

**Calgary Arts Development Authority
Audit Governance Status
July 8, 2018**

1. A brief summary on governance structure, succession planning and recruitment process, recent financial highlights and key 2018 initiatives/strategy

Calgary Arts Development strives to increase and use our resources wisely, foster collaborative relationships and make the arts integral to the lives of Calgarians.

Our Vision: *A creative, connected Calgary through the arts.*

Our Mission: *Calgary Arts Development supports and strengthens the arts to benefit all Calgarians.*

As the city's designated arts development authority, Calgary Arts Development Authority (CADA) supports and strengthens the arts to benefit all Calgarians. We invest and allocate municipal funding for the arts provided by the City of Calgary and leverage these funds to provide additional resources to the arts sector. Our programs support hundreds of arts organizations, individual artists, artist collectives and collaboratives in Calgary.

We are a connector, facilitator, collaborator, champion, supporter, amplifier, investor, catalyst and opportunity-maker.

Governance Structure

Calgary Arts Development Authority Ltd. (CADA) is a wholly owned subsidiary of the City of Calgary and was incorporated in 2005 under Section 6 of the Business Corporations Act. Our creation was the next iteration of over 50 years of civic investment in the arts via a volunteer run entity called the Calgary Region Arts Foundation. In 2004, the City of Calgary created a Civic Arts Policy which called for a new organization to be developed to continue to provide grant investment programs for the arts in Calgary and prepare a strategic direction overall. Since our inception, our organization is guided by the following governance statutes, policies, and agreements:

- Articles of incorporation – Within the articles, CADA's business is restricted to: "The Corporation may carry on any and all such business activities as may directly or indirectly contribute to, foster, or promote the development of arts and culture in Calgary." CADA's business is restricted from: "The Corporation shall not operate for the purpose of making a profit in accordance with the restrictions of the Municipal Government Act M-26 RSA2000." The Articles of Incorporation also specify a minimum number of three board members and a maximum number of 15.
- Unanimous Shareholders Agreement (USA) with the City of Calgary who is the sole shareholder of CADA and is represented by the Mayor and members of City Council, outlines the authority given to the board of directors of CADA in managing the business and affairs of the organization pursuant to the Business Corporations Act, R.S.A. 2000, Chapter B-9, as amended.
- Calgary Arts Development Authority Bylaws and the Calgary Arts Development Authority Governance Policy Manual (reviewed on an annual basis and last updated in November 2016) provide the governing principles and policies upon which the CADA board operates.

- City of Calgary Civic Arts Policy 2004 (scheduled for update Fall 2018) – The current policy is credited with the creation of Calgary Arts Development and is foundational to how the City and CADA work together to achieve outcomes for the City and ultimately for the benefit of Calgarians. CADA is working with City Administration on a policy review and any relevant updates as they apply to CADA's work.
- City of Calgary Cultural Plan (adopted by City Council Fall 2016) – The Cultural Plan offers a framework and strategy that CADA's Strategic Framework takes into account and aligns to. We look forward to continuing our work with City Administration to implement elements of the Plan through our work.
- City of Calgary Investments in Partnerships Policy (updated 2016)

Calgary Arts Development is governed by a board of directors, appointed by and directly accountable to its shareholder, the City of Calgary, via City Council. The board of directors governs lawfully, observing the principles of the policy governance model, with an emphasis on strategic leadership and clear distinction of board and CEO roles. The board also identifies the principal risks of Calgary Arts Development's business, achieves a proper balance between risks incurred and potential returns, and oversees the development of policies and the implementation of appropriate systems to manage risk.

In 2017, there were five regular board meetings and a two-day retreat with an attendance record of 75%.

CADA's board of directors carries out its responsibilities using the following core committee structure.

Finance and Audit - the purpose of the Finance & Audit Committee (FAC) is to assist the board in fulfilling its oversight responsibilities by reviewing and making recommendations to the board regarding: financial information, including audited financial statements, that will be provided to the board of directors and other stakeholders; the systems of internal controls; internal audit processes; and investment management activities.

Governance and Human Resources - the Governance and Human Resources Committee (GHRC) has three areas of responsibility: governance matters, including management of the relationships between the board and the CEO and between Calgary Arts Development and the shareholder, all as defined in the policy manual approved by the board May 20, 2009 and updated in November 2016; human resources policy development and oversight, including review of CEO hiring, performance evaluation, compensation, development, and termination; and board recruitment, development, and evaluation.

Strategy and Public Policy - the Strategy and Public Policy Committee's (SPPC) mandate includes: considering and making recommendations to the board of directors on matters affecting strategy and public policy within Calgary Arts Development's mandate; providing guidance and evaluation to the board of directors for the development and evaluation of Calgary Arts Development's alignment with our mission and vision; and facilitating the strategic planning process in coordination with the board.

The board elects a chair and treasurer annually. All members of the board sit on at least one of the three core committees.

The current members of the CADA board are as follows:

Chair: Dean Prodan

Treasurer: Tim Mah, CA

Members: Cheryl Foggo, Donna Friesen (Chair, Strategy and Public Policy Committee), Rob Harding, Stacey Petriuk, Susan Veres, Katherine Wagner (Chair, Governance and HR Committee), Cllr. Evan Woolley

Succession Planning and Recruitment Process

Members of the CADA board are appointed for two- or three-year terms with the maximum service length on the board set at six years. Through the GHRC, due diligence is undertaken to review all existing members as well as any possible candidates for consideration, many of whom are drawn from other volunteer pools with CADA and the arts community (e.g. grant investment assessors for CADA, past board members with other arts boards). A skills matrix has been developed and is also used by GHRC as a tool to ensure that the appropriate expertise and skills are present within the board membership. An annual board evaluation survey is also distributed and results are shared with the entire board for consideration and information.

On the staff side, the team comprises 13.3 FTE fulfilled by 10 staff and three to five independent contractors. With an executive leadership team of three we are comfortable that we have sufficient senior level expertise in place to facilitate any transitions at that level on an interim basis and allow for a full search. With a small team we are not one that can easily facilitate internal succession but do try to recruit new staff with this in mind and try to ensure that we have an overlapping of duties so that transition of one person doesn't lose the entire job duty history and accountabilities. Further, we focus on professional development opportunities and flexible work schedules for all staff as a means of staff retention and ensuring current skill and expertise levels; and this has served us well.

Financial Highlights

The Financial Statements for the Year Ended December 31, 2017, the 2017 vs. 2016 variance analysis and the Audit Findings Report from our auditor, KPMG, are attached to this report.

KPMG provided an unqualified audit opinion and reported that there were no significant financial reporting risks identified during the audit planning and subsequent audit process.

In line with the 2004 Calgary Civic Arts Policy, Calgary Arts Development is responsible for establishing arts investment programs for capital projects, organizations' annual operations, individual artists, and other purposes that strengthen Calgary's arts sector.

Calgary Arts Development invests at least 75% of the dollars received from the City of Calgary directly into the arts sector through grant investment programs, with the remaining 17% being used to strengthen the arts sector through arts development activities, and 8% for administration.

Calgary Arts Development's approach to investment is broad, including direct monetary support through grant investments as well as fostering long-term resilience through capacity building in the arts sector. We ran the following investment programs in 2017: Artist Opportunity Grant Program, Remarkable Experience Accelerator, New Pathways for the Arts, Operating Grant

Program, Organizational Opportunity Grant Program, Project Grant Program (new in 2017), Small Experiments Grant Program, artsVest Alberta (new in 2017), and ArtShare.

In total, Calgary Arts Development invested \$4,941,980 through these programs in 2017, a 4% increase over 2016. In addition to regular programs, in 2017 Calgary Arts Development also administered the Calgary Arts Emergency Resiliency Fund on behalf of the City of Calgary, which saw an additional \$1 million invested into the arts sector; as well as a one-time additional investment of \$2 million through the Cornerstone Bridge Funding program to contribute to the sustainability of Calgary's flagship arts organizations.

Key 2018 Initiatives/Strategies

In 2014, Calgary Arts Development finalized its 2015 to 2018 Strategic Plan. The plan's three strategic priorities are:

1. **Raise Value:** Calgary Arts Development continues its leadership role in the arts and with other stakeholders to make the arts integral to the lives of Calgarians.
2. **Build Relationships:** Calgary Arts Development fosters collaborative relationships across sectors and communities to help ensure that Calgarians can experience art in their everyday lives.
3. **Increase Resources:** Calgary Arts Development identifies ways to increase and sustain our finances and expertise and uses these resources wisely for greater impact.

These priorities all contribute to Calgary Arts Development's desired outcome for 2018: "By 2018, Calgary is recognized as a creative and artistically vibrant city that inspires Calgarians and the world." Overall, the 2015 to 2018 Strategic Plan aligns with four out of five priorities in the City of Calgary's Action Plan (A Prosperous City, A City of Inspiring Neighbourhoods, A Healthy & Green City, and A Well-Run City), and is explicitly aligned to *Living a Creative Life: an Arts Development Strategy for Calgary*.

Our number one priority for 2018-2019 is to ensure the arts are contributing their maximum to One Calgary, the Cultural Plan, the Civic Arts Policy, and other city-building and civic partner strategies. A connected, vital and prosperous city through the arts is the aspiration. Unleashing the power of the arts to contribute at its full potential will require a transformational investment with sustainability and resilience for the arts sector and arts-led city building as our two priority areas. In addition to making a case for increased municipal funding from the City of Calgary, we will also work on other ways to increase funds to strengthen and support the arts sector for the benefit of all Calgarians. This includes starting a charitable foundation in support of the arts.

Additional priorities and deliverables:

- Do our part in the implementation of the Cultural Plan including celebrating our diversity advantage. Access and affordability are important to increasing participation and our focus on Equity, Diversity and Inclusion will help ensure public funds for the arts are for the public good, generating benefits for all Calgarians.
- Continue to build and leverage strategic partnerships with other civic partners, thought leaders, community builders, and innovators in Calgary and beyond.
- Continue to advance our own reconciliation efforts through partnerships, relationship building, and a focus on Indigenous program design.

- Expand the Living a Creative Life movement in pursuit of celebrating Calgary as a creative city and sharing stories of how Calgarians are living creatively to realize positive change and enhance the lives of others.
- Continue a focus on conducting and sharing meaningful research and impact evaluation, acting as a knowledge hub for the arts sector, and as a strategic advisor for the City.

Report on CADA's key operating and strategic risks including trends and risk management plans and processes; and analysis of top three financial and/or operational risks that in your opinion would impact the City of Calgary and be of concern to the City's Audit Committee

As we complete the final year of our four-year strategic plan, our strategic risks continue to fall into four primary areas:

1. The Value Risk. Our number one strategic priority is to Raise the Value of the Arts. The risk is related to what will happen if we are not successful in raising the value. We know through various surveys that people see the arts as something of value, but if we are not able to communicate and share the value we run the risk of the arts potentially becoming something seen as superfluous instead of something truly valued. We are managing this risk by developing partnerships with other city-builders, in particular civic partners, educational partners, and the arts sector, and aligning our strategies with theirs to ensure we are all working together to create a great city.
2. Financial Risk. Financially, we are almost entirely dependent on one source of revenue. It is hard in the current economic climate to leverage our single source of funding and because it has been relatively static, the health and vibrancy of our arts sector is at serious risk. Through our grant investment and arts development activities we strive to address the risk. We are gathering data in order to build an evidence-based case for increased investment from the City in order to get our grant investees up to par with their peers across Canada and release the stranglehold on funding. Thankfully, both the federal and provincial governments have increased their investments in the arts and we are hoping the City will follow suit in the next budget cycle. We are very encouraged that in this past two years, City Council has recognized the impact and risk that the most recent economic downturn posed for the arts sector with the provision of one-time emergency resiliency and Cornerstone bridge funds, which have shown signs of positive effects for the sector and the citizens they serve.
3. HR Risk. From a governance perspective, because we want a board that's highly engaged we have purposely kept it small. Having a small board increases the risk of having a higher percentage of new people at once when we have transitions. There are three board members changing in 2019 so we are thinking about potential candidates now in order to manage the transitions carefully and allow for crossover.

In terms of talent management, we have a very small and specialized staff, with the addition of consultants and juries when needed. We intentionally keep our administration as small as possible in order to ensure the majority of our funds are funneled into the community through grant investment programs. Having a small team means that the separation of duties is hard—everyone needs to be able to double up. We have accepted

the risk of non-segregated duties within our Community Investment team in order to ensure efficiency with a small team. In 2018 we will also lose one member of the three-person leadership team and given the specialty of need, we know it will take us time to find the right person for the role.

4. Reputational Risk. For Calgary Arts Development—the more people know us, the more they believe we have influence and the more they start to connect Calgary Arts Development with all things to do with the arts. This can create confusion when it comes to things like public art, for example, or specific arts programming of one of our clients. For the City—the public isn't always aware of the investment by the City or how much is done with a small investment—how a little goes a long way with a big return. The risk is that there isn't actually enough investment to create a strong arts sector. This puts our city's reputation as a creative, innovative, vibrant city—an attractive city to live in—at risk, which is already challenged by local and national perception, all exacerbated by the economic downturn.

There may also be some reputational risk associated with cSPACE Projects, which is a wholly owned entity of CADA, if they were to fail to execute on their plans or future projects.

CADA has an internal control framework that is fit for purpose, given the size of the organization.

We have a number of operational policies in place that govern our internal processes and procedures with regard to Finance, Governance and Operations. They are as follows:

Finance:

Credit and Limits Policy (last updated in 2017) establishes the terms and conditions as they relate to: Credit Instruments, Accounts Payable, Accounts Receivable, Signing Authorities (dual signature >\$500) and Purchase Limits

Governance:

Board Policy Governance Manual (reviewed annually and last updated November 2016) is reviewed by the Governance and HR Committee and provides all of the base board policies and terms of reference for proper governance and stewardship of the organization.

Compliance Certificate (provided on a quarterly basis at every board meeting) is provided by the CEO and ensures compliance in a timely manner with month end procedures, quarter end procedures and timely remittance of all CRA deductions and fees.

Operations:

Employment Policy Manual (reviewed annually and last updated January 2018) governs all internal human resource, operational and administrative matters as they pertain to our staff.

Next Digital IT Controls Summary – We have a firm who provides IT services to CADA. They have prepared answers to a questionnaire sent to us by the City of Calgary IT Division. Next Digital also provides an annual risk profile with recommendations. They have advised that in addition to the information provided on the form, further updates for backup offsite rotation, an updated password policy and a revised Domain and SSL protocol are required. We are now fully operational on a new server installed in 2017 and a workstation evergreen process. In 2018 we will be working to strengthen our cybersecurity and formalize a protocol.

In addition, CADA was advised to be prepared to answer the following questions:

1. What is the frequency of review and are there any recent changes to the Audit Committee Charter or Terms of Reference?

Each of the three core committees has an annual work plan that they review and follow to inform their work. The Finance and Audit Committee terms of reference was updated in 2016 to ensure consistency in wording across all committees. No changes were made to the mandate of the committee. The Finance and Audit committee meets prior to every quarterly board meeting and in 2017 met on the following dates:

Date	Core Activities
March 14, 2017	Review 2016 Draft Financial Statements and 2015 to 2016 Variance Reports; 2016 Audit Wrap-up with KPMG; Review and Revise Finance & Audit Committee Terms of Reference
May 30, 2017	Review Final 2016 Audited Financial Statements; Review 2017 Q1 Financial Statements, Variance Report, and 2017 Projections;
September 12, 2017	Review 2017 Q2 Financial Statements, Variance Report, 2017 Projections; Review 2018 Draft Budget & Priorities;
November 21, 2017	Review 2017 Q3 Financial Statements, Variance Report, 2017 Projections; FYE 2017 Audit Planning Report with KPMG; Review and Recommend 2018 Budget and Variance Report

2. What is the current composition of the Audit Committee and what is their relevant financial experience?

The Finance and Audit Committee consists of three members plus the Board Chair (ex officio).

Tim Mah, CA: Committee Chair; Board member since 2013

Tim Mah is a chartered accountant with over 25 years of experience, developed in the energy, public accounting and non-profit sectors. His expertise includes financial reporting and accounting, budgeting, strategic planning, and governance. He held various senior management positions at a large, Calgary-based, public energy company. His volunteer experience included 10 years as a board member and Treasurer with Calgary's Decidedly Jazz Danceworks. He holds a Bachelor of Commerce degree, with distinction, from the University of Alberta.

Susan Veres: Committee member; Board member since 2014

Senior Vice President, Strategy & Business Development for the Calgary Municipal Land Corporation (CMLC)

Susan joined CMLC as VP Marketing & Communications in 2009. Together with her team, she successfully rebranded Calgary's East Village and transformed the neighbourhood's image from one of the most downtrodden areas in the city to one of its most desirable and sought-after real estate addresses. As Senior VP Strategy & Business Development, Susan plays key

roles both in stewarding current CMLC projects and in evaluating and securing future opportunities that fit with the organization's mandate and capabilities.

In her 20-plus year career, Susan has worked across multidisciplinary teams to create strong brands, grow partner investment and create meaningful public engagement. She has worked with notable brands including Coca-Cola, Triple 5 Corporation and West Edmonton Mall, Canadian Olympic Committee and International Association of Athletics Federation, Canadian Academy of Recording Arts and Sciences (CARAS), and more.

Robert Harding, CPA, CMA: Committee member since 2015; Board member since 2017
CFO, Climate Smart Group and Carbon Credit Solutions Inc.

Rob works with a broad range of industries, providing senior level support and input on strategy development/re-alignment, operations optimization, systems analysis and implementation, financings and public listings. Prior to this, he held progressively senior roles in oil and gas, engineering, procurement and construction and transportation companies including an extensive tenure with Athabasca Oil Corporation, three years with a Middle East LNG firm and 18 months with a resource company in the Caribbean. These international roles allowed Rob to demonstrate his skills while operating with different cultures and business practices

Rob obtained the CPA, CMA accounting designation in 1996, an MBA from the University of Manchester (UK) in 2006 and the ICD.D from the Institute of Corporate Directors in 2014. He serves on the board of New Global Acreage Resources, the Registration Committee of the Chartered Professional Accountants of Alberta, the Finance and Audit Committee of Calgary Arts Development and the Program Advisory Council–Business for SAIT Polytechnic. Mr. Harding is also a volunteer with Junior Achievement of Southern Alberta and was previously a member of the board and the Audit and Risk Committee of CMA Alberta.

Dean Prodan (ex officio): Board Member since 2013
CFO and Director of Whitehorn Resources Ltd., Portfolio Manager for Priviti Capital Corp. and Director of Whitewater Ski Resort

Dean Prodan is most recently employed as President and sole owner of UTA Asset Management. Previous employment from 1989 to 2009 consists of four years as an Institutional Salesman for Peters & Co. Ltd., five years as Managing Director and co-founder of FirstEnergy Capital Corp., four years as President and Portfolio Manager of Dominion Equity Resource Fund and Managing Director of Canfund VE Management Corp.

He has current board positions on several private companies including Chair of the Board for Markwater Handling Systems and Cool It Systems Inc., Director of Canadian Energy Acquisition Corp. Also active on the Advisory Board of Priviti Capital Corp. Other board and volunteer activities in the not-for-profit sector dean is involved in include his current position as Board Chair of the Calgary Arts Development Authority, a Director of The Palix Foundation, member of the Investment Committee for the Max Bell Foundation, Board member for the Calgary Stampede Foundation, and a member of the Regional Board of the Nature Conservancy of Canada.

3. Have there been any significant changes to organizational leadership?

There have not been any significant changes to our leadership. Our CEO will have completed her fifth year at the end of summer 2018 and the entire leadership team has been in place for three full years. In September 2018 we will lose one member of the three-person leadership team and a search is underway with a plan for interim leadership while we find the right person for the role.

4. Are there any regulatory or market changes that may impact the current business approach and would be relevant to share publicly with the Audit Committee?

There are no regulatory changes underway that will materially impact CADA's current business approach. The update to the Civic Arts Policy review may have an impact on our work, however our relationship with City Administration in the process of the review so far does not appear to lead us to believe that there will be any material changes to our work.

With regard to market changes, the recent economic downturn has had impact on our grant investees, and has been addressed admirably by the City through the provision of the \$1M Arts Emergency Resiliency Fund in 2016 and its subsequent renewal in 2017. The City also granted a one-time allocation of \$2M in Cornerstone Bridge Funding to assist with bridging the sustainability gap among Calgary's 10 flagship arts companies.

When it comes specifically to our organization, the impact is in the arts development side of things—it's harder to leverage the funds we receive from the City and find external support for arts development in this transitional economic climate.

During this most recent downturn, we heard from a number of arts organizations that 2015, 2016 and 2017 adversely affected their business models, particularly for those who were able to secure corporate sponsorships and support. The Emergency Resiliency Fund (ERF) helped mitigate the effects of the downturn on a number of organizations but we were only able to fund \$1M of \$2.5M in requests in each of 2016 and 2017. And organizations applying for assistance only asked for a portion of their \$5.6M losses through the ERF.

During 2016 we undertook specific research to compare the state of our civic arts funding with other cities in Canada. The findings showed us that Calgary is at the bottom of the charts when it comes to annual arts grant investments per capita, which puts our sector at a disadvantage compared to their peers across Canada. With Calgary investing less per capita in annual arts grant investments, arts companies in Calgary receive a lower percentage of their overall operating budgets from civic arts grants than in other major Canadian cities. Calgary has done a good job with capital funding but operational, individual, and project support is weak. Contributed revenue, particularly from corporations, has been much higher in Calgary, historically, which has filled the gap left by lower than average municipal funding, but that is changing with the economic downturn and speculation about what the new normal will be. Our sector is at risk without ongoing sustainable operating funds.

Since funding for our arts investment granting programs comes directly from the City, we are hopeful that a transformational increase in arts funding will provide opportunities for further recovery for companies, for adaptation to new business models, AND in assisting Calgary in becoming a more innovative city with an exceptional quality of life, a diversified economy, and shared prosperity for all.

5. Are there any results of any regulatory or internal/external business assessments that provide assurance on the effective management of risks as addressed in your presentation?

We did not undertake any external/internal business assessments in 2017 to report on.

6. What initiatives are currently in progress to improve the efficiency of your processes? (e.g. sustainable operations, key performance indicators and relevance of the organization in the future)

There are a number of ways that CADA monitors its performance and relevance in fulfilling our mandate:

- We have a series of KPIs that we monitor and report on a quarterly basis. We also undertake research and analysis on data we collect via our grant investment clients, survey tools, and other engagement methods that assist us in developing robust evaluation methods and evidence-based decision making.
- On the staff side we hold annual performance reviews and accountability framework updates with all staff.
- Our strategic planning is supported by a robust and regular cycle of community and partner engagement to ensure alignment to our civic partner and City strategies and policies.
- Regular shareholder engagement over and above our AGM includes annual Civic Partners reporting to CSPA, annual one-on-one meetings with Councillors, annual audit committee presentation, and working continuously with Administration on a number of files.
- Ethical guidelines – board and staff are subject to a code of conduct policy as well as annually signing off on our conflict of interest policy. For 2018 the Governance and Human Resources committee of the board is working on the implementation of a whistleblower policy, which was approved in April 2018, and the staff is leading efforts to develop an equity policy.
- Governance oversight including board evaluation, board term limits and renewal mechanisms.

cSPACE Projects

In 2011, City Council authorized the board of directors of CADA to incorporate a non-profit subsidiary corporation under Part 9 of the Companies Act (Alberta) to strategically address the long-standing need for affordable incubator spaces that support artists and cultural non-profit organizations. cSPACE Projects was formed “exclusively to promote, coordinate and facilitate real estate projects that establish affordable facilities, accommodations and education opportunities for artists and registered non-profit organization operating in the arts or community sector.”

The cSPACE board of directors is directly accountable to two shareholders, CADA (holding 99% of the shares) and the Calgary Foundation (holding 1% of the shares) who maintain an arms-length relationship with the entity. cSPACE's *Memorandum of Association* and *Articles of Incorporation* define the parameters of their accountability to their shareholders and are further refined in the *Shareholder's Agreement* between cSPACE, CADA, and the Calgary Foundation.

Both cSPACE and CADA financial statements are consolidated within the City of Calgary's financials statements and work with the City's Finance team accordingly. The cSPACE financial statements are not consolidated with the CADA financial statements, as permitted under Generally Accepted Accounting Principles. Instead, note disclosure is made to allow the user to combine the financial results, if so desired. Keeping the financial results of CADA separate from the financial results of cSPACE allows the user of CADA's financial statements to understand the operations of CADA, as a grant investment organization.

Both shareholders are in contact with cSPACE for regular updates and we were both thrilled to take part in the Grand Opening of their first project **cSPACE King Edward** on September 29, 2017. The facility is fully tenanted, with a waiting list, and in a short time has become a treasured hub in South Calgary.