environment Assessment and assessing the operating effectiveness of control activities which support COSO Principle 3: Establishes Structure, Authority and Responsibility.	Q1, 2019	Reported 02/19
5	Emergency Management	An operational audit of emergency preparedness and related business continuity plans.	Q2, 2019	Reported 06/19
2019 Audits				
1	Green Line – Governance	An operational audit of Green Line Project organization/governance framework. Citizen Priority – A City that Moves	Q2, 2019	Reported 03/19

2018/2019 Annual Audit Plan				
#	Title	Description	Report Target	Status
2	Off-site Levy Administration	An operational/IT audit of the effectiveness of City processes (including calculation practices) and system controls that support capital cost recovery and use of collected levies governed by the 2016 Off-site Levy Bylaw. Citizen Priority – A Well-Run City	Q3, 2019	Reporting
3	Warehouse/Inventory Systems	An operational audit of warehouse and inventory systems supporting significant City assets. Citizen Priority – A Well-Run City	Q3, 2019	Reported 09/19
4	Pensions Compliance	A compliance audit as required by Alberta Pension Services (APS) providing independent triennial assurance over three City pension plans (LAPP, LAPP Fire, and SFPP). Citizen Priority – A Well-Run City	Q2, 2019	Reported to APS 06/19
5	Waste and Recycling Services – Cart Contamination Prevention	An operational audit of the effectiveness of contamination prevention activities supporting the Waste and Recycling Services cart programs. Citizen Priority – A Healthy and Green City	Q3, 2019	Reporting
6	Budget Management	An operational audit of processes and reporting tools available to DeptID owners to support effective management of their operating budget. Citizen Priority – A Well-Run City	Q4, 2019	Fieldwork
7	Corporate Issue Management Program	An operational audit on the maturity of The City's Corporate Issue Management Program. Citizen Priority – A Well-Run City	Q4, 2019	Fieldwork

2018/2019 Annual Audit Plan				
#	**Title**	**Description**	**Report Target**	**Status**
8	Calgary Fire - Inspections	An operational audit of the efficiency and effectiveness of Calgary Fire's inspection activities. Citizen Priority – A City of Safe and Inspiring Neighbourhoods	Q1, 2020	Planning
9	Roads – Pothole Remediation	An operational audit of the efficiency and effectiveness of pothole remediation. Citizen Priority – A City that Moves	Q1, 2020	Planning
10	Elections Follow-up	A follow-up audit to review action plans implemented in response to the 2017 Municipal Election Review (AC2018-0852). Citizen Priority – A Well-Run City	Q2, 2020	Planning
2020 Audits				
1	Opportunity Calgary Investment Fund	An operational audit of Opportunity Calgary Investment Fund's grant administration. Citizen Priority – A Prosperous City	Q2, 2020	Planning

**Audit Committee Working Group Report to
The Audit Committee
2019 October 24**

COMPREHENSIVE PUBLIC SECTOR PENSION REVIEW REFERRAL TO AUDIT COMMITTEE – FINAL REPORT

EXECUTIVE SUMMARY

This is the final report to Audit Committee from the Working Group on the Comprehensive Public Sector Pension Review (Working Group). The recommendations provided are the Working Group's determination of how best to achieve the intent of Notice of Motion C2019-0568, Comprehensive Public Sector Pension Review.

ADMINISTRATION RECOMMENDATION(S)

That Audit Committee recommends that Council direct Administration to bring a report to the Priorities and Finance Committee no later than Q1 2020 responding to the questions from the Working Group addressing citizen perceptions of the pension plans within The City.

PREVIOUS COUNCIL DIRECTION / POLICY

At their 2019 April 29 meeting Council made the following motion with respect to Notice of Motion C2019-0568, Comprehensive Public Sector Pension Review:

"That Council refer Notice of Motion C2019-0568 to Audit Committee and request that they provide a recommendation to a September 2019 Council meeting on how to best achieve the intent based on their experience with annual audits of the City's pension plans, as internal and external experts in matters of financial and organizational effectiveness."

At the 2019 June 27 meeting Audit Committee approved the following motion with respect to Report AC2019-0882, Pension Discussion (Verbal):

"That the Audit Committee:

1. Directs that a Working Group be established to provide a recommendation to Audit Committee no later than their 2019 September 6 meeting, on how best to achieve the intent of Notion of Motion C2019-0568, Comprehensive Pension Review and that the recommendation be forwarded to a Meeting of Council no later than 2019 September;"

At their 2016 September 6 meeting Audit Committee approved the Working Group's recommendation that Council defer the final report from Audit Committee to their 2019 November 18 Combined Meeting.

BACKGROUND

The Audit Committee Working Group met on 2019 August 26 and 2019 September 20 to discuss and make recommendations on Notice of Motion C2019-0568. Membership of the Working Group consisted of Councillor J. Gondek, Citizen Members L. Caltagirone, M. Dalton and M. Lambert with a representative from Human Resources and the Executive Assistant to Audit Committee providing support.

Author: Corrie Smillie, Executive Assistant to the Audit Committee

INVESTIGATION: ALTERNATIVES AND ANALYSIS

The Working Group determined their purpose was:

1. To provide perspectives on how the City of Calgary is offering and managing pensions to different groups, compared to working group members' experiences with other organizations; and
2. Not to act as pension experts who will advise on how City of Calgary pensions should be structured; rather, to offer insights based on professional experience.

The Working Group's primary goal is to ensure that Calgarians receive answers to their questions about pensions at the City of Calgary. They determined that to address citizens perceptions of the various pension plans Administration should provide a response to the following questions:

1. Are our pensions designed fairly?
   - What is the benchmarking process for City of Calgary pensions, and where does the City believe it should "rank" itself?
   - What is the cost to the corporation relative to the benchmark?
   - What is the context of the City's total compensation model (of which pensions are one part) in today's economic environment?
   - Can the City of Calgary provide examples of what a pension payout looks like within the corporation? (i.e. if this person retired on a set date, what will s/he earn in pension benefits? Provide 12 tangible examples reflecting a diverse selection of positions at The City, of which one example would include a Councillor.)

2. Are our pensions administered properly?
   - Are the City of Calgary's pensions monitored?
   - How does the City of Calgary address both the tangible (e.g. financial health of plan) and non-tangible (e.g. cost of turnover, lost knowledge base) variables involved in pensions?
   - How does the City of Calgary stay focused on the future of its pension plans and anticipate liabilities?
   - How will the City of Calgary demonstrate not only the absolute values of its pension plans, but also trending over time (as part or percentage of total cost)?

3. Context
   - What are the current trends for public and private sector pensions, and how much sense do they make for the City of Calgary?
   - With the retirement crisis in Canada, is the City of Calgary doing its best to address the financial wellbeing of its employees?

COMPREHENSIVE PUBLIC SECTOR PENSION REVIEW REFERRAL TO AUDIT COMMITTEE – FINAL REPORT

The Working Group agreed that more clarity on the various pension plans would give citizens assurance the plans are designed and administered appropriately and are in line with current pension trends. It is recommended that Human Resources work with Corporate Communications to create plain language responses to the questions outlined in this report, further promoting transparency between the City of Calgary and its citizens.

Stakeholder Engagement, Research and Communication
The Audit Committee established a Working Group consisting of one Councillor and three Citizen Members of Audit Committee. Additional pension expertise was provided to the working group by representatives from The City's Human Resources.

Strategic Alignment
Not applicable.

Social, Environmental, Economic (External)
Not applicable

Financial Capacity
Current and Future Operating Budget:
There are no budget implications for this report.

Current and Future Capital Budget:
There are no budget implications for this report.

Risk Assessment
There is no risk associated with this update report.

REASON(S) FOR RECOMMENDATION(S):
The Working Group was directed by Audit Committee to provide recommendations on how to best achieve the intent of Notice of Motion C2019-0568, Comprehensive Public Sector Pension Review.

ATTACHMENT(S)
Notice of Motion, C2019-0568, Comprehensive Public Sector Pension Review

Calgary

Report Number: C2019-0568

Meeting: Combined Meeting of Council

Meeting Date: 2019 April 29

NOTICE OF MOTION

RE: COMPREHENSIVE PUBLIC SECTOR PENSION REVIEW

Sponsoring Councillor(s): GEORGE CHAHAL, DIANE COLLEY-URQUHART, PETER DEMONG, SHANE KEATING

WHEREAS the Pension Governance Committee (PGC) is responsible for oversight on matters relating to The City of Calgary pension plans for employees and Council, and for appointing stakeholder representatives (Plan Sponsor) for the multi-employer pension plans that are under the oversight of other bodies such as the Local Authorities Pension Plan (LAPP), the Special Forces Pension Plan (SFPP) and the Firefighters Supplementary Pension Plan (FSPP);

AND WHEREAS the Administrative Leadership Team (ALT) is accountable for approving a comprehensive compensation structure including retirement packages and pensions in order to attract and retain talent that is also competitive and financially sustainable for The City and Calgary taxpayers;

AND WHEREAS the Federal Government tabled legislation in 2016 which would introduce changes to amend the Pension Benefits Standards Act through Bill C-27 so that federally regulated companies and Crown corporations would have the option of setting up Target Benefit Plans (TBP) for their employees;

AND WHEREAS in 2018 the Government of Alberta introduced Bill 27: Joint Governance of Public Sector Pensions Act which transitions the LAPP and the SFPP into a joint governance structure which gives substantial power to employer and/or employee representatives to manage different aspects of the pension plans;

AND WHEREAS The City of Calgary is the second largest employer represented in the LAPP with just under 10% of the active plan members, while Alberta Health Services makes up more than 50% of the active plan members;

AND WHEREAS from 2009-2017, The City of Calgary booked an average of 52% of its total expenditures on total compensation and 5% on pension expenses, where the average annual growth for pension expenses was 11% while total compensation was 6% and total expenditures was 6%;

AND WHEREAS in 2017 1) total expenditures equaled $3.82B, 2) total compensation equaled $2.01B, and 3) pension expenses equaled $208M;

AND WHEREAS in recent years, the private sector and in some cases the public sector has started to migrate away from Defined Benefit Plans (DBP) for a variety of valid reasons;

AND WHEREAS DBPs can be volatile in nature due to valuation assumption risk whereby actuarial valuations on plan assets and liabilities are dependent on economic and demographic assumptions, possibly resulting in significant variability in realized gains or losses, which may have a direct and/or indirect impact on employer and/or employee contributions;

AND WHEREAS the foundational assumptions of DBPs may include things such as interest rates, investment returns, inflation, life expectancy, future salary levels and demographic assumptions that can change over time and cause significant volatility in realized gains and/or losses for such pension plans;

AND WHEREAS The City of Regina experienced such escalating issues with respect to the Regina Civic Employees' Superannuation & Benefits Plan (7,000+ civic employees plus members from other industries) with a deficit close to $300M in 2013, which led to threats from the provincial regulator to cancel the plan;

AND WHEREAS The City of Montreal also saw the cost of pension servicing go from $100M to $600M between 2002 and 2014 resulting in a pension deficit of close to $2B in 2012;

AND WHEREAS The Government of New Brunswick also incurred major setbacks with their public sector pension plans after the financial crisis in 2008, which caused substantial investment losses, and led to major reforms and the introduction of Bill 63 to amend the Pensions Benefit Act (creating a new pension option called the Shared-Risk Pension Plan (SRPP) which is a TBP);

AND WHEREAS The City of Calgary and City Council spent a considerable amount of time debating the recent $250M shortfall in the budget due to devaluation of downtown office towers which resulted in increases in taxes and possible structural changes that may result from an in-depth Service Line Review;

AND WHEREAS with City Council governance responsibilities, direction must be given to look at creative ways of providing secure, sustainable, and affordable pension options that balance the needs of all stakeholders including the employer, the employees, taxpayers, future taxpayers, society-at-large, and which comply with applicable legislation and existing labour agreements;

AND WHEREAS it is imperative for the long-term health of The City of Calgary that City Council is proactive, and makes continuous improvements and adjustments to its policies, procedures, and operations by asking the right questions in order to avoid crisis situations before they materialize;

THEREFORE, BE IT RESOLVED that Council directs Administration to engage independent expert(s) and/or consultant(s) to address the following, with a report back to Priorities and Finance no later than Q1 2020:

1. A comprehensive examination that includes but is not limited to a quantitative and qualitative analysis of the state of The City of Calgary's Pension Plans by:
   a. Reviewing annual financial and performance history that dates back to 2000 and may include, but not limited to, expense ratios, solvency funded ratios, going concern ratios, assets, liabilities, unfunded liabilities, administrative costs, pension plan contributions (employer and employee), number of active members, investment returns, and any other variables that can describe plan strengths, weaknesses, gaps, and suitability for the long-term health of The City;
   b. Examining the short, medium, and long-term viability and sustainability;
   c. Comparing public and private industry trends including best practices;
   d. Comparing other types of pension plans available in the marketplace (i.e. Defined Contribution, Hybrid, Target Benefit, Other etc.) that would provide good financial stewardship (current and future) and risk mitigation for The City of Calgary while also striving to keep the impact of any possible changes at a minimum for all employees (exempt, non-exempt, Council);
   e. Evaluating entry/exit strategies, including costs or savings, of moving toward other identified pension plans that would include recommendations to align with current policy, rules, collective agreements, or legislation (municipal, provincial, or federal) or provide suggestions on recommended changes that would need to be implemented at the municipal, provincial, or federal levels to achieve the pension reform changes that are being suggested;
   f. Identifying any potential impacts on current employee retention and future employee recruitment of moving towards other identified pension plans;

g. Determining risks and other impacts on The City of Calgary and employees in migrating towards other potential viable and sustainable pension plans.

2019 Law and Corporate Security Report

EXECUTIVE SUMMARY

Law was historically a Business Unit comprised of the Legal Services, Risk Management and Claims and Corporate Security Divisions, and reported directly to the City Manager through the City Solicitor and General Counsel. In 2017, the then City Manager Fielding created the Law and Legislative Services Department, and changed the City Clerk's reporting relationship from reporting to the City Manager to reporting to the City Solicitor and General Counsel. The Chief Security Officer was elevated from serving as the manager of a Division within Law to serving as the Director of a newly created Corporate Security business unit. The City Solicitor and General Counsel, formerly a Director, was appointed as the General Manager charged with responsibility for the Law and Legislative Services Department comprised of the Law, Corporate Security and City Clerk's Office business units. In 2014, the Corporate Issues Management program, previously reporting to the City Manager, was also transferred under Law.

Despite the organizational changes over the past few years, and consistent with historical reports to Audit Committee, this annual report includes information about the service delivered by Law and Corporate Security, and information about the Corporate Issue Management program that also resides in Law.

ADMINISTRATION RECOMMENDATION:

That the Audit Committee recommend that Council receive this report for information.

PREVIOUS COUNCIL DIRECTION / POLICY

An annual legal compliance report was identified as a potential area of future focus in Attachment 2 to Report AC2005-06, Audit Committee Terms of Reference, considered by Council on 2005 March 7. Law has provided annual reports to Council since that time. Since 2014, information about insurance and claims matters, Corporate Security and Legal Services has been consolidated into one annual report from Law.

BACKGROUND

Authorizing environment:

City Solicitor and General Counsel Bylaw 48M2000 establishes the position of City Solicitor and General Counsel as a designated officer, provides that the City Solicitor and General Counsel reports to the City Manager, and outlines the following powers, duties and functions for the City Solicitor and General Counsel:

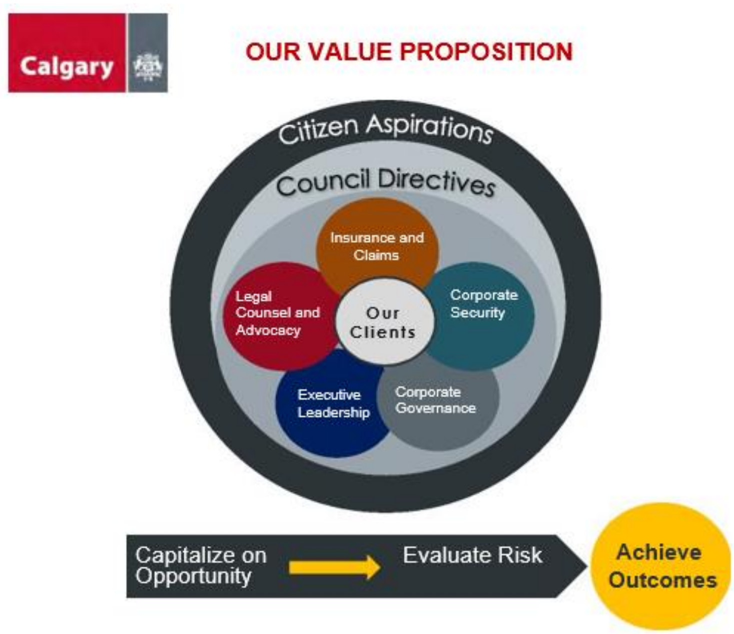
- to initiate, prosecute, maintain or defend any action, claim or other proceeding deemed in the best interest of The City;
- to settle any action, claim or other proceeding provided the amount does not exceed $250,000;
- to retain outside counsel when the City Solicitor and General Counsel deems it to be in the best interest of The City; and
- to report to Council on any legal matter where in the City Solicitor and General Counsel's independent judgment a Council decision is necessary.

Services

Members of Law and Corporate Security provide, or contribute to the provision of, five service lines identified in One Calgary, The City's 2019-2022 service-based business plan and budget:

- legal counsel and advocacy;
- insurance and claims;
- corporate security;
- executive leadership (through the City Solicitor and General Counsel's service as a General Manager and member of the Administrative Leadership Team (ALT)); and
- corporate governance (through the delivery of the corporate issues management program).

Value Proposition



Members of Law and Corporate Security provide advice, support and services to the Mayor and Members of Council, the City Manager, General Managers, Directors, and employees throughout the corporation of The City of Calgary. Their goal is to help clients achieve outcomes on time, on budget and within acceptable risk tolerances.

Members of Law and Corporate Security are solution-oriented. Advice is based on a combination of education, experience and evidence. They serve as essential strategic partners to clients by supporting informed decision making that involves the identification and intentional acceptance, management, mitigation, transfer, monitoring or avoidance of risk. Law participates in Administrative Leadership Team (ALT) meetings and at Council and Council Committee meetings, and both Law and Corporate Security provide service to employees within every business unit. As such, members of Law and Corporate Security have a broad and thorough understanding of the opportunities available to, and issues and risks facing the corporation.

The effectiveness and efficiency of the members of Corporate Security and Law is directly related to:

- the extent to which they maintain the trust and confidence of clients due to their in-depth understanding of business operations and corresponding ability to effectively support client delivery of services; and
- the timeliness of their involvement in projects, initiatives and transactions.

Law and Corporate Security continue to undertake service reviews to ascertain opportunities for continuous improvement intended to enhance efficiency and effectiveness and ensure that Law and Corporate Security staff are available to assist with the highest opportunity, risk and value projects, transactions and initiatives in which The City engages. Corporate Initiatives is currently concluding Legal Services' Zero Based Review (ZBR), and a report will be presented to Council in Q4 2019. Throughout the ZBR, Legal Services has continued to implement efficiency and effectiveness initiatives where possible.

Legal Counsel and Advocacy Value Proposition

City lawyers represent clients in legal proceedings involving The City. They also support clients' delivery of services to Calgarians through the identification of issues and risk, drafting legal documents, advising on legal and regulatory requirements, supporting informed decision-making, and developing solutions and strategies. The ability to effectively deliver these services is aided by Laws' high visibility in the corporation achieved in part through:

- the City Solicitor and General Counsel's service as a member of ALT and participation at all regular and strategic Council meetings and various Council Committee meetings;
- participation of the City Solicitor and General Counsel's designate at public hearings;
- participation by members of Law at Council Committee meetings and on many corporate and cross-departmental project teams;
- the City Solicitor and General Counsel's service as a member of Executive Steering Committees for various major corporate projects; and
- Law's significant involvement in cross-corporate transactions and projects including Infrastructure Calgary, strategic growth and regional servicing, One Calgary and major capital projects, such as the Green Line, Event Centre and BMO Centre.

Attachment 1 outlines continuous service improvement initiatives in Law's Legal Services Division. Information about litigation trends and related matters can be shared during a closed session discussion.

Insurance and Claims Value Proposition

Members of Law providing insurance and claims services help clients throughout the corporation identify, address and manage risk, manage The City's civic insurance program and work with the members of Law's Litigation Section to recover costs associated with damage caused to City assets. They also provide an avenue for citizens should they wish to submit a claim for damages they believe The City has caused. An Insurance and Claims' Service report is included in Attachment 2.

Corporate Security Value Proposition

The Corporate Security service supports the protection of The City's information, assets and employees, and assists in ensuring public safety. Corporate Security enjoys high visibility within the corporation through the Chief Security Officer's participation as a member of The City's Senior Management Team.

In 2019, Corporate Security refined its service offerings and began implementing a security management philosophy that enhances service line ownership of risks facing The City of Calgary. This holistic change in approach ensures service owners have adequate information to make informed risk decisions and empowers business owners to make those decisions with support from their trusted risk advisor – Corporate Security.

To refine alignment with service-based budgeting and achieve a more mature model of risk management, Corporate Security has transitioned its strategic approach and its subservices to reflect an Enterprise Security Risk Management (ESRM) process for security management. The benefits of an ESRM approach are that business units and leaders set goals and objectives and are responsible for accepting risks against those goals. Corporate Security identifies the risk, its potential impacts to the business and its objectives, and then advises on remediation opportunities and provides implementation supports. Corporate Security is adapting its current program to reflect this approach, and believes the change advances achievement of The City's goal to make Calgary *a great place to make a living, and a great place to make a life.*

A Corporate Security Service Report is included in Attachment 3. Information about security trends and related matters can be shared in a closed session discussion.

Executive Leadership and Corporate Governance

<u>Executive Leadership</u>

Executive Leadership is about ensuring public and employee trust and confidence in municipal government through the provision of organizational leadership to deliver on the expectations of citizens and employees, and the promotion of a culture of accountability, transparency, collaboration, and resilience throughout the corporation.

As described in the Council-approved One Calgary 2019-2022 Service Plans and Budgets, these expectations include connecting Council's vision to organizational strategies and actions, coordinating and aligning objectives and results across service lines, maximizing broader, long-term benefits for citizens, ensuring the proper use and management of public resources for financial sustainability, ensuring a citizen and service-centric organizational culture, and ensuring a well-run organization with a safe and respectful workplace for all employees. The outputs of this service line include "corporate culture, norms/values, corporate brand, corporate strategic plans/priorities, corporate ethics and code of conduct, service review and improvement, integrated risk management, and performance management/accountability". The service owner for the Executive Leadership service line is the City Manager.

All General Managers are engaged in the delivery of Executive Leadership services through their service as members of the ALT. Their work is supported by Directors serving as members of The City's Senior Management Team and Managers serving as members of The City's Corporate Management Team.

Former City Manager Fieldings' 2014 invitation to the City Solicitor and General Counsel to serve as a member of the ALT has been of incredible value to Law and Corporate Security, as this has enabled participation in deliberations and decision-making as a member of the most senior administrative leadership table in the corporation.

Corporate Governance:

As indicated in the One Calgary 2019-2022 Service Plans and Budgets, employees engaged in the delivery of Corporate Governance work to build a resilient city and organization by executing on the strategic direction established by Council and Executive Leadership. They are responsible for developing corporate strategic plans and negotiated agreements with other orders of government and partners, providing administrative policies, frameworks, rules, and standards to direct service delivery, minimizing exposure to legal, financial, reputational, and health and safety risks, and generally, supporting the achievement of organizational objectives. Law assists in the delivery of this service line by providing legal governance support and delivering the corporate issues management program.

The City Manager transferred responsibility for The Corporate Issues Management (CIM) Program to Law in 2014 to enhance alignment between those engaged in the delivery of issue and risk management. The Manager of the CIM Program played an important role in assisting the ALT in anticipating, identifying and managing, mitigating or avoiding issues for The City, and in enhancing other City employees' ability to do so.

The Corporate Issue Management Administration Policy was approved by the ALT in 2011. An "issue" is defined in that policy as including "a gap between stakeholder expectations and an organization's performance or actions", "an incident, allegation, strategic shift, significant information, concern, problem or circumstances that has the potential to impact [the] organization" and a "disagreement over facts or values". Issues are measured in terms of impact to the corporation (for example, in terms of costs, opportunities and/or reputation) and profile (for example, public interest). The program is intended to "provide a consistent approach to the prevention of and management of issues that will impact The City's ability to achieve its business objectives, deliver quality public service and its reputation" and the purpose of the Issue Management Policy is to establish standards and guidelines for employees when addressing issues that may impact The City. The policy applies to all City employees.

The benefits of the corporate issue management program include:
- enhancing The City's corporate reputation (the "good name" of The City);
- building trust, confidence and support of key stakeholders (including Council, Calgarians and employees);

- reducing costs to the corporation (e.g. in resources, time, litigation);
- enhancing City service delivery; and
- assisting employees through helping them proactively identify, manage and mitigate issues.

Since September 2012, over 2,300 employees have completed CIM workshop training and since September 2013 approximately 895 employees have completed the CIM e-learning education curriculum.

Feedback from City staff who have participated in CIM workshops has been very positive, and it is clear that City staff are anxious to receive additional training on how to better anticipate, manage and prevent issues.

The Manager of the CIM program also undertook root cause analysis around various high-profile issues and shared her findings with the ALT. She also worked with staff on anticipating, identifying and mitigating issues associated with such major projects as The City's 2018 census, the 2018 vote of the electors and the 2026 Olympic and Paralympic Winter Games bid project.

Based on 2017 feedback from the Issue Management Council (an international organization of public and private sector companies focused on the importance of issue and reputation management), it appeared that The City of Calgary was the only Canadian municipality with a formal issue management program. The City's focus on corporate issues management places it in a leadership position relative to private sector members of the Issue Management Council.

In 2019, the Manager of the CIM Program developed the issues management program within the Corporation and facilitated staff from many business units coming together to discuss lessons learned from management of various issues in the corporation over the years.

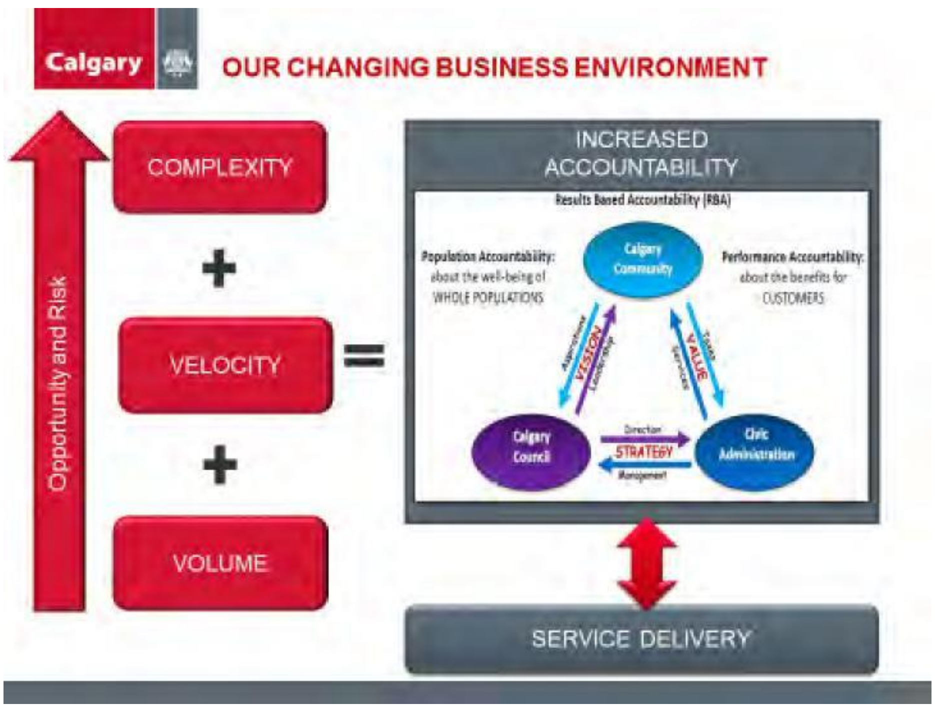
The Manager of the CIM Program retired from The City in August 2019, and the position is currently vacant. The City Manager and ALT are currently exploring optimal placement of the program in the Corporation. This analysis will be aided by the City Auditor's audit of the CIM program. The audit is currently underway, and will be before Audit Committee in the next few months. In the interim, The City Solicitor and General Counsel continues to report to ALT on a weekly basis on issues she is aware of and how they are being handled. ALT members continue to identify new issues and report on the status of previously identified issues.

Corporate Risk

The City Solicitor and General Counsel is the "owner" responsible for two of the corporation's principal risks (legal and compliance risk and security risk) identified in annual reports to Council presented by the Manager of the City's Integrated Risk Management Program (which is housed in Corporate Initiatives in Finance). The Chief Security Officer contributes to annual reporting on both security risk and on technology security risk, another principal corporate risk.

The proactive identification of risk, understanding of risk tolerance and ensuring informed intentional corporate decision making is increasingly important to capitalizing on opportunities that Council has deemed to be in citizen interests. This ensures public trust and confidence and delivery on Council direction. Council establishes corporate risk tolerance, which varies as between issues and projects. Administration strives to operate within those parameters, but that is not an easy task, due to various factors that influence and cause fluctuation in corporate risk tolerance. This coupled with the increasing volume and complexity of issues makes it critical for Law and Corporate Security to continually focus on and implement initiatives to improve their efficiency and effectiveness.

The diagram below illustrates the environment that is driving the need for ongoing service reviews and finding service improvements. The completion of Law's ZBR and Law and Corporate Security's participation in the "shared challenges facing the enabling services" ZBR will continue to inform Law and Corporate Security on current and emerging risk for the corporation and clients' changing service needs that makes it necessary for Law and Corporate Security to continuously review their service delivery.



All of this requires Law and Corporate Security to continue to focus on recruiting, training and retaining the right resources to be able to assist with the unique, multi-disciplinary and/or higher risk and value initiatives in which The City is engaged.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Stakeholder Engagement, Research and Communication

Key clients of Law and Corporate Security were consulted on the value provided by staff delivering legal counsel and advocacy and corporate security services as part of the One Calgary 2019-2022 Service Plans and Budgets. In addition, as part of the Legal Services ZBR, Corporate Initiatives undertook extensive work with clients through customer interviews (over 70) and a customer survey of the Corporate Management Team (CMT). These results will allow

Law and Corporate Security to evaluate, confirm and adjust their approach to supporting service owners in their response to risk facing the corporation.

Strategic Alignment

Social, Environmental, Economic

(External) N/A

Financial Capacity

Current and Future Operating Budget:

N/A

Current and Future Capital Budget:

N/A

Risk Assessment

Section 4(1) of Audit Committee Bylaw 48M2012 provides that one of the Audit Committee's responsibilities is to oversee The City's compliance with laws, regulations and internal policies including disclosure and internal financial controls, legal compliance and codes of conduct. This annual report is one mechanism to assist the Committee in discharging this obligation.

However, as indicated in previous annual Law and Corporate Security reports, given that The City delivers 61 lines of service through more than 15,000 employees, the City Solicitor and General Counsel will never be able to absolutely assure the Committee or Council of legal compliance throughout the corporation. Rather, ensuring that business units are familiar with and operating within the *Municipal Government Act* and the regulatory regime governing their operations is the responsibility of the ALT, Directors and Managers throughout the corporation with the support from Law and Corporate Security. From the City Solicitor and General Counsel's perspective, having **properly resourced** Law and Corporate Security business units whose members:

- continue to enhance their understanding of Calgarians' needs and corporate and clients' business and objectives;
- are consulted by clients early in their initiatives;
- receive proper training to ensure expertise in current and emerging areas of law and strategies to help intentionally manage, transfer, monitor, mitigate or avoid risk; and
- provide enhanced training opportunities for clients;

reduces legal, financial and reputational risk and exposure for The City.

REASONS FOR RECOMMENDATIONS:

Law and Corporate Security's goals in this report are to: (a) assist Audit Committee in fulfilling its mandate to oversee The City's compliance with laws, regulations and internal policies; and (b) assist Audit Committee and Council in better understanding Law and Corporate Security members' role and value in helping Council and clients capitalize on opportunities intended to fulfil Calgarians' hopes, dreams and aspirations, achieve Council Directives and corporate priorities and make informed decisions that take into account the intentional acceptance, management, monitoring, mitigation, transfer or avoidance of risk.

ATTACHMENTS

1. Attachment 1 – Legal Counsel and Advocacy Service Report – 2019
2. Attachment 2 – Insurance and Claims Service Report – 2019
3. Attachment 3 – Corporate Security Service Report – 2019

Legal Counsel and Advocacy Services Report – 2019

One Calgary - Service Improvement Initiatives:

- Assistant City Solicitor Jill Floen continues to serve as the service owners for One Calgary's Legal Counsel and Advocacy (LCA) service
- Ongoing review and development of data collection strategies and metrics for LCA
- The Assistant City Solicitor continues to serve as a member of the Infrastructure Calgary team, which focusses on corporate capital projects

Continuous Service Improvement Initiatives:

- Legal Services ZBR and participation on the Shared Services ZBR
- Provision of a resilient Legal Counsel and Advocacy service including succession planning, coaching and mentoring and management of workload to meet client needs. This is increasingly important given the resignation rate from Law and concerns of attracting and retaining laywers needed to meet The City's ever increasing and changing needs
- Focusing on enhancing our community of practice to support client needs through consistent service delivery and expert advice
- Ongoing identification and implementation of all Sections' service improvement initiatives, such as development of standard practices (e.g. drafting documents, standard agreements and business rules)
- Continue to focus on client relationships and role clarity (both between professionals within Law and as between members of Law and clients) to enhance service efficiency and effectiveness
- Continue participation in the Municipal Benchmarking Network Initiative to measure LCA's cost and the cost of external counsel against that of other municipalities
- Client engagement on the value provided by Legal Counsel and Advocacy services and opportunities for service improvement
- Continue to enhance Law's employee engagement and satisfaction through:
    - employee surveys and feedback sessions;
    - continuing to enhance Law's employee onboarding program;
    - continuing to support professional development by providing or supporting participation in continuing professional development courses, conferences and training opportunities and supporting attendance at City courses; and
    - continuing to provide opportunities for cross-Section and cross-corporate collaboration to foster personal and professional growth
- Involvement within new and emerging industries within Calgary such as the sale of cannabis and e-scooters
- Identifying new and emerging areas of law or proceedings in which City lawyers' involvement would help manage risk for the corporation
- Continued review of ways to mitigate and allocate risks in commercial transactions
- Collaborating with clients to prioritize workloads and focus service delivery in response to changing resources, volume of work, emerging issues and corporate risk tolerance
- Lawyers continue to attend standing meetings with clients and managers conduct one on one outreach with managers, Directors and General Managers to improve service delivery
- Training between lawyers and clients to promote mutual understanding of issues facing the corporation and potential tools to address

INSURANCE AND CLAIMS SERVICES REPORT – 2019

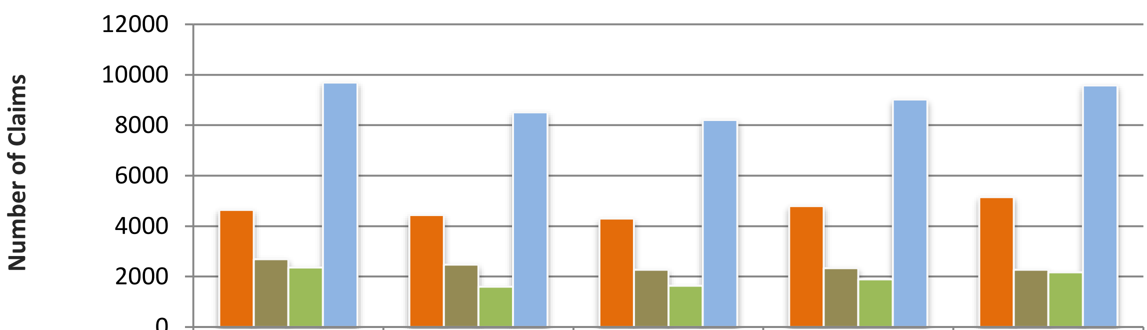
The Risk Management and Claims Division of Law acts as the corporation’s insurance company, providing insurance and claims services for all of its operations. This Division monitors the operational risks of The City and associated boards and authorities to determine cost-effective solutions to eliminate, reduce, manage, transfer or insure such risks and to manage the adjustment of claims either brought forward by the public or the corporation, in a fair and equitable manner.

AUTOMOBILE, PROPERTY AND LIABILITY LOSSES

- **Automobile** claims are any claims involving City-owned vehicles. This can be a City vehicle involved in a motor vehicle accident with a third party or a City vehicle colliding with an object.
- **Liability** claims are claims where there is an allegation that The City caused damage to a third party, excluding automobile liability.
- **Property** claims are damage to City-owned properties, such as a fire in a City building, and includes damages caused by a third party, such as a private vehicle striking a guard rail.

NUMBER OF CLAIMS PER YEAR

(2014 - 2018)



	2014	2015	2016	2017	2018
Auto	4642	4438	4303	4799	5146
Property	2688	2473	2268	2337	2266
Liability	2362	1599	1632	1884	2168
Total	9692	8510	8203	9020	9580

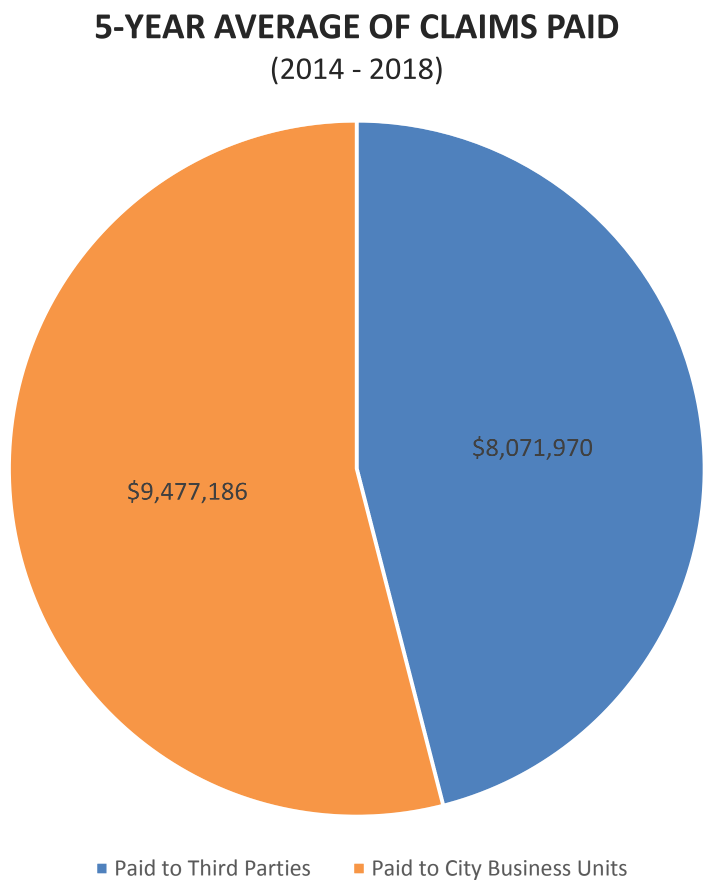
Year

This graph illustrates the total number of claims for and against The City.

NUMBER OF CLAIMS BY BUSINESS UNIT OR DEPARTMENT

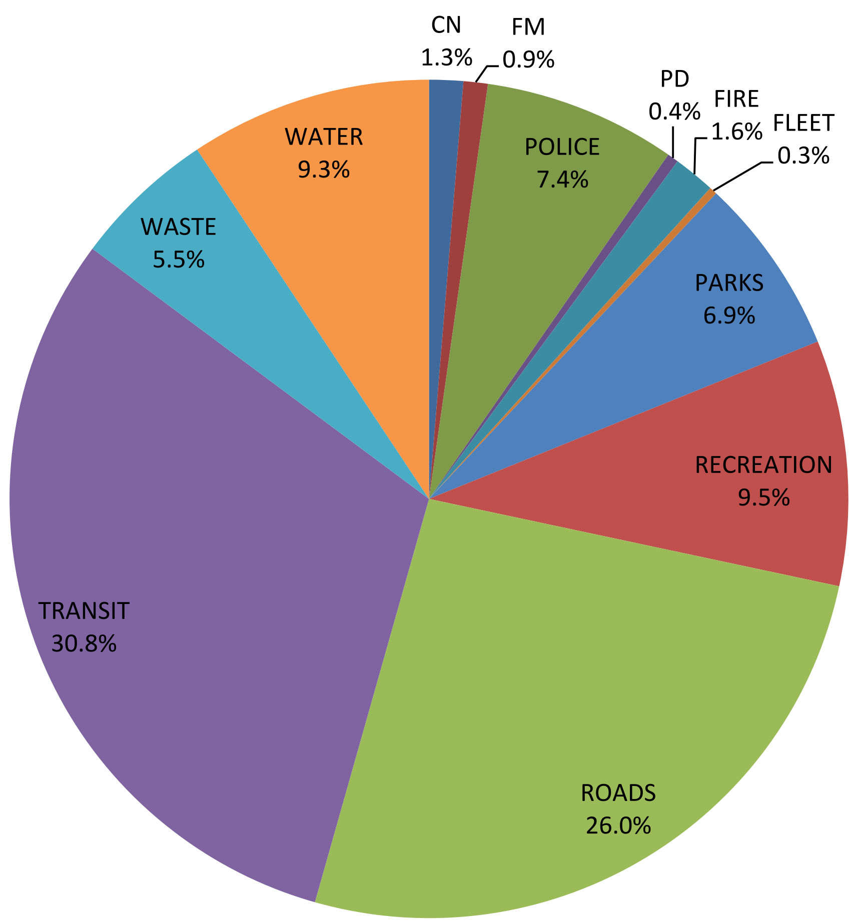
(AVERAGE PER YEAR BASED ON PRIOR 5-YEAR TOTAL - INCLUDES AUTOMOBILE, PROPERTY AND LIABILITY CLAIMS FOR AND AGAINST THE CITY)

BUSINESS UNIT OR DEPARTMENT	AVERAGE PER YEAR	TREND
Calgary Neighbourhoods (CN)	119	↑
Facility Management (FM)	85	↑
Calgary Police Service	671	↑
Planning & Development (PD)	39	↓
Fire Department	145	↔
Fleet Services	27	↔
Parks	622	↓
Recreation	856	↓
Roads	2,356	↓
Calgary Transit	2,786	↑
Waste & Recycling Services	498	↓
Water Services	843	↑

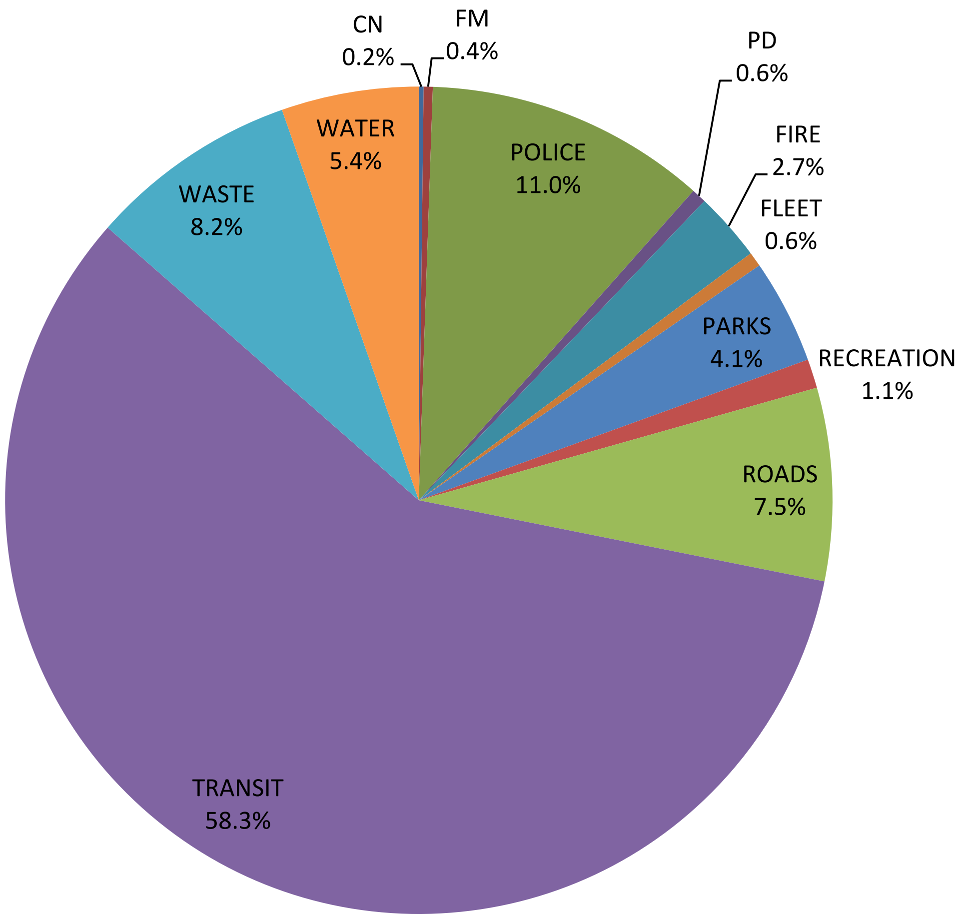


The five-year average of claims paid to third parties is $8,071,970 and paid to City business units is $9,477,186. All claims are investigated in a fair and equitable manner and The City may provide compensation if negligence on the part of The City is proven.

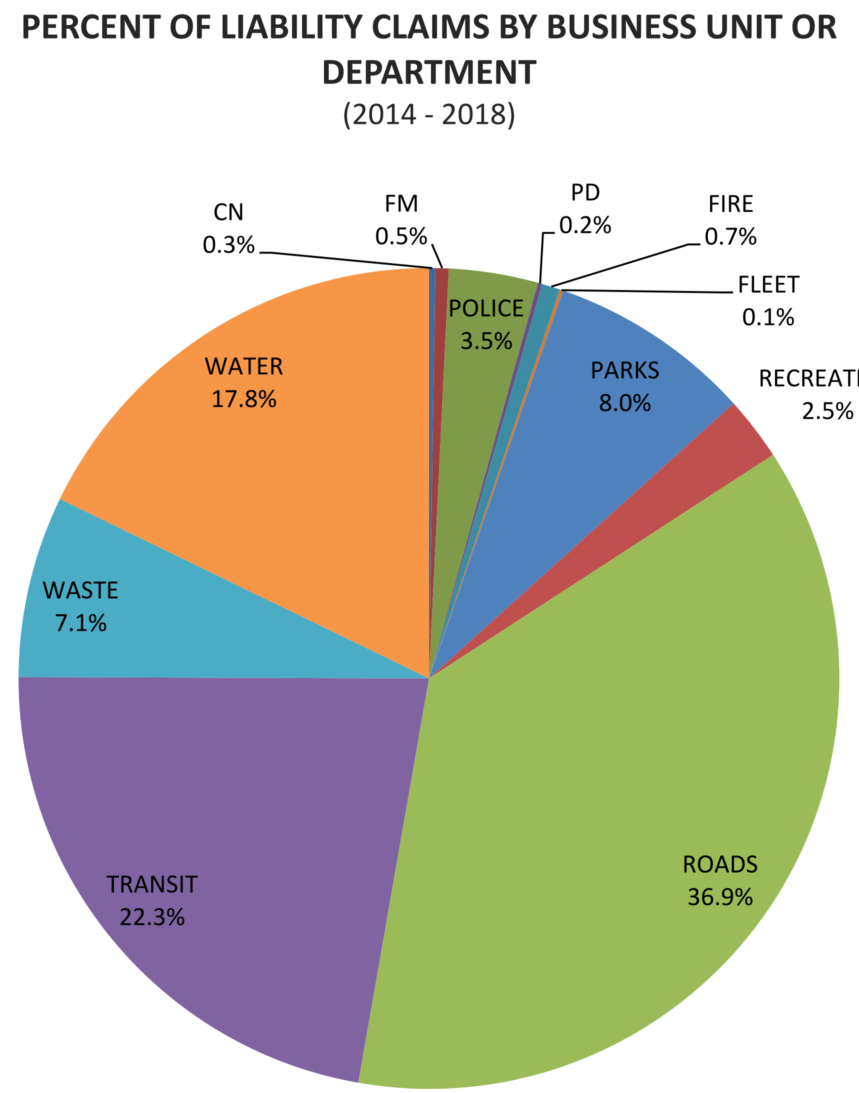
PERCENT OF TOTAL CLAIMS BY BUSINESS UNIT OR DEPARTMENT
(2014 - 2018)



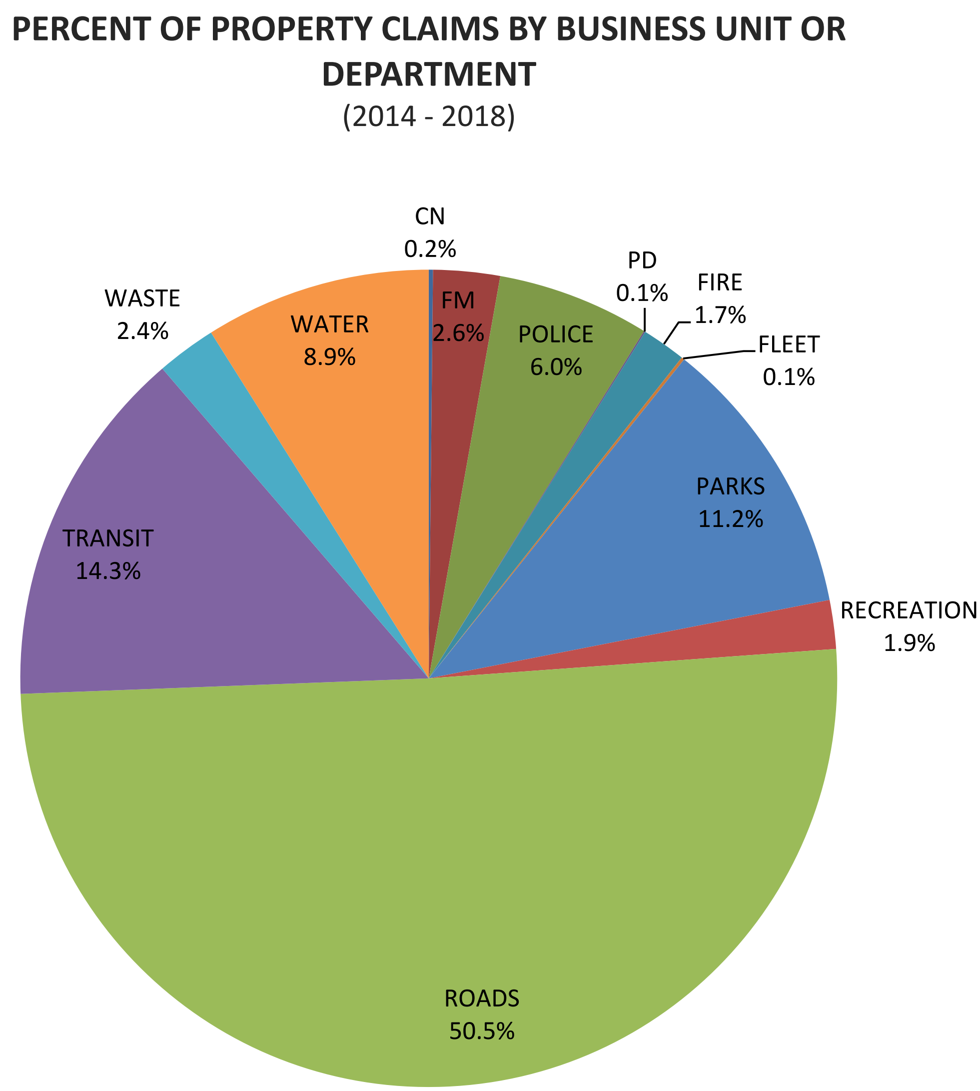
PERCENT OF AUTOMOBILE CLAIMS BY BUSINESS UNIT OR DEPARTMENT
(2014 - 2018)



NOTE: Automobile claims are any losses involving City-owned vehicles, regardless of fault. This can be a City vehicle involved in a motor vehicle accident with a third party or a City vehicle colliding with an object.



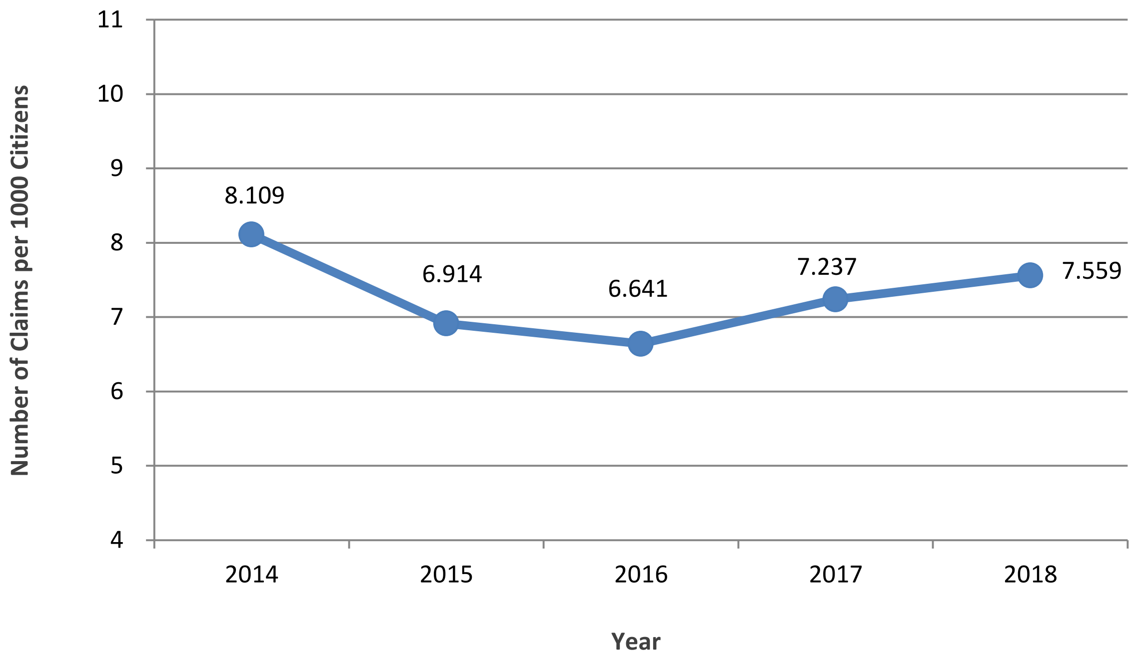
NOTE: Liability claims are claims where there is an allegation that The City caused damage to a third party, excluding automobile liability.



NOTE: Property claims are damage to City-owned properties, such as a fire in a City building, and includes damages caused by a third party, such as a private vehicle striking a guard rail.

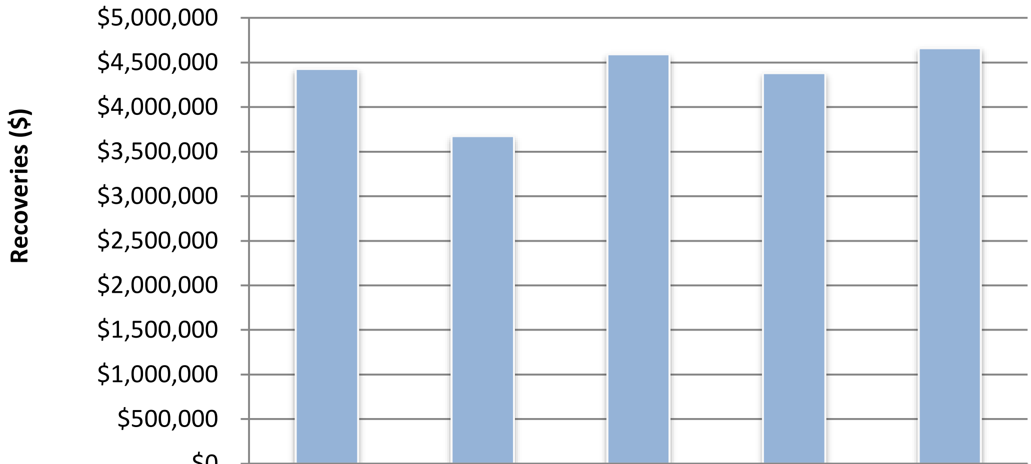
NUMBER OF CLAIMS PER 1000 CITIZENS

(2014 - 2018)



This graph compares the number of claims per year against The City's total population (in thousands). The overall population statistic is taken from the 2018 Census Report. With both the population increasing by 21,007 and the total number of claims also increasing by 560, the average number of claims per citizen has increased from 2017 to 2018 as shown above.

EXTERNAL RECOVERIES BY YEAR
(2014 - 2018)

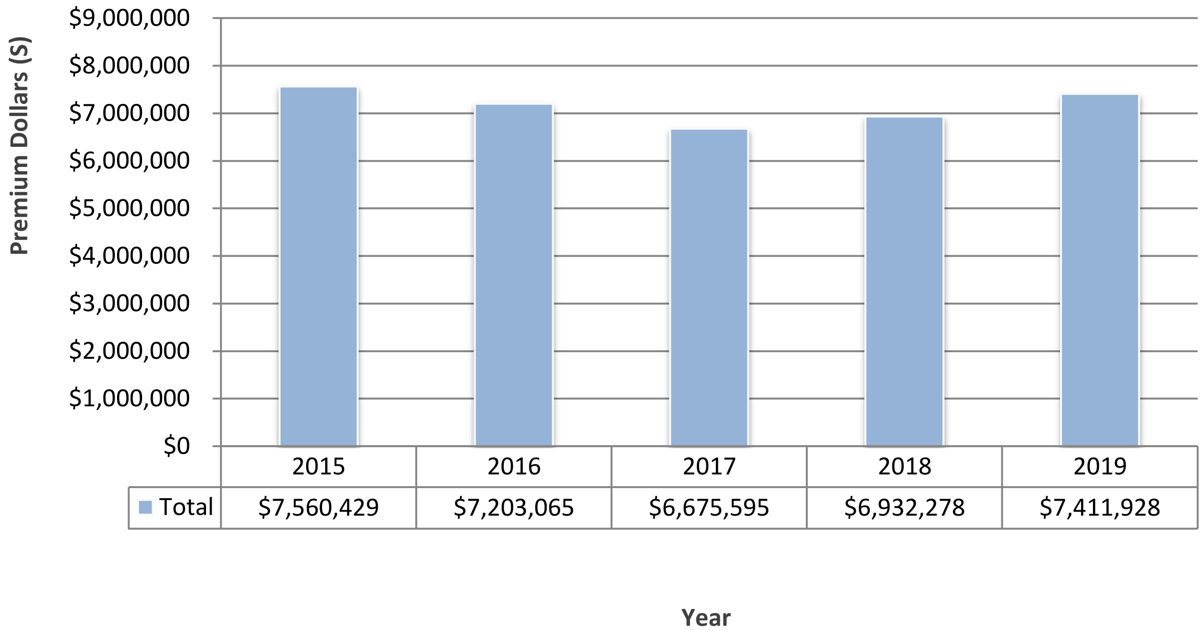


	2014	2015	2016	2017	2018
External Recoveries	$4,427,229	$3,674,023	$4,593,737	$4,380,436	$4,661,438

This graph illustrates the recoveries collected each year from external parties who have caused damage to City-owned property. Every effort is made to pursue responsible parties, either through direct contact with individuals or their insurance companies.

INSURANCE PREMIUMS BY YEAR

(2015 - 2019)



The City purchases insurance to protect against unpredictable events, including policies for commercial general liability and property losses. The premium for the insurance program is shown in the graph above.

The total insured value of City-owned property as of January 1, 2019 is $11,149,869,778.

Corporate Security Services Report 2019

In 2017 Corporate Security evolved from a division of Law to a newly created business unit, which demonstrates the importance The City places on the security of City staff, the Mayor, Members of Council, visitors, information, assets and infrastructure.

Through the latter part of 2019, Corporate Security refined its service offerings and began implementing a security management philosophy that embraces business ownership of risks facing The City of Calgary. This holistic change in approach ensures service owners have adequate information to make informed risk decisions and empowers business owners to make those decisions with support from their trusted risk advisor – Corporate Security. 2019 was a time to reset, a time to change our approach to one of reflection or “farming” instead of growth or “hunting”.

In this report, Corporate Security captures the following highlights:

- Enterprise Security Risk Management (ESRM)
- ESRM Defined
- Corporate Security’s Goals
- Client Engagement
- Employee Engagement
- Farming Versus Hunting

Enterprise Security Risk Management (ESRM)

To better align with service-based budgeting and a more mature model of risk management, Corporate Security has transitioned its strategic approach and its subservices to reflect an Enterprise Security Risk Management (ESRM) process for security management.

The ESRM methodology depicted in the figure below has been adopted by ASIS International into a formal guideline, to assist security professionals across the globe to design and implement a security program based on the philosophy of ESRM. Corporate Security is adapting its current program to reflect this updated approach to developing an enterprise security program, and believes the change more accurately reflects the City's goal to make Calgary *a great place to make a living, and a great place to make a life.*

Figure 1 - ESRM Lifecycle

Enterprise Security Risk Management – Defined

The lifecycle diagram depicted in Figure 1 is part of the *Enterprise Security Risk Management Guideline* published September 9, 2019 by ASIS International[1]. The Guideline offers security professionals the ability to design and implement a risk-based, business-focused security program tailored to the unique needs of their organization. The ESRM methodology focuses on the goals and objectives of the business, how security professionals can become trusted advisors to their business leaders by identifying risks to the objectives and offering mitigation strategies to help achieve the objectives while reducing risks. The goal is to have all members of Corporate Security trained on the principles of ESRM by the end of Q2 2020.

Foundation – Business Ownership and Decision Making

Key to the success of the program Corporate Security is implementing, relies on the concept that business units and their leaders (i.e. Directors and/or General Managers) set goals and objectives and are therefore capable of accepting risks for activities that support those objectives.

This approach ensures business units are made aware of the risks facing their objectives and that they are ultimately responsible to citizens for achieving their objectives. This is not an abdication by Corporate Security – this is simply the maturation of a risk based, business focused approach to identifying risks across The City.

Assets Supporting Objectives

Successful implementation of an ESRM based security program requires a clear understanding of what Assets (i.e. people, information and assets) are necessary to achieve business objectives. During 2019, Corporate Security continued building its understanding of the different Assets our clients required to be successful. The goal for 2020 and beyond is to continue identifying sources of information to create a consistent, reliable approach to identifying and documenting Assets within The City.

Risks to Assets

Once the Assets required to achieve business goals are documented, the Risks facing the Assets must be identified. Corporate Security team members worked on standardizing their approach to assessing risks across the enterprise, including joint sessions between the Physical and Cyber Security teams to learn from each other and to seek out commonalities in their risk assessment strategies. These commonalities will be further developed in Q4 2019 through Q2 2020.

[1] Refer to ASIS publication: https://www.asisonline.org/publications--resources/standards--guidelines/

New technology is coming online in the latter part of 2019 and early 2020 that will harmonize the Risk Assessment process, enabling Corporate Security to identify risks facing people, information and assets, regardless of the threat. The new technology will incorporate the Integrated Risk Management risk matrix, to ensure consistency in reporting risks against The City's standard risk descriptions.

Mitigation of Risks

The identification of risk must also include opportunities to either accept, ensure against, decline or mitigate the risk(s). In an ESRM based security program, the mitigation of risk, and the acceptance and endorsement of risk mitigation activities, must be approved by the leadership group of the impacted team. The role Corporate Security plays in the lifecycle is "trusted advisor" to the business leadership, offering our subject matter expertise regarding the risks identified and the types of controls that can be implemented to reduce the identified risk. Corporate Security will operate some of the implemented controls in partnership with other business units and support those who operate controls to reduce risks to The City's objectives.

Corporate Security is not the "owner" of the identified risk – ownership belongs to the business unit and its leadership team. Corporate Security identifies the risk, its potential impacts to the business and its objectives, and then recommends/provides remediation opportunities and supports the business in reducing the risks.

Continuous Improvement

The process of continuous improvement incorporates all the learnings Corporate Security gathers regarding risks facing Assets. If any risks are realized and become Incidents, how Incidents are handled and their impact to The City, and how to resolve those Incidents by implementing controls, leads to this improvement. This is an iterative process, one that takes time to develop but when functioning well can be immensely beneficial to any organization.

Corporate Security is in the early phases of adopting the ESRM security management philosophy but has developed an Information Security Incident Response procedure that has been updated to reflect a continuous improvement approach. Over time, the enhancements to the Information Security Incident Response procedures and the goal of continually improving the risk posture of The City will pay dividends to The City and its business units. These changes will continue to progress during Q4 2019 and into the first half of 2020 before a holistic approach to continuous improvement can be realized.

Corporate Security's Goals

The leadership team of Corporate Security conducted a series of workshops to develop a mission statement that reflects the goals of Corporate Security, and how the business unit can help The City of Calgary serve Calgarians.

> *We keep people, information and assets safe and secure in a way that makes Calgarians proud!*

The mission statement aligns the purpose and objectives of Corporate Security and reflects the philosophy of ESRM as the security management process at The City.

Creating an Inclusive Environment – Our Family

Throughout 2019, Corporate Security made a concerted effort to engage other Business Units across the organization. The goal of this increased collaboration was to create "the family" – a small group of closely aligned Business Units that work collectively on issues facing The City.

Increased interaction with Information Technology, Corporate Analytics and Innovation, and City Clerks led to the creation of the Information Calgary program as well as the collective response to the Notice of Motion regarding Privacy and how The City addresses privacy concerns[2]. Corporate Security also sponsored a "family meeting" between the four teams early in 2019 and is planning on more meetings during the latter part of 2019 and throughout 2020.

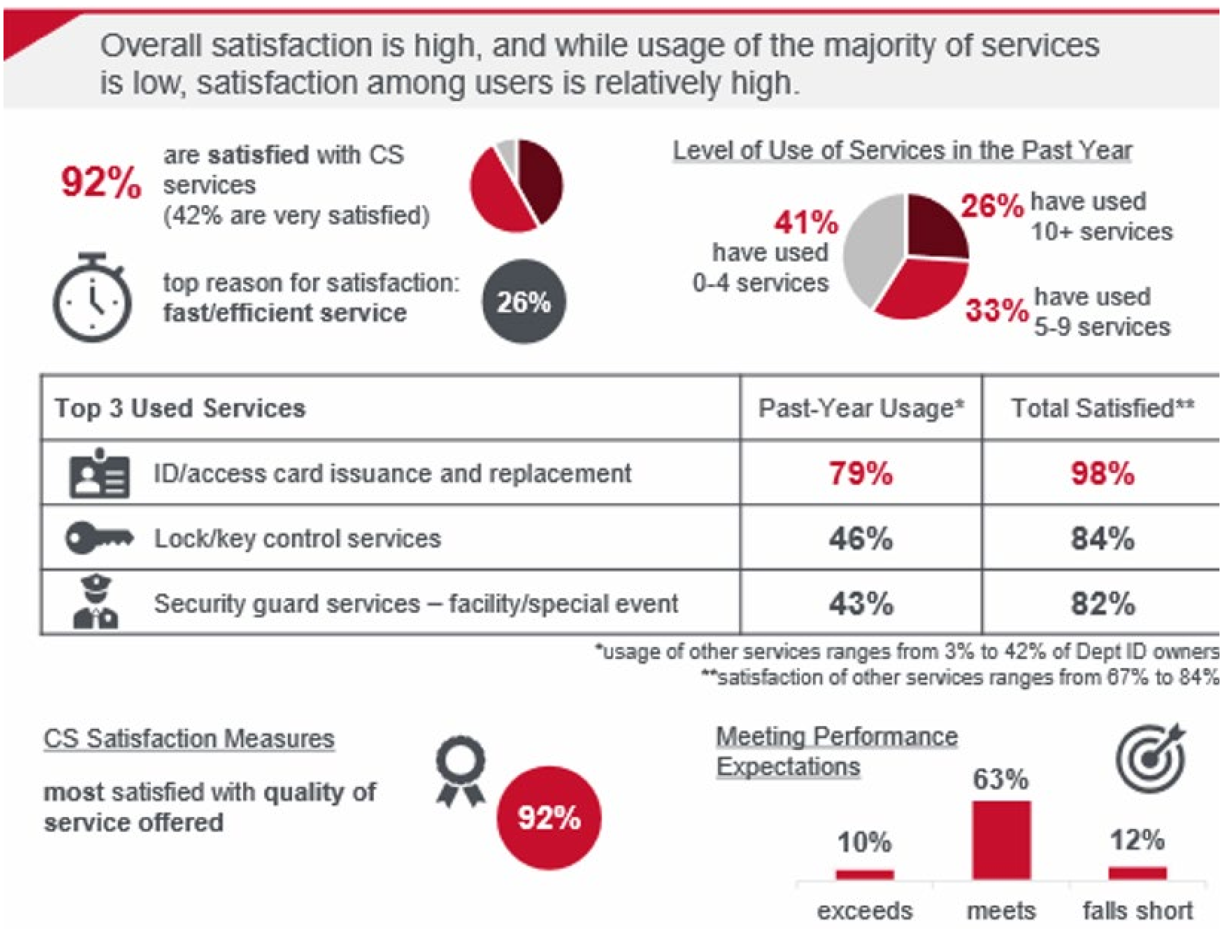
[2] City of Calgary Citizen Privacy Data Practices, C2019-0560

Client Engagement

In March 2019, Corporate Security engaged an external research company (Environics Research) to conduct a client satisfaction survey among its internal clients. Over 300 City Department ID owners (managers, supervisors and leaders) completed the survey and provided meaningful feedback that Corporate Security will use as a baseline to identify what is working well and address opportunities for improvement in its service delivery.

Ninety-two (92) percent of survey respondents were satisfied or very satisfied with the services they receive from Corporate Security.

Satisfaction is High with Corporate Security



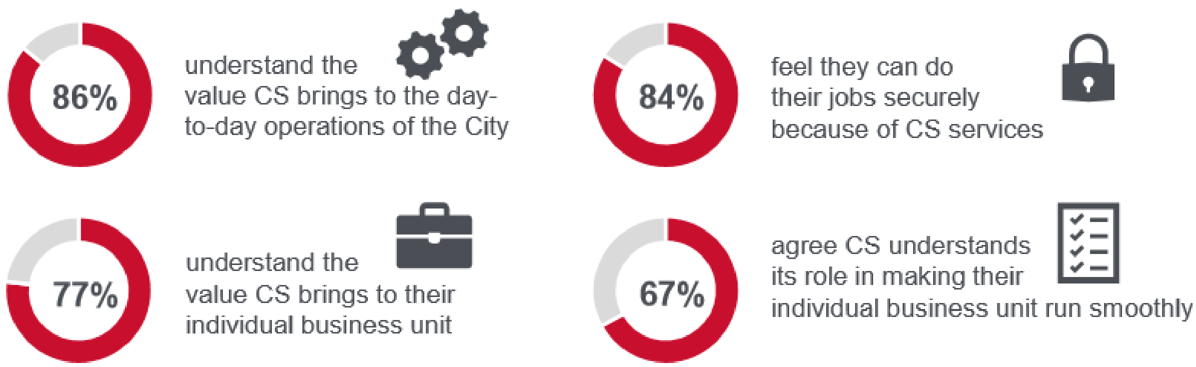
Top 3 Used Services	Past-Year Usage*	Total Satisfied**
ID/access card issuance and replacement	79%	98%
Lock/key control services	46%	84%
Security guard services – facility/special event	43%	82%

*usage of other services ranges from 3% to 42% of Dept ID owners
**satisfaction of other services ranges from 67% to 84%

While awareness and satisfaction are high regarding some of Corporate Security's subservices, it's essential that staff at all levels are aware of most if not all the subservices Corporate Security provides. An increase in both awareness and use of other subservices will help to reduce security risks and the number of incidents that occur.

City employees believe Corporate Security delivers value

Dept ID owners believe Corporate Security delivers value to their business unit and the Corporation as a whole.



In conjunction with One Calgary, Corporate Security is looking at ways to continuously improve its service delivery and ensure it's adding value to its clients. In some cases, we have dedicated security staff working directly with clients in their business units. We have also developed a subservices catalogue which is now being rolled out to clients. The goal of this engagement with key City clients is to help ensure their security needs are met, risks are identified and managed, and clients are better able to meet their business objectives.

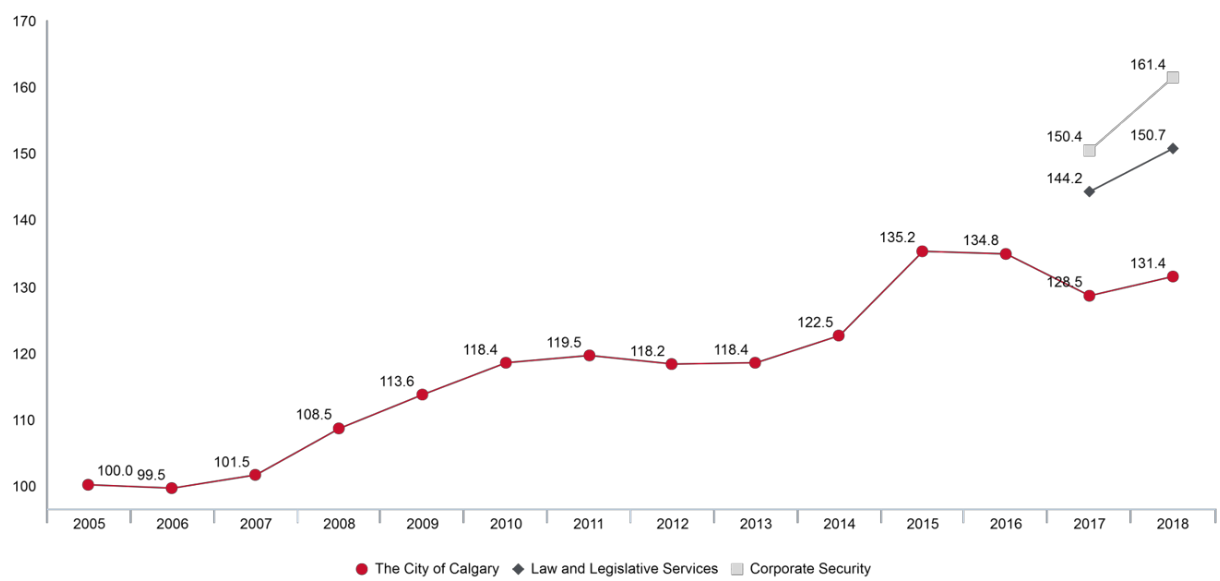
Employee Engagement

Employee engagement is an integral part of Corporate Security's culture as a business unit. Three years ago, the Corporate Security Employee Engagement Committee or CSEC was struck. CSEC's primary purpose is to engage Corporate Security employees and provide strategic recommendations to Corporate Security leadership in response to gaps or challenges identified in The City's Employee Satisfaction Survey.

Employee engagement is important as it's the emotional commitment an employee has to the organization it works for and its goals. "Engaged" refers to the discretionary effort that employees provide, which in turn increases performance, influences retention and decreases turnover. This committee, now in its third year, is offering its third mentorship program, is responsible for Town Hall events, hosts coffee pot meetings with the Chief Security Officer (CSO) and staff and offers many other initiatives that positively enhance Corporate Security employees' experiences at work.

Corporate Security employee engagement scores

The Corporate Security employee satisfaction index is 161.4 for 2018, well above The City's overall score of 131.4.



Through employee engagement, Corporate Security recruits and retains a robust and high-performing workforce. This helps to create stability within the team and reduce turnover among staff. It also reduces risk by retaining the expertise and knowledge among its team members over a longer period. This state is at risk, though, based on the current economic climate facing The City, and the potential lack of any substantive pay adjustments for the next few years.

Farming versus Hunting

2019 brought several changes to The City of Calgary. One of the most impactful was the reduction in operating budgets across the organization in response to citizen requests for a more fiscally responsive municipal government.

Corporate Security was able to address its commitments to The City's budgeting process and reduced its overall expenditures in line with its allocation. This reduction meant changes to the overall approach for projects and initiatives in Corporate Security.

Over the past decade, Corporate Security grew its workforce and portfolio to address The City's needs at the time, building a suite of services that expanded from guard force tours of municipal buildings, to protecting cyber security assets. This growth came with challenges but also opportunities.

As Corporate Security planned for its reductions for 2019 and beyond, a new approach was presented to the Corporate Security Leadership Team as well as the executive leadership of Law & Legislative Services. The principle of the approach is "farming" – working with existing resources and growing new business opportunities organically through the success of executing daily tasks.

The "farming" approach means Corporate Security will defer capital projects (and other initiatives) to later dates and reduce potential requests for additional staff. Pausing the growth cycle within Corporate Security allows an opportunity to focus on internal governance by way of Policies, Standards and Procedures.

Farming gives Corporate Security the ability to refocus on core activities and reduce superfluous tasks. Honest and transparent assessments of tasks, programs and initiatives are already occurring because they didn't make good business sense, or the executive leadership of The City accepted the risk of removing controls. This is an opportunity to reassess where Corporate Security stands with its business partners and clients, identify what tasks are well received and what ones can be scaled back or removed.

A conservative farming approach allows necessary growth and ensures it will be well managed and measured for its efficacy and efficiency. This approach also requires extensive collaboration with disparate groups across The City – another opportunity for Corporate Security to continue to develop the "family" approach mentioned in previous sections.