



AGENDA

AUDIT COMMITTEE

December 14, 2017, 9:30 AM

IN THE COUNCIL CHAMBER

Members

Councillor G. Chahal

Councillor J. Farkas

Councillor E. Woolley

Citizen Representative L. Caltagirone

Citizen Representative M. Dalton

Citizen Representative M. Lambert

Mayor N. Nenshi, Ex-Officio

1. CALL TO ORDER
2. ELECTION OF CHAIR
3. ELECTION OF VICE-CHAIR
4. OPENING REMARKS
5. CONFIRMATION OF AGENDA
6. CONFIRMATION OF MINUTES
 - 6.1 MINUTES OF THE REGULAR MEETING OF THE AUDIT COMMITTEE, 2017
SEPTEMBER 14
7. ITEMS FROM OFFICERS, ADMINISTRATION AND COMMITTEES
 - 7.1 Calgary Housing Company 2016 Annual Report - AC2017-1230
 - 7.2 Corporate Structures List Audit - AC2017-1201
 - 7.3 City Auditor's Office 3rd Quarter 2017 Report - AC2017-1204
 - 7.4 Audit Committee 2018 Work Plan, AC2017-1136
 - 7.5 External Auditor – Provision of Additional Services, AC2017-1246

- 7.6 Status of Community Associations and Social Recreation Organizations on City-Owned Land, AC2017-1149

Attachments 3, 4, and 5 (FOIP 16, 23 and 24)

- 8. URGENT BUSINESS

- 9. CONFIDENTIAL ITEMS

- 9.1 Audit Forum (Verbal Report) - AC2017-1158

- 9.2 City Auditor (Verbal Report) - AC2017-1159

- 9.3 External Auditor (Verbal Report) - AC2017-1160

- 9.4 Personnel Matter - AC2017-1223

- 9.5 Status of Community Associations and Social Recreational Organizations on City-Owned Land, AC2017-1149 Attachments 3, 4 and 5 (FOIP 16,23, and 24)

- 10. ADJOURNMENT



MINUTES

AUDIT COMMITTEE

**HELD 2017 SEPTEMBER 14 AT 9:30 AM
IN THE COUNCIL CHAMBER**

PRESENT: Councillor E. Woolley, Chair
Councillor R. Pootmans, Vice-Chair
Councillor S. Chu
Citizen Representative, Mr. M. Dalton
Citizen Representative, Mr. S. Qureshi

ALSO PRESENT: Chief Financial Officer E. Sawyer
A/Chief Financial Officer C. Male
City Auditor K. Palmer
Executive Assistant C. Smillie
External Auditor H. Gill
Legislative Assistant D. Williams

This meeting was conducted in accordance with the Procedure Bylaw 44M2006, as amended.

RECOGNITION

Councillor Woolley, on behalf of the Audit Committee, thanked Shivon Crabtree for her dedication and tremendous work over the last two years. In recognition of her valuable contributions and her service, as a Citizen Member, to the Audit Committee and The City of Calgary I would like to present her with a token of appreciation – to be provided at a later time.

1. CONFIRMATION OF AGENDA

CONFIRM AGENDA, Moved by Councillor Chu, that the Agenda for the 2017 September 14 Regular Meeting of the Audit Committee be confirmed.

CARRIED

2. CONFIRMATION OF MINUTES

2.1 MINUTES OF THE REGULAR MEETING OF THE AUDIT COMMITTEE, 2017 JULY 27

CONFIRM MINUTES, Moved by Mr. Qureshi, that the Minutes of the Regular Meeting of the Audit Committee held on 2017 July 27, be confirmed.

CARRIED

3. ITEMS FROM ADMINISTRATION AND COMMITTEES

3.1 SUB-COMMITTEE ON EXTERNAL AUDITOR SELECTION (VERBAL), AC2017-0668

RECOGNITION

Councillor Woolley, on behalf of the Audit Committee, thanked Citizen Members, Ms. Shivon Crabtree, Mr. Shahid Qureshi, Councillor Pincott and Councillor Pootmans for their collaboration of work on the Sub-Committee on External Auditor Selection.

APPROVE, Moved by Mr. Qureshi, that That with respect to Verbal Report AC2017-0668, and the appointment of Deloitte LLP as the External Auditor for The City of Calgary for 2018 – 2022, the Audit Committee:

1. Thank the members of the Sub-Committee on External Auditor Selection for their service in overseeing the selection process; and
2. Recommend that the Sub-Committee on External Auditor Selection be disbanded as the work of the Committee is now complete.

CARRIED

3.2 CALGARY CONVENTION CENTRE AUTHORITY AUDIT COMMITTEE ANNUAL REPORT, AC2017-0476

SPEAKERS

1. Darren Demchuk, Calgary Convention Centre Authority, Audit and Finance Committee Chair
2. Tom Bornhorst, Calgary Convention Centre Authority, Chair
3. Maria Tobias-Antal, Calgary TELUS Convention Centre, Vice President Ways and Means

APPROVE, Moved by Mr. Dalton, that the Recommendation contained in Report AC2017-0476 be approved, as follows:

That the Audit Committee receives this Report for information.

CARRIED

3.3 CALGARY HOUSING COMPANY AUDIT AND RISK MANAGEMENT COMMITTEE
ANNUAL REPORT, AC2017-0478

DISTRIBUTION

At the request of Sarah Woodgate and with the concurrence of the Chair, the Legislative Assistant distributed copies of a PowerPoint presentation entitled "Calgary Housing Company" dated 2017 September 14, with respect to Report AC2017-0478.

SPEAKERS

1. Sarah Woodgate, Calgary Housing Company, Director
2. Murray Tait, Calgary Housing Company, Member

REFER, Moved by Councillor Pootmans, that Report AC2017-0478 be referred to the Calgary Housing Company Audit and Finance Committee, to return to the Audit Committee at the 2017 December 14 Meeting, with a report providing more comprehensive details as requested by the Chair of Audit in his letter of 2017 March 30.

CARRIED

3.4 UTILITY BILLING AUDIT, AC2017-0661

APPROVE, Moved by Councillor Chu, that the Recommendations contained in Report AC2017-0661 be approved, as follows:

1. That the Audit Committee receives this Report for information; and
2. That the Audit Committee recommend that Council receive this report for information.

CARRIED

3.5 9-1-1 CALL CENTRE AUDIT, AC2017-0664

DISTRIBUTION

With the concurrence of the Chair, the Legislative Assistant distributed copies of Page 21 of 21 of the Attachment to Report AC2017-0664.

Councillor Woolley left the Chair at 10:32 a.m. and Councillor Pootmans assumed the Chair.

Councillor Woolley resumed the Chair at 10:34 a.m. and Councillor Pootmans returned to his seat in Committee.

APPROVE, Moved by Mr. Qureshi, that the Recommendations contained in Report AC2017-0664 be approved, as follows:

1. That the Audit Committee receives this Report for information; and
2. That the Audit Committee recommend that Council receive this report for information.

CARRIED

4. URGENT BUSINESS

No items of Urgent Business were added to today's Meeting.

IN CAMERA, Moved by Mr. Dalton, that in accordance with Section 197 of the *Municipal Government Act* and Sections 16, 19 and 24 of the *Freedom of Information and Protection of Privacy Act*, the Audit Committee move In camera, at 10:44 a.m., in order to consider the In Camera agenda.

CARRIED

The Audit Committee moved into public session at 11:14 a.m. with Councillor Woolley in the Chair.

RISE AND REPORT, Moved by Mr. Dalton, that the Audit Committee rise and report.

CARRIED

5. IN CAMERA ITEMS

5.1 CITY AUDITOR'S OFFICE 2018 BUDGET PROPOSAL, AC2017-0687

DISTRIBUTION

At the request of the Administration and with the concurrence of the Chair, the Legislative Assistant distributed copies of Report AC2017-0687 and that it remain confidential pursuant to Section 24 of the *Freedom of Information and Protection of Privacy Act*.

APPROVE, Moved by Mr. Qureshi, that with respect to Report AC2017-0687, the following be approved:

That the Audit Committee:

1. Support the City Auditor's proposal of a reduction of \$77,000 from the CAO 2018 base operating budget, as part of Council's approval of the 2017 November 27-30 Adjustments to 2018 Business Plan and Budget; and
2. Recommend that this Report and In Camera discussions remain confidential under Section 24 of the *Freedom of Information and Protection of Privacy Act* until January 1, 2018; and
3. Refer this item to the Administration to be considered in the 2017 November 27-30 Adjustments to 2018 Business Plan and Budget.

CARRIED

5.2 AUDIT COMMITTEE ANNUAL SELF-ASSESSMENT (2016-2017), AC2017-0637

DISTRIBUTION

With the concurrence of the Chair, the Legislative Assistant distributed copies of Page 1 of 18 of the Confidential Attachment to Report AC2017-0637 and that it remain confidential pursuant to Sections 16 and 19 of the *Freedom of Information and Protection of Privacy Act*.

APPROVE, Moved by Councillor Pootmans, that with respect to Report AC2017-0637, the following be approved:

That the Audit Committee:

1. Receives this Report and Attachment for information; and
2. Keep this Report, Attachment and the In Camera discussion confidential pursuant to Sections 16 and 19 of the *Freedom of Information and Protection of Privacy Act*.

CARRIED

5.3 UPDATE OF EXTERNAL AUDITOR PERFORMANCE ASSESSMENT TEMPLATE, AC2017-0642

APPROVE, Moved by Mr. Dalton, that with respect to Report AC2017-0642, the following be approved:

That the Audit Committee:

1. Approve Recommendation 1 contained in Report AC2017-0642; and
2. Directs that this Report, Attachments and In Camera discussion remain confidential pursuant to Section 24 of the *Freedom of Information and Protection of Privacy Act*.

CARRIED

5.4 AUDIT FORUM (VERBAL REPORT), AC2017-0639

APPROVE, Moved by Councillor Chu, that with respect to Verbal Report AC2017-0639, the following be approved:

That the Audit Committee:

1. Receives the Audit Forum (Verbal Report) for information; and
2. Directs that the Verbal Report and In Camera discussions remain confidential pursuant to Sections 16 and 24 of the *Freedom of Information and Protection of Privacy Act*.

CARRIED

5.5 CITY AUDITOR (VERBAL REPORT), AC2017-0640

APPROVE, Moved by Councillor Chu, that with respect to Verbal Report AC2017-0640, the following be approved:

That the Audit Committee:

1. Receives the City Auditor (Verbal Report) for information; and
2. Directs that the Verbal Report and In Camera discussions remain confidential pursuant to Sections 16 and 24 of the *Freedom of Information and Protection of Privacy Act*.

CARRIED

5.6 EXTERNAL AUDITOR (VERBAL REPORT), AC2017-0641

APPROVE, Moved by Councillor Pootmans, that with respect to Verbal Report AC2017-0641, the following be approved:

That the Audit Committee:

1. Receives the External Auditor (Verbal Report) for information; and
2. Directs that the Verbal Report and In Camera discussions remain confidential pursuant to Sections 16 and 24 of the *Freedom of Information and Protection of Privacy Act*.

CARRIED

6. URGENT BUSINESS IN CAMERA

No items of Urgent Business, In Camera, were added to today's Meeting.

7. ADJOURNMENT

ADJOURN, Moved by Councillor Pootmans that this meeting adjourn at 11:19 a.m.

CARRIED

CONFIRMED BY COMMITTEE ON 2017 DECEMBER 14.

CHAIR

LEGISLATIVE ASSISTANT

THE FOLLOWING ITEM HAS BEEN FORWARDED TO THE 2017 NOVEMBER 13 REGULAR MEETING OF COUNCIL:

CONSENT:

UTILITY BILLING AUDIT, AC2017-0661

9-1-1 CALL CENTRE AUDIT, AC2017-0664

The next Regular Meeting of the Audit Committee has been scheduled to be held on 2017 December 14 at 9:30 AM.

UNCONFIRMED

CALGARY HOUSING COMPANY 2016 ANNUAL REPORT

EXECUTIVE SUMMARY

This is the annual report and risk management processes 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 more comprehensive details in response to the letter from the Audit Committee chair dated 2017 March 30 which requested the following items to be provided:

1. Brief summary on governance structure, succession planning and recruitment process, recent financial highlights and key 2017 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 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; and
5. Most recent financial report including management responses as appropriate.

In summary, CHC has established good governance practices including recruitment processes, has demonstrated good financial performance in 2017 and has made good progress on assessing internal controls.

CHC is facing significant risks however, particularly in relation to the provincially-funded social housing portfolios that it manages. The highest identified risks that may affect CHC and therefore the City of Calgary as shareholder are: funding uncertainty, rent revenue, reserve funds and third party owned assets managed by CHC.

RECOMMENDATION:

That the Audit Committee receives this report for 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 2017 March 30, sent to the Chair of Calgary Housing Company's (CHC) Audit and Risk Management Committee. CHC representatives appeared before Audit Committee on 2017 September 14 and presented the company's governance structure, key 2017 priorities, integrated risk management framework and financial highlights. At

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the 2017 September 14 meeting the Audit Committee made the following referral of CHC's Report AC2017-0478:

"That Report AC2017-0478 be referred to the Calgary Housing Company Audit and Finance Committee to return to Audit Committee at the 2017 December 14 meeting with a report providing more comprehensive details as requested by the Chair of Audit in his letter of 2017 March 30."

This report, attachments and presentation provide more comprehensive details in response to the letter from the Audit Committee chair dated 2017 March 30 which requested the following items to be provided:

1. Brief summary on governance structure, succession planning and recruitment process, recent financial highlights and key 2017 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 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; and
5. Most recent financial report including management responses as appropriate.

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 five 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 2017 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. 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.

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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. CHC does not depend on tax revenue for its funding, drawing only 10% of The City-owned social housing deficit from tax support. This amounted to \$338 thousand in 2016. The surplus contribution returned to The City for City Partnership and Corporate Properties residential portfolios combined was \$2.1 million in 2016.

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 nine portfolios: e.g. Federal Fixed, City Partnership etc. 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.

As above, CHC reports to a Board of Directors. The Board is supported by four committees, each having a specific mandate and oversight responsibility. They are as follows:

- Audit and Risk Management Committee
- Community and Resident Relations Committee
- 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 2016 statement of financial position and statement of operations.

Statement of Financial Position

Cash: The cash balance at the end of 2016 has risen from the prior year to \$28.9 million. It is worth noting that \$24.9 million of this balance is restricted for items, such as tenant security deposits, advance government funding, replacement reserve funding and deferred capital contributions.

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Mortgages Payable: CHC had \$15.2 million in outstanding mortgages at December 31, 2015. Over 2016, CHC repaid \$4.5 million in long-term debt and issued \$5.8 million in new debt relating to the acquisition of 163 units in East Village. At December 31, 2016 CHC had \$16.5 million in mortgages payable.

Tangible Capital Assets: Tangible Capital Assets increased to \$102.2 million as at December 31, 2016 from \$92.3 million in 2015. The increase was mostly due to the acquisition of East Village Place.

Statement of Operations

REVENUE

Rent Revenue: Rent revenue was \$48 million for the year ended December 31, 2016, a decrease of \$2.2 million over the previous year. Rent revenue is being affected by lower rent-geared-to income (RGI) rents and increased vacancy rates throughout 2016 in the low end of market segment as it more closely mirrors broader residential vacancy trends.

Rent Supplements: The rent supplement programs provided \$18.8 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 \$6.4 million in administration costs for the year ended December 31, 2016. These costs, excluding the direct charges to certain portfolios, are allocated based on the number of units in each portfolio.

Maintenance: Maintenance expenses were \$16 million for the year ended December 31, 2016. Actual maintenance expenses were higher than budget due to the reallocation of overall budget dollars from savings in utilities and administrative costs towards maintenance needs. The actual maintenance expenses for certain portfolios are dependent on the level of funding provided and do not reflect maintenance requirements. Maintenance is prioritized as follows: life safety; structural integrity; necessary repairs / legislative requirement; energy efficiency; and marketability.

SURPLUS

CHC reported a surplus of \$7.2 million after returning \$2.1 million to The City from the operation of The City's mixed-income portfolios. The CHC surplus was significantly higher than the prior year mostly due to the recognition of restricted funds used from CHC's deferred capital contributions.

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Capital Expenditures

Overall, 2016 actual capital expenditures were \$8.7 million higher than the budget of \$4.2 million mostly due to the acquisition of East Village place offset by delayed spending in the IT section as the Enterprise System Solution (ESS) funding was not fully in place to initiate the project.

1.3. Key 2017 Initiatives / Strategies

CHC is in its second year of the Board approved Strategic Plan 2016 – 2020. A summary of CHC's key priorities and objectives as well as specific 2017 initiatives are identified as follows:

Priority I: Deliver Quality Service to Clients

Objective 1: Take a 'Client-Centric' approach to Service Delivery

Objective 2: Build Positive Working Relationship among Staff and Clients

Objective 3: Foster Opportunities that Contribute to Well-Being and Independence for Individual Clients as well as Community Well-Being

Priority I 2017 Initiatives:

In 2016 CHC's Board approved a Tenant Advisory Group (TAG) pilot project designed as a best practice approach to customer service. In 2017 the group signed terms of reference and is recruiting and orientating members. CHC has signed a contract with Thornhill daycare to lease space in the Lumino South building. Approximately 30% of the 84 child care spots will be used by CHC families. CHC is embarking on a cultural transformation focused on client-centric positive outcomes for tenants and is collaborating with partners towards this goal. After launching the opportunities for homeownership program in 2015, CHC saw 90 families move into affordable homeownership in 2016.

Priority II: Increase Financial Sustainability Including the Optimization of Assets

Objective 1: Develop and Implement an Asset Management Program

Objective 2: Implement Initiatives to Increase Financial Sustainability

Priority II 2017 Initiatives:

The Sustainability Project which is currently in its Phase 3 has developed a program plan, created a development team and started building an analysis tool. CHC has also received a letter of intent from a potential lessor for the East Village Place community space. A vacancy task force was created at CHC in 2017 to address high vacancies particularly in the low end of market segment. In 2016, CHC created a strategic asset management plan and is in the process of implementing an asset management program.

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Priority III: Strengthen Relationships with Key Stakeholders

Objective 1: Work with Government and Stakeholders to Increase Awareness and Support for a More Sustainable Affordable Housing Delivery Model

Objective 2: Enhance Working Relationships with The City and Province to Create Synergies and Clarify CHC's Role & Governance

Priority III 2017 Initiatives:

The Provincial Affordable Housing Strategy was released in 2017 June and showed strong alignment to CHC's positions and requests put forward to the Province. Bridging the Gap is a new initiative underway between CHC, The Calgary Homeless Foundation (CHF) and many other supportive housing agencies. The initiative is designed to integrate and coordinate housing across agencies to prevent future homelessness of individuals and families who have "graduated" from CHF supportive housing programs and are ready to move to more stable and affordable housing.

Priority IV: Strive for Organizational Excellence

Objective 1: Increase Organizational Efficiency and Effectiveness

Objective 2: Develop CHC as a Leading Affordable Housing Provider

Objective 3: Build a Positive Organizational Culture that Engages Employees

Priority IV 2017 Initiatives:

CHC has a number of transformational projects underway. For instance, the Enterprise Software System project that will be replacing CHC's current software and refining its existing processes is expected to contribute significantly to organizational efficiency. In addition, in 2017 CHC launched a newly designed external website and held several celebratory events, such as the Bankview and Mission regenerations.

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

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 Administration to annually inform the Board through the ARM Committee regarding CHC's current risk status of the Company. The IRM framework enhances CHC's ability to proactively manage risk and make well informed decisions. Currently CHC is in its sixth year of reporting on IRM. The following section discusses CHC's key operating and strategic risks, recent trends, and risk mitigation strategies.

Funding uncertainty

This risk is currently ranked **high** in both likelihood and impact and has stayed unchanged in ranking from the prior year. This particular risk primarily affects portfolios funded by federal and provincial operating subsidies where funding levels have been

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insufficient to meet inflationary increases and maintenance requirements. CHC's highest priority is the safety, security, and wellbeing of tenants living in the affected buildings. For 2018, CHC has requested \$22 million in operating funding which represents a \$10 million increase over the current \$12 million base funding and covers both the Provincial and City-owned social housing portfolios. This funding is required to meet health and safety standards under the *Residential Tenancies Act*. CHC's mitigation plan if it does not receive this funding includes continued advocacy efforts for increased government funding, the development of operating scenarios and contingency plans should the funding fall short of the stated need, and implementation of the sustainability plan to address the expiry of operating agreements and funding for City-owned properties between 2021 and 2024.

The Government of Alberta has provided over \$10 million in capital grant funding for building maintenance relating to the provincially owned portfolio, the CHC portfolios as well as the City-owned community housing portfolio in the 2016-2017 budget. However, due to a large backlog of maintenance requests, CHC has also requested \$6 million in 2018 capital funding from the Province for provincially-owned social housing to continue addressing deferred maintenance conditions. This request only begins to address the deferred maintenance need for all provincially funded portfolios currently estimated at a total of \$75.1 million for all social housing combined.

The risk within the City-owned social housing portfolio has been mitigated in the short term by The City providing \$3.4 million funding of which \$2.7 million represents emergency funding to maintain acceptable condition of units upon vacancy. Annual capital funding on a long-term basis is required to bring the entire City-owned social housing portfolio to an adequate condition and mitigate this risk, particularly because the assets will eventually return to The City once the funding agreements expire.

Since this report was originally presented in 2017 September, CHC presented its 2018 budget submission to the Province which highlighted emerging issues that have significantly heightened the urgency of this risk. The funding gap for 2018 raises concerns of the viability of operations of the provincially funded portfolios. CHC, The City and the Province are working toward a solution to address this.

Rent Revenue

This risk is rated **high** in both likelihood and impact. With a high likelihood of occurrence this risk is now trending up from the prior year largely due to market conditions. Rent revenue has been adversely affected by higher vacancy rates in the low-end-of-market (LEM) segment and lower rent rates from rent-geared-to-income (RGI) tenants in the social housing portfolios due to falling incomes during the economic downturn. To mitigate this risk, CHC has assembled a vacancy task force, developing a vacancy strategy and exploring opportunities for commercial revenue. These initiatives have proven successful in improving the average vacancy rate in low-end of market units from

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13.3% in January 2017 to 5.9% in September 2017. The affordable segment has had a smaller reduction going from 7.8% in January 2017 to 5.1% in September 2017.

Reserve Funds

This risk is rated **high** in both likelihood and impact. Action is being taken through CHC's Sustainability strategy and optimization of net income initiative to identify reserve requirements. In 2018 CHC will focus on drafting a reserve policy, reserve terms of reference and a plan to start building CHC reserves that would mitigate financial risk during economic downturns or other financial impacts.

Condition of Third Party Owned Assets

This risk is rated **high** in both likelihood and impact. Asset condition risk affects mainly the heavily subsidized portfolios such as social housing. As of 2017 November, nearly 10 per cent (237 units) of the 2,723 provincially-owned social housing units are on hold because there are insufficient operating dollars to upgrade units for occupancy and to ensure that the units meet the minimum housing and health standards. CHC is required to meet these minimum standards under the *Residential Tenancies Act*. The province has verbally committed to providing funding to re-open these units, however an agreement has not yet been signed as of the completion of this report. CHC is optimistic that funding will soon be available to upgrade and occupy units on hold upon signing of the agreement. For the long term, CHC's mitigation strategies include: advocating for the establishment of an asset management program for third party owned assets; and establishing a long-term viable operating model for CHC to continue managing provincially owned properties under the legislative framework.

In 2017, The City committed funding towards implementing a building condition assessment program for City-owned affordable housing as part of a strategic asset management program offered by CHC.

For further details on CHC's operating and strategic risks, refer to Attachment 4 of this report which outlines risks identified and presented to CHC's Board of Directors in 2017 May.

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: funding uncertainty, rent revenue, reserve funds and third party owned assets managed by CHC as noted above.

For further details on the top risks, refer to Attachment 4 of this report.

CALGARY HOUSING COMPANY 2016 ANNUAL REPORT

4. Report on internal controls including information technology and systems

On September 19, 2016, ARM Committee, approved CHC's adoption of the *Committee of Sponsoring Organizations (COSO) of the Treadway Commission: Integrated Framework* to guide future internal control environment assessment and reporting. This included an implementation process and schedule to conduct a self-assessment of the current internal control environment at the entity level of CHC.

The *COSO Internal Control – Integrated Framework* 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 used by The City of Calgary and the Calgary Parking Authority.

In 2017, 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. As part of the detailed assessment, CHC Administration also evaluated specifically whether the organization selects and develops general controls over technology and determined that the controls in this area are present and functioning. CHC Administration's conclusion is that the overall system of internal controls is effective. The conclusion is based on the professional experience and judgement of the Administration.

Some opportunities for improvement were identified at the individual internal control level. These individual opportunities for improvement do not impact the overall effectiveness of the system of internal controls. CHC Management team is committed to ongoing continuous improvement of internal control processes and recommends appropriate resources be assigned as required.

For further details on CHC's internal controls evaluation process, refer to Attachment 5 of this report.

5. Most recent financial report including management responses as appropriate

Deloitte LLP completed the external audit of CHC's 2016 financial statements and issued an unqualified audit opinion. In addition, there were:

- No corrected or uncorrected misstatements in the course of the audit
- No unadjusted disclosure deficiencies
- No significant deficiencies in internal controls were identified

CALGARY HOUSING COMPANY 2016 ANNUAL REPORT

For further details on CHC's financial report, audit plan and audit report, refer to Attachments 1, 6, 7 and 8 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 – 2020 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 4 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 September 14, 2017
2. CHC Summary of Governance Structure, Succession Planning and Recruitment Process
3. CHC Audit & Risk Management Committee Members Qualifications and Experience
4. CHC 2017 Analysis of Key Operating and Strategic Risks Impacting the City of Calgary
5. CHC Internal Controls Assessment
6. Deloitte 2016 Service Audit Plan
7. Deloitte 2016 Year End Communication
8. CHC 2016 Financial Statements



AC2017-1230
Attachment 1
#7.1

Annual Report to City Audit Committee

Thursday, September 14, 2017

Agenda

- ❖ Overview
- ❖ Governance structure
- ❖ Key 2017 strategic initiatives
- ❖ 2017 Risk report
- ❖ External Audit Report
- ❖ 2016 Financial highlights



Home is what we do.



Celebrating
Neighbour Day
in Deer Run.



CHC by the numbers

24,979 housing tenants

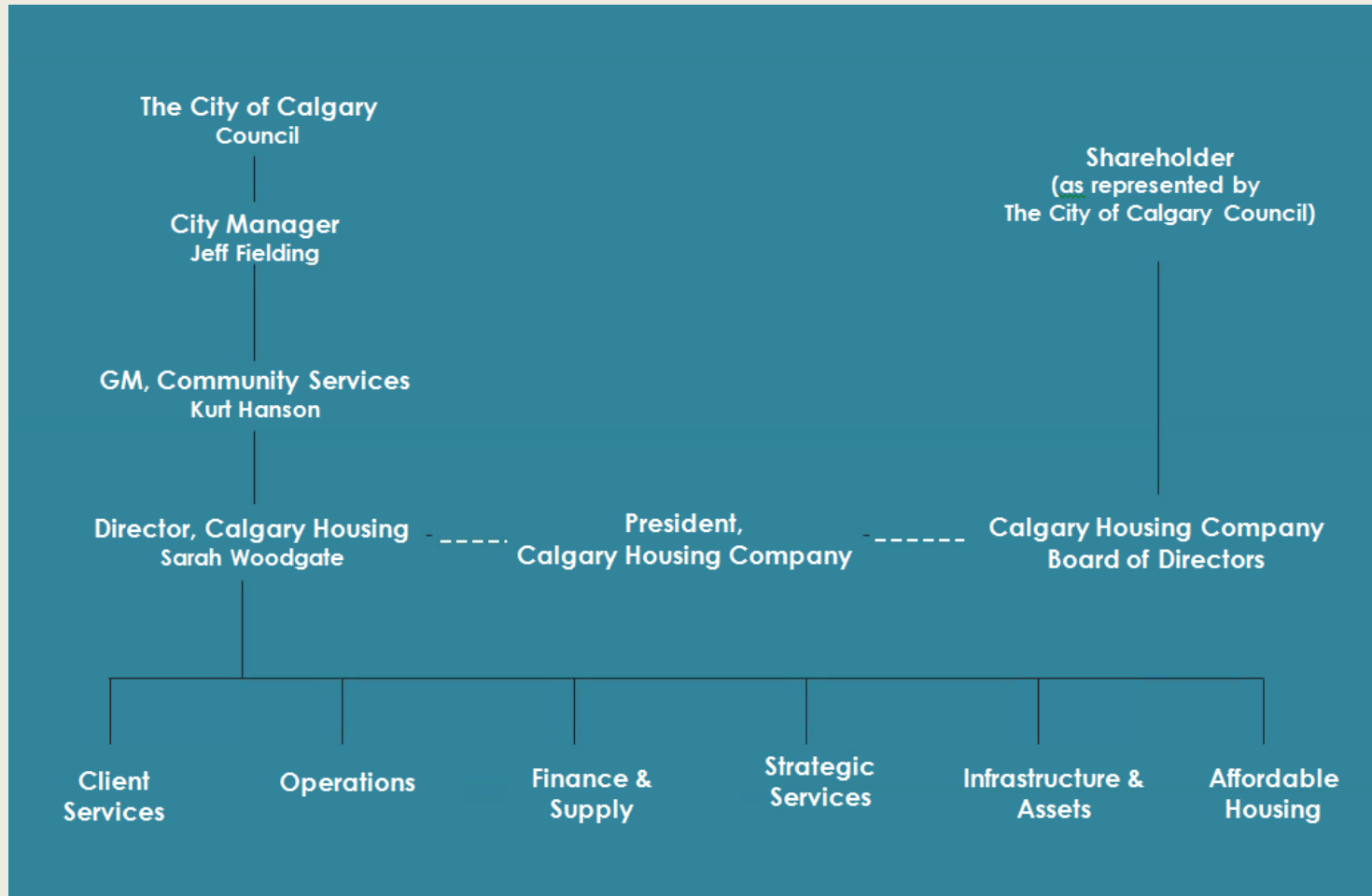
14,060 adults

9,892 children
(17 and under)

1,027 seniors



CHC Governance Structure



CHC Board Composition

- 3 Council members
- Director of Calgary Neighborhoods
- City Treasurer
- 2 Development and Property Management experts
- 3-5 citizen representatives
- 1 tenant representative



CHC's 2016 – 2020 strategic priorities

Deliver quality customer service

Increase financial sustainability
including the optimization of assets

Strengthen relationships with
key stakeholders

Strive for organizational excellence



Integrated Risk Management

Top Rated Risks




Funding uncertainty

Trending 
Likelihood 
Impact 

Rent Revenue

Trending 
Likelihood 
Impact 

Reserve Funds

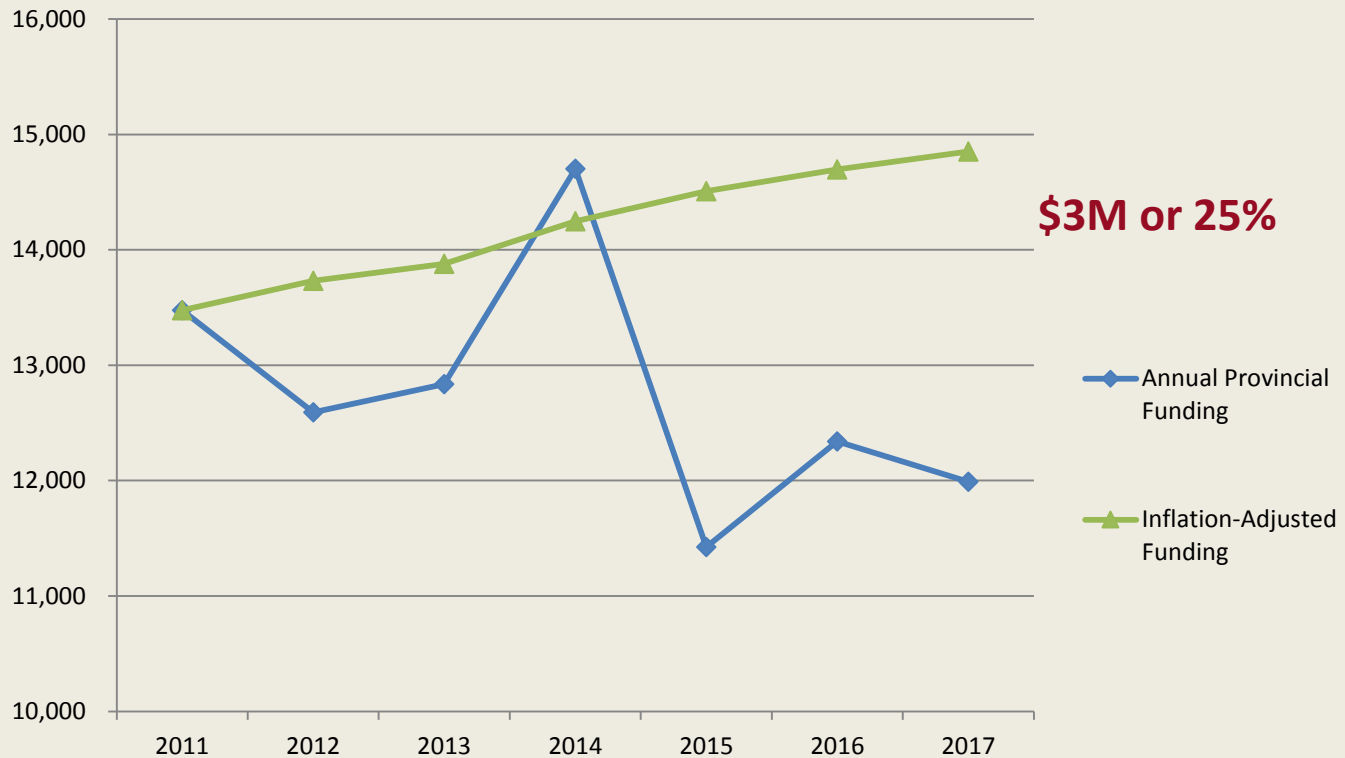
Trending 
Likelihood 
Impact 

Condition of Third Party
Owned Assets

Trending **New Risk**
Likelihood 
Impact 



Social Housing Operating Subsidy



External Audit Report

Deloitte LLP completed the audit of the 2016 financial statements and issued an unqualified audit opinion

- ❖ No corrected or uncorrected misstatements in the course of the audit
- ❖ No unadjusted disclosure deficiencies
- ❖ No significant deficiencies in internal control were identified



Statement of Financial Position

STATEMENT OF FINANCIAL POSITION

(Expressed in Thousands of Dollars)

As at December 31, 2016

	2016	2015
Financial Assets		
Cash (Note 3)	\$ 28,896	\$ 25,887
Receivables		
Rent and others	634	601
Government	2,353	2,761
Assets held for sale (Note 2)	-	750
	<u>31,883</u>	<u>29,999</u>
Liabilities		
Accounts payable and accrued liabilities	6,188	6,869
Unearned tenant rent revenue	1,670	2,174
Deferred grants (Note 3)	8,480	721
Payable to government	1,662	1,271
Rent supplement advance (Note 4)	4,255	4,255
Tenants' security deposits	1,089	992
Mortgage payable (Note 5)	16,476	15,206
Employee benefit obligation (Note 6)	1,813	1,723
	<u>41,633</u>	<u>33,211</u>
NET DEBT	9,750	3,212
Non-Financial Assets		
Tangible capital assets (Note 7)	102,181	92,324
Prepaid expenses	121	113
	<u>102,302</u>	<u>92,437</u>
ACCUMULATED SURPLUS (Note 10)	\$ 92,552	\$ 89,225

Cash	2016	2015
Restricted	24,894	21,118
Unrestricted	<u>4,002</u>	<u>4,769</u>
Total	28,896	25,887

Mortgages Payable	16,476	15,206
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Tangible Capital Assets	102,181	92,324
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Statement of Operations

STATEMENT OF OPERATIONS (Expressed in Thousands of Dollars)

For the year ended December 31, 2016

	BUDGET	2016	2015
REVENUE			
Rent revenue	\$ 49,803	\$48,040	\$50,222
Government transfers			
Shared cost agreements	13,734	13,938	13,654
Restricted funds	-	5,589	1,007
Debt interest rebates	123	239	169
Rent supplement	19,982	18,817	20,198
Interest income	348	318	337
Insurance recoveries (Note 12)	-	893	505
Miscellaneous	1,196	1,190	1,341
	<u>85,186</u>	<u>89,024</u>	<u>87,433</u>
EXPENSES			
Administration	7,407	6,419	6,182
Amortization of tangible capital assets	2,866	3,086	2,860
Debt servicing	559	518	572
Maintenance	15,048	16,022	16,320
Property operations	21,666	20,829	20,193
Rent supplement	20,783	19,531	20,932
Taxes and leases	3,248	3,278	3,052
Utilities	10,817	9,500	9,284
Insurance (Note 12)	-	402	948
Restricted expenses (Note 11)	-	153	57
	<u>82,394</u>	<u>79,738</u>	<u>80,400</u>
EXCESS OF REVENUE OVER EXPENSES BEFORE OTHER ITEMS	2,792	9,286	7,033
OTHER ITEMS			
Return to The City of Calgary	(844)	(2,054)	(2,144)
Loss on asset disposal (Note 7)	-	(55)	-
Revaluation adjustment of asset held for sale	-	-	(190)
	<u>(844)</u>	<u>(2,109)</u>	<u>(2,334)</u>
SURPLUS	<u>\$ 1,948</u>	<u>\$ 7,177</u>	<u>\$ 4,699</u>

Rent Revenue	Budget	2016	2015
	49,803	48,040	50,222

Rent Supp. Revenue	Budget	2016	2015
	19,982	18,817	20,198

Admin Expense	Budget	2016	2015
	7,407	6,419	6,182

Maint. Expense	Budget	2016	2015
	15,048	16,022	16,320

Return to The City	Budget	2016	2015
(City owned, CHC managed portfolios)	(844)	(2,054)	(2,144)



Capital Expenditures

	2016 Budget	2016 Actual	2015 Actual
Calhome Owned Assets			
Building Acquisition	\$0	\$11,541	\$0
Building betterments	2,441	1,320	2,718
IT	1,519	0	127
Other	305	138	117
	\$4,265	\$ 12,999	\$ 2,962
Provincially Owned Assets			
Building betterments	-		\$ 2,653





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:**
- 3 Members of Council (one of whom will be Chair)
 - 1 CHC Resident Citizen
 - 3 to 5 Citizen Representatives
 - 2 Development and Property Management Experts
 - 1 Director, Community & Neighbourhood Services
 - 1 City Treasurer

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, the systems of internal controls that the President and the Corporate Finance & Risk Officer (CFRO) have established, and the audit process.

To oversee the development, implementation and monitoring of appropriate corporate risk strategies relative to legislative compliance, legal/statutory and business requirements.

The committee will undertake the following activities in relation to the external audit:

- Provide an open avenue of communication between the auditor and the Board;
- Review the external audit plan prior to commencement of the audit;
- Consider and review with the President, the CFRO and the auditor:
 - The adequacy of the Corporation's internal controls including computerized information system controls and security;
 - Management letters and any related significant findings and recommendations of the auditor together with the President and CFRO responses.
- Review with the President, the CFRO and the auditor at the completion of the annual examination:
 - The Corporation's annual financial statements;

CHC Summary of Governance Structure, Succession Planning and Recruitment Process

- Any changes in accounting policies and practices, and compliance with accounting standards;
 - Major judgmental areas;
 - Significant adjustments arising from the audit;
 - The findings of the auditor's audit of the financial statements and their report;
 - Any significant changes to the audit plan;
 - Any other matters related to the conduct of the audit that are to be communicated to the Committee under public sector accounting standards.
- Review other published documents and consider whether the information contained in them is consistent with the information contained in the annual financial statements;
- 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.

The committee will undertake the following activities with regards to financial statements and other financial information

- Review and recommend to the Board for approval the annual Operating and Capital budgets of the Corporation;
- Ensure that the annual Operating and Capital budgets of the Corporation support the approved Business Plan of the Corporation;
- Review, approve and provide to the Board the quarterly financial statements of the Corporation;
- Review and recommend to the Board for approval the annual audited Financial Statements and other financial information that will be provided to the Shareholder;
- Review and recommend to the Board for approval the four-year Financial Forecast (on cycle).

The committee will undertake the following activities in relation to risk management:

- To develop, implement and monitor a risk management framework for CHC;
- 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;

CHC Summary of Governance Structure, Succession Planning and Recruitment Process

- 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.

COMMUNITY AND RESIDENT RELATIONS COMMITTEE

MANDATE

- Promotes the development and implementation of systems to foster resident engagement in their housing and communities;
- Ensures that the trends on changing needs of residents and community are identified for review and action by the Board and/or designated staff;
- Reviews and develops policies relating to resident social support and outreach programs;
- Monitors reports on the levels and quality of housing, social, and educational services provided to residents;
- Develops and reviews strategies that foster community inclusion and advance the goals and objectives of CHC;
- Fosters and promotes community partnerships and projects.

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;
- Monitors and seeks to develop appropriate external relationships with the major stakeholders of CHC, including the Federal, Provincial and Municipal Governments;

CHC Summary of Governance Structure, Succession Planning and Recruitment Process

- 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 follow 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;
- Develop the tools and timelines (posting, selection criteria, interview questions, etc.);
- Publicize the opportunity;
- Vet the applications and conduct interview; and
- Bring forward a slate of recommendations at the Annual Shareholder Meeting.

CHC Audit and Risk Management Committee Members' Qualifications and Experience

Mr. Peter Cheung, CA (Chair)

Mr. Cheung has been the Chief Financial Officer and Corporate Secretary of Ceiba Energy Services Inc., a publicly traded energy service company, since June 2014. Prior to that, he was Chief Financial Officer and Vice President, Finance of Petrobank Energy & Resources Ltd. (now named Touchstone Exploration Inc.), a publicly traded oil and gas company, for three years. Mr. Cheung's professional experience includes receiving his Chartered Accountant designation with Collins Barrow Chartered Accountants, investment banking at RBC Capital Markets (RBC Royal Bank) and Treasurer at Pengrowth Energy and Compton Petroleum. Mr. Cheung has also held the position of Audit Chair in several public and non-profit organizations. Mr. Cheung received his Bachelor of Commerce with Distinction from the University of Calgary and holds CA and CA-F (Chartered Accountant - Finance specialization) designations from the Institute of Chartered Accounts of Alberta.

Ms. Carla Male, CPA, CA

Ms. Male is the City Treasurer/Director of Finance for The City of Calgary. In her current role, she is responsible for the Finance functions including multi-year planning, budgeting, reporting, treasury, taxation and customer services, regulatory affairs, long-term financial strategy, policy and advisory support to the various City business units. She serves on numerous committees within The City. Ms. Male's professional experience includes receiving her Chartered Accountant designation with KPMG, and working with a number of non-profit and governmental organizations, including the Calgary Board of Education. She earned a Bachelor of Commerce degree from the University of Calgary and also holds a CPA, CA designation. Ms. Male has also served on the board of several non-profit organizations. She is currently the Vice-Chair of the Audit Committee of Girl Guides of Canada – Guides du Canada.

Mr. Murray Tait

Mr. Tait is recently retired, and has over 25 years experience in commercial property matters, including financial and legal aspects of commercial property operation, development, acquisition and financing. In his last role, he was Executive Vice-President of a private company that owned approximately 2 million square feet of retail and office space in Alberta and Saskatchewan. He has a Bachelor of Commerce degree and an LL.B, both from the University of Alberta.

CHC Audit and Risk Management Committee Members' Qualifications and Experience

Mr. Jeremy Villas, B. Comm

Mr. Villas is a Liaison Officer with the Canada Revenue Agency (CRA). In his current role, he is responsible for providing support and guidance to small to medium-size businesses including books and records review, income taxation, industry benchmarks, regulatory compliance, and customer services. Presently, he serves on several committees, including CHC's Audit and Risk Management and Development and Asset Management committees. He was recently appointed as Chair of the Southern Alberta Tax Services Office (SATSO) Young Professionals Network (YPN) at CRA. In addition, he was past Vice-Chair of AUPE local 47. He earned a Bachelor of Commerce degree from the University of Calgary, Haskayne School of Business, and is also currently working towards a (CPA) designation.

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

The annual Integrated Risk Management report helps Administration to increase its ability to understand and manage organizational risks for the Corporation more effectively. 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
- Develop detailed mitigation/action plan with timelines in addition to an overall mitigation plan for all risks determined to be highest

In preparation of its annual IRM report, CHC's management team met on separate occasions and evaluated all current identified risks to achieving the business plan goals as part of the CHC Strategic Plan. Risks were rated in terms of likelihood of occurrence in year 2017 and the significance of their impact on the operational status of CHC. The highest likelihood and highest impact rated risks are continually being monitored and have detailed risk mitigation action plans in place.

The principal risks to CHC and details of the mitigation strategies carried out by Administration to prepare for their impact and likelihood of occurrence are outlined in the explained in CHC Risk Analysis. The highest identified risks relate to reduction in 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. The Integrated Risk Management report is presented annually to the Board for information.

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.







Likelihood

Low	Medium	High	
	Vacancy Rates	Funding Uncertainty Third Party Owned Assets Managed by CHC Rent Revenue Reserve Funds	High
Emergency Response Exposure to Hazards Recruitment & Retention of Staff Data Security ESS Implementation Tenant Security	Continuity of Business Operations Damage to Brand CHC Owned Assets Condition Cost of Externally Sourced Services Internal Fraud		Medium
Tenant Misappropriation Provincial Operating Agreements			Low

Impact

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.

Analysis of CHC's top 4 Risks

Risk Category	2015 Risk Map	Change	2016 Risk Map	Change	2017 Risk Map	Trend Explanation
Rent Revenue	Likelihood: Low Impact: Low		Likelihood: High Impact: Medium		Likelihood: High Impact: High	<ul style="list-style-type: none"> Economic downturn and high unemployment leading to higher vacancy rate CHC experiencing difficulties in attracting and retaining tenants Rent revenue decreasing due to downturn in the economy
Reserve Funds	Likelihood: Medium Impact: Medium		Likelihood: Medium Impact: Medium		Likelihood: High Impact: High	<ul style="list-style-type: none"> Insufficient operating and capital reserves to support lifecycle needs, replacement of assets or meet emergencies Economic situation limiting funding for operating and capital projects
Funding Uncertainty	Likelihood: High Impact: High		Likelihood: High Impact: High		Likelihood: High Impact: High	<ul style="list-style-type: none"> Significant advocacy efforts have resulted in infusion of provincial and federal capital dollars, but CHC has experienced cuts to operating dollars. This places CHC at risk of being in a deficit at year end unless cost savings are identified and implemented. Unsteadiness in the municipal, provincial and federal political landscape heightened risk of funding uncertainty
3 rd Party Owned Assets Managed by CHC	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Likelihood: High Impact: High	<ul style="list-style-type: none"> Current operating agreements do not identify asset management within the scope of CHC contracted services Asset condition assessments and capital investment prioritization for third-party owned portfolios are not currently in place

Risk 1

Rent Revenue

CHC relies on rent revenue from its various properties across its portfolios to support its operational and financial viability. The current Alberta economic downturn has resulted in rental vacancies increasing. Private landlords are offering reductions, and other incentives to maintain tenants and attract others to avoid huge vacancies. This activity has affected the ability of CHC to attract and retain tenants in our Low End of Market (LEM) rentals. As of February 28, 2017, the vacancy rate for LEM units was 13.2%.

A significant revenue loss would impact CHC's ability to maintain its assets, meet its financial obligations, and continue day-to-day services.

Management Mitigation Strategy

CHC monitors all rent revenues and vacancy rates weekly to ensure optimization of revenue based on CHC's mandate. The information collected is presented via performance measure reports to the CHCMT at the regular meetings. CHC's rent revenue initiatives are focusing on:

- Financial modeling completed for the top buildings with highest vacancies. Implemented rent adjustments and explored mixed model to improve vacancies.
- Commercial revenue opportunities are being explored, such as Lumino daycare
- Increase awareness and initiatives in rent collection practices
- Dedicated marketing and leasing staff from CHC have been assigned to some specific buildings to improve rental performance and sustain revenues in Social and Affordable Housing units.
- A business process review project has been completed to aggressively address reducing vacancies and to prevent further vacancy losses.
- Implemented a vacancy task force with the goal to create tactics to reduce vacancy and increase rent revenues. A list of recommendations has been presented and approved by the CHCMT.
- Vacancy reduction and rent revenue optimization is being improved through creation of an issues log, rent adjustment, property analysis, and marketing strategies.

In addition, CHC is taking the following steps to mitigate organizational rent revenue loss:

- Monitor economic and social trends that could impact CHC revenue;
- Reduce paperwork requirement for new applicants or existing tenants;
- Actively pursue partnerships with agencies in order to offer units to their clients who are transitioning out of programs such as emergency shelters or second stage shelters. For example, Servants Anonymous, Brenda Strafford Society, and Sonshine Society to name a few;
- Increase advertising such as print ads, mobile signs, and property signage;
- Develop marketing plans for buildings with higher vacancies;
- Monthly monitoring of rent revenues and vacancies status.

Risk 2

Reserve Funds

CHC currently has insufficient operating and capital reserves to support projected life cycle maintenance, redevelopment and emergency needs.

Management Mitigation Strategy

- Through the completion of Phase I and II of the Sustainability project CHC has more awareness of actual reserve requirements
- Action is being taken through optimization of net income initiatives to increase revenue and reduce operating expenditures
- CHC is implementing an asset management program to define requirements to bring units to legislative requirements and availability of capital to fund these requirements. How this strategy is implemented varies across the different housing portfolios CHC owns and manages.
- For the Calhome owned portfolios the Infrastructure & Asset Management group initiated a building conditions assessment program. This program assessed building condition and the anticipated capital and non-recurring funding requirements for individual building components. These funding requirements define the required lifecycle reserve. For 2017 and 2018 these lifecycle requirements have been funded by provincial grants and capital funding and City of Calgary capital allocations.

Risk 3

Funding Uncertainty

In addition to rent revenue, CHC relies heavily on government transfers to fund Provincial and City owned portfolios. Funding for the various Provincial and City Portfolios are identified in the operating agreements; however, many of those agreements are outdated and do not provide for sufficient inflationary increases and maintenance requirements to be met. Recent and continuous changes experienced in the municipal, provincial and federal political landscape as well as the expiration of the operating agreement pose a major risk to the funding of provincial and City owned portfolios. As well, the recent Provincial Government budget with a forecasted deficit of \$10.4 billion in 2016-2017 and an expected \$10.1 billion deficit in 2018-2019 with no clear indication as to when the deficits will cease makes funding uncertainty even higher for CHC.

Management Mitigation Strategy

CHC maintains a relationship with senior levels of government to anticipate current and future changes in government funding that are related to the provincial and city portfolios. CHC senior management has worked hard to advocate for increased funding to the CHC provincial and city portfolio through meetings, correspondence, phone discussions, presentations and portfolio tours and explanations.

The Sustainability project's purpose is to determine how CHC can meet its financial obligations given the anticipated changes in the future. CHC is in phase II of the Sustainability project which is designed to evaluate the impacts to affordable housing when operating agreements end. As provincial

operating agreements are starting to expire, so will the funding CHC receives. Thus, projects need to be self sustainable and CHC needs to implement strategies to close the gap between funding, operating costs and operating reserves.

Risk 4

Asset Conditions

As the portfolio ages, life cycle maintenance needs to be appropriately identified, funded and implemented or there will be an increased risk to tenant health and safety, unmet service levels and/or the reduced lifespan of the housing stock. As well, construction methods and materials incorporated in older housing stock can either represent an environmental safety or health risk if inappropriately managed or a financial risk due to energy inefficiency.

Management Mitigation Strategy for Calgary Housing Company Owned Assets

CHC is implementing an asset management program described in the “Reserve Fund” risk category. This program defines a process for identifying lifecycle funding requirements for the Calhome owned portfolios. This program will be further supported through the implementation of an Enterprise System Solution which will include a required database to support hazardous substance management is anticipated to be incorporated into the scope of a new system implementation project being initiated within CHC.

As investments continued to be prioritized over 2015 and 2016 the condition and expected life of CHC assets has continued to improve. Various building envelope improvement projects have been completed or underway in order to address all identified deterioration and reduce the associated risk of unplanned failure at these properties. All code required inspections and investments have been maintained. The asset management program integration into the planning, operating, maintenance activities, as well as the Capital renewal program, will realize the real-time condition of the asset base under CHC direction.

Management Mitigation Strategy for Third Party Owned Assets Managed by Calgary Housing Company

Current operating agreements between Calgary Housing Company (CHC) and City and Provincial property owners do not identify asset management within the scope of CHC contracted services. This contracted service limitation had been identified as a risk to CHC in an audit of the CHC asset management program conducted by The City of Calgary Auditor and was reported to City Council. The CHC management response to this finding is to send a letter identifying this limitation to The City and provincial counterparts and to partner with the property owners to establish asset management programs on a fee for service basis. This asset management program would then 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.

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 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.

Reviewing the effectiveness of internal controls is an essential part of the CHC Board of Directors responsibilities while management is accountable to the Board of Directors for developing, operating and monitoring the system of internal control and providing assurance to the Board that it has done so.

The integrated internal control framework of the Committee of Sponsoring Organizations (COSO) of the Treadway Commission: the COSO Internal Control – Integrated Framework 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.

Internal control is defined as “a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.” (COSO Internal Control-Integrated Framework)

Internal control is a means by which an organization's resources are directed, monitored, and measured, thus playing an important role in detecting and preventing fraud and protecting the organization's resources, both physical and intangible.

KEY CONCEPTS

The COSO 2013 framework involves several key concepts:

- *Geared to the achievement of objectives* in one or more separate but overlapping categories - operations, reporting and compliance.
- *A process* consisting of ongoing tasks and activities - a means to an end, not an end in itself.
- *Effected by people*. It's not merely policy, manuals, and forms, but people and the actions they take at every level of an organization to affect internal control.

- *Able to provide only reasonable assurance* - but not absolute assurance, to an entity's management and board of directors.
- *Adaptable to the entity structure* – flexible in application for the entire entity or for a particular subsidiary, division, operating unit, or business process. (*COSO Internal Control-Integrated Framework*)

COSO 2013 FRAMEWORK CUBE

In an effective internal control system, there is a direct relationship between *objectives*, which are what an entity strives to achieve, *components*, which represent what is required to achieve the objectives, and the *organizational structure* of the company. This relationship is depicted in the form of a cube.



- The three categories of objectives: operations, reporting, and compliance, are represented by the columns.
- The five components: Control Environment, Risk Assessment, Control Activities, Information & Communication and Monitoring Activities, are represented by the rows.
- An entity's organizational structure is represented by the third dimension

There are seventeen principles supporting the components of internal control. In order for a company to achieve an effective internal control it must apply all principles.

The 17 principles supporting the components of internal control are outline in the table below:

Component	Principles
Control Environment	<ol style="list-style-type: none"> 1. Demonstrates commitment to integrity and ethical values 2. Exercises oversight responsibility 3. Establishes structure, authority, and responsibility 4. Demonstrates commitment to competence 5. Enforces accountability
Risk Assessment	<ol style="list-style-type: none"> 6. Specifies suitable objectives 7. Identifies and analyzes risk 8. Assesses fraud risk 9. Identifies and analyzes significant change
Control Activities	<ol style="list-style-type: none"> 10. Selects and develops control activities 11. Selects and develops general controls over technology 12. Deploys through policies and procedures
Information and Communication	<ol style="list-style-type: none"> 13. Uses relevant information 14. Communicates internally 15. Communicates externally
Monitoring Activities	<ol style="list-style-type: none"> 16. Conducts ongoing and/ or separate evaluations 17. Evaluates and communicates deficiencies

EFFECTIVE INTERNAL CONTROL EVALUATION CRITERIA

According to COSO, an effective system of internal control reduces, to an acceptable level, the risk of not achieving an objective relating to one, two, or all three categories of objectives – that is, operations, reporting and compliance. It requires that (i) *each of the five components* of internal control and relevant principles *is present and functioning*, and that (ii) the five components are *operating together in an integrated manner*.

“Present” refers to the determination that the components and relevant principles exist in the design and implementation of the system of internal control to achieve specified objectives.

“Functioning” refers to the determination that the components and relevant principles continue to exist in the operations and conduct of the system of internal control to achieve specified objectives.

“Operating together” refers to the determination that all five components collectively reduce, to an acceptable level, the risk of not achieving an objective. Components should not be considered discretely; instead, they operate together as an integrated system. Components are interdependent with a multitude of interrelationships and linkages among them, particularly the manner in which principles interact within and across components.

A *control gap* is a difference between expected and actual performance of the internal controls. It occurs when there are either insufficient or no actions taken to avoid or mitigate a significant risks. It occurs for various reasons: deficiency in control, evidence, standards, performance, practice, and technology.

A *major deficiency* is defined as an internal control deficiency or combination of deficiencies that severely reduces the likelihood that the entity can achieve its objectives. A major deficiency exists when management determines that a component and one or more relevant principles are not present and functioning or that components are not operating together.

In September 2016 at the ARM committee meeting CHC Administration recommended that management conduct a top-down assessment of critical environment controls. With the support of the CHC Management Team, a self assessment was initiated to allow CHC Administration to disclose details of its current internal controls and identify any weak areas which can be improved in the future operating and strategic plans.

CHC STRATEGIC ALIGNMENT

Reviewing the effectiveness of internal control is an essential part of the Board’s responsibilities while management is accountable to the Board for developing, operating and monitoring the system of internal control and providing assurance to the Board that it has done so.

Also, as internal control is designed to mitigate risk to the organization, auditors care about risk and the riskier an item is, the more it gets tested. Through better internal controls, organizations can control and manage risk, and possibly have less risk overall. Auditors conduct the organizational audits in areas depending on the results of an internal risk assessment determined by the quality of the internal controls. Having effective internal controls implemented could help auditors provide organizations with better audit reports conducted in less time and cost effective.

CHC's Audit and Risk Management (ARM) Committee has a mandate "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 shareholder and to the public; and
- III. The systems of internal controls that the President and 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." (*Audit and Risk Management Committee's Terms of Reference*)

The ARM Committee also requires the "President and the Corporate Finance and Risk Officer provide appropriate assurances with compliance with key regulatory requirements and internal control practices." (*Audit and Risk Management Committee's Terms of Reference*)

Developing an effective internal control environment framework aligns with CHC's Strategic Priority to Strive for Organizational Excellence. Through effective internal controls, CHC Administration is able to provide assurance to the CHC Board of Directors that it makes sound operating decisions, in all aspects of business, has reliable reporting and is compliant with all applicable laws and regulations.

Every operating area of CHC plays an important role in the organization's internal control and everyone has a shared accountability and individual responsibility to assess, monitor, report and communicate the status of the CHC's internal control environment. An internal control framework assessment will help promote a positive economic impact by reducing the likelihood of unnecessary costs and misappropriation of funds. Further it will help support transparency on the operational and financial processes while building a strong workforce that is informed, aware and knowledgeable in internal control implementation and execution.

INTERNAL CONTROLS OBJECTIVES

Overall, the internal control objectives:

- At organizational level, relate to the reliability of financial reporting, timely feedback on the achievement of operational or strategic goals, and compliance with laws and regulations.
- At the specific transaction level, refer to the actions taken to achieve a specific objective. Internal control procedures reduce process variation, leading to more predictable outcomes.

CLASSIFICATION OF CONTROLS

Hard Controls refer to policies, procedures, and systems designed to prevent fraud and error undertaken by the organization and its staff to mitigate risk. For example: authorization, separation of duties, reconciliation, documentation, security of assets, etc.

Soft Controls refer to competency, integrity and commitment to honesty and accuracy by employees, managers, and business partners. For example: organizational structure, commitment to competence, management philosophy and operating style, etc.

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.

This is the first step in implementing the COSO Internal Control - Integrated Framework to ensure:

- Effectiveness and efficiency of operations
- Reliability of financial and non-financial reporting;
- Compliance with applicable laws and regulations; and adequate safeguard of public resources.

The next steps are for CHC Administration to provide annual updates on internal control existence and effectiveness at CHC to the ARM Committee.

Project Scope:

1. Establish Internal Control **evaluation criteria** for when a control is considered to be functioning
2. Engage with operational divisions to **identify existing internal controls**
3. Engage operational divisions to **conduct self-assessment** of internal controls. This will include best management judgement information on the effectiveness of these controls and any further actions planned to improve these controls and mitigate any identified deficiencies.
4. **Identify priority areas** that require control protocols. Depending on the results of the assessment, any significant deficiencies or weaknesses, including addressing existing controls enhancements, will be addressed in the next phase.
5. Scope the work of a City or consultant resource to test CHC internal controls in **next phase** if instructed by ARM committee.
6. **Present report** to ARM and Board on the existence and effectiveness of internal controls at CHC.

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 based on the best management judgement information on the effectiveness of these controls and any further actions planned to improve these controls and mitigate any identified deficiencies. This is a top-down assessment of critical internal environment controls

Internal Control Evaluation criteria used when completing the 2017 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. For example: formal and informal written internal policies, procedures, manuals
- Consolidated the 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 Q3 2018. 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 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.

Some opportunities for improvement were identified at the individual internal control level. These individual opportunities for improvement do not impact the overall effectiveness of the system of internal controls. CHC Management team is committed to ongoing continuous improvement of internal control processes and recommends appropriate resources be assigned as required.



2016 Audit service plan Calhome Properties Ltd.

For the year ending December 31, 2016
Presented to the Audit and Risk Management Committee
November 7, 2016

Focused
on your future



Deloitte LLP
700, 850 - 2 Street SW
Calgary, AB T2P 0R8
Canada

Tel: 403-267-1700
Fax: 403-213-5791
www.deloitte.ca

October 28, 2016

To the Audit and Risk Management Committee of Calhome Properties Ltd.

Dear Audit and Risk Management Committee:

2016 Audit service plan

We are pleased to provide you with our audit service plan for Calhome Properties Ltd. ("Calhome") for the year ending December 31, 2016. This document describes the key features of our plan including our audit scope and approach, our planned communications with you, our team and an estimate of our fees.

Our commitment to you is straightforward: we will provide you with outstanding professional services delivered by an experienced and dedicated team of specialists. At Deloitte, we are committed to helping Calhome grow and successfully achieve its objectives.

We look forward to discussing our audit service plan with you and answering any questions you may have.

Yours truly,

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

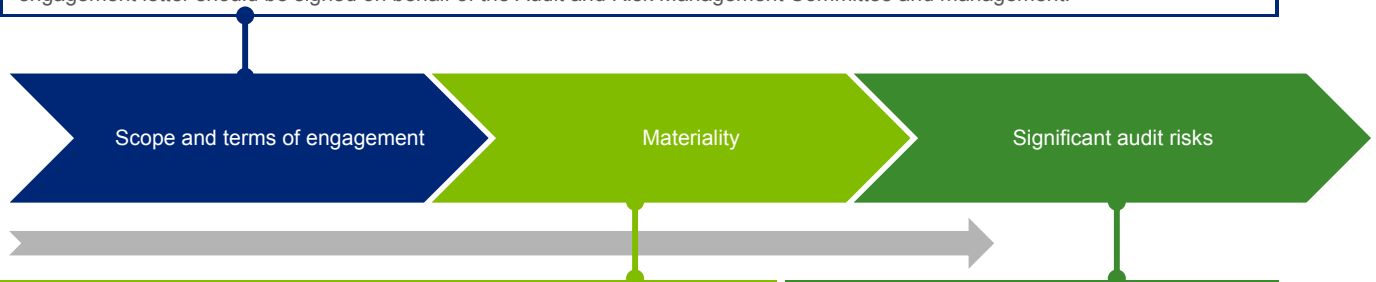
Chartered Professional Accountants

Our audit explained

Audit scope and terms of engagement

We have been asked to perform an audit of Calhome's financial statements (the "financial statements") in accordance with Canadian public sector accounting standards ("PSAS") as at and for the year ending December 31, 2016. Our audit will be conducted in accordance with Canadian generally accepted auditing standards ("GAAS").

The terms and conditions of our engagement are described in the draft engagement letter, which is included in Appendix 5. Our engagement letter should be signed on behalf of the Audit and Risk Management Committee and management.



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 budgeted operating expenditures. Our preliminary estimate of materiality for the year ending December 31, 2016 has been set at \$2,400,000 (2015, \$2,400,000).

We will inform 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 will ask that any misstatements be corrected.

Significant audit risks

Through our preliminary 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.

Fraud risk

We will develop our audit strategy to address the assessed risks of material misstatement due to fraud. Determining this strategy will involve:

1. Asking people involved in the financial reporting process about inappropriate or unusual activity.
2. Testing a sample of journal entries throughout the period as well as adjustments made at the end of the reporting period.
3. Identifying and obtaining an understanding of the business rationale for significant or unusual transactions that are outside the normal course of business.
4. Evaluating whether your accounting policies may be indicative of fraudulent financial reporting resulting from management's effort to manage revenue recognition.
5. Evaluating whether the judgements and decisions related to management estimates indicate a possible bias.
6. Incorporating an element of unpredictability in selecting our audit procedures.

We will also ask 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.

If we suspect fraud involving management, we will immediately inform the Audit and Risk Management Committee of our suspicions and discuss the nature, timing, and extent of audit procedures necessary to complete the audit.

Complete engagement reporting

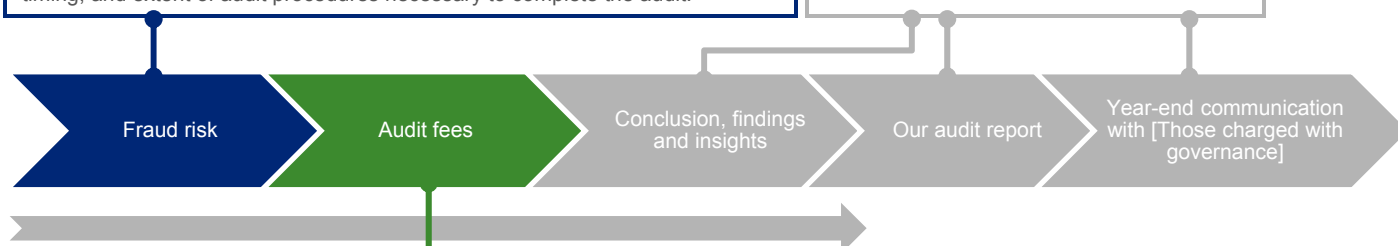
Audit reporting

Under Canadian GAAS, we are required to communicate certain matters to the Audit and Risk Management Committee. The primary reports and formal communications through which we will address these matters are:

- This Audit Service Plan
- Year End Communication, and
- Our Auditor's Report on the financial statements.

Business Insights

We will provide you with insights into the condition of your business and offer meaningful suggestions for improvement, where applicable,



Audit fees

We propose audit fees of \$74,620 (2015, \$72,800). In addition to conducting the 2016 audit of the Financial Statements we will also perform specified auditing procedures relating to the special government reports. The fee associated with these reports will be \$3,400 per report (2015, \$3,300 per report). These fees exclude the 7% administration fee and GST.

Significant audit risks

During our risk assessment, we identified some significant audit risks that will require special audit consideration. These risks, together with our planned responses, are described below.

Management override of controls

Audit risk	Our proposed audit response
<p>Assurance standards include the presumption of a significant risk of management override of controls.</p> <p>Management is in a unique position to override internal controls, which could allow manipulation of the accounting records that could result in financial statements that are materially misstated.</p>	<ul style="list-style-type: none"> • We will engage in periodic fraud discussions with certain members of senior management and others within Calhome's Audit and Risk Management Committee. • We will consider the potential for bias in judgments and estimates, including performing retrospective analysis of significant accounting estimates. • We will evaluate the business rationale for any significant unusual transactions. • We will evaluate Calhome's fraud risk assessment and consider entity-level internal controls and internal controls over the closing and reporting process. • We will test journal entries that exhibit characteristics of possible management override of controls identified.

Revenue recognition

Audit risk	Our proposed audit response
<p>There may be an increased risk of material misstatement relating to the occurrence and cut off of the following revenue streams: Rent revenue, Shared cost agreements and Rent supplement.</p>	<ul style="list-style-type: none"> • We will perform detail testing of revenue transactions to ensure that occurrence and cut-off have been appropriately accounted for the year ending December 31, 2016. • We will make inquiries of management and test control activities involving management's process for accounting for revenue transactions and determining when the revenue recognition criteria have been met.

As we perform our audit procedures, we will inform you of any significant changes to the significant risks discussed above and the reasons for those changes.

Appendix 1 – Audit approach

Deloitte's audit approach is a systematic methodology that enables us to tailor our audit scope and plan to address the unique issues facing Calhome.

The following steps are not necessarily sequential nor are they mutually exclusive. For example, once we have developed our audit plan and the audit is being performed, we may become aware of a risk that was not identified during the planning phase. Based on that new information, we would reassess our planning activities and adjust the audit plan accordingly.

1. Initial planning

The Deloitte audit approach begins with an extensive planning process that includes:

- Assessing your current business and operating conditions
- Understanding the composition and structure of your business and organization
- Understanding your accounting processes and internal controls
- Understanding your information technology systems
- Identifying potential engagement risks
- Planning the scope and timing of internal control and substantive testing that take into account the specific identified engagement risks

2. Assessing and responding to engagement risk

Our Audit approach combines an ongoing identification of risks with the flexibility to adjust our approach when additional risks are identified. Since these risks may impact our audit objectives, we consider materiality in our planning to focus on those risks that could be significant to your financial reporting.

Consideration of the risk of fraud

When we identify a misstatement or control deficiency, we consider whether it may be indicative of fraud and what the implications of fraud and significant error are in relation to other aspects of the audit, particularly the reliability of management representations.

In determining our audit strategy to address the assessed risks of material misstatement due to fraud, we will:

- Assign and supervise personnel, taking into account the knowledge, skill and ability of individuals with significant engagement responsibilities and our assessment of the risks of material misstatement due to fraud for the engagement.
- Evaluate whether Calhome's selection and application of accounting policies, particularly those related to subjective measurements and complex transactions, may be indicative of fraudulent financial reporting resulting from management's effort to manage earnings.
- Incorporate an element of unpredictability when selecting the nature, timing and extent of our audit procedures.

We will inquire directly of the Audit and Risk Management Committee regarding:

- Its views about the risk of fraud.
- Whether it has knowledge of any actual or suspected fraud affecting Calhome.
- The role it exercises in the oversight of fraud risk assessment and the establishment of mitigating controls.

We will also inquire if the Audit and Risk Management Committee is aware of tips or complaints regarding Calhome's financial reporting and, if so, the Audit and Risk Management Committee's responses to such tips and complaints and whether it is aware of matters relevant to the audit, including, but not limited to, violations or possible violations of laws or regulations.

If we suspect fraud involving management, we will communicate these suspicions to the Audit and Risk Management Committee and discuss the nature, timing, and extent of audit procedures necessary to complete the audit.

Information technology

An important part of our audit planning process involves gaining an understanding of:

1. The importance of the computer environment relative to the risks to financial reporting.
2. The way in which that environment supports the control procedures we intend to rely on when conducting our audit.
3. The computer-based information that supports our substantive procedures.

The objective of our review of computer controls is to identify potential areas of risk and assess the relevance, reliability, accuracy and completeness of the data produced by the systems. We also assess the operating effectiveness of the computer environment and determine the reliability of the financial information used to generate the financial statements. To accomplish this, we gain an up-to-date understanding of your organization's computer processing environment and our understanding of the relevant general computer controls. We then conduct tests to support our conclusion on the operating effectiveness of controls considered relevant to the audit.

3. Developing and executing the audit plan

The performance of an audit includes evaluating the design and determining the implementation of internal controls relevant to the audit, testing the operational effectiveness of the controls we intend to rely on, and performing substantive audit procedures.

Audit procedures

The timing of our audit procedures is dependent upon a number of factors including the need to coordinate with management for the provision of supporting analysis and other documentation. Generally, we perform our audit procedures to allow us sufficient time to identify significant issues early, thereby allowing more time for analysis and resolution.

Tests of controls

As part of our audit, we will review and evaluate certain aspects of the systems of internal control over financial reporting to the extent we consider necessary in accordance with Canadian GAAS. The main objective of our review is to enable us to determine the nature, extent and timing of our audit tests and establish the degree of reliance that we can place on selected controls. An audit of the financial statements is not designed to determine whether internal controls were adequate for management's purposes or to provide assurance on the design or operational effectiveness of internal control over financial reporting.

The extent to which deficiencies in internal control may be identified through an audit of financial statements is influenced by a variety of factors including our assessment of materiality, our preliminary assessment of the risks of material misstatement, our audit approach, and the nature, timing and extent of the auditing procedures that we conduct. Accordingly, we gain only a limited understanding of controls as a result of the procedures that we conduct during an audit of financial statements.

We will inform the Audit and Risk Management Committee and management of any significant deficiencies that are identified in the course of conducting the audit.

Substantive audit procedures

Our substantive audit procedures consist of a tailored combination of analytical procedures and detailed tests of transactions and balances. These procedures take into account the results of our controls tests and are designed to enable us to obtain reasonable assurance that the financial statements are free from material misstatements. To obtain this assurance, misstatements that we identify while performing substantive auditing procedures will be considered in relation to the financial statements as a whole. Any misstatements that we identify, other than those that are clearly trivial (the threshold has been set at 5% of materiality), will be reported to management and the Audit and Risk Management Committee. In accordance with Canadian GAAS, we will request that misstatements be corrected.

4. Reporting and assessing performance

Perform post-engagement activities

We will analyze the results of the audit procedures performed throughout the year and, prior to rendering our report, we will conclude whether:

- The scope of the audit was sufficient to support our opinion, and
- The misstatements identified during the audit do not result in the financial statements being materially misstated.

Independence

We have developed important safeguards and procedures to protect our independence and objectivity. If, during the year, we identify a breach of independence, we will communicate it to you in writing. Our communication will describe the significance of the breach, including its nature and duration, the action taken or proposed to be taken, and our conclusion as to whether or not the action will satisfactorily address the consequences of the breach and have any impact on our ability to serve as independent auditor to Calhome.

We are independent of Calhome and we will reconfirm our independence in our final report to the Audit and Risk Management Committee.

Appendix 2 – Communication requirements

The table below summarizes our communication requirements under Canadian GAAS.

Required communication
Audit service plan
1. Our responsibilities under Canadian GAAS, including forming and expressing an opinion on the financial statements
2. An overview of the overall audit strategy, addressing: <ul style="list-style-type: none"> a) Timing of the audit b) Significant risks, including fraud risk
3. Significant transactions outside of the normal course of business, including related party transactions
Enquiries of those charged with governance
4. How those charged with governance exercise oversight over management's process for identifying and responding to the risk of fraud and the internal control that management has established to mitigate these risks
5. Any known suspected or alleged fraud affecting Calhome
6. Whether Calhome is in compliance with laws and regulations
Year-end communication
7. Fraud or possible fraud identified through the audit process
8. Significant accounting policies, practices, unusual transactions, and our related conclusions
9. Alternative treatments for accounting policies and practices that have been discussed with management during the current audit period
10. Matters related to going concern
11. Management judgments and accounting estimates
12. Significant difficulties, if any, encountered during the audit
13. Material written communications between management and us, including management representation letters
14. Other matters that are significant to the oversight of the financial reporting process
15. Modifications to our opinion(s)
16. Our views of significant accounting or auditing matters for which management consulted with other accountants and about which we have concerns
17. Significant matters discussed with management
18. Matters involving non-compliance with laws and regulations that come to our attention
19. Significant deficiencies in internal control, if any, identified by us in the conduct of the audit of the financial statements
20. Uncorrected misstatements and disclosure items
21. Any significant matters arising during the audit in connection with Calhome's related parties

Appendix 3 – 2016 Summary audit timeline

This estimated timetable indicates our various procedures and release of our communications as planned throughout the year:

	Estimated to begin	Targeted for completion
Audit performance		
Planning	October 2016	November 2016
Interim audit procedures	November 7, 2016	November 11, 2016
Final audit procedures	February 6, 2017	March 2017
Auditor's communications		Meeting Date
Discuss audit planning, scope, risks of fraud, and fees		November 7, 2016
Review the results of our audit and provide audit report		March 2017
Review of business insights with management, where applicable		March 2017

Appendix 4 – New Financial Reporting Standards

Significant new financial reporting standards and other regulatory requirements that are likely to impact Calhome's financial reporting for future audits are:

Standards	Effective Date
<i>Related Party Disclosures</i> , Section PS 2200	Fiscal years beginning on or after April 1, 2017. Earlier adoption is permitted.
<i>Assets</i> , Section PS 3210	Fiscal years beginning on or after April 1, 2017. Earlier adoption is permitted.
<i>Contingent Assets</i> , Section PS 3320	Fiscal years beginning on or after April 1, 2017. Earlier adoption is permitted.
<i>Contractual Rights</i> , Section PS 3380	Fiscal years beginning on or after April 1, 2017. Earlier adoption is permitted.
<i>Inter-entity Transactions</i> , Section PS 3420	Fiscal years beginning on or after April 1, 2017. Earlier adoption is permitted.
Introduction to Public Sector Accounting Standards	Fiscal years beginning on or after January 1, 2017.
<i>Restructuring Transactions</i> , Section PS 3430	Fiscal years beginning on or after April 1, 2018. Earlier adoption is permitted.

Appendix 5 – Draft engagement letter

November 7, 2016

Private and confidential

The Audit and Risk Management Committee of Calhome Properties Ltd.
Mr. Peter Cheung, Chair of the Audit and Risk Management Committee
2340 - 22 Street NE
Calgary, AB T2E 8B7

Calhome Properties Ltd. operating as Calgary Housing Company
Ms. Sarah Woodgate, President
2340 - 22 Street NE
Calgary, AB T2E 8B7

Dear Sirs/Mesdames:

Deloitte LLP (“Deloitte” or “we” or “us”) is pleased to serve as your auditors for the year ending December 31, 2016. Ms. Harman Gill will be responsible for the services that we perform for Calhome Properties Ltd. operating as Calgary Housing Company (“Calhome”). She will, as considered necessary, call upon other individuals with specialized knowledge, either in this office or elsewhere in our firm to assist in the performance of our services.

In addition to the financial statement audit we are engaged to provide under this engagement letter, we would also be pleased to assist Calhome on issues as they arise throughout the year. Hence, we hope that you will call Ms. Gill whenever you believe Deloitte can be of assistance.

We will perform this engagement subject to the terms and conditions set forth herein and in the accompanying appendices.

The objective and scope of the audit

You have requested that we audit the financial statements of Calhome (the “Financial Statements”), which comprise the statement of financial position as at December 31, 2016, and the statement of operations and accumulated surplus, cash flows and changes in net financial assets for the year then ended, and a summary of significant accounting policies and other explanatory information.

You have also requested that we issue specified procedures reports in relation to the Social Housing Portfolio (3 reports), Public Non-Profit Portfolio (1 report) and Federal Fixed Portfolio (1 report) for the year ending December 31, 2016.

We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter. Our audit will be conducted with the objective of our expressing an opinion on the Financial Statements.

Appendix A provides further information about the objective and scope of the audit.

The responsibilities of the auditor

We will conduct our audit in accordance with Canadian generally accepted auditing standards ("GAAS"). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with Canadian GAAS.

In making our risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the Financial Statements that we have identified during the audit.

The audit of the Financial Statements by Deloitte does not relieve management or the Audit and Risk Management Committee (the "Audit Committee") of their respective responsibilities.

Appendix A provides more information about Deloitte's responsibilities in respect of the audit.

The responsibilities of management and identification of reporting framework

Our audit will be conducted on the basis that management, under the oversight of the Audit Committee, acknowledge and understand that they have responsibility:

- For the preparation and fair presentation of the Financial Statements in accordance with Canadian public sector accounting standards ("PSAS");
- 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; and
- To provide us with:
 - Access to all information of which management is aware that is relevant to the preparation of the Financial Statements such as records, documentation and other matters;
 - Additional information that we may request from management for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.

As part of our audit process, we will request from management written confirmation concerning representations made to us in connection with the audit.

We look forward to full cooperation from your staff during our audit.

Management's responsibilities in connection with this engagement are further described in Appendix B.

Use of third parties by management

Where management has engaged another party to assist it in fulfilling any of its responsibilities, management will continue to retain the responsibility for the preparation of its Financial Statements in accordance with PSAS.

Audit Committee' responsibilities and auditor communications

As auditors of Calhome, we report directly to the Audit Committee as it is directly responsible for the oversight of our work. We acknowledge that the Audit Committee is also responsible for recommending our appointment and compensation. The Audit Committee is also responsible for reviewing and approving Calhome's hiring policies regarding current and former partners and employees of Deloitte LLP and Deloitte Touche Tohmatsu Limited, including related member firms and affiliates.

In accordance with Canadian GAAS, we are required to communicate with the Audit Committee about various matters in connection with our audit.

The Audit Committee' responsibilities and our communications with the Audit Committee are described in Appendix C.

Subscription services

Deloitte makes available to clients and non-clients, various educational, informational and other tools in the form of, among other things, newsletters, webcasts, podcasts, websites, database subscriptions, checklists, research reports, surveys and similar or related tools and services ("Subscriptions"). Calhome hereby confirms that any use or receipt by Calhome or its affiliates of these Subscriptions is approved by the Audit Committee in accordance with the Audit Committee' established pre-approval policies and procedures.

Inclusion of Deloitte reports in documents and public oral statements or references to Deloitte in other documents and on electronic sites

If Calhome intends to publish or otherwise reproduce in any document our report on Calhome's Financial Statements, or otherwise make reference to Deloitte in a document that contains other information in addition to the audited Financial Statements, thereby associating Deloitte with such document, Calhome agrees that its management will provide Deloitte with a draft of the document to read and obtain our written consent for the inclusion or incorporation by reference of our report, or the reference to Deloitte, in such document before the document is printed and distributed. No other form of document is to be considered to signify our consent. The inclusion or incorporation by reference of our report in any such document would constitute the re-issuance of our report. Management agrees to provide adequate notice of the preparation of any such public documents. Calhome also agrees that it will notify us and obtain our written approval prior to including our report or financial statements with which we are associated on an electronic site. Further, it is agreed that in any electronic distribution, for example on Calhome's website, management is solely responsible for the accurate and complete reproduction of our report and the subject matter on which we reported.

This engagement letter, and our agreement to perform the services described in this engagement letter, does not constitute our consent to the use of our report in, or our agreement to be associated with any such documents published or reproduced by or on behalf of Calhome. Any request by Calhome to re-issue our report, to consent to its inclusion or incorporation by reference in an offering or other document, or to agree to its inclusion on an electronic site, will be considered based on the facts and circumstances existing at the time of such request. The estimated fees outlined herein do not include any services that would need to be performed in connection with any such required services or modifications needed to our report for summarized financial statements. Fees for such services (and their scope) would be subject to our mutual agreement at such time and would be described in a separate engagement letter.

Reporting

In accordance with Canadian GAAS, we expect to issue a report at the completion of our audit in the form shown in Appendix D. The form and content of our report may need to be amended in the light of our audit findings.

Our ability to express an opinion and the wording of our opinion will, of course, be dependent on the facts and circumstances at the date of our report. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or decline to issue a report as a result of this engagement. If we are unable to complete our audit or if our auditor's report requires modification, the reasons therefor will be discussed with the Audit Committee and Calhome's management.

Fees

We estimate that our total fees for this audit will be \$74,260 and fees for the special government reports are estimated to be \$3,400 per report, plus reasonable expenses, a 7% administrative charge and applicable taxes (such as Goods and Services Tax). These fees are based upon our understanding of the engagement scope as outlined in this letter. Deloitte will invoice Calhome on a regular basis. All invoices shall be due and payable when rendered.

Deloitte will monitor all work and assess fees (time and expenses) as they are incurred throughout the engagement. If circumstances arise, such as those described in Appendix E, and as a result the fees for any of the services outlined are likely to be greater than indicated due to the need for additional work, we will contact you to discuss the reason and seek your approval for this additional work.

Other matters

This engagement letter, including the appendices A through F attached hereto and made a part hereof, constitutes the entire agreement between the parties with respect to this engagement and supersedes all other prior and contemporaneous agreements or understandings between the parties, whether written or oral, relating to this engagement.

This engagement letter will continue in force for subsequent audits unless amended by the mutual consent of ourselves and Calhome.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the Financial Statements including our respective responsibilities.

Yours truly,

Chartered Professional Accountants

Enclosure

The services and terms set forth in this letter are acknowledged and approved by the Audit and Risk Management Committee:

Calhome Properties Ltd.

Signature

Title

The services and terms set forth in this letter are accepted and agreed to by management:

Calhome Properties Ltd.

Signature

Title

Appendix A

The objective and scope of a financial statement audit and the responsibilities of the auditor Calhome Properties Ltd. December 31, 2016

The objective and scope of a financial statement audit

We will plan and perform the audit to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error. The Financial Statements subject to audit are those of Calhome, prepared by management, with oversight from the Audit Committee. The audit will enable us to express an opinion on whether the Financial Statements are fairly presented, in all material respects, in accordance with PSAS. The audit also includes evaluating the appropriateness of accounting policies and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Financial Statements. Our report on the Financial Statements and communications required by Canadian GAAS will be in accordance with our findings.

It is important to recognize that there are inherent limitations of an audit, where most of the audit evidence obtained is of a persuasive, rather than a conclusive nature. These limitations arise from the nature of financial reporting, the nature of audit procedures and the need for the audit to be conducted within a reasonable period of time and at a reasonable cost.

Financial reporting involves judgment by management in applying the requirements of PSAS to the facts and circumstances of Calhome. Many financial statement items will involve a degree of uncertainty, and there may be a range of acceptable interpretations or judgments that may be made.

The audit procedures we perform will be selected based on our judgment, including the assessment of the risks of material misstatement of the Financial Statements, whether due to fraud or error. Because of the nature of fraud, including attempts at concealment and forgery, an audit designed and executed in accordance with Canadian GAAS may not detect a material fraud.

The performance of the audit within a reasonable period of time and at a reasonable cost requires us to plan the audit so that it will be performed in an effective manner, with audit effort directed to areas most expected to contain risks of material misstatement, whether due to fraud or error, and using selective testing and other means of examining populations for misstatements and drawing conclusions thereon.

Internal control over financial reporting

An independent audit conducted by Deloitte in accordance with Canadian GAAS is not a substitute for the maintenance of internal control necessary for the preparation of financial statements by management. Management's acknowledgment of its responsibility for the maintenance of internal control necessary for the preparation of financial statements does not imply that Deloitte will find that the internal control maintained by management has achieved its purpose or will be free of deficiencies.

We obtain an understanding of internal control relevant to the audit however, not all controls are relevant to every audit. We evaluate the design of controls relevant to the audit and determine whether they have been implemented. We are not, however, required to determine whether relevant controls are operating effectively. Although it is not required by Canadian GAAS, we may decide that for a particular engagement, it makes sense to rely on the effective operation of some controls in determining the substantive procedures we will perform. In this case, we would go beyond evaluating the design of relevant controls and determining whether they have been implemented, to also test whether the controls on which we intend to rely are operating effectively. Accordingly, while Canadian GAAS requires us to report to the Audit Committee any significant deficiencies that have come to our attention, we may not be aware of all significant deficiencies in internal control that do, in fact, exist.

Appendix B
Management's responsibilities
Calhome Properties Ltd.
December 31, 2016

Financial statements and the effectiveness of internal control over financial reporting

Calhome's internal control, including its accounting books and records or accounting systems, will reflect the needs of management, the complexity of its businesses, the nature of its risks and relevant laws or regulation. Management must determine what internal control is required, including how it is designed, implemented and maintained to achieve Calhome's objectives. Internal control, no matter how effective, can provide Calhome with only reasonable assurance about achieving its financial reporting objectives due to the inherent limitations of internal control.

The preparation and overall accuracy of the Financial Statements and their fair presentation in accordance with PSAS together with all required disclosures concerning internal control over financial reporting, is the responsibility of Calhome's management. Among other things, management has the responsibility for:

1. Establishing and maintaining effective internal control over financial reporting necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and informing Deloitte of deficiencies identified in the design or operation of internal control over financial reporting;
2. Informing Deloitte of any changes in Calhome's internal control over financial reporting that occurred during the year that have materially affected, or are reasonably likely to materially affect, Calhome's internal control over financial reporting;
3. Identifying and ensuring that Calhome complies with the laws and regulations applicable to its activities and informing us of any known material violations of such laws or regulations;
4. Adjusting the Financial Statements to correct material misstatements;
5. Safeguarding assets;
6. Providing to us all information of which management is aware that is relevant to the preparation of the Financial Statements including, but not limited to, all financial records and related data including information on the recognition, measurement and disclosure of specific items, and copies of all minutes of meetings of directors and committees of directors;
7. Providing additional information that we may request from management for the purpose of the audit;
8. Providing us with unrestricted access to persons within Calhome from whom we determine it necessary to obtain evidence; and
9. Informing Deloitte of facts that may affect the Financial Statements, of which management may become aware during the period from the date of the auditor's report to the date the Financial Statements are issued.

Representation letter

We will make specific inquiries of Calhome's management about the representations embodied in the Financial Statements and internal control over financial reporting. As part of our audit procedures, we will request that management provide us with a representation letter acknowledging management's responsibility for the preparation of the Financial Statements in accordance with PSAS and that the Financial Statements are fairly presented in accordance therewith.

We will ask management to affirm their belief that the effects of any uncorrected financial statement misstatements aggregated by us during the current audit engagement and pertaining to all the periods presented are immaterial, both individually and in the aggregate, to the Financial Statements taken as a whole and that management has provided us with all relevant information and access as agreed in this engagement letter and has recorded and reflected all transactions in the Financial Statements.

We will require certain written representations from management in accordance with Canadian GAAS and will request additional representations to support other audit evidence relevant to the Financial Statements or one or more specific assertions therein. Those written representations are to be provided in the form of a representation letter addressed to Deloitte, as near as practicable to, but not after, the date of the auditor's report on the Financial Statements. Such representations will be for all financial statements and periods referred to in the audit report.

The responses to inquiries and related written representations of management required by Canadian GAAS are part of the evidential matter that we will rely on as auditors in forming our opinion on Calhome's Financial Statements.

Independence matters

For purposes of the following two paragraphs, "Deloitte" shall mean Deloitte LLP and Deloitte Touche Tohmatsu Limited, including related member firms and affiliates.

Independence matters as a result of restrictions on providing certain services

In connection with our engagement, Deloitte, management, and the Audit Committee will assume certain roles and responsibilities in an effort to assist Deloitte in maintaining independence and ensuring compliance with Canadian independence rules. Deloitte will communicate to its partners and employees that Calhome is an attest client. Management of Calhome will ensure that Calhome, together with its subsidiaries and other entities (including variable interest entities) that comprise Calhome for purposes of the Financial Statements, has policies and procedures in place for the purpose of ensuring that neither Calhome nor any such subsidiary or other entity will act to engage Deloitte or accept from Deloitte any service that under Canadian independence rules or other applicable rules would impair Deloitte's independence. All potential services are to be discussed with Ms. Harman Gill.

Independence matters relating to hiring

Deloitte must assess threats to independence created when a former Deloitte partner or member of the engagement team is employed by management. In order to assist Deloitte in maintaining independence, management should notify Ms. Gill where substantive employment conversations have been had with a former or current Deloitte partner or engagement team member.

Fraud and error

Management is responsible for:

1. Designing and implementing programs and controls to prevent and detect fraud and error;
2. Informing us about all known or suspected fraud affecting Calhome involving (a) management, (b) employees who have significant roles in internal control, and (c) others where the fraud could have a material effect on the Financial Statements;
3. Informing us of its knowledge of any allegations of fraud or suspected fraud affecting Calhome received in communications from employees, former employees, or others;
4. Informing us of any information it might have regarding any concerns or allegations of potential errors in the selection of accounting policies or the recording of transactions affecting Calhome that have been communicated to it by employees, former employees, or others, whether written or oral;
5. Informing us of its assessment of the risk that the Financial Statements may be materially misstated as a result of fraud; and
6. Communicating its belief that the effects of any uncorrected financial statement misstatements aggregated during the audit are immaterial, both individually and in the aggregate, to the Financial Statements taken as a whole.

Related parties

Calhome agrees that it will provide us with the identity of Calhome's related parties, including changes from the previous period, the nature of the relationships between Calhome and these related parties and whether Calhome entered into any transactions with these related parties during the period and if so, the type and purpose of the transactions.

Appendix C
Audit Committee responsibilities and auditor communications
Calhome Properties Ltd.
December 31, 2016

Audit Committee responsibilities

The Audit Committee is responsible for the oversight of the financial reporting process, including management's preparation of the Financial Statements and monitoring of Calhome's internal control related to financial reporting and oversight of our work.

Communications with the Audit Committee

Canadian GAAS require that we communicate with the Audit Committee about a number of matters that are relevant to the financial reporting process.

Significant findings from the audit

We will communicate our views about significant qualitative aspects of Calhome's accounting practices, including accounting policies, accounting estimates and financial statement disclosures. Should the need arise, we will communicate to the Audit Committee why we would consider a significant accounting practice that may be acceptable under PSAS, not to be the most appropriate to the particular circumstances of Calhome.

We will communicate, in writing, any significant deficiencies in internal control that we identify on the basis of the audit work performed. The purpose of our audit is to express an opinion on the Financial Statements. While the audit will include consideration of internal control relevant to the preparation of the Financial Statements in order to design audit procedures appropriate in the circumstances, it was not performed to express an opinion on the effectiveness of internal control.

In addition, we will communicate:

- any significant matters arising from the audit in connection with Calhome's related parties;
- any events or conditions identified that may cast doubt on Calhome's ability to continue as a going concern;
- any significant difficulties encountered during the audit;
- any significant matters arising from the audit that were discussed or subject to correspondence with management;
- written representations we are requesting;
- any material uncorrected inconsistencies or misstatements in fact we identify from reading the financial and non-financial information that are included in a document containing audited financial statements and our auditor's report; and
- any other matters that in our professional judgment are significant to the oversight of the financial reporting process.

Independence communications

In accordance with professional standards, we will disclose to the Audit Committee, in writing, all relationships between Deloitte and Calhome and its related entities, that in our professional judgment may reasonably be thought to bear on our independence and confirm to the Audit Committee in such letter whether, in our professional judgment, we are independent of Calhome within the meaning of the rules of professional conduct / code of ethics of our profession. For purposes of this paragraph, "Deloitte" shall mean Deloitte LLP and Deloitte Touche Tohmatsu Limited, including related member firms and affiliates.

Fraud, error and illegal acts

If items of the following nature come to our attention, and in our judgment need to be reported to those charged with governance, we will report them directly to the Audit Committee:

1. Any fraud that involves management;
2. Any fraud involving employees who have significant roles in internal control;
3. Any fraud of which we become aware that has resulted or could result in a material misstatement of the Financial Statements;
4. Any other matters related to fraud, which in our judgment, are relevant to the responsibilities of the Audit Committee;
5. Instances of identified or suspected non-compliance with laws and regulations, other than when the matters are clearly inconsequential;
6. Individual uncorrected misstatements identified by us during the audit that were determined by management to be immaterial, both individually and in the aggregate, to the Financial Statements taken as a whole;
7. Uncorrected misstatements related to prior periods in the relevant classes of transactions, account balances or disclosures and the Financial Statements taken as a whole;
8. Questions regarding the honesty and integrity of management;
9. Matters that may cause future financial statements to be materially misstated; and
10. Significant misstatements resulting from error that were corrected by management.

We will also be making inquiries of the Audit Committee of any actual, suspected or alleged fraud affecting Calhome and whether Calhome is in compliance with laws and regulations that may have a material effect on the Financial Statements.

We will inform the appropriate level of management of Calhome and determine that the Audit Committee is adequately informed with respect to illegal acts that have been detected or have otherwise come to our attention in the course of our audit, unless the illegal acts are clearly inconsequential.

The matters communicated will be those that we identify during the course of our audit. Our audit would not identify all matters that may be of interest to management or the Audit Committee in discharging its responsibilities. Communication with the appropriate level of authority in Calhome's management and with those charged with governance will be determined by the type and significance of the matter to be communicated.

We will also make inquiries of the Audit Committee as to whether any subsequent events have occurred that may affect the Financial Statements, including matters discussed at meetings of the Audit Committee after December 31, 2016.

Appendix D
Expected form of audit report
Calhome Properties Ltd.
December 31, 2016

We will provide you with our report on the Financial Statements, which is expected to be in the following form. However, the final form will reflect the results of our audit.

INDEPENDENT AUDITOR'S REPORT

To the Directors of
Calhome Properties Ltd.

We have audited the accompanying financial statements of Calhome Properties Ltd. which comprise the statement of financial position as at December 31, 2016, and the statements of operations and accumulated surplus, cash flows and changes in net financial assets for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Calhome Properties Ltd. as at December 31, 2016, and the results of its operations, cash flows and changes in net financial assets for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Professional Accountants
•, 2017

Appendix E
Circumstances affecting timing and fee estimate
Calhome Properties Ltd.
December 31, 2016

The fees quoted for the audit are based on certain assumptions. Circumstances may arise during the engagement that may significantly affect the targeted completion dates and our fee estimate. As a result, additional fees may be necessary. Such circumstances include, but are not limited to, the following:

Audit facilitation

1. Changes to the timing of the engagement at Calhome's request. Changes to the timing of the engagement usually require reassignment of personnel used by Deloitte in the performance of services hereunder. However, because it is often difficult to reassign individuals to other engagements, Deloitte may incur significant unanticipated costs.
2. All audit schedules are not (a) provided by Calhome on the date requested, (b) completed in a format acceptable to Deloitte, (c) mathematically correct, or (d) in agreement with the appropriate Organization records (e.g., general ledger accounts). Deloitte will provide Calhome with a separate listing of required schedules, information requests, and the dates such items are needed.
3. Significant delays in responding to our requests for information such as reconciling variances or providing requested supporting documentation (e.g., invoices, contracts, and other documents).
4. Deterioration in the quality of Calhome's accounting records during the current year engagement in comparison with the prior-year engagement.
5. A completed trial balance, referenced to the supporting analyses, schedules and Financial Statements, is not provided timely by Calhome.
6. Draft Financial Statements with appropriate supporting documentation are not prepared accurately and timely by Calhome's personnel.
7. Electronic files in an appropriate format and containing the information requested are not provided by Calhome on the date requested for our use in performing file interrogation. Deloitte will provide Calhome with a separate listing of the required files and the dates the files are needed.
8. The engagement team, while performing work on Calhome's premises, is not provided with access to the Internet for purposes of conducting the engagement.

Significant issues or changes

1. Significant deficiencies are identified in Calhome's internal control that result in the expansion of our audit procedures.
2. A significant level of proposed audit adjustments is identified during our audit.
3. A significant number of drafts of the Financial Statements are submitted for our review or we identify a significant level of deficiencies in the draft Financial Statements.
4. Significant new issues or changes arise as follows:
 - a. New accounting issues.
 - b. Changes in accounting policies or practices from those used in prior years.
 - c. Events or transactions not contemplated in our budgets.
 - d. Changes in Calhome's financial reporting process or IT systems.

- e. Changes in Calhome's accounting personnel, their responsibilities, or their availability.
 - f. Changes in auditing standards.
 - g. Change in Calhome's use of specialists or the specialists and / or their work product does not meet the qualifications required by Canadian GAAS for our reliance upon their work.
5. Changes in audit scope caused by events that are beyond our control.

Appendix F
General business terms
Calhome Properties Ltd.
December 31, 2016

The following general business terms (the "Terms") apply to the engagement except as otherwise provided in the specific engagement letter agreement (the "engagement letter") between Deloitte LLP ("Deloitte") and Calhome Properties Ltd. operating as Calgary Housing Company ("Calhome") to which these Terms are attached.

1. **Timely performance** - Deloitte will not be liable for failures or delays in performance that arise from causes beyond Deloitte's control, including the untimely performance by Calhome of its obligations as set out in the engagement letter.
2. **Right to terminate services** - If Calhome terminates the engagement or requests that Deloitte resign from the engagement prior to its completion, Calhome will pay for time and expenses incurred by Deloitte up to the termination or resignation date together with reasonable time and expenses incurred to bring the services to a close in a prompt and orderly manner. Deloitte will not be responsible for any loss, cost or expense resulting from such termination or resignation. Should Calhome not fulfill its obligations set out herein or in the engagement letter, and in the absence of rectification by Calhome within thirty (30) days of notification in writing by Deloitte, upon written notification Deloitte may terminate its services immediately and will not be responsible for any loss, cost or expense resulting from such early termination.
3. **Fees and taxes** - Any fee estimates take into account the agreed-upon level of preparation and assistance from Organization personnel. Deloitte undertakes to advise management of Calhome on a timely basis should this preparation and assistance not be provided or should any other circumstances arise which cause actual time to exceed that estimate. Calhome is responsible for the payment of any applicable federal, provincial or other goods and services or sales taxes, or any other taxes or duties, in connection with the services provided by Deloitte.
4. **Expenses** - In addition to professional fees, Calhome will reimburse Deloitte for its reasonable out-of-pocket expenses including travel, meals and hotels incurred in connection with this engagement.
5. **Billing** - Invoices will be rendered periodically as agreed in advance. All invoices shall be due and payable when rendered. Interest shall be calculated at a simple daily rate of 0.0493% (equivalent to 18% per annum). Interest shall be charged and payable at this rate on any part of an invoice which remains unpaid from thirty (30) days after the invoice date to the date on which the outstanding invoice is paid. To the extent that as part of the services to be performed by Deloitte as described in the engagement letter, Deloitte personnel are required to perform the services in the United States of America ("U.S. Business"), Calhome and Deloitte agree to assign performance of the U.S. Business to Deloitte Canada LLP, an affiliate of Deloitte. All services performed by Deloitte Canada LLP shall be performed under the direction of Deloitte which shall remain responsible to Calhome for such services. Deloitte Canada LLP shall invoice Calhome with respect to the U.S. Business and Deloitte will invoice for services performed in Canada ("Canadian Business"). Payment for U.S. Business and/or Canadian Business can be settled with one payment to Deloitte.
6. **Governing law** - The engagement will be governed by the laws of the Province where Deloitte's principal office performing the engagement is located and all disputes related to the engagement shall be subject to the exclusive jurisdiction of the courts of such Province.
7. **Working papers** - All working papers, files and other internal materials created or produced by Deloitte related to the engagement are the property of Deloitte. In the event that Deloitte is requested by Calhome or required by subpoena or other legal or regulatory process to produce its files related to this engagement in proceedings to which Deloitte is not a party, Calhome will reimburse Deloitte for its professional time and expenses, including legal fees, incurred in dealing with such matters.

8. **Privacy** - Deloitte and Calhome acknowledge and agree that, during the course of this engagement, Deloitte may collect, use and disclose personal information about identifiable individuals ("Personal Information"). Deloitte's services are provided on the basis that Calhome has obtained any required consents for collection, use and disclosure to Deloitte of Personal Information required under applicable privacy legislation. Calhome and Deloitte agree that Deloitte will collect, use, transfer, store, disclose or otherwise process Personal Information on behalf of Calhome solely for purposes related to completing this engagement, related engagements, or providing services to Calhome or as otherwise permitted by these Terms.
9. **Third parties** - Deloitte's engagement is not planned or conducted in contemplation of or for the purpose of reliance by any third party (other than Calhome and any party to whom Deloitte's audit report is addressed) or with respect to any specific transaction. Therefore, items of possible interest to a third party will not be addressed and matters may exist that would be assessed differently by a third party, possibly in connection with a specific transaction.
10. **Confidentiality** - To the extent that, in connection with this engagement, Deloitte comes into possession of Personal Information or any proprietary or confidential information of Calhome (collectively, "Confidential Information"), Deloitte will not disclose such information to any third party without Calhome's consent, except:

- (a) as may be required or permitted by legal authority, the rules of professional conduct/code of ethics;
- (b) to Deloitte Entities (as such term is defined below in section 12), component auditors, permitted subcontractors and third parties that provide services to Deloitte; or
- (c) to the extent that such information shall have otherwise become publicly available.

Confidential Information may be used, processed and stored outside Canada by Deloitte, Deloitte Entities, component auditors and third party service providers. Deloitte is responsible to Calhome for causing Deloitte Entities, component auditors and third party service providers to comply with the obligations of confidentiality set out in this section. Confidential Information may be subject to disclosure in accordance with laws applicable in the jurisdiction in which the information is processed or stored, which laws may not provide the same level of protection under Canadian law. Calhome also agrees that Deloitte may aggregate Confidential Information and use and disclose that information as part of research and advice, including, benchmarking services, provided that all such information will be rendered anonymous and not subject to association with the Client.

Except as instructed otherwise in writing, each party consents to properly addressed fax, email (including email exchanged via Internet media) and voicemail communication of both sensitive confidential and non-sensitive documents, information and other communications concerning this Agreement, as well as other means of communication used or accepted by the other. It is recognized that the Internet may be insecure and each party will be responsible for protecting its own systems and interests and, to the fullest extent permitted by law, will not be responsible to the other on any basis (contract, tort or otherwise) for any loss, damage or omission in any way arising from the use of the Internet or from access by any Client or Deloitte personnel, including personnel of Deloitte Entities and third parties that provide services to Deloitte, to networks, applications, electronic data or other systems of the other party.

11. **Assignment** - Except as provided below in section 12, no party may assign, transfer, or delegate any of its rights or obligations relating to this engagement without the prior written consent of the other parties.
12. **Subcontracting** - Deloitte may use the services of any of its affiliates or any member firm of Deloitte Touche Tohmatsu Limited ("DTTL") and its respective subsidiaries and affiliates, including those operating outside Canada ("Deloitte Entities"), component auditors or any other party. Deloitte remains responsible to Calhome for services performed by Deloitte Entities and other parties under this engagement. Each member firm of DTTL is a separate and independent legal entity operating under the names "Deloitte", "Deloitte & Touche", "Deloitte Touche Tohmatsu" or other related names; and services are provided by member firms or their subsidiaries or affiliates and not by DTTL.
13. **Survival of terms** - The agreements and undertakings of Calhome contained in the engagement letter, together with the appendices to the engagement letter including these Terms, will survive the completion or termination of this engagement.

14. **Electronic messaging** - In accordance with Canadian anti-spam legislation, Calhome consents to Deloitte contacting Calhome and its personnel through electronic messages relating to Deloitte's services, products and other matters of interest to Calhome after the completion of this engagement. Calhome may withdraw any such consent by contacting Deloitte at unsubscribe@deloitte.ca.
15. **Proportionate liability** - Calhome and Deloitte acknowledge where the audit is conducted pursuant to a statute governing Calhome that contains proportionate liability provisions that apply to an auditor, such as the Canada Business Corporations Act, the terms of the statute shall apply to this engagement. In the event that Calhome and Deloitte are not subject to such statutory provisions regarding proportionate liability, Calhome agrees that in any action, claim, loss or damage arising out of the engagement, Deloitte's liability will be several and not joint and several and Calhome may only claim payment from Deloitte of Deloitte's proportionate share of the total liability based on the degree of fault of Deloitte as finally determined by a court of competent jurisdiction.
16. **Client misrepresentation** - Deloitte shall not be liable to Calhome, and Calhome releases Deloitte, for all liabilities, claims, damages, costs, charges and expenses incurred or suffered by Calhome related to or in any way associated with the engagement that arise from or are based on any deliberate misstatement or omission in any material information or representation provided by or approved by any member of management of Calhome, officer of Calhome or member of the Audit Committee of Calhome.
17. **Qualifications** - Notwithstanding anything herein to the contrary, Deloitte may use the name of Calhome, refer to this engagement and the performance of the services in marketing, publicity materials and other material, as an indication of its experience, and in internal data systems.

Appendix 6 – Deloitte resources a click away

At Deloitte, we are devoted to excellence in the provision of professional services and advice, always focused on client service. We have developed a series of resources, which contain relevant and timely information.

<input type="checkbox"/>	Canada's Best Managed Companies (www.bestmanagedcompanies.ca)	<ul style="list-style-type: none"> • Directors • CEO/CFO 	The Canada's Best Managed Companies designation symbolizes Canadian corporate success: companies focused on their core vision, creating stakeholder value and excelling in the global economy.
<input type="checkbox"/>	Centre for financial reporting (www.cfr.deloitte.ca)	<ul style="list-style-type: none"> • Directors • CEO/CFO • Controller • Financial reporting team 	Web site designed by Deloitte to provide the most comprehensive information on the web about financial reporting frameworks used in Canada.
<input type="checkbox"/>	Financial Reporting Insights (www.iasplus.com/fri)	<ul style="list-style-type: none"> • CFO • Controller • Financial reporting team 	Monthly electronic communications that helps you to stay on top of standard-setting initiatives impacting financial reporting in Canada.
<input type="checkbox"/>	On the board's agenda	<ul style="list-style-type: none"> • Directors • CEO/CFO 	Bi-monthly publication examining a key topic in detail, including the perspectives of a Deloitte professional with deep expertise in the subject matter as well as the views of an experienced external director.
<input type="checkbox"/>	State of change (www.iasplus.com/StateOfChange)	<ul style="list-style-type: none"> • CFO • VP Finance • Controller • Financial reporting team 	Bi-monthly newsletter providing insights into key trends, developments, issues and challenges facing the not-for-profit sector in Canada, with a Deloitte point of view.
<input type="checkbox"/>	Deloitte Financial Reporting Update (www.deloitte.com/ca/update)	<ul style="list-style-type: none"> • CFO • VP Finance • Controller • Financial reporting team 	Learning webcasts offered throughout the year featuring our professionals discussing critical issues that affect your business.



2016 Year-end audit communication

Calhome Properties Ltd.

(Operating as 'Calgary Housing Company')

**For the year ended December 31, 2016
Presented to the Audit and Risk Management Committee
March 3, 2017**



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February 24, 2017

To the Members of the Audit and Risk Management Committee of Calhome Properties Ltd. ('Operating as Calgary Housing Company')

Dear Audit and Risk Management Committee Members:

Report on audited annual financial statements

As agreed in our engagement letter dated November 7, 2016, we have performed an audit of the financial statements of Calhome Properties Ltd. ('Operating as Calgary Housing Company') ("Calhome") as at and for the year ended December 31, 2016, in accordance with Canadian generally accepted auditing standards ("GAAS") and expect to issue our audit report thereon dated March 10, 2017.

This report summarizes our findings during the audit. Our audit has been conducted in accordance with the Audit Plan that was presented to the Audit and Risk Management Committee (the "Committee") at the meeting on November 7, 2016.

Use of our report

This report is intended solely for the information and use of the Committee, management and others within Calhome and is not intended to be, and should not be, used by anyone other than these specified parties. Accordingly, we disclaim any responsibility to any other party who may rely on it.

We would like to express our appreciation for the cooperation we received from the officers and employees of Calhome with whom we worked to discharge our responsibilities.

We look forward to discussing this report summarizing the outcome of our audit with you and answering any questions you may have.

Yours truly,

A handwritten signature in black ink that reads "Deloitte LLP".

Chartered Professional Accountants

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Audit scope matters

Canadian GAAS require that we communicate to the Audit Committee on the following matters:

Status of our audit	<p>We expect to be in a position to render our audit opinion dated March 10, 2017 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:</p> <ul style="list-style-type: none"> • Receipt of signed management representation letter • File documentation matters • Update of subsequent events to audit report date • Receipt of legal letters
Audit strategy and scope	<p>The audit planning and the preliminary risk assessment activities we conduct enable us to set the scope of our audit and to design procedures tailored to that scope. Refer to our audit plan communicated on November 7, 2016.</p>
Materiality	<p>Materiality is the magnitude of misstatements, including omissions, in the financial statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the financial statement users. Judgments about materiality are made in the light of surrounding circumstances, and are affected by our perception of the information needs of the financial statement users, and by the size or nature of a misstatement, or a combination of both. We are responsible for providing reasonable assurance that your financial statements as a whole are free from material misstatement.</p> <p>Materiality levels were determined on the basis of total budgeted operating expenses. For the year ended December 31, 2016, materiality was set at \$2,400,000 (2015, \$2,400,000).</p>
Significant difficulties encountered in performing the audit	<p>We did not encounter any significant difficulties while performing the audit. There were no significant delays in receiving information from management required for the audit nor was there an unnecessarily brief timetable in which to complete the audit.</p>
Changes to the audit plan	<p>The audit was conducted in accordance with our audit plan, which was communicated to the Committee on November 7, 2016. There were no amendments to the plan which was presented.</p>
Disagreements with management	<p>In the course of our audit, we did not encounter any disagreements with management about matters that individually or in the aggregate could be significant to the financial statements.</p>
Consultation with other accountants	<p>Management has informed us that Calhome has not consulted with other accountants about auditing or accounting matters.</p>
Legal and regulatory compliance	<p>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.</p> <p>The auditor is not and cannot be held responsible for preventing non-compliance with laws and regulations.</p> <p>Our limited procedures did not identify any areas of material non-compliance with laws and regulations by Calhome.</p>

Post-statement of financial position financial events	<p>Management is responsible for assessing subsequent events up to the date of the release of the financial statements.</p> <p>No post-statement of financial position events have been identified during the course of our audit which would have an impact on the financial statements. We will update subsequent events to the audit report date of March 10, 2017.</p>
Management representation letter	<p>A draft version of the management representation letter to be signed by management is included in Appendix 3.</p>
Independence	<p>We have developed appropriate safeguards and procedures to eliminate threats to our independence or to reduce them to an acceptable level.</p> <p>As required under Canadian GAAS, we have reported all relationships and other relevant matters that, in our professional judgment, may reasonably be thought to bear on our independence. We have provided a draft version of the independence letter we intend to use to confirm our independence for the year ended December 31, 2016, in Appendix 2.</p>
Quality control	<p>Our firm's quality control process embraces each of the elements identified in the CPA Canada Handbook sections covering Canadian standards of quality control for firms that perform audits and reviews of financial statements and other assurance engagements.</p>
Fees	<p>We communicated our proposed audit fees of \$74,620 (2015, \$72,800) for the audit and \$3,400 per portfolio (5 portfolios) (2015, \$3,300 per portfolio) for the specified procedures reports. These fees exclude the 7% administrative fee and GST. There has been no change to the proposed fees.</p>
Communications	<p>As a part of our audit plan, we committed to communicate certain matters to the Committee on a regular basis or as specified events occur.</p> <p>A summary of our communications is provided in Appendix 4.</p>

Audit findings

This report summarizes the main findings arising from our audit to date.

Internal control	<p>We obtained an understanding of internal control relevant to the audit, however not all controls are relevant to every audit. We evaluated the design of controls relevant to the audit and determined whether they have been implemented. We are not, however, required in a non-integrated audit to determine whether all relevant controls are operating effectively. Although not required by Canadian GAAS, we may decide that, for a particular engagement, it makes sense to rely on the effective operation of some controls to determine the planned substantive procedures we will perform.</p> <p>In such cases, we would go beyond evaluating the design of relevant controls and determining whether they have been implemented to also test whether the controls on which we intend to rely are operating effectively.</p> <p>In our audit of Calhome's financial statements, we applied a substantive audit approach to testing of account balances and as such, we did not rely on internal controls.</p>
Uncorrected misstatements	<p>In accordance with Canadian GAAS, we request that all misstatements be corrected. We are required to report all uncorrected misstatements greater than \$120,000 (2015, \$120,000), computed as 5% of materiality, and those that are quantitatively insignificant but qualitatively significant.</p> <p>We noted no uncorrected misstatements during the course of the audit.</p>
Unadjusted disclosure deficiencies	<p>In accordance with Canadian GAAS, we request that all disclosure deficiencies be corrected.</p> <p>We noted no unadjusted disclosure deficiencies.</p>
Conclusion	<p>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 Canadian public sector accounting standards ("PSAS").</p> <p>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.</p> <p>We intend to issue an unmodified audit report on the financial statements of Calhome as of and for the year ended December 31, 2016 once the financial statements are approved by the Board of Directors on March 10, 2017.</p> <p>A draft version of our Auditor's report is included in Appendix 1.</p>

Audit risks

Our audit plan identified certain areas that we refer to as significant risks. The results of our audit work on these risks are set out below:

Significant risks

Areas of significant risk	Our audit response	Our conclusion
<p>Management override of controls</p> <p>Assurance standards include the presumption of a significant risk of management override of controls.</p> <p>Management may be in a unique position to perpetrate fraud because of management's ability to directly or indirectly manipulate accounting records and prepare fraudulent Financial Statements by overriding controls that otherwise appear to be operating effectively.</p>	<p>We engaged in periodic fraud discussions with certain members of senior management and with the chair of Calhome's Audit and Risk Management Committee.</p> <p>We considered the potential for bias in judgments and estimates, including performing retrospective analysis of significant accounting estimates.</p> <p>We evaluated the business rationale for any significant unusual transactions.</p> <p>We evaluated Calhome's fraud risk assessment and considered entity-level internal controls and internal controls over the closing and reporting process.</p> <p>We tested journal entries that exhibited characteristics of possible management override of controls identified.</p>	<p>Based on the performance of our audit procedures, we have not identified any instances of management override of controls.</p>
<p>Revenue recognition</p> <p>Assurance standards include the presumption of a fraud risk involving improper revenue recognition.</p> <p>There may be an increased risk of material misstatement relating to the occurrence and cut off of the following revenue streams: rent revenue, shared cost agreements and rent supplement.</p>	<p>We have performed substantive testing of revenue transactions to ensure that occurrence and cut-off have been appropriately accounted for the year ended December 31, 2016.</p> <p>We made inquiries of management and tested control activities involving management's process for accounting for revenue transactions and determining when the revenue recognition criteria had been met.</p>	<p>Based on the audit procedures completed, we conclude that revenue recognition is fairly stated, appropriately classified and properly disclosed in the context of the financial statements taken as a whole.</p>

Accounting practices, judgments and estimates

Management judgment and accounting estimates

In our judgment, the significant accounting estimates made by management are, in all material respects, free of possible management bias and of material misstatement. The disclosure in the financial statements around estimation uncertainty is in accordance with PSAS and is appropriate to the particular circumstances of Calhome.

Significant accounting policies

In our judgment, 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.

Significant accounting estimates and judgments

In our judgment, the significant accounting estimates made by management are, in all material respects, free of possible management bias and of material misstatement. The disclosure in the financial statements around estimation uncertainty is in accordance with PSAS and is appropriate to the particular circumstances of Calhome.

Appendix 1 – Draft version of our Auditor's report

Independent Auditor's Report

To the Directors of Calhome Properties Ltd.

We have audited the accompanying financial statements of Calhome Properties Ltd., which comprise the statement of financial position as at December 31, 2016, and the statements of operations, changes in net debt and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Calhome Properties Ltd. as at December 31, 2016, 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.

Chartered Professional Accountants
March 10, 2017

Appendix 2 – Draft independence

March 10, 2017

The Members of the Audit and Risk Management Committee and Board of Directors of
Calhome Properties Ltd. ('Operating as Calgary Housing Company')

Dear 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, 2016.

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 the
Authority, 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; and
- (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 11, 2016, the date of our last letter.

We are not aware of any relationships between Calhome and Deloitte, including any network firms that,
in our professional judgment, may reasonably be thought to bear on independence, that have occurred
from March 12, 2016 to March 10, 2017.

The total fees charged to Calhome for audit services were \$79,458 (2015, \$77,896) for the financial statement audit and \$18,190 (2015, \$17,655) relating to the specified procedures for the special government reports 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 within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta as of March 10, 2017.

This report is intended solely for the use of the Audit and Risk Management Committee, Board of Directors, management and others within Calhome and should not be used for any other purposes.

Yours truly,

Chartered Professional Accountants

Appendix 3 – Draft management representation letter

[Company letterhead]

March 10, 2017

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, 2016

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, 2016, including the comparative financial statements for the year ended December 31, 2015, 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 the Company in accordance with Canadian 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 engagement letter between the Company and Deloitte dated November 07, 2016, 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 the Company as at December 31, 2016, 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, 2016 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. 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, all final adjusting journal entries have been reflected in the Financial Statements and the Financial Statements have been approved in accordance with our process to finalize financial statements.
4. We have completed our review of events after December 31, 2016 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.
5. The Financial Statements are free of material errors and omissions.
6. The Company 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.

Information provided

7. 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. All financial statements and other financial information provided to you accurately reflect the activities and expenses of the Company and do not reflect any activities or expenses of any other person or entity;
 - 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.
8. All transactions have been properly recorded in the accounting records and are reflected in the Financial Statements.

9. 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.
10. 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.
11. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's Financial Statements and all knowledge of concerns or allegations of potential errors in the selection of accounting policies or the recording of transactions affecting the Company that have been communicated by employees, former employees or others, whether written or oral.
12. We have disclosed to you all communications from regulatory agencies 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.
13. 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.
14. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
15. 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.
16. 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.
17. We have disclosed to you, and the Company 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.
18. We have disclosed to you all the documents that we expect to issue that may comprise other information.

Independence matters

For purposes of the following paragraphs, "Deloitte" shall mean Deloitte LLP and Deloitte Touche Tohmatsu Limited, including related member firms and affiliates.

19. Prior to Calhome having any substantive employment conversations with a former or current Deloitte engagement team member, the Company has held discussions with Deloitte and obtained approval from management.

20. 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.

Fair Value

21. 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, 2016 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

22. All transactions and events have been carried out in accordance with law, regulation or other authority.

Receivables

23. Calhome is responsible for determining the appropriate carrying amount of accounts receivable, as well as estimates used to determine such amounts. Management believes that the carrying amounts recorded and disclosed are appropriate.

Employee future benefits

24. 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.
25. 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.
26. We are unable to determine the possibility of a withdrawal liability in a multi-employer benefit plan.

Government transfers

27. We have disclosed to you all correspondence relating to government transfers that Calhome has had with the funding body.
28. We have assessed the eligibility criteria and determined that Calhome is an eligible recipient for the government transfers received.

29. We have assessed the stipulations attached with the funding and have recognized the revenue in accordance with meeting the stipulations required.
30. All government transfers that have been recorded as unearned 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

31. The Company is aware of the City of Calgary's change in Capital Asset Policy for Buildings and Engineered Structures for the year ended December 31, 2016. Management has reviewed and understands the policy being that the threshold for capitalization is \$250,000 per project for both Buildings and Engineered Structures for fiscal 2016, applied prospectively. Management has, however, determined that a threshold of \$ 25,000 is appropriate for the standalone financial statements of the Company and therefore, there is no impact of the change in accounting policy on the standalone financial statements.

Tangible capital assets

32. Tangible capital assets have been recorded properly and consistently according to the standards in Section PS 3150, *Tangible Capital Assets*.
33. 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.
34. 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

35. We have reviewed the year-end adjusting entries and acknowledge our responsibility for their accuracy.

Communicating a threshold amount

36. We understand that the threshold used for accumulating misstatements identified during the year was \$120,000 for purposes of Appendix A. Misstatements below this amount have been considered clearly trivial.

Section 3260, Liability for contaminated sites

37. Calhome was required to adopt Section 3260, *Liability for contaminated sites* effective for fiscal 2015 for the purposes of the public sector accounting standards ("PSAS") version of the trial balance required for consolidation with the City of Calgary financial statements. 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, 2016 PSAS financial statements of this standard.

Use of Deferred Capital Contributions

38. 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.

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
Year ended December 31, 2016

Uncorrected financial statement misstatements

None noted

Corrected financial statement misstatements

None noted

Appendix B
Calhome Properties Ltd.
Summary of disclosure items passed
Year ended December 31, 2016

None noted

Appendix 4 – Communication requirements

In our audit plan, we committed to communicate certain items to the Audit and Risk Management Committee on a regular basis or as specified events occur. These items are summarized below.

Required communication	Refer to this report or document described below
1. Our responsibilities under Canadian GAAS	Audit plan communicated on November 7, 2016
2. Our audit strategy and scope, including our approach to auditing financial information of components of the group audit and our planned involvement in work performed by component auditors	Audit plan communicated on November 7, 2016
3. Management judgment and accounting estimates	Management judgment and accounting estimates
4. Audit adjustments	Uncorrected misstatements
5. Uncorrected and corrected misstatements and disclosure deficiencies	Uncorrected misstatements and unadjusted disclosure deficiencies
6. Our views about significant qualitative aspects of Calhome's accounting practices, including accounting estimates	Management judgment and accounting estimates
7. Disagreements with management	There were no disagreements with management during the audit of the 2016 financial statements
8. Our views about significant matters that were the subject of consultation with other accountants	Consultation with other accountants
9. Significant difficulties, if any, encountered during the audit	No significant difficulties encountered in performing the audit
10. All deficiencies in internal control that existed as of the date of management's assessment that were concluded to be material weaknesses in internal control	No significant deficiencies in internal control were identified
11. Material written communications between management and us	Engagement letter dated November 7, 2016 and this year-end report
12. All relationships between Calhome and us that, in our professional judgment, may reasonably be thought to bear on independence	Independence letter - Appendix 2
13. A statement that, in our judgment, our engagement team and others in our firm as appropriate, our firm itself and, when applicable, network firms have complied with relevant ethical requirements regarding independence	Independence letter – Appendix 2
14. Illegal or possibly illegal acts	None identified based on audit procedures performed for the year ended December 31, 2016

Required communication	Refer to this report or document described below
15. Fraud or possible fraud identified through the audit process	None identified based on audit procedures performed for the year ended December 31, 2016
16. Non-compliance with laws and regulations that come to the auditor's attention	Legal and regulatory compliance
17. Matters that are significant to the oversight of the financial reporting process	All matters are documented within this year end communication document
18. Limitations placed on our scope	Audit strategy and scope. No limitations were placed our audit scope
19. Written management representations the auditor is requesting	Management representation letter – Appendix 3

Financial Statements

Calhome Properties Ltd.

Operating as 'Calgary Housing Company'

December 31, 2016



Deloitte LLP
700, 850 2 Street SW
Calgary, AB T2P 0R8
Canada

Tel: 403-267-1700
Fax: 403-213-5791
www.deloitte.ca

Independent Auditor's Report

To the Directors of Calhome Properties Ltd.

We have audited the accompanying financial statements of Calhome Properties Ltd., which comprise the statement of financial position as at December 31, 2016, and the statements of operations, changes in net debt and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Calhome Properties Ltd. as at December 31, 2016, 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.

Deloitte LLP

Chartered Professional Accountants
March 10, 2017

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

STATEMENT OF FINANCIAL POSITION
(Expressed in Thousands of Dollars)


As at December 31, 2016

	<u>2016</u>	<u>2015</u>
Financial Assets		
Cash (<i>Note 3</i>)	\$ 28,896	\$ 25,887
Receivables		
Rent and others	634	601
Government	2,353	2,761
Assets held for sale (<i>Note 2</i>)	-	750
	<u>31,883</u>	<u>29,999</u>
Liabilities		
Accounts payable and accrued liabilities	6,188	6,869
Unearned tenant rent revenue	1,670	2,174
Deferred grants (<i>Note 3</i>)	8,480	721
Payable to government	1,662	1,271
Rent supplement advance (<i>Note 4</i>)	4,255	4,255
Tenants' security deposits	1,089	992
Mortgage payable (<i>Note 5</i>)	16,476	15,206
Employee benefit obligation (<i>Note 6</i>)	1,813	1,723
	<u>41,633</u>	<u>33,211</u>
NET DEBT	9,750	3,212
Non-Financial Assets		
Tangible capital assets (<i>Note 7</i>)	102,181	92,324
Prepaid expenses	121	113
	<u>102,302</u>	<u>92,437</u>
ACCUMULATED SURPLUS (<i>Note 10</i>)	<u>\$ 92,552</u>	<u>\$ 89,225</u>

See accompanying notes

On behalf of the Board


Chairman


President

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

STATEMENT OF OPERATIONS
(Expressed in Thousands of Dollars)

For the year ended December 31, 2016

	<u>BUDGET</u>	<u>2016</u>	<u>2015</u>
REVENUE			
Rent revenue	\$ 49,803	\$48,040	\$50,222
Government transfers			
Shared cost agreements	13,734	13,938	13,654
Restricted funds	-	5,589	1,007
Debt interest rebates	123	239	169
Rent supplement	19,982	18,817	20,198
Interest income	348	318	337
Insurance recoveries (Note 12)	-	893	505
Miscellaneous	1,196	1,190	1,341
	<u>85,186</u>	<u>89,024</u>	<u>87,433</u>
EXPENSES			
Administration	7,407	6,419	6,182
Amortization of tangible capital assets	2,866	3,086	2,860
Debt servicing	559	518	572
Maintenance	15,048	16,022	16,320
Property operations	21,666	20,829	20,193
Rent supplement	20,783	19,531	20,932
Taxes and leases	3,248	3,278	3,052
Utilities	10,817	9,500	9,284
Insurance (Note 12)	-	402	948
Restricted expenses (Note 11)	-	153	57
	<u>82,394</u>	<u>79,738</u>	<u>80,400</u>
EXCESS OF REVENUE OVER EXPENSES BEFORE OTHER ITEMS	2,792	9,286	7,033
OTHER ITEMS			
Return to The City of Calgary	(844)	(2,054)	(2,144)
Loss on asset disposal (Note 7)	-	(55)	-
Revaluation adjustment of asset held for sale	-	-	(190)
	<u>(844)</u>	<u>(2,109)</u>	<u>(2,334)</u>
SURPLUS	\$ 1,948	\$ 7,177	\$ 4,699

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

STATEMENT OF CASH FLOWS
(Expressed in Thousands of Dollars)

For the year ended December 31, 2016

	<u>2016</u>	<u>2015</u>
NET INFLOW/(OUTFLOW) OF CASH RELATED TO FOLLOWING ACTIVITIES:		
OPERATING ACTIVITIES		
Surplus	\$ 7,177	\$ 4,699
Non-cash items:		
Amortization of tangible capital assets	3,086	2,860
Revaluation adjustment of asset held for sale	-	190
Loss on asset disposal	55	-
Non-cash restricted revenue (<i>Note 10</i>)	(3,850)	-
Change in non-cash working capital (<i>Note 14</i>)	7,519	1,247
	<u>13,987</u>	<u>8,996</u>
CAPITAL ACTIVITIES		
Addition of tangible capital assets	(12,998)	(2,962)
Proceeds on disposal of assets held for sale	750	-
Expenses charged to replacement reserve	-	(20)
	<u>(12,248)</u>	<u>(2,982)</u>
FINANCING AND INVESTING ACTIVITIES		
Issuance of long term debt	5,784	-
Repayment of long term debt	(4,514)	(5,441)
	<u>1,270</u>	<u>(5,441)</u>
NET INCREASE IN CASH DURING THE YEAR	3,009	573
CASH, BEGINNING OF YEAR	25,887	25,314
CASH, END OF YEAR (<i>Note 3</i>)	<u>\$ 28,896</u>	<u>\$ 25,887</u>

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, 2016

	<u>Budget</u>	<u>2016</u>	<u>2015</u>
ANNUAL SURPLUS	\$ 1,948	\$ 7,177	\$ 4,699
TANGIBLE CAPITAL ASSETS			
Additions	(4,265)	(12,998)	(2,962)
Loss on asset disposal	-	55	-
Amortization of tangible capital assets	2,866	3,086	2,860
Non-cash restricted revenue (<i>Note 10</i>)	-	(3,850)	-
Expenses charged to replacement reserve	-	-	(20)
	<u>(1,399)</u>	<u>(13,707)</u>	<u>(122)</u>
OTHERS			
Increase in prepaid expenses	-	(8)	(6)
	<u>-</u>	<u>(8)</u>	<u>(6)</u>
(INCREASE)/DECREASE IN NET DEBT	549	(6,538)	4,571
NET DEBT, BEGINNING BALANCE	3,212	3,212	7,783
NET DEBT, ENDING BALANCE	<u>\$ 2,663</u>	<u>\$ 9,750</u>	<u>\$ 3,212</u>

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

NOTES TO FINANCIAL STATEMENTS
(Expressed in thousands of Dollars)

For the year ended December 31, 2016

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, The Province of Alberta [the "Province"], and Canada Mortgage and Housing Corporation ["CMHC"] 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 Federal Fixed Subsidy Portfolio

This portfolio consists of 803 [2015 – 1,021] units owned and managed by the Company. CMHC 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 CMHC. The net surplus and/or losses are the responsibility of the Company.

CHC Provincial Fixed Subsidy Portfolio

This portfolio consists of 98 [2015 – 98] units owned and managed by the Company. The portfolio operates on the same basis as the Federal Fixed Subsidy Portfolio, with the exception that the subsidy is received from the Province. The Company is responsible for net operating results.

CHC Public Non-Profit Portfolio

This portfolio consists of 210 [2015 – 210] units owned by the Company. By agreement, the Federal and Provincial governments share the operating deficits at the ratio of 70% and 30% respectively 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 Properties Ltd.
Operating as 'Calgary Housing Company'

NOTES TO FINANCIAL STATEMENTS
(Expressed in thousands of Dollars)

For the year ended December 31, 2016

Calhome Owned Portfolio

This portfolio is comprised of 824 [2015 – 443] units owned by the Company with no direct subsidy from any governmental agency.

City Owned Community Housing Portfolio

This portfolio consists of 1,048 [2015 – 1,048] units owned by the City and managed by the Company. Any operating surpluses or losses are refunded or subsidized 50%, 40%, and 10% respectively by federal, provincial, and municipal governments under joint agreement.

City of Calgary Partnership Portfolio

This portfolio consists of 1,085 [2015 – 1,085] units 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 and the net operating results are the responsibility of the City.

Corporate Properties Residential Units Portfolio

This portfolio consists of 354 [2015 – 424] units 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.

Provincially Owned Community Housing Portfolio

This portfolio consists of 2,721 [2015 – 2,721] units owned by the Province of Alberta. The Company assumed the management of this portfolio owned by the Province in 2001.

Rent Supplement Portfolio

This portfolio is a provincial government program administered by the Company for which the Company receives reimbursement of administration fees incurred and rental subsidies paid to the private landlords and tenants.

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

NOTES TO FINANCIAL STATEMENTS
(Expressed in thousands of Dollars)

For the year ended December 31, 2016

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 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 rent-geared-to-income policies or affordable rates outlined in the agreements with The Province, CMHC 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 grants 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.

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

NOTES TO FINANCIAL STATEMENTS
(Expressed in thousands of Dollars)

For the year ended December 31, 2016

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 contributions are recorded at fair value at the date of receipt and also are recorded as revenue.

Revenue producing properties are reviewed periodically for any indication of impairment. If it is determined that impairment exists, the carrying value of the revenue producing properties will be reduced to their estimated fair value as determined by third party appraisals.

Asset Held for Sale

Asset held for sale is comprised of land held with the intention to sell to fund future affordable housing initiatives. The asset held for sale is the land donated by The City of Calgary located at 515 4A St NE, Calgary. The asset was written down to market value at December 31, 2015, and was sold during 2016.

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

NOTES TO FINANCIAL STATEMENTS
(Expressed in thousands of Dollars)

For the year ended December 31, 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Replacement Reserve

The Replacement Reserve is funded by a charge against operating 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.

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.

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.

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

NOTES TO FINANCIAL STATEMENTS
(Expressed in thousands of Dollars)

For the year ended December 31, 2016

3. CASH

The Company holds bank accounts in conjunction with the City, so as 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:

	2016 \$	2015 \$
Restricted		
Tenants' security deposits	1,089	992
Rent supplement fund advance	4,255	4,255
Replacement reserve fund	6,279	6,257
Deferred capital contributions (Note 10)	5,409	9,614
Capital funding*	7,862	-
	<u>24,894</u>	<u>21,118</u>
Unrestricted	<u>4,002</u>	<u>4,769</u>
	<u>28,896</u>	<u>25,887</u>

*In 2016 the Company received capital funding in the amount of \$8,000 from the City. The grant is to be used for capital improvements to the East Village Place property that was acquired in 2016. Of this amount, \$138 was utilized in 2016 and the remaining \$7,862 is recorded as deferred grants to be utilized for future expenditures.

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, tenants and administration costs are reported as expenses with an equal amount reported as rent supplement revenue. The Province provided the Company with a \$4,255 [2015 - \$4,255] operational cash advance to administer 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, 2016

5. MORTGAGES PAYABLE

Mortgages in the amount of \$3,615 [2015 - \$6,508] are for the fixed subsidy properties. These mortgages have interest rates, before the senior government interest subsidy, between 1.46% and 6.45% per annum [2015 – between 1.46% and 6.45% per annum]. The effective interest rate of the fixed subsidy mortgages to the Company after subsidy payments is averaged 2% per annum over the mortgage term to renewal.

The remaining mortgages are in the amount of \$12,861 [2015 - \$8,698] after assuming \$5,784 in mortgages for the East Village Place property that was acquired in 2016. The interest rate of these mortgages varies from 0.94% to 4.52% per annum [2015 – between 1.04% and 4.52% per annum].

The mortgages payable schedule is as follows:

Year	\$
2017	3,873
2018	2,543
2019	1,388
2020	1,034
2021	1,023
Thereafter	6,615
	<u>16,476</u>

Related land and buildings have been pledged as collateral for mortgages payable. The net book value of land and buildings pledged amounts to \$75,166 [2015 - \$78,610] as at December 31, 2016.

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

NOTES TO FINANCIAL STATEMENTS

(Expressed in thousands of Dollars)

For the year ended December 31, 2016

6. EMPLOYEE BENEFIT OBLIGATION

The Company does not pay honoraria to its Board members.

The Company is administered by employees of the City. The employee benefit obligation represents the vacation and overtime that the employees are deferring to future years. The balance of this obligation as of December 31, 2016 was \$1,813 [2015 - \$1,723].

The City employees are members of the Local Authorities Pension Plan ("LAPP"). LAPP is a multi-employer benefit plan. This plan is governed by the Public Sector Pension Plans Act. The LAPP reported a deficiency (extrapolation results of the actuarial valuation) of \$0.92 billion in 2015 [2014 - \$2.45 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:

	<u>2016</u>
Members' Rate up to YMPE	10.39%
Members' Rate over YMPE	14.84%
Employers' Rate up to YMPE	11.39%
Employers' Rate over YMPE	15.84%

The current service contributions by the Company, as reflected in 'Administration' and 'Property Operations' to the LAPP, were \$1,766 [2015 - \$1,678]. The current service contributions by the employees allocated to the LAPP were \$1,748 [2015 - \$1,612].

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

NOTES TO FINANCIAL STATEMENTS
(Expressed in thousands of Dollars)

For the year ended December 31, 2016

7. TANGIBLE CAPITAL ASSETS

	January 1, 2016		December 31, 2016
Cost	Opening Balance	Additions	Disposals Closing Balance
Land	27,755	202	- 27,957
Buildings	85,521	11,200	- 96,721
Building Betterments	29,573	799	(102) 30,270
Systems	2,252	21	- 2,273
Leasehold Improvements	854	-	- 854
Vehicles	238	116	(74) 280
Furniture	347	-	- 347
Work in Progress	817	660	- 1,477
	147,357	12,998	(176) 160,179

	January 1, 2016		December 31, 2016
Accumulated Amortization	Opening Balance	Additions	Disposals Closing Balance
Buildings	47,460	1,813	- 49,273
Building Betterments	4,911	1,063	(47) 5,927
Systems	2,107	87	- 2,194
Leasehold Improvements	199	89	- 288
Vehicles	95	29	(74) 50
Furniture	261	5	- 266
	55,033	3,086	(121) 57,998
Net Book Value	92,324	9,912	(55) 102,181

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, 2016 and 2015, 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, 2016

9. FINANCIAL INSTRUMENTS

Financial instruments consist of cash, rent and other receivables, senior government receivables, accounts payable and accrued liabilities, unearned revenue, deferred grants, payable to government, 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, 2016

10. ACCUMULATED SURPLUS

Accumulated surplus consist of restricted and unrestricted amounts and equity in tangible capital assets as follows:

	2016	2015
	\$	\$
Accumulated deficit	(5,377)	(4,300)
Restricted replacement reserve	6,279	6,257
Operating Reserve	536	536
Deferred capital contribution	5,409	9,614
Equity in tangible capital assets *	85,705	77,118
	92,552	89,225

	2016	2015
	\$	\$
* Equity in Tangible Capital Assets		
Tangible Capital Assets (Note 7)	160,179	147,357
Accumulated Amortization (Note 7)	(57,998)	(55,033)
Long-term debt (Note 6)	(16,476)	(15,206)
	85,705	77,118

Deferred capital contribution represents capital contributions from third parties for a specified purpose which will be recognized as revenue or an increase in equity in tangible capital asset when the related expenditures are incurred. During 2016, \$3,850 of cash was used from deferred capital contributions for the acquisition of the East Village Place property. This amount was recognized as restricted revenue in 2016.

11. RESTRICTED FUNDS AND RESTRICTED EXPENSES

In 2015, the Company signed an agreement with the Province to administer a rent supplement program for Women Fleeing Violence. \$153 was expended in 2016 [2015 - \$57] relating to the funding received.

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

NOTES TO FINANCIAL STATEMENTS

(Expressed in thousands of Dollars)

For the year ended December 31, 2016

12. INSURANCE RECOVERIES AND INSURANCE EXPENSES

Insurance recoveries represent insurance claims received during the year. Insurance recoveries are recognized as revenue when received. Insurance expenses are the costs incurred to pay third party contractors during the year, related to insurance claims. The insurance claims will be made by the Company to recover the insurance expenses but may be processed during the current year or in later years.

13. LEASE COMMITMENTS

The Company has commitments for its leased premises and land leases. The approximate future minimum annual lease payments for the next five years are as follows:

Year	Land \$	Office Space \$	Total \$
2017	98	367	465
2018	98	384	482
2019	98	352	450
2020	98	343	441
2021	98	343	441
	490	1,789	2,279

In 2017 the Company entered into a new lease agreement for corporate office space to replace the existing lease.

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

NOTES TO FINANCIAL STATEMENTS
(Expressed in thousands of Dollars)

For the year ended December 31, 2016

14. CHANGES IN NON-CASH WORKING CAPITAL

	2016	2015
	\$	\$
Receivables	375	(263)
Accounts payable and accrued liabilities	(681)	1,494
Unearned revenue	(504)	53
Payable to senior government	8,150	(87)
Tenants' security deposits	97	(100)
Employee benefit obligation	90	156
Prepaid expenses	(8)	(6)
Increase/(Decrease) in non-cash working capital	7,519	1,247

15. RECLASSIFICATION 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.

16. APPROVAL OF FINANCIAL STATEMENTS

The Board and Management have approved these financial statements.

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

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Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

STATEMENTS OF OPERATIONS BY PORTFOLIOS:

Federal Fixed Subsidy Portfolio

Provincial Fixed Subsidy Portfolio

Public Non-Profit Portfolio

Calhome Financed 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'

Federal Fixed Subsidy Portfolio (Unaudited)

This portfolio consists of 803 units [2015 – 1,021 units] in 17 properties [2015 – 23 properties] owned by the Company, as listed below. The portfolio receives an interest subsidy from Canada Mortgage and Housing Corporation (CMHC) equivalent to the amount that reduces the Company's debt financing costs to 2% per annum.

During 2016, six properties were transferred from the Federal Fixed Subsidy Portfolio to the Calhome Owned Portfolio due to mortgage expiration which led to the expiration of the related operating agreements. The 2015 figures have been restated to reflect this transfer, in order to provide an appropriate basis for comparative purposes.

Property	Property Code	Number of Units
Abbeydale 5	AB5	60
Cedarbrae 4	CB4	51
Cedarbrae 5	CB5	14
Connaught 2	CN2	47
Crossroad 1	CR1	100
Falconridge 4	FR4	28
Falconridge 5	FR5	14
Fonda Crescent	FC1	2
Huntington Hill 6	HH6	75
Manchester 2	MC2	117
Penbrooke 3	PB3	77
Parkland 3	PL3	36
Queensland 1	QL1	56
Queensland 2	QL2	20
Ranchland 7	RL7	55
Silver Spring 1	SS1	31
Whitehorn 3	WH3	20
Total		803

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

STATEMENT OF OPERATIONS

For the Federal Fixed Subsidy Portfolio
(Expressed in Thousands of Dollars)
(Unaudited)

For the year ended December 31, 2016

	BUDGET	2016	2015
REVENUE			
Rent revenue	\$ 9,849	\$ 8,936	\$ 9,793
Debt interest rebates	83	81	80
Insurance recoveries	-	148	-
Miscellaneous	106	116	141
	<u>10,038</u>	<u>9,281</u>	<u>10,014</u>
EXPENSES			
Administration	780	717	629
Amortization of tangible capital assets	1,041	1,125	1,086
Debt servicing	214	173	227
Maintenance	2,754	2,222	2,628
Property operations	2,254	2,266	2,185
Taxes and leases	964	982	871
Utilities	780	768	721
Insurance	-	72	70
	<u>8,787</u>	<u>8,325</u>	<u>8,417</u>
EXCESS OF REVENUE OVER EXPENSES BEFORE OTHER ITEMS	<u>1,251</u>	<u>956</u>	<u>1,597</u>
SURPLUS	<u>\$ 1,251</u>	<u>\$ 956</u>	<u>\$ 1,597</u>

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

Provincial Fixed Subsidy Portfolio (Unaudited)

This portfolio consists of 98 units [2015 – 98 units] in 3 properties [2015 – 3 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.

Property	Property Code	Number of Units
North Haven 3	NH3	40
Sunalta 1	SN1	25
Tuxedo 1	TX1	33
Total		98

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

STATEMENT OF OPERATIONS

For the Provincial Fixed Subsidy Portfolio
(Expressed in Thousands of Dollars)
(Unaudited)

For the year ended December 31, 2016

	BUDGET	2016	2015
REVENUE			
Rent revenue	\$ 1,180	\$ 1,010	\$ 1,159
Debt interest rebates	38	40	40
Insurance recoveries	-	8	45
Miscellaneous	11	8	14
	<u>1,229</u>	<u>1,066</u>	<u>1,258</u>
EXPENSES			
Administration	95	88	78
Amortization of tangible capital assets	212	222	212
Debt servicing	31	18	29
Maintenance	289	209	265
Property operations	274	264	283
Taxes and leases	160	170	151
Utilities	102	76	76
Insurance	-	96	19
	<u>1,163</u>	<u>1,143</u>	<u>1,113</u>
EXCESS OF REVENUE OVER EXPENSES BEFORE OTHER ITEMS	66	(77)	145
SURPLUS/(DEFICIT)	<u>\$ 66</u>	<u>\$ (77)</u>	<u>\$ 145</u>

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

Public Non-Profit Portfolio (Unaudited)

This portfolio consists of 210 units [2015 – 210 units] in 10 properties [2015 – 10 properties] owned by the Company, as listed below. By agreement, the Federal and Provincial governments share the operating deficits at the ratio of 70% and 30% respectively 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	3
Lincoln Park 5(FAN)	LP5	4
Haultain House	NYH	16
London House	NYL	16
Silver Pines	NYS	18
Tamarac House	NYT	18
Villa Blanca	NYV	70
Total		210

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

STATEMENT OF OPERATIONS
For the Public Non-Profit Portfolio
(Expressed in Thousands of Dollars)
(Unaudited)

For the year ended December 31, 2016

	BUDGET	2016	2015
REVENUE			
Rent revenue	\$ 862	\$ 869	\$ 885
Government transfers			
<i>Shared cost agreements</i>	1,396	1,458	1,337
<i>Restricted funds</i>	-	117	20
Interest income	-	5	6
Insurance recoveries	-	62	49
Miscellaneous	14	18	19
	<u>2,272</u>	<u>2,529</u>	<u>2,316</u>
EXPENSES			
Administration	323	296	244
Amortization of tangible capital assets	359	356	352
Debt servicing	93	70	77
Maintenance	591	524	448
Property operations	539	623	515
Taxes and leases	231	231	218
Utilities	362	295	286
Insurance	-	3	102
	<u>2,498</u>	<u>2,398</u>	<u>2,242</u>
EXCESS OF REVENUE OVER EXPENSES BEFORE OTHER ITEMS	(226)	131	74
SURPLUS/(DEFICIT)	\$ (226)	\$ 131	\$ 74

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

Calhome Owned Portfolio (Unaudited)

This portfolio is comprised of 824 units [2015 – 443 units] in 20 properties [2015 – 13 properties] owned by the Company, as listed below. This portfolio does not receive any subsidy from other levels of government. The Company may retain surpluses and is financially responsible for losses.

During 2016, six properties were transferred from the Federal Fixed Subsidy Portfolio to the Calhome Owned Portfolio due to mortgage expiration which led to the expiration of the related operating agreements. The 2015 figures have been restated to reflect this transfer, in order to provide an appropriate basis for comparative purposes. In addition, Calhome acquired the East Village Place property which is part of the Calhome Owned Portfolio.

Property	Property Code	Number of Units
Bankview 1	BV1	26
Beddington 4	BD4	66
CB3-Cedarbrae	CBC	9
CB3-Beddington	BDC	15
Cedar Crescent	CC2	2
East Village 1	EV1	163
Erinwoods 1	EW1	58
Erinwoods 4	EW4	72
Falconridge 3	FR3	20
Lincoln Park 2	LP2	38
Lincoln Park 3	LP3	25
Mancester Commercial	MCC	1
McKenzie 1	MK2	57
McLaurin Village	MV1	1
Millrise 1	MR1	53
Rundle Manor	RD2	75
Radisson Heights 7	RH7	36
Ranchland 6	RL6	50
Transferred from Province	TR5	5
Vista Ht 2	VH2	52
Total		824

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, 2016

	BUDGET	2016	2015
REVENUE			
Rent revenue	\$ 8,521	\$ 8,272	\$ 8,644
<i>Restricted funds</i>	-	5,404	807
Debt interest rebates	2	118	49
Interest income	348	313	331
Insurance recoveries	-	39	34
Miscellaneous	341	297	397
	<u>9,212</u>	<u>14,443</u>	<u>10,262</u>
EXPENSES			
Administration	914	336	708
Amortization of tangible capital assets	1,063	1,225	1,010
Debt servicing	221	257	239
Maintenance	2,348	2,316	1,874
Property operations	2,392	2,424	2,071
Taxes and leases	847	849	766
Utilities	570	620	441
Insurance	-	41	23
Restricted expenditures	-	153	57
	<u>8,355</u>	<u>8,221</u>	<u>7,189</u>
EXCESS OF REVENUE OVER EXPENSES BEFORE OTHER ITEMS	857	6,222	3,073
OTHER ITEMS			
Loss on asset disposal	-	(55)	-
Revaluation adjustment of asset held for sale	-	-	(190)
	<u>-</u>	<u>(55)</u>	<u>(190)</u>
SURPLUS	<u>\$ 857</u>	<u>\$ 6,167</u>	<u>\$ 2,883</u>

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

Corporate Properties Residential Portfolio (Unaudited)

The Company manages 354 units [2015 – 424 units] in 9 properties [2015 – 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
Midfield Mobile Homes	MFM	110
North East A	NEA	22
North West A	NWA	22
South East A	SEA	54
South East B	SEB	2
South West A	SWA	2
South West B	SWB	3
South Hill Mobile Homes	SHM	105
Total		354

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, 2016

	BUDGET	2016	2015
REVENUE			
Rent revenue	\$ 2,401	\$ 2,764	\$ 3,001
Insurance recoveries	-	-	15
Miscellaneous	32	11	9
	<u>2,433</u>	<u>2,775</u>	<u>3,025</u>
EXPENSES			
Administration	364	336	344
Amortization of tangible capital assets	13	11	16
Maintenance	542	467	547
Property operations	837	836	869
Utilities	326	281	326
Insurance	-	10	-
	<u>2,082</u>	<u>1,941</u>	<u>2,102</u>
EXCESS OF REVENUE OVER EXPENSES BEFORE OTHER ITEMS	351	834	923
OTHER ITEMS			
Return to The City of Calgary	<u>(351)</u>	<u>(834)</u>	<u>(923)</u>
SURPLUS/(DEFICIT)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

City of Calgary Partnership Portfolio (Unaudited)

This portfolio consists of 1,085 units [2015 – 1,085 units] in 24 properties [2015 – 24 properties] owned by The City of Calgary, as listed below. The Company manages these properties on behalf of The City of Calgary.

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
Mcperson Place	BL3	58
Beswich House	BWH	10
Cedar Court	CD1	65
Connaught 3	CN3	46
Crescent Heights 1	CT1	40
Creswood 1	CW1	60
Forest Lawn 1	FLT	28
Lincoln Park 7	LP7	65
Lomond	LM1	15
Louise Station	LS2	88
Lumino	MCN	88
Trinity Foundation	MCL	70
Manchester Tower	MC3	132
Parkhill 1	PK1	9
Forest Height 9	RH9	2
Spring Bank 1	SB1	150
Vista Grande	VG1	41
Ogden Transitional	OTH	10
Vida	VMT	45
West End	WE1	47
Total		1,085

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, 2016

	BUDGET	2016	2015
REVENUE			
Rent revenue	\$ 8,990	\$8,651	\$ 8,848
Shared cost agreements			
<i>Restricted funds</i>	-	3	-
Insurance recoveries	-	567	189
Miscellaneous	291	280	284
	<u>9,281</u>	<u>9,501</u>	<u>9,321</u>
EXPENSES			
Administration	1,320	1,283	1,279
Amortization of tangible capital assets	40	33	41
Maintenance	2,551	2,313	1,655
Property operations	3,891	3,674	3,650
Utilities	986	858	912
Insurance	-	120	563
	<u>8,788</u>	<u>8,281</u>	<u>8,100</u>
EXCESS OF REVENUE OVER EXPENSES BEFORE OTHER ITEMS	493	1,220	1,221
OTHER ITEMS			
Return to The City of Calgary	(493)	(1,220)	(1,221)
	<u>(493)</u>	<u>(1,220)</u>	<u>(1,221)</u>
SURPLUS/(DEFICIT)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

City Owned Community Housing Portfolio (Unaudited)

This portfolio consists of 1,048 units [2015 – 1,048 units] in 20 properties [2015 – 20 properties] owned by The City of Calgary, as listed below. CHC manages this portfolio under agreements between the City of Calgary, Canada Mortgage and Housing Corporation (CMHC), and the Province of Alberta. The agreements provide that CMHC, The Province of Alberta, and The City of Calgary will fund or be refunded operating losses or surpluses in the ratio of 50%, 40%, and 10% respectively.

Property	Property Code	Number of Units
Bridgeland 2	BL2	210
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	64
Montgomery 1	MM1	26
Ogden 1	OD1	50
Oakridge 1	OR1	30
Penbrook 1	PB1	27
Spruce Cliff 1	SC2	245
West Dover 2	WD2	74
Total		1,048

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, 2016

	BUDGET	2016	2015
REVENUE			
Rent revenue	\$ 5,105	\$ 4,940	\$ 4,976
Government transfers			
<i>Shared cost agreements</i>	3,494	3,383	3,550
<i>Restricted funds</i>	-	65	46
Insurance recoveries	-	69	173
Miscellaneous	153	161	175
	<u>8,752</u>	<u>8,618</u>	<u>8,920</u>
EXPENSES			
Administration	1,018	935	807
Amortization of tangible capital assets	38	32	40
Maintenance	2,346	2,838	3,107
Property operations	3,358	3,116	3,148
Utilities	1,992	1,644	1,653
Insurance	-	53	165
	<u>8,752</u>	<u>8,618</u>	<u>8,920</u>
EXCESS OF REVENUE OVER EXPENSES BEFORE OTHER ITEMS	-	-	-
SURPLUS/(DEFICIT)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

Provincially Owned Community Housing Portfolio (Unaudited)

This portfolio consists of 2,721 units [2015 – 2,721 units] in 100 properties [2015 - 100 properties] owned by the Province of Alberta as listed below. The provincial government will fund or be refunded any losses or surpluses on a fiscal year basis.

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

Calhome Properties Ltd.
Operating as 'Calgary Housing Company'

Property	Property Code	Number of Units
Erinwoods 2	EW2	14
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	34
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'

Property	Property Code	Number of Units
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		2,721

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, 2016

	BUDGET	2016	2015
REVENUE			
Rent revenue	\$ 12,895	\$ 12,598	\$12,916
Government transfers			
<i>Shared cost agreements</i>	8,043	8,383	8,033
<i>Restricted funds</i>	-	-	134
Miscellaneous	248	299	302
	<u>21,186</u>	<u>21,280</u>	<u>21,385</u>
EXPENSES			
Administration	2,593	2,428	2,093
Amortization of tangible capital assets	100	82	103
Maintenance	3,627	5,133	5,796
Property operations	8,121	7,626	7,472
Taxes and leases	1,046	1,046	1,046
Utilities	5,699	4,958	4,869
Insurance	-	7	6
	<u>21,186</u>	<u>21,280</u>	<u>21,385</u>
EXCESS OF REVENUE OVER EXPENSES BEFORE OTHER ITEMS	-	-	-
SURPLUS/(DEFICIT)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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, 2016

	BUDGET	2016	2015
REVENUE			
Government transfers			
<i>Shared cost agreements</i>	\$ 801	\$ 714	\$ 734
Rent supplement funding	19,982	18,817	20,198
	<u>20,783</u>	<u>19,531</u>	<u>20,932</u>
EXPENSES			
Administration	1,385	1,281	1,339
Rent supplement payments	19,398	18,250	19,593
	<u>20,783</u>	<u>19,531</u>	<u>20,932</u>
SURPLUS/(DEFICIT)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Corporate Structures List Audit

EXECUTIVE SUMMARY

The City Auditor's Office issued the Corporate Structures List (CSL) Audit Report to Administration on November 03, 2017. The report includes Administration's response to six recommendations raised by the City Auditor's Office to Facility Management. Administration accepted all recommendations and has committed to the implementation of action plans no later than December 31, 2018. 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 2017/18 Annual Audit Plan was approved on November 10, 2016. 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 2017/18 Annual Audit Plan. The objective of the audit was to assess the effectiveness of the CSL as a tool to manage the facility portfolio at a corporate level. This was achieved by assessing time frames and criteria for moving the initiative to a sustainment phase, and the design of controls that ensure information quality. As the list was under development, and subject to ongoing additions and alternations, we did not test its accuracy.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Since beginning the CSL initiative in March 2016, Facility Management (FM) has populated the listing with information on over 3,000 structures. For each structure the CSL identifies its location on a map, address, construction year and building steward responsible for maintenance. The listing is stored within The City's existing geographic information system (GIS), which has allowed the initiative to avoid the additional upfront costs, ongoing support costs and time associated with implementing a new system.

The CSL tool provides a foundation for managing The City's facility portfolio at a corporate level. However, the initiative does not have formal objectives to provide clarity of purpose and balance the different stakeholder needs. As such we are currently unable to provide full assurance on CSL effectiveness, as a tool to manage the facility portfolio at a corporate level.

FM is successfully collaborating with stakeholders across the corporation, both for data collection and to understand their usage needs. In addition to supporting efficient facility management the CSL is planned to be used for emergency management, securing buildings, ensuring appropriate insurance coverage and responding to 311 requests. Finally, FM has

Corporate Structures List Audit

identified and is in the process of implementing controls to address risks to the CSL's information quality.

The information quality controls in place provides sufficient checks at the CSL's current development phase. This reflects that during development, a small number of individuals within FM are comparing information received against multiple sources to validate its quality. As the initiative moves into sustainment, preventative controls are needed, and the detective information quality controls FM are currently implementing will need to be formalised.

Stakeholder Engagement, Research and Communication

This audit was conducted with Facility Management acting as the principal audit contact 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 included on the 2017/18 audit plan as a continuation of the Facility Utilization Audit (AC2014-0086), presented to Audit Committee in January 2014. A key recommendation from the Facility Utilization Audit was to define data on a centralized basis to efficiently and effectively manage The City's facility portfolio at a corporate level. The CSL is an important component in actioning this recommendation through the creation of a comprehensive listing of structures owned by The City.

REASONS 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

AC2017-1150 CORPORATE STRUCTURES LIST AUDIT



City Auditor's Office

Corporate Structures List Audit

November 3, 2017

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The City Auditor's Office completes all projects in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Executive Summary

The Corporate Structures List (CSL) initiative is constructing a comprehensive repository of structures by Business Unit, along with basic attributes for each structure. This initiative is significant due to the large number of stakeholders impacted and its role in ensuring space is efficiently utilized at a corporate level. Furthermore, reliable structure information is critical to ensure proper maintenance, insurance and cost management of each structure.

The objective of the audit was to assess the effectiveness of the CSL as a tool to manage the facility portfolio at a corporate level. This was achieved by assessing time frames and criteria for moving the initiative to a sustainment phase¹, and the design of controls that ensure information quality. As the list was under development, and subject to ongoing additions and alternations, we did not test its accuracy.

Since beginning this initiative in March 2016, Facility Management (FM) has populated the listing with information on over 3,000 structures. For each structure the CSL identifies its location on a map, address, construction year and building steward responsible for maintenance. The listing is stored within The City's existing geographic information system (GIS), which has allowed the initiative to avoid the additional upfront costs, ongoing support costs and time associated with implementing a new system.

The CSL tool provides a foundation for managing The City's facility portfolio at a corporate level. However, the initiative does not have formal objectives to provide clarity of purpose and balance the different stakeholder needs identified in the next paragraph. As such we are currently unable to provide full assurance on CSL effectiveness, as a tool to manage the facility portfolio at a corporate level.

FM is successfully collaborating with stakeholders across the corporation, both for data collection and to understand their usage needs. In addition to supporting efficient facility management the CSL is planned to be used for emergency management, securing buildings, ensuring appropriate insurance coverage and responding to 311 requests. Finally, FM has identified and is in the process of implementing controls to address risks to the CSL's information quality.

The information quality controls in place provides sufficient checks at the CSL's current development phase. This reflects that during development, a small number of individuals within FM are comparing information received against multiple sources to validate its quality. As the initiative moves into sustainment, preventative controls are needed, and the detective information quality controls FM are currently implementing will need to be formalised.

We raised four recommendations to support CSL as the initiative moves into sustainment phase. These recommendations are:

1. Define objectives for the CSL to provide clarity of purpose and balance stakeholder needs.
2. Articulate and formalize definitions of structures to be included and attributes collected for each.

¹ Sustainment is the phase after the launch of the initiative that focusses on maintenance and iterative refinements.

3. Map relationships between the CSL and other systems holding information on structures to support data completeness, and
4. Enhance and complete implementation of data quality controls.

Facility Management has agreed to all recommendations and committed to implementing the recommendations by December 31, 2018. The City Auditor's Office will monitor the status of commitments as part of its ongoing recommendation follow-up process.

1.0 Background

The CSL was initiated in March 2016 by FM to create and maintain a comprehensive listing of structures by Business Unit, along with basic attributes (building name, address and number of staff). The information is stored as a layer within The City's corporate wide GIS, which plots each structure as a polygon on the map (see Figure 1).

This listing is currently under construction; as at June 2017 it captures information on 3,027 structures that The City owns, leases or has another relationship with. The scope of the structures list is broader than just buildings. For example it includes information on Fuel Pumps for the benefit of the Calgary Emergency Management Agency (CEMA). Attributes captured in the CSL include address, Business Unit responsible for the structure and number of staff in the building. The list also includes references that link to the asset in financial reporting records and another GIS layer prepared by Corporate Analytics and Innovation.

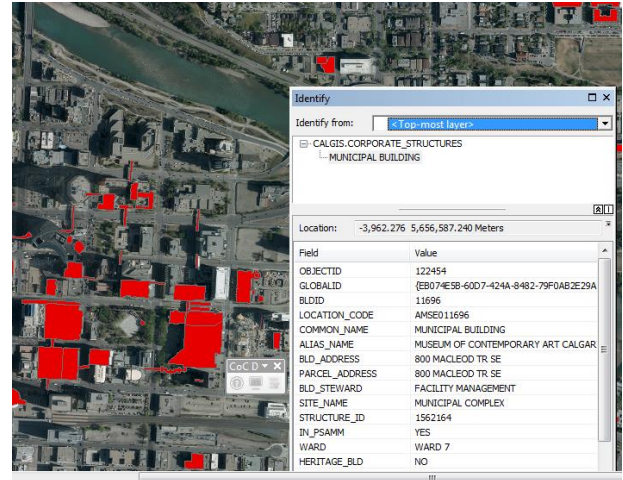


Figure 1: CSL layer within The City's GIS

The CSL is positioned by FM as containing key data that will benefit and support a multitude of stakeholders as illustrated in Figure 2². Long term FM envisions CSL as an enabler for:

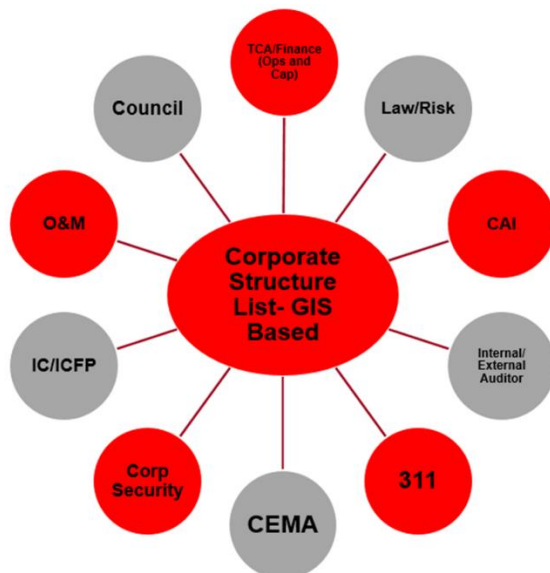


Figure 2: CSL Stakeholders

- Efficiency Savings - by managing the facility portfolio as a strategic resources across the corporation. (e.g. corporate-wide integrated facility planning to optimize space used and coordinate maintenance).
- Emergency Management - by providing information, on buildings The City has access to and is responsible for. Furthermore, The CSL is a feed into the Calgary Emergency Management Agency's Common Operating Platform.
- Risk Management - by providing the information to ensure buildings are properly insured, have appropriate security arrangements and responsibility is assigned for maintenance.
- Financial Reporting - by ensuring financial records are complete (e.g. structures are not missing) and all assets within the financial records exist (e.g. the structure has not been demolished or sold).

² Figure 2 created by Data and Technology Lead, FM

- Responding to Citizen Requests – 311 can use the information in the CSL to confirm if the structure is City owned and to direct the request to the responsible party.

An audit of corporate facilities management was included on the 2017/18 audit plan as a continuation of the Facility Utilization Audit (AC2014-0086), presented to Audit Committee in January 2014. A key recommendation from the Facility Utilization Audit was to define data on a centralized basis to efficiently and effectively manage The City's facility portfolio at a corporate level. The CSL is an important component in actioning this recommendation through the creation of a comprehensive listing of structures owned by The City.

2.0 Audit Objectives, Scope and Approach

2.1 Audit Objective

The objective of this audit was to assess the effectiveness of the CSL as a tool to manage the facility portfolio at a corporate level.

The objective was achieved by:

- Evaluating time frames and criteria for moving the initiative from development to a longer term sustainment phase.
- Evaluating the design of the following controls, which management has identified and are in the process of implementing to address data quality risks:
 - Quarterly, Facilities Management provide a report to the Business Units to verify completeness and accuracy of the information contained within the CSL.
 - Quarterly, fields within the CSL are verified against other layers within the GIS system (prepared by other groups) to ensure consistency of structure ID, address and year of construction.
 - Quarterly, the location of GIS polygons within the CSL are verified against other GIS layers (spatial verification) to ensure accuracy.
 - Quarterly, information within the CSL is verified against PeopleSoft Asset Management (PSAM) to identify transfers, disposals or addition of assets, and to ensure steward information is up to date.
 - Update access to the Corporate Structures List is restricted to users with a valid business need.
- Identifying additional controls necessary to address the data quality risks identified in the Appendix.

2.2 Audit Scope

The scope of the audit comprised the status of the CSL at June 30, 2017, design of associated controls and future plans for sustainment phase. Accuracy of data within the list was not tested because information was being modified and added during its development phase.

2.3 Audit Approach

Our audit approach was designed to ensure appropriate controls will be in place, when management transitions the CSL to sustainment phase. We conducted interviews with management, reviewed procedure documentation and assessed the design of controls.

3.0 Results

The CSL provides a foundation for managing The City's facility portfolio at a corporate level based upon the initiative's progress and information quality. The initiative's progress was assessed by evaluating time frames and criteria for moving the initiative from development to sustainment phase. Information quality was assessed by evaluating the design of controls, which management is in the process of implementing, to address data quality risks and identifying additional controls necessary to address these.

3.1 Initiative Progress

We inquired with FM, other stakeholders, and inspected project documentation, to understand the progress made to date and the initiative's future direction.

FM has populated over 3,000 structures into CSL, since its initiation in March 2016. The CSL uses The City's existing GIS, which has allowed the initiative to avoid the additional upfront costs, ongoing support costs and time associated with implementing a new system.

Information collected within the CSL is relevant to the management of facilities at a corporate level, since it identifies the location on a map, address, construction year and building steward. Knowing where The City's structures are and who is responsible for maintaining them, is foundational to managing them on a corporate level. Over time FM plans to add information on facility condition and current replacement value. Providing this additional information will facilitate the prioritization of expenditure and making decisions regarding the renovation or disposal of various structures.

Management created a charter document which identified nine stakeholders, including property owning Business Units. The charter document does not establish timeframes. Our interviews with stakeholders found that FM was successfully collaborating with property owning Business Units to populate the CSL, and to address errors that were identified in other systems through this process.

To understand the future direction of the initiative, we evaluated if objectives, requirements and milestones had been formally defined. This evaluation was done by reviewing the project charter and discussions with FM personnel. The large number of stakeholders impacted by the CSL and its organizational-wide reach, means that there is value in formally defining them. This would provide clarity of purpose and balance different stakeholder needs. Objectives can then be translated into requirements that determine if a phase of the CSL was completed and milestones to track progress. As these items were not defined, in section 4.1, we recommended formally defining them.

3.2 Information Quality

To identify risks to information quality, we used information quality criteria identified in the COBIT 5 Information Model³. COBIT is a framework for the governance and management of enterprise information technology. We identified and agreed with FM the four risks, which if unmitigated, would present the greatest information quality risk to the CSL and mapped these to controls (see Appendix). These risks are that information within the CSL is:

1. Inaccurate or is not regarded by stakeholders as a credible source

³ COBIT is published by ISACA and more details can be found at <http://www.isaca.org/COBIT/pages/default.aspx>

2. Outdated
3. Incomplete
4. Misunderstood or interpreted in an inconsistent manner.

Management has began to implement detective controls, which address the first three risks. These controls are:

1. On a quarterly basis FM provide a report to the Business Units to verify completeness and accuracy of the information contained within the CSL. (risks 1, 2, 3)
2. Verification of information within the CSL against other GIS layers and PeopleSoft Asset Management to ensure the consistency of information. (risk 2)

In addition, management had implemented a preventative control restricting update access to the CSL (risk 1). We identified an opportunity to further restrict access, which was promptly implemented.

A formal control to address the fourth risk does not exist. However, FM is closely collaborating with business units to populate the CSL. This close collaboration helps to reduce some of the inherent risk at this stage in the CSL's development.

In addition, we recommended additional preventative controls in the area of data definition (section 4.2) and mapping between the CSL and other systems (section 4.3). Although three of the risks listed previously had controls under implementation that could identify errors after the fact, it would be more efficient and improve data quality to implement preventative controls. Data definition address the risk of stakeholders misunderstanding or interpreting data in an inconsistent manner (risk 4), completeness (risk 3) and accuracy (risk 1). Data mapping will contribute towards mitigating the risk associated with the completeness of the listing (risk 3).

We examined the design effectiveness of the detective controls under implementation by examining the review frequency, roles assigned to perform the review, criteria used in the review, follow up on items identified, evidence retained, and availability of procedures. Areas that needed to be formalised were evidencing the review, accountabilities for performing the review when parties outside FM were involved and procedure documentation. In section 4.4 we made recommendations to address these areas, which will ensure controls are performed completely and consistently as the CSL moves into its sustainment phase.

4.0 Observations and Recommendations

4.1 Initiative Objectives

Initiative objectives have not been defined for the CSL. We expected objectives would be defined prior to the start of the initiative. Clearly defined objectives provide clarity of purpose, and assist in prioritizing the needs of different stakeholders that utilize the CSL for a variety of information needs. Information collected within the CSL provides a foundation towards managing the facility portfolio at a corporate level. As a result, objectives need to include collecting and reporting on City of Calgary structure data, to support strategic objectives of efficient corporate space utilization.

These objectives can then be translated into requirements that determine if a phase of CSL was completed and milestones to track progress.

Recommendation 1

The Director of Facility Management define:

1. Strategic objectives for the CSL, which include amongst other objectives collecting and reporting on data to allow space to utilized efficiently at a corporate level.
2. Requirements to be completed for each phase of the CSL initiative and milestones to track each phase.

Management Response

Agree.

Action Plan	Responsibility
FM will consult with stakeholders and define written objectives for the Corporate Structures List. One objective will include collecting and reporting on City of Calgary structure data, to support strategic objectives of efficient corporate space utilization. FM will work to define the work into various phases for appropriate roll-out and tracking, using milestones.	<u>Lead</u> : Data and Technology Lead, FM <u>Support</u> : Building Inventory Technician, FM <u>Commitment Date</u> : June 30, 2018

4.2 Data Definitions

The CSL does not have documented definitions of the structures that should be included in the CSL, or attributes collected for each structure. Defining these will contribute to ensuring the CSL is complete, accurate, and that information within the list is interpreted consistently by different users.

The CSL is utilized by multiple stakeholders including Finance, Risk Management, 311, Calgary Emergency Management Agency (CEMA) and Corporate Security. The scope of CSL is

broader than buildings and include “significant” structures. Interviews conducted across a sample of three Business Units highlighted that each Business Unit has a different interpretation of significant structures. Defining significant structures will help clarify multiple stakeholder requirements (e.g. fuel pumps are included for the benefit of CEMA, but could be of less relevance to other Business Units).

The CSL captures attributes for each structure, titles of these include LOCATION_CODE, STRUCTURE_ID, BLD_ADDRESS and PARCEL_ADDRESS. Attributes to be captured later include BOMA_INTERIOR_GROSS, FCI and CRV. No written definitions exist of the meaning, usage and format of each of these attributes.

The absence of formal definitions could result in inaccurate data capture, or misinterpretation when different stakeholders report on the information, all of which could jeopardize the reliance and use of the CSL.

Recommendation 2

The Director of Facility Management consult with stakeholders to determine the scope of structures which should be captured in the CSL, and attributes captured for each. Based upon this consultation create and maintain publicly available definitions, which can be used to determine if a structure will be included in the CSL.

Management Response

Agree.

Action Plan	Responsibility
FM will work with BUs to determine exactly what should be captured within the CSL and then provide that definition in each Quarterly Report and within a CSL area of the FM intranet site.	<u>Lead</u> : Data and Technology Lead, FM <u>Support</u> : Building Inventory Technician, FM <u>Commitment Date</u> : September 30, 2018

Recommendation 3

The Manager of Operational Coordination, create and maintain a document available to all internal users that outlines definitions for all attributes included in the CSL. This should define the meaning, origin (i.e. if from a corporate system) and usage of each attribute.

Management Response

Agree.

Action Plan	Responsibility
FM will define each attribute (including meaning, origin and usage) within a document within a CSL area of the FM intranet site. We will also revisit quarterly to see if updates are required.	<u>Lead</u> : Data and Technology Lead, FM <u>Support</u> : Building Inventory Technician, FM <u>Commitment Date</u> : September 30, 2018

4.3 Data Mapping

Data in the CSL is also captured in Business Unit asset management systems and PeopleSoft Asset Management (PSAM). However, relationships between these systems are not formally defined. Formally defining these relationships will provide the opportunity to more easily identify discrepancies between systems and address the risk of any system missing a structure.

The most common Business Unit asset management system is Infor EAM. Infor EAM has an asset hierarchy that breaks assets down from a macro level, into more granular items (e.g. individual HVAC units). It has not been defined if a level in this hierarchy should correspond to the CSL.

PeopleSoft Asset Management, the system for reporting on Tangible Capital Assets, has broad asset classes and more specific profiles. For example, the engineered structures asset class, includes profiles that range from water treatment plants to fences. The CSL includes assets that fall both within the engineered structures and building PSAM asset classes. However, not every profile within the engineered structures class will be included in the CSL. The mapping between PSAM profiles and the CSL has not been defined.

Recommendation 4

The Director of Facility Management:

1. Assess the applicability and define the relationship between the CSL and other systems holding structure data.
2. As applicable, engage with other system owners to identify opportunities to support increased alignment. For example, use of common identifiers and processes to escalate discrepancies.

Management Response

Agree.

Action Plan	Responsibility
<p>FM has taken steps to align with 311, CEMA's Common Operating Platform and Building Central. Going forward we will:</p> <ol style="list-style-type: none">1. Determine and document the extent of the relationship between CSL and other systems holding corporate structure data. This will include Infor and PSAM.2. We will review opportunities to support increased alignment based upon discussions with system owners.	<p><u>Lead</u>: Data and Technology Lead, FM</p> <p><u>Support</u>: Building Inventory Technician, FM</p> <p><u>Commitment Date</u>: December 31, 2018</p>

4.4 Formalization of Controls

FM has identified and begun implementing controls to ensure the completeness and accuracy, currency and completeness of the CSL. Controls should have individuals accountable for their performance, documented processes and evidence retained to demonstrate the control was performed in its entirety. Our review identified design improvements, which will ensure controls are performed consistently and completely, regardless of any staff turnover.

Quarterly verifications - Quarterly an extract from the CSL is sent to multiple contacts within each facility owning Business Unit to identify missing or inaccurate information. However, there is not a designated individual within each Business Unit responsible for performing this review and signing off (e.g. an e-mail confirmation) to confirm completion of their review. Timeframes are not established for performing the review and written procedures do not exist. Finally, in the absence of defined data definitions (section 4.3) it is difficult for the reviewer to effectively perform this task. This is because reviewers cannot be confident of which structures should be included in the CSL and the correct value for each attribute.

Comparisons between the CSL and other source systems - Documentation retained for the comparisons between CSL and other data sources indicates some exceptions were resolved based upon activity taken to correct them. However, this documentation retained does not verify that all exceptions were properly identified and resolved. For this it would be necessary to retain documentation of the sources compared, exceptions that were identified through the comparison, and the follow-up that was undertaken.

Recommendation 5

The Manager of Operational Coordination, Facility Management:

- Establish accountable contacts within each Business Unit for reviewing that Business Unit's part of the CSL.
- As part of the quarterly verification package sent to Business Units, include information on structures that are included in the CSL and definitions of the attributes collected for each.
- Establish time frames for completing the review and written procedures for performing the review.
- Implement a process for these contacts to confirm their review has taken place and retain these confirmations.

Management Response

Agree.

Action Plan	Responsibility
FM will establish and implement the items from the above recommendation for quarterly business unit verifications starting in Q3 2018. These processes will be documented in the Appendix of the quarterly reports and procedure documents as appropriate.	<u>Lead</u> : Data and Technology Lead, FM <u>Support</u> : Building Inventory Technician, FM <u>Commitment Date</u> : September 30, 2018

Recommendation 6

The Manager of Operational Coordination, Facility Management retain documentation of the sources compared, exceptions that were identified through the comparison, and the follow up that was undertaken.

Management Response

Agree.

Action Plan	Responsibility
For reviews starting in 2018, FM will retain documentation of the most recent review. This will evidence sources compared, exceptions identified through the comparison, and the follow up that was undertaken.	<u>Lead</u> : Data and Technology Lead, FM <u>Support</u> : Building Inventory Technician, FM <u>Commitment Date</u> : March 31, 2018

Appendix: Data Quality Risks and Controls

Risk #	Risk	Controls *
1	Information held within the Corporate Structures List is inaccurate or is not regarded by stakeholders as a credible source.	On a quarterly basis Facilities Management provide a report to the Business Units to verify completeness and accuracy of the information contained within the Corporate Structures List.
		Fields within the Corporate Structures List are verified against other layers within the GIS system (prepared by other groups) to ensure consistency of structure ID, address and year of construction.
		Location of GIS polygons within the Corporate Structures List are verified against other GIS layers (spatial verification) to ensure accuracy.
		On a quarterly basis, information within the Corporate Structures List is verified against PSAM to identify transfers, disposals or addition of assets, and to ensure steward information is up to date.
		Update access to the Corporate Structures List is restricted to users with a valid business need
2	Information held within the Corporate Structures List is outdated.	On a quarterly basis, information within the Corporate Structures List is verified against PSAM to identify transfers, disposals or addition of assets, and to ensure steward information is up to date.
		On a quarterly basis Facilities Management provide a report to the Business Units to verify completeness and accuracy of the information contained within the Corporate Structures List.
3	Corporate Structures List is incomplete.	On a quarterly basis Facilities Management provide a report to the Business Units to verify completeness and accuracy of the information contained within the Corporate Structures List.
4	Data in the corporate structures list is misunderstood or interpreted in an inconsistent manner.	Control not identified.

* Controls were identified through interviews with management and review of documentation during the planning phase of the audit.

CITY AUDITOR'S OFFICE 3rd QUARTER 2017 REPORT

EXECUTIVE SUMMARY

This report presents a summary of the activity of the City Auditor's Office during the period July 1, 2017 to September 30, 2017.

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. 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 annual audit plan. The City Auditor's Office 2017/18 Annual Audit Plan was approved on November 10, 2016.

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 Audit Committee on a key initiative/responsibility; and
- A summary of our current status against the approved Annual Audit Plan.

During 3rd Quarter 2017, the City Auditor's Office:

- Finalized three audits, completed the planning stage on four audits, completed the fieldwork on one audit, and initiated one further audit.
- Reviewed 29 recommendations and closed 21 recommendations (20 implemented and 1 management accepted the risk). Eight recommendations required additional time and are in-progress.
- Received 21 new whistle-blower reports, and closed 8 investigations.
- Continued to provide input to Infrastructure Calgary, and the Corporate Project Management Framework Steering Committee on an advisory basis.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

N/A

Stakeholder Engagement, Research and Communication

N/A

CITY AUDITOR'S OFFICE 3rd QUARTER 2017 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

AC2017-1204 CITY AUDITOR'S OFFICE 3rd QUARTER 2017 REPORT



Calgary

City Auditor's Office

3rd Quarter 2017 Report July 1, 2017 – September 30, 2017

December 14, 2017

**Katharine Palmer
City Auditor**

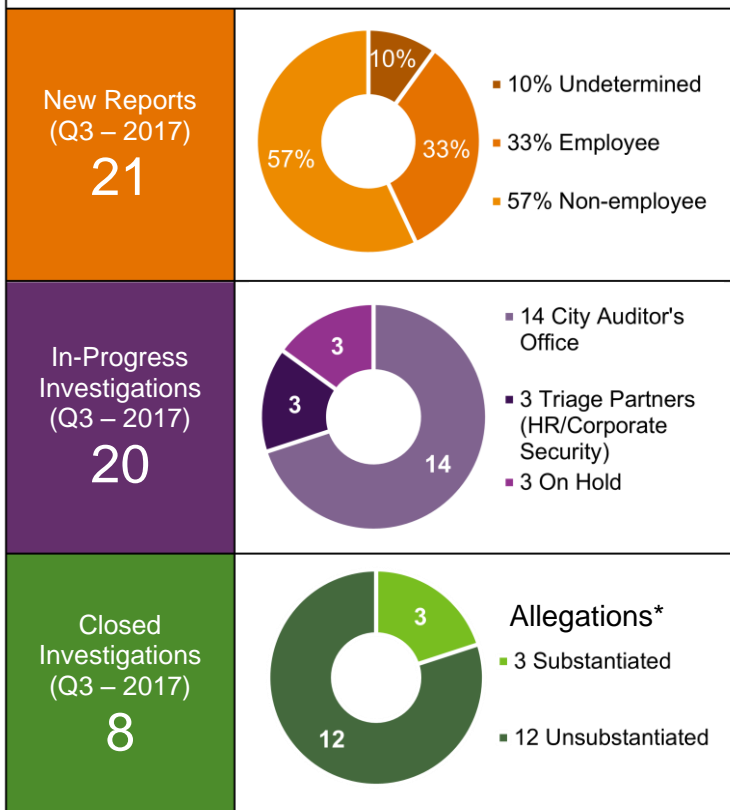
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1. Status Update

Key Performance Indicators

Measure Area	Performance Indicator	Target	Q2	Q3
Efficiency	On Track to Annual Plan	Q2-50% Q3-75%	46%	66%
Efficiency	Project Hours Variance	-10% - +10%	-8%	-13%
Effectiveness	Recommendation Agreement	95%	100%	100%
Effectiveness	Timely Implementation of Recommendations	None	76%	59%
Quality	Client Satisfaction	75%	100%	98%
Staff	Training Plan Achieved	90%	94%	100%
Staff	Average Years of Service	3.5	4.1	4.3

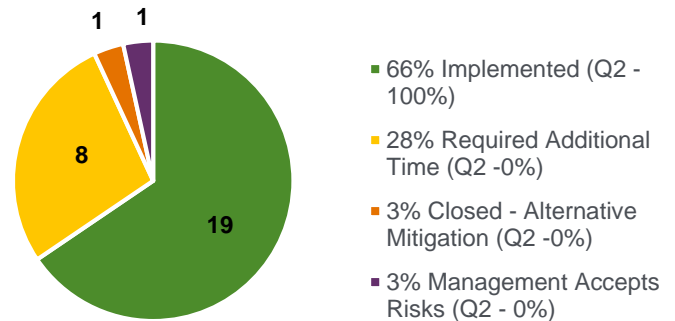
Whistle-blower Program Activity



*Corrective Actions/Recommendations are published at www.calgary.ca/whistle

Recommendation Follow-up

Results of 29 recommendations due in Q3 (Q2 - 29)

Outstanding Recommendations
of Revised Date Requests

Operating Budget (\$'000's)

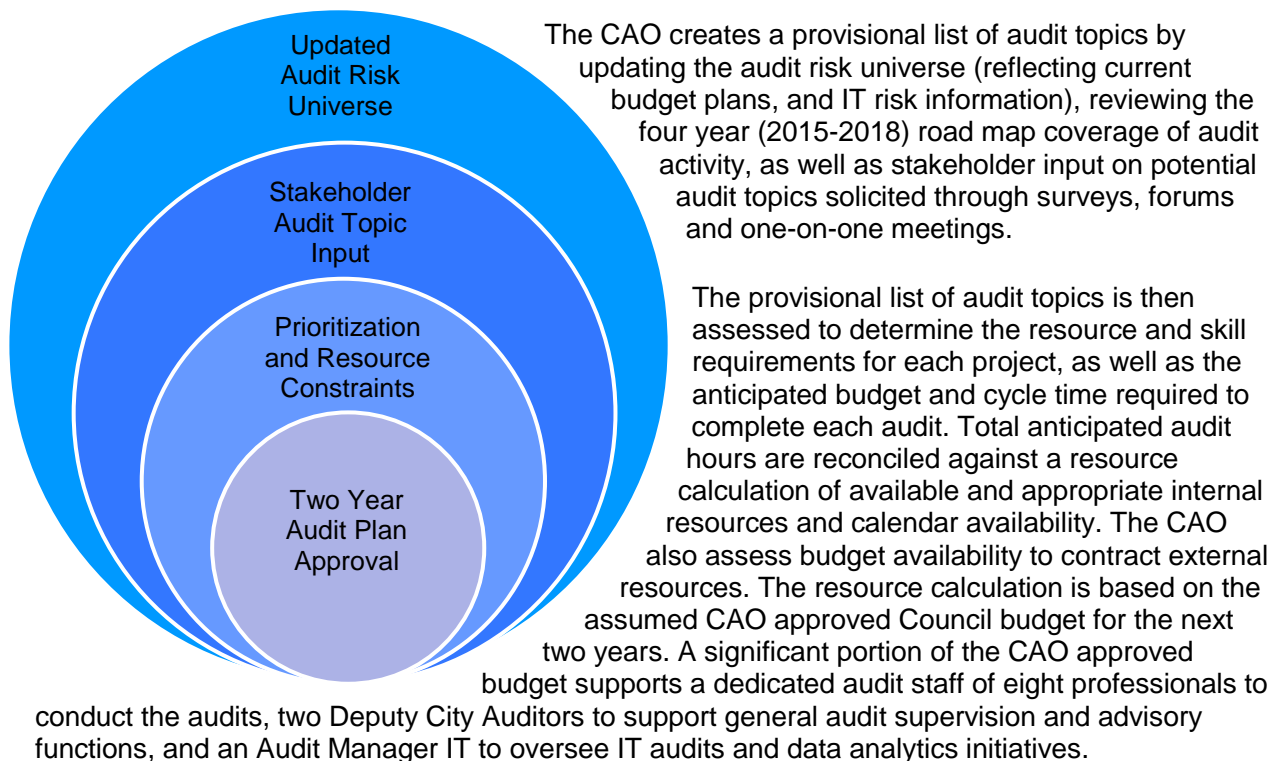
	2017 Annual Budget	Q3 Cumulative Budget	Actual to Date	Variance
Salary	2,619	1,965	1,745	220
Contracts	135	112	50	62
Training	65	49	46	3
Other	131	101	95	6
Total	2,950	2,227	1,936	291*

*Variance due to staff vacancies.

2. Initiative Briefing: Annual Audit Plan Process

The CAO utilizes a two year rolling Annual Audit Plan, which is updated annually and presented to Audit Committee for approval and to Council for information. The intent of presenting a two year plan is to provide additional transparency on future audits and provide greater agility for the City Auditor's Office to utilize available resources to support earlier initiation of year two audits where efficiency gains have been realized through early completion of year one audits. The CAO utilizes a risk based planning approach, and as such, projects in year one have more certainty than those listed in year two. The intent of the audit planning process is to focus audit resources on those higher risks that could impact the achievement of Council Priorities.

The process of determining the audit topics proposed in the Annual Audit Plan is set out in the diagram below.



The CAO shares the draft plan with other assurance groups operating within The City including the City team overseeing the Zero Based Reviews (ZBRs), the internal audit function of Calgary Police Service and the External Auditor. The two year Audit Plan is then presented for Audit Committee approval, and to Council for information.

As 2019 represents the beginning of a new four year budget and business plan for the City, the next two year plan will be presented to Audit Committee at the September 2018 meeting. The 2019-2020 CAO Annual Audit Plan will reflect a new service based audit risk universe, an updated 2019-2022 road map coverage of audit activity, and stakeholder input from Administration and Council.

2017/2018 Annual Audit Plan – Status as at September 30, 2017

2017/18 Annual Audit Plan				
#	Title	Description	Report Target	Status
2016 In-progress				
1	Landfill	An operational audit assessing the effectiveness of processes established to meet business objectives.	Q1	Complete Reported March
2	POSSE System	An IT audit focusing on the data integrity and sustainability of the business application.	Q1	Complete Reported March
3	New Central Library	An operational audit to provide assurance the project is on track and will meet business objectives of time, cost and quality.	Q1	Complete Reported January
4	Community Associations	An operational audit on Calgary Neighbourhoods' support of Community Associations.	Q1	Complete Reported June
5	Human Resources – Succession Planning	An operational audit assessing the effectiveness of succession planning strategies conducted across the organization.	Q2	Complete Reported June
Risk Assessed Priority: 2017				
1	Transit Fare Revenue (previously reflected as Transit Fleet Management)	An operational audit assessing the effectiveness of controls over the safe keeping of fare revenue.	Q2	Complete Reported April
2	IT Follow-up	A follow-up audit focused on management actions in response to previous CAO audit recommendations raised over the last 5 years.	Q2	Complete Reported July
3	911 Call Centre	An operational audit evaluating the efficiency of tools and resources employed in the emergency call handling processes.	Q3	Complete Reported September

2017/18 Annual Audit Plan				
#	Title	Description	Report Target	Status
4	Green Line LRT	An operational audit on the effective utilization of citizen engagement to support the objectives of the capital project. This is the first in a series of audits on Green Line LRT to be conducted over the lifespan of the project.	Q3	Fieldwork Revised Report Target: Q1 2018
5	Utility Billing	A follow-up audit focused on management actions in response to control improvement recommendations raised in a 2012 CAO advisory activity.	Q3	Complete Reported September
6	Corporate Facilities/Asset Management	An operational audit which continues an original CAO audit conducted in 2013.	Q4	Reporting
7	Treasury Management	An operational audit of treasury (cash flow) management.	Q4	Not Started Revised Report Target: Q2 2018
8	Procurement	A follow-up audit which will focus on management actions to address recommendations raised in previous CAO audits (from 2009 to current).	Q4	Fieldwork Revised Report Target: Q1 2018
9	Cyber Security Incident Response	An IT audit assessing the effectiveness of response processes established to support and protect critical data from cyber-attacks.	Q1, 2018	Planning Revised Report Target: Q2 2018
10	New Central Library Project	An operational audit on the readiness of Calgary Public Library and The City of Calgary to assume hand-off from the Calgary Municipal Land Corporation of the New Calgary Central Library.	Q1, 2018	Fieldwork

2017/18 Annual Audit Plan				
#	Title	Description	Report Target	Status
11	Corporate Credit Card (Data Analytics)	A compliance audit utilizing data analytics to assess the effectiveness of related Corporate Credit Card compliance and fraud prevention controls.	New	Fieldwork New addition to plan: Target Q1 2018
Risk Assessed Priority: 2018				
1	Employee Expenses	A compliance audit of employee expenses utilizing data analytics.	Q2, 2018	Not started
2	2017 Election Day	A management request (City Clerk's Office) to conduct a root cause analysis review of the issues which occurred on the 2017 election day and to evaluate proposed strategies to improve the election day process.	Q3, 2018	Not started
3	Open Data Program	An operational audit of the Open Data Program governance.	Q3, 2018	Not started
4	Real Estate Acquisitions (Green Line LRT)	An operational audit assessing the real estate acquisitions related to the Green Line LRT.	Q3, 2018	Not started
5	Annual Control Environment Assessment	An operational audit assessing control activities which support COSO Principle 10: Selects and Develops Control Activities.	Q4, 2018	Not started
6	Bonnybrook Plant D Expansion	An operational audit of the Bonnybrook Plant D Expansion capital project.	Q4, 2018	Not started
7	Community Planning/Calgary Approvals	An operational audit to assess the effectiveness of processes to improve permit timelines.	Q1, 2019	Not started
8	Calgary Community Standards – Livery Transport Services	An operational audit assessing the effectiveness of internal controls that support public and driver safety.	Q1, 2019	Not started

2017/18 Annual Audit Plan				
#	Title	Description	Report Target	Status
9	Calgary Parking Authority	An operational audit of Calgary Parking Authority's key internal control processes.	Q1, 2019	Not started
10	Emergency Management	An operational audit of emergency preparedness and related business continuity plans.	Q1, 2019	Not started
11	Finance System	<p>An IT audit assessing the efficiency and effectiveness of the finance system to manage budget and costs.</p> <p><i>This audit will be deferred to 2019 as upgrades to the finance system are planned during 2018.</i></p>	TBD in 2019	Not started

Audit Committee 2018 Work Plan

EXECUTIVE SUMMARY

This Report to Audit Committee seeks approval for Audit Committee's 2018 Work Plan.

ADMINISTRATION RECOMMENDATION:

That the Audit Committee:

1. Approves the Audit Committee's 2018 Work Plan; and
2. Recommends that Council receive this Report and the 2018 Work Plan (Attachment) for Information.

PREVIOUS COUNCIL DIRECTION / POLICY

The Audit Committee Bylaw 48M2012, as amended, states that Audit Committee:
Schedule A

- 1 k) develops a detailed annual work plan which is forwarded to Council for information.

BACKGROUND

The proposed 2018 Audit Committee Work Plan (Attachment) is intended to be a guide for Audit Committee's major governance activities for the year. The Attachment outlines the planned reports to Audit Committee, grouped by meeting dates and indicates the accountability for each report.

At the time of writing this report Council had not adopted the Council Calendar for the months 2018 February through to December. Dates for the Audit Committee Meetings during this period are tentative until formally adopted by Council and the 2018 Work Plan attached to this report reflects this.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

The planned reports in the 2018 Work Plan are based on Audit Committee's governance responsibilities as outlined in the *Municipal Government Act*, the Audit Committee Bylaw 48M2012, as amended, and decisions by Audit Committee and Council.

Pursuant to Section 10(3) of Bylaw 48M2012, as amended, "the Chair has the responsibility and authority to set the Agenda for Audit Committee meetings". Throughout the year, the Chair may add emerging issues to the Work Plan, and defer or remove items no longer required.

To be noted in this 2018 Work Plan is that the City Auditor will provide the Audit Committee with the two-year rolling Audit Plan for 2019 / 2020 in 2018 September. The current City Auditor's Office Audit Plan was developed for 2017 / 2018 and was approved by Audit Committee on 2016 December 10. Council received the 2017 / 2018 Audit Plan for information at the 2017 January 11 Combined Meeting. The City Auditor's Office audit reports will be added throughout the year to the Audit Committee's 2018 Work Plan and meeting agendas, as available.

Audit Committee 2018 Work Plan

Every Closed Meeting contains several verbal reports which allow members of the Audit Committee, the External Auditor, City Auditor and Chief Financial Officer with the opportunity to discuss confidential issues protected under the *Freedom of Information and Protection of Privacy Act*. These Closed Meetings are considered a best practice for Audit Committees.

Stakeholder Engagement, Research and Communication

This plan has been reviewed with the City Auditor, Chief Financial Officer, External Auditor and other stakeholders as appropriate.

Strategic Alignment

The Audit Committee's 2018 Work Plan is an integral part of ensuring the integrity of the City's assets and operations, and aligns with Council's Priority of a well-run city; "Calgary's government is open, responsible, accountable and transparent, delivering excellent services at a fair price. We work with our government partners to ensure we have the tools we need".

Social, Environmental, Economic (External)

Not applicable.

Financial Capacity

Current and Future Operating Budget:

The budget for Audit Committee was approved in the 2015-2018 Budget. No additional budget adjustments are anticipated for the 2018 Work Plan.

Current and Future Capital Budget:

Not applicable.

Risk Assessment

The 2018 Work Plan ensures the Audit Committee meets the requirements of their mandate as contained in Audit Committee Bylaw 48M2012, as amended.

REASON(S) FOR RECOMMENDATION(S):

The Audit Committee 2018 Work Plan is based upon previous years' work plans, emerging issues, decisions of Audit Committee and Council, as well as best practices. The 2018 Work Plan will enable the Audit Committee to meet its Bylaw and governance requirements.

ATTACHMENT

Audit Committee 2018 Work Plan

AUDIT COMMITTEE 2018 WORK PLAN		
MEETING DATE	REPORT TITLES	REPORT ACCOUNTABILITY
JANUARY 26 (FRIDAY)	External Auditor 2016 Management Letter Update	External Auditor
	Annual Principal Corporate Risk Report	City Manager
	Audit Committee Orientation – Part 2 (not part of Agenda)	Executive Assistant to Audit
	City Auditor's Office 2018/2019 Audit Plan	2018 Audit Plan – See 2017 Dec 14, AC2017-1204. 2019 Audit Plan - scheduled 2018 Sept.
	<u>CLOSED MEETING</u>	
	City Auditor's Compensation	Chair of Audit Committee
	Audit Forum (Verbal Report)	Audit Committee and CFO
	City Auditor (Verbal Report)	City Auditor
	External Auditor (Verbal Report)	External Auditor
	----- City Auditor's Office Audit Reports	-----
	When Available	City Auditor
FEBRUARY (Date to be determined)	City Auditor's Office 2017 Annual Report	City Auditor
	Audit Committee 2017 Year-End Annual Status Report	Executive Assistant to Audit
	Annual Update – Information Technology Risk Management	Chief Financial Officer
	Committee Development (not part of Agenda)	Executive Assistant to Audit
	<u>CLOSED MEETING</u>	
	Audit Forum (Verbal Report)	Audit Committee and CFO
	City Auditor (Verbal Report)	City Auditor
	External Auditor (Verbal Report)	External Auditor
	----- City Auditor's Office Audit Reports	-----
	When Available	City Auditor

MARCH	NO MEETING	
APRIL (Date to be determined)	Control Environment Assessment and Management Representations Update 2017 Annual Investment Report 2017 City of Calgary Annual Report 2017 External Auditor's Year-End Report City Auditor's Office 1 st Quarter 2018 Status Report <u>CLOSED MEETING</u> External Auditor Performance Review (Verbal) 2018 Law Department Annual Report Civic Partner Audit Report Audit Forum (Verbal Report) City Auditor (Verbal Report) External Auditor (Verbal Report) ----- City Auditor's Office Audit Reports When Available	Chief Financial Officer Chief Financial Officer Chief Financial Officer External Auditor City Auditor Chair of Audit City Solicitor, Law and Legislative Services GM Community Services Audit Committee and CFO City Auditor External Auditor ----- City Auditor
MAY	<u>NO MEETING</u>	
JUNE (Date to be determined)	ENMAX Audit and Finance Committee Annual Report Calgary Convention Centre Authority – Audit Committee Annual Report Calgary Municipal Land Corporation - Audit Committee Annual Report External Auditor 2017 Management Letter Code of Conduct Annual Report <u>CLOSED MEETING</u> Audit Forum (Verbal Report) City Auditor (Verbal Report) External Auditor (Verbal Report) -----	ENMAX Calgary Convention Centre Authority Calgary Municipal Land Corporation External Auditor Chief Financial Officer Audit Committee and CFO City Auditor External Auditor -----

	City Auditor's Office Audit Reports When Available	City Auditor
JULY (Date to be determined)	<p>Calgary Public Library Audit and Finance Committee Annual Report</p> <p>Calgary Arts Development Authority Audit Committee Annual Report</p> <p>Integrated Risk Management Model Update</p> <p>City Auditor's Office 2nd Quarter 2018 Status Report</p> <p>External Auditor 2018 Service Plan and Fees</p> <p>Committee Development (not part of Agenda)</p> <p><u>CLOSED MEETING</u></p> <p>External Auditor 2017 / 2018 Performance Assessment</p> <p>Audit Forum (Verbal Report)</p> <p>City Auditor (Verbal Report)</p> <p>External Auditor (Verbal Report)</p> <p>-----</p> <p>City Auditor's Office Audit Reports</p> <p>When Available</p>	<p>Calgary Public Library</p> <p>Calgary Arts Development Authority</p> <p>Chief Financial Officer</p> <p>City Auditor</p> <p>External Auditor</p> <p>Executive Assistant to Audit</p> <p>Executive Assistant to Audit</p> <p>Audit Committee and CFO</p> <p>City Auditor</p> <p>External Auditor</p> <p>-----</p> <p>City Auditor</p>
AUGUST	<u>NO MEETING</u>	
SEPTEMBER (Date to be determined)	<p>Calgary Police Commission Finance and Audit Committee Annual Report</p> <p>Calgary Housing Company Audit and Risk Management Committee Annual Report</p> <p>Attainable Homes Calgary Corporation Audit and Accountability Committee Annual Report</p> <p>City Auditor's Office 2019 / 2020 Audit Plan</p> <p><u>CLOSED MEETING</u></p> <p>City Auditor's Office Budget 2019</p> <p>Audit Forum (Verbal Report)</p> <p>City Auditor (Verbal Report)</p> <p>External Auditor (Verbal Report)</p>	<p>Calgary Police Commission</p> <p>Calgary Housing Company</p> <p>Attainable Homes Calgary Corporation</p> <p>City Auditor</p> <p>City Auditor</p> <p>Audit Committee and CFO</p> <p>City Auditor</p> <p>External Auditor</p>

	<p>-----</p> <p>City Auditor's Office Audit Reports</p> <p>When Available</p>	<p>-----</p> <p>City Auditor</p>
<p>OCTOBER</p> <p>(Date to be determined)</p>	<p>Calgary Economic Development Audit Committee Annual Report</p> <p>Calgary Parking Authority Audit Committee Annual Report</p> <p>Committee Development (not part of Agenda)</p> <p>City Auditor's Office 3rd Quarter 2018 Status Report</p> <p><u>CLOSED MEETING</u></p> <p>Audit Committee Annual (2017-2018) Self-Assessment</p> <p>Audit Forum (Verbal Report)</p> <p>City Auditor (Verbal Report)</p> <p>External Auditor (Verbal Report)</p> <p>-----</p> <p>City Auditor's Office Audit Reports</p> <p>When Available</p>	<p>Calgary Economic Development Authority</p> <p>Calgary Parking Authority</p> <p>Executive Assistant to Audit</p> <p>City Auditor</p> <p>Executive Assistant to Audit</p> <p>Audit Committee and CFO</p> <p>City Auditor</p> <p>External Auditor</p> <p>-----</p> <p>City Auditor</p>
<p>NOVEMBER</p> <p>(Date to be determined)</p>	<p>Election of Chair and Vice-Chair – Committee motion</p> <p>Audit Committee Orientation (not part of Agenda)</p> <p>Audit Committee 2019 Work Plan</p> <p><u>CLOSED MEETING</u></p> <p>Status of Community Associations and Social Recreation Organizations on City-Owned Land</p> <p>Audit Forum (Verbal Report)</p> <p>City Auditor (Verbal Report)</p> <p>External Auditor (Verbal Report)</p> <p>-----</p> <p>City Auditor's Office Audit Reports</p> <p>When Available</p>	<p>City Clerks and Chair</p> <p>Executive Assistant to Audit</p> <p>Executive Assistant to Audit</p> <p>GM, Community Services</p> <p>Audit Committee and CFO</p> <p>City Auditor</p> <p>External Auditor</p> <p>-----</p> <p>City Auditor</p>
DECEMBER	NO MEETING	

External Auditor – Provision of Additional Services

EXECUTIVE SUMMARY

The External Auditor, Deloitte LLP advised they have acquired Integration New Media, Inc. (INM), effective 2017 December 01. INM is currently performing some services at The City and pursuant to the Audit Committee Bylaw 48M2012 the External Auditor must seek approval by Audit Committee for this additional work.

ADMINISTRATION RECOMMENDATION:

That the Audit Committee approve the provision of additional services to The City by Integration New Media, Inc., a recent acquisition of Deloitte LLP, External Auditor.

PREVIOUS COUNCIL DIRECTION / POLICY

The Audit Committee Bylaw 48M2012, Schedule 'B', Section 1(b) states that Audit Committee, with respect to the External Auditor:

"Pre-approves all audit and non-audit services performed by the External Auditor, however, the Audit Committee Chair can pre-approve additional audit or non-audit services, performed by the External Auditor, up to \$25,000 total annually. Any approvals by the Chair will be reported to the Audit Committee as part of the Audit Committee Quarterly Status Report."

BACKGROUND

Deloitte LLP provides external audit services to the City of Calgary. In addition to requiring the Audit Committee to pre-approve all audit and non-audit services provided by the External Auditor, the External Auditor must express independent judgement about the appropriateness and acceptability of The City's financial statements.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Deloitte LLP have acquired Integration New Media, Inc. (INM) effective 2017 December 01. Prior to the acquisition, The City selected Adobe as their service provider to update and migrate their intranet content to a new platform. Adobe hired INM as a subcontractor to perform some of the actual work. As INM is now a Deloitte LLP entity, effective 2017 December 01, the work performed by them requires approval by the Audit Committee.

Deloitte LLP have advised that this additional service being provided to The City does not relate to financial reporting or internal controls and that it complies with Deloitte's independence policies.

Stakeholder Engagement, Research and Communication

Deloitte LLP immediately advised The City and Councillor Evan Woolley upon acquisition of Integration New Media, Inc. to ensure the process for Audit Committee's approval was initiated.

Strategic Alignment

Audit Committee's approval of the provision of additional services to The City by an entity of Deloitte LLP, External Auditor, and the assurance of their independence, is consistent with Council's priorities of a prosperous and well-run City.

External Auditor - Provision of Additional Services

Social, Environmental, Economic (External)

No implications are identified.

Financial Capacity

Current and Future Operating Budget:

Not applicable to the Audit Committee's budget.

Current and Future Capital Budget:

Not applicable.

Risk Assessment

The independence of the External Auditor will not be adversely affected by the provision of these additional services by Integrated New Media, Inc., an entity of Deloitte LLP.

REASON(S) FOR RECOMMENDATION(S):

Audit Committee approval for the provision of additional audit or non-audit services by the External Auditor is required under Audit Committee Bylaw 48M2012.

ATTACHMENT(S)

None

Status of Community Associations and Social Recreation Organizations on City-Owned Land

EXECUTIVE SUMMARY

This report provides an annual financial review and compliance status of community associations and social recreation organizations with a lease or license of occupation on City-owned land. The majority of organizations are financially and organizationally stable and successfully managing their programs.

Community associations and social recreation organizations work in partnership with The City of Calgary to meet community recreational and social needs. Long-term sustainability of partner organizations allows needed programs and services to continue to be available to community residents. Sustainability of an organization depends on a number of factors including the ability to provide relevant programs to residents and members, to retain an active and skilled board and to identify and mitigate financial, facility or organizational risks. In response to the aging portfolio of facilities and rising lifecycle costs, Administration continues to prioritize the coordination of lifecycle studies and projects through available City funding.

The ratings outlined in this report take into consideration the level of risk represented by the organizations' financial measures of liquidity, leverage and performance. Compliance requirements include the submission of year-end financial statements, a current insurance policy, a business plan, a lifecycle study and appropriate use of public lands. Organizations with elevated or high risk are identified early in Administration's review process and immediate steps are taken to improve the organization's sustainability.

Administration recommends that Council rescind the policy Status of Community Organizations on City-Owned Land (CSPS015) as the policy is redundant. Notice of motion (NM94-03) already directs Administration to report annually to Council through the Audit Committee.

As outlined in the lease/license of occupation agreement, organizations are required to release financial statements to Administration but permission to release financial statements and financial ratings to the public has not been granted. Therefore, Administration recommends Attachments 3, 4 and 5 remain confidential.

ADMINISTRATION RECOMMENDATIONS:

That Audit Committee recommends that Council:

1. Receive this report for information;
2. Approve that the following policy be rescinded: *Status of Community Organizations on City-Owned Land* (CSPS015) (Attachment 7);
3. Direct that attachments 3, 4 and 5 of this report remain confidential pursuant to sections 23(1), 24(1) and 16(1) of the FOIP Act and remain so until such time as section 16 is no longer satisfied.

PREVIOUS COUNCIL DIRECTION / POLICY

On 2017 July 24, Council approved AC2017-0401 Calgary Neighbourhoods Support of Community Associations Audit, receiving the report for information.

Status of Community Associations and Social Recreation Organizations on City-Owned Land

On 2016 November 7, Council approved AC2016-0764 Status of Community Associations and Social Recreation Organizations on City-Owned Land, receiving the report for information and directing that this report and Attachment 1 remain confidential pursuant to section 24(1)(b) of the Freedom of Information and Protection of Privacy (FOIP) Act for the duration of the in-camera meeting and be made public upon Council's rise and report; and directing that Attachments 2, 3, and 4, of this report remain confidential pursuant to sections 23(1)(b), 24(1)(a) and 16(1) of the FOIP Act and remain so until such time as section 16 is no longer satisfied.

On 2012 February 27, Council approved CPS2012-03 including policy CSPS2011 Lease/License of Occupation to Community Organizations. This policy required submission of a board-approved business plan, as well as a lifecycle study, within one year of the commencement of the lease or license of occupation.

On 2006 January 19, Audit Committee approved AC2006-02 Status of Community Associations and Social-Recreation Organizations on City of Calgary-owned Land, directing Administration to expand the report to include all third-party organizations with facilities on City-owned land that Community Services liaises with, and include financial exposure as it relates to an evaluation of liabilities exceeding assets available to satisfy these liabilities.

On 2003 December 18, Audit Committee approved AC2003-68 Financial Status of Organizations on City-owned Land, directing Administration to expand the report to include information on insurance, lease status and lease payment.

On 1994 January 31, Council approved NM94-03 Facilities on City-owned Lands, directing Administration to acquire financial statements from all organizations which are responsible for facilities on City-owned land; review encountering financial problems, strategies for containing costs and increasing revenues; bring to Council a report including an evaluation of costs or liabilities potentially facing the City.

BACKGROUND

In 2016, The City of Calgary had a lease or license of occupation with 189 community associations and social recreation organizations in Calgary. These groups provide social, recreation and community programs valued by a broad range of Calgarians.

Administration annually completes a report on the lease/license of occupation compliance status of these organizations. The report for 2017 also responds to recommendations from The City Auditor (AC2017-0401 Calgary Neighbourhoods' Support of Community Associations Audit) including relevant information about The City's risk as it relates to organizations' facility management and land use compliance.

This annual status report serves the following purposes:

1. Identifies trends within the sector;
2. Provides a snapshot of the general health of community partner organizations;
3. Assesses The City's risk by proactively identifying organizations struggling to maintain their status and/or amenity; and
4. Identifies and implements a risk management plan to support these organizations.

Status of Community Associations and Social Recreation Organizations on City-Owned Land

INVESTIGATION: ALTERNATIVES AND ANALYSIS

The majority of organizations have favorable ratings, demonstrating that they are stable organizations capable of delivering programs to meet the needs of their community.

Overall findings and a summary of compliance and financial review results is provided in Attachment 2. The compliance status data for each ward which shows the financial and business plan ratings for all 189 organizations currently operating on City-owned land, is provided in Attachment 3.

Lifecycle and Facility Maintenance

Lifecycle maintenance of amenities continues to be an area of concern for many partner organizations. While the Capital Conservation Grant (CCG) continues to be a primary funding source for our partner organizations, basic repairs have become increasingly complex due to the aging infrastructure and changes in building code.

Lifecycle reviews are organized by The City on behalf of community associations and social recreation organizations. For each organization, every five years, a lifecycle report is completed on the assets maintained within their lease/license of occupation. Currently, all organizations have an up-to-date report completed.

The Capital Development team that administers the Capital Conservation Grant through Calgary Recreation, continues to work with an external consultant to complete a review of the infrastructure within the partner portfolio and is developing a business case with an asset management system implementation plan for these partner-operated assets. Using industry standard estimations, it has been determined that the replacement cost for the assets within the partner portfolio is estimated at just under one billion dollars.

The external consultant has identified that an asset management system needs to be implemented at the portfolio level for our partner organizations. This system will be driven to realize three key benefits; reduce risk to The City and the partner, reduce cost to taxpayers, and increase value for taxpayers. Options have been investigated to utilize and align with City of Calgary corporate standards to meet the portfolio's asset management needs. The most value-driven option will allow The City to forecast capital needs and plan in a consistent, repeatable and accurate manner. The implementation plan for this option is expected to be completed by 2017 Q4, with hard and soft costs to proceed.

Early Intervention

Liaisons form close working relationships with the boards of directors from the partner organizations; therefore, they are integral to identifying when boards are experiencing issues and will recommend when additional support is needed. Support may include the engagement of a third-party consultant help the group to mitigate financial issues and improve financial sustainability.

Through 2014, and up to the time of this report, a chartered professional accountant has been engaged to support five organizations and complete a financial sustainability report for each organization. This work includes strategies for improving financial policies and controls, and

Status of Community Associations and Social Recreation Organizations on City-Owned Land

investigating new sources of programming and funding. Long-term evaluation of partner organizations that have received financial consultation support demonstrates positive outcomes for achieving overall improvement of organizational sustainability.

Changes to Report Function and Format

Business plans

City liaisons have been working with organizations on the submission of quality business plans. The business plans must meet the criteria outlined in the lease/license of occupation. Many of the organizations that are overdue in their business plan submission still recognize the importance of a guiding document and are in process of completing the plan.

Land use compliance

Administration is unaware of any organizations currently at risk related to land use compliance. As outlined in land use bylaw IP2007, organizations are adhering to permitted uses and discretionary uses on City land. If an organization is notified of a bylaw infraction, City liaisons are available to support by working with internal business units and the organization to resolve the issue.

Organizational Health Reporting for 2018

Given the City Auditor's recommendation to include organizational health in the 2018 report, Calgary Neighbourhoods has developed an Organizational Health Self-assessment process, whereby, organizations can voluntarily review and rate their own organizational health. Submitting information on organizational health is optional for organizations and not a requirement of the lease/license of occupation; however, participating in a self-assessment process is a recommended best practice. Results of the self-assessment will assist Administration in identifying organizations whose sustainability may be at risk so needs can be addressed immediately. Attachment 6 outlines 2018 report changes based on organizational health reporting.

Stakeholder Engagement, Research and Communication

City liaisons work with community organizations on a continual basis to determine their needs and assist them with the diverse issues they encounter every day. Liaisons provide education and broker other resources to support best practices. Calgary Neighbourhoods encourages community associations to fully engage residents as a first step in the development of their business plans. The program, "This is My Neighbourhood", has demonstrated the positive impact of engagement with residents to both share the priorities of The City at a neighbourhood level, and to better understand neighbourhood gaps and resident priorities for programs and services. In response, neighbourhood organizations are able to work in partnership with residents and The City to address the gaps and priorities.

Strategic Alignment

The recommendations in this report align with Action Plan 2015-2018's Council Priority: A City of Inspiring Neighbourhoods, and Strategic Action: Great Neighbourhoods. Key focus area N4

Status of Community Associations and Social Recreation Organizations on City-Owned Land

specifically outlines the need to revitalize the role and ability of community associations, and use of community facilities. This focus area states The City will also work with community associations and social recreation groups to provide support in engaging residents and developing business plans that respond to community needs.

Social, Environmental, Economic (External)

Community associations and social recreation organizations create gathering spaces that foster inspiring neighbourhoods. By supporting these organizations and positioning facilities as community assets, Administration fosters a vibrant city with strong and inclusive neighbourhoods where citizens are empowered, connected and involved in healthy, active and creative lifestyles. Administration has been working with community associations to develop guidance on how to best leverage emerging provincial investments in distributed renewable energy and efficiency. Some community associations are participating in energy audits, purchasing energy-efficient appliances and equipment and experimenting with solar power. With Calgary's changing economy, the viability of a community organization is dependent on the ability to adapt to the changing needs of those living and working in the neighbourhood.

Financial Capacity

Current and Future Operating Budget:

There are no implications as a result of this report.

Current and Future Capital Budget:

There are no implications as a result of this report.

Risk Assessment

Should any community association or social recreation organization on City-owned land default or cease operations, the amenity would be returned to The City. Typically in these situations, a new partner that aligns with the land use designation and meets community needs, will be selected through a formal process. In some instances, the amenity may be required for municipal use.

In cases where an amenity has deteriorated and requires extensive repair, The City may have to invest significant dollars. This is typically only considered when a facility is providing programs to a large number of Calgarians or when a safety issue is present that may result in a facility closure. To mitigate these risks, Calgary Recreation's Capital Development team reviews the lifecycle reports for each amenity and provides funding through the Capital Conservation Grant (CCG) program, as required. When the CCG program is not able to meet the financial needs, Calgary Neighbourhoods and Calgary Recreation will identify, with City Council support if required, other sources of funding or a strategy moving forward. Demolition is becoming a viable option for portions of some buildings.

Status of Community Associations and Social Recreation Organizations on City-Owned Land

REASONS FOR RECOMMENDATIONS:

The annual review of community associations and social recreation organizations on City-owned land enhances accountability, highlights risks, and provides an opportunity for Council to understand the current state and challenges of community associations and social recreation organizations that steward City-owned land.

Since Administration presents the Status of Community Associations and Social Recreation Organizations on City-Owned Land report to the Audit Committee annually, policy CSPS015 Status of Community Organizations on City-Owned Land Policy (Attachment 7) is no longer relevant.

ATTACHMENTS

1. Definitions of Rating Terms
2. Overall Findings
3. Compliance Status by Ward
4. Non-Compliance Items and Groups with Agreements in Overhold
5. Mitigation Strategies for Organizations of Concern
6. 2018 Report Changes
7. CSPS015 Status of Community Organizations on City-Owned Land Policy

Definitions of Rating Terms

Financial Rating Definitions

In reviewing financial statements and the financial practices of organizations, Calgary Neighbourhoods and Finance have taken the following into consideration:

Good: (low risk)	The organization is in a good financial position with positive working capital and positive equity.
Satisfactory: (low risk)	<p>The organization is meeting its obligations; however, there is one unfavourable financial factor, which, if not addressed, could challenge the long-term sustainability of the organization. For example:</p> <ul style="list-style-type: none">• Organization could only operate for 30-60 days if revenues were interrupted or discontinued.• Less than 10 per cent of the current year's operating expenses are available as working capital.• An operating deficit greater than \$200,000 has been incurred in the past year.• Revenues in the last year were less than 80 per cent of expenses.• Two out of three years of operating deficits of greater than \$100,000 per year have accrued and/or in two of the last three years, revenues have been less than 90 per cent of expenses.• More than 20 per cent of unrestricted reserve funds have been spent within the past three years.
Marginal: (elevated risk)	<p>The organization is in a position to meet its current financial obligations; however, there is more than one unfavourable financial factor which has given cause for concern in terms of the group's long-term sustainability. For example, any combination of the above-mentioned unfavourable financial factors or any single occurrence of the following unfavourable financial factors:</p> <ul style="list-style-type: none">• Organization could only operate for zero to 30 days if revenues were interrupted or discontinued.• Organization's current obligations exceed their current assets (negative reserves).
Organization of concern: (high risk)	<p>The organization may be unable to meet its obligations, either immediately, or in the near future. If financial health deteriorates further, the organization may have to consider ceasing some or all of its operations. Risks involved may include any of the following:</p> <ul style="list-style-type: none">• Financial Issues: absence of good financial policies and procedures, poor reporting, poor liquidity ratio, insufficient levels of unrestricted reserves, consecutive yearly deficits and apparent problems with cash flow.• Governance issues: not operating within current bylaws and objectives or a lack of governance practices in place.• Risk management issues: inadequate risk management procedures in place and/or poor compliance with City policy.

- Insufficient: (elevated risk)** Statements are missing critical financial information (eg. balance sheet, statement of revenues and expenditure, comparative data), or information is presented in a way that does not allow for analysis or rating.
- *Not rated:** Statements have been received and a rating will be assigned once analysis is completed.
- Not required: (low risk)** The terms of the legal agreement with the organization do not require submission of financial statements as it has not yet had its annual general meeting.
- *Auditors:** Statements are currently being audited by the group or an independent organization.
- Overdue: (high risk)** Statements have not been submitted, and more than 30 days have passed since the organization's annual general meeting, where the financial statements are to be presented to the members.

Financial Risk Rating

Financial Rating	Risk Rating	Risk Rating Colour
Good/Satisfactory/Not Required	Low Risk	Green
Marginal/Insufficient	Elevated Risk	Yellow
Organization of Concern/Overdue	High Risk	Red

*The risk rating for an organization not rated or where the statements are with the auditors, defaults to the risk rating from the previous year.

Business Plan Compliance Rating Definitions

- Received:** Business plan has been received.
- In Process:** Organization is currently working on updating business plan or has submitted a draft business plan.
- Overdue:** Business plan has not been received. This rating indicates non-compliance with the lease/license of occupation agreement since more than one year has passed since the commencement of the agreement.
- Not required:** The terms of the agreement with the organization do not require the submission of a business plan or one year has not yet passed, which triggers the requirement for a business plan.

Business Plan Risk Rating

Business Plan Rating	Risk Rating	Risk Rating Colour
Received/Not Required	Low Risk	Green
In Process	Elevated Risk	Yellow
Overdue	High Risk	Red

OVERALL FINDINGS

Financial Ratings

Administration has reviewed the financial status of community associations and social recreation organizations on City-owned land and found the following:

Of the 177 organizations rated for 2016:

- 110 were rated as good (low risk);
- 42 were rated as satisfactory (low risk);
- 17 were rated as marginal (elevated risk);
- five were rated as organization of concern (high risk); and
- three were rated insufficient (elevated risk).

Of the remaining 12 organizations not rated:

- three reported financial statements were with their auditors;
- two have been received but a rating has not been completed in time for this report
- four are not required as they have not yet held their annual general meeting
- three are overdue; therefore, are not compliant with their lease/license of occupation agreement

Business Plan Ratings

Of the 138 organizations required to submit a business plan;

- 81 were rated low risk (received)
- 41 were rated as elevated risk (in process); and
- 16 were rated as high risk (overdue)

Compliance Results

Attachment 4 outlines organizations not compliant with their lease/license of occupation due to overdue financial statements or overdue insurance submissions. It also includes organizations that have not yet entered into a new agreement; therefore, the agreement is in "overhold". At the time of writing this report, financial statements were overdue for three organizations, six groups had not submitted proof of insurance and 13 groups currently have agreements in overhold; therefore, have not submitted their lease payment.

In 2012, Council approved policy CSPS2011 Lease/License of Occupation to Community Organizations which added the requirement for organizations to submit business plans. At that time, recognizing this as a new requirement, Administration accepted business plans that met a minimum standard for compliance. In 2016, City liaisons focused on supporting organizations in the development of quality business plans, including reference to the organization's financial capacity and resources required to implement the plan. In 2015, 93 per cent of groups completed a business plan; however, the quality of plans is much higher in 2016 with 88 per cent of groups with a completed plan or in process of completing a plan.

Financial Review Results

Prior to this report, Administration notified Councillors of the financial review ratings and mitigation strategies (if applicable) for organizations within their ward. Following Councillor notification, City liaisons communicate the financial ratings and mitigation strategies (if applicable) to each organization. With support from Finance, mitigation strategies are created and through the implementation of these strategies, City liaisons support organizations to improve financial accountability and sustainability. Mitigation strategies for high-risk organizations are outlined in Attachment 5. Administration appreciates the opportunity to work with Councillors and organizations to address opportunities and financial challenges.

2018 Report Changes

Based on the City Auditor's recommendation, the Status of Community Associations and Social Recreation Organizations report will include data on organizational health beginning in 2018. Completion of the Organizational Health Self-Assessment is voluntary and organizations will be encouraged to perform an annual assessment. Submitting information on organizational health is optional for organizations and not a requirement of the lease/license of occupation; however, participating in a self-assessment process is a recommended best practice.

This assessment addresses best practices in the areas of strategic direction, board governance, finances and funding, programs, services and events, spaces/facility, human resources and public relations. This tool will identify areas of strengths and potential risks in the organization's governance practices so opportunities for improvements can be identified and implemented.

Under the *Investing in Partnerships Policy*, organizations that fall into the Civic Partner Category due to the value of The City's investment will be removed from this report and included in the Civic Partner Audit Report. The Civic Partner Audit Report includes an overview of an organization's health including their governance and risk management practices.

Organizations funded by Family & Community Support Services (FCSS) are assessed for organizational effectiveness and program impact to inform the recommendations in the Family & Community Support Services Funding Recommendation report. Therefore, organizational health for organizations funded through FCSS will not be included in the Status of Community Association and Social Recreation Organizations report; only the compliance items currently being reported will continue to be reported here. These organizations will require "split reporting".

The following chart outlines the report changes for 2018:

Organization	Move to Civic Partner Audit Report	Split reporting
The Calgary Young Men's Christian Association	Yes	
NE Centre of Community Society (Genesis Centre)	Yes	
Nose Creek Sports and Recreation Association (Vivo)	Yes	
South Fish Creek Recreation Association (Cardel South)	Yes	
Westside Regional Recreation Centre	Yes	
Boys and Girls Clubs of Calgary		Yes
Bow Cliff Seniors		Yes
Bowness Seniors Centre		Yes
Calgary Between Friends Club		Yes
The Calgary Chinese Elderly Citizens' Association		Yes
Confederation Park 55+ Activity Centre		Yes
Good Companions 50 Plus Club		Yes
Greater Forest Lawn 55+ Society		Yes
Ogden House Senior Citizens' Club		Yes



COUNCIL POLICY

Policy Title: Status of Community Organizations on City-Owned Land

Policy Number: CSPA015

Report Number: AC94-13

Approved by: City Council

Effective Date: 1994/ Amended 2003

Business Unit: Calgary Neighbourhoods

BACKGROUND

At its meeting of 1994 April 06, Council approved AC94-13, Facilities on City-Owned Land which allows The City to enter into a lease or license of occupation with a partner organization to provide recreation and community opportunities on public land.

PURPOSE

This policy will ensure the liability and risk posed to The City by entering into formal agreements with partner organizations is monitored, and reduced. It also strives to maintain the viability of formal partners occupying City-owned land.

POLICY

Council has directed Administration (NM94-03) to acquire, in a timely manner, current and reliable financial statements for all organizations which are responsible for operating not-for-profit facilities on City-owned land. In addition, Administration was asked to report back to Council, through the Audit Committee, the results of its review as it relates to potential cost or liabilities to the City. In 2003, Audit Committee has also requested from Administration that the annual report also include information on insurance, lease status and lease payment (AC2003-17).

A 'Best Practices' model, approved by Audit committee (1999 May 12) encourages organizations and Administration to work together to encourage groups to adopt good financial practices which are appropriate for their size and activities.

PROCEDURE

An ongoing process has been established to collect and review financial statements and identify not-for-profit organizations that may require financial assistance. Administration assists organizations who, based on financial review, are experiencing financial difficulties or have the potential for financial difficulties. This may result in direct consultation on financial planning or referral to such agencies as the Federation of Calgary Communities, or the Centre for Non-Profit Management.



Through the 'Best Practices' model Administration now provides feedback to an organization regarding their financial state through a worksheet. Furthermore a list of best practices has been developed for different sizes of groups and Administration encourages organizations to adopt the practices that are most appropriate for them.

AMENDMENTS

In 2003, Audit Committee has also requested from Administration that the annual report also include information on insurance, lease status and lease payment (AC2003-17).

Effective 2016 February 01, Community & Neighbourhood Services became Calgary Neighbourhoods.