

**Opportunity Calgary Investment Fund Report to
Audit Committee
2019 October 24**

**ISC: UNRESTRICTED
AC2019-0890**

Opportunity Calgary Investment Fund Audit Committee Annual Report

EXECUTIVE SUMMARY

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

OPPORTUNITY CALGARY INVESTMENT FUND RECOMMENDATION:

That the Audit Committee receives the presentation for information.

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

"overseeing its governance responsibility with audit committees of The City's major autonomous civic entities."

Section 4(1)(i)

BACKGROUND

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

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

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

1.1 Governance Structure

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

(See Attachment 9.0.)

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

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

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

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

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

1.2 Succession Planning and Recruitment Process

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

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

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

In June 2018, the Corporate Governance and Effectiveness Committee created a Board Recruitment Project Plan and Timeline outlining the process for board recruitment. This project plan included the creation of the Skills Matrix and a list of potential candidates which were compiled by the Corporate Governance and Effectiveness Committee with input from the Board

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of Directors and City Council. Two of the ten Directors appointed by the Shareholder in 2018, Carol Kitchen and Geeta Sankappanavar, were recruited for the OCIF Board of Directors based on the Skills Matrix and diversity goals.

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

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

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

(See Attachment 4.0 for Board Structure)

1.3 Recent Financial Highlights

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

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

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

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1.4 Key 2019 Initiatives/Strategy

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

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

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

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

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

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

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

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

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

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

Adequate Revenue

With The City of Calgary as OCIF's sole source of revenue, OCIF works with its Audit Committee, Board of Directors and The City of Calgary City Manager to ensure the budget is

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submitted and approved in accordance with its Funding Agreement with The City of Calgary and any substantial changes to forecasted costs are communicated to ensure adequate revenue is received.

Reputational Risk

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

Available Resources and Staff Capacity

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

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

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

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

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

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

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

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

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

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

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

(See Attachment 1.0 and Attachment 2.0)

6. Audit Committee 2019 Work Plan.

(See Attachment 7.0)

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

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

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

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

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

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

At December 31, 2018

Carol Kitchen, Committee Chair – OCIF Board Director

Barry Munro – OCIF Board Director

Ian Bruce - OCIF Board Director

Steve Allan – OCIF Board Director

(See Attachment 8.0 for Bios and Financial experience.)

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

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

No management changes. Board changes have been previously discussed.

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

No.

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

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

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

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

OCIF is designed to create the following benefits:

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

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

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

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

INVESTIGATION: ALTERNATIVES AND ANALYSIS

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

Stakeholder Engagement, Research and Communication

No implications for this report.

Strategic Alignment

No implications for this report.

Social, Environmental, Economic (External)

No implications for this report.

Financial Capacity

Current and Future Operating Budget:

There are no budget implications for this report.

Current and Future Capital Budget:

There are no budget implications for this report.

Risk Assessment

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

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REASON(S) FOR RECOMMENDATION(S):

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

ATTACHMENT(S)

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