



2013 Year-end Audit Report

The City of Calgary



For the year ended December 31, 2013
Presented to the Audit Committee
April 17, 2014



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April 8, 2014

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 December 12, 2013, 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, 2013, in accordance with Canadian generally accepted auditing standards ("Canadian GAAS") and expect to issue our audit report thereon dated April 28, 2014.

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 December 12, 2013.

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 cursive script that reads "Deloitte LLP".

Chartered Accountants

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Audit scope matters

Canadian GAAS requires that we communicate to the audit committee on the following matters:

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| 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 December 12, 2013. | |
| 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 requires 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, 2013 was \$44,000,000 (2012 - \$42,000,000).</p> | |
| Group audit | We are auditors of all entities within the group with the exception of Attainable Homes Ltd. 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. | |
| Use of the work of experts | As planned, Deloitte and external experts assisted in the audit to the extent we considered necessary: | |
| | 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 2013 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. | |

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| Changes to the audit plan | <p>The audit was conducted in accordance with our audit plan, with the exception of the change to the risk assessment for Tangible Capital Assets ("TCA") to an area of significant risk as a result of errors identified in prior periods and restatement of 2012 balances. Please refer to the Audit risks section of this report for further details. We also extended our testing and applied additional audit procedures not considered in our original audit plan to audit the 2012 accounts that were restated as part of the year-end financial statements. Please refer to the Accounting for Tangible Capital Assets section of this report for further details.</p> <p>We confirm that there have been no other significant amendments to the audit scope and approach communicated in the audit plan.</p> |
| 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, 2013 Administration advised us that there were no significant changes in accounting estimates or in judgments relating to such estimates, with the exception of certain Tangible Capital Asset valuations.</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 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.</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> |

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| Status of our audit | <p>We expect to be in a position to render our audit opinion dated April 28, 2014 on the financial statements of The City following recommendation for approval of the financial statements by the Audit Committee and the completion of the following outstanding procedures:</p> <ul style="list-style-type: none"> • Receipt of final letters required and completion of our subsequent events review to April 28, 2014; • 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 • Completion 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>We communicated our proposed audit fees of \$240,000 (2012 - \$230,800) in our audit plan for the base audit, \$16,000 for the testing of the Peoplesoft upgrade and \$40,000 to audit 2013 flood-related accounting and financial reporting matters. We have no changes to the proposed fees relating to the Peoplesoft upgrade and the 2013 flood-related fees.</p> <p>Additional procedures required to audit the 2012 restatement and additional time and audit effort incurred as a result of changing our testing to a significant risk level for TCA has resulted in additional fees of \$75,000 for the audit which have been discussed with Administration.</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, 2013.

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| Internal control | <p>We identified deficiencies in internal control that existed as of December 31, 2013. 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, 2013 which will be presented to the Audit Committee on June 19, 2014.</p> |
| Uncorrected likely misstatements | <p>In accordance with Canadian GAAS, we request that all misstatements be corrected.</p> <p>We have aggregated all uncorrected likely misstatements greater than \$2,200,000 (2012 - \$2,100,000), and those that are quantitatively insignificant but qualitatively significant, in the appendices attached to the Administration representation letter. All proposed uncorrected likely audit adjustments were reviewed with Administration and were determined by Administration to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.</p> |
| Unadjusted disclosure deficiencies | <p>In accordance with Canadian GAAS, we request that all disclosure deficiencies be corrected. A summary of unadjusted disclosure deficiencies is included in the appendices attached to the Administration representation letter.</p> <p>All proposed unadjusted disclosure deficiencies were reviewed with Administration and were determined by Administration to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.</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, 2013 once the 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 |
|---|--|
| 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 Tangible Capital Assets of The City. There was significant damage to various City owned assets which resulted in an impairment of their value on the financial statements.</p> <p>For TCA impairment, we held discussions with the finance and operational managers from the following business units: Roads, Transit, Parks, Water, Information Technology and Corporate Properties & Buildings to understand the process that was followed by the business unit to determine the impairment of TCA that were damaged by the flood. We tested, on a sample basis, TCA disposals related to the flood.</p> <p>We also reviewed a sample of expenditures relating to the repair 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>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 risk | Our audit response and conclusion |
|--|---|
| Revenue recognition and Administration override of controls | <p>Professional auditing standards require us to presume revenue recognition and Administration override of controls to be risks of material misstatement due to fraud.</p> <p>There is a risk that revenue may be misstated or that Administration has the ability to override controls.</p> <p>We made selections and performed audit procedures to verify that the recognition of revenue is based on PSAS guidance.</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>Overall, we conclude that revenue recognition is fairly stated, appropriately classified and properly disclosed in the context of the financial statements taken as a whole.</p> <p>We also 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> |
| Completeness and accuracy of TCA | <p>In our Audit Service Plan presented to the Audit Committee on December 12, 2013, we communicated that the completeness and accuracy of TCA was an area of audit focus.</p> <p>During the 2013 financial statement preparation process, Administration identified errors in TCA balances relating to prior periods and restated the 2012 financial statements (Refer to Accounting for Tangible Capital Assets). As a result, we revised our planned audit approach as presented to the Audit Committee and assessed specific areas of TCA as areas of significant risk. Accordingly, we audited the TCA additions, disposals, work in progress additions, accruals and capital expenses (expenses included in Fund 40) along with related disclosures at a significant risk level.</p> <p>Our testing included, on a sample basis, reviewing amounts included in the current year transactions to ensure only amounts that met the definition of capital were included and appropriately valued.</p> <p>For capital expenses, we tested transactions, on a sample basis, to verify that amounts included as capital expenses were appropriately expensed and not recorded as TCA in the year-end financial statements</p> <p>We assessed impairment indicators of tangible capital assets and considered the need and amount of potential write downs whether due to the flood or as a result of the normal course of business.</p> <p>Given the nature of the TCA held by The City, there is a risk for misclassification of the respective balances. As a result, we performed increased substantive testing of the financial statement disclosures.</p> <p>We also audited the 2012 accounts that were restated. Please refer to adjustments and testing approach detailed in Accounting for Tangible Capital Assets.</p> <p>Our Conclusion:</p> <p>Refer to discussion in Accounting for Tangible Capital Assets.</p> |

| Areas of audit focus | Our audit response and conclusion |
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| Valuation of environmental liabilities and asset retirement obligations, including accrual of post closure landfill liabilities and clean-up costs of contaminated properties | <p>We reviewed The City's estimates of post closure landfill liabilities.</p> <p>We reviewed Council minutes and legal confirmations, held discussions with Administration and relied on our knowledge of your business to identify other environmental liabilities.</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 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 clean-up costs of contaminated properties in the context of the financial statements taken as a whole.</p> |
| Disclosure of liabilities and commitments under funding contracts provided by The City | <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> |
| Accounting of capital deposits and recognition of 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> |
| Accounting for organizations included in the government reporting entity (related authorities or 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 and we performed separate audits of significant subsidiaries.</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> |

| Areas of audit focus | Our audit response and conclusion |
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| Claims and litigation matters of The City and its related authorities | <p>We enquired with The City's legal 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 performed enquiries with the City Solicitor on the process followed by The City's legal department to identify potential legal claims related to the 2013 flood. We reviewed the estimate of contingent liability for reasonability. The City has recorded a provision for potential legal claims related to the 2013 flood in the year-end financial statements.</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> |
| Accounting for, and disclosure requirements of 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 the deferred revenue.</p> <p>We reviewed deferred revenue for compliance with PSAS.</p> <p>We tested expenditures and ensured that the corresponding revenue had been recognized.</p> <p>We reviewed The City's adoption of section 3410 – <i>Government Transfers</i> to ensure the requirements of this new standard had been appropriately implemented.</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> |
| Accounting for 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 the property tax revenues for the year ended December 31, 2013.</p> <p>In addition, we reviewed the prior and current years appeal liabilities that were outstanding as at December 31, 2013. Furthermore, we reviewed the potential interest charge liability relating to these appeals.</p> <p>We reviewed The City's adoption of section 3510 - <i>Tax revenue</i> to ensure the requirements of this new standard had been appropriately implemented.</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> |

| Areas of audit focus | Our audit response and conclusion |
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| Recording and presentation of 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> |

Accounting for Tangible Capital Assets

Background and History

Tangible Capital Assets (“TCA”) of The City are significant economic resources, a key component of cost 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 in summary 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. The most significant challenges related to the completeness of identification of all capital assets are the initial estimates of value for TCA that had previously not been accounted for and unusual transactions such as donations and transfers of TCA or other non-standard transactions. Certain assets, such as land, roads, waterworks, parks, subsidiaries or related entity properties have posed the most challenges due to such assets not previously having been recorded and measured for accounting purposes, ambiguity about valuation and the lack of historic systems and processes to identify and account for transactions involving these TCA.

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 finance 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 and 2010 were restated to adjust prior period balances. The net adjustments for 2009 and 2010 were \$125M and \$64M, respectively. It is 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 totalled \$13.62 billion. The adjustments required, 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.

In our 2009 and 2010 report to the Audit Committee, we noted that:

“... as The City moves forward, sustainment accounting for TCA will also be a major focus. In 2009, there was a significant volume of transactions processed without the necessary IT systems in place to ‘crunch all of the numbers’. As a result, many of the computations were performed manually and, as such, are susceptible to manual error. The nature and extent of these errors will evolve over time. The City should expect to see adjustments and refinements of estimates in future years.”; and

“Given the underlying nature of the prior period errors, and the restatement of the 2009 results, we continue to assess this as a material weakness in the operating effectiveness of internal controls relating to accounting for TCA. However, the scope of the weaknesses has narrowed from the broader issues noted in the prior year audit to specific internal controls over TCA relating to certain business units. A material weakness is a deficiency or a combination of deficiencies in internal control over financial reporting, 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”.

In our 2011 report to the audit committee, we noted that:

“During 2011, the ongoing review of the valuation of prior period entries relating to balances within certain business units (particularly Roads, Parks and Water) resulted in restatements”.

In summary, as The City continued to put forth effort and focus on the accounting of TCA, the TCA errors continued to decrease. A summary of the errors as identified and corrected during prior periods are as follows:

- December 31, 2009 correction: \$125M;
- December 31, 2010 correction: \$64M; and
- December 31, 2011 correction: \$4M. Although this amount related to 2011 balances, as the amount was well below materiality, this correction was recorded prospectively in the December 31, 2012 financial statements.

Throughout our reporting on the audits of the years ending December 31, 2009 through to 2012, 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 Ending December 31, 2013

The City has continued to expend focus and effort on the accounting of TCA, including implementation of many of our recommendation points issued during prior year's audit as well as continuous staff education and training. In addition, potentially due to the flood, increased focus and attention was exerted on a wide range of TCA matters, as The City had to address the impairment or write-off of various assets damaged in the flood. As a result of this effort and attention, in the year ending December 31, 2013, The City identified several more TCA errors that related to prior periods in the following areas of TCA: in service date errors, non-TCA items recorded as work in progress, work in progress recorded as non-TCA, disposals not recorded in the fiscal period in which they occurred, double counting of land as both TCA and in land inventory and land donation not recorded. These errors impacted fiscals 2009 through to 2012, including amounts related to original 2009 opening balances. Note 29 of the financial statements provides details of the adjustments that were recorded in the December 31, 2012 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 (for example; Roads, Water, Corporate Properties & Buildings, Parks, Information Technology). While the issued financial statements for the year ended December 31, 2012 were not materially misstated as the net effect of the cumulative errors is not material, we concur with Administration's decision to restate the opening 2012 balances due to the pervasiveness of the errors, the variety 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, and to test the restatement of 2012 balances. Based on our testing and understanding of the causes of the errors, we have concluded that there continues to be significant deficiencies in the design and implementation and operating effectiveness of certain internal controls related to TCA accounting within the business units impacted, such that there is a reasonable possibility that a material misstatement of the entity's annual financial statements will not be prevented or detected on a timely basis.

As TCA is a significant balance of the financial statements, our overall recommendation is for The City to implement a comprehensive strategy and work plan to address accounting and reporting matters related to TCA to fully address TCA accounting matters with finality. This comprehensive strategy and work plan would be in the nature of a thorough re-review and re-assessment at the business unit level of current policies, processes, internal controls and systems which support the accounting and reporting of TCA. With the benefit of experience obtained over the prior years, we recommend that this review would also consider the focus, emphasis and resources applied by business unit leaders toward the accounting for TCA. Following this review, we expect that The City would implement revised policies, processes, internal controls and systems designed to prevent or minimize errors within TCA balances.

We will provide Administration and the Audit Committee with formal written recommendations in our management letter at the upcoming June Audit Committee meeting.

2013 Flood

The 2013 flood caused significant damage to many City-owned Tangible Capital Assets (“TCA”). Due to the severity of the flood, TCA in a number of business units were impacted. The business units that were most impacted by the flood included Roads, Transit, Water, Parks, Information Technology (IT equipment was stored in the basement of Old City Hall which was severely impacted by flood) and Corporate Properties & Buildings.

The Municipal offices remained closed for some time following the flood as The City concentrated efforts on the restoration and repair of flood damaged areas.

We held a meeting with Administration on July 18, 2013, the purpose of which was to discuss the impact of the flood on The City’s 2013 financial statements. Following this initial meeting, various meetings and discussions were held between Deloitte and Administration during the August 2013 to February 2014 period as Administration continued to work through flood-related financial accounting and reporting matters, which included the preparation and submission of claims through both third-party insurers and through the Provincial Disaster Recovery Plan.

As Canadian public sector accounting standards (“PSAS”) do not specifically include accounting and reporting for “natural disasters”, we were required to research other published literature and accounting guidance (US GAAP and International Financial Reporting Standards) as well as the accounting for other natural disasters (Hurricane Sandy and the Fires in New Zealand) to determine how to fully account for the flood in The City’s annual financial statements. We provided various literature and reference materials to Administration as guidance to be considered in conjunction with PSAS requirements and worked closely with Administration to ensure all relevant financial accounting and reporting matters were considered in the finalization of the December 31, 2013 financial statements.

During our year end field work, we applied audit procedures on TCA impacted by the flood as outlined under the Audit Risks section of this report. Our procedures included meeting with personnel in the Roads, Transit, Water, Parks, Information Technology and Corporate Properties & Buildings business units to fully understand the process undertaken by the business units to assess the impairment of TCA damaged by the flood. Through our discussions, we noted that the business units followed a thorough process to determine the impairment of TCA, which included the use of external engineers and consultants who have expertise in this area. To the extent possible, we reviewed the reports provided by the external parties to support our audit documentation and conclusions on the impairment of TCA. While a number of assets were damaged as a result of the flood, they were restored to pre-flood condition during 2013 to ensure The City continued to be operational. For example, the Erlton and Victoria Park LRT stations experienced significant damage but were restored and fully functional within two weeks of the flood. As such, no impairment was recognized for those assets that were fully restored. The business units also assessed those assets that were permanently damaged and these were recorded as disposals in the year-end financial statements.

The City is able to recover damages through their third-party insurers as well as through the Provincial Disaster Recovery Program. As insurance and provincial claims are subject to review and final acceptance by the insurance company or the Province, the timing of which is uncertain and can extend over many fiscal accounting periods, under accounting guidance related to insurance recoveries, only insurance proceeds received during the fiscal year can be recognized as revenue. As such, The City has only recognized cash received during fiscal 2013 as revenue in the year-end financial statements. Any remaining amounts received from third party insurers and the Province will be recognized in the period these amounts are received.

Note 31 to the financial statements includes a detailed discussion of various flood related matters having an impact on the December 31, 2013 financial statements. Our conclusion on the audit procedures we performed is included under the Audit Risks section of this report.

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

We did identify significant deficiencies in the design and implementation and operating effectiveness of controls in certain areas related to TCA.

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.

New accounting standards

Adoption of new accounting standards

During the year ended December 31, 2013, The City adopted the following new accounting standards:

- Section PS 3410 - *Government Transfers* ("Section 3410")
This new accounting standard Section 3410 establishes standards on how governments should account for and report government transfers to individuals, organizations and other governments from both a transferring government and a recipient government perspective.
- Section PS 3510 - *Tax Revenue* ("Section 3510")
This new Section 3510 establishes recognition, measurement, presentation and disclosure standards relating to tax revenue reported in financial statements.

Based on our audit work completed on the adoption of these new accounting standards, The City has appropriately reflected the impact of these standards within the December 31, 2013 year-end financial statements taken as a whole.

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, 2013 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, 2013, 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 28, 2014

Appendix 2– Independence and fees

April 28, 2014

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, 2013.

Canadian generally accepted auditing standards (“Canadian 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 22, 2013, 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 22, 2013 to April 28, 2014.

As summarized in the attached exhibit, the total fees charged to The City for audit services were \$1,178,222 (2012 - \$1,080,361), audit related services were \$285,626 (2012 - \$443,525), non-audit related services were \$94,200 (2012 - \$580,365) and other services were \$276,041 (2012 - \$255,000) 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 requires 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 28, 2014.

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, 2013 and 2012

| | 2013* | 2012* |
|--|------------------|------------------|
| | \$ | \$ |
| AUDIT SERVICES | | |
| <u>The City of Calgary</u> | | |
| The City of Calgary | 316,720*** | 246,956 |
| Tangible Capital Assets | 80,250 | 80,250** |
| Calhome Properties Ltd. | 77,040 | 78,645 |
| Calgary Police Service | 47,080 | 47,080 |
| CALGARY TELUS Convention Centre | 43,442 | 42,800 |
| Calgary Parking Authority | 91,350 | 90,950 |
| Calgary Municipal Land Corporation | 40,660 | 36,380 |
| Calgary Public Library | 40,660 | 36,166 |
| Municipal Employees Benefits Association of Calgary | 27,820 | 24,289 |
| Family & Community Support Services | 18,725 | 18,735 |
| Core Benefit Plan | 11,904 | 11,904 |
| Elected Officials Pension Plan | 6,955 | 6,955 |
| Supplementary Pension Plan | 13,161 | 13,161 |
| Funds Held in Trust | 1,605 | 1,500 |
| | 817,372 | 735,771 |
| <u>ENMAX Corporation</u> | | |
| ENMAX Corporation audit | 302,100 | 288,340 |
| ENMAX Corporation quarterly reviews | 58,750 | 56,250 |
| | 360,850 | 344,590 |
| Total Audit Services | 1,178,222 | 1,080,361 |
| AUDIT RELATED SERVICES | | |
| <u>The City of Calgary</u> | | |
| Calgary Municipal Information Return | 4,387 | 4,353 |
| Calhome Properties Ltd. special government reports | 16,585 | 16,050 |
| Calhome Properties Ltd. Renovation Grant funding audit | - | 4,500 |
| Calgary Public Library Signal Hill Specified Procedures Audit | - | 5,350 |
| Joint Emergency Preparedness (JEPP) Grant Audit | 10,486 | 9,918 |
| Gateways and Boarder Crossing (52 St Expansion Project) Grant Audit | 5,778 | 5,510 |
| Community and Neighborhood Services – Youth Probation Grant Audit | 5,510 | 5,510 |
| | 42,746 | 51,191 |
| <u>ENMAX Corporation</u> | | |
| ENMAX Corporation Pension Plan audit | 15,900 | 15,900 |
| Calgary Energy Centre No 2 audit | 65,200 | 63,300 |
| IFRS Conversion | - | 124,559 |
| Audit of the divisional carve out financial statements of ENMAX Transmission and Distribution | 66,300 | 64,375 |
| Audit of the schedules of Return on Equity for ENMAX Transmission & ENMAX Distribution | 95,480 | 124,200 |
| | 242,880 | 392,334 |
| Total Audit Related Services | 285,626 | 443,525 |

| | 2013* | 2012* |
|--|------------------|------------------|
| | \$ | \$ |
| NON - AUDIT RELATED SERVICES | | |
| <u>Enmax Corporation</u> | | |
| PCI Readiness Assistance services | - | 464,203 |
| Counsel advisory services | 17,200 | 17,362 |
| Professional services rendered with respect to assurance activities for selected performance indicators | - | 50,100 |
| Independent assurance services for the ENMAX Corporate Responsibility report (billed during the year) | 52,000 | 48,700 |
| Bersin by Deloitte Five Practice Level One Membership subscription renewal covering the period November 2013 through October 2014 | 25,000 | - |
| Total Non – Audit Related Services | 94,200 | 580,365 |
| OTHER SERVICES | | |
| <u>The City of Calgary</u> | | |
| Organics Strategic Assessment and advisory work | 74,866 | 65,000 |
| Transit Strategic Assessment | - | 60,000 |
| Transit Value for Money | - | 60,000 |
| Transit PPP Canada | - | 70,000 |
| Organics value for money audit | 80,458 | - |
| Transit maintenance facility advisory work | 120,717 | - |
| Total Other Services | 276,041 | 255,000 |
| Total Fees For All Services | 1,834,089 | 2,359,251 |

* Includes administration fee; excludes GST.

** Fee relates to additional TCA billing for the December 31, 2011 year end audit which was finalized subsequent to the issuance of the December 31, 2011 independence letter.

*** Fee includes \$240,000 for the base audit, plus \$40,000 for 2013 flood related matters and \$16,000 to audit the PeopleSoft upgrade.

Appendix 3– Draft Administration representation letter

April 28, 2014

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, 2013

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, 2013, 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 December 12, 2013 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, 2013 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, management makes judgments and assumptions about the future and uses estimates. The completeness and appropriateness of the disclosures related to estimates are in accordance with PSAS. The 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, 2013 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.

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, 2013 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 period presented are immaterial, both individually and in the aggregate, to the Financial Statements taken as a whole. A list of the uncorrected likely misstatements aggregated by you is attached in Appendix A.

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

Information provided

7. We have provided you with:
 - a. Access to all information of which we are aware that is relevant to the preparation of the Financial Statements, such as records, documentation and other matters. All financial statements and other financial information provided to you accurately reflects 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 and transactions for no consideration and participation in a defined benefit plan that shares risks between group entities.
14. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
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, 2012.

Adoption of new or amended accounting standards

22. The City has adopted CPA Handbook Section PS 3410 - *Government Transfers* and Section PS 3510 - *Tax Revenue*, as of January 1, 2013 as discussed in the notes to the consolidated financial statements. As a result, there has not been a significant impact to the previously disclosed balances as these two sections were adopted prospectively.

Employee benefit obligations

23. We agree with the work of management'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 management'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.
24. 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.
25. 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.
26. 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

27. 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.
28. 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.
29. 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

30. 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.
31. 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

32. All documentation related to sales transactions is contained in files which are used for accounting purposes. We also confirm that:
- a. We are not aware of any “side agreements” with any companies that are inconsistent with the applicable sales agreement, the customer’s purchase order, sales invoice, or any other documentation contained in the files which are used for accounting purposes. For the purposes of this letter, a “side agreement” is any agreement, understanding, promise, or commitment whether written (e.g., in the form of a letter or formal agreement or in the form of any exchange of physical or electronic communications) or oral by or on behalf of The City (or any subsidiary, director, employee, or agent of The City) with a customer from whom revenue has been recognized that is not contained in the written purchase order from the customer or sales order confirmation and sales invoice of The City delivered to or generated by the City’s Accounting and Finance Department. The definition of a side agreement is not limited by any particular subject matter. For purposes of example only, any agreement not contained in the written purchase order from the customer or sales order and sales invoice of The City that relates to return rights, acceptance rights, future pricing, payment terms, free consulting, free maintenance, or exchange rights would be a side agreement.
 - b. We are not aware of any commitments or concessions to a customer regarding pricing or payment terms outside of the terms documented in the files which are used for accounting purposes.
33. 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

34. 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.

35. 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.
36. All transactions and events have been carried out in accordance with law, regulation or other authority.
37. We have disclosed to you all communications from regulatory agencies concerning noncompliance with or potential deficiencies in, financial reporting requirements.

38. 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

39. The City does not hold any investments in Master Asset Vehicle notes (which replaced third party non-bank asset-backed commercial paper).
40. All investments have been appropriately classified as either temporary investments or portfolio investments.
41. The City has used the appropriate valuation allowances to reflect the temporary investments at their net recoverable amount or other appropriate value.
42. The City believes that it has properly identified all derivative financial instruments and hedging relationships, if any.
43. 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.
44. 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.
45. 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.
46. 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, 2013 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

47. 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

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

Communicating a threshold amount

49. We understand that the threshold used for accumulating misstatements identified during the year was \$2,200,000 for purposes of Appendix A. Misstatements below this amount have been considered clearly trivial.

Segment Disclosures

50. With regard to segment disclosures, we believe the activities grouped as segments, as disclosed, are appropriate to meet the objectives of PS 2700.
51. 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 100 - *Financial Statement Concepts: Federal, Provincial & Territorial Governments* ("Section 100") 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

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

Tangible Capital Assets

57. Tangible capital assets have been recorded properly and consistently according to the standards in Section PS 3150 - *Tangible Capital Assets*.
58. 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.

59. 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

60. During the course of year-end procedures, we identified certain balances relating to tangible capital assets that were incorrectly recorded in prior years. We have performed procedures to assess the impact of these misstatements and have accurately recorded them in the restated comparative balances for the year ended December 31, 2013.

Tangible Capital Assets - Change in estimate

61. 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.

Impact of the 2013 flood

62. We have reviewed 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 believe that the completeness and estimates utilized in the determination of the impairment of TCA has been adequately disclosed in the December 31, 2013 year-end financial statements.
63. We have reviewed all contingent liabilities as a result of any potential legal claims as a result of the 2013 flood and have appropriately provided for these amounts in the December 31, 2013 year-end financial statements.

Yours truly,
The City of Calgary

Eric Sawyer, City Manager (interim)

Beng Koay, Chief Financial Officer (acting)

Cathy An, Financial Reporting Officer

Appendix A
The City of Calgary
Summary of corrected and uncorrected likely misstatements and disclosure deficiencies
Year ended December 31, 2013

Summary of corrected misstatements

| (000's) Dr. (Cr.) | Assets | Liabilities | Accumulated Surplus | Revenue | Expenses |
|---------------------------------------|----------|-------------|------------------------|----------|----------|
| Total restatement of 2012 balances | (23,189) | 8,247 | (14,692) | (20,893) | 50,527 |

As identified by Administration, errors relating to 2012 and prior years that were restated.

Summary of uncorrected likely misstatements

We identified errors through our testing of TCA and local improvement levy revenue. The uncorrected misstatements below are the estimate of the misstatement over the population we tested and assessed as likely misstatements.

| | |
|-------------|---------|
| DR Expenses | \$12.7M |
| CR TCA | \$12.7M |

Incorrect capitalization of balances within the Parks and Transit business units.

| | |
|-------------------------------------|--------|
| DR Accounts Receivable | \$3.4M |
| CR Revenue (Local Improvement Levy) | \$3.4M |

The parameters within IT report used to determine the accounting entry for the local improvement levy adjustment were incorrect and thus did not include the correct information.

Summary of disclosure deficiencies

None identified

Appendix 4– Communication requirements

In our audit plan, we committed to communicate certain items to the Audit, Risk and Finance 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 December 12, 2013 |
| 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 December 12, 2013 |
| 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 December 12, 2013 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 around the following significant assurance engagements.

| Entity | Reporting Entity Relationship | Entity Audit Committee Date |
|---|---|-----------------------------|
| Calgary Parking Authority | Calgary Parking Authority Audit Committee | March 18, 2014 |
| Calgary TELUS Convention Centre | CALGARY TELUS Convention Centre Audit Committee | May 14, 2014 |
| Calhome Properties Ltd. | Calhome Properties Ltd. Audit Committee | March 3, 2014 |
| Calgary Municipal Land Corporation | Calgary Municipal Land Corporation Audit Committee | April 30, 2014 |
| Calgary Public Library | Calgary Public Library Audit Committee | March 24, 2014 |
| Calgary Police Service | Calgary Police Commission and Audit and Finance Committee | May 13, 2014 |
| ENMAX Corporation | ENMAX Audit Committee | March 4, 2014 |
| 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 2013 audit | N/A |
| Elected Officials Pension Plan | Pension Governance Committee | June 4, 2014 |
| Supplementary Pension Plan | Pension Governance Committee | June 4, 2014 |
| Municipal Employees Benefits Association of Calgary | Municipal Employees Benefits Association of Calgary - Finance Committee | May 21, 2014 |
| Core Benefit Plan | City Administration | May 21, 2014 |

| Related Authority | Materiality | Areas of audit risk and audit results |
|---|--|---|
| Calgary Parking Authority | Materiality levels are determined on the basis total revenue. Our final materiality for the year ended December 31, 2013 was \$2,100,000 (2012 - \$1,800,000). | <p>The following areas of significant audit risk were noted relating to the Calgary Parking Authority:</p> <ul style="list-style-type: none"> • Revenue recognition (Park Plus, Parking Control and Cellphone revenue); • Valuation of property and equipment (with significant damage to the Civic Plaza Parkade due to the 2013 flood) including completeness of impairments, capitalization versus expenditure of repairs and appropriate revenue recognition from related insurance proceeds; • Valuation of long term investments (relating to Parking Structure Replacement Reserve and Cash in lieu deposits); • Management override of controls; and • Determination of fair value of investment properties. <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 27, 2014.</p> <p>In addition to an 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 are determined on the basis of total revenue. Our final materiality for the year ended December 31, 2013 was \$1,000,000 (2012 - \$900,000). | <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 | Materiality levels are determined on the basis of total operating expenses. Our final materiality for the year ended December 31, 2013 was \$1,600,000 (2012 - \$1,100,000). | <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 7, 2014.</p> |
| Calgary Municipal Land Corporation | Materiality levels are determined on the basis of total assets. Our final materiality for the year ended December 31, 2013 was \$7,000,000 (2012 - \$6,700,000). | <p>The following areas of significant audit risk were noted relating to the Calgary Municipal Land Corporation:</p> <ul style="list-style-type: none"> • Management override of controls; • 2013 Flood – Tangible Capital Asset impairment, capitalization versus expenditure of repairs; and • Revenue recognition of insurance proceeds and government funding. <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 are determined on the basis of total revenue. Our final materiality for the year ended December 31, 2013 was \$1,500,000 (2012 - \$1,200,000). | <p>The following areas of significant audit risk were noted relating to the Calgary Public Library:</p> <ul style="list-style-type: none"> • Management override of controls; • 2013 Flood – Tangible Capital Asset impairment, capitalization versus expenditure of repairs; and • Revenue recognition of insurance proceeds and government funding. <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, 2014.</p> |
| Calgary Police Service | Materiality levels are determined on the basis of total operating expenses. Our final materiality for the year ended December 31, 2013 was \$4,300,000 (2012 - \$3,900,000). | <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; 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 are determined on the basis of results of profit before tax. Our final materiality for the year ended December 31, 2013 was \$17,500,000 (2012- \$15,000,000). | <p>The following areas of significant audit risk were noted relating to ENMAX Corporation;</p> <ul style="list-style-type: none"> • Financial instruments – including Derivative Instruments and Hedging Activities; • Potential Impairment of major assets under construction; • Capitalization of property, plant, and equipment; • Accounting for income taxes, payment in lieu of taxes ("Pilot"); • Management override of controls; and • Revenue recognition. <p>Audit field work has been completed and financial statements have been approved by the Board of Directors. We issued an unmodified opinion dated March 4, 2014.</p> |

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 except as provided next. | 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 17, 2014 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 17, 2014. |
| 4(f) | Prior to the commencement of the annual external financial audit, review the financial audit plan with the External Auditor. | 2013 Audit Service Plan presented by Deloitte on December 12, 2013. |
| 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 17, 2014. |
| 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 19, 2014. |

| Term of Reference | Description | Related Deloitte Involvement |
|-------------------|---|--|
| 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 on December 12, 2013 and April 17, 2014 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 17, 2014. |
| 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 17, 2014. |
| 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 17, 2014. Letter of Recommendations to be presented by Deloitte on June 19, 2014. |
| 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 D of 2013 Audit Service Plan presented by Deloitte on December 12, 2013. |
| 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 17, 2014 includes our notification of whether any violations of this nature have come to our attention. |

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