



The City of Calgary Report to the Audit Committee on the 2016 audit

April 20, 2017

April 11, 2017

To the Audit Committee of The City of Calgary

Report on audited annual financial statements

Dear Audit Committee Members:

We are pleased to submit this report on the status of our audit of The City of Calgary ("The City") for the 2016 fiscal year. This report summarizes the scope of our audit, our findings to date and reviews certain other matters that we believe to be of interest to you. We are continuing to work with Administration to complete the outstanding matters summarized on page 2 of this report.

As agreed in our engagement letter dated July 21, 2016, we have performed an audit of the consolidated financial statements of The City of Calgary as of 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 April 24, 2017.

Our audit has been conducted in accordance with the audit plan that was presented to the Audit Committee at the meeting on July 21, 2016, except for the changes to our audit plan described on page 13 of this report.

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

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.

Audit scope and terms of engagement

We have been asked to perform an audit, which includes The City's consolidated financial statements (the "financial statements") in accordance with Canadian public sector accounting standards ("PSAS") as at and for the year ended December 31, 2016. Our audit was conducted in accordance with Canadian generally accepted auditing standards ("GAAS").

The terms and conditions of our engagement are described in the engagement letter dated July 21, 2016, which was signed on behalf of the Audit Committee and Administration.

Significant audit risks

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



Audit fees

In our audit plan, we communicated proposed audit fees of \$258,500 for the audit of the consolidated financial statements (2015 - \$252,200), plus the following additional amounts:

- \$10,000 for the audit of the implementation of PS 3260, *Liability for contaminated sites*
- \$16,500 for the consolidation of the related authorities (Attainable Homes Calgary Corporation, Calgary Economic Development Ltd. and Calgary Arts Development Authority Ltd.)
- \$17,500 for the review of the implementation of the revised Tangible Capital Asset policies and procedures
- P3 agreements (Stoney Transit Facility and Composting Facility Project) of \$24,500 and \$14,500, respectively

We also communicated additional fees of \$30,000 relating to audit procedures applied to TCA prior period adjustments at the January 19, 2017 Audit Committee meeting, which were not contemplated in our original audit plan.

Total Fees – The City of Calgary and related entities

Total fees charged for The City and related entities including audit, audit-related, non-audit and other services during the period covered by the financial statements are \$1,926,806 (2015, \$1,970,024). Refer to Appendix 4 for further details on these fees.

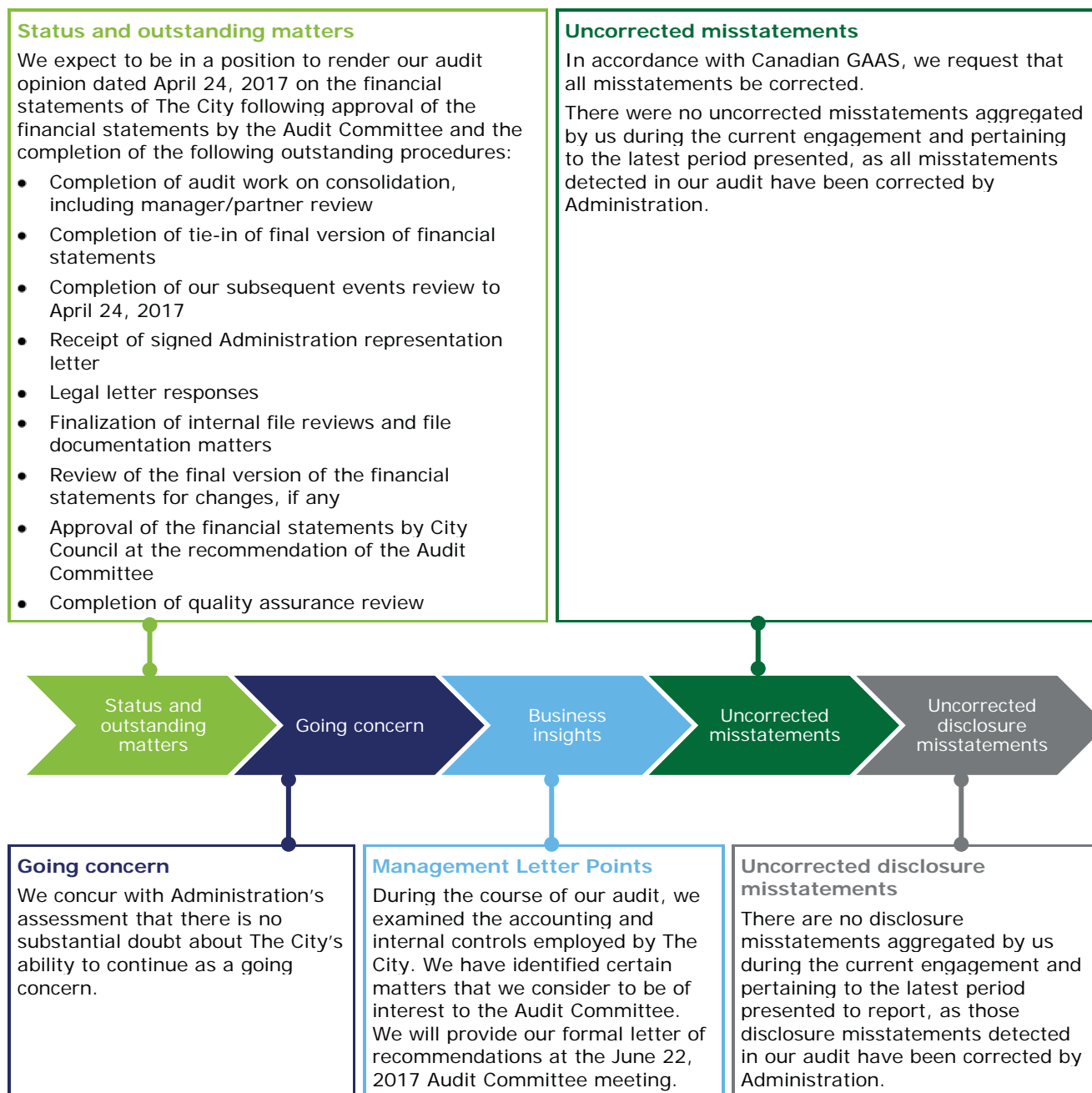
Materiality

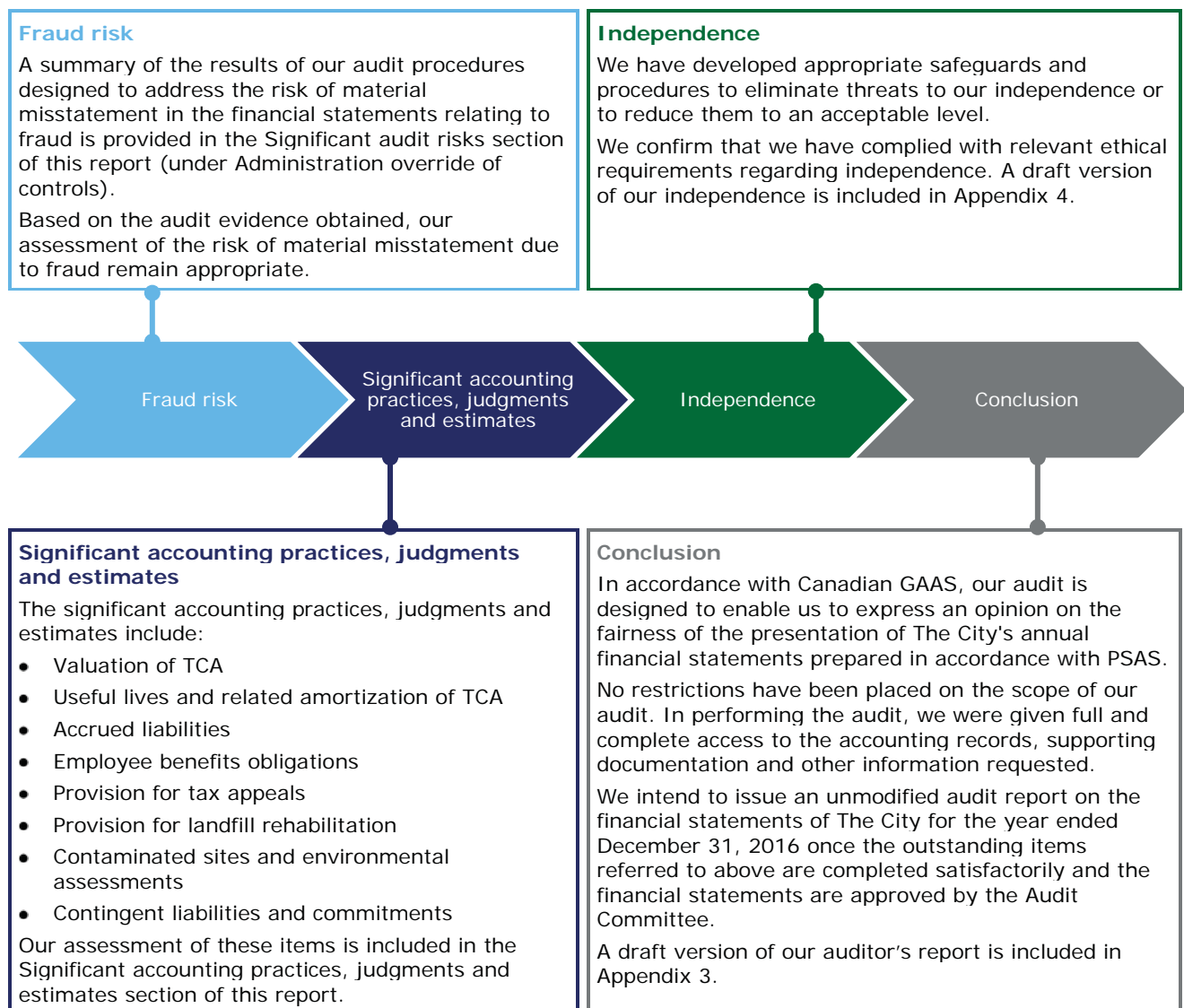
We are responsible for providing reasonable assurance that your financial statements as a whole are free from material misstatement.

Materiality levels are determined on the basis of consolidated budgeted operating expenses. Our materiality for the year ended December 31, 2016 was \$54,000,000 (2015, \$50,000,000).

We are required to inform the Audit Committee of all uncorrected misstatements greater than a clearly trivial amount of 5% of materiality (\$2,700,000) and any misstatements that are, in our judgment, qualitatively material.

In accordance with Canadian GAAS, we request that any misstatements be corrected. Please refer to the following page for further discussion.





Significant audit risks

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

Tangible Capital Assets

Audit risk

Completeness and valuation of Tangible Capital Assets ("TCA").

Our audit response

- We audited TCA additions, disposals, work in progress and amortization along with related disclosures. Our testing included, on a sample basis, reviewing amounts included in the current year transactions to ensure only amounts that meet the definition of a capital asset are included as TCA and are appropriately valued.
- We also reviewed a sample of items recorded as repairs and maintenance to ensure these amounts were appropriately expensed.
- We performed procedures on a sample basis to assess the completeness of TCA.
- We assessed impairment indicators of TCA and considered the need and amount of potential write downs. There were no write downs noted for 2016 in relation to TCA impairment.
- We tested TCA WIP additions to ensure these WIP additions were appropriately accounted for as work in progress. We also tested the aging of TCA projects to ensure appropriate accounting treatment of those projects in the year-end financial statements.
- We applied audit procedures to the changes in processes and policies relating to the change in capitalization thresholds for the Buildings and Engineered Structures asset categories.
- Given the nature of TCA held by The City, there is a risk of misclassification. As a result, we performed increased substantive testing of the financial statement disclosures.

Audit results

We identified one error in the current year TCA of \$3.9M. Current year TCA errors which were corrected by Administration are discussed in the appendix to the management representation letter. Overall, following the correction of identified errors, we conclude that TCA is fairly stated, appropriately classified and properly disclosed in the context of the financial statements taken as a whole.

Administration override of controls

Audit risk

Professional auditing standards require us to presume Administration override of controls to be a risk of material misstatement due to fraud.

There is a risk that Administration has the ability to override controls.

Our audit response

- We engaged in periodic fraud discussions with certain members of senior Administration and others, including The City Auditor, City Solicitor and the Audit Committee.
- We completed journal entry testing to test the appropriateness of journal entries and verified that there were no transactions outside the normal course of business.
- We tested Administration estimates as well as any unusual or significant transactions. In addition, we completed testing of the design and implementation of internal controls relating to various financial statement line items.

Audit results

We conclude that there were no issues noted relating to Administration override of controls in the context of the financial statements taken as a whole.

P3 Agreements

Risk identified

During fiscal 2015 and 2016, The City signed the following P3 agreements:

Stoney Transit Facility with an effective date of September 13, 2016 and the Composting Facility Project effective June 25, 2015.

P3 agreements can include a number of complex underlying accounting treatments which require an in-depth, detailed analysis to ensure all accounting and financial reporting matters impacting the consolidated financial statements are taken into consideration. As there is currently no specific accounting standard under PSAS which provides accounting and financial reporting guidance, an entity is required to complete its own analysis specific to the agreement entered into in conjunction with existing accounting standards.

Due to the highly complex nature of P3 agreements and the related accounting implications there is a risk the accounting for these transactions is not complete or accurate. There is also a risk that the financial statement presentation and disclosure is not complete.

Our audit response

- We reviewed the P3 agreements entered into by The City and the analysis of the accounting treatment prepared by Administration to ensure that these transactions have been accurately and completely recorded in the year-end financial statements in accordance with applicable accounting standards.
- Due to the complexity of P3 agreements, we were also required to consult with Deloitte experts to review the accounting impact and financial statement disclosure of the P3 agreements.

Audit results

Based on procedures performed, we conclude the P3 agreements are appropriately recorded and disclosed in the 2016 financial statements.

PS3260, Liability for contaminated sites

Audit risk

PS 3260, *Liability for contaminated sites* ("PS 3260") was required to be adopted for the year ended December 31, 2015. PS 3260 established standards on how to account for and report a liability associated with the remediation of contaminated sites. The standard defines which activities should be included in a liability for remediation, the timing of this recognition, the method of measurement and provides the requirements for financial statement presentation and disclosure purposes.

Due to the fact that the adoption of this standard was incomplete during fiscal 2015, we performed procedures to ensure complete adoption of this standard during fiscal 2016.

There is a risk that the liability recorded for contaminated sites is not complete or accurate. There is also a risk that the application of the standard is not consistent with the guidance provided within PS 3260.

Our audit response

- We reviewed The City's methodology and process used for application of this standard to assess the appropriateness of the process. Our procedures also included discussions with personnel from both Utilities and Environmental Protection, legal and finance departments.
- We applied audit procedures on the assumptions utilized and the calculation of the liability associated with the potential remediation costs.
- We also reviewed financial statement disclosure relating to this liability to ensure disclosures are in accordance with PS 3260.
- The liability recorded in the year-end financial statements of \$733K is based on The City's best estimate of the amount required to remediate sites for which an assessment was completed in 2016, based on The City's methodology and process.

Audit results

We have reviewed the estimate of the liability recorded in the year-end financial statements and related financial statement disclosure. We note no issues with the methodology and process utilized by The City or the financial statement disclosure in context of the financial statements taken as a whole.

Administration made significant progress in completing the adoption of this standard during fiscal 2016 and performed an initial assessment on all remaining 136 sites outstanding from the prior year. A further analysis is required on 5 of these sites, however, Administration has confirmed that the potential liability associated with these 5 sites to be further reviewed is likely not material.

We will work with Administration as they complete the review of the outstanding sites during fiscal 2017.

Areas of focus

PS3270, Solid waste landfill closure and post-closure liability

Audit focus

Valuation of environmental liabilities and asset retirement obligations, relating to the accrual of post closure landfill liabilities.

Our audit response

We reviewed The City's estimates of post closure landfill liabilities.

We reviewed City Council minutes and legal confirmations, held discussions with Administration and relied on our knowledge of business to ensure completeness of the liability.

We reviewed Administration's estimates and assumptions for reasonability and performed tests of details on the transactions during the year.

We required representations to be signed by Administration that all environmental liabilities and clean-up costs are complete and appropriately disclosed.

Audit results

We obtained sufficient audit evidence to conclude that there were no material misstatements, in the context of the financial statements taken as a whole.

Funding contracts

Audit focus

Disclosure and completeness of liabilities and commitments under funding contracts provided by The City.

Our audit response

We reviewed Administration's assessment of liabilities and commitments required to be recorded or disclosed under agreements entered into during the year.

We reviewed a sample of funding contracts entered into during the year to assess Administration's treatment and appropriate recording of these transactions.

We also assessed the completeness of the balances through a review of City Council minutes and performed a search for unrecorded liabilities as well as a review of prior year estimates.

Audit results

We obtained sufficient audit evidence to conclude that there were no material misstatements, in the context of the financial statements taken as a whole.

Capital deposits and deferred revenue

Audit focus

Completeness and valuation of capital deposits and recognition of deferred revenue.

Our audit response

We selected a sample of capital projects in progress over the year and ensured costs and related revenues were recorded in the correct period.

Audit results

We obtained sufficient audit evidence to conclude that there were no material misstatements, in the context of the financial statements taken as a whole.

Related parties (authorities / subsidiaries / civic partners)

Audit focus

Completeness and disclosure of the accounting for organizations included in the government reporting entity (related authorities or subsidiaries).

Our audit response

We reviewed The City's accounting policies and any changes therein related to its related parties.

We verified that the related parties have been accounted for and disclosed in accordance with The City's accounting policies and PSAS and performed separate audits of significant related parties.

We audited all material balances relating to the related parties not audited by Deloitte.

Audit results

We obtained sufficient audit evidence to conclude that there were no material misstatements, in the context of the financial statements taken as a whole.

Litigation accruals and contingencies

Audit focus

Completeness and accuracy of claims and litigation matters of The City and its related authorities.

Our audit response

We enquired with The City's legal department and The City Solicitor to determine the status of outstanding legal matters.

We reviewed legal correspondence from The City Solicitor and discussed the status of outstanding legal matters with Administration and others, as necessary.

We worked with Administration to assess the appropriateness of any contingent liabilities and financial statement disclosures.

Audit results

We obtained sufficient audit evidence to conclude that there were no material misstatements, in the context of the financial statements taken as a whole.

Government grants and transfers

Audit focus

Accounting and disclosure of government grants and transfers.

Our audit response

We reviewed a sample of funding agreements to determine if the contract required financial statement disclosure.

We reviewed a sample of federal and provincial transfer payments received during the year to fund specific projects.

We reviewed the related funding agreements to ensure funds were used for their intended purpose and that revenue was recognized in the appropriate period, including deferred revenue.

We reviewed deferred revenue transactions, on a sample basis, for compliance with PSAS.

We tested expenditures, on a sample basis, to ensure that the corresponding revenue was recognized.

Audit results

We obtained sufficient audit evidence to conclude that there were no material misstatements, in the context of the financial statements taken as a whole.

Tax revenue

Audit focus

Completeness and accuracy of the accounting for tax revenue

Our audit response

We performed reasonability tests on tax revenue balances.

We reviewed and tested the tax revenue business cycle process controls.

We completed data analytical testing on the property tax revenues for the year end.

Audit results

We obtained sufficient audit evidence to conclude that there were no material misstatements, in the context of the financial statements taken as a whole.

Reserves

Audit focus

Completeness and accuracy of the recording and presentation of reserves

Our audit response

We reviewed expenditures charged to each reserve and vouched a sample of expenditures to invoices to verify that the transaction was within the terms and conditions approved by City Council.

We also reviewed the completeness and accuracy of the financial statement disclosures relating to reserves.

Audit results

We obtained sufficient audit evidence to conclude that there were no material misstatements, in the context of the financial statements taken as a whole.

Long-term debt, pension liability, contractual and other long term obligations

Audit focus

Disclosure and completeness of long-term debt, pension liability, contractual and other long term obligations.

Our audit response

We reviewed the completeness and accuracy of the financial statement disclosures relating to The City's long-term debt, pension liability, contractual and other long term obligations.

We ensured that these disclosures were in accordance with PSAS guidance.

Audit results

We obtained sufficient audit evidence to conclude that there were no material misstatements, in the context of the financial statements taken as a whole.

Non-standard transactions

Audit focus

Completeness and accuracy of non-standard transactions. Non-standard transactions are inherently riskier as there is no precedence for which to account for these items. Examples of non-standard transactions may include but are not limited to; transfer of lands to/from the Province, transfer of corporate properties between business units and the purchase and sale of properties.

Our audit response

We reviewed, on a sample basis, large transactions that have occurred during the year to ensure that these transactions have been accurately and completely recorded in the year-end financial statements.

Audit results

We obtained sufficient audit evidence to conclude that there were no material misstatements, in the context of the financial statements taken as a whole.

Implementation of new TCA policies and procedures

Audit focus

There is a risk that the adoption of new internal TCA policies and procedures are not implemented in a consistent manner across all business units. The City will be implementing new policies and procedures for the following asset classes during the current year:

Buildings

Engineered Structures

Our audit response

We reviewed the policies and procedures implemented to test that they have been designed and implemented effectively and in accordance with PSAS.

We tested a sample of new additions to Buildings and Engineered Structures to ensure that these additions have been accounted for based on the new policies and procedures.

Audit results

We conclude that there were no issued noted with the implementation of the policies and procedures with regards to buildings and engineered structures.

Significant accounting practices, judgments and estimates

Accounting estimates are an integral part of the financial statements prepared by Administration and are based on Administration's current judgments. These judgments are normally based on knowledge and experience about past and current events, assumptions about future events and interpretations of the financial reporting standards.

During the year ended December 31, 2016, Administration advised us that there were no significant changes in accounting estimates or in judgments relating to such estimates, with the exception of changes as described in Note 31 of the financial statements. The change in estimate relates to change in capitalization thresholds applied to the Engineered Structures and Building asset categories for all business units. We have applied audit procedures to this change in estimate and concur with Administration's accounting of these matters as a change in estimate in accordance with PSAS guidance.

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

Other reportable matters

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

	Comment				
Changes to the audit plan	<p>The audit was conducted in accordance with the audit plan presented on July 21, 2016 except for the following amendment:</p> <p><u>Tangible Capital Asset ("TCA") balance:</u></p> <p>As a result of the identification by Administration of prior period errors in TCA balances, we extended our testing and applied additional audit procedures which were not considered in our original audit plan to audit the 2015 accounts that were restated as part of the year-end financial statements. We also tested the restated balances at a significant risk level and performance materiality level of \$27M.</p> <p><u>Other prior period adjustments:</u></p> <p>Administration has also identified several other prior period adjustments which required us to extend our scope and apply audit procedures not considered in our audit plan to test those prior period errors above our reporting threshold of \$2.7M.</p> <p>Refer to the Adjustments to prior period and Accounting for tangible capital assets sections of this report for further details.</p> <p>We confirm that there have been no other significant amendments to the audit scope and approach communicated in the audit plan.</p>				
Use of the work of specialists and experts	<p>As planned, Deloitte and external specialists and experts assisted in the audit to the extent we considered necessary:</p> <table> <tr> <td>Deloitte IT experts:</td><td>Assisted in the assessment of the adequacy and effectiveness of internal controls related to information systems</td></tr> <tr> <td>Actuarial experts:</td><td>AON Hewitt assisted in the assessment of the valuation of The City's pension liability</td></tr> </table>	Deloitte IT experts:	Assisted in the assessment of the adequacy and effectiveness of internal controls related to information systems	Actuarial experts:	AON Hewitt assisted in the assessment of the valuation of The City's pension liability
Deloitte IT experts:	Assisted in the assessment of the adequacy and effectiveness of internal controls related to information systems				
Actuarial experts:	AON Hewitt assisted in the assessment of the valuation of The City's pension liability				
Significant difficulties encountered in performing the audit	During the course of our audit, 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.				
Concerns regarding Administration competence and integrity	We do not have any concerns regarding Administration's competency and integrity.				
Related party transactions	We have not identified any related party transactions that were not in the normal course of operations and that involved significant judgments made by Administration concerning measurement or disclosure.				
Disagreements with Administration	During the current audit, we did not encounter any disagreements with Administration about matters that individually or in the aggregate could be significant to the financial statements.				
Consultation with other accountants	Administration has informed us that The City has not consulted with other accountants about auditing or accounting matters.				
Legal and regulatory compliance	Administration is responsible for ensuring that The City's operations are conducted in accordance with the laws and regulations applicable to The City in the jurisdictions in which it operates. The responsibility for preventing and detecting non-compliance rests with Administration.				

	Comment
	<p>The auditor is not and cannot be held responsible for preventing non-compliance with laws and regulations as we perform limited procedures and enquiries regarding 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 City. Further discussion to be held during in-camera session.</p>
Post statement of financial position events	<p>Administration is responsible for assessing subsequent events up to the date of the release of the financial statements.</p> <p>At the date of finalizing this report, we are not aware of any significant post statement of financial position events which require adjustment or disclosure in the financial statements. We will update subsequent events to the date of the audit report with Administration, prior to issuing our audit opinion.</p>

Internal control matters

As part of our financial statement audit, we are required to consider many components of internal controls, which assist us in determining the risks of material misstatement and the identification of internal controls that will be relevant for our audit. Not all controls are relevant to every audit. For example, some internal controls may exist to address operational risks. For those controls deemed relevant to our audit, we evaluated the design of these controls and determined whether they were implemented. The procedures undertaken during this process allow us to consider whether or not our audit strategy will further rely on the operating effectiveness of those identified internal controls. 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 throughout the period of reliance. The determination of whether or not we will test the operating effectiveness of controls is determined on an engagement by engagement basis. In our audit of The City's financial statements, we planned to and were able to rely on internal controls in the following areas, for which we tested the design and implementation and operating effectiveness:

- Property and Business Tax Revenues and Receivables
- Franchise Fee Revenue
- Licenses and Permits Revenues
- Operating and Capital Budgeting Process
- Fines and Penalties Revenue
- Grant Revenue

For all others areas, we tested only the design and implementation of controls. Canadian GAAS require us to report to the Audit Committee any significant deficiencies that have come to our attention. We did not note any significant deficiencies during the course of our audit in the areas listed above, we did, however identify significant deficiencies in internal controls and processes relating to the accounting of TCA in the current year. Refer to the Accounting for Tangible Capital Assets section of this report for our conclusion on internal controls relating to the testing of TCA.

Our audit was not designed to provide a high degree of assurance that significant deficiencies, if any, would be detected.

Adjustments to prior period

During the finalization of the 2016 financial statements, Administration identified prior period adjustments that related to the following areas:

1. TCA:

As a result of TCA refinement and improvements, Administration has continued to review TCA balances and processes and as a result identified errors relating to prior period TCA balances. The errors identified relate mainly to:

- Untimely and inadequate analysis of work in progress transactions in all business units, duplication of land transactions, missed recording donated land and correction of land values with the largest impact within the Parks, Recreation, Water Services and Water Resources, and Real Estate & Development Services business units
- Exclusion of the Genesis Centre and Plus 15s as TCA of The City

It is to be noted that the majority of the Genesis Centre adjustment impacted fiscal 2012 and the majority of the Plus 15 adjustment impacted fiscal 2013. The majority of the remaining TCA errors identified by Administration impacted the 2015 fiscal year-end, with the exception of a net \$21M adjustment which did impact opening 2009 balances and related to the valuation of and duplication of entries related to the land asset category.

The total TCA prior period error is an understatement of TCA of \$52.0M, understatement of Revenue by \$13.7M, understatement of Expenses of \$7.3M and understatement of Accumulated Surplus (Beginning of Year) of \$45.0M.

2. ENMAX Corporation identified an error in the deferred income tax calculation which resulted in an overstatement of Investment in ENMAX and Equity in earnings of ENMAX Corporation of \$39M in the financial statements of the City.
3. The Water Services and Water Resources business unit incorrectly utilized funding sources. This resulted in an overstatement of capital deposits by \$27.2M, understatement of revenue by \$2.5M and understatement of reserves (opening accumulated surplus) of \$24.7M.
4. Accounts Receivable from ENMAX of \$11.7M resulting in understatement of the receivables and revenue balances resulting from a delay in receiving reports from ENMAX.
5. The Recreation and Fire business units incorrectly used external sources of funding when there should have been use of a combination of internal and external sources of funding. This resulted in an overstatement of the capital fund opening balance by \$2.0M (within accumulated surplus), and understatement of capital deposits by \$4.9M and overstatement of revenue of \$2.9M.
6. Incorrect recording of advertising revenue in the Transit business unit resulting in overstatement. The total prior period is an understatement of accounts payable and overstatement of revenue of \$955K and opening 2015 understatement of the operating fund (opening accumulated surplus) and understatement of accounts receivable of \$2.2M.

7. Missed interest payment to the Calgary Airport Authority resulting in an overstatement of capital deposits by \$3.8M and understatement of accounts payable by \$3.8M.

The total prior period errors resulted in an understatement of assets (financial and non-financial) of \$23.3M, overstatement of liabilities of \$23.7M, overstatement of revenue of \$15.1M, understatement of expenses of \$4.7M and understatement of accumulated surplus (opening) of \$66.9M. All prior period errors were identified by Administration with the exception of number 2 which was identified by subsidiary management.

While we note that the prior period adjustments are not material in the context of the financial statements taken as a whole and in relation to audit materiality of \$54M, Administration has decided to restate the prior year financial statements as a result of the above noted errors. We tested the prior period errors as an area of significant risk on a sample basis to verify that the accounting was accurate, valid and complete.

Note 30 to the financial statements includes details on the prior period adjustments. As a result of the additional work completed by Administration on the matters discussed above, Administration has concluded that the financial statements are not materially misstated as at and for the years ended December 31, 2016 and 2015, as restated, in the context of the financial statements taken as a whole.

Accounting for Tangible Capital Assets

Background and history

Tangible Capital Assets of The City are significant economic resources and a key component in the delivery of many municipal programs and services. Effective for fiscal 2009, all municipalities in Canada were required to adopt Section PS 3150 - *Tangible Capital Assets* ("PS 3150"), which required all municipalities to record and amortize assets of a long term, capital nature that may have been previously expensed through the capital fund or otherwise accounted for. The adoption of PS 3150 was a major undertaking for many municipalities, including The City, as it was one of the most significant changes ever enacted within the accounting rules for local governments. All major municipalities, including The City, expended significant resources and effort implementing the new standard. Regardless of the efforts undertaken to account for all of The City's TCA accurately and completely, The City experienced a number of challenges throughout the implementation of the new TCA accounting standard.

Following the initial adoption of PS 3150, The City continued to provide focus and attention to the accounting of TCA because it was recognized that the potential for estimate changes and errors in the initial adoption could occur. A significant number of errors and corrections were identified by Administration and Deloitte in the first year of adoption, and Deloitte provided a number of internal control, system and process improvement recommendations with respect to TCA. As a result of the continued refinement and improvement of The City's capital asset accounting and management systems, and the continuing education and training of staff within the business units, The City obtained better information and identified certain TCA balances that required correction in the prior years. It is important to observe that The City emphasized that any new TCA matters be raised and recorded by business unit personnel and/or finance personnel in subsequent years, with a tone to "get it right". As a result, the financial statements for fiscal years 2009, 2010 and 2012 to 2015 were restated to adjust prior period balances.

It is also important to note that these restated amounts related solely to the accounting for tangible capital assets and had no effect on The City's cash balances, net financial asset position, property tax revenues or any other balances influencing The City's operating budget, capital budget, grants received, property tax assessments or any other related balances. It is important to place the adjustments made to the historic financial statements in the context of the overall balance of TCA in The City's financial statements. TCA at December 31, 2016 totaled \$16 billion. The adjustments required over the past several years, while certainly not trivial, are typically "non-systematic", frequently have some level of unique accounting characteristics and cumulatively represent a small fraction of The City's overall TCA balance.

Throughout our reporting on the audits of the years ended December 31, 2009 through 2015 we identified, updated and revised a number of recommendations for improvements in TCA accounting and management systems through our prior years' Administration recommendations letters, which Administration has continued to implement. Following the 2014 year-end audit, a TCA Steering Committee was established to oversee the TCA Project Charter with the overall objective of developing TCA solutions and implementing processes that are consistent throughout all business units, simple to implement and which, when fully implemented, will allow for overall compliance with TCA policies by all business units.

Financial statements for the year ended December 31, 2016

The City has continued to expend focus and effort on the accounting of TCA, including implementation of many of our recommendation points issued during prior year's audit, as well as continuous staff education and training. As a result of this effort and attention, in the year ended December 31, 2016, The City identified additional TCA errors that related to prior periods, as discussed earlier in this report.

Note 30 to the financial statements provides details of the adjustments that were recorded in the December 31, 2015 comparative financial statements.

Based on our audit procedures and our evaluation of the apparent nature and root causes of the errors, it is evident that the errors, while not individually material, impact several business units that hold significant TCA balances. While the issued financial statements for the year ended December 31, 2015 were not materially misstated as the net effect of the cumulative errors was not material, we concur with Administration's decision to restate the 2015 balances (including opening accumulated surplus) due to ongoing identification of errors, the number of reasons causing the errors, the number of business units impacted and the "tone" that is set in continuing to focus on accounting for TCA correctly.

We applied audit procedures, on a test basis, to the TCA errors identified by Administration to test the restatement of 2015 balances. Based on our testing and understanding of the causes of the errors, we have concluded that there continues to be significant deficiencies in the design and implementation and operating effectiveness of certain internal controls related to TCA accounting within the business units impacted, such that there is a reasonable possibility that a material misstatement of The City's annual financial statements will not be prevented or detected on a timely basis.

We provided specific recommendations in our prior years' Administration recommendations letters relating to TCA accounting and processes. We have held discussions with Administration during the year and note The City is in the process of implementing these recommendations, as was communicated in our update to the prior year Administration recommendations letter provided at the January 17, 2017 Audit Committee meeting. We support Administration's continued efforts to implement the recommendations that were issued in the prior years' Administration recommendations letters, as well as the implementation of initiatives established in the TCA Project Charter during fiscal 2014. Specifically, a formal review of the engineered structures and building asset categories was completed during fiscal 2016 and appropriate changes were implemented. We have applied audit procedures to any changes in processes or policies implemented during fiscal 2016.

We also note that a TCA Costing System will be implemented in April 2017 which will assist in implementing many of our recommendations relating to TCA account balances. As Administration continues the implementation into fiscal 2017 and beyond, we will incorporate relevant audit procedures to determine that our recommendations are being addressed.

We will provide Administration and the Audit Committee with formal written recommendations in our Administration recommendations letter, including updates to our recommendations from the prior year at the June 22, 2017 Audit Committee meeting.

Appendix 1 – Audit Committee terms of reference

As the external auditors of The City, we have the privilege of assisting in the fulfillment of your responsibility to follow the Terms of Reference for The City of Calgary's Audit Committee contained in the Audit Committee Bylaw 48M2012, as amended. The following table outlines our involvement in the fulfillment of specific terms of reference and any reports that we have issued that assist in this process.

Bylaw 48M2012	Description	Related Deloitte Involvement
Schedule B, 1(b)	Pre-approves all audit and non-audit services performed by the External Auditor.	All audit and non-audit services are presented to the Audit Committee for pre-approval prior to the commencement of such work. Fee information included in 2016 Audit Service Plan presented by Deloitte on July 21, 2016. The Independence letter included as Appendix 2 of the Year-end Audit Report presented by Deloitte to the Audit Committee on April 20, 2017 summarizes the fees of all services performed.
Schedule B, 1(c)	Requires the External Auditor, as an expert in accounting and financial reporting, to express independent judgment about the appropriateness and acceptability of The City's financial statements, in accordance with professional standards.	Communicated in the Year-end Audit Report presented by Deloitte to the Audit Committee on April 20, 2017.
Schedule B, 1(d)	Prior to the commencement of the annual external financial audit, review the financial audit plan with the External Auditor.	2016 Audit Service Plan presented by Deloitte on July 21, 2016.
Schedule B, 1(e)	In conjunction with Administration's presentation of the annual financial statements, receive and review the External Auditor's annual audit report. This report is to be forwarded to Council for information.	Report of the Independent Auditor on the Consolidated Financial Statements and Year-end Audit Report presented by Deloitte to the Audit Committee on April 20, 2017.
Schedule B, 1(f)	Receives and reviews the External Auditor's Management Letter(s), together with any Administrative responses, and forward, either in full or in summary, to Council for information.	Letter of Recommendations to be presented by Deloitte on June 22, 2017.
Schedule B, 1(g)	Must meet with the External Auditor, in the absence of Administration, at least quarterly.	In-camera sessions held with Deloitte at Audit Committee meetings held on July 21, 2016 and April 20, 2017 and during additional Audit Committee meetings, as required.
Schedule C, 1(g)	Ensures that the combined work of the City Auditor and the External Auditor provides an appropriate level of audit coverage and is effectively coordinated.	Audit work completed is discussed in the Year-end Audit Report presented by Deloitte to the Audit Committee April 20, 2017.
2(a)	Oversees the integrity of, and reviews the Annual Financial Statements and recommends their approval to Council.	Report of the Independent Auditor on the Consolidated Financial Statements and Year-end Audit Report presented by Deloitte to the Audit Committee on April 20, 2017.

Bylaw 48M2012	Description	Related Deloitte Involvement
2(b)	Reviews and discusses the City's compliance with financial reporting procedures with Administration, the City Auditor, and the External Auditor.	Report of the Independent Auditor on the Consolidated Financial Statements and Year-end Audit Report presented by Deloitte to the Audit Committee on April 20, 2017. Letter of Recommendations to be presented by Deloitte on June 22, 2017.
2(c)	Engages Administration, the City Auditor, and the External Auditor in candid discussions regarding issues that may alter judgment or affect the quality of the reporting process and search for insight into the results.	Participation and attendance by Deloitte at Audit Committee meetings throughout the year.
2(d)	Reviews and discusses areas where changes in accounting standards could have a material impact on financial results, and may request a detailed analysis, prepared by Administration in consultation with the External Auditor, of the implications of those changes.	Appendix 10 of 2016 Audit Service Plan presented by Deloitte on July 21, 2016.
2(e)	Maintains open lines of communication with the External Auditor, City Auditor, and Administration.	Participation and attendance by Deloitte at Audit Committee meetings throughout the year.
6(b)(i)	Review reports from Administration and from the City Auditor as to the adequacy and effectiveness of corporate policies such as legal matters, regulations, ethical principles, code of conduct and conflict of interest.	Year-end Audit Report presented by Deloitte to the Audit Committee on April 20, 2017 includes our notification of whether any violations of this nature have come to our attention.

Appendix 2 – Communication requirements

Required communication	Refer to this report or document described below
Audit Service Plan	
1. Our responsibilities under Canadian GAAS, including forming and expressing an opinion on the financial statements	Engagement letter dated July 21, 2016
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 risks c. Nature and extent of specialized skill or knowledge needed to perform the planned audit procedures related to significant risk 	Audit plan communicated on July 21, 2016
3. Significant transactions outside of the normal course of business, including related party transactions	Nothing to report
Year End Communication	
4. Fraud or possible fraud identified through the audit process	We are not aware of any fraudulent events
5. Significant accounting policies, practices, unusual transactions, and our related conclusions	Significant Accounting practices, judgements and estimates
6. Alternative treatments for accounting policies and practices that have been discussed with Administration during the current audit period	Significant Accounting practices, judgements and estimates
7. Matters related to going concern	We concur with Administration's assessment that there is no substantial doubt about The City's ability to continue as a going concern
8. Administration judgments and accounting estimates	Significant Accounting practices, judgements and estimates
9. Significant difficulties, if any, encountered during the audit	No significant difficulties to report
10. Material written communications between Administration and us, including Administration representation letters	Administration representation letter - Appendix 4
11. Other matters that are significant to the oversight of the financial reporting process	No other matters to report
12. Modifications to our opinion	We will issue an unmodified opinion following the satisfactory completion of outstanding matters discussed earlier in this report

Required communication	Refer to this report or document described below
13. Our views of significant accounting or auditing matters for which Administration consulted with other accountants and about which we have concerns	Consultation with other accountants, chartered professional accountants or other experts
14. Illegal or possibly illegal acts that come to our attention	We are not aware of any illegal acts
15. Significant deficiencies in internal control, if any, identified by us in the conduct of the audit of the financial statements	Letter of recommendations to be presented at the June 22, 2017 Audit Committee meeting
16. Uncorrected misstatements and disclosure items	No uncorrected misstatements and uncorrected disclosure items to report

Appendix 3 – 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 His Worship Mayor Naheed Nenshi and members of City Council, The City of Calgary:

We have audited the accompanying consolidated financial statements of The City of Calgary, which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statements of operations and accumulated surplus, cash flows and changes in net financial assets for the year then ended, and the accompanying notes to the consolidated financial statements.

City Administration's Responsibility for the Consolidated Financial Statements

City Administration is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as City Administration determines is necessary to enable the preparation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 City Administration, as well as evaluating the overall presentation of the consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of The City of Calgary 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
Calgary, Alberta
April 24, 2017

Appendix 4 – Independence and fees

April 24, 2017

The Members of the Audit Committee and City Council of
The City of Calgary

Dear Members:

We have been engaged to audit the consolidated financial statements of The City of Calgary ("The City") 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 City and Deloitte that, in our professional judgment, may reasonably be thought to bear on our independence. We are also required 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, these standards require us to consider relevant rules and related interpretations prescribed by the appropriate provincial institute / 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 April 25, 2016, the date of our last letter.

We are not aware of any relationships between The City and Deloitte, including any network firms that, in our professional judgment, may reasonably be thought to bear on independence, that have occurred from April 26, 2016 to April 24, 2017.

As summarized in the attached exhibit, the total fees charged to The City during the period covered by the financial statements were as follows:

Audit services	\$1,371,266 (2015 - \$1,326,944)
Audit related services	\$196,431 (2015 - \$182,041)
Non-audit related services	\$49,626 (2015 - \$65,370)
Other services	\$309,483 (2015 - \$395,669)

We re-affirm that the performance of these services has not affected our independence as auditors of The City.

We hereby confirm that we are independent with respect to The City in accordance with the Rules of Professional Conduct of the Chartered Professional Accountants of Alberta as of April 24, 2017.

This report is intended solely for the use of the Audit Committee, City Council of The City of Calgary, Administration and others within The City and should not be used for any other purposes.

Yours truly,

Chartered Professional Accountants

Total Fees Charged to The City of Calgary For the Years Ended December 31, 2016 and 2015

	2016*	2015*
	\$	\$
AUDIT SERVICES		
<u>The City of Calgary</u>		
The City of Calgary	397,505***	373,644**
Calhome Properties Ltd.	79,458	77,896
Calgary Police Service	50,558	49,327
Calgary TELUS Convention Centre	40,660	40,660
Calgary Parking Authority	96,380	94,160
Calgary Municipal Land Corporation	52,644	51,360
Calgary Public Library	40,473	39,483
Municipal Employees Benefits Association of Calgary	28,023	27,349
Family & Community Support Services	20,277	19,795
Core Benefit Plan (audit will be conducted every three years)	-	-
Elected Officials Pension Plan	7,458	7,276
Supplementary Pension Plan	14,151	13,803
Funds Held in Trust	1,819	1,766
	829,406	796,519
<u>ENMAX Corporation</u>		
ENMAX Corporation audit	460,370	450,925
ENMAX Corporation quarterly reviews	81,490	79,500
	541,860	530,425
Total Audit Services	1,371,266	1,326,944
AUDIT RELATED SERVICES		
<u>The City of Calgary</u>		
City of Calgary Municipal Information Return	4,708	4,601
Calhome Properties Ltd. special government reports	18,190	17,655
Calgary Parking Authority advisory work for ParkPlus pilot –City of Edmonton	-	35,245
Calgary Parking Authority LAPP audit	-	12,840
	22,898	70,341

ENMAX Corporation

ENMAX Corporation Pension Plan audit	17,120	16,700
Audit of the divisional carve out financial statements of ENMAX Transmission and Distribution	113,875	95,000
Re-classification of 2015 property, plant and equipment balances	8,500	-
SAP general information technology controls	24,500	-
Power Purchase Agreement 2016 and tax adjustment related matter	9,538	-
	173,533	111,700
Total Audit Related Services	196,431	182,041

NON - AUDIT RELATED SERVICESEnmax Corporation

Hedge Assessment and Module Validation	-	42,000
Bersin by Deloitte Five Practice Level One Membership subscription renewal covering the period November through October	-	23,370
Risk Governance	47,781	-
Tax related matters for US based director	1,845	-
Total Non – Audit Related Services	49,626	65,370

OTHER SERVICESThe City of Calgary

Organics Strategic Assessment and advisory work	-	329,548
Transit maintenance facility advisory work	228,483	66,121

Calgary Economic Development

Agribusiness Value Chain Study Project	81,000	-
Total Other Services	309,483	395,669

Total Fees For All Services	1,926,806	1,970,024
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* Includes 7% administration fee; excludes GST

** Fee includes \$252,200 for the base audit, plus the following:

\$15,000 for the audit of the implementation of PS 3260, Liability for Contaminated Sites

\$15,000 for operating effectiveness testing of the PTWEB and LIL systems

\$10,000 for audit work related to new processes and policies related to Machinery and Equipment

\$10,000 for the P3 composting facility agreement

\$12,000 for the consolidation of CED and CADA

\$35,000 for TCA prior period adjustments

*** Fee includes \$258,500 for the base audit, plus the following:

\$10,000 - audit of PS 3260 Liability for Contaminated Sites

\$17,500 - audit of new processes and policies relating to Tangible Capital Assets

\$24,500 - review of the agreements and accounting implications of P3 agreement – Stoney Transit Facility

\$14,500 - review of the agreements and accounting implications of P3 agreement – Composting Facility Project

\$16,500 - consolidation of CED, CADA and AHCC

\$30,000 – TCA prior period adjustments

Appendix 5 – Draft Administration representation letter

[The City letterhead]

April 24, 2017

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

Dear Sirs:

Subject: Consolidated financial statements of The City of Calgary 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 consolidated financial statements of The City of Calgary (the “The City” or “we” or “us”) for the year ended December 31, 2016, 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 City 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 City and Deloitte dated July 21, 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 City as at December 31, 2016 and the results of its operations and cash flows for the year then ended in accordance with PSAS.

The comparative information in the Financial Statements, including the financial position as at December 31, 2015, and the results of operations and cash flows for the year ended December 31, 2015 and related disclosures, has been properly restated to retrospectively correct misstatements in the comparative period financial statements.

2. Significant assumptions used in making estimates, including those measured at fair value, are reasonable.

In preparing the Financial Statements in accordance with PSAS, Administration 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 City 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 Administration's intent and ability to carry out specific courses of action on behalf of The City. No events have occurred subsequent to December 31, 2016 that require adjustment to the estimates and disclosures included in the Financial Statements.

Administration has changed the method of determining the estimated amounts for the following:

- Tangible Capital Assets ("TCA") Engineered Structures and Building: Administration has revised the estimated useful lives and capitalization threshold of this TCA category. This change in estimate has been applied prospectively.
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.

A list of the corrected current year and prior period misstatements aggregated by you is attached in Appendix A.

6. The City 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 City and do not reflect any activities or expenses of any other person or The City;
 - 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 City 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 City and involves:
 - a. Administration;
 - 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 City'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 City 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 City'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 City 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. The City's final version of the annual report and newspaper insert (containing the audited financial statements and your auditor's report thereon) will be provided to you when available, and prior to its issuance.
19. 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*.

Independence matters

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

20. Prior to The City having any substantive employment conversations with a former or current Deloitte engagement team member, The City has held discussions with Deloitte and obtained approval from the Audit Committee.
21. 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.

Selection of accounting policies and recording of transactions

22. The accounting policies selected and application of those policies are appropriate.
23. The City'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, 2015, except as discussed in paragraph 2.

Administration's responsibilities

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

Employee benefit obligations

25. We agree with the work of Administration's experts in evaluating the Employee Benefit Obligation and have adequately considered the competence and capabilities of the experts in determining amounts and disclosures used in the Financial Statements and underlying accounting records. We did not give any, nor cause any, instructions to be given to Administration's experts with respect to values or amounts derived in an attempt to bias their work, and we are not aware of any matters that have impacted the independence or objectivity of the experts.
26. 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, liabilities and costs for financial statement purposes are appropriate in the circumstances.
27. 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.
28. We have correctly accounted for the multi-employer plan in which we are the sponsoring government or government organization, as a defined benefit plan.

Carrying value/classification of assets and liabilities

29. We have disclosed to you all plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the Financial Statements.
30. The City is responsible for determining and maintaining the adequacy of the allowance for doubtful notes, loans and accounts receivable, as well as estimates used to determine such amounts. Administration believes the allowances are adequate to absorb currently estimated bad debts in the account balances.
31. Provisions have been made to reduce inventories held for resale to the net recoverable amount. All recorded inventories are the property of The City and do not include any items consigned to it, any items billed to customers or any items for which the liability has not been recorded.

Liabilities for contaminated sites

32. We have performed assessments on our known contaminated sites, including as described in paragraph 34. Based on our PS 3260, *Liability for contaminated sites* ("PS 3260") evaluation, we have identified four sites as contaminated sites. We have recorded a liability because the contamination of the site exceeds the environmental standard, The City is responsible or has accepted responsibility for the remediation and we believe it is expected that remediation will be required. We believe that the estimate of the liability is reasonable and is our best estimate of the amount required to remediate the sites.
33. We have identified several other sites that exceed the environmental standard for which The City is not responsible for remediation or it is unclear if the remediation is the responsibility of The City. One of the sites relates to the known contamination of the West Village site. We do not accept responsibility for the remediation of these sites (or, it is unclear who has responsibility for the remediation of these sites) and as such we have not recorded a liability with respect to remediation.

Furthermore, The City of Calgary has signed a release agreement effective November 15, 1997 (the "Effective Date") between Her Majesty the Queen in Right of the Province of Alberta and The City of Calgary which indicates the following in paragraph 2.01 of his agreement:

"The Province acknowledges and agrees that the Contamination existing as of the Effective Date was not caused or contributed to by the City. The Province agrees that from and after the Effective Date it shall not initiate any Recovery Action against the City, its Council, officers, agents employees, contractors, persons in lawful use and occupation of the Lands, or those for whom they are in law responsible for, save and except with respect to any act or omission whether inadvertent, willful, or negligent by the City, its Council, officers, agents, employees, contractors, persons in lawful use and occupation of the Lands or those from whom they are in law responsible for, which in the opinion of the Province has an adverse effect on the Contamination. Subject to any such act or omission whether inadvertent, willful or negligent, the Province releases and forever discharges the City from all Recovery Actions."

34. Administration's risk assessment process for the identification of potential contaminated sites identified a number of higher potential risk sites. In respect to PS 3260, of these sites, 142 higher risk sites were first identified and The City has completed a further analysis of all 142 sites, with a legal assessment outstanding on 5 of the 142 sites as at the date of issuance of the fiscal 2016 financial statements. Administration confirms that based on its knowledge and assessment of the 142 sites, the liability recorded in the Financial Statements is adequate and not materially misstated.
35. Administration's policy for the treatment and application of the liability of contaminated sites was finalized as at December 31, 2016.

Environmental liabilities/contingencies

36. We have considered the effect of environmental matters on The City and have disclosed to you all liabilities, provisions or contingencies arising from environmental matters. All liabilities, provisions, contingencies and commitments arising from environmental matters, and the effect of environmental matters on the carrying values of the relevant assets are recognized, measured and disclosed, as appropriate, in the Financial Statements.

Solid waste landfill closure and post-closure liability

37. We have disclosed to you all solid waste landfill sites that we own and operate. We have recorded a liability which represents our best estimate of the future costs required for closure and post-closure care related to these sites.

Work of Administration's experts

38. We agree with the work of Administration's experts in evaluating the environmental liability, liability for contaminated sites and the solid waste landfill closure and post-closure liability and have adequately considered the competence and capabilities of the experts in determining amounts and disclosures used in the Financial Statements and underlying accounting records. We did not give any, nor cause any, instructions to be given to Administration's experts with respect to values or amounts derived in an attempt to bias their work, and we are not aware of any matters that have impacted the independence or objectivity of the experts.

Revenues

39. All documentation related to sales transactions is contained in files which are used for accounting purposes. We also confirm that:

- a. We are not aware of any "side agreements" with any companies that are inconsistent with the applicable sales agreement, the customer's purchase order, sales invoice or any other documentation contained in the files which are used for accounting purposes. For the purposes of this letter, a "side agreement" is any agreement, understanding, promise or commitment whether written (e.g., in the form of a letter or formal agreement or in the form of any exchange of physical or electronic communications) or oral by or on behalf of The City (or any subsidiary, director, employee or agent of The City) with a customer from whom revenue has been recognized that is not contained in the written purchase order from the customer or sales order confirmation and sales invoice of The City delivered to or generated by The City's Accounting and Finance Department. The definition of a side agreement is not limited by any particular subject matter. For purposes of example only, any agreement not contained in the written purchase order from the customer or sales order and sales invoice of The City that relates to return rights, acceptance rights, future pricing, payment terms, free consulting, free maintenance or exchange rights would be a side agreement; and
- b. We are not aware of any commitments or concessions to a customer regarding pricing or payment terms outside of the terms documented in the files which are used for accounting purposes.

Tax revenues

40. We have appropriately recorded tax assets and revenues when they meet the definition of an asset in accordance with Section PS 1000 - *Financial Statement Concepts*, when they are authorized and when the taxable event occurs. These amounts have been appropriately measured in accordance with Section PS 3510 - *Tax Revenue* and have not been grossed up for any amount of tax concessions.

Various matters

41. We have reviewed and approved the year-end adjusting entries, including all related supporting schedules, and the financial statements and acknowledge our responsibility for their accuracy. While discharging our responsibility we may have requested your assistance or input in certain areas such as:

- a. Recording of transactions for which we have determined or approved the appropriate account classification; and
- b. Preparing financial statements.

We acknowledge our responsibility for the above listed items and confirm that we have authorized, reviewed and approved all of the above items.

42. We have not entered into transactions with members of Council, senior officials, members of their immediate families or enterprises in which such parties have significant interest, which would require disclosures in the Financial Statements.
43. All transactions and events have been carried out in accordance with law, regulation or other authority.
44. We have disclosed to you all communications from regulatory agencies concerning non-compliance with or potential deficiencies in, financial reporting requirements.
45. The following have been properly recorded and, when appropriate, adequately disclosed and presented in the Financial Statements:
- a. Losses arising from sale and purchase commitments;
 - b. Agreements to buy back assets previously sold;
 - c. Provisions for future removal and site restoration costs;
 - d. Financial instruments with significant individual or group concentration of credit risk, and related maximum credit risk exposure;
 - e. Arrangements with financial institutions involving compensating balances or other arrangements involving restriction on cash balances and line-of-credit or similar arrangements;
 - f. All impaired loans receivable; and
 - g. Loans that have been restructured to provide a reduction or deferral of interest or principal payments because of borrower financial difficulties.

Investments

46. The City does not hold any investments in Master Asset Vehicle notes (which replaced third party non-bank asset-backed commercial paper).
47. All investments have been appropriately classified as either temporary investments or portfolio investments.
48. The City has used the appropriate valuation allowances to reflect the temporary investments at their net recoverable amount or other appropriate value.
49. The City believes that it has properly identified all derivative financial instruments and hedging relationships, if any.
50. Investments made during the year and held at the balance sheet date have been made in accordance with Section 250 of the Municipal Government Act.
51. All City of Calgary government organizations have been appropriately classified as government business organizations, government business-type enterprises, government not-for-profit organizations and other government organizations and have been appropriately recorded based on this classification.
52. With regard to The City's investment in ENMAX Corporation, we have disclosed to you any events that have occurred and facts that have been discovered with respect to such investment that would affect the investment's value as reported in the financial statements.
53. With regard to the fair value measurements and disclosures of certain assets and liabilities, such as investments, 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 Administration's intent and ability to carry out specific courses of action on behalf of The City when relevant to the use of fair value measurements or disclosures.

Deficiencies in internal control

54. We have communicated to you all deficiencies in internal control of which we are aware. We have disclosed to you any change in The City's internal control over financial reporting that occurred during the current year that has materially affected, or is reasonably likely to materially affect, The City's internal control over financial reporting.

Adjusting journal entries

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

Communicating a threshold amount

56. We understand that the threshold used for accumulating misstatements identified during the year was \$2,700,000 for purposes of Appendix A. Misstatements below this amount have been considered clearly trivial.

Segment Disclosures

57. With regard to segment disclosures, we believe the activities grouped as segments, as disclosed, are appropriate to meet the objectives of PS 2700 - *Segment Disclosures*.
58. In identifying segments, we have considered the definition of a segment and other factors, including:
- a. The objectives of disclosing financial information by segment;
 - b. The expectations of members of the community and their elected or appointed representatives regarding the key activities and accountabilities of the government;
 - c. The qualitative characteristics of financial reporting as set out in Section PS 1000 - *Financial Statement Concepts: Federal, Provincial & Territorial Governments* and Section PS 1700 - *General Objectives of Financial Statements: Local Governments*;
 - d. The homogenous nature of the activities, service delivery or recipients of the services;
 - e. Whether the activities relate to the achievement of common outcomes or services as reflected in government performance reports and plans;
 - f. Whether discrete financial information is reported or available; and
 - g. The nature of the relationship between the government and The City (within the reporting entity).

Government transfers

59. We have disclosed to you all correspondence relating to government transfers that The City has had with the funding body.
60. We have assessed the eligibility criteria and determined that The City is an eligible recipient for the government transfers received.
61. We have assessed the stipulations attached with the funding and have recognized the revenue in accordance with meeting the stipulations required.
62. All government transfers that have been recorded as capital deposits give rise to an obligation that meets the definition of a liability. Those liabilities have been properly recorded and presented in the Financial Statements.
63. All authorized transfers that have been expensed have been transferred to recipients whom have met the eligibility criteria.

Tangible Capital Assets

64. Tangible capital assets have been recorded properly and consistently according to the standards in Section PS 3150, *Tangible Capital Assets*.
65. 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.
66. We have assessed the useful lives of tangible capital assets and have determined all tangible capital assets contribute to The City's ability to provide goods and services and therefore do not require a write down. If applicable, we have identified that there are various tangible capital assets which no

longer contribute to The City's ability to provide goods and services or have future economic benefits that are below the net book value of the tangible capital asset, and have therefore written down this asset to its residual amount and expensed the charge in the statement of operations.

Tangible Capital Assets - Prior period adjustments

67. As discussed in Note 30 of the Financial Statements, during the course of year-end procedures, we identified certain balances relating to tangible capital assets that were incorrectly recorded in prior years. We have performed procedures to assess the impact of these misstatements and have accurately recorded the adjustments in the restated comparative balances for the year ended December 31, 2015. We also confirm that these adjustments are complete.

Tangible Capital Assets - Prior period adjustments for Plus 15s

68. We identified a number of Plus 15s that were not previously included in the tangible capital assets balance. As the Plus 15s are donated assets and The City has not historically constructed Plus 15s, an internal per square meter rate was calculated and applied to value and record these assets in the Financial Statements. This rate was based on actual cost information available to us relating to the construction of two Plus 15s constructed by The City in 2012 and 2014. This method of valuing donated assets is consistent with policy.

At the time of implementing PS3150 for fiscal 2009, we note that all Plus 15s were recorded in the Financial Statements at the nominal value of \$10 each. For those Plus 15s identified in the current year with in service dates prior to 2009, the value assigned to each Plus 15 is \$10 each. This decision is supported by the fact that The City does not have any reliable historical cost information to value the pre-2009 Plus 15s as these were mostly constructed by third-party developers and The City does not have access to the third-party cost information to establish a reliable cost estimate. Administration confirms that had cost information been available to us for the pre-2009 Plus 15s or we applied the internal rate, with the passage of time and considering the impact of amortization, there would not likely be a material misstatement in any of the prior periods.

Other prior period adjustments

69. As discussed in Note 30 of the Financial Statements, during the course of year-end procedures, we identified several balances that were incorrectly recorded in prior years. We have performed procedures to assess the impact of these misstatements and have accurately recorded them in the restated comparative balances for the year ended December 31, 2015.

Tangible Capital Assets - Change in estimate

70. As discussed in Note 31 of the Financial Statements, during the course of the year we identified certain balances relating to tangible capital assets that were recorded as a change in estimate. The change in estimate has been properly reflected in the Financial Statements in accordance with PS 2120.28 – *Accounting changes, Measurement uncertainty*.

Impact of the 2013 flood

71. We have assessed the impact of the 2013 flood on the financial assets of The City and the impairment of TCA as a result of the flood. We have determined that no permanent impairment of TCA exists as a result of the 2013 flood and the year-end financial statements appropriately reflect TCA values. We believe that the completeness and estimates utilized in the determination of the impairment of TCA have been adequately disclosed in the December 31, 2016 year-end financial statements.

Notes, loans and receivables

72. The City is responsible for determining the appropriate carrying amount of loans and accounts receivable, as well as estimates used to determine such amounts. Administration believes that the carrying amounts recorded and disclosed are appropriate.

73. We have identified to you all forgivable loans and have appropriately reflected these amounts including any required allowances in the financial statements. These loans are secured by The City's encumbrance on the title of the related property.

Accumulated Surplus

74. Reserves and surplus accounts are correctly recorded and all transactions comply with the purposes approved according to relevant legislation and City Council authorizations.

75. In accordance with established policy, for all self-supported business units, any levies received in the year are recorded as revenue in the Statement of Operations and are transferred to the Utility Sustainment Reserve at the end of the year. These funds are utilized from the reserve in the following year to pay for debt servicing costs specific to the levy projects.

Revenues and deferred revenues

76. Revenues and deferred revenues are recorded accurately. Specifically:

- a. Revenues are not overstated and deferred revenues are not understated. These inaccuracies result if financial statements record externally restricted transfers/contributions as revenue before the transferor's/contributor's stipulations are met; and
- b. Revenues are not understated and deferred revenues are not overstated. These inaccuracies result if financial statements record externally restricted transfers/contributions as deferred revenue, not as revenue, after the transferor's/contributor's stipulations are met.

P3 agreements

77. The City has entered into a P3 agreement, signed on June 25, 2015, to design, build and maintain a composting facility. As at the December 31, 2016 year-end, \$102.1M has been recorded as work in progress (TCA) and accounts payable. As at December 31, 2016, The City asserts that the asset and payable relating to this agreement are not materially misstated.

78. The City has entered into a P3 agreement, signed on September 13, 2016, to design, build, finance and maintain a compressed natural gas bus storage and transit facility. As at the December 31, 2016 year-end, \$11.2M has been recorded as work in progress (TCA) and accounts payable. As at December 31, 2016, The City asserts that the asset and payable relating to this agreement are not materially misstated.

Related entities

79. The City has completed a review of all related entities and confirms that all entities that should be consolidated into The City's Financial Statements for the year ended December 31, 2016 have been included.

Yours truly,

The City of Calgary

Eric Sawyer, Chief Financial Officer

Carla Male, City Treasurer/Director of Finance (January 2017 to present)

Nelson Karpa, Interim City Treasurer/Director of Finance (September 2016 to January 2017)

Cathy An, Finance Manager Corporate Financial Reporting

Appendix A

The City of Calgary

Summary of corrected and uncorrected misstatements and disclosure deficiencies Year ended December 31, 2016

The following corrected and uncorrected misstatements are those that have been identified through to the date of this report and are subject to adjustment based on the completion of outstanding matters.

Summary of corrected misstatements – December 31, 2015 year-end as identified by Administration

(000's) Dr. (Cr.)	Assets DR (CR)	Liabilities DR (CR)	Accumulated Surplus DR (CR)	Revenue DR (CR)	Expenses DR (CR)
Total restatement of 2015 balances	23,344	23,747	(66,884)	15,126	4,667

Misstatements relating to the 2015 fiscal year-end and prior years have been restated.

Summary of corrected misstatements – December 31, 2016 year-end as identified by Deloitte (000's)

Title	Accounts impacted	Description	Assets DR (CR)	Statement of Operations DR (CR)
Reclassification between Receivables and Cash and cash equivalents	Cash Receivables	Balance was originally recorded as an outstanding deposit, when it should have been recorded as accounts receivable.	3,737 (3,737)	
Reclassification between Other Assets and Receivables	Other Assets Receivables	Balance was originally recorded as a long term receivable in Other Assets. This amount is due within 1 year and thus has been reclassified as a Receivable (current).	10,301 (10,301)	
Overaccrual of TCA Land	TCA Expenses	Balance was originally accrued for Donated Land based on internal rates. As the assessment values of these properties were available prior to finalizing the financial statements, the land has been adjusted to match the assessment values.	(3,857)	3,857

Appendix B
The City of Calgary
Summary of disclosure deficiencies
Year ended December 31, 2016

None identified

Appendix 6 – Related authorities

For the purposes of the consolidated audit, we have completed our audit procedures on the following related authorities or other significant assurance engagements:

Entity	Reporting Entity Relationship	Entity Audit Committee Meeting Date
Calgary Parking Authority	Calgary Parking Authority Audit Committee	March 23, 2017*
Calgary TELUS Convention Centre	CALGARY TELUS Convention Centre Audit Committee	May 10, 2017*
Calhome Properties Ltd.	Calhome Properties Ltd. Audit Committee	March 3, 2017*
Calgary Municipal Land Corporation	Calgary Municipal Land Corporation Audit Committee	April 28, 2017*
Calgary Public Library	Calgary Public Library Audit Committee	March 21, 2017*
Calgary Police Service	Calgary Police Commission and Audit and Finance Committee	May 10, 2017
ENMAX Corporation	ENMAX Audit Committee	March 15, 2017*
Attainable Homes Calgary Corporation Calgary Economic Development Ltd. Calgary Arts Development Authority	The overall financial results for each of these entities are not significant in relation to The City's consolidated financial statements and therefore, only specified procedures on material account balances were applied for the 2016 audit	Not applicable
Elected Officials Pension Plan	Pension Governance Committee	June 5, 2017
Supplementary Pension Plan	Pension Governance Committee	June 5, 2017
Municipal Employees Benefits Association of Calgary	Municipal Employees Benefits Association of Calgary - Finance Committee	May 17, 2017

*The fiscal 2016 audit of these entities has been completed prior to issuance of The City's consolidated financial statements.

Related Authority	Materiality	Areas of audit risk and audit results
Calgary Parking Authority	Materiality levels were determined on the basis of total revenue. Final materiality for the year ended December 31, 2016 was \$2,500,000 (2015, \$2,460,000).	<p>The following areas of significant audit risk were noted relating to Calgary Parking Authority:</p> <ul style="list-style-type: none"> • Revenue recognition – ParkPlus and Parking Control Revenue • Valuation of long term investments • Management override of controls <p>Audit field work has been completed and the financial statements have been approved by the Board of Directors. We issued an unmodified opinion dated March 30, 2017.</p> <p>In addition to the audit of the financial statements prepared in accordance with International Financial Reporting Standards, for financial reporting purposes, we also audited the PSAS trial balance for purposes of consolidation with The City.</p>
Calgary TELUS Convention Centre	Materiality levels were determined on the basis of a percentage of revenue. Final materiality for the year ended December 31, 2016 was \$700,000 (2015, \$810,000).	<p>The following area of significant audit risk was noted relating to the Calgary TELUS Convention Centre:</p> <ul style="list-style-type: none"> • Management override of controls <p>Audit field work has been completed. Based on audit work performed, we expect to issue an unmodified opinion.</p>
Calhome Properties Ltd.	Materiality levels were determined on the basis of total budgeted operating expenses. Final materiality for the year ended December 31, 2016 was \$2,400,000 (2015, \$2,400,000).	<p>The following areas of significant audit risk were noted relating to Calhome:</p> <ul style="list-style-type: none"> • Management override of controls • Revenue recognition <p>Audit field work has been completed and the financial statements have been approved by the Board of Directors. We issued an unmodified opinion dated March 10, 2017.</p>
Calgary Municipal Land Corporation	Materiality levels were determined on the basis of total assets. Final materiality for the year ended December 31, 2016 was \$14,200,000 (2015, \$10,900,000).	<p>The following area of significant audit risk were noted relating to the Calgary Municipal Land Corporation:</p> <ul style="list-style-type: none"> • Management override of controls • Completeness of work in progress related to new Central Library assets <p>Audit field work has been completed. Based on audit work performed, we expect to issue an unmodified opinion.</p>
Calgary Public Library	Materiality levels were determined on the basis of total revenues. Final materiality for the year ended December 31, 2016 was \$1,500,000 (2015, \$1,500,000).	<p>The following area of significant audit risk was noted relating to the Calgary Public Library:</p> <ul style="list-style-type: none"> • Management override of controls <p>Audit field work has been completed and the financial statements have been approved by the Board of Directors. We issued an unmodified opinion dated March 29, 2017.</p>

Calgary Police Service	Materiality levels were determined on the basis of a percentage of budgeted operating expenses. Final materiality for the year ended December 31, 2016 was \$7,000,000 (2015, \$6,000,000).	<p>The following areas of significant audit risk were noted relating to the Calgary Police Service:</p> <ul style="list-style-type: none"> • Revenue recognition • Management override of controls <p>Audit field work has been completed. Based on audit work performed, we expect to issue an unmodified opinion.</p>
ENMAX Corporation	Materiality levels were determined on the basis of consolidated normalized earnings before interest, income tax, depreciation and amortization. Final materiality for the year ended December 31, 2016 was \$22,000,000 (2015, \$22,000,000).	<p>The following areas of significant audit risk were noted relating to ENMAX Corporation;</p> <ul style="list-style-type: none"> • Revenue recognition • Management override of controls • Residential and commercial power and natural gas sales • Derivative instruments and related hedging activities • Provision for tax uncertainties associated with the Payments in Lieu of Taxes <p>Audit field work has been completed and financial statements have been approved by the Board of Directors. We issued an unmodified opinion dated March 16, 2017.</p>

Appendix 7 – 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.