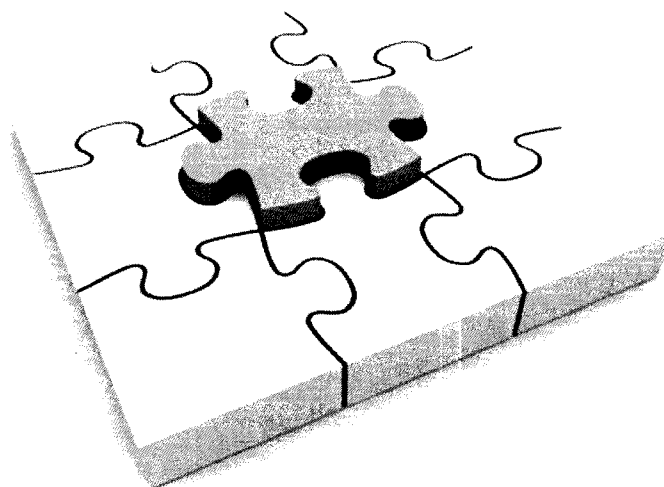




AC2015-0375

2014 Year-end Audit Report

The City of Calgary



**For the year ended December 31, 2014
Presented to the Audit Committee
April 23, 2015**



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April 14, 2015

To the Chair and members of the Audit Committee of The City of Calgary

Dear Audit Committee Members:

Report on audited annual consolidated financial statements

As agreed in our engagement letter dated October 9, 2014, we have performed an audit of the consolidated financial statements of The City of Calgary ("The City") as of and for the year ended December 31, 2014, in accordance with Canadian generally accepted auditing standards ("GAAS") and expect to issue our audit report thereon dated April 27, 2015.

This report summarizes our findings during the audit. Our audit has been conducted in accordance with the Audit Service Plan that was presented to the Audit Committee members at the meeting on October 9, 2014.

Use of our report

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

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

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

Yours truly,

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

Chartered Accountants

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Audit scope matters

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

Audit strategy and scope	The audit planning and the preliminary risk assessment activities we conduct enable us to set the scope of our audit and to design procedures tailored to that scope. Refer to our audit plan communicated on October 9, 2014.				
Materiality	<p>Materiality is the magnitude of misstatements, including omissions, in the financial statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the financial statement users. Judgments about materiality are made in the light of surrounding circumstances, and are affected by our perception of the information needs of the financial statement users, and by the size or nature of a misstatement, or a combination of both. We are responsible for providing reasonable assurance that your financial statements as a whole are free from material misstatement.</p> <p>Canadian GAAS require that we determine performance materiality for purposes of assessing the risks of material misstatement of the financial statements and determining the nature, timing and extent of our audit procedures. Planning the audit solely to detect individually material misstatements overlooks the fact that the aggregate of individually immaterial misstatements may cause the financial statements to be materially misstated, and leaves no margin for possible undetected misstatements. Performance materiality is set at a lower level than materiality, so that if misstatements are detected, we may nevertheless be able to conclude with reasonable assurance that the uncorrected misstatements both individually and in the aggregate do not exceed materiality.</p> <p>Materiality levels were determined on the basis of consolidated operating expenses. The level of materiality utilized for the year ended December 31, 2014 was \$46,000,000 (2013, \$44,000,000).</p>				
Group audit	<p>We are the auditor of all entities within the group with the exception of Attainable Homes Calgary Corporation.</p> <p>No restrictions have been placed on the scope of our audit. In performing the audit, we were given full and complete access to the accounting records, supporting documentation and other information requested.</p>				
Use of the work of experts	<p>As planned, Deloitte and external experts assisted in the audit to the extent we considered necessary:</p> <table> <tr> <td>Actuarial experts</td><td>AON Hewitt assisted in the assessment of the valuation of The City's pension liability.</td></tr> <tr> <td>Deloitte Information Technology experts</td><td>Assisted in the assessment of the adequacy and effectiveness of internal controls related to information systems.</td></tr> </table>	Actuarial experts	AON Hewitt assisted in the assessment of the valuation of The City's pension liability.	Deloitte Information Technology experts	Assisted in the assessment of the adequacy and effectiveness of internal controls related to information systems.
Actuarial experts	AON Hewitt assisted in the assessment of the valuation of The City's pension liability.				
Deloitte Information Technology experts	Assisted in the assessment of the adequacy and effectiveness of internal controls related to information systems.				
Significant difficulties encountered in performing the audit	We did not encounter any significant difficulties while performing the 2014 audit. There were no significant delays in receiving information from Administration required for the audit nor was there an unnecessarily brief timetable in which to complete the audit.				

Changes to the audit plan	<p>The audit was conducted in accordance with our audit plan presented to the Audit Committee on October 9, 2014, with the exception of the following changes:</p> <p>As a result of the identification of prior period errors identified by Administration in tangible capital assets ("TCA ")balances:</p> <ul style="list-style-type: none"> • We tested TCA additions, work in progress, accruals, capitalization and disposals at a performance materiality level of \$23,000,000. A reduction from the performance materiality for the overall audit of \$34,500,000, which resulted in an increase in the number of samples that were tested; • We extended our audit procedures on TCA work in progress ("WIP") balances to apply specific procedures on TCA WIP additions. We focused our testing on WIP additions within the last two months of the 2014 fiscal year to ensure that such additions were appropriately accounted for as WIP as they presented a greater risk of misstatement. We also tested TCA WIP as an area of significant risk at a performance materiality level of \$23,000,000; and • We extended our testing and applied additional audit procedures not considered in our original audit plan to audit the 2013 accounts that were restated as part of the year-end financial statements. Please refer to the Adjustments to prior period section of this report for further details. <p>Refer to the Audit risks section under "Tangible Capital Assets" for further details.</p> <p>We confirm that there have been no other significant amendments to the audit scope and approach communicated in the audit plan.</p>
Administration's judgment and accounting estimates	<p>Accounting estimates are an integral part of the financial statements prepared by Administration and are based on Administration's current judgments. These judgments are normally based on knowledge and experience about past and current events, assumptions about future events and interpretations of the financial reporting standards.</p> <p>During the year ended December 31, 2014, Administration advised us that there were no significant changes in accounting estimates or in judgments relating to such estimates, with the exception of changes in estimates and assumptions relating to the landfill liability and TCA. Refer to Environmental Liabilities and Asset Retirement Obligations under Areas of Focus for additional details on the landfill liability and Prior period adjustments for additional details on TCA.</p> <p>In our judgment, the significant accounting estimates made by Administration are, in all material respects, free of possible Administration bias. The disclosure in the financial statements around estimation uncertainty is in accordance with Canadian public sector accounting standards ("PSAS") and is appropriate to the particular circumstances of The City.</p>
Significant accounting policies	<p>In our judgment, 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.</p>
Disagreements with Administration	<p>In the course of our audit, we did not encounter any disagreements with Administration about matters that individually or in the aggregate could be significant to the consolidated financial statements.</p>
Consultation with other accountants	<p>Administration has informed us that The City has not consulted with other accountants about auditing or accounting matters.</p>
Legal and regulatory compliance	<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 non-compliance rests with Administration.</p> <p>The auditor is not and cannot be held responsible for preventing non-compliance with laws and regulations as we perform limited procedures and enquiries regarding compliance with laws and regulations.</p> <p>Our limited procedures did not identify any areas of material non-compliance with laws and regulations by The City.</p>

Post statement of financial position events	<p>Administration is responsible for assessing subsequent events up to the date of the release of the financial statements.</p> <p>At the date of finalizing this report, we are not aware of any significant post statement of financial position events which require adjustment or disclosure in the financial statements, with the exception of the matter disclosed in Note 34 of the financial statements. We will update subsequent events to the date of the audit report with Administration, prior to issuing our audit opinion.</p>
Administration's representation letter	<p>A draft version of Administration's representation letter to be signed by Administration is included in Appendix 3.</p>
Status of our audit	<p>We expect to be in a position to render our audit opinion dated April 27, 2015 on the financial statements of The City following recommendation for approval of the financial statements by City Council and the completion of the following outstanding procedures:</p> <ul style="list-style-type: none"> • Completion of our subsequent events review to April 27, 2015; • Receipt of signed Administration's representation letter; • Finalization of internal file reviews and file documentation matters; • Review of the final version of the financial statements for changes, if any; • Approval of the financial statements by City Council at the recommendation of the Audit Committee; and • Finalization of quality assurance review. <p>We will provide the Audit Committee with an update on these matters at the upcoming meeting. We anticipate satisfactory completion of all matters prior to the Audit Committee meeting.</p>
Quality control	<p>Our firm's quality control process embraces each of the elements identified in the Chartered Professional Accountants of Canada ("CPA Canada") Handbook sections covering Canadian standards of quality control for firms that perform audits and reviews of financial statements and other assurance engagements.</p>
Fees	<p>City of Calgary – Consolidated Audit:</p> <p>We communicated proposed audit fees of \$246,000 in our audit plan for the audit of the consolidated financial statements (2013, \$240,000 for the consolidated financial statements, \$16,000 for the testing of the Peoplesoft upgrade and \$40,000 to audit 2013 flood-related accounting and financial reporting matters and adoption of new accounting standards.)</p> <p>Additional procedures required to audit the 2013 restatement (which included testing procedures at a significant risk level) resulted in additional fees of \$40,000 (2013, \$75,000) and additional time and audit effort incurred as a result of extending our audit procedures on TCA WIP balances has resulted in additional fees of \$20,000 (2013, \$Nil).</p> <p>Total Fees – City of Calgary and related entities</p> <p>Total fees charged for The City of Calgary and related entities including audit, audit-related, non-audit and other services during the period covered by the financial statements are \$2,166,200 (2013, \$1,834,089). Refer to Appendix 2 for further details on these fees.</p>
Communications	<p>As a part of our audit plan, we committed to communicate certain matters to the Audit Committee on a regular basis or as specified events occur. A summary of our communications is provided in Appendix 6.</p>

Audit findings

This report summarizes the main findings arising from our audit as of December 31, 2014.

Internal control	<p>We identified deficiencies in internal control that existed as of December 31, 2014. These deficiencies in internal control relate to TCA processes and procedures. Refer to Accounting for Tangible Capital Assets for additional details.</p> <p>These deficiencies will be outlined in more detail in our Letter of Recommendations for the year ended December 31, 2014 which will be presented to the Audit Committee on June 18, 2015.</p>
Uncorrected likely misstatements	<p>In accordance with Canadian GAAS, we request that all misstatements be corrected.</p> <p>We are required to report all uncorrected misstatements greater than \$2,300,000 (2013, \$2,200,000), computed as 5% of materiality, and those that are quantitatively insignificant but qualitatively significant.</p> <p>No uncorrected misstatements were identified during the audit. Corrected misstatements are included in the appendices attached to the Administration representation letter.</p>
Unadjusted disclosure deficiencies	<p>In accordance with Canadian GAAS, we request that all disclosure deficiencies be corrected. There were no disclosure deficiencies identified during the audit.</p>
Conclusion	<p>In accordance with Canadian GAAS, our audit is designed to enable us to express an opinion on the fairness of the presentation of The City's annual financial statements prepared in accordance with PSAS.</p> <p>No restrictions have been placed on the scope of our audit. In performing the audit, we were given full and complete access to the accounting records, supporting documentation and other information requested.</p> <p>We intend to issue an unmodified audit report on the consolidated financial statements of The City for the year ended December 31, 2014 once the consolidated financial statements are approved by the Audit Committee and City council.</p> <p>A draft version of our Auditor's report is included in Appendix 1.</p>

Audit risks

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

Significant risks

Areas of risk	Our audit response and conclusion
Tangible Capital Assets Completeness and valuation of Tangible Capital Assets ("TCA")	<p>We audited TCA additions, disposals, work in progress and amortization along with related disclosures. Our testing included, on a sample basis, reviewing amounts included in the current year transactions to ensure only amounts that meet the definition of a capital asset are included as TCA and are appropriately valued.</p> <p>We also reviewed a sample of items recorded as repairs and maintenance to ensure these amounts were appropriately expensed.</p> <p>We assessed impairment indicators of TCA and considered the need and amount of potential write downs.</p> <p>We tested TCA WIP additions recorded in the last two months of the fiscal year to ensure these WIP additions were appropriately accounted for as work in progress.</p> <p>Given the nature of the TCA held by The City, there is a risk for misclassification. As a result, we performed increased substantive testing of the financial statement disclosures.</p> <p>Our Conclusion:</p> <p>Overall, we concluded that TCA is fairly stated, appropriately classified and properly disclosed in the context of the financial statements taken as a whole.</p>
2013 Flood Tangible capital asset ("TCA") impairments, capitalization versus expenditure of repairs Recognition of revenue - insurance proceeds and government funding	<p>The 2013 flood impacted the TCA balances of The City. There was significant damage to various City owned assets which resulted in an impairment of their value on the financial statements in the prior year.</p> <p>We noted that while a majority of the expenditures relating to flood remediation and repair and maintenance of damaged TCA assets was incurred in 2013, as remediation and repair and maintenance efforts have continued into fiscal 2014, there continued to be costs associated with the flood impacting the 2014 financial statements. Accordingly, the 2013 flood and related accounting impact remained an area of focus for the 2014 audit.</p> <p>For TCA impairment, we held discussions with Administration and selected business units that were significantly impacted by the flood (e.g. Roads and Parks) to determine if there was any impairment of TCA balances in 2014 as a result of the 2013 flood. Administration has concluded that there is no permanent impairment to TCA as a result of the flood and we concur with this conclusion based on audit procedures performed.</p> <p>We also reviewed a sample of expenditures relating to the repair and maintenance of TCA to verify whether these expenditures were appropriately capitalized or expensed in accordance with The City's accounting policies.</p> <p>Finally, we reviewed the revenue recognition of insurance proceeds and government funding and verified that revenue had been appropriately recorded in the correct period.</p> <p>Note 32 of the financial statements describes the impact of the 2013 flood on the 2014 financial statements.</p> <p>Our Conclusion:</p> <p>Overall, we concluded that TCA and revenue recognition of insurance proceeds and government funding are fairly stated, appropriately classified and properly disclosed in the context of the financial statements taken as a whole.</p>

Areas of audit focus	Our audit response and conclusion
Administration override of controls	<p>Professional auditing standards require us to presume Administration override of controls to be a risk of material misstatement due to fraud.</p> <p>There is a risk that Administration has the ability to override controls.</p> <p>To test the risk of Administration override of controls, we completed journal entry testing to test the appropriateness of journal entries and verify that there were no transactions outside the normal course of business.</p> <p>We tested Administration estimates as well as any unusual or significant transactions. In addition, we completed testing of the design and implementation of internal controls relating to various financial statement line items.</p> <p>Our Conclusion:</p> <p>We conclude that there were no issues noted relating to Administration override of controls in the context of the financial statements taken as a whole.</p>

Areas of audit focus	Our audit response and conclusion
Environmental liabilities and asset retirement obligations	<p>During the year ended December 31, 2014, Administration reviewed their assessment and estimates currently being utilized in the determination of environmental liabilities and asset retirement obligations, specifically relating to landfill liabilities and post closure costs. This resulted in several changes being made to the estimates and assumptions being used in the determination of the provision. As a result the reported liability has increased by \$22M.</p> <p>We reviewed Administration's estimates and assumptions for reasonability and performed tests of details on the transactions during the year.</p> <p>We reviewed Council minutes and legal confirmations, held discussions with Administration and relied on our knowledge of The City's business to identify other environmental liabilities.</p> <p>We require representations to be signed by Administration that all environmental liabilities and clean-up costs are complete and appropriately disclosed.</p> <p>Our Conclusion:</p> <p>We conclude that there were no issues noted relating to the valuation of environmental liabilities and asset retirement obligations, including the accrual of post closure landfill liabilities and post closure costs of contaminated properties in the context of the financial statements taken as a whole.</p>
Funding contracts	<p>We reviewed Administration's assessment of liabilities and commitments required to be recorded or disclosed under agreements entered into during the year.</p> <p>We reviewed a sample of funding contracts entered into during the year to assess Administration's treatment and appropriate recording of these transactions.</p> <p>We also assessed the completeness of the balances via a review of Council minutes and a search for unrecorded liabilities as well as a review of prior year estimates.</p> <p>Our Conclusion:</p> <p>We conclude that there were no issues noted relating to the disclosure of liabilities and commitments under funding contracts provided by The City in the context of the financial statements taken as a whole.</p>
Capital deposits and deferred revenue	<p>We selected a sample of capital projects in progress over the year and ensured costs and related revenues were recorded in the correct period.</p> <p>Our Conclusion:</p> <p>We conclude that there were no issues noted relating to the accounting of capital deposits and recognition of deferred revenue in the context of the financial statements taken as a whole.</p>

Areas of focus	Our findings and conclusions
Related authorities / subsidiaries	<p>We reviewed The City's accounting policies and any changes therein related to its subsidiaries.</p> <p>We verified that the subsidiaries had been accounted for and disclosed in accordance with The City's accounting policies and PSAS guidance and we performed separate audits of all subsidiaries (with the exception of Attainable Homes Calgary Corporation which is audited by Grant Thornton LLP).</p> <p>Our Conclusion:</p> <p>We conclude that there were no issues noted relating to the accounting for organizations included in the government reporting entity (related authorities or subsidiaries) in the context of the financial statements taken as a whole.</p>
Litigation accruals and contingencies	<p>We enquired with The City's law department and City Solicitor to determine the status of outstanding legal matters.</p> <p>We reviewed legal correspondence from the City Solicitor and discussed the status of outstanding legal matters with Administration and others, as necessary.</p> <p>We worked with Administration to assess the appropriateness of any contingent liabilities and financial statement disclosures.</p> <p>Our Conclusion:</p> <p>We conclude that there were no issues noted relating to claims and litigation matters of The City and its related authorities in the context of the financial statements taken as a whole.</p>
Government grants and transfers	<p>We reviewed a sample of funding agreements to determine if the contract required financial statement disclosure.</p> <p>We reviewed a sample of federal and provincial transfer payments received during the year to fund specific projects.</p> <p>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 any deferred revenue.</p> <p>We tested expenditures and ensured that the corresponding revenue had been recognized in accordance with the funding agreement and PSAS guidance.</p> <p>Our Conclusion:</p> <p>We conclude that there were no issues noted relating to the accounting for, and disclosure requirements of government grants and transfers in the context of the financial statements taken as a whole.</p>
Tax revenue	<p>We performed reasonability tests on tax revenue balances and reviewed and tested the tax revenue business cycle process controls.</p> <p>We completed data analytical testing on property tax revenues for the year ended December 31, 2014.</p> <p>In addition, we reviewed the prior and current years appeal liabilities that were outstanding as at December 31, 2014. Furthermore, we reviewed the potential interest charge liability relating to these appeals.</p> <p>Our Conclusion:</p> <p>We conclude that there were no issues noted relating to the accounting for tax revenue in the context of the financial statements taken as a whole.</p>
Reserves	<p>We reviewed new reserves established during the year and agreed the approval of these reserves to Council minutes.</p> <p>We also reviewed the completeness and accuracy of the financial statement disclosures relating to reserves.</p> <p>Our Conclusion:</p> <p>We conclude that there were no issues noted relating to the recording and presentation of reserves in the context of the financial statements taken as a whole.</p>

Area of Audit Focus	Qualitative Scope and Conclusion
Long-term debt, pension liability, contractual and other long-term obligations	<p>We reviewed the completeness and accuracy of the financial statement disclosures relating to The City's long-term debt, pension liability, contractual and other long-term obligations.</p> <p>We also ensured that these disclosures were in accordance with PSAS guidance.</p> <p>Our Conclusion:</p> <p>We conclude that there were no issues noted relating to the accounting for long term obligations in the context of the financial statements taken as a whole.</p>
Non-standard transactions	<p>We reviewed large transactions that have occurred during the year to ensure that these transactions have been accurately and completely recorded in the year-end financial statements.</p> <p>Our Conclusion:</p> <p>We conclude that there were no issues noted relating to non-standard, large transactions in the context of the financial statements taken as a whole.</p>

Internal control matters

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

- Property and Business Tax Revenue and Receivables;
- Franchise Fee Revenues;
- Government Grants and Developer Contribution Revenues;
- Investment Income;
- Fines and Penalties Revenues;
- Licenses and Permits Revenues;
- Payroll Expenditures;
- Operating and Capital Budgeting Process;
- Cash and Cash Equivalents; and
- Accounts Payable and Accrued Liabilities.

Canadian GAAS require us to report to the Audit Committee any significant deficiencies that have come to our attention. We did not note any significant deficiencies during the course of our audit in the areas listed above.

We noted some improvements to internal control processes and no errors associated with our audit testing of the 2014 accounting for TCA. However, we continued to identify significant deficiencies in internal controls and processes relating to the accounting of TCA in the current year.

Refer to Accounting for Tangible Capital Assets for our conclusion on internal controls relating to the testing of TCA.

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

Adjustments to prior period

During the finalization of the 2014 financial statements, Administration identified prior period adjustments that related to the following areas:

a) TCA:

As a result of TCA refinement and improvements, Administration has continued to review TCA balances and processes and as a result identified errors relating to prior period TCA balances. The errors identified relate mainly to untimely analysis of work in progress transactions (including 2013 flood related items) and TCA disposal errors. The majority of the errors identified by Administration impacted the 2013 fiscal year end.

The total prior period error is an overstatement of TCA of \$22.2M, an overstatement of revenue of \$0.3M, an understatement of expenses of \$27M and an understatement of accumulated surplus (beginning of year) of \$5.2M.

b) Land inventory transfers to TCA:

During fiscal 2014, the Office of Land Servicing and Housing ("OLSH") business unit performed a detailed analysis of existing land inventory assets and the existing processes that were being followed to record and track land transactions. It was determined, based on this analysis, that not all land inventory assets were being accounted for appropriately. Certain assets, such as water infrastructure, roadways, pathways, parks, public utility lots and others should have been classified as TCA or TCA WIP and not land inventory. Thus, this prior period error is a reclassification of \$24.9M from land inventory to TCA on the statement of financial position.

c) Local improvement levy revenue:

The City was required to adopt *PS 3510 – Taxation Revenue* with prospective application for the year ended December 31, 2013. As a result of the adoption of the new standard in the prior year, local improvement levy revenue is recognized as of project completion date rather than over the life of the asset constructed. In fiscal 2014, a detailed analysis of local improvement levy revenue recognized to date was completed and it was noted that the local improvement levy revenue was understated in 2013 due to missed levies applicable to the prior periods. The prior period error is an understatement of local improvement levy receivable and revenue of \$10.3M.

We tested the prior period errors as an area of significant risk on a sample basis to verify that the accounting was accurate, valid and complete. Our audit procedures also included discussions with the applicable business unit personnel to understand the root cause of these errors and to determine processes that have been implemented or planned to be implemented to prevent future occurrences of these errors.

Note 30 to the consolidated financial statements includes details on the prior period adjustments. As a result of the additional work completed by Administration on the matters discussed above, Administration has concluded that the financial statements are not materially misstated as at and for the years ended December 31, 2014 and 2013 as restated, in the context of the financial statements taken as a whole.

Accounting for Tangible Capital Assets

Background and History

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

Following the initial adoption of Section 3150, The City continued to provide focus and attention to the accounting of TCA because it was recognized that the potential for estimate changes and errors in the initial adoption could occur. A significant number of errors and corrections were identified by Administration and Deloitte in the first year of adoption, and Deloitte provided a number of internal control, system and process improvement recommendations with respect to TCA. As a result of the continued refinement and improvement of The City's capital asset accounting and management systems, and the continuing education and training of staff within the business units, The City obtained better information and identified certain TCA balances that required correction in the prior years. It is important to observe that The City emphasized that any new TCA matters be raised and recorded by business unit personnel and/or finance personnel in subsequent years, with a tone to "get it right". As a result, the financial statements for fiscal years 2009 to 2011 and 2013 were restated to adjust prior period balances.

It is also important to note that these restated amounts related solely to the accounting for tangible capital assets and had no effect on The City's cash balances, net financial asset position, property tax revenues or any other balances influencing The City's operating budget, capital budget, grants received, property tax assessments or any other related balances. It is important to place the adjustments made to the historic financial statements in the context of the overall balance of TCA in The City's financial statements. TCA at December 31, 2013 totaled \$13.62 billion. The adjustments required over the past several years, while certainly not trivial, are typically "non-systematic", frequently have some level of unique accounting characteristics and cumulatively represent a small fraction of The City's overall TCA balance.

Throughout our reporting on the audits of the years ended December 31, 2009 through to 2013, we updated and revised a number of recommendations for improvements in TCA accounting and management systems through our prior year's management letters, which Administration has continued to implement.

Financial Statements for the Year Ended December 31, 2014

The City has continued to expend focus and effort on the accounting of TCA, including implementation of many of our recommendation points issued during prior year's audit, including recommendations issued following the 2013 audit, as well as continuous staff education and training. As a result of this effort and attention, in the year ended December 31, 2014, The City identified additional TCA errors that related to prior periods in the following areas of TCA: non-TCA items recorded as work in progress (including 2013 flood expenditures) and disposals not recorded in the correct fiscal period. While these errors impacted fiscals 2009 through to 2013, it should be noted that a majority of the errors related to fiscal 2013 and were isolated in nature. The notes to the consolidated financial statements provide details of the adjustments that were recorded in the December 31, 2013 comparative financial statements.

Based on our audit procedures and our evaluation of the apparent nature and root causes of the errors, it is evident that the errors, while not individually material, impact several business units that hold significant TCA balances. While the issued financial statements for the year ended December 31, 2013 were not materially misstated as the net effect of the cumulative errors is not material, we concur with Administration's decision to restate the 2013 balances (including opening accumulated surplus) due to ongoing identification of errors, the number of reasons causing the errors, the number of business units impacted and the "tone" that is set in continuing to focus on accounting for TCA correctly.

We applied audit procedures, on a test basis, to the TCA errors identified by Administration to test the restatement of 2013 balances. Based on our testing and understanding of the causes of the errors, we have noted improvements in TCA processes, however, we have concluded that there continues to be significant deficiencies in the design and implementation and operating effectiveness of certain internal controls related to TCA accounting within the business units impacted, such that there is a reasonable possibility that a material misstatement of the entity's annual financial statements will not be prevented or detected on a timely basis.

We provided specific recommendations in our prior year management letter relating to TCA accounting and processes. We note The City is in the process of implementing these recommendations as was communicated in our update to the prior year management letter provided at the January 22, 2015 Audit Committee meeting. We have held discussions with Administration during the year and understand that Administration has commenced a comprehensive review of several areas of TCA which includes a TCA Project Charter. The focus currently is on simplifying the process used to componentize machinery and equipment, which affects multiple business units. As Administration continues the implementation into fiscal 2015, we will incorporate relevant audit procedures to determine that our recommendations are being addressed.

We support The City's continued efforts to implement the recommendations that were issued in the prior year management letter, as well as their broader initiatives established in the TCA Project Charter.

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

Appendix 1 – Draft version of our Auditor's report

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

INDEPENDENT AUDITOR'S REPORT

To His Worship Mayor Naheed Nenshi and members of City Council, The City of Calgary:

We have audited the accompanying consolidated financial statements of The City of Calgary, which comprise the consolidated statement of financial position as at December 31, 2014 and the consolidated statements of operations and accumulated surplus, cash flows and changes in net financial assets for the year then ended, and the accompanying notes to the consolidated financial statements.

City Administration's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The City of Calgary as at December 31, 2014, 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.

(To be signed Deloitte LLP)

Chartered Accountants
Calgary, Alberta
April 27, 2015

Appendix 2– Independence and fees

April 27, 2015

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

Dear Members:

We have been engaged to audit the consolidated financial statements of The City of Calgary (“The City”) for the year ended December 31, 2014.

Canadian generally accepted auditing standards (“GAAS”) require that we communicate in writing with you regarding our compliance with relevant ethical requirements regarding independence as well as all relationships and other matters between The City and Deloitte that, in our professional judgment, may reasonably be thought to bear on our independence. We are also required to communicate the related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.

In determining which relationships to report, these standards require us to consider relevant rules and related interpretations prescribed by the appropriate provincial institute / ordre and applicable legislation, covering such matters as:

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

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

We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since April 28, 2014, the date of our last letter.

We are not aware of any relationships between The City and Deloitte, including any network firms that, in our professional judgment, may reasonably be thought to bear on independence, that have occurred from April 28, 2014 to April 27, 2015.

As summarized in the attached exhibit, the total fees charged to The City for audit services were \$1,149,161 (2013 - \$1,178,222), audit related services were \$386,513 (2013 - \$285,626), non-audit related services were \$26,250 (2013 - \$94,200) and other services were \$604,276 (2013 - \$276,041) during the period covered by the financial statements. We re-affirm that the performance of these services has not affected our independence as auditors of The City.

Canadian GAAS require that we confirm our independence to those charged with governance in the context of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta. Accordingly, we hereby confirm that we are independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta as of April 27, 2015.

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

Yours truly,

(To be signed Deloitte LLP)

Chartered Accountants

**Total Fees Charged to The City of Calgary
For the Years Ended December 31, 2014 and 2013**

	2014*	2013*
	\$	\$
AUDIT SERVICES		
<u>The City of Calgary</u>		
The City of Calgary	306,200**	316,720
Tangible Capital Assets	21,400	80,250
Calhome Properties Ltd.	77,575	77,040
Calgary Police Service	48,150	47,080
Calgary TELUS Convention Centre	40,660	43,442
Calgary Parking Authority	95,765	91,350
Calgary Municipal Land Corporation	38,520	40,660
Calgary Public Library	38,520	40,660
Municipal Employees Benefits Association of Calgary	28,355	27,820
Family & Community Support Services	19,260	18,725
Core Benefit Plan (audit will be conducted every three years)	-	11,904
Elected Officials Pension Plan	7,062	6,955
Supplementary Pension Plan	13,482	13,161
Funds Held in Trust	1,712	1,605
	736,661	817,372
<u>ENMAX Corporation</u>		
ENMAX Corporation audit	351,000	302,100
ENMAX Corporation quarterly reviews	61,500	58,750
	412,500	360,850
Total Audit Services	1,149,161	1,178,222
AUDIT RELATED SERVICES		
<u>The City of Calgary</u>		
Calgary Municipal Information Return	4,494	4,387
Calhome Properties Ltd. special government reports	17,120	16,585
Joint Emergency Preparedness (JEPP) Grant Audit	-	10,486
Gateways and Boarder Crossing (52 St Expansion Project) Grant Audit	-	5,778
Community and Neighborhood Services – Youth Probation Grant Audit	-	5,510
Alberta Emergency Management Agency – Grant Audit	6,099	-
	27,713	42,746
<u>ENMAX Corporation</u>		
ENMAX Corporation Pension Plan audit	16,300	15,900
Calgary Energy Centre No 2 audit	-	65,200
IFRS Conversion(billed during the year)	80,000	-
Audit of the divisional carve out financial statements of ENMAX Transmission and Distribution	68,000	66,300
Professional services to be rendered in connection with the private placement	96,700	-
Audit of the schedules of Return on Equity for ENMAX Transmission & ENMAX Distribution	97,800	95,480
	358,800	242,880
Total Audit Related Services	386,513	285,626

	2014*	2013*
	\$	\$
NON - AUDIT RELATED SERVICES		
<u>Enmax Corporation</u>		
Counsel advisory services	-	17,200
Independent assurance services for the ENMAX Corporate Responsibility report (billed during the year)	-	52,000
Bersin by Deloitte Five Practice Level One Membership subscription renewal covering the period November through October	26,250	25,000
Total Non – Audit Related Services	26,250	94,200
OTHER SERVICES		
<u>The City of Calgary</u>		
Organics Strategic Assessment and advisory work(billed to date)	196,289	74,866
Organics value for money audit	-	80,458
Transit maintenance facility advisory work(billed to date)	407,987	120,717
Total Other Services	604,276	276,041
Total Fees For All Services	2,166,200	1,834,089

* Includes administration fee; excludes GST.

** Fee includes \$246,000 for the base audit, plus \$40,000 for the 2013 restatement.

Appendix 3— Draft Administration representation letter

April 27, 2015

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, 2014

This representation letter is provided in connection with the audit by Deloitte LLP (“Deloitte” or “you”) of the consolidated financial statements of The City of Calgary (the “The City” or “we” or “us”) for the year ended December 31, 2014, and notes to the financial statements (the “Financial Statements”) for the purpose of expressing an opinion as to whether the Financial Statements present fairly, in all material respects, the financial position, results of operations and cash flows of The City in accordance with Canadian public sector accounting standards (“PSAS”).

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

Financial statements

1. We have fulfilled our responsibilities as set out in the terms of the engagement letter between The City and Deloitte dated October 9, 2014 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, 2014 and the results of its operations and cash flows and change 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 entity. No events have occurred subsequent to December 31, 2014 that require adjustment to the estimates and disclosures included in the Financial Statements.

There were no changes in Administration's method of determining significant estimates in the current year, except Administration has changed the method of determining the estimated amounts for the provision for landfill rehabilitation liability. This included changing the post closure period to begin when the entire facility stops accepting waste (from when a cell closes), changing the post closure period to 25 years (from 40 years), changing the basis for capacity usage to volume (from area), and changing the discount rates to 3.8% for currently operating landfills and 3.1% for the post closure period landfills.

3. We have determined that the Financial Statements are complete as of the date of this letter as this is the date when there are no changes to the Financial Statements (including disclosures) planned or expected. All final adjusting journal entries have been reflected in the Financial Statements and the Financial Statements have been approved in accordance with our process to finalize financial statements.
4. We have completed our review of events after December 31, 2014 and up to the date of this letter. All events subsequent to the date of the Financial Statements and for which PSAS requires adjustment or disclosure have been adjusted or disclosed. Accounting estimates and disclosures included in the Financial Statements that are impacted by subsequent events have been appropriately adjusted.
5. The Financial Statements are free of material errors and omissions.

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

We believe that the effects of any uncorrected Financial Statement misstatements pertaining to the current period presented are immaterial, both individually and in the aggregate, to the Financial Statements taken as a whole.

6. The City has satisfactory title to and control over all assets, and there are no liens or encumbrances on such assets. We have disclosed to you and in the Financial Statements all assets that have been pledged as collateral.

Information provided

7. We have provided you with:
 - a. Access to all information of which we are aware that is relevant to the preparation of the Financial Statements, such as records, documentation and other matters. All financial statements and other financial information provided to you accurately reflect the activities and expenses of The City and do not reflect any activities or expenses of any other person or entity;
 - b. All relevant information as well as additional information that you have requested from us for the purpose of the audit; and
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
8. Except as listed in Appendix A, all transactions have been properly recorded in the accounting records and are reflected in the Financial Statements.

9. We have disclosed to you the results of our assessment of the risk that the Financial Statements may be materially misstated as a result of fraud.
10. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
 - a. Administration;
 - b. Employees who have significant roles in internal control; or
 - c. Others where the fraud could have a material effect on the Financial Statements.
11. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's Financial Statements and all knowledge of concerns or allegations of potential errors in the selection of accounting policies or the recording of transactions affecting The City that have been communicated by employees, former employees or others, whether written or oral.
12. We have disclosed to you all communications from and all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the Financial Statements.
13. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware, including guarantees, non-monetary transactions, transactions for no consideration and participation in a defined benefit plan that shares risks between group entities.
14. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
15. We have disclosed to you all known, actual or possible litigation and claims, whether or not they have been discussed with our lawyers, whose effects should be considered when preparing the Financial Statements. As appropriate, these items have been disclosed and accounted for in the Financial Statements in accordance with PSAS.
16. We have disclosed to you all liabilities, provisions, contingent liabilities and contingent assets, including those associated with guarantees, whether written or oral, and they are appropriately reflected in the Financial Statements.
17. We have disclosed to you, and The City has complied with all aspects of contractual agreements that could have a material effect on the Financial Statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

Independence matters

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

18. 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.
19. We have ensured that all services performed by Deloitte with respect to this engagement have been pre-approved by the Audit Committee in accordance with its established approval policies and procedures.

Selection of accounting policies and recording of transactions

20. The accounting policies selected and application of those policies are appropriate.
21. 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, 2013.

Employee benefit obligations

22. We agree with the work of Administration's experts in evaluating the Employee Benefit Obligation and have adequately considered the competence and capabilities of the experts in determining amounts and disclosures used in the Financial Statements and underlying accounting records. We did not give any, nor cause any, instructions to be given to Administration's experts with respect to values or amounts derived in an attempt to bias their work, and we are not aware of any matters that have impacted the independence or objectivity of the experts.
23. Employee future benefit costs, assets and obligations, as applicable, have been properly recorded and adequately disclosed in the Financial Statements including those arising under defined benefit and defined contribution plans as well as termination arrangements. We believe that the actuarial assumptions and methods used to measure defined benefit plan assets, liabilities and costs for financial statement purposes are appropriate in the circumstances.
24. 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.
25. We have correctly accounted for the multi-employer plan, in which we are the sponsoring government or government organization, as a defined benefit plan.

Carrying value/classification of assets and liabilities

26. 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.
27. The City is responsible for determining and maintaining the adequacy of the allowance for doubtful notes, loans and accounts receivable, as well as estimates used to determine such amounts. Administration believes the allowances are adequate to absorb currently estimated bad debts in the account balances.
28. Provisions have been made to reduce inventories held for resale to the net recoverable amount. All recorded inventories are the property of The City and do not include any items consigned to it, any items billed to customers or any items for which the liability has not been recorded.

Environmental liabilities/contingencies

29. 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.
30. 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.

Revenues

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

33. 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:
- Recording of transactions for which we have determined or approved the appropriate account classification; and
 - 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.

34. We have not entered into transactions with members of Council, senior officials, members of their immediate families or enterprises in which such parties have significant interest, which would require disclosures in the consolidated financial statements.
35. All transactions and events have been carried out in accordance with law, regulation or other authority.
36. We have disclosed to you all communications from regulatory agencies concerning non-compliance with or potential deficiencies in, financial reporting requirements.

37. 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

38. The City does not hold any investments in Master Asset Vehicle notes (which replaced third party non-bank asset-backed commercial paper).
39. All investments have been appropriately classified as either temporary investments or portfolio investments.
40. The City has used the appropriate valuation allowances to reflect the temporary investments at their net recoverable amount or other appropriate value.
41. The City believes that it has properly identified all derivative financial instruments and hedging relationships, if any.
42. 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.
43. All City of Calgary government organizations have been appropriately classified as government business organizations, government business-type enterprises, government not-for-profit organization and other government organizations and have been appropriately recorded based on this classification.
44. 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.
45. With regard to the fair value measurements and disclosures of certain assets and liabilities, such as investments, we believe that:
- a. The completeness and adequacy of the disclosures related to fair values are in accordance with PSAS;
 - b. No events have occurred subsequent to December 31, 2014 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

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

Adjusting journal entries

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

Communicating a threshold amount

48. We understand that the threshold used for accumulating misstatements identified during the year was \$2,300,000 for purposes of Appendix A. Misstatements below this amount have been considered clearly trivial.

Segment Disclosures

49. With regard to segment disclosures, we believe the activities grouped as segments, as disclosed, are appropriate to meet the objectives of PS 2700 – *Segment Disclosures*.
50. In identifying segments, we have considered the definition of a segment and other factors, including:
- a. The objectives of disclosing financial information by segment;
 - b. The expectations of members of the community and their elected or appointed representatives regarding the key activities and accountabilities of the government;
 - c. The qualitative characteristics of financial reporting as set out in Section PS 1000 - *Financial Statement Concepts: Federal, Provincial & Territorial Governments* (“Section 1000”) and Section PS 1700 - *General Objectives of Financial Statements; Local Governments* (“Section 1700”);
 - 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 its organizations (within the reporting entity).

Government transfers

51. We have disclosed to you all correspondence relating to government transfers that The City has had with the funding body.
52. We have assessed the eligibility criteria and determined that The City is an eligible recipient for the government transfers received.
53. We have assessed the stipulations attached with the funding and have recognized the revenue in accordance with meeting the stipulations required.
54. 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.
55. All authorized transfers that have been expensed have been transferred to recipients whom have met the eligibility criteria.

Tangible Capital Assets

56. Tangible capital assets have been recorded properly and consistently according to the standards in Section PS 3150 - *Tangible Capital Assets*.
57. Contributed tangible capital assets have been appropriately recorded at fair value, unless fair value is not reasonably determinable, and in such case, have been recorded at an appropriate nominal value. All contributed tangible capital assets have been appropriately disclosed.

58. We have assessed the useful lives of tangible capital assets and have determined all tangible capital assets contribute to the City's ability to provide goods and services and therefore do not require a write down. If applicable, we have identified that there are various tangible capital assets which no longer contribute to the City's ability to provide goods and services or have future economic benefits that are below the net book value of the tangible capital asset, and have therefore written down this asset to its residual amount and expensed the charge in the statement of operations.

Tangible Capital Assets - Prior period adjustments

59. During the course of year-end procedures, we identified certain balances relating to tangible capital assets and local improvement revenues that were incorrectly recorded in prior years. We have performed procedures to assess the impact of these misstatements and have accurately recorded them in the restated comparative balances for the year ended December 31, 2014.

Tangible Capital Assets - Change in estimate

60. As discussed in Note 30 of the financial statements, during the course of the year we identified certain balances relating to tangible capital assets that were recorded as a change in estimate. The change in estimate has been properly reflected in the Financial Statements in accordance with PS2120.28 – *Accounting Changes*.

Impact of the 2013 flood

61. 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, 2014 year-end financial statements.

Notes, loans and receivables

62. 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.
63. 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

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

Attainable Homes – Co-ownership

65. In regards to Note 7b of the financial statements relating to the Co-ownership reported by Attainable Homes Calgary Corporation, The City has determined that the accounting and disclosure of the co-ownership in the Financial Statements is in accordance with PSAS guidance.

Revenues and deferred revenues

66. 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.

Yours truly,
The City of Calgary

Eric Sawyer, Chief Financial Officer

Beng Koay, Director of Finance

Cathy An, Finance Manager Corporate Financial Reporting

Appendix A

The City of Calgary

Summary of corrected and uncorrected misstatements and disclosure deficiencies

Year ended December 31, 2014

Summary of corrected misstatements – December 31, 2013 Year-end as identified by

Administration

(000's) Dr. (Cr.)	Assets	Liabilities	Accumulated Surplus	Revenue	Expenses
Total restatement of 2013 balances	(11,917)	-	(5,157)	(9,949)	27,023

Misstatements relating to the 2013 fiscal year-end and prior years have been restated.

Summary of corrected misstatements – December 31, 2014 Year -end as identified by Deloitte

Reclassification of flood proceeds that were recorded in the incorrect financial statement line. \$4.2M of proceeds were recorded as Provincial Government Grants and should have been recorded as Miscellaneous Revenue.

Note 25 Commitments and Contingent Liabilities – overstatement of \$4.2M.

Note 16 2014 Budget – understatement of \$4.6M. Administration has corrected \$2.9M of this misstatement. The remaining uncorrected misstatement is below Deloitte's clearly trivial threshold.

Summary of uncorrected misstatements

None identified

Summary of disclosure deficiencies

None identified

Appendix 4– Communication requirements

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

Required communication	Refer to this report or document described below
1. Our responsibilities under GAAS	Audit plan communicated on October 9, 2014
2. Our audit strategy and scope, including our approach to auditing financial information of components of the group audit and our planned involvement in work performed by component auditors	Audit plan communicated on October 9, 2014
3. Administration judgment and accounting estimates	Administration's judgment and accounting estimates
4. Uncorrected and corrected misstatements and disclosure deficiencies	Uncorrected likely misstatements, Unadjusted disclosure deficiencies and Appendix A of the Administration representation letter
5. Significant accounting policies	Significant accounting policies
6. Our views about significant qualitative aspects of The City's accounting practices, including accounting policies, accounting estimates and financial statement disclosures	Significant accounting policies and Administration's judgment and accounting estimates
7. Disagreements with Administration	Disagreements with Administration
8. Our views about significant matters that were the subject of consultation with other accountants	Consultation with other accountants
9. Major issues discussed with Administration prior to our retention	None noted
10. Significant difficulties, if any, encountered during the audit	None noted
11. All deficiencies in internal control that existed as of the date of Administration's assessment that were concluded to be material weaknesses in internal control.	Internal control and Accounting for Tangible Capital Assets
12. Material written communications between Administration and us	Audit plan communicated on October 9, 2014 and this year-end report
13. All relationships between The City and us that, in our professional judgment, may reasonably be thought to bear on independence	Independence letter - Appendix 2
14. A statement that, in our judgment, our engagement team and others in our firm as appropriate, our firm itself and, when applicable, network firms have complied with relevant ethical requirements regarding independence	Independence letter - Appendix 2

Required communication	Refer to this report or document described below
15. Fraud or possible fraud , illegal or possible illegal acts identified through the audit process	We did not identify any illegal acts or fraudulent activities with respect to The City during the conduct of our audit
16. Non-compliance with laws and regulations that come to the auditor's attention	Legal and regulatory compliance
17. Matters that are significant to the oversight of the financial reporting process	None noted
18. Limitations placed on our scope	No limitations were placed on the scope of our audit
19. Written Administration representations the auditor is requesting	Administration representation letter – Appendix 3

Appendix 5– Related authorities – summary of key audit information

For the purposes of the consolidated audit, we have completed our audit procedures on the following significant assurance engagements.

Entity	Reporting Entity Relationship	Entity Audit Committee Date
Calgary Parking Authority	Calgary Parking Authority Audit Committee	March 10, 2015
Calgary TELUS Convention Centre	CALGARY TELUS Convention Centre Audit Committee	May 6, 2015
Calhome Properties Ltd.	Calhome Properties Ltd. Audit Committee	March 2, 2015
Calgary Municipal Land Corporation	Calgary Municipal Land Corporation Audit Committee	April 17, 2015
Calgary Public Library	Calgary Public Library Audit Committee	March 19, 2015
Calgary Police Service	Calgary Police Commission and Audit and Finance Committee	May 12, 2015
ENMAX Corporation	ENMAX Audit Committee	March 18, 2015
Attainable Homes Calgary Corporation Calgary	The overall financial results 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 2014 audit	N/A
Elected Officials Pension Plan	Pension Governance Committee	June 16, 2015
Supplementary Pension Plan	Pension Governance Committee	June 16, 2015
Municipal Employees Benefits Association of Calgary	Municipal Employees Benefits Association of Calgary - Finance Committee	May 20, 2015

Related Authority	Materiality	Areas of audit risk and audit results
Calgary Parking Authority	Materiality levels were determined on the basis of total revenue. Final materiality for the year ended December 31, 2014 was \$2,300,000 (2013 - \$2,100,000).	<p>The following areas of significant audit risk were noted relating to Calgary Parking Authority:</p> <ul style="list-style-type: none"> • Revenue recognition • 2013 Flood – recognition of revenue relating to insurance proceeds and provincial funding and valuation of property and equipment • Valuation of long term investments and; • Management override of controls <p>Audit field work has been completed and the financial statements have been approved by the Board of Directors. We issued an unmodified opinion dated March 26, 2015.</p> <p>In addition to the audit of the IFRS financial statements for financial reporting purposes, we also audited the PSAS trial balance for purposes of consolidation with The City.</p>
Calgary TELUS Convention Centre	Materiality levels were determined on the basis of total revenue. Final materiality for the year ended December 31, 2014 was \$1,000,000 (2013 - \$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 field work has been completed. Based on audit work performed, we expect to issue an unmodified opinion.</p>
Calhome Properties Ltd.	Materiality levels were determined on the basis of total operating expenses. Final materiality for the year ended December 31, 2014 was \$2,100,000 (2013 - \$1,600,000).	<p>The following areas of significant audit risk were noted relating to Calhome:</p> <ul style="list-style-type: none"> • Revenue recognition; and • Management override of controls. <p>Audit field work has been completed and the financial statements have been approved by the Board of Directors. We issued an unmodified opinion dated March 13, 2015.</p>
Calgary Municipal Land Corporation	Materiality levels were determined on the basis of total assets. Final materiality for the year ended December 31, 2014 was \$8,200,000 (2013 - \$7,000,000).	<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 field work has been completed. Based on audit work performed, we expect to issue an unmodified opinion.</p>
Calgary Public Library	Materiality levels were determined on the basis of total revenue. Final materiality for the year ended December 31, 2014 was \$1,500,000 (2013 - \$1,500,000).	<p>The following area of significant audit risk were noted relating to the Calgary Public Library:</p> <ul style="list-style-type: none"> • Management override of controls; <p>Audit field work has been completed and the financial statements have been approved by the Board of Directors. We issued an unmodified opinion dated March 25, 2015.</p>
Calgary Police Service	Materiality levels were determined on the basis of total operating expenses. Final materiality for the year ended December 31, 2014 was \$4,300,000 (2013 - \$4,300,000).	<p>The following areas of significant audit risk were noted relating to the Calgary Police Service:</p> <ul style="list-style-type: none"> • Prior period errors (TCA WIP) • Revenue recognition; and • Management override of controls. <p>Audit field work has been completed. Based on audit work performed, we expect to issue an unmodified opinion.</p>

ENMAX Corporation

Materiality levels were determined on the basis of results of profit before tax. Final materiality for the year ended December 31, 2014 was \$18,000,000 (2013-\$19,000,000).

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

- Revenue recognition;
- Management override of controls;
- Capitalization of property, plant, and equipment;
- Potential impairment of Bonnybrook Energy Centre and District Energy Centre;
- Financial instruments (including derivative instruments and hedging activities)
- Accounting for income taxes, payment in lieu of taxes ("Pilot");
- Acquisition of natural gas fuelled electricity generation assets.

Audit field work has been completed and financial statements have been approved by the Board of Directors. We issued an unmodified opinion dated March 19, 2015.

Appendix 6 – 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 City of Calgary’s Audit Committee – Revised Terms of Reference as approved by Council on November 7, 2011. 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.

Term of Reference	Description	Related Deloitte Involvement
4(c)	Pre-approves all audit and non-audit services performed by the External Auditor.	All audit and non-audit services are presented to the Audit Committee for pre-approval prior to the commencement of such work. The Independence letter included as Appendix 2 of the Year-end Audit Report presented by Deloitte to the Audit Committee on April 23, 2015 summarizes the fees of all services performed.
4(e)	Expects the External Auditor, as an expert in accounting and financial reporting, to express independent judgment about the appropriateness and acceptability of The City’s financial statements, in accordance with professional standards.	Communicated in the Year-end Audit Report presented by Deloitte to the Audit Committee on April 23, 2015.
4(f)	Prior to the commencement of the annual external financial audit, review the financial audit plan with the External Auditor.	2014 Audit Service Plan presented by Deloitte on October 9, 2014.
4(g)	In conjunction with Administration’s presentation of the annual financial statements, receive and review the External Auditor’s annual audit report. This report is to be forwarded to Council for information.	Report of the Independent Auditor on the Consolidated Financial Statements and Year-end Audit Report presented by Deloitte to the Audit Committee on April 23, 2015.
4(h)	Receives and reviews the External Auditor’s Administration Letter(s), together with any Administrative responses, and forward, either in full or in summary, to Council for information.	Letter of Recommendations to be presented by Deloitte on June 18, 2015.
4(i)	The Audit Committee meets with the External Auditor, in the absence of the Administration, at least quarterly.	In-camera sessions held with Deloitte at Audit Committee meetings held on October 9, 2014 and April 23, 2015 and during additional Audit Committee meetings, as required.
5(l)	Ensures that the combined work of the City Auditor and the External Auditor provides an appropriate level of audit coverage and is effectively coordinated.	Audit work completed is discussed in the Year-end Audit Report presented by Deloitte to the Audit Committee on April 23, 2015.

Term of Reference	Description	Related Deloitte Involvement
7(a)	Oversees the integrity of, and reviews the Annual Financial Statements and recommends their approval to Council.	Report of the Independent Auditor on the Consolidated Financial Statements and Year-end Audit Report presented by Deloitte to the Audit Committee on April 23, 2015.
7(b)	Reviews and discusses the City's compliance with financial reporting procedures with Administration, the City Auditor, and the External Auditor.	Report of the Independent Auditor on the Consolidated Financial Statements and Year-end Audit Report presented by Deloitte to the Audit Committee on April 23, 2015. Letter of Recommendations to be presented by Deloitte on June 18, 2015.
7(c)	Engages Administration, the City Auditor, and the External Auditor in candid discussions regarding issues that may alter judgment or affect the quality of the reporting process and search for insight into the results.	Participation and attendance by Deloitte at Audit Committee meetings throughout the year.
7(d)	Reviews and discusses areas where changes in accounting standards could have a material impact on financial results, and may request a detailed analysis, prepared by Administration in consultation with the External Auditor, of the implications of those changes.	Appendix 9 of 2014 Audit Service Plan presented by Deloitte on October 9, 2014.
7(e)	Maintains open lines of communication with the External Auditor, City Auditor, and Administration.	Participation and attendance by Deloitte at Audit Committee meetings throughout the year.
11(b)(i)	Review reports from Administration and from the City Auditor as to the adequacy and effectiveness of corporate policies such as legal matters, regulations, ethical principles, code of conduct and conflict of interest.	Year-end Audit Report presented by Deloitte to the Audit Committee on April 23, 2015 includes our notification of whether any violations of this nature have come to our attention.



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