



## **Calgary Police Service** Report to the Finance and Audit Committee on the 2018 audit

May 15, 2019

May 1, 2019

To the Finance and Audit Committee of  
The Calgary Police Commission

## **Report on audited annual financial statements**

Dear Finance and Audit Committee members:

We are pleased to submit this report on the status of our audit of Calgary Police Service ("the Service") for the 2018 fiscal year. This report summarizes the scope of our audit, our findings to date and reviews certain other matters that we believe to be of interest to you.

As agreed in our master services agreement dated November 14, 2018, we have performed an audit of the financial statements of Calgary Police Service as of and for the year ended December 31, 2018, in accordance with Canadian generally accepted auditing standards ("Canadian GAAS") and expect to issue our audit report thereon dated May 28, 2019.

Our audit has been conducted in accordance with the audit plan that was presented to the Finance and Audit Committee at the meeting on November 14, 2018.

This report is intended solely for the information and use of the Finance and Audit Committee, management and others within the Service and is not intended to be, and should not be, used by anyone other than these specified parties.

We, at Deloitte, work as one team to provide you with relevant business insights to assist you improving your current practices.

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

Yours truly,

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

Chartered Professional Accountants

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# Our audit explained

This report summarizes the main findings arising from our audit to date. When possible, we have also provided business recommendations on challenging issues that the Service faces, based on our understanding of your organization and industry.

## Audit scope and terms of engagement

We have been asked to perform an audit, of the Service's financial statements (the "financial statements") prepared in accordance with Canadian public sector accounting standards ("PSAS") as at and for the year ended December 31, 2018. Our audit was conducted in accordance with Canadian generally accepted auditing standards ("Canadian GAAS").

The terms and conditions of our engagement are described in the master services agreement dated November 14, 2018, which was signed on behalf of the Finance and Audit Committee and management.

## Significant audit risks

Through our risk assessment process, we have identified the significant audit risks. These risks of material misstatement and related audit responses are discussed in the significant audit risks section of this report.



## Materiality

We are responsible for providing reasonable assurance that your financial statements as a whole are free from material misstatement.

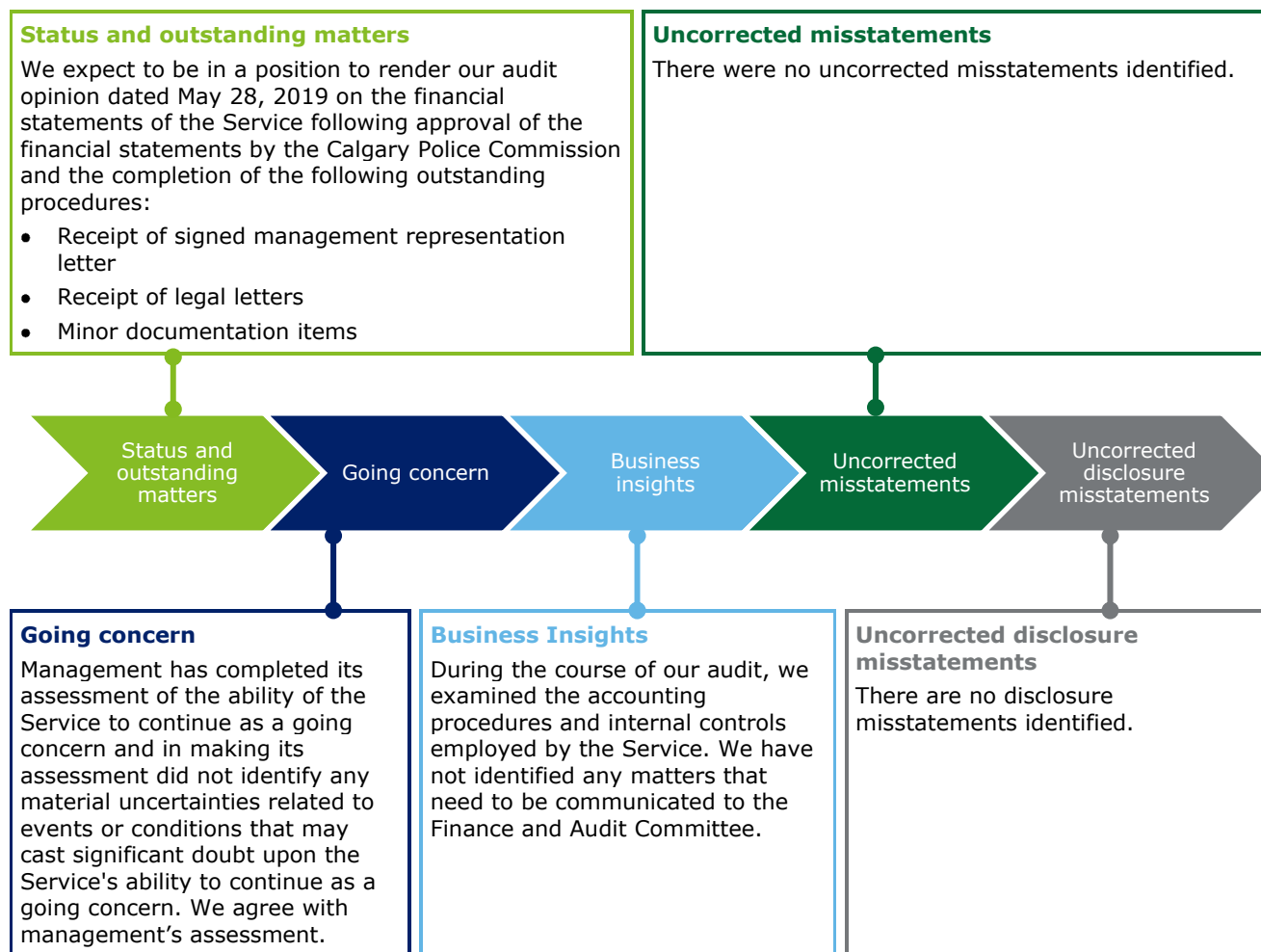
Materiality levels are determined on the basis of actual operating expenses. Our materiality for the year ended December 31, 2018 was \$7,600,000 (2017, \$7,400,000).

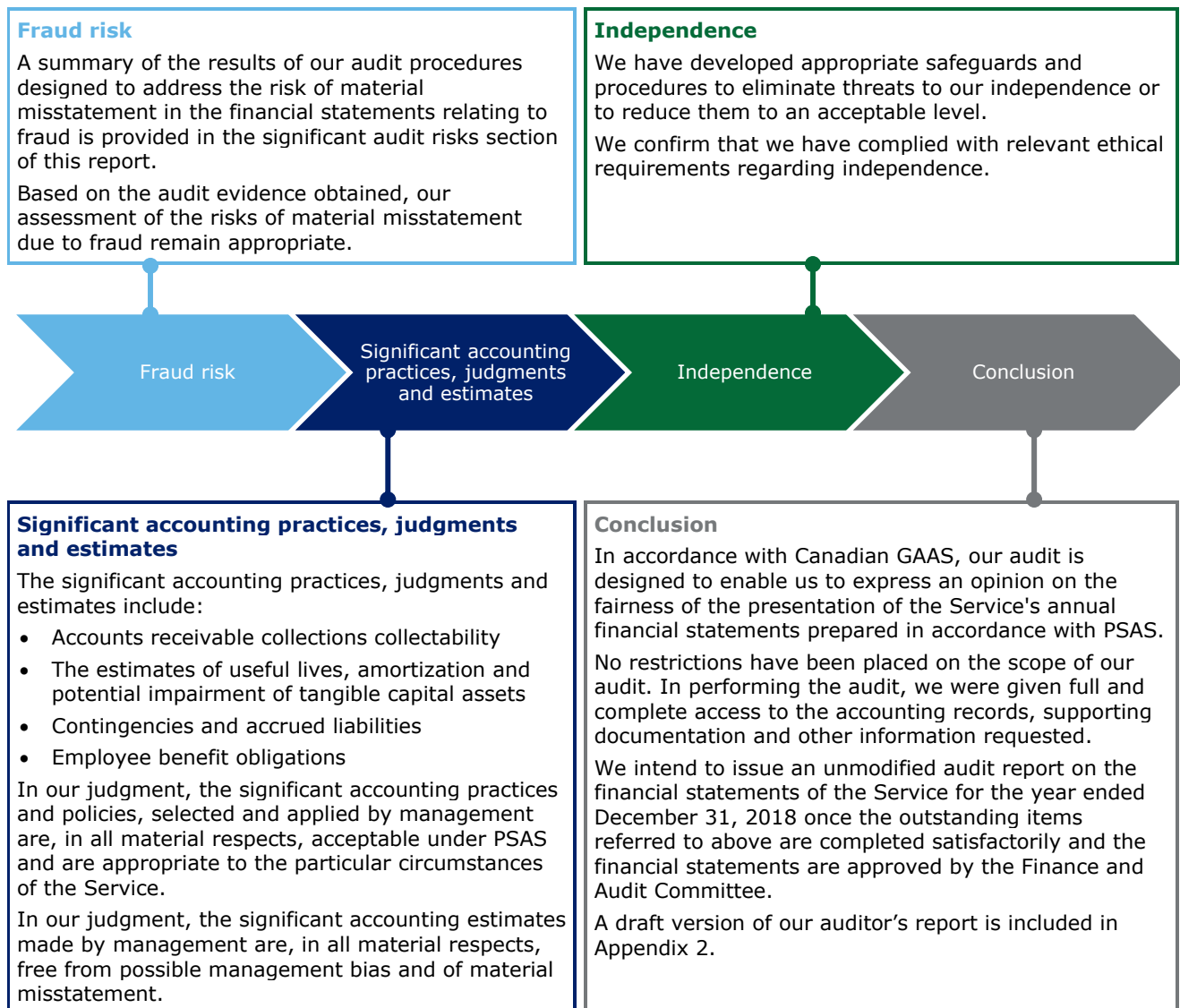
We have informed the Finance and Audit Committee of all uncorrected misstatements greater than a clearly trivial amount of 5% of materiality and any misstatements that are, in our judgment, qualitatively material. In accordance with Canadian GAAS, we asked that any misstatements be corrected.

## Audit fees

Our estimated audit fees are \$49,600 (2017, \$48,400) for the audit, plus an additional \$8,000 for the adoption of new accounting standards.

These fees are subject to a 7% administration fee and GST.





# Significant audit risks

The significant audit risks identified as part of our risk assessment, together with our planned responses and conclusions, are described below.

## Revenue recognition

### Audit risk

Assurance standards include the presumption of a fraud risk involving improper revenue recognition.

There may be a risk of material misstatement relating to the occurrence and cut-off of the following revenue streams: government grants, sale of goods and services, and fines and penalties.

This represents a fraud risk for the 2018 audit.

### Our audit response

- We made selections and performed tests of detail to verify whether it is appropriate to recognize revenue for each revenue stream.
- 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 have been met.

### Audit results

We obtained sufficient audit evidence to conclude that there were no material misstatements.

## Management override of controls

### Audit risk

Under Canadian Auditing Standards, it is the responsibility of management, with the oversight of those charged with governance to place a strong emphasis on fraud prevention and detection. Oversight by those charged with governance includes considering the potential for override of controls or other inappropriate influence over the financial reporting process.

Management override of controls is present in all entities. It is a risk of material misstatement resulting from fraud and therefore is considered as a significant risk.

This represents a fraud risk for the 2018 audit.

### Our audit response

- We discussed fraud with management.
- We asked the Finance and Audit Committee for their views about the risk of fraud, whether they know of any actual or suspected fraud affecting the Service and their role in the oversight of management's antifraud programs.
- We tested a sample of journal entries made throughout the period, and adjustments made at the end of the reporting period.
- We evaluated the business rationale for any significant unusual transactions.
- We determined whether the judgments and decisions related to management estimates indicate a possible bias, which included performing retrospective analysis of significant accounting estimates.

### Audit results

We obtained sufficient audit evidence to conclude that there were no material misstatements.

## New Accounting Standards

### Risk identified

The following accounting standards are required to be adopted for the year ending December 31, 2018:

- Section PS 2200, *Related Party Disclosures*
- Section PS 3210, *Assets*
- Section PS 3320, *Contingent Assets*
- Section PS 3380, *Contractual Rights*
- Section PS 3420, *Inter-entity Transactions*

There is a risk that the application of these standards is not consistent or compliant with the guidance provided within the standards.

### Our audit response

- We reviewed the Service's methodology and process for application and adoption of each standard, which included a review of position papers prepared by management.
- We audited a sample of the accounting transactions recorded under these standards, including testing of internal controls, if applicable.
- We also reviewed the disclosure in the year-end financial statements to ensure compliance with the applicable accounting standards.

### Audit results

We obtained sufficient audit evidence to conclude that there were no material misstatements.



# Areas of focus

## Accuracy, recording and presentation of reserves

### Risk identified

Completeness and accuracy of the recording and presentation of reserves.

### Our audit response

- We reviewed the expenditures charged to the reserve and vouched a sample of expenditures to invoices to verify that the item is non-recurring and an appropriate charge against the reserve.

### Audit results

We obtained sufficient audit evidence to conclude that there were no material misstatements.

## Accuracy and disclosure of pension liability (employee benefit obligations)

### Risk identified

The pension liability, including financial statement disclosures may not be accurately recorded.

### Our audit response

- We reviewed the pension plan balance recorded at year-end and verified this balance through confirmation with the actuary.
- We reviewed the financial statement disclosure of the pension liability with the most recent actuarial valuation report prepared and ensured financial statement disclosures were in accordance with accounting standards.
- We considered the reasonableness and consistency of assumptions used by the actuary. In accordance with Canadian GAAS, we communicated with the actuary in writing regarding our use of and reliance on their report and we will assess the qualification and independence of the actuary.

### Audit results

We obtained sufficient audit evidence to conclude that there were no material misstatements.

# Other reportable matters

The following summarizes the status and findings of key aspects of our audit. In the appendices to this report, we have provided additional information related to certain matters we committed to report to the Finance and Audit Committee as part of the audit plan.

	Comment
<b>Changes to the audit plan</b>	The audit was conducted in accordance with our audit plan, which was communicated to the Finance and Audit Committee. We confirm that there have been no amendments to the audit scope and approach communicated in the audit plan.
<b>Significant difficulties encountered in performing the audit</b>	During the course of our audit, we did not encounter any significant difficulties in dealing with management related to the performance of the audit.
<b>Concerns regarding management competence and integrity</b>	We do not have any concerns regarding management's competency and integrity.
<b>Related party transactions</b>	We have not identified any related party transactions that were not in the normal course of operations and that involved significant judgments made by management concerning measurement or disclosure.
<b>Disagreements with management</b>	During the current audit, we did not have any disagreements with management.
<b>Consultation with other accountants</b>	Management has informed us that the Service has not consulted with other accountants about auditing or accounting matters.
<b>Legal and regulatory compliance</b>	<p>Management is responsible for ensuring that the Service's operations are conducted in accordance with the laws and regulations applicable to the Service 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 the Service.</p>
<b>Post-statement of financial position events</b>	At the date of finalizing this report, we are not aware of any significant post-statement of financial position events.

# Appendix 1 – Communication requirements

The table below summarizes our communication requirements under Canadian GAAS and other communications that we believe would help us achieve an effective audit.

Required communication	Refer to this report or document described below
<b>Audit Service Plan</b>	
1. Our responsibilities under Canadian GAAS, including forming and expressing an opinion on the financial statements	Master services agreement
2. An overview of the overall audit strategy, addressing: <ul style="list-style-type: none"> <li>a. Timing of the audit</li> <li>b. Significant risks, including fraud risks</li> <li>c. Names, locations, and planned responsibilities of other independent public accounting firms or others that perform audit procedures in the audit</li> </ul>	Audit plan communicated on November 14, 2018
3. Significant transactions outside of the normal course of business, including related party transactions	Nothing to report.
<b>Year End Communication</b>	
4. Fraud or possible fraud identified through the audit process	We are not aware of any fraudulent events.
5. Significant accounting policies, practices, unusual transactions, and our related conclusions	Significant accounting practices, judgments and estimates.
6. Alternative treatments for accounting policies and practices that have been discussed with management during the current audit period	Significant accounting practices, judgments and estimates.
7. Matters related to going concern	We concluded that there was no substantial doubt about the Service's ability to continue as a going concern.
8. Management judgments and accounting estimates	Significant accounting practices, judgments and estimates.
9. Significant difficulties, if any, encountered during the audit	No significant difficulties to report.
10. Material written communications between management and us, including management representation letters	Management representation letter.
11. Other matters that are significant to the oversight of the financial reporting process	No other matters to report.
12. Modifications to our opinion(s)	We will issue an unmodified opinion.

Required communication	Refer to this report or document described below
13. Our views of significant accounting or auditing matters for which management consulted with other accountants and about which we have concerns	Nothing to report.
14. Significant matters discussed with management	Nothing to report.
15. Illegal or possibly illegal acts that come to our attention	We are not aware of any illegal acts.
16. Significant deficiencies in internal control, if any, identified by us in the conduct of the audit of the financial statements	No deficiencies to report.
17. Uncorrected misstatements and disclosure items	In accordance with Canadian GAAS, we request that all misstatements be corrected. No uncorrected misstatements and uncorrected disclosures to report.

# Appendix 2 – Draft version of our auditor’s report

Our report on the financial statements is expected to be in the following form. However, the final form may need to be adjusted to reflect the final results of our audit.

## Independent Auditor’s Report

To the Members of  
The Calgary Police Commission

### Opinion

We have audited the financial statements of Calgary Police Service (“the Service”), which comprise the statement of financial position as at December 31, 2018, and the statements of operations and accumulated surplus, changes in net financial liabilities and cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Service as at December 31, 2018, and the results of its operations, changes in its net financial liabilities, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards (“PSAS”).

### Basis for Opinion

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

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

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

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

Those charged with governance are responsible for overseeing the Service’s financial reporting process.

**Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

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

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

(To be signed Deloitte LLP)

Chartered Professional Accountants  
May 28, 2019

# Appendix 3 – Draft independence

May 28, 2019

The Finance and Audit Committee  
Calgary Police Service

Dear Finance and Audit Committee members:

We have been engaged to audit the financial statements of Calgary Police Service ("the Service") for the year ended December 31, 2018.

You have requested that we communicate in writing with you regarding our compliance with relevant ethical requirements regarding independence as well as all relationships and other matters between the Service, our Firm and network firms that, in our professional judgment, may reasonably be thought to bear on our independence. You have also requested us to communicate the related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.

In determining which relationships to report, we have considered relevant rules and related interpretations prescribed by the appropriate provincial regulator/ordre and applicable legislation, covering such matters as:

- a) Holding a financial interest, either directly or indirectly, in a client.
- b) Holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client.
- c) Personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client.
- d) Economic dependence on a client.
- e) Provision of services in addition to the audit engagement.

We confirm to you that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence.

We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since May 29, 2018, the date of our last letter.

We are not aware of any relationships between the Deloitte Entities and the Service and its affiliates, or persons in financial reporting oversight roles at the Service and its affiliates, that, in our professional judgment, may reasonably be thought to bear on independence, that have occurred from May 30, 2018 to May 28, 2019.

The total fees charged to the Service for audit services were \$53,072 (2017, \$51,788) and \$8,560 for the adoption of new accounting standards during the period covered by the financial statements.

We hereby confirm that we are independent with respect to the Service in accordance with the Rules of Professional Conduct of the Chartered Professional Accountants of Alberta as of May 28, 2019.

This letter is intended solely for the information and use of the Finance and Audit Committee, management and others within the Service and is not intended to be and should not be used for any other purposes.

Yours truly,

(To be signed Deloitte LLP)

Chartered Professional Accountants



# Appendix 4 – Draft management representation letter

## [CPS letterhead]

May 28, 2019

Deloitte LLP  
700 850 -2<sup>nd</sup> Street SW  
Calgary, AB T2P 0R8

Dear Sirs and Madams:

**Subject:** Financial statements of Calgary Police Service as at and for the year ended December 31, 2018

This representation letter is provided in connection with the audit by Deloitte LLP ("Deloitte" or "you") of the financial statements of Calgary Police Service (the "Service" or "we" or "us") for the year ended December 31, 2018, and a summary of significant accounting policies and other explanatory information (the "Financial Statements") for the purpose of expressing an opinion as to whether the Financial Statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the Service in accordance with Public Sector Accounting Standards ("PSAS").

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

### **Financial statements**

1. We have fulfilled our responsibilities as set out in the terms of the engagement letter between the Service and Deloitte dated November 15, 2018 for the preparation of the Financial Statements in accordance with PSAS. In particular, the Financial Statements are fairly presented, in all material respects, and present the financial position of the Service as at December 31, 2018 and the results of its operations and cash flows for the year then ended in accordance with PSAS.
2. Significant assumptions used in making estimates, including those measured at fair value, are reasonable.

In preparing the Financial Statements in accordance with PSAS, management makes judgments and assumptions about the future and uses estimates. The completeness and appropriateness of the disclosures related to estimates are in accordance with PSAS. The Service has appropriately disclosed in the Financial Statements the nature of measurement uncertainties that are material, including all estimates where it is reasonably possible that the estimate will change in the near term and the effect of the change could be material to the Financial Statements.

The measurement methods, including the related assumptions and models, used in determining the estimates, including fair value, were appropriate, reasonable and consistently applied in accordance with PSAS and appropriately reflect management's intent and ability to carry out specific courses of action on

behalf of the entity. No events have occurred subsequent to December 31, 2018 that require adjustment to the estimates and disclosures included in the Financial Statements.

There are no changes in management's method of determining significant estimates in the current year. The Service has identified all related parties in accordance with Section PS 2200, *Related Party Disclosures* ("PS 2200"). Management has determined that such disclosure is not necessary as based on management's assessment, there are no related party transactions that require disclosure. This assessment is based on all relevant factors, including those listed in paragraph 16 of PS 2200.

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. 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, 2018 and up to the date of this letter. All events subsequent to the date of the Financial Statements and for which PSAS requires adjustment or disclosure have been adjusted or disclosed. Accounting estimates and disclosures included in the Financial Statements that are impacted by subsequent events have been appropriately adjusted.
5. The Financial Statements are free of material errors and omissions.

### **Internal Controls**

6. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
7. We have disclosed to you all known deficiencies in the design or operation of internal control over financial reporting identified as part of our evaluation, including separately disclosing to you all such deficiencies that we believe to be significant deficiencies in internal control over financial reporting.

### **Information provided**

8. We have provided you with:
  - a. Access to all information of which we are aware that is relevant to the preparation of the Financial Statements, such as records, documentation and other matters.
  - b. All relevant information as well as additional information that you have requested from us for the purpose of the audit; and,
  - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
9. All transactions have been properly recorded in the accounting records and are reflected in the Financial Statements.
10. 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.
11. 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.
12. We have disclosed to you all information in relation to allegations of actual, suspected or alleged fraud, or illegal or suspected illegal acts affecting the Service.
13. We have disclosed to you all communications from regulatory agencies concerning non-compliance with or deficiencies financial reporting practices and all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the Financial Statements.

14. 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.
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.

### **Independence matters**

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

16. Prior to the Service having any substantive employment conversations with a former or current Deloitte engagement team member, the Service has held discussions with Deloitte and obtained approval from the Audit Committee.
17. We have ensured that all non-audit services provided to the Service have been pre-approved by the Audit Committee. Further, we have adhered to all regulatory requirements regarding the provision of non-audit services by Deloitte to the Service in accordance with applicable laws, regulations and rules that apply to the Service, including the Audit Committee approval requirements.
18. We have ensured that all services performed by Deloitte with respect to this engagement have been pre-approved by the Audit Committee in accordance with its established approval policies and procedures.

### **Other matters**

19. The Service 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.
20. 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.
21. We have disclosed to you, and the Service 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.
22. We have disclosed to you all the documents that we expect to issue that may comprise other information, in the context of CAS 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*.

### **Accounting policies**

23. The accounting policies selected and application of those policies are appropriate.
24. The Service's accounting policies and their method of application have been applied on a basis consistent with that of the audited Financial Statements as of and for the year ended December 31, 2017.
25. We believe that revenue recognition of show services and materials handling on a gross basis is appropriate based on a net basis because the relationship with the vendor meets the criterion for revenue recognition in accordance with PSAS.

### **Management's responsibilities**

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

### **Receivables**

27. The Service is responsible for determining and maintaining the adequacy of the allowance for doubtful accounts receivable, as well as estimates used to determine such amounts. Management believes the allowance is adequate to absorb currently estimated bad debts in the account balance.

**Adjusting journal entries**

28. We have reviewed the year-end adjusting entries, if applicable, and acknowledge our responsibility for their accuracy.

**Government transfers**

29. We have disclosed to you all correspondence relating to government transfers that the Service has had with the funding body.

30. We have assessed the eligibility criteria and determined that the Service is an eligible recipient for the government transfers received.

31. We have assessed the stipulations attached with the funding and have recognized the revenue in accordance with meeting the stipulations required.

32. 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.

**Adoption of Section 3260 – *Liability for contaminated sites***

33. Based on management's assessment of the requirements of this standard, there is no impact on the December 31, 2018 year-end financial statements of this standard.

**City of Calgary Capital Asset Policy**

34. The Service was aware of the City of Calgary's change in Capital Asset Policy for Vehicles for the year ended December 31, 2018. Management has reviewed and understands the policy. This policy has no impact on the December 31, 2018 year end financial statements.

**Adoption of new accounting standards**

35. The Service has adopted CPA Canada Public Sector Accounting Handbook Sections 2200, 3210, 3320, 3380 and 3420, *Related Party Disclosures, Assets, Contingent Assets, Contractual Rights, and Inter-entity Transactions* respectively, as of December 31, 2018 as discussed in Note 1 of the Financial Statements.

Yours truly,

Calgary Police Service

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Steve Barlow, Chief of Police

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Blaine Hutchins, Finance Manager