

The City of Calgary Report to the Audit Committee on the 2020 audit

April 20, 2021

April 12, 2021

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 2020 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 1 of this report.

As agreed in our master services agreement ("MSA") dated July 25, 2018 and confirmation of changes letter dated July 23, 2020, we have performed an audit of the financial statements of The City of Calgary as of and for the year ended December 31, 2020, in accordance with Canadian generally accepted auditing standards ("Canadian GAAS") and expect to issue our audit report thereon dated April 26, 2021.

Our audit has been conducted in accordance with the audit plan that was presented to the Audit Committee at the meeting on July 23, 2020.

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

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

Yours truly,



Chartered Professional Accountants

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Executive summary



Audit scope and terms of engagement

We have been asked to perform an audit of The City's financial statements (the "financial statements") in accordance with Canadian public sector accounting standards ("PSAS") as at and for the year ended December 31, 2020. Our audit was conducted in accordance with Canadian generally accepted auditing standards ("Canadian GAAS").

The terms and conditions of our engagement are described in the MSA and confirmation of changes letter. We have developed appropriate safeguards and procedures to eliminate threats to our independence or to reduce them to an acceptable level.



Significant risks

- 1 Administration override of controls
- 2 Capital deposits - revenue recognition
- 3 Tangible Capital Assets

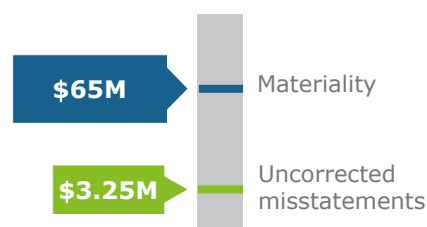


Continued from prior year

Status



Materiality



Materiality levels are determined on the basis of consolidated actual operating expenses and other qualitative factors. Our materiality for the year ended December 31, 2020 was \$65,000,000 (2019, \$65,000,000).



Outstanding Matters & Next Steps

Receipt of signed Administration representation letter and legal department's confirmation letter.

Completion of our subsequent events review.

Completion of review and tie-in of final version of financial statements, including updated versions of related authority financial statements.

Review of final version of the financial statements and financial statement discussion and analysis for changes, if any.

Approval of the financial statements by City Council at the recommendation of the Audit Committee.

Completion of the Engagement Quality Control review.



Highlights

Impacts related to the COVID-19 pandemic.

No changes in the significant risks identified.

Engaged with Administration on the adoption of upcoming accounting standards.

Performed additional audit procedures on misstatements identified by Administration.

Communicated with Administration throughout the fiscal year.

Engaged with Administration on complex accounting matters.

**Audit fees**

Audit fees	2020¹	2019¹
The City of Calgary consolidated financial statement audit	\$293,400 ²	\$290,500 ²
Municipal Information Return	\$4,600	\$4,600
Funds Held in Trust audit	\$1,800	\$1,800
Newspaper insert (summarization of The City's financial information)	Included in the City of Calgary Audit fee	Included in the City of Calgary Audit fee
PS 3260, <i>Liability for contaminated sites</i> ³	-	\$5,000
Audit procedures on accounting transactions and related to financial statement disclosure of P3 Agreement – Stoney Transit Facility dated September 13, 2016 ³	-	\$5,000
Adoption of new accounting standard for December 31, 2019	-	\$7,500
Additional audit procedures due to the impact of COVID-19	\$25,000	-
Audit of off-site levy interest income allocation misstatement	\$30,000	-
Additional audit procedures related to the Event Centre	\$10,000	-
Calgary Transit Projects audit	\$6,600	-
Total fees	\$371,400	\$339,400

¹ These fees are subject to a 7% administrative charge and applicable GST.

² The category previously listed as "audit procedures on related authorities for consolidation purposes" has been re-grouped into the category "The City of Calgary consolidated financial statement audit".

³ The review of all high risk sites in PS 3260 was substantially completed in 2019. The P3 Agreement was substantially completed in 2019.

**Going Concern**

Administration has completed its assessment of the ability of The City to continue as a going concern and in making its assessment did not identify any material uncertainties related to events or conditions that may cast significant doubt upon The City's ability to continue as a going concern. We agree with Administration's assessment.

**Results**

No restrictions have been placed on the scope of our audit. We intend to issue an unmodified audit report on the financial statements of The City for the year ended December 31, 2020 once the outstanding items referred to above are completed satisfactorily and the financial statements are approved by the Audit Committee and City Council.

Significant audit risks, significant events and areas of focus

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

Significant risk dashboard

Legend



Significant level of Administration judgment involved



Minimal/No Administration judgment involved


D+I: Planned testing of the design and implementation of key controls

OE: Planned testing of the operating effectiveness of key controls


Administration override of controls

Fraud Risk	Control Testing Planned	Level of Administration judgement	Specialist, Expert or Innovation Involvement
YES	Not applicable		Excel Analytics was used to perform journal entry testing.
Analysis of risk		Audit Response and Results	
<ul style="list-style-type: none"> Under Canadian Auditing Standards, it is the responsibility of Administration, with the oversight of those charged with governance to place a strong emphasis on fraud prevention and detection. Oversight by those charged with governance includes considering the potential for override of controls or other inappropriate influence over the financial reporting process. Administration override of controls is present in all entities. It is a risk of material misstatement resulting from fraud and therefore is considered as a significant risk. 		<ul style="list-style-type: none"> We engaged in periodic fraud discussions with certain members of senior Administration and others, including The City Auditor, City Manager and the Audit Committee. We considered the potential for bias in judgments and estimates, including performing retrospective analysis of significant accounting estimates. We evaluated the business rationale for any significant transactions. We also evaluated The City's fraud risk assessment and considered entity-level internal controls and internal controls over the closing and reporting process. We tested manual consolidation entries that exhibited characteristics of possible Administration override of controls identified. We obtained sufficient audit evidence to conclude that there were no material misstatements. 	

Capital deposits - revenue recognition

Fraud Risk	Control Testing Planned	Level of Administration judgement	Specialist, Expert or Innovation Involvement
YES	D+I		Data Analytics performed on property tax revenue.
Analysis of risk		Audit Response and Results	
<ul style="list-style-type: none"> Capital revenue relating to government funding and private contributions is not recognized in the correct period, as expenditures are incurred. 		<ul style="list-style-type: none"> We assessed the design and implementation of relevant controls. We applied audit procedures to revenue recognition of capital deposits relating to both government funding and private contributions. Our testing included, on a sample basis, reviewing amounts included in the current year transactions to ensure only amounts that meet the revenue recognition criteria under PSAS are recognized as revenue. We obtained capital deposit contracts to ensure that the revenue recorded aligned with the stipulations in the contract. We applied audit procedures to test the completeness of revenue by reviewing the carry-forward forms for financing deficits as at December 31 to determine if grant funding has been applied in the appropriate period. We also applied audit procedures to off-site levies, on a sample basis, on the following areas: <ul style="list-style-type: none"> Signed agreements in the year Debt acquired for off-site levy projects Amounts recognized into revenue in the year Deferred revenue recognized into revenue in the year Investment income allocation as identified by Administration We obtained sufficient audit evidence to conclude that there were no material misstatements. 	

Tangible Capital Assets

Fraud Risk	Control Testing Planned	Level of Administration judgement	Specialist, Expert or Innovation Involvement
YES	D&I		Not Applicable.
Analysis of risk		Audit Response and Results	
<ul style="list-style-type: none"> Completeness, existence and valuation of Tangible Capital Assets ("TCA") work in progress ("WIP") and fund 40 expenditures. 		<ul style="list-style-type: none"> We assessed the design and implementation of relevant controls. On a sampling basis, we tested TCA WIP additions to ensure these WIP additions were appropriately capitalized and accounted for as WIP. On a sampling basis, we also tested TCA WIP transfers to ensure these WIP projects were appropriately transferred out of WIP and into the correct asset class at project completion. On a sampling basis, we tested fund 40 expenditures to ensure these costs were appropriately expensed or capitalized to TCA. We obtained sufficient audit evidence to conclude that there were no material misstatements. 	

Significant events

COVID-19

Impact on our 2020 audit

Due to COVID-19, we identified certain areas of our 2020 audit that were directly impacted in comparison to previous years. These changes had an impact to our audit in terms of nature, timing and extent of audit procedures that we were required to perform. We have outlined below the significant changes identified to date.

- Identified audit risks specific to COVID-19 and plan audit procedures to address these risks.
- Increased communication with City Administration throughout the year to understand COVID-19 impacts and implications.
- Applied audit procedures to any changes in processes and controls at The City.
- Considered alternative methods to obtain audit evidence (scanned copies, electronic versions, video calls to walk through controls, analyses and questions) due to remote work arrangements.
- Increased communication with related authorities/subsidiaries throughout the year to understand COVID-19 impacts and implications.
- Performed audit testing remotely.

We also monitored audit scope and timelines and adjusted accordingly to ensure we met reporting deadlines. As a result of performing these additional procedures related to COVID-19, we incurred fees of \$25,000 as communicated on page 2 of this document.

Areas of focus

Related parties (authorities/subsidiaries/civic partners)

Analysis	Audit response and results
<ul style="list-style-type: none"> • Completeness and disclosure of the accounting for organizations included in the government reporting entity (related authorities or subsidiaries). 	<ul style="list-style-type: none"> • 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. • We applied audit procedures to entities identified by Administration in 2020 as possibly meeting the criteria for consolidation under PSAS guidance, if any. • We obtained sufficient audit evidence to conclude that there were no material misstatements.

Litigation accruals and contingencies

Analysis	Audit response and results
<ul style="list-style-type: none"> • Completeness and accuracy of claims and litigation matters of The City and its related authorities. 	<ul style="list-style-type: none"> • 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 external legal counsel (if applicable) and discussed the status of outstanding legal matters with Administration and others, as necessary. • We assessed the appropriateness of any contingent liabilities and financial statement disclosures. • We obtained sufficient audit evidence to conclude that there were no material misstatements.

Property tax revenue

Analysis	Audit response and results
<ul style="list-style-type: none"> Completeness and accuracy of the accounting for property tax revenue. 	<ul style="list-style-type: none"> We performed reasonability tests on property tax revenue balances. We reviewed and tested the property tax revenue business cycle process controls. We completed data analytical testing on the property tax revenues for the year ending December 31, 2020. We obtained sufficient audit evidence to conclude that there were no material misstatements.

Government grants and transfers

Analysis	Audit response and results
<ul style="list-style-type: none"> Accounting and disclosure of government grants and transfers. 	<ul style="list-style-type: none"> We tested a sample of funding agreements to determine if the contract required financial statement disclosure. We tested 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 the deferred revenue. We reviewed deferred revenue for compliance with the applicable PSAS guidance. We tested expenditures and ensured that the corresponding revenue had been recognized. We obtained sufficient audit evidence to conclude that there were no material misstatements.

Reserves

Analysis	Audit response and results
<ul style="list-style-type: none"> Completeness and accuracy of the recording and presentation of reserves. 	<ul style="list-style-type: none"> We tested 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 tested a sample of transfers between reserves, if any, to verify that the transfer was approved by City Council. We reviewed the completeness and accuracy of the financial statement disclosures relating to reserves. We obtained sufficient audit evidence to conclude that there were no material misstatements.

Commitments and contractual obligations

Analysis	Audit response and results
<ul style="list-style-type: none"> Disclosure and completeness of commitments and contractual obligations. 	<ul style="list-style-type: none"> We reviewed the completeness and accuracy of the financial statement disclosures relating to The City's commitments and contractual obligations. We ensured that these disclosures were in accordance with PSAS guidance. We obtained sufficient audit evidence to conclude that there were no material misstatements.

Allowance for property taxes receivable*

Analysis	Audit response and results
<ul style="list-style-type: none"> The allowance for property taxes receivable is a significant estimate determined by Administration. Due to expected significant impacts of COVID-19, there is a risk that the allowance has not been appropriately adjusted for the impacts of COVID-19. 	<ul style="list-style-type: none"> We reviewed Administration's methodology and assessment of uncollectible property taxes receivable balances. We reviewed the allowance for property taxes receivable which was assessed based on specific properties identified as being uncollectible. We held discussions with the appropriate individuals to understand the process for identifying specific properties and the methods used to pursue collection of payment. We obtained sufficient audit evidence to conclude that there were no material misstatements.

Valuation of land inventory*

Analysis	Audit response and results
<ul style="list-style-type: none"> Land inventories are measured at the lower of cost and net realizable value. There is a risk that certain land inventories may be carried at a cost that is higher than net realizable value due to poor market conditions resulting from COVID-19. 	<ul style="list-style-type: none"> We reviewed Administration's assessment of net realizable value of land inventories. We tested a sample of land inventories to determine if the net realizable value is less than cost and a write-down is required. We obtained sufficient audit evidence to conclude that there were no material misstatements.

Valuation of registered defined benefit pension plans' pension assets and obligation*

Analysis	Audit response and results
<ul style="list-style-type: none"> The pension assets are based on actual market values as at October 31, projected to December 31, based on expected contributions, benefits payments and return on assets. The pension obligation is determined based on various inputs and assumptions (including discount rates, inflation rates, mortality rates, termination rates, retirement rates, salary increases, etc). Due to the significant impact of COVID-19, there is a risk that the valuation of the defined benefit pension plan's pension asset and obligation are inaccurate as they have not been appropriately updated for significant changes in the underlying inputs and assumptions. 	<ul style="list-style-type: none"> We assessed the reasonability of the projected pension assets. We reviewed the various inputs and assumptions used in the calculation of the pension obligation and assessed their reasonableness. We performed testing on a sample of the inputs that were provided to the actuary. We reviewed and tested the pension asset and obligation business cycle process controls to ensure the controls surrounding the review of the inputs and assumptions were designed and implemented properly. We obtained sufficient audit evidence to conclude that there were no material misstatements.

Allowance for off-site levy receivables*

Analysis	Audit response and results
<ul style="list-style-type: none"> Due to the significant impact of COVID-19, there is a risk of off-site levy receivable balances being uncollectible due to entities being unable to pay. 	<ul style="list-style-type: none"> We reviewed Administration's assessment of uncollectible off-site levy receivable balances. We tested a sample of off-site levy payments received during the year and after year-end to assess collectability. We obtained sufficient audit evidence to conclude that there were no material misstatements.

Valuation of investments*

Analysis	Audit response and results
<ul style="list-style-type: none"> Investments are measured at the lower of cost and fair value. Fair values have fluctuated significantly due to COVID-19, and therefore, there is a risk that the fair value of investments is less than the cost and write-offs are required. 	<ul style="list-style-type: none"> We assessed the design and implementation of relevant controls. We reviewed The City's assessment of the fair value of investments, including the valuation techniques and inputs used. We assessed if any write-downs were required on the investments. We obtained sufficient audit evidence to conclude that there were no material misstatements.

* During our risk assessment, we identified these areas of focus due to the expected impact of COVID-19 on the financial results of The City.

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 assessed the design and implementation of controls to aid in our risk assessment procedures. Canadian GAAS require us to report to the Audit Committee any significant deficiencies that have come to our attention. Due to the impact of COVID-19, for fiscal 2020, Administration modified certain existing controls.

To the extent that we have identified matters to be communicated with those charged with governance, consistent with previous years, we will communicate those in our Administration recommendation letter to be presented by Deloitte at the June 24, 2021 meeting.

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

Significant accounting policies, judgements and estimates

The accounting policies described below are those that are most important and representative of The City's financial condition and financial performance.

In the course of our audit of the financial statements, we considered the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability and understandability of the information included in the financial statements.

We believe The City's significant accounting policies to be:

- Valuation of TCA
- Useful lives and related amortization of TCA
- Accrued liabilities
- Employee benefits obligations
- Provision for tax appeals
- Provision for landfill rehabilitation
- Contaminated sites and environmental assessments
- Contingent liabilities

In our judgement, the significant accounting practices and policies, selected and applied by Administration are, in all material respects, acceptable under PSAS and are appropriate to the particular circumstances of The City.

Accounting estimates are an integral part of the financial statements prepared by Administration and are based on Administration's current judgements. These judgements 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, 2020, Administration advised us that there were no significant changes in accounting estimates or in judgements relating to the application of the accounting policies.

Appendix 1 – Communication requirements and other reportable matters

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

Required communication	Refer to this report or document described below
Audit Service Plan	
1. Our responsibilities under Canadian GAAS, including forming and expressing an opinion on the financial statements	Master services agreement dated July 25, 2018 and confirmation of changes letter dated July 23, 2020.
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 23, 2020.
3. Significant transactions outside of the normal course of business, including related party transactions	Related party transactions are disclosed in Note 1 y) to the financial statements. Refer to Significant Risks section for further details on significant transactions outside the normal course of business.
4. How those charged with governance exercise oversight over Administration's process for identifying and responding to the risk of fraud and the internal control that Administration has established to mitigate these risks	We believe adequate internal controls exist to sufficiently mitigate the risk of management override of controls. Those charged with governance exercise oversight over management's process for identification and response to the risk of fraud by establishing and enforcing a code of conduct, establishing committees to govern various aspects of operations and engaging frequently with key management personnel.
5. Any known suspected or alleged fraud affecting The City	We are not aware of any actual or suspected fraudulent events.

Required communication	Refer to this report or document described below				
6. Whether The City is in compliance with laws and regulations	<p>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 noncompliance rests with Administration. The auditor is not and cannot be held responsible for preventing noncompliance with laws and regulations.</p> <p>Our limited procedures did not identify any areas of material noncompliance with laws and regulations by The City.</p>				
Year End Communication					
7. Fraud or possible fraud identified through the audit process	We are not aware of any fraudulent events.				
8. Significant accounting policies, practices, unusual transactions, and our related conclusions	Significant accounting policies, judgements and estimates section of this report.				
9. Alternative treatments for accounting policies and practices that have been discussed with Administration during the current audit period	Significant accounting policies, judgements and estimates section of this report.				
10. Matters related to going concern	Executive summary section of this report.				
11. 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 data-bbox="1005 1310 1143 1362">IT specialists:</td><td data-bbox="1159 1310 1435 1478">Assisted in the assessment of the adequacy and effectiveness of internal controls related to information systems</td></tr> <tr> <td data-bbox="1005 1488 1127 1541">Actuarial experts:</td><td data-bbox="1159 1488 1419 1593">AON Hewitt assisted in the assessment of the valuation of The City's pension liability</td></tr> </table>	IT specialists:	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
IT specialists:	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				
12. Consultation with other accountants	Administration has informed us that The City has not consulted with other accountants about auditing or accounting matters.				
13. Administration judgments and accounting estimates	Significant accounting policies, judgements and estimates section of this report.				

Required communication	Refer to this report or document described below
14. Significant difficulties, if any, encountered during the audit	During the course of our audit, we did not encounter any significant difficulties in dealing with Administration related to the performance of the audit.
15. Material written communications between Administration and us, including Administration representation letters	Administration representation letter
16. Circumstances that affect the form and the content of the auditor's report	Draft auditor's report
17. Other matters that are significant to the oversight of the financial reporting process	No other matters to report.
18. Modifications to our opinion(s)	Executive summary section of this report.
19. Other significant matters discussed with Administration	Significant audit risks, significant events and areas of focus section of this report.
20. Matters involving noncompliance with laws and regulations that come to our attention, unless prohibited by law or regulation, including illegal or possibly illegal acts that come to our attention	We are not aware of any matters involving noncompliance with laws and regulations or illegal acts.
21. Litigation	No litigation matters to report.
22. Significant deficiencies in internal control, if any, identified by us in the conduct of the audit of the financial statements	No deficiencies to report.
23. Uncorrected misstatements and disclosure items	In accordance with Canadian GAAS, we request that all misstatements be corrected. Uncorrected misstatements to report. No uncorrected disclosure misstatements to report.
24. Changes to the audit plan	The audit was conducted in accordance with our audit plan, which was communicated to the Audit Committee. We confirm that there have been no amendments to the audit scope and approach communicated in the audit plan.
25. Concerns regarding Administration competence and integrity	We do not have any concerns regarding Administration's competency and integrity.
26. Disagreements with Administration	During the current audit, we did not have any disagreements with Administration.
27. Post-balance sheet events	At the date of finalizing this report, we are not aware of any significant post-balance sheet events.
28. Limitations when sending confirmations	Not applicable.
29. Other significant matters arising from the audit	No other significant matters to report.

Appendix 2 – Group Audit

The audit of The City is considered to be a group audit and therefore, we are also required to determine the scope of work required for each related authority. We are auditors of all related authorities and issue an audit opinion on the standalone financial statements of each entity, with the exception of Attainable Homes Calgary Corporation, Calgary Economic Development Ltd. and Calgary Arts Development Authority Ltd.

No restrictions have been placed on the scope of our audits of the related authorities. In performing the audits, we were given full and complete access to the accounting records, supporting documentation and other information requested.

For the three entities not audited by Deloitte LLP, we applied audit procedures based on The City's consolidated materiality.

Appendix 3 – 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 33M2020. 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 33M2020	Description	Related Deloitte Involvement
5(f)	<p>Pre-approve all audit and non-audit services performed by the External Auditor and further provide that:</p> <p>(A) the Chair can pre-approve additional audit or non-audit services performed by the External Auditor, up to \$50,000 total annually and must report those approvals to the Audit Committee; and</p> <p>(B) on an annual basis, total fees for non-audit services performed by the External Auditor shall not exceed the total audit fees approved for The City of Calgary consolidated audit, including all subsidiary and related entity audits.</p>	<p>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 the 2020 Audit Service Plan presented by Deloitte on July 23, 2020.</p> <p>The Independence letter included as Appendix 5 of the Year-end Audit Report, to be presented by Deloitte to the Audit Committee at the April 20, 2021 meeting, summarizes the fees of all services performed.</p>
Schedule A, 2(a)	Reviews and oversees the integrity of 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 to be presented by Deloitte to the Audit Committee at the April 20, 2021 meeting.
Schedule A, 2(b)	Reviews and discusses the City's compliance with financial reporting procedures with Administration and the External Auditor.	<p>Report of the Independent Auditor on the consolidated Financial Statements and year-end Audit report to be presented by Deloitte to the Audit Committee at the April 20, 2021 meeting.</p> <p>Letter of recommendations to be presented by Deloitte at the June 24, 2021 meeting.</p>
Schedule A, 2(c)	Engages Administration 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.
Schedule A, 2(d)	In consultation with the Chief Financial Officer and External Auditor, review and discuss significant new accounting standards and financial reporting developments to understand any material impact on financial results. A detailed analysis, prepared by Administration, on the implications of any changes, as well as the progress made in the adoption of new accounting standards, may be requested.	Appendix 7 of 2020 Audit Service Plan presented by Deloitte on July 23, 2020.

Bylaw 33M2020	Description	Related Deloitte Involvement
Schedule A, 2(e)	Maintains open lines of communication with the External Auditor and Administration.	Participation and attendance by Deloitte at Audit Committee meetings throughout the year.
Schedule B, 1(c)	Requires the External Auditor to express an opinion on The City's financial statements, in accordance with professional standards.	Communicated in the year-end Audit Report to be presented by Deloitte to the Audit Committee at the April 20, 2021 meeting.
Schedule B, 1(a)	Prior to the commencement of the annual external financial audit, reviews the audit plan and estimated audit fees with the External Auditor and discusses the timing and extent of audit procedures, materiality, significant audit risks and areas of audit focus and overall audit strategy. This report is to be forwarded to Council for information.	2020 Audit service plan presented by Deloitte on July 23, 2020.
Schedule B, 1(b)	In conjunction with Administration's presentation of the annual financial statements, receives and reviews 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 to be presented by Deloitte to the Audit Committee at the April 20, 2021 meeting.
Schedule B, 1(d)	Receives and reviews the External Auditor's Management Letter(s), and reviews Administration responses, and forwards, either in full or in summary, to Council for information. Through query, confirm that any recommendations made by the External Auditor are addressed by Administration in a timely manner.	Administration recommendation letter to be presented by Deloitte at the June 24, 2021 meeting.
Schedule B, 1(e)	Must meet with the External Auditor, in the absence of Administration, at least quarterly.	Closed meetings held with Deloitte at Audit Committee meetings throughout 2020 and 2021.
Schedule B, 1(h)	Receives and reviews the External Auditor's annual independence letter. Through query, confirm the process by which the External Auditor maintains their independence and objectivity.	Communicated in the year-end Audit Report to be presented by Deloitte to the Audit Committee at the April 20, 2021 meeting.

Appendix 4 – Draft version of our auditor's report

Independent Auditor's Report

To His Worship Mayor Naheed Nenshi and Members of City Council
The City of Calgary

Opinion

We have audited the consolidated financial statements of The City of Calgary ("The City"), which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statements of operations and accumulated surplus, cash flows and changes in net financial assets for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of The City as at December 31, 2020, 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 ("PSAS").

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the information, other than the financial statements and our auditor's report thereon, in the Financial Statement Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Financial Statement Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of City Administration and Those Charged with Governance for the Consolidated Financial Statements

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

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

Those charged with governance are responsible for overseeing The City's financial reporting process.

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within The City to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Chartered Professional Accountants
April 26, 2021

Appendix 5 – Draft independence and fees

April 26, 2021

The Audit Committee and City Council
The City of Calgary

Dear Audit Committee and City Council members:

We have been engaged to audit the consolidated financial statements of The City of Calgary ("The City") for the year ended December 31, 2020.

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, our Firm and network firms that, in our professional judgment, may reasonably be thought to bear on our independence. You have also requested us to communicate the related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.

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

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

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

We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since April 27, 2020, the date of our last letter.

We are not aware of any relationships between the Member Firms of Deloitte Touche Tohmatsu Limited and their respective affiliates (collectively, the "Deloitte Entities") and The City and its affiliates, or persons in financial reporting oversight roles at The City and its affiliates, that, in our professional judgment, may reasonably be thought to bear on independence, that have occurred from April 28, 2020 to April 26, 2021.

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	\$2,108,093 (2019, \$1,523,885)
Audit related services	\$217,585 (2019, \$29,597)
Non-audit related services	\$0 (2019, \$250,000)

We hereby confirm that we are independent with respect to The City in accordance with the Rules of Professional Conduct of the applicable Chartered Professional Accountants of Alberta as of April 26, 2021.

This letter is intended solely for the information and use of the Audit Committee, City Council, Administration and others within The City and is not intended to be 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, 2020 and 2019

	2020 ¹ \$	2019 ¹ \$
AUDIT SERVICES		
<u>The City of Calgary</u>		
The City of Calgary	383,488 ²	329,560 ³
Calhome Properties Ltd.	122,676	89,773
Calgary Police Service	54,035	54,142
Calgary TELUS Convention Centre	47,957	61,525
Calgary Parking Authority	91,699	91,420
Calgary Municipal Land Corporation	85,065	85,921
Calgary Public Library	43,335	43,549
Municipal Employees Benefits Association of Calgary	30,003	29,714
Family & Community Support Services	21,721	21,507
Core Benefit Plan (audit is conducted every four years)	-	-
Elected Officials Pension Plan	8,025	7,918
Supplementary Pension Plan	15,087	14,980
Funds Held in Trust	1,926	1,926
	905,017	831,935
<u>ENMAX Corporation</u>		
ENMAX Corporation audit	366,500	336,500
ENMAX Corporation quarterly reviews	101,250	81,600
Versant Power acquisition and purchase price allocation	137,500	-
ENMAX Corporation Pension Plan audit	17,350	17,350
Audit of the divisional carve out financial statements of ENMAX Transmission and Distribution	119,000	119,000
Emera Maine Audit Transition	-	137,500
Versant Power Statutory audit	281,715	-
Versant Power – Component auditor fees	67,075	-
Versant Power Pension Plan audit	112,686	-
	1,203,076	691,950
Total Audit Services	2,108,093	1,523,885

AUDIT RELATED SERVICESThe City of Calgary

City of Calgary Municipal Information Return	4,922	4,922
Calhome Properties Ltd. special government reports	19,207	15,580
Calgary Public Library LAPP audit	-	9,095
Calgary TELUS Convention Centre LAPP audit	9,844	-
Calgary Transit Projects audit	7,062	-
Off-site levy audit procedures for the years ended December 31, 2016, 2017, 2018, 2019 and 2020 ⁴	176,550	-

Total Audit Related Services	217,585	29,597
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NON-AUDIT RELATED SERVICESEnmax Corporation

Telecom 5G Streetlight Infrastructure advisory work	-	250,000
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Total Non-Audit Related Services	-	250,000
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Total Fees for All Services	2,325,678	1,803,482
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¹ Includes 7% administration fee; excludes GST. Enmax's reported fees exclude 7% administration fee and GST.

² Fee includes \$293,400 for the base audit and newspaper insert, plus the following:

\$25,000 for the additional audit procedures due to the impact of COVID-19

\$30,000 for the audit of the off-site levy interest income allocation misstatement

\$10,000 for the additional audit procedures related to the Event Centre

³ Fee includes \$272,000 for the base audit and newspaper insert, plus the following:

\$5,000 for the audit of the implementation of PS 3260, *Liability for contaminated sites*

\$5,000 for audit procedures related to the P3 agreement

\$18,500 for the consolidation of the related authorities

\$7,500 for adoption of new accounting standard PS 3430, *Restructuring Transactions*

⁴ This is the first progress billing to March 31, 2021 which represents approximately 1/3 of the anticipated budgeted fee.

Appendix 6 – Draft Administration representation letter

[The City of Calgary letterhead]

April 26, 2021

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, 2020
and Newspaper insert

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 City” or “we” or “us”) for the year ended December 31, 2020, 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, cash flows and changes in net financial assets of The City in accordance with Public Sector Accounting Standards (“PSAS”).

Certain representations in this letter are described as being limited to matters that are material. Items are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

Financial statements

1. We have fulfilled our responsibilities as set out in the terms of the master services agreement between The City and Deloitte dated July 25, 2018 and the confirmation of changes letter dated July 23, 2020 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, 2020 and the results of its operations, cash flows and changes in net financial assets for the year then ended in accordance with PSAS.
2. Significant assumptions used in making estimates, including those measured at fair value, are reasonable.

In preparing the Financial Statements in accordance with PSAS, 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, 2020 that require adjustment to the estimates and disclosures included in the Financial Statements.

There are no changes in management's method of determining significant estimates in the current year.

The City has identified all related parties in accordance with Section PS 2200, *Related Party Disclosures* ("PS 2200"). Administration has determined that such disclosure is not necessary because the transactions have not occurred at a value different from that which would have been arrived at if the parties were unrelated and do not or could not have a material effect on the financial statements. This assessment is based on all relevant factors, including those listed in paragraph 16 of PS 2200.

3. We have determined that the Financial Statements are complete as of the date of this letter as this is the date when there are no changes to the Financial Statements (including disclosures) planned or expected and City Council approval is obtained. The Financial Statements have been internally reviewed and approved in accordance with our year end close process to finalize financial statements.
4. We have completed our review of events after December 31, 2020 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.

We believe that the effects of any uncorrected Financial Statement misstatements pertaining to the current and comparative prior period presented, are immaterial, both individually and in the aggregate, to the Financial Statements taken as a whole. A list of the uncorrected misstatements aggregated by you is attached in Appendix A.

Internal Controls

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

Information provided

8. We have provided you with:
 - a. Access to all information of which we are aware that is relevant to the preparation of the Financial Statements, such as records, documentation and other matters;
 - b. All relevant information as well as additional information that you have requested from us for the purpose of the audit; and
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

9. Except as listed in Appendix A, all transactions have been properly recorded in the accounting records and are reflected in the Financial Statements.
10. We have disclosed to you the results of our assessment of the risk that the Financial Statements may be materially misstated as a result of fraud.
11. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
 - a. 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.
12. We have disclosed to you all information in relation to allegations of actual, suspected or alleged fraud, or illegal or suspected illegal acts affecting The City.
13. We have disclosed to you all communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices and all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing the Financial Statements.
14. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware, including guarantees, non-monetary transactions and transactions for no consideration and participation in a defined benefit plan that shares risks between group entities.
15. We have disclosed to you all known, actual or possible litigation and claims, whether or not they have been discussed with our lawyers, whose effects should be considered when preparing the Financial Statements. As appropriate, these items have been disclosed and accounted for in the Financial Statements in accordance with PSAS.

Independence matters

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

16. Prior to The 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.
17. We have ensured that all non-audit services provided to The City have been pre-approved by the Audit Committee. Further, we have adhered to all regulatory requirements regarding the provision of non-audit services by Deloitte to The City in accordance with applicable laws, regulations and rules that apply to The City, including the Audit Committee approval requirements.
18. We have ensured that all services performed by Deloitte with respect to this engagement have been pre-approved by the Audit Committee in accordance with its established approval policies and procedures.

Other matters

19. The 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.
20. We have disclosed to you all liabilities, provisions, contingent liabilities and contingent assets, including those associated with guarantees, whether written or oral, and they are appropriately reflected in the Financial Statements.

21. We have disclosed to you, and The City has complied with all aspects of contractual agreements that could have a material effect on the Financial Statements in the event of noncompliance, including all covenants, conditions or other requirements of all outstanding debt.
22. We have disclosed to you all the documents that we expect to issue that may comprise other information, in the context of CAS 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*.
23. We have provided you with final versions of the following other information:
 - a. Financial Statement Discussion and Analysis

We believe the financial statements and the other information are consistent with one another, and that the other information does not contain any material misstatements.

Selection of accounting policies and recording of transactions

24. The accounting policies selected and the application of those policies are appropriate.
25. 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, 2019.

Administration's responsibilities

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

Employee future obligations

27. We agree with the work of our 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 our 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.
28. Employee future benefit costs, assets and obligations, as applicable, have been properly recorded and adequately disclosed in the Financial Statements including those arising under defined benefit and defined contribution plans as well as termination arrangements. We believe that the actuarial assumptions and methods used to measure defined benefit plan assets, obligations and costs for financial statement purposes are appropriate in the circumstances. Actuarial gains and the related expenses are amortized in a systematic and rational manner over the expected average remaining service life of the related employee group.
29. 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.
30. We have correctly accounted for the multi-employer defined benefit plans (Local Authorities Pension Plan and Special Forces Pension Plan) in which The City is a participating member. As information is not available to determine the City's share of the plans' obligations and assets of these defined benefit plans, they are appropriately reported utilizing the defined contribution method of accounting.

Plans or intentions affecting carrying value/classification of assets and liabilities

31. 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.

32. We have performed assessments on our known contaminated sites, including those described in Paragraph 34. Based on our Section PS 3260, *Liability for Contaminated Sites* ("PS 3260") evaluation, we have identified two 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 this 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 for 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 have been identified. The City confirms that 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, and there were no changes to the policy for the year ended December 31, 2020.

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.

Revenue from exchange transactions

39. We have fully disclosed to you all sales terms, including all rights of return or price adjustments.

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

- a. We have disclosed to you 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 Corporate Finance or Supply Departments. 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 have disclosed to you 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

41. 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* ("PS 1000"), 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

42. 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.

43. 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 disclosure in the Financial Statements.

44. We have disclosed to you all communications from regulatory agencies concerning noncompliance 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 component, 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. Administration has performed an assessment of other organizations (Civic Partners and City Partners) with which The City has fiscal relationships and has determined that these organizations are not required to be consolidated with The City.
53. 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.
54. 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 value are in accordance with PSAS;
 - b. No events have occurred subsequent to December 31, 2020 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

55. 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.

Communicating a threshold amount

56. We understand that the threshold used for accumulating misstatements identified during the year was \$3,250,000 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 Section 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 PS 1000 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. TCA have been recorded properly and consistently according to the standards in Section PS 3150, *Tangible Capital Assets*.

65. Contributed TCA 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 TCA have been appropriately disclosed.
66. We have assessed the useful lives of TCA and have determined all TCA 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 TCA 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.

Impact of the 2013 flood

67. 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, 2020 year-end financial statements.

Notes, loans and receivables

68. 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.
69. 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

70. Reserves and surplus accounts are correctly recorded and all transactions comply with the purposes approved according to relevant legislation and City Council authorizations.
71. 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 future years to pay for debt servicing costs specific to the levy projects.

Revenues and deferred revenues

72. 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.

Related entities

73. 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, 2020 have been included.

Capital deposits

74. All 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. Specifically, in certain circumstances, The City may receive funds from developers which are not necessarily allocated for a specific project but can be utilized by The City on broader basis for development, but if not spent, are refundable to the developer. Those funds are properly recorded as capital deposits until such time as they are spent or refunded.
75. The funding sources for all current year expenditures have been analyzed to ensure that they have been accurately applied depending on the restrictions of the specific sources. All financing surpluses/deficits and funding shortfalls have been investigated to ensure they are allowable or have been appropriately replenished with available funding sources and financing has been applied.

Subsequent events - related authorities

76. We have completed our review of events after December 31, 2020 and up to the date of this letter in relation to Attainable Homes Calgary Corporation, Calgary Economic Development (Calgary Film Centre Ltd.) and Calgary Arts and Development Authority (cSPACE Projects). 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.

Assets

77. The City has recognized all assets, which do not fall within the scope of other standards, only when the requirements in Section PS 3210, *Assets* ("PS 3210") have been met. For those assets which do not meet the recognition criteria in PS 3210, the City has appropriately disclosed details of such unrecognized assets in accordance with PS 3210 in Note 25 of the Financial Statements.

Contingent assets

78. The City has identified all contingent assets in accordance with Section PS 3320, *Contingent Assets* and, when the occurrence of the confirming future event is considered likely, appropriately disclosed these items in the financial statements.

Contractual rights

79. The City has identified and disclosed all contractual rights that will result in both an asset and revenue in the future, once the terms of the contract or agreement are met, in accordance with Section PS 3380, *Contractual Rights*.

Inter-entity transactions

80. The City has recognized all transactions involving the transfer of assets or liabilities between public sector entities in accordance with Section PS 3420, *Inter-entity transactions* ("PS 3420").
81. The City has recorded all inter-entity transactions properly at exchange or carrying amount in accordance with the criteria in PS 3420.14-.22.
82. The City has disclosed all inter-entity transactions in the notes to the Financial Statements whether or not such transactions are recognized in the financial statements, in accordance with PS 2200.
83. The City has not recognized any amount in the financial statements in respect of shared services received for which no costs are allocated by the provider.

Restructuring Transactions

84. The City has identified all potential restructuring transactions, as defined in Section PS 3430, *Restructuring transactions* ("PS 3430"). The City has determined that PS 3430 has no impact on the financial statements based on Administration's assessment.

Attainable Homes Calgary Corporation (“AHCC”)

85. Administration is working with AHCC to assess its ability to continue as a going concern. Note 21 discloses that AHCC incurred a loss of \$743,000 for the year ended December 31, 2020 (2019 – \$3,029,000) and has also recorded inventory write downs to net realizable value and allowances on its equity loans. The City has consolidated these results on a going concern basis which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Should AHCC be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and meet its liabilities as they become due. In this event, the adjustments necessary to the presentation and carrying amounts of the assets and liabilities of AHCC would not be material to The City’s financial position. The City has guaranteed certain indebtedness of AHCC as disclosed in Note 29 a) iii). Inclusive of all recorded obligations, AHCC has net financial assets of \$10.4M (2019 - \$11.6M) and a preliminary review indicates that an immaterial amount may be at risk in order to return to short-term sustainable operations. AHCC is not material to the City from a financial or operational perspective. AHCC’s ability to continue as a going concern is dependent upon its ability to:

- Sell the existing inventory;
- Complete and sell the townhouse units under construction at or above its carrying cost at completion;
- Sustain positive cash flows from operations;
- Successfully extend the existing debt facility and guarantee with the City as a part of the regular review and renewal process; and
- Continue to obtain support from its lenders and other parties to meet current and future liabilities and contractual obligations.

Yours truly,
The City of Calgary

David Duckworth, City Manager

Carla Male, Chief Financial Officer

Les Tochor, City Treasurer

Greg Wiebe, Finance Manager Corporate Financial Reporting

Appendix A

The City of Calgary

Summary of uncorrected financial statement misstatements

Year ended December 31, 2020

Summary of uncorrected misstatements – December 31, 2020 year-end as identified by Administration

Current year uncorrected errors

(000's)	Assets DR (CR)	Liabilities DR (CR)	Accumulated Surplus DR (CR)	Income DR (CR)
Factual				
Unrecorded accounts payable and accrued liabilities.	-	(7,127)	-	7,127
Factual				
Unrecorded impairment of land inventory parcels.	(5,728)	-	-	5,728
Likely				
Likely misstatement as a result of Administration recognizing revenues on aged capital deposits based on their best estimate.	-	(5,648)	-	5,648
Total	(5,728)	(12,775)	-	18,503

Prior year errors impacting the current year

(000's)	Assets DR (CR)	Liabilities DR (CR)	Accumulated Surplus DR (CR)	Income DR (CR)
Unrecorded accounts payable and accrued liabilities relating to 2019 were recorded in 2020. This results in an uncorrected error for both fiscal years 2019 and 2020; however, the ending 2020 balance is correct.	-	-	5,258	(5,258)
Certain 2019 and prior years' land inventory balances, previously recognized, were derecognized in 2020. This results in an uncorrected error for both fiscal years 2019 and 2020; however, the ending 2020 balance is correct.	-	-	7,354	(7,354)
Certain 2019 and prior years' capital deposits balances, previously not recognized, were recognized in 2020. This results in an uncorrected error for both fiscal years 2019 and 2020; however, the ending 2020 balance is correct.	-	-	(11,701)	11,701
Certain 2019 and prior years' investment income earned, related to off-site levies amounts, was appropriately recognized as a liability in 2020. This results in an uncorrected error for both fiscal years 2019 and 2020; however, the ending 2020 balance is correct.	-	-	15,012	(15,012)
Total	-	-	15,923	(15,923)

Part of Appendix A of Appendix 6 is presented in closed meeting

Appendix B

The City of Calgary

Summary of disclosure items passed
Year ended December 31, 2020

None identified.

Appendix 7 – 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, 2021
Calgary TELUS Convention Centre*	CALGARY TELUS Convention Centre Audit and Finance Committee	May 12, 2021
Calhome Properties Ltd.*	Calhome Properties Ltd. Audit and Risk Management Committee	March 11, 2021
Calgary Municipal Land Corporation*	Calgary Municipal Land Corporation Audit Committee	April 23, 2021
Calgary Public Library*	Calgary Public Library Audit and Finance Committee	March 23, 2021
Calgary Police Service (Business unit of The City. An audit opinion on the carve out of the financial statements is issued)	Calgary Police Commission and Finance and Audit Committee	May 12, 2021**
ENMAX Corporation*	ENMAX Audit Committee	March 23, 2021
Elected Officials Pension Plan	Pension Governance Committee	June 9, 2021
Supplementary Pension Plan	Pension Governance Committee	June 9, 2021
Municipal Employees Benefits Association of Calgary	Municipal Employees Benefits Association of Calgary - Finance and Investment Committee	May 19, 2021
Attainable Homes Calgary Corporation Calgary 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 2020 audit	Not applicable

*Audit opinion issued on the standalone financial statements. Entity is consolidated with The City.

**Audit fieldwork 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 revenues. Final materiality for the year ended December 31, 2020 was \$1,550,000 (2019, \$2,550,000).	<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 • Management override of controls <p>Audit fieldwork has been completed and the financial statements have been approved by the Board of Directors. We expect to issue an unmodified opinion dated April 9, 2021.</p>
Calgary TELUS Convention Centre	Materiality levels were determined on the basis of total expenses. Final materiality for the year ended December 31, 2020 was \$595,000 (2019, \$1,000,000).	<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 fieldwork 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 actual operating expenditures. Final materiality for the year ended December 31, 2020 was \$3,400,000 (2019, \$3,400,000).	<p>The following areas of significant audit risk were noted relating to Calhome:</p> <ul style="list-style-type: none"> • Revenue recognition • Management override of controls <p>Audit fieldwork has been completed and the financial statements have been approved by the Board of Directors. We issued an unmodified opinion dated March 19, 2021.</p>
Calgary Municipal Land Corporation	Materiality levels were determined on the basis of total assets. Final materiality for the year ended December 31, 2020 was \$10,000,000 (2019, \$9,000,000).	<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 <p>Audit fieldwork has been completed and financial statements have been approved by the Board of Directors. 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, 2020 was \$1,920,000 (2019, \$2,000,000).	<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 fieldwork has been completed and the financial statements have been approved by the Board of Directors. We issued an unmodified opinion dated March 31, 2021.</p>
Calgary Police Service	Materiality levels were determined on the basis of total operating expenses. Final materiality for the year ended December 31, 2020 was \$7,700,000 (2019, \$7,700,000).	<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 fieldwork 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 earnings before interest and financing fees, income tax, depreciation and amortization. Final materiality for the year ended December 31, 2020 was \$33,600,000 (2019, \$25,000,000).

The following areas of significant audit risk were noted relating to ENMAX Corporation:

- Revenue recognition – power sales, natural gas sales, and contractual services
- Management override of controls
- Versant Power business combination

Audit fieldwork has been completed and the financial statements have been approved by the Board of Directors. We issued an unmodified opinion dated March 24, 2021.
