

CALGARY CONVENTION CENTRE AUTHORITY

2016 AUDIT GOVERNANCE STATUS OVERVIEW

City of Calgary/Calgary Convention Centre Authority Mandate and Responsibilities:

To manage, market and operate the Calgary TELUS Convention Centre(CTCC) in an efficient and market-competitive manner in order to maximize overall economic benefits to the City of Calgary while maintaining financial performance within an acceptable range.

The Calgary TELUS Convention Centre is owned by the City of Calgary. It is operated by the Calgary Convention Centre Authority (CCCA), which was incorporated through an Act of the Legislative Assembly of Alberta in 1974. The CCCA operates the facility on behalf of the City under the terms of the mandate passed by City Council in 2005.

Pursuant to the Glenbow Museum Agreement signed in 1973, the CCCA entered into an agreement with the City to provide maintenance, repairs, cleaning and janitorial services to the Glenbow Museum. The CCCA provides maintenance and repairs to the retail spaces, which are owned by the City in the North Building. Through an agreement between the City and Balboa Land Investments Inc. signed in 1999, the CCCA operates and maintains the shared loading dock in the North Building. A Food and Beverage Services Agreement issued by the City of Calgary gives the exclusive rights to all food and beverage services in the CTCC to the attached hotel (currently the Calgary Marriott). The CCCA has a contractual agreement with the Calgary Hotel Association whereby the CCCA manages destination sales and marketing services for the meetings, conventions and incentive travel sector. Through a joint agreement among the City, the CCCA and TELUS, the CCCA manages the TELUS Naming and Business Rights contract.

Calgary TELUS Convention Centre Vision Statement

The Calgary TELUS Convention Centre is Calgary's meeting place which brings the community together in a central hub to connect, learn, innovate, celebrate, support and grow.

The Calgary Convention Centre connects Calgary with the global community; leveraging our assets to create opportunities that influence the lives of Calgarians and Canadians.

The Calgary TELUS Convention Centre (CTCC) takes great pride in providing a market competitive building product designed to maximize utilization and revenue generation while supporting operating efficiencies. The CTCC is committed to a long term, proactive 10-year capital plan process that incorporates and addresses growth to ensure life safety and longevity of the building and equipment at the Centre.

In addition to providing a direct economic impact of \$18.2M in 2016, the Centre is also an economic driver by:

- building Calgary's presence on national and international stages
- acting as a knowledge centre and arena for networking and education and
- operating as a hub for community activities

1. Governance Structure, Succession Planning and Recruitment Process:

The Convention Centre is governed by the Calgary Convention Centre Authority comprising of eleven members including the Mayor, one Councilor and one member of City administration.

In 2015, City Council agreed to the Authority's request to recruit new members of the Calgary Convention Centre Authority based on current and future qualifications and skills needs.

In late 2015, a board gap analysis was conducted and an external search firm was contracted to assist in the selection of three new board members Wellington Holbrook, Gillian Basford and Greg Yont.

In April 2016, a Board CEO Selection Committee was struck to recruit a new President and CEO following the departure of the former General Manager in March. The Selection Committee engaged stakeholders to determine the qualities and skills desired in a new President and CEO, and an external search firm was contracted. A national search was conducted during which applications were received from 59 qualified candidates from across Canada. A well-known Calgary based leader, Clark Grue, was selected and began his duties on November 1, 2016.

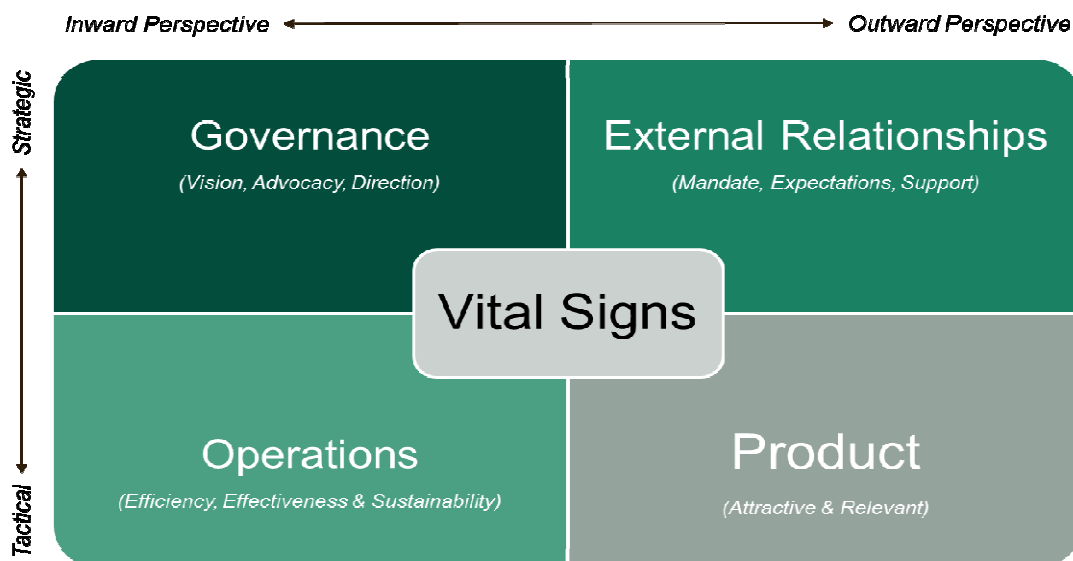
For other senior management succession planning, the following applies:

1. Key positions are identified;
2. Knowledge and skill sets are identified;
3. Potential candidates are recognized through ongoing performance management processes;
4. Training & development, cross training, mentoring, vertical and horizontal job changes are provided on an ongoing basis;
5. External recruiting is conducted if required;
6. Employees are encouraged to discuss career goals with supervisors and the HR Director.

While effort is made to assist employees to move into positions in which they have expressed interest, there is still an expectation that the individual, within reason, be prepared for the new role. Outside recruitment is also valued as a means of ensuring that new ideas and processes are introduced into the organization.

2017 Initiatives/Strategy:

In July 2016, the CCCA retained the services of MNP to conduct a vital signs evaluation of the organization. This involved conducting a scan of competitors to develop a framework for future assessment. The CCCA Board endorsed using the MNP framework outlined in the following chart.



Following the arrival of the new President and CEO, work began on the development of a new vision and 3-year strategy for the CTCC, based in part on the results of the Vital Signs evaluation.

The CCCA endorsed the visioning strategy, which was shared with the staff in March 2017. The President + CEO along with the CCCA Chair and other board members met with most of the City Councilors from January to March to garner input to the strategy. In addition, the President further gathered input from stakeholders by meeting and participating in over 88 meetings and events. The final CTCC strategic plan was presented to City Council in April 2017.

2. Key Operating + Strategic Risks Including Trends and Risk Management Plans and Processes:

The Calgary TELUS Convention Centre continues the practice of safeguarding its assets by identifying the risks to which they are exposed. Key risk trends that affect our industry include reduced business levels, technology advances and migration, cyber-attacks and malware, harmonization of client/event demands with safety and regulatory requirements, and acts of violence and/or terrorism, which, in some cases, may be attributable to the nature and types of events hosted in our facility. As risk management facilitators, the CTCC risk management team is responsible for overseeing the Centre's risk management plan and ensuring ongoing review of risks and submitting updates as needed. It also assists business units in business continuity planning to ensure that key CTCC services are maintained during major interruptions. Corporate Policy CP-004 is the guiding document that affirms CTCC's commitment to risk management.

The Risk Management Team will

- 🕒 Identify, understand, prioritize, and manage risks;
- 🕒 Provide Organization-wide awareness of risk management;
- 🕒 Manage Risk management orientation for employees;
- 🕒 Review Contract risk management and
- 🕒 Develops initiatives for Strategic Business Plan.

The Risk Management process follows the following guidelines



These objectives remain ongoing and are integral to a successful risk management program within the organization. All CTCC employees and its contractors are expected to contribute to minimizing risk, and it is the responsibility of directors and managers to promote risk awareness among their staff. They are to ensure that risk management controls and processes are included in the day-to-day operations and projects and shall where applicable, identify any new risks.

Strategic risks are discussed on a regular basis at the board and committee meetings and the CCCA Board approves the CTCC risk plan annually.

The CTCC has a strong financial control environment, which is based on appropriate risk assessment, and policies and procedures, which provide a system of formal controls (i.e. purchasing, investment, expense claim reimbursement policies, and signing authority). There is ongoing monitoring of the business plan and budget. Financial statements are produced on a monthly basis and reviewed by the Chair of the Audit & Finance Committee. Quarterly financial statements are reviewed by the Audit & Finance Committee and the full CCCA Board. Financial statements are disbursed to the management team on a monthly basis, and discussed at the regular management meetings. The accounting team lead has a professional designation. The team is well trained and all members have been cross-trained in all functions. There is appropriate segregation of duties.

3. Top Three Risks to Impact City of Calgary/Audit Committee:

1. Deferred Maintenance:

The Calgary TELUS Convention Centre's south building was built in 1975 and the north building in 2000 at which time some of the south building was updated. The buildings have been well maintained over the years by the Calgary Convention Centre Authority. The asset detail report commissioned by the City of Calgary and prepared by VFA in 2014 shows that the deferred maintenance in the facility is .40 for the south building and .19 for the north building. Some of the critical projects identified at the time have since been undertaken. We are working with City officials to address funding needs for these necessary upgrades. The asset detail report is scheduled to be updated in late 2017.

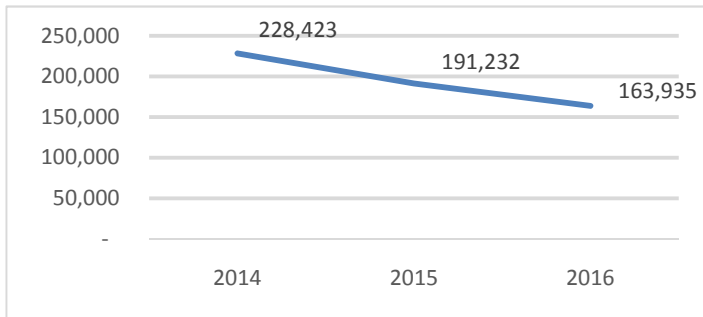
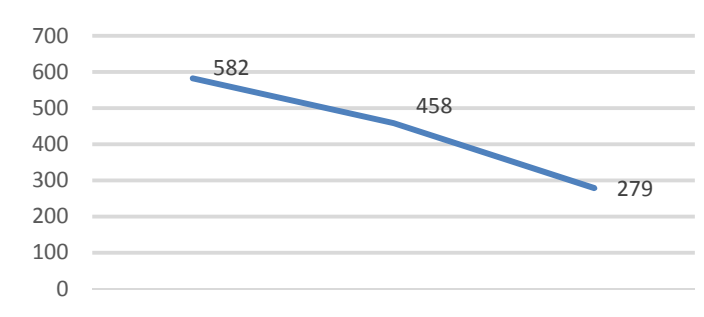
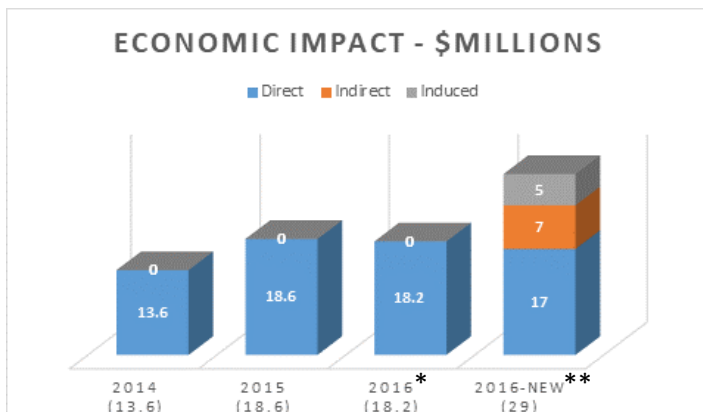
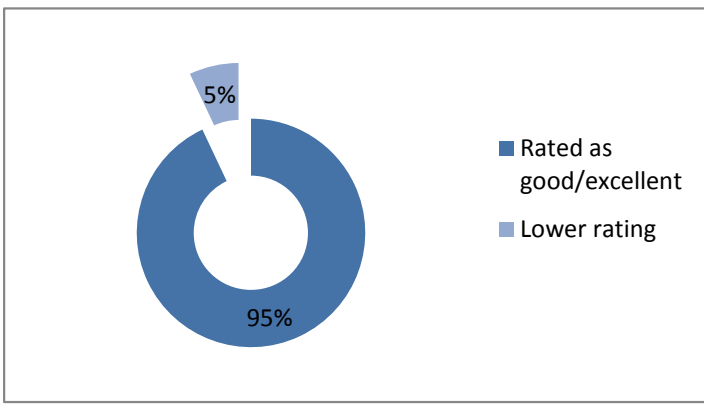
2. Decline of Economy:

The current economic situation resulted in significant loss of bookings in 2015 and continued in 2016. The CTCC has a mitigation strategy in place that focuses on medium and smaller pieces of business. Internationally we will continue to pursue this market segment, as these groups tend to have a higher spend which has a direct impact on the facility and within the city, as delegates tend to stay at a destination for pre and post days.

3. Decreased Event Activity:

The economic downturn has mostly affected the local business segment. In 2016, there was a 14% drop in delegates compared to 2015 and 40% less events. Local industries are scaling back, cancelling or changing their meeting/event formats. They are adapting to the changing economic times to maintain and grow business levels.

Performance Measure Highlights:

| | | | |
|--|--|---|--|
| How much did we do? | | | |
| Number of delegates  | Number of events  | | |
| Story behind the baseline The economic downturn has mostly affected the local business segment. In 2016 there was a 14% drop in delegates compared to 2015 and 40% less events. Local industries are scaling back, cancelling or changing their meeting/event formats. They are adapting to the changing economic times to maintain and grow business levels. | | | |
| How well did we do it? | | | |
| Economic impact  | Is anyone better off? Clients satisfaction  | | |
| Story behind the baseline *Based on non-Calgarians at a two-day event, direct economic impact decreased by 2% from \$18.6 million to \$18.2 million. This decrease in revenue affected local Calgary businesses such as hotels, restaurants, etc. **In 2016, the economic impact study was outsourced to Sentis who used a methodology that included event production spend and non-local exhibitors. The study also adjusted for inflation using the StatsCan input-output model to include total benefit from spending. | | Story behind the baseline Almost all clients rated their experience as good or excellent. Quarterly client satisfaction surveys were initiated in 2015. | |

4. An overview of Internal Controls including Technology Systems at CTCC:

To counter cyber-threats and malicious intent from internal or external sources, the CTCC Information Technology department has implemented several different pieces of hardware and software, along with procedures. From the end-user perspective, an acceptable use policy is reviewed during new employee orientation before being granted access to the network and technology resources. Users are also educated on acceptable technology use and threats to electronic devices, potential malware and viruses.

The infrastructure and disaster recovery plan has several layers of policy and procedure in place. These procedures are detailed in our Disaster Recovery Plan, which is a living document, continually modified when necessary changes occur.

Security audits are performed with the help of a third party consulting firm every 2 years.

We have also used next generation firewalls as a test to view our threat profile and test for malicious attacks and threats to the CTCC IT infrastructure, and as a method to generate a proof of concept for future firewall equipment.

5. Summary of the 2016 External Auditor Report to the Calgary Convention Centre Authority:

On the recommendation of the CCCA Audit + Finance Committee the Board the appointed Deloitte for the 2016 audit services.

Audit Conclusions:

- An unqualified opinion was issued on the financial statements;
- No significant weaknesses in internal control were identified;
- No illegal or fraudulent acts, or significant transactions inconsistent with ordinary business, were identified;
- No unusual related party transactions were identified;
- No disagreements with management, limitations placed on scope, or other difficulties were encountered during the audit;
- There were no corrected or uncorrected misstatements noted for the audit of the December 31, 2016 financial statements.

Results of Operations:

Our total revenue for the fiscal year 2016 was \$20,108,159, which included a City of Calgary grant of \$1,817,137. In addition, the Centre received \$2,532,000 from the Calgary Hotel Association, which is restricted to supporting management of Meetings and Conventions Calgary. Total operating expenses were \$19,562,364 (before amortization). In 2016, we had a deficit of \$84,811, which was drawn from the operating reserve fund.

In 2009 the CCCA adopted the provisions of Section 3150 of the Public Sector Accounting Board handbook which requires governments to record and amortize their tangible capital assets on their financial statements.

At 2016 year-end a total of \$12,672,849 in assets was recorded on the CCCA statement of financial position. This amount has been capitalized as renovations, building enhancements and equipment.

In 2016, the Authority incurred \$464,490 in expenditures for major capital additions, which have been capitalized as renovations, building enhancements and equipment. Of this amount, \$237,654 was funded by the Authority's operating reserve and \$226,836 was funded by the Authority's major replacement reserve. \$656,867 was applied for and funded through the City's CPRiP (Culture Parks Recreation Infrastructure Investment Fund) Program for capital additions to be made in 2017. Commitments of \$856,250 related to upgrades for the Convention Centre were made as of December 31, 2017 and paid in 2017.

| Capital Expenditures to December 31 2016 | |
|---|--------------------------|
| Additions | December 31, 2016 |
| CTCC South Building Washroom Finishes | 15,903 |
| North Loading Dock Overhead Doors | 34,718 |
| Green Room Update | 8,215 |
| South Building Ex Hall A Lighting Upgrade | 8,960 |
| Phase 2 Panel Migrations | 119,347 |
| Main Breaker Replacement S Bldg/Glenbow | 64,055 |
| Glen 201-204 Lighting Dimming System Replacment | 7,940 |
| Exterior Doors & Skylights - WIP @ YE 2016 | 5,822 |
| Carpets Replacement - WIP @ YE2016 | 13,750 |
| Security Equipment - Misc | 26,450 |
| Computers - Misc | 80,126 |
| Kitchen Equipment - Misc | 30,217 |
| Mechanical - Misc | 33,168 |
| Office Equipment - Misc | 5,020 |
| Software - Misc | 10,800 |
| Total Additions | 464,490 |